IMPORTANT NOTICE

This document has been prepared solely in connection with the proposed offering (the **Offering**) of 7.875 per cent. Notes due 2016 (the **Notes**) of Ferrexpo Finance plc (the **Issuer**).

Copies of the Prospectus will, following publication, be available on the website of the regulatory News Service operated by the London Stock Exchange plc at www.londonstockexchange.com/en-gb/pricesnews/marketnews and from the offices of The Bank of New York Mellon as principal paying agent.

THE OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QUALIFIED INSTITUTIONAL BUYERS (**QIBS**) IN RELIANCE ON THE EXEMPTION FROM REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**) PROVIDED BY RULE 144A OR (2) OUTSIDE OF THE UNITED STATES IN COMPLIANCE WITH REGULATION S UNDER THE SECURITIES ACT.

IMPORTANT: You must read the following before continuing. The following applies to the Prospectus following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE U.S. OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE FOLLOWING PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your representation: In order to be eligible to view this Prospectus or make an investment decision with respect to the securities, investors must be either (1) QIBs (within the meaning of Rule 144A under the Securities Act) or (2) addressees outside the United States. This Prospectus is being sent at your request and by accepting the e-mail and accessing this Prospectus, you shall be deemed to have represented to us that (1) you and any customers you represent are either (a) QIBs or (b) you and the electronic mail address that you gave us and to which this e-mail has been delivered are not located in the United States and (2) that you consent to delivery of such Prospectus by electronic transmission.

You are reminded that this Prospectus has been delivered to you on the basis that you are a person into whose possession this Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Prospectus to any other person.

The materials relating to the Offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the Offering be made by a licensed broker or dealer and the underwriter or any affiliate of the underwriter is a licensed broker or dealer in that jurisdiction, the Offering shall be deemed to be made by the underwriter or such affiliate on behalf of the issuer in such jurisdiction.

No person may communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes other than in circumstances in which Section 21(1) of the FSMA does not apply.

This Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of J.P. Morgan Securities Ltd., Morgan Stanley & Co. International plc or UBS Limited (collectively, the **Joint Bookrunners**) or any person who controls them, nor any director, officer, employee or agent of any of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from the Joint Bookrunners.

This Prospectus amends, restates and supersedes the preliminary prospectuses dated 2 July 2010, 8 November 2010 and 23 March 2011 and the preliminary prospectus distributed on 31 March 2011 and dated 23 March 2011.

Prospectus Dated 5 April 2011

FERREXPO

Ferrexpo Finance plc

(incorporated in England and Wales with limited liability)

U.S.$500,000,000

7.875 per cent. Guaranteed Notes due 2016

guaranteed by

Ferrexpo plc

(incorporated in England and Wales with limited liability)

and

Ferrexpo AG

(incorporated in Switzerland)

and issued with the benefit of a surety agreement from

Ferrexpo Poltava GOK Corporation

(incorporated in Ukraine)

Issue Price 100 per cent.

The US$500,000,000 7.875 per cent. Guaranteed Notes due 2016 (the Notes) will be issued by the Issuer and guaranteed by Ferrexpo plc (Ferrexpo or the Company) and Ferrexpo AG pursuant to and in accordance with the guarantee set out in the trust deed (the Trust Deed) to be dated on or about 7 April 2011 (the Closing Date) and subject to the limitations set forth in this prospectus between Ferrexpo Finance plc (the Issuer), Ferrexpo, Ferrexpo AG, Ferrexpo Poltava GOK Corporation (FPM) and BNY Mellon Corporate Trustee Services Limited in its capacity as trustee (the Trustee) (the Note Guarantee). The Notes will also benefit from a suretyship provided by FPM, (together with Ferrexpo and Ferrexpo AG, the Guarantors) pursuant to and in accordance with a surety agreement (the Surety Agreement) dated on or about the Closing Date between the Issuer, FPM and the Trustee (the Note Suretyship).

The Note Suretyship shall constitute a suretyship (in Ukrainian: *poruka*) for the purposes of Ukrainian law and shall not constitute a guarantee obligation (in Ukrainian: *garantiya*) as that term is interpreted under Ukrainian law, see "*Overview of the Offering*" and "*Description of the Transaction*".

Interest on the Notes is payable semi-annually in arrear, commencing on 7 October 2011. Payments on the Notes, the Note Guarantee and the Note Suretyship will be made without withholding or deduction for or on account of taxes of the United Kingdom, Switzerland and Ukraine to the extent described under Condition 7 (*Taxation*). See also "*Risk Factors – Risks relating to our debt and the Notes – The gross-up obligation in the Surety Agreement may not be enforceable*".

The Notes mature on 7 April 2016. The Notes are subject to redemption in whole, at their principal amount, together with accrued interest, at the option of the Issuer at any time in the event of certain changes affecting taxation in the United Kingdom, Switzerland and Ukraine. See Condition 5.2 (*Redemption for Taxation Reasons*). The Issuer will, at the option of any Noteholder, redeem any Notes held by such Noteholder at any time following a Change of Control (as defined in the Terms and Conditions of the Notes (the Conditions)), at 101 per cent. of their principal amount, together with accrued interest. See Condition 5.3 (*Redemption at the Option of the Holders Upon a Change of Control*).

The Notes will be constituted by the Trust Deed and constitute direct, unsecured, unsubordinated and unconditional obligations of the Issuer. See Condition 2 (*Guarantees and Status*).

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the UK Listing Authority) for the Notes to be admitted to the official list of the UK Listing Authority (the Official List) and to the London Stock Exchange plc (the London Stock Exchange) for such Notes to be admitted to trading on the London Stock Exchange's Regulated Market (the Market). References in this Prospectus to the Notes being "listed" (and all related references) shall mean that the Notes have been admitted to the Official List and have been admitted to trading on the Market. The Market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.

The Notes will be rated B+ by Standard & Poor's Credit Market Services France SAS, a division of McGraw-Hill Companies, Inc. (S&P), B3 by Moody's Investors Services Limited (Moody's) and B by Fitch Ratings Ltd. (Fitch and, together with S&P and Moody's, the Rating Agencies). The Rating Agencies have also issued ratings on Ukraine (by Standard & Poor's Credit Market Services Europe Limited in the case of S&P), the Group and other debt obligations of the Issuer, as set out in this Prospectus. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. As of the date of this Prospectus, each of the Rating Agencies is established in the European Union and has applied for registration under Regulation (EC) No 1060/2009 (the CRA Regulation), although notification of the corresponding registration decision has not yet been provided by the relevant competent authority. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the CRA Regulation unless the rating is provided by a credit rating agency operating in the European Union before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused.

PROSPECTIVE INVESTORS SHOULD HAVE REGARD TO THE FACTORS DESCRIBED UNDER THE SECTION HEADED "RISK FACTORS" IN THIS PROSPECTUS.

The Notes, the Note Guarantee and the Note Suretyship have not been and will not be registered under the U.S. Securities Act of 1933 (the **Securities Act**) and, subject to certain exceptions, may not be offered or sold within the United States. The Notes are being offered and sold outside the United States in reliance on Regulation S and within the United States to **"qualified institutional buyers"** in reliance on Rule 144A under the Securities Act (**Rule 144A**). Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain further restrictions on offers, sales and transfers of the Notes and distribution of this Prospectus, see "*Subscription and Sale*" and "*Transfer Restrictions*".

The Notes will be issued in registered form in the denomination of US$200,000 and integral multiples of US$1,000 in excess thereof. Delivery of the Notes will be made on or about the Closing Date. The Regulation S Notes will upon issue be represented by a single global note certificate (the **Regulation S Global Note Certificate**) in registered form, which will be deposited with a common depositary (the **Common Depositary**) for, and registered in the name of a nominee of, Euroclear Bank S.A./N.V. (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**) on or about the Closing Date for the accounts of their respective accountholders. The Rule 144A Notes will be evidenced by a global note certificate (the **Rule 144A Global Note Certificate** and, together with the Regulation S Global Note Certificate, the **Global Note Certificates**), which will be registered in the name of a nominee of, and deposited with a custodian for, The Depository Trust Company (**DTC**). Ownership interests in the Global Note Certificates will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg and their respective participants.

JOINT BOOKRUNNERS

J.P. Morgan Cazenove | Morgan Stanley | UBS Investment Bank

This Prospectus comprises a prospectus for the purposes of Directive 2003/71/EC (the **Prospectus Directive**) and for the purpose of giving information with regard to the Issuer, the Guarantors, Ferrexpo and its subsidiaries and affiliates taken as a whole (the **Group** or **Ferrexpo** or **our, we, us**) and the Notes which according to the particular nature of the Issuer, the Guarantors, the Group, the Notes, the Note Guarantee and the Note Suretyship is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer, the Guarantors and the Group. The Issuer and the Guarantors (the **Responsible Persons**) accept responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of each of the Issuer and the Guarantors (each of which has taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Issuer and the Guarantors, having made all reasonable enquiries, confirm that: this Prospectus contains all information with respect to the Issuer, the Guarantors, the Group, the Notes, the Note Guarantee and the Note Suretyship which is material in the context of the issue and offering of the Notes; the statements contained in this Prospectus relating to the Issuer, the Guarantors and the Group are true and accurate in all material respects and not misleading; the opinions, intentions and expectations expressed in this Prospectus with regard to the Issuer, the Guarantors and the Group are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; there are no other facts in relation to the Issuer, the Guarantors, the Group, the Notes, the Note Guarantee or the Note Suretyship, the omission of which would, in the context of the issue and offering of the Notes, make any statement in this Prospectus misleading; this Prospectus does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements herein, in light of the circumstances under which they were made, not misleading; and all reasonable enquiries have been made by the Issuer and the Guarantors to ascertain the facts, information and statements contained in this Prospectus. Each of the Issuer and the Guarantors accepts responsibility.

This Prospectus may only be used for the purposes for which it has been published.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Guarantors or the Joint Bookrunners (as defined in "*Subscription and Sale*" below) to subscribe or purchase, any of the Notes. The distribution of this Prospectus and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer, the Guarantors and the Joint Bookrunners to inform themselves about and to observe any such restrictions.

For a description of further restrictions on offers and sales of Notes and distribution of this Prospectus, see "*Subscription and Sale*" below.

No person is authorised to give any information or to make any representation not contained in this Prospectus and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer, the Guarantors or the Joint Bookrunners. Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or the Guarantors since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer or the Guarantors since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that the information contained in it or any other information supplied in connection with the Notes is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

To the fullest extent permitted by law, the Joint Bookrunners accept no responsibility whatsoever for the contents of this Prospectus or for any other statement, made or purported to be made by a Joint Bookrunner or on its behalf in connection with the Issuer, the Guarantors, or the issue and offering of the Notes. Each Joint Bookrunner accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Prospectus or any such statement.

Prospective investors should not construe anything in this Prospectus as legal, business or tax advice. Each prospective investor should consult its own advisers as needed to make its investment decision and determine whether it is legally able to purchase the Notes under applicable laws or regulations.

No representation or warranty, express or implied, is made by the Joint Bookrunners or the Trustee as to the accuracy or completeness of the information set forth in this Prospectus, and nothing contained in this Prospectus is, or shall be relied upon as, a promise or representation, whether as to the past or the future. Neither the Joint Bookrunners nor the Trustee assumes any responsibility for the accuracy or completeness of the information set forth in this Prospectus. Each person contemplating making an investment in the Notes must make its own investigation and analysis of the creditworthiness of the Issuer, the Guarantors and the Group and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience, and any other factors which may be relevant to it in connection with such investments.

None of the Issuer, the Guarantors, the Joint Bookrunners or any of their respective representatives is making any representation to any offeree or purchaser of the Notes regarding the legality of an investment by such offeree or purchaser under appropriate legal investment or similar laws. Each investor should consult with its own advisers as to the legal, tax, business, financial and related aspects of a purchase of the Notes.

The Notes, the Note Guarantee and the Note Suretyship have not been recommended by or approved by the U.S. Securities and Exchange Commission or any other federal or state securities commission or regulatory authority in the United States, nor has any such commission or regulatory authority passed upon the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

THE STATEMENTS HEREIN ABOUT U.S. FEDERAL TAX ISSUES ARE MADE TO SUPPORT MARKETING OF THE NOTES. NO TAXPAYER CAN RELY ON THEM TO AVOID TAX PENALTIES. EACH PROSPECTIVE PURCHASER SHOULD SEEK ADVICE FROM AN INDEPENDENT TAX ADVISER ABOUT THE TAX CONSEQUENCES UNDER ITS PARTICULAR CIRCUMSTANCES OF INVESTING IN NOTES UNDER THE LAWS OF THE UNITED KINGDOM, UKRAINE, THE UNITED STATES AND ITS CONSTITUENT JURISDICTIONS AND ANY OTHER JURISDICTION WHERE THE PURCHASER MAY BE SUBJECT TO TAXATION.

TO NEW HAMPSHIRE RESIDENTS: NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

This Prospectus has been prepared solely for use in connection with the proposed offering of the Notes described in this Prospectus. This Prospectus is personal to each offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire Notes.

In connection with the issue of the Notes, UBS Limited (the **Stabilising Manager**) (or any person acting on behalf of any Stabilising Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or any person acting on behalf of any Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager (or any person acting on behalf of any Stabilising Manager) in accordance with all applicable laws and rules.

Available Information

The Issuer and the Guarantors have agreed that, for so long as any Notes are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, they will, during any period in which they are neither subject to Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the **Exchange Act**) nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner or to the Principal Paying Agent (as defined herein) for delivery to such holder, beneficial owner or prospective purchaser, in each case upon the request of such holder, beneficial owner, prospective purchaser or Principal Paying Agent, the information required to be provided by Rule 144A(d)(4) under the Securities Act.

Forward-Looking Statements

This Prospectus contains "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Examples of forward-looking statements include, but are not limited to:

- Statements of the Issuer's or the Guarantors' projections or expectations of demand, capacity utilisation, production, revenues, costs, capital expenditures;

- Statements of plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs;

- Statements of plans or intentions relating to acquisitions, competitive strengths and weaknesses, plans or goals relating to financial performance and future operations and development, business strategy; and

- Statements about the trends in the industry and the political and legal environment in which we operate and other information that is not historical information. The words "anticipates", "estimates", "expects", "believes", "intends", "plans", "may", "will", "should" and any similar expressions to identify forward-looking statements may be used herein. Prospective purchasers of the Notes are cautioned that actual results could differ materially from those anticipated in forward-looking statements. The forward-looking statements contained in this Prospectus are largely based on our expectations, which reflect estimates and assumptions made by our management. These estimates and assumptions reflect our best judgment based on currently known market conditions and other factors, some of which are discussed below. Although we believe such estimates and assumptions to be reasonable, they are inherently uncertain and involve a number of risks and uncertainties that are beyond our control. In addition, assumptions about future events may prove to be inaccurate. We caution prospective purchasers of the Notes that the forward-looking statements contained in this Prospectus are not guarantees of outcomes of future performance and we cannot assure any prospective purchasers of the Notes that such statements will be realised or the forward-looking events and circumstances will occur.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, many of which are beyond our control and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. These risks, uncertainties and other factors include, among other things, those described in the section headed "*Risk Factors*", as well as those included elsewhere in this Prospectus and they include:

- Our business is subject to a number of risks and hazards inherent to the mining industry;

- We depend on a limited number of customers and markets;

- Substantially all our revenues are currently derived from iron ore mining and pellet production at one facility;

- We are not insured against catastrophic loss and other liabilities;

- Production costs for pellets are greater than for other iron ore forms. Increases in raw material and energy costs affect our production costs disproportionately;

- The iron ore industry is intensely competitive and we may have difficulty effectively competing with other iron ore mining companies;

- We are required to meet certain financial and other restrictive covenants under the terms of our other indebtedness;

- Increases in transportation costs and disruptions to transportation could have a material adverse effect;

- The volume and grade of our reserves and our rate of production may not conform to current estimates;

- We rely on the continued services of key managerial and technical personnel, who may be difficult to replace with equally qualified personnel if they were to depart;
- Our business depends on exploration and mining licences issued by the Government of Ukraine and such licences may not be renewed;
- Title to our mineral properties or production facilities, or to any privatised company we have acquired, may be challenged;
- If the Ukrainian Anti-monopoly Committee were to conclude that we acquired a new company or increased the level of control we exert over certain of our subsidiaries in contravention of anti-monopoly legislation, we could face administrative sanctions or be required to divest certain assets;
- We are in disputes with the Ukrainian tax authorities;
- Our ownership of a related interest in FPM has been challenged;
- Our business may be affected by labour disruptions or we may be unable to manage our labour costs;
- We are exposed to certain social and political pressures associated with the local community in the town of Komsomolsk and elsewhere;
- We are dependent on our relations with third-party contractors and consultants;
- Our compliance with labour, health and safety laws may require increased capital expenditures, and non-compliance may subject us to penalties;
- Future compliance with REACH may require increased capital expenditures, and non-compliance may subject us to penalties and restrictions on production and/or placing our products on the EU Market;
- Transfer pricing rules may potentially affect our results of operations;
- Our financial condition may be adversely affected by changes in applicable taxation regimes or in our taxation residence;
- Our future financial and operational performance depends on our ability to upgrade existing facilities and develop currently unexploited mining assets;
- Costs for our expansion activities may be higher than anticipated;
- Expansion activities may be subject to delays;
- We may need additional approvals for our expansion activities, or our existing licences may be suspended or revoked or a requested extension may be refused;
- Our expansion activities may require additional future funding, which we may be unable to obtain on acceptable terms, or at all;
- There may be increased production costs associated with our capital expenditure programme that may be unmanageable;
- We may make acquisitions, which may not be integrated or managed successfully;
- We may have only limited financial and other information about potential targets and their financial performance may differ from ours;
- We operate in a highly volatile commodity market for steel and steel products. Decreases in iron ore prices may depress our margins and adversely affect our results of operations and financial condition;

- Our mining operations create difficult and costly environmental challenges;
- Risks relating to operating in Ukraine;
- Risks relating to our ownership structure; and
- Risks relating to our debt and the Notes.

Prospective purchasers of the Notes should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements.

Prospective purchasers of the Notes should not place undue reliance on forward looking statements and should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which we operate. Such forward-looking statements speak only as of the date on which they are made. Accordingly, we do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. We do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario. These cautionary statements qualify all forward-looking statements attributable to us or persons acting on our behalf.

Enforceability of Judgments

The Issuer and Ferrexpo are incorporated under the laws of England and Wales. FPM is incorporated under the laws of Ukraine and certain of the officers and members of FPM's board of directors and certain other persons referred to herein are residents of Ukraine. Ferrexpo AG is incorporated under the laws of Switzerland and certain of the officers and members of Ferrexpo AG's board of directors and certain other persons referred to herein are residents of Switzerland. A substantial portion of our assets and those of FPM are located outside the United Kingdom and the United States. As a result, it may not be possible for investors to effect service of process upon such persons in the United Kingdom or the United States or to enforce against them or FPM, Ferrexpo AG or the Group judgments obtained in the courts of the United Kingdom and the United States including judgments predicated upon the civil liability provisions of the securities laws of the United States or any State or territory within the United States.

The courts of Ukraine will not recognise and/or enforce any judgment obtained in a court established in a country other than Ukraine unless such enforcement is envisaged by an international treaty to which Ukraine is a party providing for enforcement of such judgments and then only in accordance with the terms of such treaty. There is no such treaty between Ukraine and the United Kingdom or between the United States and Ukraine providing for recognition and/or enforcement of judgments.

In the absence of an international treaty providing for recognition and/or enforcement of judgments, the courts of Ukraine may only recognise or enforce a foreign court judgment on the basis of the principle of reciprocity. Unless proven otherwise, reciprocity is deemed to exist in relations between Ukraine and the country where the judgment was rendered. Ukrainian law does not provide any clear rules on the application of the principle of reciprocity and there is no official interpretation or court practice in this respect. Accordingly, there can be no assurance that the courts of Ukraine will recognise or enforce a judgment rendered by the courts of the United Kingdom or the United States on the basis of the principle of reciprocity. Furthermore, the courts of Ukraine might refuse to recognise or enforce a foreign court judgment on the basis of the principle of reciprocity on the grounds provided in the applicable Ukrainian legislation.

Ukraine is party to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the **New York Convention**). Consequently, a foreign arbitral award obtained in a state which is party to the New York Convention should be recognised and enforced by a Ukrainian court (under the terms of the New York Convention).

The enforceability in Switzerland of a foreign judgment is subject to the limitations set forth in (a) the Lugano Convention on Jurisdiction and Enforcement of Judgments in Civil and Commercial Matters of 16 September 1988, as amended, (b) such other international treaties under which Switzerland is bound and (c) the Swiss Federal Act on Private International Law of 18 December 1987, as amended (*Bundesgesetz über das Internationale Privatrecht*). In particular, and without limitation to the foregoing, a judgment rendered by a foreign court may only be enforced in Switzerland if:

- the foreign court had jurisdiction;
- the judgment of such foreign court has become final and not capable of appeal or is enforceable in such foreign country (depending on the country);
- the court procedures leading to the judgment followed the principles of due process of law; and
- the judgment on its merits does not violate Swiss public policy.

This four-factor test may limit the enforceability in Switzerland, in actions for the enforcement of judgments of U.S. or other non-Swiss courts, of liabilities predicated solely upon the federal or state securities laws of the United States or of such other jurisdictions. In addition, enforceability of a judgment against Ferrexpo AG by a non-Swiss court in Switzerland may be limited if Ferrexpo AG can demonstrate service of process was not effective. Awards to punitive damages in actions brought in the United States or elsewhere may be unenforceable in Switzerland. In general, the enforcement of final judgments of U.S. courts in Swiss courts may be costly and time-consuming and may even be unsuccessful.

Table of Contents

	Page No.
Forward-Looking Statements	5
Enforceability of Judgments	8
Presentation of Certain Information	10
Exchange Rates	13
Overview of the Group	14
Summary Historical Financial Information	22
Overview of the Offering	25
Risk Factors	29
Use of Proceeds	66
Capitalisation	67
Selected Historical Financial Information	68
Management's Discussion and Analysis of Financial Condition and Results of Operation	72
Reserves and Resources	100
Business Description	108
Industry	138
Management	146
Shareholders and Related Party Transactions	154
Description of Other Indebtedness	162
Terms and Conditions of the Notes	167
Book-Entry, Delivery and Form	205
Summary of Provisions Relating to the Notes While in Global Form	210
Taxation	211
Certain ERISA and Other Considerations	220
Selling and Transfer Restrictions	222
Subscription and Sale	224
General Information	227
Glossary of Selected Terms	229
Financial Statements	231
Appendix 1: Gorishne-Plavninskoe and Lavrikovskoe Deposits Resource Estimate Review	A-1
Appendix 2: Mineral Reserve Update for the Gorishne-Plavninskoe and Lavrikovskoe Open Cast Mining Operation	B-1

Presentation of Certain Information

Financial Information

Financial information identified as "audited" herein has been derived from:

(i) the Issuer's audited statement of comprehensive income, statement of financial position, statement of cash flows and statement of changes in equity as of and for the years ended 31 December 2010, 31 December 2009 and 31 December 2008 (the **Issuer's Financial Statements**); and

(ii) our audited consolidated income statement, statement of comprehensive income, statement of financial position, statement of cash flows and statement of changes in equity as of and for the years ended 31 December 2010, 31 December 2009 and 31 December 2008 (the **Group's Financial Statements** and, together with the Issuer's Financial Statements, the **Financial Statements**).

The Financial Statements have been audited by the Issuer's independent auditors, Ernst & Young LLP, located at 1 More London Place, London SE1 2AF, England who have issued unqualified opinions on such Financial Statements.

Non-IFRS Measures

The financial information included in this Prospectus is not intended to comply with non-IFRS reporting requirements. Compliance with such requirements would require the modification or exclusion of certain financial measures, including C1 cash costs, EBITDA, and their related ratios, and the presentation of certain other information not included herein.

Our definition of "C1 cash cost" includes the principal production inputs related to energy (including electricity, natural gas and fuel), materials (including grinding media), personnel, and maintenance services and consumables (including repairs and spare parts). C1 cash cost excludes costs such as depreciation, pension costs, stock movements, costs of purchased ore and concentrate as well as production costs of gravel and one-off items. We define our "C1 cash cost of production per tonne" as the cash cost of production of own iron ore divided by the production volume of own iron ore. See *"Management's Discussion and Analysis of Financial Condition and Results of Operations – Cost of sales" and "Business Description – Cost of sales"*.

Although average cash cost per tonne is not a measure of performance recognized under IFRS, management believes that it is useful to an investor in evaluating our performance because it is a measure commonly used in the resources industry. Average cash cost per tonne should not be considered in isolation or as a substitute for measures of performance in accordance with IFRS. Moreover, because average cash cost per tonne is not calculated identically by all companies, the presentation here may not be comparable to other similarly titled measures of other companies.

For further details on EBITDA and a reconciliation of EBITDA to the IFRS measure "profit before tax and finance", see *"Selected Financial Statements – EBITDA"*.

C1 cash costs, EBITDA, and their related ratios and certain other items included herein are non-IFRS measures and you should not consider such items as alternatives to the applicable IFRS measures. In particular, you should not consider C1 cash costs, EBITDA, and their related ratios as a measurement of our financial performance or liquidity under IFRS, as an alternative to profit, operating income or any other performance measures derived in accordance with IFRS, or as an alternative to cash flow from operating activities as a measure of our liquidity.

C1 cash costs and EBITDA have limitations as analytical tools, and you should not consider them in isolation from, or as substitutes for, analysis of our results of operations, including our cash flows, as reported under IFRS. Some of the limitations of C1 cash costs, EBITDA, and their related ratios as measures are:

- they do not reflect our cash expenditure or future requirements for capital expenditure or contractual commitments, nor do they reflect the actual cash contributions received from customers;

- they do not reflect changes in, or cash requirements for, our working capital needs;
- they do not reflect the interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future and such measures do not reflect any cash requirements for such replacements; and
- other companies in our industry may calculate these measures differently than we do, limiting their usefulness as a comparative measure.

Because of these limitations, C1 cash costs and EBITDA for the period should not be considered as measures of discretionary cash available to us to invest in the growth of our business. Accordingly, investors should rely on our consolidated financial statements prepared in accordance with IFRS and treat our C1 cash costs and EBITDA as supplemental information only.

Market, Economic and Industry Data

Market, economic and industry data used throughout this Prospectus has been derived from various industry and other independent sources. The accuracy and completeness of such information is not guaranteed.

Information contained in this Prospectus relating to the industries in which we operate in Ukraine and our competitors (which may include estimates and approximations) was derived from publicly available sources, including official data published by certain government and international agencies, industry publications and press releases, including Metalytics, CRU, the State Statistics Committee of Ukraine, and National Bank of Ukraine. The Issuer and each Guarantor jointly and severally confirm that such information has been accurately reproduced from its sources and, as far as the Issuer and each Guarantor is aware and is able to ascertain, no facts have been omitted that would render the reproduced information inaccurate or misleading. However, the Issuer and each Guarantor jointly and severally have relied on the accuracy of this information without carrying out an independent verification.

Certain information in this Prospectus in relation to Ukraine has been extracted from documents and other publications released by, and is presented on the authority of, various official and other public and private sources, including participants in the capital markets and financial sector in Ukraine. There is not necessarily any uniformity of views among such sources as to the information provided therein. Accordingly, the Issuer and each Guarantor jointly and severally only accept responsibility for accurately reproducing such extracts as they appear in this Prospectus. It accepts no further or other responsibility in respect of such information.

Currency

In this Prospectus, all references to "**hryvnia**" and "**UAH**" are to the lawful currency for the time being of Ukraine, all references to "**Swiss francs**" and "**CHF**" are to the lawful currency for the time being of Switzerland, all references to "**dollars**", "**US dollars**" and "**US$**" are to the lawful currency for the time being of the United States of America, all references to "**pounds sterling**" or "**£**" are to the lawful currency for the time being of the United Kingdom and all references to "**Euro**" or "**€**" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.

Translations of amounts from hryvnia to dollars are solely for the convenience of the reader and are made at exchange rates based on those established by the National Bank of Ukraine (**NBU**) and effective as at the dates or for the periods of the respective financial information presented elsewhere in this Prospectus in respect of both balance sheet and income statement items. No representation is made that the hryvnia or dollar amounts referred to herein could have been converted into dollars or hryvnia, as the case may be, at any particular exchange rate or at all. See "*Exchange Rates*".

Unless otherwise specified or the context otherwise requires, all references to "**US**", "**U.S.**" and "**United States**" are to the United States of America, all references to "**UK**" and "**United Kingdom**" are to the United

Kingdom of Great Britain and Northern Ireland and all references to the "**EU**" are to the European Union and its member states as of the date of this Prospectus.

Rounding

Some figures included in this Prospectus have been subject to rounding adjustments.

Exchange Rates

The following table sets forth, for the periods indicated, the average and period-end official rates set by the NBU, in each case for the purchase of hryvnia, all expressed in hryvnia per US dollar.

	High	Low	Average	Period End
		(hryvnia per U.S. dollar)		
2011[2]	7.96	7.93	7.94	7.96
2010	8.01	7.89	7.94	7.96
2009	8.01	7.61	7.79	7.99
2008	7.88	4.84	5.27	7.70
2007	5.05	5.05	5.05	5.05
2006	5.05	5.05	5.05	5.05
2005	5.31	5.05	5.12	5.05
2004	5.33	5.31	5.32	5.31
2003	5.33	5.33	5.33	5.33
2002	5.33	5.30	5.33	5.33
2001	5.43	5.27	5.37	5.30

Notes:

(1) Calculated based on the exchange rates for each banking day of the period and the number of banking days in the period.

(2) Up to and including 31 March 2011.

Certain financial data has been translated from hryvnia into US dollars at the rate of UAH7.96 to US$1.00 on 31 December 2010, UAH7.99 to US$1.00 on 31 December 2009 and UAH7.70 to US$1.00 on 31 December 2008 and UAH5.05 to US$1.00 on 31 December 2007, based on the official rate reported by the NBU on those dates (after rounding adjustments). No representation is made that the hryvnia or dollar amounts referred to herein could have been converted into dollars or hryvnia, as the case may be, at any particular exchange rate or at all. The NBU's hryvnia/dollar exchange rate as reported on 28 February 2011 (after rounding adjustments), was UAH7.93 to US$1.00.

Overview of the Group

This condensed description of the Issuer, the Guarantors, the Group and the offering of the Notes may not contain all of the information that may be important to prospective purchasers of the Notes. The entire Prospectus, including the more detailed information regarding our business and the Financial Statements included elsewhere in this Prospectus, should be read carefully. Investing in the Notes involves risks. The information set forth in the section titled "Risk Factors" should be carefully considered. Certain statements in this Prospectus are forward-looking statements that also involve risks and uncertainties as described under the section titled "Forward-looking Statements".

Business Overview

Ferrexpo is a Swiss-headquartered iron ore pellet producer. We own and operate an open-pit iron ore mine and associated processing facilities in central Ukraine and have been engaged in the mining, processing and sale of iron ore pellets for the global steel market for over 40 years. Iron ore pellets are an iron ore product used in the production of steel and are sold at a premium to other iron ore products as they increase productivity in the blast furnace, due to their form, substance and low level of impurities. We produced 10 million tonnes of pellets in 2010, making us the largest exporter of iron ore pellets in the Commonwealth of Independent States (**CIS**) and among the ten largest producers of pellets in the global seaborne market, according to Metalytics 2011.

Our pellets are delivered through our own established logistics infrastructure that includes railcars, barge and port facilities.

Our resource base consists of a magnetite ore with an average of 30 per cent. iron content, which is particularly well-suited for pelletising. The ore body is a single 50 kilometre-long strike divided into 10 adjacent deposits. As of 1 January 2011, we have estimated resources of over 6.8 billion tonnes classified according to the Australasian Joint Ore Reserves Committee (**JORC**) code, and further estimated resources of over 14.2 billion tonnes classified according to the classification system and estimation methods for reserves and resources established by the Former Soviet Union and last revised in 1981 (the **FSU Classification**). See "*Reserves and Resources*" and "*Risk Factors – The volume and grade of our resources and our rate of production may not conform to current estimates*".

For the year ended 31 December 2010, we recorded net revenue of US$1,295 million, EBITDA of US$585 million and net financial indebtedness of US$104 million.

We are one of the lowest cost pellet producers in the world on a free on board (**FOB**) basis, according to Metalytics 2011. We operate a single site with a fully integrated mining and processing facility, comprising an open-pit iron ore mine, concentrating facility and pelletising plant, located adjacent to the city of Komsomolsk in the Poltava region in Ukraine. See *"Business Description – Existing Operations"*. Our location and established logistics infrastructure allow us to benefit from a significant cost advantage over our seaborne competitors because of lower shipping costs and shorter distances for deliveries to customers in Central and Eastern Europe. We own 49.9 per cent. in a bulk export terminal on the Black Sea, which secures our access to the seaborne markets to supply our customers globally.

We are export-oriented, with 99.9 per cent. of our total sales volume in 2010 exported outside the CIS. Over the years, we have built a diversified global customer portfolio based on long-term framework agreements which typically cover periods up to 10 years. We have long-standing commercial relationships with a number of high quality international customers, such as Voestalpine in Central Europe, and also pursue and enter into long-term framework agreements with new customers, such as JFE Steel Corporation (**JFE Steel**) in Asia. We

1 We divide the markets for our products into:

- **Traditional** markets in which we have supplied our products over a long period, have longstanding customer relationships, and enjoy clear and established competitive advantages (these markets include Austria, Russia, Czech Republic, Hungary, Serbia and Slovakia);
- **Natural** markets in which, because of our location, we believe we have potential competitive advantages over more distant producers, and hence are targeting for future growth (these markets include Turkey, the Middle East and Western Europe); and
- **Growth** markets which are those markets which have the potential to add new and significant tonnage to the Group, especially Asia.

supply customers in both Traditional and Natural markets at a cost advantage due to our geographical proximity to these markets. We are also focused on increasing our overall market share by targeting potential customers in our Growth markets. Our marketing strategy is to commit the majority of our production to high quality customers who produce sophisticated steel products by building and maintaining long-term framework agreements with these customers. We believe this strategy enables us to record stable sales volumes.

The following table sets out a breakdown of our markets by volume (tonnage sold) as at 31 December 2009 and 31 December 2010.

Customer Breakdown by sales volume

Market	2009	2010
Traditional	52.8%	65.5%
Growth	39.3%	27.3%
Natural	7.9%	7.2%

In the future, we intend to both increase the average quality of our existing products as well as to increase our mined ore capacity. In November 2010, our Board of Directors approved a US$647 million capital expenditure programme to begin addressing these objectives. We anticipate that successful implementation of this programme will allow us to extract more ore, increase our annualised own ore pellet production from 9 million tonnes per annum (**Mtpa**) in 2010 to 12 Mtpa by the end of 2013 and allow us to produce all 65 per cent. iron ore pellets by the end of 2014.

This programme involves estimated capital expenditures of approximately:

- US$267 million on the development of the FYM mine, which is located immediately north of our existing FPM mine, to extract ore by 2013; and
- US$168 million over an eight-year period to extend the life of our existing mine at FPM by 12 years to 2038; and
- US$212 million to increase the proportion of 65 per cent. iron content pellets we produce from approximately half of our total current pellet production to 100 per cent. by 2014.

We anticipate funding these capital expenditures from available cash, anticipated cash flow from operations and available borrowings. See "*Use of Proceeds*". We have also begun to evaluate other capital expenditures to further develop and expand our concentrating and pelletising capacity. As at the date of this Prospectus, we have approved only the above-mentioned US$647 million capital expenditure programme. Any further capital expenditure plans are subject to continuing our technical review, feasibility analysis, availability of funds and approval of the Board of Directors. For further details, see "*Management's Discussion and Analysis of Financial Condition and Results of Operation – Liquidity and capital resources – Capital expenditure*" and *"Business Description – Expansion of Our Mining Operations"*.

The capital expenditure programme is subject to risks and uncertainties which may cause us to exceed our estimated budget or extend our schedule. See *"Risk Factors—Risks relating to our expansion plans"*. Any further capital expenditure plans are subject to similar risks and uncertainties.

Operating Assets

FPM Mine

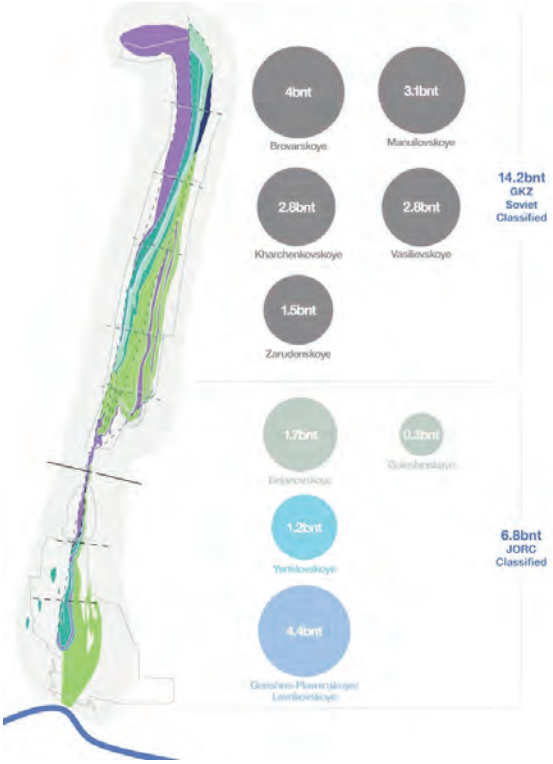
Our current operating asset is FPM, consisting of a mine and pellet processing facilities that exploit the Gorishne- Plavninskoe and Lavrikovskoe (**GPL**) deposits. The GPL deposits is immediately adjacent to rail and port facilities on the Dnieper River. The mine is 6 kilometres long and approximately 330 metres deep. FPM's nominal processing capacity is 12 Mtpa. In 2010, we produced 9 million tonnes of pellets from own ore, of which 4,061 kilotonnes had 65 per cent. iron content and 4,972 kilotonnes had 62 per cent. iron content. During 2010, we also produced 998 kilotonnes of pellets from purchased third party concentrate. This mine has operated successfully for over 40 years without any significant disruptions or delays in production.

FYM Mine

Our resources include the mine at FYM, which has its mining facility located approximately three miles north of the FPM mine. We consider the mine to be a brownfield project as it will use existing technology and infrastructure at FPM. The deposit has estimated iron ore resources of 1.2 billion tonnes (of which approximately 268 million tonnes were measured resources, approximately 560 million tonnes were indicated resources and approximately 364 million tonnes were inferred resources as classified under the JORC Code) which we estimate begins at 70 meters below soft overburden. We plan to increase production of ore from the FYM mine (broadly similar to the FPM mine's current production), equating to an estimated mine life of approximately 23 years.

We commenced initial development of this mine in 2008 and now have in place the mining equipment necessary to achieve an initial extraction of ore by the first half of 2013. The first ramp up to approximately 5.5 million tonnes of ore from this mine should allow us to fully utilise concentrating and pelletising capacity at the FPM mine and enable us to increase our total pellet production, from own ore, by a third to 12 Mtpa. If approved and successful, the next phase of our capital expenditure programme would involve a further increase in output from the FYM mine and the subsequent processing of the remaining approximate 21.5 million tonnes of ore at the FYM mine to increase our production of concentrate and pellets. This would involve construction of additional processing and pelletising capacity, which is subject to further feasibility analysis and has not yet been approved. See "*Business Description – Expansion of Our Mining Operations – Developing the Yeristovskoe deposit*".

The following chart shows the location and relative resources of our iron ore deposits.

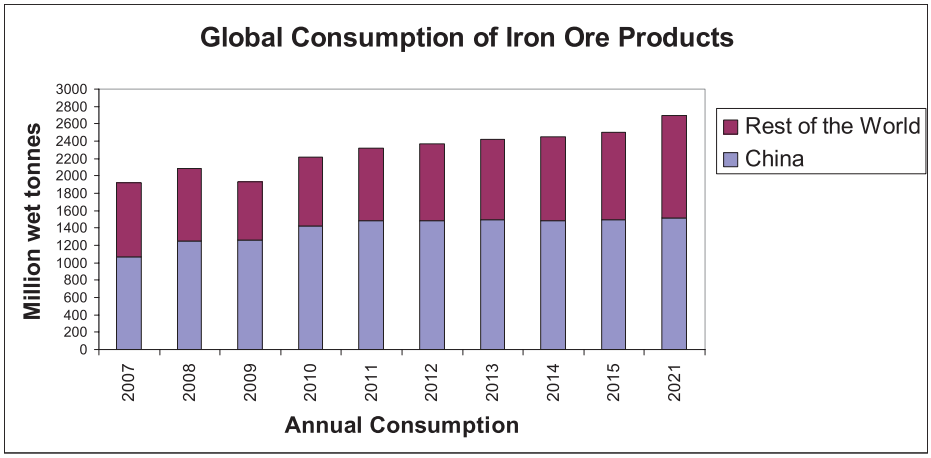


Industry Overview

Iron ore pellet consumption

The majority of iron ore consumed worldwide is used in blast furnace operations to produce steel. Global demand for steel is expected to increase during the upcoming years, driven by a number of factors including urbanisation and fixed asset investment in China and India and the economic recovery of the Western markets. CRU projects global crude steel production increasing from 1,413 million tonnes in 2010 to 1,792 million tonnes in 2015, a CAGR of 4.9%, to support these demand trends.

The following chart sets out projected iron ore consumption of China and the rest of the world (source: CRU 2011 interim report).

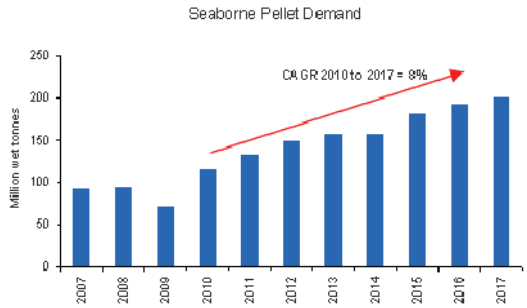


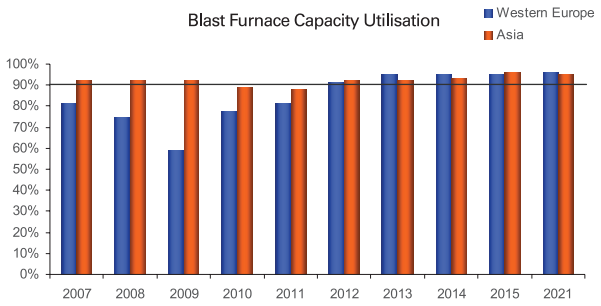
There are three main types of iron ore products used in the production of steel: fines, lump and pellets. Pellet production requires significant capital investment and ongoing operating costs for the concentrating and processing of material, which results in a product with generally higher iron content and lower deleterious elements than other iron ore products. These attributes allow for pellets to be a particularly efficient and clean smelting agent in blast furnace steel production. Pellets are therefore considered a premium product well-suited towards production of higher quality steel products and, as such, have a higher selling price than iron ore fines or lump.

Demand for pellets is generally driven by steel production trends and blast furnace capacity utilization levels. There tends to be increasing demand for pellets when blast furnace utilization rates are at high levels as our steel customers place more emphasis on increasing their blast furnace efficiency. CRU projects strong consumption levels for pellets given the generally positive outlook for steel demand, high blast furnace utilization levels and increasing demands for higher quality steel products. In particular, global consumption of pellets is expected to increase from 406 million tonnes in 2010 to 590 million tonnes in 2015 according to CRU. This represents a demand CAGR of 7.8%. China and India are expected to be the key regional drivers of demand with annual demand increasing by 56 million tonnes and 51 million tonnes, respectively, between 2010 and 2015.

Selected types of magnetite iron ore, such as that found in Ferrexpo's resource base, are generally particularly suitable for pelletising. The process of pelletising combines mixing of the raw material, forming the pellet and a thermal treatment hardening of the pellet. Additional materials are added to the iron ore to meet the requirements of the final pellets.

The following charts set out projected seaborne pellet demand (source: Metalytics 4Q2010: Iron Ore Briefing Service) and projected blast furnace capacity utilisation (source: CRU 2010: Iron Ore Market Service interim report)





Iron ore pellet production

The pellet production market is a segment of the broader iron ore industry which generally requires access to both iron ore resource bases and ancillary capital equipment for the concentrating and processing of mined material. The major pellet producing geographies include Brazil, North America, Russia and Ukraine. The major producers within these regions include Companhia Vale do Rio Doce (**Vale**) (Brazil), Cliffs Natural Resources (**Cliffs**) (North America) and Samarco Mineração (**Samarco**) (Brazil). Ferrexpo is not large in a global iron ore context but is an important participant in the seaborne pellets market as we are the largest exporter of pellet products from the CIS and are among the ten largest seaborne pellets producers.

There are constraints globally on the ability of pellet suppliers to increase production capacity and product sales to steel customers. These constraints include the significant capital and long lead times associated with expansion of mining, concentrating and processing capacity, logistical bottlenecks and general barriers to entry for new industry participants. Due to these and other reasons, CRU projects that global pellet capacity will increase at a slower rate than pellet demand. Specifically, pellet capacity will grow from 489 million tonnes in 2010 to 628 million tonnes in 2015, a CAGR of 5.1%, which is roughly one-third less than the growth rate in pellet demand, according to CRU. Capacity expansion constraints are expected to contribute to continued tightness in the global pellet supply/demand balance creating a favourable market for pellet suppliers.

Iron ore pellet pricing

Iron ore pricing had historically occurred on an annual basis between the key iron ore producers and steel consumers. This practice changed during the past eighteen months as the major iron ore suppliers have moved to quarterly or more frequent price selling mechanisms. In this context, iron ore pricing discussions are, as a general matter, currently negotiated on a bespoke basis primarily driven by international pricing trends. Other factors relevant to pricing negotiations include the end customer profile of specific steel consumers and the desires of iron ore and steel companies to lock-in pricing on a term basis.

Pricing for iron ore pellets are similarly determined on a periodic basis during the course of the year at a price premium to lumps and fines. While pellet price trends tend to follow pricing patterns for the larger iron ore fines market, specific product prices are determined based on bilateral negotiations between pellet suppliers and steel customers.

Approximately 90 per cent. of Ferrexpo's sales volumes are supplied under long-term framework agreements. These framework agreements have fixed pellet supply volumes, with negotiated pricing based primarily on international pricing trends as well as individual contract negotiations.

Strategy

We intend to continue our strategy of positioning ourselves as a low cost premium producer of high quality iron ore pellets through the following means:

Develop our significant unexploited resources and increase production and mine life

We intend to increase our annualised pellet production from own ore by one-third by 2013. To accomplish this, we plan to develop the FYM mine where we expect to extract iron ore by the first half of 2013, as well as to extend the estimated life of the existing mining operations at FPM by 12 years to 2038. See "*Business Description – Expansion of Our Mining Operations – Developing the Yeristovskoe deposit" and "Business Description – Expansion of Our Mining Operations – Mine Life Extension Programme*".

Expand our high quality customer base

We currently supply some of the world's leading steel producers, which are focused on producing steel for premium applications. We allocate approximately 10 per cent. of our sales to potential new customers through trial spot cargos, and plan to conduct such trials with several significant producers in Asia ahead of the planned production growth from FYM.

Maintain low cost of production and high operating efficiency

We are in the lowest cost quartile of the global iron ore pellet cost curve on an FOB basis, based on analysis by Metalytics. The cornerstone of our cost reduction strategy is to maximise production outputs and continually implement efficiency enhancements through our Business Improvement Programme (**BIP**). The BIP has helped us significantly decrease our consumption of key production inputs, such as energy and raw materials, and reduced our cash costs of production by US$5.27 per tonne since 2005. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Business Improvement Programme*".

Improve the quality of our product mix

We intend to increase all our production to 65 per cent. iron content pellets by 2014. Currently, 65 per cent. iron content pellets account for approximately half of our total output. The Board of Directors approved a capital expenditure of US$212 million for the upgrade of the mining operations and existing concentrator facilities at the FPM mine in order to meet this objective. This product mix improvement should allow us to expand our presence in the premium segment of the iron ore market and increase our average profitability margin. See "*Business Description – Expansion of Our Mining Operations – Quality Upgrade Programme*".

Enhance our logistics capability ahead of our planned increase in production output

Our current logistics platform includes approximately 900 railcars, port capacity for export of our current seaborne product, and river transport capacity on the Rhine/Danube River corridor through our recent acquisition of Vienna-based Helogistics Holdings GmbH (**Helogistics**). Ahead of our planned production growth from FYM, our strategy is to further secure the logistics supply chain for delivery of increased product to our end customers. This includes acquiring up to 1,000 additional railcars during 2011, as well as developing our ship loading capabilities at our Black Sea port terminal. This will allow Ferrexpo to further capitalise on its geographic proximity to Middle East and Asian markets compared to other seaborne pellet producers in the Americas and Scandinavia.

Maintain strong credit metrics and ample financial liquidity

Throughout the recent financial crisis, we maintained strict financial discipline. Key tenets of our financial strategy include funding capital expenditures out of operating cash flows, maintaining robust liquidity and retaining competitive credit metrics. Our credit position reflects this strategy, as evidenced by our strong balance sheet and our low gearing ratio. Our credit metrics include net gearing[2] of 11 per cent. as of 31 December 2010 (compared to 36 per cent. as of 31 December 2009) and net financial leverage[3] of 0.2x as of 31 December 2010 (compared to 1.9x as of 31 December 2009).

Key Strengths

Ferrexpo believes it is well-positioned to execute our strategy for the following reasons, among others:

Premium iron ore product producer

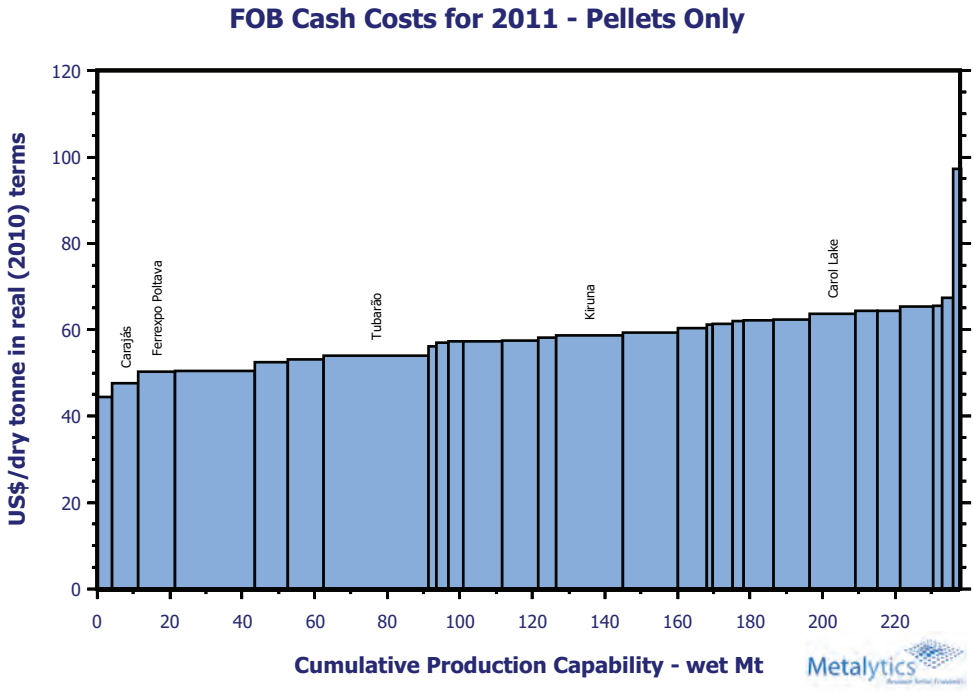
We produce iron ore pellets, which are a premium input used in the steel production industry. Our product improves blast furnace productivity in the steel production process because of its form, substance and low level of impurities.

Low cost producer with strong operating cash flows

We are one of the lowest cost producers of pellets in the world on an FOB basis according to estimates produced by Metalytics. For the year ended 31 December 2010, our cash cost of production of pellets from own ore was US$39.69 per tonne of pellets. Relative to our competitors, our low cost position enables us to sustain profitability in periods of downturn such as in 2009. This has allowed us to maintain a positive operating cash flow each quarter since 2006.

2 We calculate net gearing as net financial indebtedness over net financial indebtedness plus shareholder's equity.
3 We calculate net financial leverage as net financial indebtedness to EBITDA.

The following chart reflects Metalytics' 2011 estimates of the global FOB pellet cost curve:



Source: Metalytics January 2011.

Note: This chart was created by Metalytics in January 2011 and reflects Metalytics' estimates of the 2011 global pellet supply cost curve. The forecast cash production costs estimated by Metalytics are based on industry data sources and assumptions that may be incomplete or inaccurate. Like all such forecasts, they are subject to a significant degree of economic and other uncertainty.

Significant resource base to support production growth

Our significant resource base is situated along a single ore body, which will allow us to efficiently expand production through brownfield developments. Our current FPM mine has consistent geology and allows for a long-life production profile. Our development of FYM will utilise known and existing technology and infrastructure as well as our current workforce. As of 1 January 2011, we have estimated resources of over 6.8 billion tonnes classified according to the JORC Code (of which 1.0 billion tonnes were measured resources, 3.7 billion tonnes were indicated resources and 2.1 billion tonnes were inferred resources), and further estimated resources of over 14.2 billion tonnes under the FSU Classification. We also have 0.3 billion tonnes of proved reserves and 1.2 billion tonnes of probable reserves. For more detailed information on reserves and resources, see "*Reserves and Resources*" and "*Business Description – Resources*".

Quality customer portfolio under long-term framework agreements

We remain committed to our long-term framework agreements with customers which are focused on producing sophisticated steel products. We have supplied the vast majority of our customer portfolio for a number of decades. This allows us to produce at maximum capacity. Production delivered under long-term framework agreements accounted for over 90 per cent. of our sales volume during the year ended 31 December 2010, maximising stable and reliable revenue.

Strong balance sheet and available liquidity

We strive to maintain a low gearing ratio, adopting a strict financial discipline even during the 2009 down-cycle. In addition, we continually focus on maintaining ample financial liquidity, as represented by our available cash and credit facilities which as of 31 December 2010 amounted to US$345.7 million including undrawn committed facilities and excluding restricted cash relating to the acquisition of Helogistics in December 2010 held in escrow (US$37.8 million).

Strong corporate governance and experienced management team

Consistent with our admission to the Official List and admission to trading on the London Stock Exchange's Regulated Market, we follow robust corporate governance and internal control procedures, and are overseen by our Board of Directors, which is required to follow the independence standards of the London Stock Exchange. We are managed by an Executive Committee comprised of individuals with an aggregate of over 100 years of experience in global resources industries. Members of our senior management also have a detailed knowledge of the Ukrainian business and political environment, iron ore mining and pellet production, project delivery, marketing and financial management.

Recent Developments

In March 2011, we incorporated Ferrexpo Middle East FZE, our Dubai sales office, and its subsidiary Ferrexpo Singapore, as part of our strategy to expand our marketing reach into the Middle East and Asia.

In March 2011, we announced the appointment of Jason Keys as Group Chief Marketing Officer. Jason will join the Group in the second half of 2011 from BHP Billiton where he is currently Global Marketing Manager for Iron Ore.

In January 2011, Brian Maynard joined the Group as Group Chief Operating Officer. Most recently he was the Global Coal Director – Technical & Administrative Support in the Brisbane head office of the Vale Australia operations.

In December 2010 we acquired control of and in January 2011 we completed our acquisition of Helogistics, one of the largest inland waterway transportation companies in Europe. The transaction was completed by acquiring the bank debts of Helogistics for a total cash consideration of US$37.8 million. No consideration was paid to previous shareholders of Helogistics as part of this acquisition. Helogistics transports our pellets, mainly by barge, to core customers in Central Europe and provides increased access to European markets throughout the Rhine/Danube River corridor.

The following table sets out our pellet production output for the months ended 31 January 2011 and 28 February 2011.

Production in Tonnes '000	February 2011	January 2011
Production from own raw materials		
Iron ore	2,217.5	2,408.7
Concentrate	872.3	932.4
Pellets from own raw materials	**681.4**	**740.1**
62 per cent. iron content	356.3	343.7
65 per cent. iron content	325.1	396.4
Production/reprocessing from purchased raw materials		
Pellets from purchased raw materials	**28.7**	**70.0**
62 per cent. iron content	13.7	19.8
65 per cent. iron content	15.0	50.2
Total pellets produced	**710.1**	**810.1**
62 per cent. iron content	370.0	363.5
65 per cent. iron content	340.1	446.6

Our total pellet production for the first two months of 2011 increased 1.9 per cent. to 1,520 thousand tonnes, compared to 1,491 thousand tonnes in the corresponding period in 2010. Our production of pellets from own ore in February 2011 increased 1.5 per cent. to 681 thousand tonnes compared to 672 thousand tonnes in February 2010, and production of pellets from own ore for the first two months of 2011 are inline with the corresponding period in 2010. Production of pellet from third party concentrate increased significantly in 2011 to meet ongoing higher demand.

Subsidiary Guarantors

Certain of our subsidiaries will be initial Guarantors under the terms of the Notes. See "*Terms and Conditions of the Notes*" for further information. As of 31 December 2010, the consolidated total assets of the initial Guarantors combined would have represented approximately 77 per cent. of the consolidated total assets of the Group. For the year ended 31 December 2010, the consolidated net income of the initial Guarantors combined would have represented 100 per cent. of our consolidated net income.

Summary Historical Financial Information

The selected financial information provided below has been derived from our audited consolidated financial statements as at and for the years ended 31 December 2008, 2009 and 2010, all of which have been prepared in accordance with IFRS. Our audited consolidated financial statements as at and for the years ended 31 December 2008, 2009 and 2010 have been audited by Ernst & Young LLP.

You should read this summary historical financial information section along with "Management's Discussion and Analysis of Financial Condition and Results of Operation" and the consolidated financial statements included elsewhere in this Prospectus.

CONSOLIDATED INCOME STATEMENT DATA

	Year ended 31 December (audited)		
	2008	**2009**	**2010**
	$000	$000	$000
REVENUE	1,116,854	648,667	1,294,900
Cost of sales	(434,238)	(341,067)	(481,857)
GROSS PROFIT	682,616	307,600	813,043
Selling and distribution expenses	(152,528)	(162,266)	(212,006)
General and administrative expenses	(67,185)	(43,161)	(49,175)
Other income/(expenses)	(31,653)	684	(1,423)
Operating foreign exchange gain/(loss)	29,309	2,534	(1,078)
PROFIT FROM CONTINUING OPERATIONS BEFORE ADJUSTED ITEMS	460,559	105,391	549,361
Adjusted non-operating items[(1)]	6,177	(1,164)	3,800
PROFIT BEFORE TAX AND FINANCE	466,736	104,227	542,225
Net finance income	(18,367)	(20,825)	(40,211)
Non-operating foreign exchange loss	(72,788)	(2,552)	(3,888)
PROFIT BEFORE TAX	375,581	80,850	498,126
Income tax expense	(62,533)	(9,852)	(73,002)
PROFIT FOR THE YEAR	313,048	70,998	425,124

Note:

(1) Including costs for initial public offering of Ferrexpo plc and loss on sale of VAT Bonds.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION DATA

	At 31 December (audited)		
	2008	2009	2010
	$000	$000	$000
ASSETS			
Property, plant and equipment	412,440	452,100	647,137
Inventories	61,270	59,636	104,827
Trade and other receivables	59,636	38,117	111,890
Cash and cash equivalents	87,822	11,991	319,470
Other	232,867	257,728	294,319
TOTAL ASSETS	854,035	819,572	1,477,643
LIABILITIES			
Borrowings	305,896	269,522	423,853
Trade and other payables	35,603	27,926	88,089
Other	194,027	203,997	104,227
TOTAL LIABILITIES	396,142	348,128	616,169
Equity	457,893	471,444	861,474
TOTAL EQUITY AND LIABILITIES	854,035	819,572	1,477,643

CONSOLIDATED STATEMENT OF CASH FLOW DATA

	Year ended 31 December (audited)		
	2008	2009	2010
	$000	$000	$000
Net cash flows from operating activities	370,943	76,869	379,758
Net cash flows used in investing activities	(277,639)	(77,654)	(174,887)
Net cash flows from/(used in) financing activities	(23,594)	(74,090)	103,509
Net cash flows	69,710	(74,875)	308,380

EBITDA

EBITDA is not a uniformly or legally defined financial measure. We define EBITDA as profit from continuing operations before tax and finance plus depreciation and amortisation (included in cost of sales, administrative expenses and selling and distribution costs) and nonrecurring cash items included in other income and other expenses plus the net gains and losses from disposal of investments and property, plant and equipment. This differs in certain respects from the definition of Consolidated EBITDA that is used in the covenants contained in the Terms and Conditions of the Notes. See Condition 19 (*Definitions*). The following table provides a reconciliation showing how EBITDA is derived from profit before tax and finance for the periods shown:

	Year ended 31 December		
	2008	2009	2010
	$000	$000	$000
Profit before tax and finance	466,736	104,227	542,225
Loss on sale of VAT Bond	–	–	10,936
Write-offs and impairment losses	27,326	2,757	1,618
(Gain)/loss on disposal of property, plant and equipment	–	(213)	1,305
Gain on disposal of available-for-sale investment	(1,571)	–	–
Initial public offering costs	4,120	427	55
Share-based payments	1,495	3,423	1,366
Gain recognised on rights issue at subsidiary	(35,049)	(503)	–
Gain on bargain purchase from business combination	–	–	(2,623)
Severance payments	6,764	–	–
Amortisation and depreciation	34,125	28,018	30,415
EBITDA	503,946	138,136	585,297

Like many of our competitors, we present EBITDA because we believe it to be an important supplemental measure of our performance, and believe it is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry. Our EBITDA figures are not, however, necessarily comparable to other companies' EBITDA figures, as each is calculated in its own way and must be read in conjunction with the explanations that accompany it. EBITDA has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for an analysis of our results as reported under IFRS. Some of these limitations are:

- EBITDA does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;

- EBITDA does not reflect changes in, or cash requirements for, our working capital needs;

- EBITDA does not reflect the significant interest expense, or the cash requirements necessary, to service interest or principal payments, on our debts;

- although depreciation and amortisation are non-cash charges, the assets being depreciated and amortised will often need to be replaced in the future and EBITDA does not reflect any cash requirements that would be required for such replacements; and

- the fact that other companies in our industry may calculate EBITDA differently than we do, which limits its usefulness as a comparative measure.

Because of these limitations, you should not consider EBITDA to be a measure of cash available to us to invest at our discretion in the growth of our business.

Overview of the Offering

The capitalised terms used in this overview of the terms of the Notes but not defined herein have the meanings ascribed to them in the Conditions.

Notes	US$500,000,000 7.875 per cent. Guaranteed Notes due 2016.
Issuer	Ferrexpo Finance plc
Guarantors and Surety	Ferrexpo plc, Ferrexpo AG and FPM. See "*General Information – Information Relating to the Guarantors*".
Joint Bookrunners	J.P. Morgan Securities Ltd., Morgan Stanley & Co. International plc and UBS Limited
Maturity Date	7 April 2016
Trustee	BNY Mellon Corporate Trustee Services Limited
Principal Paying and Transfer Agent	The Bank of New York Mellon, London Branch
US Paying and Transfer Agent and Registrar	The Bank of New York Mellon, New York Branch
Use of Proceeds	The net proceeds from the issue of the Notes will be used to fund capital expenditures and acquisitions, and for general corporate purposes and will be received and, at all times while any Notes are outstanding, be used exclusively outside Switzerland.
Risk Factors	An investment in the Notes involves significant risks. See "*Risk Factors*".
Issue Price	100 per cent. of the principal amount of the Notes.
Interest	The Notes will bear interest from 7 April 2011 at a rate of 7.875 per cent. per annum payable semi-annually in arrear on 7 April and 7 October in each year, commencing on 7 October 2011.
Guarantees and Suretyship	Ferrexpo and Ferrexpo AG will, pursuant to the guarantee contained in the Trust Deed and subject to the limitations described in the section entitled "*Risk Factors*" relating to Ferrexpo AG, unconditionally and irrevocably, to the maximum extent permitted by law, guarantee the due payment of all sums expressed to be payable by the Issuer under the Notes and the Trust Deed or by FPM under the Surety Agreement. The Note Guarantee provided pursuant to the Trust Deed will constitute a guarantee for the purposes of English law. FPM will, pursuant to a suretyship contained in the Surety Agreement, unconditionally and irrevocably, to the maximum extent permitted by law, ensure the due payment of all sums expressed to be payable by the Issuer, Ferrexpo and Ferrexpo AG under the Notes and the Trust Deed. The Note Suretyship will constitute a suretyship (in Ukrainian: *poruka*) for the purposes of Ukrainian law and shall not constitute a guarantee obligation (in Ukrainian: *garantiya*) as that term is interpreted under Ukrainian law. Payment of amounts due under the Note Suretyship will require compliance with certain Ukrainian currency control regulations. See "*Risk Factors – Risks relating to our debt and the Notes – The validity of the Note Suretyship could be challenged*" and "*Risk Factors – Risks relating to our debt and the Notes – Ukrainian*

	currency control regulations may impact FPM's ability to make payments under the Note Suretyship".
Ranking of the Notes, the Note Guarantee and the Note Suretyship	The Notes will constitute senior, unsubordinated, unconditional and unsecured obligations of the Issuer and shall rank equal in right of payment with all existing and future senior, unsubordinated, unconditional and unsecured indebtedness of the Issuer. The Notes shall at all times rank *pari passu* and without preference among themselves. The Note Guarantee and the Note Suretyship will constitute direct, unsecured, unsubordinated and unconditional obligations of Ferrexpo, Ferrexpo AG and FPM, respectively, and shall at all times rank *pari passu* and without any preference among themselves, with all outstanding unsecured and unsubordinated obligations of Ferrexpo, Ferrexpo AG and FPM, respectively, present and future, save for the obligations that are preferred solely by virtue of mandatory provisions of the applicable law.
Withholding Tax; Gross-up	All payments of principal, premium and interest by or on behalf of the Issuer or the Guarantors in respect of the Notes or under the Note Guarantee or the Note Suretyship will be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the United Kingdom, Switzerland or Ukraine, as the case may be, or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event, subject to certain exceptions (including as a result of potential changes in Swiss withholding tax legislation – see "*Potential changes in Swiss withholding tax legislation*" and "*Taxation – Switzerland – Withholding Tax*"), the Issuer or the Guarantors, as the case may be, will pay such additional amounts as will result in receipt of the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required as described in Condition 7 (*Taxation*).
Redemption for Taxation Reasons	The Issuer may redeem the Notes in whole, but not in part, at 100 per cent. of their principal amount, plus accrued and unpaid interest, in the event of specified developments affecting taxation in the United Kingdom, Switzerland or Ukraine. See Condition 5.2 (*Redemption for Taxation Reasons*).
Change of Control	Following a Change of Control, a Noteholder will have the right to require the Issuer to repurchase all of the Notes held by such Noteholder at 101 per cent. of their principal amount, plus accrued and unpaid interest. See Condition 5.3 (*Redemption at the Option of the Holders Upon a Change of Control*).
Covenants	The Issuer will issue the Notes under the Trust Deed. The Trust Deed will limit, among other things, the ability of Ferrexpo and certain of its subsidiaries to: • create or permit to exist certain liens; • incur or guarantee additional indebtedness; • enter into certain transactions with affiliates; • transfer, lease or sell certain assets including subsidiary stock; • merge or consolidate with other entities;

- change the ranking of claims in respect of the Notes, the Note Guarantee or the Note Suretyship;
- impose restrictions on the ability to pay dividends or make other payments;
- issue and transfer capital stock;
- enter into sale and leaseback transactions; and
- change the nature of their core or related businesses.

Each of these covenants is subject to significant exceptions and qualifications. See Condition 3 (*Covenants*).

Lock-up

The Issuer and the Guarantors have agreed that, for a period of 90 days from the Closing Date, they will not, without the prior written consent of the Joint Bookrunners, directly or indirectly, issue, sell, offer or agree to sell, grant any option for the sale of, or otherwise dispose of, any debt securities of the Issuer or the Guarantors which are substantially similar to the Notes (including, without limitation, direct issues of debt securities by the Issuer or the Guarantors or by any other person and guaranteed by the Issuer or the Guarantors) or that are convertible into, or exchangeable for, the Notes or such other debt securities.

Form and Denomination

The Notes will be issued in registered form in the denomination of US$200,000 each and integral multiples of US$1,000 in excess thereof. The Regulation S Notes and the Rule 144A Notes will be represented by a Regulation S Global Note Certificate and a Rule 144A Global Note Certificate, respectively. The Regulation S Global Note Certificate and the Rule 144A Global Note Certificate will be exchangeable for Definitive Certificates in the limited circumstances specified in the Regulation S Global Note Certificate and the Rule 144A Global Note Certificate, respectively.

Initial Delivery of Notes

On or before the Issue Date, the Rule 144A Global Note Certificate will be deposited with a custodian for DTC and the Regulation S Global Note Certificate will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. The Rule 144A Notes will be registered in the name of a nominee of DTC and the Regulation S Notes will be registered in the name of a common nominee for Euroclear and Clearstream, Luxembourg.

Listing and admission to trading

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (**FSMA**) (the **UK Listing Authority**) for the Notes to be admitted to the official list of the UK Listing Authority (the **Official List**) and to the London Stock Exchange plc (the **London Stock Exchange**) for such Notes to be admitted to trading on the regulated market of the London Stock Exchange (the **Market**). The Market is regulated for the purposes of the Directive (2004/39/EC) of the European Parliament and of the Council on markets in financial instruments.

Selling Restrictions

The Notes may be sold in jurisdictions (including the United States, United Kingdom and Ukraine) only in compliance with applicable laws and regulations. See "*Subscription and Sale*".

ERISA Considerations

The Notes should not be acquired by an "employee benefit plan" (as defined in Section 3(3) of the U.S. Employee Retirement Income Security Act of 1974, as amended, **ERISA**) that is subject to Title I of

	ERISA, a "plan" subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended, (the **Code**) or any entity whose assets are treated as assets of any such plan unless such purchase and holding of the Notes will not result in a non-exempt prohibited transaction under ERISA or the Code. Each purchaser and/or holder of Notes and each transferee thereof will be deemed to have made certain representations as to its status under ERISA and the Code. Potential purchasers should read the sections entitled "*Certain ERISA and Other Considerations*" and "*Selling and Transfer Restrictions*".
Governing Law	The Notes, the Surety Agreement and the Trust Deed will be governed by English law.
Security Codes	Regulation S ISIN: XS0614325586 Regulation S Common Code: 061432558 Rule 144A ISIN: US31529TAB98 Rule 144A CUSIP: 31529T AB9 Rule 144A Common Code: 061437401

Risk Factors

An investment in the Notes to be issued in this offering involves significant risks. In addition to the other information contained in this Prospectus, you should carefully consider the following risk factors before purchasing the Notes. The following risk factors apply to the Issuer, the Guarantors and the Group as a whole. The Issuer and the Guarantors believe that the risks described below represent the principal risks inherent in investing in the Notes, however the risks and uncertainties we describe below are not the only ones we face. Additional risks and uncertainties of which we are not aware or that we currently believe are immaterial may also have an adverse effect on our business, results of operations, financial condition and prospects. If any of the risks described below materialises or if any of the events described below occurs, our business, results of operations, financial condition and prospects could be adversely affected or materially adversely affected. If that happens, we may not be able to pay interest or principal on the Notes when due, if at all, and you could lose all or part of your investment.

This Prospectus also contains forward looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward looking statements as a result of various factors, including the risks described below and elsewhere in this Prospectus.

Risks relating to our operations

Our business is subject to a number of risks and hazards inherent to the mining industry. The occurrence of any of these could have a material adverse effect on our business, results of operations, financial condition and prospects

Our business operations are subject to significant risks and hazards inherent in the mining industry that even a combination of careful evaluation, experience and knowledge cannot eliminate. Our exploration and extraction activities may be hampered by 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. Our production activities may be hampered by accidents associated with the operating of our crushing, concentrating and pelletising plant and equipment which could result in prolonged short-term downtime or longer-term shutdowns of our production facilities. These hazards could result in material damage to mineral properties, human exposure to pollution, personal injury or death, environmental and natural resource damage, delays in shipment, monetary losses and possible legal liability if we are unable to satisfy our contractual obligations under various supply contracts.

We currently mine the majority of our iron ore from a single open-cut mine with two deposits in a single pit, GPL deposits. In addition, we are also developing the FYM deposit as another open pit mine and expect to achieve first ore by 2013. 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. Additionally, our operations require the removal of groundwater during mining, particularly pre-stripping works at the FYM deposit. Future efforts to remove groundwater may not be adequate and may not meet future operational demands or expectations.

In 2008, 2009 and 2010, FPM, our principal operating subsidiary and a Surety of the Notes, recorded 17, 15 and 19 accidents, respectively, which are defined as work-related injuries that prevent the affected employee from working for at least one day. In 2010, FPM recorded one fatality, compared with zero in 2009 and three in 2008. See "*Business Description – Operational hazards and insurance.*"

The occurrence of these hazards and/or any prolonged short-term downtime or longer-term shutdown at any of our mining, production or transportation facilities could materially adversely affect our ability to produce and ship iron ore pellets consequently impairing our ability to satisfy our contractual obligations under various supply contracts.

Failure to resolve any unexpected problems as described above at a commercially reasonable cost could have a material adverse effect on our business, results of operations, financial condition and prospects, and could result in our inability to pay interest and principal when due on the Notes, if at all.

We depend on a limited number of customers and markets, the loss of which could have a material adverse effect on our business, results of operations, financial condition and prospects, and could result in our inability to pay interest and principal when due on the Notes, if at all

Our top two principal customers, each of whom is located in our Traditional markets in Central and Eastern Europe, together accounted for approximately 55 per cent. of our net sales revenue in 2010, 44 per cent. in 2009 and 60 per cent. in 2008. Our agreements with these customers, and/or any framework agreements entered into with customers from our other markets, could be terminated before expiry of their scheduled terms. Whether or not we are able to expand our customer base, the loss of either or both of these principal customers could have a material adverse effect on our business, results of operations, financial condition and prospects, and could result in our inability to pay interest and principal when due on the Notes, if at all.

Substantially all our revenues are currently derived from iron ore mining and pellet production at one facility

Substantially all our revenues are currently derived from sales of iron ore pellets produced at our iron ore mine and associated concentrating and pelletising facility in Komsomolsk, Ukraine. If mining or processing operations at this site were to be materially reduced, interrupted or curtailed, or if our mining licences and the other permits and approvals we require to carry out mining operations were to be revoked or not renewed upon their expiry (see "*– Our business depends on exploration and mining licences issued by the Government of Ukraine and such licences may not be renewed*"), our ability to continue to produce pellets and meet customer demand would be at risk and our business, results of operations, financial condition and prospects could be materially adversely affected.

We may also experience events such as explosions, fires or natural disasters that cause a catastrophic loss to our mine or production facility. The complete destruction of our Komsomolsk facility through a single catastrophic event could have a material adverse effect on our business, results of operations, financial condition and prospects, and could result in our inability to pay interest and principal when due on the Notes, if at all.

We are not insured against catastrophic loss and other liabilities

We do not currently carry insurance against catastrophic loss. As Ukrainian law currently prohibits foreign insurance companies from operating directly in Ukraine, the underdeveloped insurance market in Ukraine offers only limited opportunities for insuring risks associated with our business and reinsurance with an international insurance house would come at a substantial cost. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available on acceptable terms to companies in the mining industry, including us.

We maintain limited insurance to protect against certain risks in such amounts as we consider reasonable in light of the circumstances surrounding such risks. However, our insurance does not cover all potential risks associated with our operations. We do not have full coverage against loss of or damage to all of our plant and equipment, losses arising from interruption of business or third party liability in respect of accidents occurring on our premises or as a result of our operations, including environmental damage. Should one or more events for which we are not insured occur, we could experience substantial property loss and significant disruptions in our production capacity, for which we would not be compensated. Depending on the severity of the property damage, we may not be able to rebuild our facilities or damaged property in a timely manner or at all. In addition, insurance coverage may not continue to be available on reasonably acceptable terms or may not be adequate to cover any resulting liability. Losses from these events may cause us to incur significant cost that could have a material adverse effect on our business, results of operations, financial condition and prospects. We will need to fund any losses we incur that are not covered by insurance policies from our own funds. This may reduce the funds otherwise available to fund our current operations and expansion activities. This could result in our inability to pay interest and principal when due on the Notes, if at all.

We hold insurance policies for the risk of loss of or damage to our pellets at Komsomolsk and trans-shipment from Komsomolsk. However, we may not be able to obtain insurance for these risks with acceptable insurance companies or at suitable premium levels in the future. In the future, we may be required to insure our goods under delivery terms with our customers which could result in substantially increased cost. If we are unable to obtain insurance against the loss or damage to our pellets, we may be exposed to an additional

reduction in funds available to sustain our current operations and for our expansion activities which could have a material adverse effect our business, results of operations, financial condition and prospects.

Production costs for pellets are greater than other iron ore forms. Increases in raw material and energy costs affect our production costs disproportionately

Compared to iron ore lumps and fines, producing pellets incurs greater input costs. These include raw materials (including grinding bodies), energy and fuel costs, labour and overhead expenses. Increases in the cost of our mining and processing operations could occur as a result of unforeseen events such as interruptions in deliveries by suppliers, price fluctuations affecting oil, electricity, raw material expenses, regional events or conflicts, or new regulations affecting energy and fuel costs. See " – *Ukraine's economy depends heavily on its trade flows with Russia and certain other CIS countries and any major change in relations with Russia could have adverse effects on the economy*". Any increase in the price of gas or electricity in Ukraine may affect us disproportionately. Increases in our production expenses could decrease our profitability, reduce the feasibility and increase the cost of mining existing reserves or implementing our growth plans. Consequential changes in our production could have a material adverse effect on our business, results of operations, financial condition and prospects and could result in our inability to pay interest and principal when due on the Notes, if at all.

The iron ore industry is intensely competitive and we may have difficulty effectively competing with other iron ore mining companies

The iron ore industry is characterised by intense global competition. As a producer which exports the substantial majority of our products, we compete with a number of large mining companies, including international mining companies, some of which have total assets and financial resources substantially greater than ours. Although, at present, we believe that we benefit from the close proximity of our iron ore mine and associated processing facilities to the majority of our Traditional customers, some of our competitors may, in the future, enter into purchase agreements with our customers, which may result in a loss of our market share. These competitors may also acquire additional exploration rights over iron ore deposits, further develop iron ore pellet production facilities near our facilities, increase proprietary mining activities or engage in pricing or other financial or operational practices that will increase competitive pressure on us. Steel plants are increasingly demanding higher grade iron ore to increase the efficiencies of their blast furnaces. The increased cost of producing higher quality pellets in response to customer demand may reduce our current margins and place us at a competitive disadvantage to competitors with richer ore deposits. Additionally, some of these competitors possess lower cash costs of production than we do, and there is a risk in down cycles when sales prices are low that we may not be able to profitably compete in all export markets.

On the other hand, some of our competitors produce pellets with a higher iron ore content than 65 per cent., for which there may be greater customer demand. Accordingly, competition from foreign iron ore pellet producers or foreign direct investment in our domestic competitors may also result in losses of our market share and could have a material adverse effect on our business, results of operations, financial condition and prospects, and could result in our inability to pay interest and principal when due on the Notes, if at all.

We are required to meet certain financial and other restrictive covenants under the terms of our other indebtedness

Our gross indebtedness increased from US$269.6 million as at 31 December 2009 to US$423.8 million as at 31 December 2010. As at 31 December 2010, we had long-term borrowings of US$401.3 million (94.7 per cent. of our total indebtedness, calculated as total loans and borrowings) and short-term borrowings of US$22.5 million (5.3 per cent. of our total indebtedness, calculated as total loans and borrowings). We are exposed to the risk that we may not be able to refinance such borrowings. If we are unable to do so, our liquidity could be adversely affected.

Our core source of financing in 2010 was a pre-export finance facility which had a balance outstanding as at 31 December 2010 of US$350 million. This facility was entered into in September 2010 and was drawn down on 7 October 2010 to repay an existing US$230 million facility, which on 7 October 2010 had a balance of US$230 million. The US$350 million facility matures 42 months from 30 September 2010 and is to be repaid in 24 equal monthly instalments with the first instalment falling due in March 2012.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements other than a bank covenant requirement to maintain consolidated equity in respect of the Group of US$500 million including minority interests and excluding any foreign currency translation adjustments. Compliance is ensured by balancing dividend payments against our earnings.

Certain Group entities are subject to financial and other restrictive covenants under the terms of their indebtedness that limit their ability to, among other things:

- borrow money;
- create liens;
- give guarantees;
- sell or otherwise dispose of assets;
- engage in mergers, acquisitions or consolidations; and
- pay dividends.

Ensuring compliance with these covenants could have a material adverse effect on our ability to finance our future operations or capital needs or to engage in other business activities that may be in our best interest. In addition, a breach of the terms of our indebtedness could cause a default under the terms of the indebtedness, causing some or all of such indebtedness to become due and payable prior to its stated maturity. We may not be able to generate the funds necessary to repay our indebtedness in the event of its acceleration. Any such default could result in our creditors proceeding against the collateral securing our indebtedness. Any such acceleration or action could have a material adverse effect our business, results of operations, financial condition and prospects, and could result in our inability to pay interest and principal when due on the Notes, if at all.

Increases in transportation costs and disruptions to transportation could have a material adverse effect on our business, results of operations, financial condition and prospects

We currently rely substantially on the rail freight network operated by Ukrzaliznytsya, the Ukrainian State-owned railway authority, for transportation of our raw materials and finished products. Railway tariffs for freight increase periodically. For example, railway tariffs increased by 76 per cent. in 2008. In addition, certain of our customers depend on the rail networks of countries that neighbour Ukraine and as a result the competitiveness of our products can be impacted by the rail tariffs in those countries. Significant increases in rail freight or other transportation costs may occur in the near- to medium-term future. Additionally, the Ukrainian rail fleet is aging and suffers from generally insufficient capital reinvestment. The failure of Ukrainian railways to upgrade their rolling stock within the next few years could result in a shortage of available working rolling stock, disruptions or delays in transportation of our products, loss or damage of our product due to poor condition of railcars and increased costs of rail or other substituted transport. We are in the process of purchasing our own fleet of railcars to combat these risks, however, any or all of these events could have a material adverse effect on our business, results of operations, financial condition and prospects, and could result in our inability to pay interest and principal when due on the Notes, if at all.

In addition to rail transport, approximately 1.2 million tonnes per annum of our pellets are delivered on a FOB basis to Voestalpine, where the customer arranges barge transportation for further carriage of pellets from Izmail on the Danube River. A further 1.0 to 1.5 Mtpa of pellets is sold to US Steel, Europe's Serbia plant and shipped on a delivered ex ship (**DES**) basis to Smerderevo port. Risks which can disrupt pellet dispatches under FOB and DES contracts include:

- low water in peak summer and winter months resulting in slowed or suspended barge traffic for short periods of time;
- freezing of the Danube River in extreme weather conditions;

- lack of available barges due to the small number of companies operating large dry bulk barge fleets on the Danube River;

- large increases in barge carriage costs which can impact the amount of tonnage that the customer is willing to barge; and

- long delays in unloading at the port of Smerderevo at US Steel's plant, which result in lower monthly invoiced tonnage and/or demurrage cost to our account.

In addition, any limitations on shipping capacity or lack of storage and berthing facilities at any of our principal ports could impede our ability to deliver our products on time and expose us to risks of demurrage and increased handling costs, which could have a material adverse effect on our business, results of operations, financial condition and prospects.

Tariffs at all water ports including private berths are regulated by the Ukrainian central government. The average annual FOB fees for Yuzhniy in the years ended 31 December 2008, 2009 and 2010 were US$4.93 per tonne, US$6.26 per tonne and US$6.13 per tonne, respectively. Further changes could potentially reduce competitiveness of our products for export.

In addition to transportation costs to the Ukrainian border, a growing portion of our sales in China and other markets are transacted on the basis of delivery including cost and freight (**CFR**). As a consequence, we are exposed to movements in international freight rates, which could have a material adverse effect on our business, results of operation, financial results and prospects.

The volume and grade of our reserves and our rate of production may not conform to current estimates

Our mineral reserves and resources, as described in this Prospectus, are estimates and the estimated quantities or grades of minerals may not be available to extract and the particular level of recovery of minerals may not be realised. Reserves estimates are imprecise and depend on assumptions about operating costs, commodity prices and geological analyses based partly on statistical inferences drawn from drilling and sample analyses, any of which may prove unreliable. In particular, the resources we have classified under the FSU Classification standards would not be classified as resources under JORC or as reserves or resources under the SEC's Industry Guide 7. In addition, they have not been the subject of a competent person's or independent engineer's report. Valid estimates may change significantly when new information becomes available. Therefore, the actual deposits and the grade of mineralisation encountered may differ materially from the estimates disclosed in this Prospectus.

Our identified reserves and resources may not continue to qualify as commercially mineable deposits that can be legally and economically exploited over the medium- to long- term. Production of mineral resources can be affected by such factors as permitting regulations and requirements, weather, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formations and work interruptions. The estimated reserves and resources described in this Prospectus should not be interpreted as an assurance of the commercial viability, profitability or potential of any future operations. Moreover, our production levels at any of our mines might not ever reach previous historical production levels.

The reserves and resources data contained in this Prospectus, unless otherwise stated, is taken from analyses prepared in accordance with the methods described herein in "*Reserves and Resources*". With respect to the reserves and resources information contained in this Prospectus, for the purposes of this Offering, we have not, and do not intend to, engage independent experts to prepare a reserve report in accordance with SEC or other industry standards in respect of any of our deposits. If such an independent report were to be prepared, it could potentially estimate our reserves and resources to be materially lower and more adverse than we currently estimate. If the information on which our resources and reserves estimates rely is incorrect, or if, due to the inherent uncertainty regarding resources and reserves, these estimates are found to be materially different to the current estimates, we may experience delays and/or increased operating costs, and the economic viability of our projects may be adversely affected.

We rely on the continued services of key managerial and technical personnel, who may be difficult to replace with equally qualified personnel if they were to depart

Our ability to maintain our competitive position and to implement our business strategy is dependent, to a large degree, on the services of our senior management team. Competition in Ukraine for senior management and technical personnel with relevant expertise and exposure to international best practices is intense due to the small number of qualified individuals, which may affect our ability to retain our existing senior management and technical personnel and to attract additional qualified personnel. Losses in our key personnel or an inability to attract and retain additional senior management or technical personnel could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our business depends on exploration and mining licences issued by the Government of Ukraine and such licences may not be renewed

In Ukraine, all subsoil resources are the exclusive property of the Ukrainian people and may only be granted for the use of legal entities and individuals. Currently, exploration and mining licences are granted by the Ministry of Ecology and Natural Resources of Ukraine. Exploration and mining licences are not granted in perpetuity and any renewal must be obtained before expiration of the relevant licence. In order for the mining licence to be renewed, we must be deemed by the relevant Ukrainian authorities to comply with the licence requirement and to observe the Code of Ukraine "On Subsoil", as amended from time to time, dated 27 July 1994 (the **Subsoil Code**).

Beginning from 2004, the Ukrainian government generally sold subsoil licences by competitive auction (tender). Mining or exploration licences for certain deposits which we are not currently working (including mining licences for the Belanovskoe and Galeschinskoe deposits and exploration licences for a further five deposits) were issued in late 2004 without a tender process (the **2004 licences**). Although the licensing authority cancelled its internal decision on the issuance of the 2004 licences to us, it subsequently confirmed on 17 March 2006 and 15 May 2007 that all such licences were still valid and that it is not taking any steps to revoke any or all of the licences issued at that time. Notwithstanding the foregoing, in the absence of any specific exemption from the tender procedure, the 2004 licences may revoked or subject to challenge in the future, in which case we would need to re-apply for them before we can begin exploration or mining works at these further deposits. If any or all of such licences were to be revoked and we were unable to re-obtain them, this could negatively affect our ability to implement our long-term expansion plans, which could have a material adverse effect on our business, results of operations, financial conditions and prospects, and could result in our inability to pay interest and principal when due on the Notes, if at all.

In 2005, the Ukrainian government required producers to obtain licences to export iron ore pellets from Ukraine in connection with the temporary imposition of export quotas at that time. Export quotas or requirements to obtain export licences for iron ore pellets may be reintroduced in the future. We may be unable to obtain such licences if they were to be required. If we are unable to obtain, maintain or renew necessary licences or are only able to obtain or renew them with newly introduced material restrictions, we may be unable to benefit fully from our reserves and implement our long-term expansion plans, which could have a material adverse effect on our business, results of operations, financial condition and prospects, and could result in our inability to pay interest and principal when due on the Notes, if at all.

Title to our mineral properties or production facilities, or to any privatised company we have acquired, may be challenged

Some of the properties and facilities that we have acquired may be subject to prior claims or unregistered agreements, and title may be affected by undetected defects. In addition, competitors may from time to time also seek to deny our rights to develop certain natural resource deposits by challenging our compliance with tender rules and procedures or licence terms.

We acquired FPM from intermediaries following its privatisation. Privatisations in some former Soviet republics (including Ukraine) have been subject to political controversy and legal challenge or reversal, including the re-privatisation (by way of re-nationalisation and re-sale by tender) of OJSC Kryvorizhstal, Ukraine's largest steel mill, in 2005. No action has been taken towards the invalidation of FPM's status as a privately-owned company and, currently, we are not aware of any challenges pending to the privatisation of any of our subsidiaries.

In the event that any title to or ownership stakes in any privatised company we have acquired is subject to challenge on the grounds of defects in the privatisation process or otherwise, and we are unable to defeat such claim, we risk losing our ownership interest in such company or its assets, which could have a material adverse effect on our business, results of operations, financial condition and prospects.

If the Ukrainian Anti-monopoly Committee were to conclude that we acquired a new company or increased the level of control we exert over certain of our subsidiaries in contravention of anti-monopoly legislation, we could face administrative sanctions or be required to divest certain assets

Our business was substantially formed through the acquisition and establishment of companies incorporated and operating in Ukraine. Certain of these acquisitions or establishments of companies required the prior approval of or notification to the Ukrainian Anti-monopoly Committee (the **AMC**). The failure to obtain necessary approvals for such transactions could subject Ferrexpo, the Group and/or Kostyantin Zhevago to fines of up to five per cent. of our consolidated revenue for the financial year immediately preceding the year in which the fine is imposed, or result in the invalidation of such transactions if they are found to have led to the creation of a monopoly or substantially reduced competition in the relevant market or part thereof. The same is applicable for cross occupation of managerial positions by individuals in two or more undertakings. Although members of the Group received AMC approvals for certain transactions pertaining to our establishment, they may have failed to disclose all of the necessary information in their submissions to the AMC. There is a risk that the AMC could conclude through the applicable anti-monopoly legislation that competition in Ukraine has been reduced as a result of these transactions and impose fines or require the divestment of the newly acquired asset. Any such finding could result in the imposition of administrative sanctions or fines, cancellation of FPM's registration documents via court proceedings initiated by the AMC, or obligations to restore the undertaking's original state or require the divestiture of such newly acquired asset.

We are in disputes with the Ukrainian tax authorities

We are currently disputing several tax claims by domestic tax authorities following inspections for the fiscal year 2005, 2006 and part of 2007. There are no disputed claims in respect of 2008, 2009 and 2010. The claims relate to, among other things, underpayments of corporate profits tax, environmental payments and other taxes and duties, and overstated VAT. The aggregate amount claimed by the Ukrainian tax authorities, together with applicable fines and penalties, is approximately equivalent to US$6.5 million. We disputed the basis on which the tax authorities were claiming these amounts and the local Ukrainian courts ruled in our favour. The tax authorities are challenging these decisions through the High Administrative Court of Ukraine. While we believe the tax authorities' claims are unlikely to be enforced in full, and have made a provision in our accounts for the payment of a significantly lower amount, the tax authorities' challenge may succeed. See "*Business Description – Litigation*" for further details.

Our ownership of a related interest in FPM has been challenged

A former shareholder in FPM brought proceedings in the Ukrainian courts against certain nominee companies that were previously ultimately controlled by Kostyantin Zhevago, among other parties, seeking to invalidate the shares sale and purchase agreement pursuant to which a 40 per cent. stake in FPM (which was subsequently diluted to less than 14 per cent. following further share issues by FPM) was sold to those nominee companies. On 11 January 2010, a judgment rejecting the claims of the former shareholder that had previously been made by the Commercial Court of Poltava Region was upheld on appeal by the Kyiv Inter Region Appellate Commercial Court. Following the appeal proceedings, the former shareholder filed a cassation complaint with the High Commercial Court of Ukraine requesting that it reverse the judgments of the lower courts. The High Commercial Court of Ukraine granted the cassation complaint of the former shareholder on 21 April 2010. While the High Commercial Court of Ukraine did not rule on any consequences of the invalidity of the shares sale and purchase agreement in question and no order for restitution was sought or granted, our ownership of the relevant interest in FPM may be successfully challenged in the future, which could have a material adverse effect on our business, results of operations, financial condition and prospects.

Our business may be affected by labour disruptions or we may be unable to manage our labour costs

As of 31 December 2010 approximately 89 per cent. of FPM's personnel were members of a labour union (the **FPM's Trade Union**). In August 2010, we experienced a limited work slowdown that had no effect on production. Although management believes our present labour relations are good, a work slowdown, stoppage or strike may result in unknown effects to our production levels. Work slowdowns, stoppages or other labour-related developments could have a material adverse effect on our business, results of operations, financial condition and prospects, and could result in our inability to pay interest and principal when due on the Notes, if at all.

In 2010, FPM's production labour costs amounted to approximately 12.7 per cent. of our total production costs. Although our average labour costs are low, with the majority of our employees receiving approximately US$435 per month in 2010, our headcount is relatively high and productivity per worker is relatively low compared to producers of iron ore in other parts of the world. We face certain statutory, political and social constraints in seeking to reduce headcount that prohibit us from optimising our labour costs through outsourcing of support functions. See "*Business Description – Employees and employee relations*." As a result, restrictions on our ability to optimise our labour costs may impair our competitiveness compared with iron ore producers with lower production costs per tonne of iron ore produced and could have a material adverse effect on our business, results of operations, financial condition and prospects.

We are exposed to certain social and political pressures associated with the local community in the town of Komsomolsk and elsewhere

Our predecessors established or maintained most of the social and physical infrastructure in the town of Komsomolsk and we remain by far the largest local employer. We contribute to a number of voluntary social projects and municipal charitable funds for the benefit of our employees, their families and the community. As a result, we may face political and social constraints on our ability to reduce our support for the local town and community, which may have a material impact on our ability to manage our costs.

In addition, our development of future mining deposits may require the relocation of local communities. As a result, we may face negative reactions from local communities which could have a material adverse effect on the development of our future projects, our business, results of operations, financial condition and prospects.

We are dependent on our relations with third-party contractors and consultants

We are dependent on the provision of certain services (such as project management, engineering, construction, process design and planning) by third-party contractors and consultants in order to carry out our operations and implement strategic developments. Our operations and developments may be interrupted or otherwise adversely affected by failure to supply, or delays in the supply of, services by third party providers, by any adverse change to the terms on which these services are made available by third-party providers, and by the failure of third-party providers to provide services that meet our quality requirements. If we found it necessary to change a provider of such services, this could result in our experiencing additional costs, interruptions to continuity of supply or service, or some other adverse effect on our business. Additionally, we may not be able to find adequate replacement services in a timely manner or at all. Any disruption or deterioration, or increase in cost with respect to our third-party arrangements could have a material adverse effect on our business, results of operations, financial condition and prospects.

Our compliance with labour, health and safety laws may require increased capital expenditures, and non-compliance may subject us to penalties

A violation of labour, health and safety laws relating to a mine, or at a concentrating, pelletising or other plant, or a failure to comply with the instructions of the relevant labour, health and safety authorities, could lead to, among other things:

- a temporary shut down of all or a portion of the mine, concentrator, pelletiser or other plant;
- a loss of the right to mine or operate a concentrator, pelletiser or other plant; or

- the imposition of costly compliance procedures.

Employees experience accidents at our facilities and in 2010 we had 19 accidents and one fatality. If labour, health and safety authorities require us to shut down all or a portion of a mine, concentrator, pelletiser or other plant or to implement costly compliance measures, such measures could have a material adverse effect on our business, results of operations, financial condition and prospects. In the ordinary course of business, we are subject to various state inspections. We make all possible efforts to comply with such requirements and standards and we believe that we meet most of them. In addition, our stated objective of enhancing health and safety compliance at the FPM mining facility in line with global best practice may entail significant costs, up to approximately 0.6 per cent. of revenues, which could have an adverse effect on our results of operations.

Future compliance with REACH may require increased capital expenditures, and non-compliance may subject us to penalties and restrictions on production and/or placing our products on the EU Market

REACH is a European regulation concerning the registration, evaluation and authorization of 'substances' (i.e. chemical elements and their compounds in the natural state or obtained by any manufacturing process). The obligation to comply falls primarily on the manufacturers and importers of substances that are established in the EU. REACH requires substances to be registered with, and in some cases evaluated by, the European Chemicals Agency before being manufactured in and/or placed on, the EU Market. For most substances, there are phased deadlines for registration (from 2010 to 2018) depending on whether the substance was pre-registered. REACH also imposes restrictions, and in some cases prohibitions, on the manufacturing and use of certain hazardous substances in Europe. Failure to secure the necessary registrations under REACH would mean that the relevant substance could not lawfully be manufactured in, or placed on, the EU Market.

We do not consider that we are required to register the substances contained within the Poltava-produced iron ore pellets under REACH. Our customers purchase the pellets outside the EU and arrange for shipment into the EU and associated customs clearance, and as such would be regarded as the importers of the pellets under REACH. We understand that many of our customers have, as a result, registered the substances contained within the pellets with the European Chemicals Agency (and did so last year).

It is possible that, in the future, we may import the Poltava-produced iron ore pellets and stockpile them for possible future sales. In the event that such operations are undertaken, we will review and comply with any obligations we may have under REACH in respect of the pellets. Future compliance with REACH may require increased capital expenditures, and non-compliance may subject us to penalties and restrictions on production and/or placing our products on the EU Market.

Transfer pricing rules may potentially affect our results of operations

Ukrainian transfer pricing rules require that prices between related parties, and under certain circumstances between unrelated parties, be set on an arm's length basis. Ukrainian tax authorities may make transfer pricing adjustments and impose additional tax liabilities in respect of transactions between related parties and, as applicable, unrelated parties if the transaction prices differ from market prices. The Ukrainian transfer pricing rules are vaguely drafted and leave a wide scope for interpretation by Ukrainian tax authorities and commercial courts. In addition, to date, there has been only limited guidance as to how these rules are to be applied. In the event a transfer pricing adjustment is assessed by Ukrainian tax authorities, the Ukrainian transfer pricing rules do not provide for an offsetting adjustment to the related counterparty in the transaction that is subject to adjustment. Under applicable Ukrainian corporate income tax legislation, such adjustments can be made only pursuant to a procedure that has not yet been adopted in law.

Ukrainian transfer pricing rules apply to a wide range of situations involving cross-border and certain domestic transactions, most typically among related parties. A taxpayer must report the higher of the contractual prices and market prices, which are termed "usual prices", in connection with the sale of goods or services to related parties. A taxpayer's deductible expenses may not exceed the "usual prices" for goods and services. On 1 April 2011, a "safe harbour" rule is expected to be introduced permitting the deviation of contractual prices from arm's length prices by no more than 20 per cent. Under Ukrainian tax laws, "usual prices" also apply to transactions with persons who either do not pay corporate income tax or pay corporate income tax at a rate other than the standard rate. Our historical and current trading relationships, including sales between FPM and Ferrexpo AG and between FPM and Ferrexpo Middle East FZE, could fall within

these transfer pricing rules, as Ferrexpo AG has from time to time generated margins on FPM's export pellets that are higher during periods of increased international iron ore prices compared to margins during periods when international iron ore prices were lower. Transfer pricing reviews are performed on a regular basis and more frequently during periods when pellet prices are being revised by Ferrexpo AG with its customers. Various sources are used to monitor comparable export prices of FPM including customs statistics and monthly analytical information from an acknowledged Ukrainian provider, Ukrzovnishpromexperttyza. This monitoring has revealed that FPM's export prices are consistently in line with the prices of other Ukrainian iron ore exporters taking into account quality and delivery terms. Our adopted approach is consistent with other exporting companies in Ukraine. Taxing authorities in Ukraine have not challenged this approach nor has such policy been deemed not to have complied with any transfer pricing rule as applied in Ukraine.

Even among parties that are not related, prices may still be subject to the transfer pricing rules. With the introduction of the "safe harbour" rule, our obligation to adjust deductible expenses to the arm's length prices would arise only if the relevant contractual prices exceed the applicable usual prices by more than 20 per cent. If the tax authorities establish failure to comply with these rules, they may require transfer pricing adjustments to sales and purchase transactions settled in prior periods. If substantial transfer pricing adjustments were determined and ultimately upheld by the relevant Ukrainian authorities and enforced, we could face significant losses associated with the assessed amount of prior tax underpaid and related interest and penalties, which could have a material adverse effect on our business, results of operations, financial condition and prospects.

Our financial condition may be adversely affected by changes in applicable taxation regimes or in our taxation residence

Ferrexpo plc, a Guarantor of the Notes, is incorporated in England and Wales. The Directors currently conduct our affairs in a manner such that Ferrexpo plc is regarded as resident in Switzerland, for Swiss and UK tax purposes and for the purposes of the Switzerland/UK Double Taxation convention. As a result, the profits, income and gains will be subject to the Swiss tax regime and not, save in the case of UK source income, to the UK tax regime. See "*Taxation – United Kingdom*" for further details of the applicable UK tax regime.

A change of law or the practice of any relevant tax authority or the renegotiation of the Swiss/UK Double Taxation convention, or any change in the management or the conducting of our affairs, could mean Ferrexpo plc becomes, or is regarded as having been, resident in the UK, therefore becoming subject to the UK tax regime which would substantially increase our aggregate tax rate. This could have a material adverse effect on our financial results.

As Ferrexpo plc is a company incorporated in England and Wales, it is subject to the UK controlled foreign company rules, which can operate to apportion the profits of overseas subsidiaries to the UK parent company which will be subject to UK corporation tax on those amounts (subject to certain deductions). We have obtained confirmation from HM Revenue and Customs in the UK that the motive test exclusion applies so that we will not be subject to the operation of the controlled foreign company rules (with the exception that we will still have to comply with certain administrative procedures set out under these rules). The confirmation from HM Revenue and Customs lasts for a period of five years and only applies to those companies that formed part of the Group at the date the confirmation was given. Application for a renewal of the exemption, or extension to cover newly acquired or incorporated entities, can be made at any time and HM Revenue and Customs have assured us that provided we continue to operate and to be structured as we currently are and further provided that there is no change in law, then extending the clearance beyond the initial five-year period or to cover the new Group companies, as appropriate, will not present difficulties.

HM Revenue and Customs is proposing wide-ranging reforms to the UK taxation of non-UK income earned by companies in the UK. A number of discussion documents and draft legislation have been published which contain proposals relating to the controlled foreign companies rules. It is intended that certain interim amendments to the controlled foreign companies rules will be enacted in 2011 with further amendments effecting further reform enacted in 2012. The effect of any such amendments to the controlled foreign companies rules on us will not be clear until the new legislation is published and enacted in its entirety. The new legislation may have a material adverse effect on our financial results.

It is possible that in the future, whether as a result of a change in law or practice, or as a result of a change in our operations or structure, the exemption from the operation of the UK controlled foreign company rules will not be renewed. If that were to occur, the profits of certain non-UK resident Group companies could be apportioned to us, and we would be subject to UK corporation tax on any such apportioned profits. This could have a material adverse effect on our financial condition.

Risks related to our expansion plans

Our future financial and operational performance depends on our ability to upgrade existing facilities and develop currently unexploited mining assets

Our business is currently constrained by our ability to extract our reserves and resources from our single mine and by the capacity of our processing operations. To retain and increase our profit margin and production volume, our strategy for future iron ore production and processing involves the following: improve efficiencies to contain operating costs as part of our BIP, upgrade our current plant and processes such as our concentrating and pelletising facilities, and develop new mining resources such as the FYM deposit and, in the longer term, the Belanovskoe and Galeschinskoe deposits. Our aim is to double iron ore pellet production from current levels in the medium- to long-term. The projects to achieve this are likely to be phased. Only the first phase of projects has been approved by our Board, which if successful will increase the proportion of our 65 per cent. iron ore pellet output to 100 per cent. of total production by the end of 2014, as well as increase annualised pellet production from 9 Mtpa in 2010 to 12 Mtpa of own ore by the end of 2013 and extend the expected mine life of the FPM mine by 12 years to 2038, for an estimated aggregate capital expenditure of approximately US$647 million. We are investigating the feasibility and estimated costs of the next phase of projects to further develop our concentrating and pelletising capacity. If approved and successful, these next phase projects are likely to require significant further additional capital expenditure. See *"Management's Discussion and Analysis – Liquidity and capital resources – Capital expenditure"*. Accordingly, failure to further develop and expand on concentrating and pelletising capacity may have a material adverse effect on our business prospects even if we are successful in developing our reserves.

Our capital expenditure programme is subject to a variety of potential problems and uncertainties, including changes in economic conditions, fluctuations in the Ukrainian or global iron ore markets, regulatory developments, the unavailability of external financing sources on satisfactory terms, changes in the terms of existing financing arrangements, the pursuit of new business opportunities and defects in design or construction. Furthermore, certain actions of the Ukrainian government may influence the implementation of our capital expenditure programme. Accordingly, we may not be able to complete the modernisation of, and improvement to, our facilities as originally planned or on schedule and the expected benefits of the programme may not be fully realised, including the removal of current constraints on our production relating to mining and enrichment.

Our operational, administrative and financial resources may be inadequate to allow us to achieve the growth we desire. If we are unable to manage our growth and expansion effectively, the quality of our products, services and customer support could deteriorate. Additionally, any failure to implement our expansion plans, or any other proposed developments or changes to our business, in accordance with our plans or to budget or on time could have a material adverse effect on our business, results of operations, financial condition and prospects. In particular, if we do not develop and extend our concentrating and pelletising capacity, then we will be unable to process the increased volumes of ore we expect to extract from our mines.

Costs for our expansion activities may be higher than anticipated

Our expansion activities represent a significant addition to our existing operations and require supply contracts, substantial work force, equipment and supplies, and possibly future funding.

The success of our expansion activities depends in part on our ability to complete construction and production in accordance with cost estimates. These cost estimates are based on design and engineering studies undertaken before board approval of the relevant project. Accordingly, our cost control estimates are susceptible to increases due to unforeseen conditions or developments, including delays, that may arise and cause the actual cost to vary significantly from the cost control estimates. Any cost overruns could have a material adverse effect on our business, results of operations, financial condition and prospects, and could result in our inability to pay interest and principal when due on the Notes, if at all.

In the event of delays or other factors that cause cost overruns, depending on our cash flow from operations and the remaining net proceeds received from this offering, we may be required to secure additional financing, which we may be unable to obtain on favourable terms, or at all.

Expansion activities may be subject to delays

Key work contracts will need to be negotiated to implement each of the stages of our capital expenditure plans. If we do not successfully complete negotiations on terms satisfactory to us with necessary contractors and commit these contractors to the expansion activities on anticipated schedules, development of expansion activities may be significantly delayed.

Additional external factors may delay any of the expansion activities including:

- the inability of contractors to complete projects in a timely manner;
- unavailability or delays in the delivery of parts, machinery or operators, particularly in periods of high demand for those parts, machinery or operators;
- inability to obtain any necessary permits, licences or approvals from government authorities or third parties;
- requested changes to the technical specifications of the plans;
- failure to enter into additional agreements with contractors or suppliers in a timely manner;
- shortage of capital or labour stoppages; and
- other operational risks applicable to our business that are identified in "– *Risks relating to our operations*".

Any delay could negatively impact our cash flow, financial performance and ability to meet contractual supply obligations which could have a material adverse effect on our business, results of operations, financial condition and prospectus, and could result in our inability to pay interest and principal when due on the Notes, if at all.

We may need additional approvals for our expansion activities, or our existing licences may be suspended or revoked or a requested extension may be refused

We may require consents, approvals and licences to undertake our long-term expansion activities. We intend to apply for the approvals as and when they are required.

The process of seeking and obtaining approvals requires us to work closely with the relevant government authorities to ensure that they are obtained in a timely manner. We expect that we will be able to obtain all consents and approvals required to undertake our expansion activities in accordance with our proposed timetable. However, significant delays or the inability to obtain any consents, approvals or licences would delay the commencement of construction and, ultimately, the commissioning of any expansion. Such delays may have a material adverse effect on our cash flows and ability to pay interest and principal when due on the Notes, if at all.

Additionally, we must comply in all respects with local environmental regulations. Exploration and mining licences may be suspended or revoked, or an extension may be refused if we do not satisfy the conditions of our licence, including the payment of exploration and mining fees, the commencement of work within the period stipulated in the licence, and compliance with mining, environmental, labour, health and safety regulations.

If there are delays in obtaining necessary approvals or they are obtained on terms and conditions not considered favourable to the expansion activities, this may adversely affect the timing or cost of or ability to complete the expansion activities. Additionally, failure to obtain the necessary approvals or failure to comply with environmental regulations could result in a delay of expansion activities, regulatory fines or legal

consequences which could have a material adverse effect on our cash flows and ability to pay interest and principal when due on the Notes, if at all.

Our expansion activities may require additional future funding, which we may be unable to obtain on acceptable terms, or at all

We expect to fund our capital expenditures from existing cash, cash flow from operating activities and, if those cash sources are insufficient, available borrowings (including the net proceeds from this offering). Reductions in our operating cash flow will have negative consequences for the amount of capital we are able to invest and therefore on the level of expenditure targeted for 2011 and following years. While we expect these sources of funds, once obtained, will be sufficient to fund the anticipated construction and initial operation of the proposed expansion, we may be required to secure additional financing if actual cash flows from operations are insufficient to meet the actual capital cost requirements of the expansion activities for any reason, including:

- prices for our iron ore products being lower than expected;
- a delay or increased cost of the expansion;
- inability to meet our production schedule at existing operations as a result of disruptions from the expansion activities;
- an unanticipated increase in the operating costs of our existing operations as a result of higher gas or electricity or oil prices, higher labour costs, currency movements or for any other reason; or
- increased capital expenditures required for the existing operations that exceed the current budget.

If we decide to approve further capital expenditures to substantially expand our concentration and pelletising capacity, then we also anticipate funding these expenditures from cash flow from operations and available borrowings (including any net proceeds from this offering then remaining). If we cannot fund either the currently approved capital expenditure programme or any future expenditures from these sources, then we may be required to secure additional funding, which we may be unable to obtain on favourable terms, or at all. Inability to obtain additional funding or curtailment of the expansion plans could have a material adverse effect on our business, results of operations, financial condition and prospects, and could result in our inability to pay interest and principal when due on the Notes, if at all.

There may be increased production costs associated with our capital expenditure programme that may be unmanageable

Steel plants are designed to use iron ore feedstock having a specific percentage of iron content and other constituents, such as silica, in their blast furnaces. The iron content of iron ore deposits varies widely from Direct Shipping Ore (**DSO**), which has iron content of over 50 per cent. and requires no beneficiation apart from crushing to size, to "lean" ore, which has iron content of approximately 10 per cent. to 50 per cent. and must be enriched prior to steel making. The enrichment of iron content is an energy-intensive process and our use of lean ore means that energy costs form a larger proportion of our production costs as compared to producers mining richer ore deposits. We currently produce two grades of iron ore pellets with an enriched iron content of between 62 and 65 per cent. Our currently approved expansion plan, if successful, will increase the proportion of our 65 per cent. iron ore pellets to 100 per cent. of our total production. To raise the iron content of our pellets requires additional stages of processing which will incur additional energy. Any increase in the price of gas or electricity in Ukraine may affect us disproportionately. These additional expenditures may reduce our margins and place us at a competitive disadvantage, in particular in relation to competitors that strip and mine richer iron ore deposits.

Our customers are also increasingly demanding pellets that are of higher quality in terms of other characteristics such as hardness (cold compression strength) and silica content. While the ore mined from GPL deposits is strong enough to satisfy the required level of pellet hardness without increasing production costs, demands for lower silica content require additional electricity and grinding bodies for fine grinding, which would increase our production costs. If we are unable to meet our customers' demands for higher quality pellets or increase the overall quality of our pellets to meet other expectations due to higher production costs,

we may not be able to complete the modernisation of and improvement to our facilities as originally planned or on schedule and the expected benefits of the programme may not be fully realised. While we are taking steps to increase our energy efficiency and reduce consumption to help minimise the impact of recent gas and other energy price increases on our production costs, if we are unable to do so or if prices increase significantly, this could have a material adverse effect on our business, results of operations, financial condition and prospects.

We may make acquisitions, which may not be integrated or managed successfully

In January 2011, we acquired Helogistics, an inland waterway transportation business operating principally in the Rhine/Danube corridor. We may undertake further acquisitions in the future in order to take advantage of opportunities to further grow our business. Acquired businesses may not achieve the levels of revenue, profit or productivity we anticipate or otherwise perform as we expect. Acquisitions involve special risks, including the potential assumption of unanticipated liabilities and contingencies and difficulties in integrating acquired businesses. We cannot be sure that our past or future acquisitions will be accretive to earnings or otherwise meet our operational or strategic expectations. If we are not able to successfully integrate and/or manage any acquired company, the transaction may fail to achieve the desired benefits. We may be unable to manage these risks and management's attention may be diverted away from other ongoing business concerns. Further acquisitions could increase the overall complexity of our business and may require significant cash expenditures to integrate such acquisitions and the addition of qualified management and other key personnel. Any inability to successfully integrate and/or manage acquisitions may have a material adverse effect on our business, results of operations, financial condition and prospects.

We may have only limited financial and other information about potential targets and their financial performance may differ from ours

Target companies may not prepare financial statements in accordance with IFRS, U.S. GAAP or any other set of internationally recognised accounting standards and may prepare accounts based on local GAAP, which may not always reflect all material transactions. Therefore, we may not be able to rely on a target's financial information as indicative of its past financial performance. Because we may not have the benefit of reliable financial statements, we may discover areas of financial concern after making an acquisition that we did not foresee prior to the acquisition. In some instances we may have limited time or restricted access to the target and its records and may not always be able to conduct full diligence prior to completing our acquisition, which may prevent us from realising the value or achieving the strategic objective we anticipated from our investment and could lead to adverse consequences, including the need to make provisions or to write down acquired assets and may place additional demands upon our senior management in order to integrate the business. This could have a material adverse effect on our business, results of operations, financial condition and prospects, and could result in our inability to pay interest and principal when due on the Notes, if at all.

Risks related to the industry

We operate in a highly volatile commodity market for steel and steel products. Decreases in iron ore prices may depress our margins and adversely affect our results of operations and financial condition.

We operate in a highly volatile commodity market. Our average pellet price can vary significantly from period to period as it is dependent on global prices (over which we have little or no control as price takers). As such, our business is highly dependent on the market price of iron ore. Sale prices and demand in the worldwide iron ore market are cyclical. The prevailing level of worldwide demand for steel products determines demand for iron ore and the parameters for the contract price which we are able to obtain for our iron ore. At present, the global market is highly dependent on the Chinese steel sector which comprises about half of global iron ore output. Demand for iron ore declined significantly in our Traditional markets, as well as in most other industrialised economies, beginning in late 2008. Factors that may put downward pressure on the prices for our products include:

- deterioration in economic conditions and a reduction in iron ore consumption by our customers;
- a sustained weakening of Asia's economy, China in particular; and

- a significant increase in the production of iron ore or decrease in market demand for global supplies of iron ore.

In addition, the iron ore industry has recently adopted a new pricing mechanism based on shorter time periods (currently by quarter rather than by year). We believe this change is likely to lead to increased price volatility. Because of lack of demand visibility and general market uncertainty, the international seaborne traded iron ore benchmark price was settled in 2009 at levels substantially (almost 50 per cent.) below those agreed in the previous year. Any further significant reduction in our Traditional market demand for, or consumption of, iron ore may result in an increase in the volume of exports of iron ore by other Ukrainian and Russian producers into export markets serviced by our business, which would likely reduce the contract price which we are able to charge. There is a risk that the current and estimated iron ore prices are at the high end of the cost curve, in which case a sudden decrease in demand may sharply depress our margins and could have a material adverse effect on our business, results of operations, financial condition and prospects, and could result in our inability to pay interest and principal when due on the Notes, if at all.

Historically, changes in worldwide demand for steel have had a greater impact on demand for pellets than other iron ore products. During depressions in the market when demand for iron ore is low, there is a risk that steel producers will engage in cost utilisation and switch to lower value iron ore products. Since iron ore pellets are a higher value product and cost more to produce, iron ore price volatility may impact us disproportionately. Prolonged reductions or declines in world contract prices or sales volumes for iron ore could have a material adverse effect on our business, results of operations, financial condition and prospects.

Our mining operations create difficult and costly environmental challenges

Mining operations on the scale of our operations involve significant environmental risks and challenges. Our primary challenge is to dispose of the large amount of crushed and ground rock material, called tailings, which results from the process by which we physically separate the iron ore-bearing materials from the ore that is mined. Another environmental challenge is managing overburden, which is the rock that must be moved aside in the mining process in order to reach the ore. We also use hazardous materials such as explosives in our mining operations and our pelletising plant produces harmful air emissions and waste water. These activities are subject to a number of laws and regulations relating to environmental protection in Ukraine.

Under the current system, the Ukrainian authorities review our operations and determine the amount of environmental discharge into the atmosphere or water, and waste, which includes tailings and overburden, which is permissible for us to produce in a given time period based on our expected production output. We are required to pay quarterly environmental charges to the State based on these quotas (calculated separately for each pollutant) and, to the extent that we exceed the quotas, we will have to pay a penalty amounting to ten times the amount of the relevant charge, which is not tax deductible. Although we are voluntarily implementing new pollution reduction equipment at the FPM mining facility, there have been instances where we have exceeded our permitted quotas in the past and we may exceed our permitted quotas or be subject to substantially higher environmental charges and penalties in the future. In particular, our plans to increase our mining operations and expand production, will require application to the Ukrainian authorities for new emissions quotas. Total emission levels are set for Ukraine as a whole and each region is allocated a portion of these overall limits. The regions then allocate quotas among the businesses within their region. As a result, we may not be able to obtain permission for higher emission levels to facilitate our planned production increase if the pre-existing emissions quotas issued within the Poltava region are close to its regional allocation. Any failure to obtain higher quotas could hinder our ability to increase production or require us to make additional capital expenditure for equipment to reduce emissions in connection with any production increase. Such an event could have a material adverse effect our business, results of operations, financial condition and prospects, and could result in our inability to pay interest and principal when due on the Notes, if at all.

In addition, enforcement of existing legislation, regulations and licences may become more stringent, and more comprehensive legislation could be adopted in Ukraine. Future changes in environmental laws or in the enforcement of such laws may require us to make significant capital expenditure or otherwise alter aspects of our operations and such changes could have a material adverse effect on our business, results of operations, financial condition and prospects.

Risks relating to operating in Ukraine

Since independence in 1991, Ukraine has undergone a substantial political transformation from a constituent republic of the former Soviet Union to an independent sovereign democracy. In parallel with this transformation, Ukraine is slowly changing from a centrally planned economy to a market-based economy and its achievements in this respect have been recognised by the European Union (**EU**), which gave Ukraine market economy status at the end of 2005, and the United States, which also granted Ukraine such status in February 2006. In May 2008, Ukraine joined the World Trade Organization (**WTO**). Although some progress has been made since independence in reforming Ukraine's economy and its political and judicial systems, to a large extent Ukraine still lacks the necessary legal infrastructure and regulatory framework that is essential to support market institutions, the effective transition to a market economy and broad-based social and economic reforms. Furthermore, the Ukrainian economy was severely affected by the global economic recession in late 2008 and 2009, partly as a result of its reliance on industries such as the steel sector. The Ukrainian steel industry is relatively high-cost and the majority of its production is commodity-grade construction steel for export. Ukraine has thus been more impacted by the economic downturn than many other steel-producing nations. In 2009, Ukraine's GDP decreased by 15.1 per cent. as compared to 2008. The GDP growth started to recover in 2010, reaching 4.2 per cent. in 2010 as compared to 2009 according to preliminary estimates by the State Statistics Committee of Ukraine. See "*– Economic instability in Ukraine could harm our business, results of operations, financial condition and prospects*". In July 2010, the International Monetary Fund approved a stand-by facility in aggregate amount of approximately US$15.15 billion for Ukraine in support of the authorities' economic adjustment and reform programme, of which approximately US$1.9 billion has already been advanced. See "*– Inability to obtain financing from external sources could affect Ukraine's ability to meet financing expectations in its budget*". This loan prescribes several conditions relating largely to economic policy-setting. As a result there has been a delay in advancing the next tranche of the loan. Thus, an investment in a company with operations in Ukraine carries specific country risks not typically associated with companies operating in more mature markets. Set forth below is a brief description of some of the risks incurred by investing in Ukraine.

Emerging markets are subject to greater risks than more developed markets

Investors in emerging markets such as Ukraine should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant political, economic and legal risks. Investors should also note that emerging economies such as Ukraine's are subject to rapid change and that the information set out in this Prospectus may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved, and investors are urged to consult with their own legal and financial advisors before making an investment in the Notes. Moreover, financial turmoil in any emerging market tends to adversely affect prices in debt and equity markets of all emerging markets as investors move their money to more stable developed markets.

In the second half of 2008, financial problems caused by the global economic slowdown and an increase in the perceived risks associated with investing in emerging economies dampened foreign investment in Ukraine, resulting in an outflow of capital and an adverse effect on the Ukrainian economy. Ukraine may become subject to heightened volatility due to regional economic, political or military conflicts. In addition, the Ukrainian steel industry, although mature and undergoing renovation in recent years, is heavily export dependent and as such any sales of iron ore to the domestic industry carry additional tonnage and price volatility and risk. As a consequence, an investment in Ukraine carries risks that are not typically associated with investing in more mature markets.

These risks may be compounded by incomplete, unreliable or unavailable economic and statistical data on Ukraine, including elements of the information provided in this Prospectus.

Political and social conflicts or instability could create an uncertain operating environment

In recent years Ukraine has undergone a substantial political transformation from a constituent republic in a federal socialist state to an independent sovereign democracy. In parallel with this transformation, Ukraine is transitioning from a centrally planned economy to a market economy. However, this process of economic transition is not complete. Historically, Ukraine has been divided along political, historical, linguistic and ideological lines, all of which have prevented political consensus in Parliament and has made it consistently

difficult for Government to sustain a stable coalition of parliamentarians to secure the necessary support to implement a variety of policies intended to foster economic reform and financial stability.

The first round of the recent presidential elections was held on 17 January 2010, however, no candidate won 50 per cent. or more of the popular vote and the highest polling candidates, Victor Yanukovych, leader of Partiya Regioniv (the Party of Regions), and Yuliya Tymoshenko, leader of Yulia Tymoshenko's Bloc, took part in the second round of elections. Following the results of the second round held on 7 February 2010, Victor Yanukovych won the presidential race by a simple majority. Although the results were initially contested, Victor Yanukovych was inaugurated as President of Ukraine on 25 February 2010.

The close results of the presidential election and the significantly different ideological platforms on which the candidates based their campaigns are indicative of a significant split in popular opinion amongst the general public over the best path forward for Ukraine. For example, Yuliya Tymoshenko won popular support mainly from the central and western parts of Ukraine, which are generally considered to be pro-Western, while Viktor Yanukovych won the popular support mainly from the more densely populated eastern and southern parts of Ukraine, which are generally considered to be pro-Russian. Parliament appointed Mykola Azarov, a member of the Party of Regions, as the new Prime Minister of Ukraine and endorsed the new members of the Government. Currently, the Government consists mainly of members of the President's Party of Regions, with a few positions being occupied by representatives of other political forces.

On 13 July 2010, 252 deputies submitted to the Constitutional Court of Ukraine an application questioning the constitutionality of the Law of Ukraine "On Amendments to the Constitution of Ukraine", dated 8 December 2004 (the **Constitutional Reform Law**). On 30 September 2010, the Constitutional Court of Ukraine adopted a decision pursuant to which the Constitutional Reform Law was held to be unconstitutional and lost its validity from the date of the Constitutional Court of Ukraine decision. The Constitutional Court of Ukraine ruled that the previous edition of the Constitution of Ukraine came back into force as of 30 September 2010. Accordingly, some legislative acts may now contradict the Constitution of Ukraine and require amendment. This may result in uncertainty with respect to the distribution of powers among state authorities and may lead to further political instability. In particular, the term of the current Parliament has become unclear as a result of the ruling of the Constitutional Court of Ukraine. On 4 February 2011, a law amending the Constitution to unify the term of the President, the Parliament, and local councils (**2011 Constitution Amendment Law**) entered into effect. The 2011 Constitution Amendment Law provides, inter alia, for reinstating the five-year term of Parliament which has been reduced to four years as a result of the ruling of the Constitutional Court of Ukraine against the constitutionality of the Constitutional Reform Law. According to the law, the next parliamentary elections will take place in October 2012 (as opposed to March 2011, as was provided in the previously effective Constitution). However, on 9 February 2011, 53 deputies from the opposition parliamentary factions applied to the Constitutional Court of Ukraine requesting the court to opine on the constitutionality of the 2011 Constitution Amendment Law. Currently this request is under consideration of the Constitutional Court of Ukraine. There can be no assurance that the Constitutional Court will not declare the 2011 Constitution Amendment Law unconstitutional which may result in further political uncertainty.

The majority of Parliament and the new Government, headed by Prime Minister Azarov, are closely aligned with President Yanukovych. Therefore, the Government currently has a stronger political base and is better able to focus on improving the economic and social conditions in Ukraine. During 2010, and since the appointment of the new Cabinet of Ministers of Ukraine, substantial progress has been achieved in various areas including macroeconomic stability, fiscal policy, cooperation with the IMF, banking system stability and social stability. However, as at the date of this Prospectus, such relations, as well as the procedures and rules governing the political process in Ukraine remain to a degree in a state of uncertainty and may be subject to change through the normal process of political alliance-building or, if the required action is taken, through constitutional amendments and decisions of the Constitutional Court of Ukraine.

Recent political developments have also highlighted potential inconsistencies between the Constitution of Ukraine and various laws and presidential decrees. Whilst the long term consequences of the recent judgment of the Constitutional Court of Ukraine in respect of the Constitutional Reform Law are not yet clear, it may result in political instability in Ukraine which, in turn, could impair efforts to implement all necessary reforms as described in this Prospectus. Furthermore, such developments have raised questions regarding the judicial system's independence from economic and political influences.

A number of additional factors could adversely affect political stability in Ukraine. These could include:

- failure to form or maintain a stable Government;
- lack of agreement within the factions and deputies that form the majority coalition;
- court action taken by opposition parliamentarians against decrees and other actions of the President or Government; or
- court action by the President against Parliamentary or Governmental resolutions or actions.

Political instability in Ukraine may have negative effects on the Ukrainian economy or the climate for foreign direct investment in Ukraine, including on the pace of economic, political and judicial reforms. Any negative changes in the Ukrainian economy or the climate for foreign direct investment in Ukraine could have a material adverse effect on our business, results of operations, financial condition and prospects.

Ukraine's economy depends heavily on its trade flows with Russia and certain other CIS countries and any major change in relations with Russia could have adverse effects on the economy

Ukraine's economy depends heavily on its trade flows with Russia and the rest of the CIS, largely because Ukraine imports a large proportion of its energy requirements, especially from Russia (or from countries that transport energy-related exports through Russia). In addition, a large share of Ukraine's services receipts comprise transit charges for oil, gas and ammonia from Russia.

Ukraine therefore considers its relations with Russia to be of strategic importance. However, relations between Ukraine and Russia continue to remain strained due to factors including:

- disagreements over the prices and methods of payment for gas delivered by the Russian gas supplier OJSC Gazprom (Gazprom) to, or for transportation through, Ukraine; and
- unresolved issues relating to the stationing of the Russian Black Sea Fleet (Chornomorskyi Flot) (the **Black Sea Fleet**) in the territory of Ukraine.

Russia has in the past, threatened to cut off the supply of oil and gas to Ukraine transported through Russia in order to apply pressure on Ukraine to settle outstanding gas debts and maintain the low transit fees for Russian oil and gas through Ukrainian pipelines to European consumers. In line with its threats, Gazprom substantially decreased natural gas supplies to Ukraine in early January 2009, reportedly due to the failure by National Joint-Stock Company "Naftogaz of Ukraine" (**Naftogaz**), the Ukrainian state-owned oil and gas company, to timely repay all outstanding debts owed to Gazprom for natural gas supplied to Ukraine for domestic consumption in 2008. Following negotiations between the governments of Russia and Ukraine and the signing of agreements between Naftogaz and Gazprom setting out the terms of further natural gas supplies and transit through the territory of Ukraine, Gazprom on 20 January 2009 resumed natural gas supplies to Ukraine and Western Europe.

Prices for natural gas supplied by Gazprom for domestic consumption in Ukraine increased through the period from 2005 to 2008 from US$50 per 1,000 cubic metres as at 1 January 2005 to US$179.5 per 1,000 cubic metres as at 1 January 2008. Pursuant to the agreements signed between Naftogaz and Gazprom on 19 January 2009 for natural gas supplies and transit during the period from 2009 to 2019, the price for natural gas supplied to Ukraine for domestic consumption and the tariff for the transit of natural gas through the territory of Ukraine is to be determined pursuant to formulas set out in the agreements. The price of natural gas supplied for domestic consumption in Ukraine increased further in 2009, and the average annual price for natural gas supplied for domestic consumption in Ukraine in 2009 was approximately US$229 per 1,000 cubic metres. The annual price for natural gas supplied for domestic consumption in Ukraine in 2010 was forecast by Naftogaz to be approximately US$337.0 per 1,000 cubic metres. In April 2010, amendments to the contracts for natural gas supplies were signed, under which Gazprom agreed to give Naftogaz certain discounts on the otherwise applicable price for natural gas supplied for domestic consumption in Ukraine. In particular, the discount will amount to US$100 if the price for natural gas is equal to or greater than US$333 per 1,000 cubic metres, or 30 per cent. of the price if the price is below US$333 per 1,000 cubic metres. As a result of such arrangements, the average weighted annual price for natural gas was U.S.$256.7 per 1,000 cubic metres in 2010. Ukrainian Government officials have repeatedly stated that further revision of the gas supply agreements between Naftogaz and Gazprom with the aim of reducing the price of natural gas supplied

by Gazprom is one of the priority tasks for the Government. However, no assurance can be given that Gazprom and the Russian government will agree to enter into such negotiations.

Historically, relations between Ukraine and Russia have been affected by controversy over stations of Russia's Black Sea Fleet in Ukrainian waters. On 21 April 2010, Ukraine and Russia signed a new agreement extending the term for the stationing of the Black Sea Fleet for a further 25-year period (starting upon expiration of the previous term until 2017) with an additional 5-year extension option, under the new agreement the amount of the lease charges payable for the stationing of the Black Sea Fleet was increased. The agreement also provides that a portion of the lease charges payable for the stationing of the Black Sea Fleet will be set off against the discounts to the price of natural gas supplied by Gazprom for domestic consumption in Ukraine referred to above. A risk remains that Ukraine and Russia may disagree over the basis upon which the Black Sea Fleet is stationed in Ukrainian waters, the level of charges for or the prices of natural gas supplied by Gazprom. A disagreement on these issues could have a material adverse effect on the gas supply from Russia.

As of 31 December 2010, over 25 per cent. of Ukrainian exports of goods were sent to Russia, while much of Russia's exports of energy resources to the EU was delivered via Ukraine. Russia's increases in the price for natural gas have adversely affected the pace of economic growth of Ukraine due to the considerable dependence of the Ukrainian economy on imports of energy resources from Russia. Furthermore, although the gas price increases have increased pressure for reforms in the energy sector and the modernisation of major energy-consuming industries of Ukraine through the implementation of energy-efficient technologies and the modernisation of production facilities, these reforms may not be implemented successfully.

While Ukraine's relations with Russia are generally expected to improve, if bilateral trade relations were to deteriorate, if Russia were to stop transiting a large portion of its oil and gas through Ukraine, or if Russia halted supplies of natural gas to Ukraine, Ukraine's balance of payments and foreign currency reserves could be materially and adversely affected. Any further adverse changes in Ukraine's relations with Russia may have adverse effects on the Ukrainian economy as a whole and thus on our business, results of operations, financial condition and prospects.

Any major changes in Ukraine's relations with Western governments and institutions may adversely affect the ability of Ukrainian manufacturers to access world export markets

With effect from 16 May 2008, Ukraine became a member of the World Trade Organization (the **WTO**). In addition, prior to President Yanukovych's inauguration in February 2010, Ukraine pursued membership in the North Atlantic Treaty Organization (**NATO**). According to the Law of Ukraine "On Principles of Internal and External Policy" which became effective on 20 July 2010, although Ukraine will continue to cooperate with NATO and other military and political alliances in various matters of mutual interest, it is not considering joining the membership of those alliances. This law prevents Ukraine from becoming dependent on any state, group of states or international organisations.

With effect from 30 December 2005, Ukraine was given market economy status by the EU, though without any immediate prospect of EU membership. On 1 March 2010, the newly elected President of Ukraine held a meeting with the President of the European Commission, where the parties agreed the priorities for the Ukraine-EU relationship for the near future. Such priorities include finalisation of negotiations on the EU-Ukraine association agreement (including the establishment of a free trade area) and introduction of a visa-free regime between Ukraine and the EU member-states. At the same time, there can be no assurance that President Yanukovych will continue to seek a closer relationship, or be successful in achieving an improved relationship, between Ukraine and the EU in the near future.

While Ukraine's relationships with international and European institutions, organisations and western governments have generally improved in recent years, any major changes in Ukraine's relations with Western governments and institutions, in particular any such changes adversely affecting the ability of Ukrainian manufacturers to access or to fully compete in world export markets, could have adverse effects on the Ukrainian economy as a whole and thus on our business, results of operations, financial condition and prospects.

A deterioration in Ukraine's relationship with the EU might have negative effects on the Ukrainian economy and, consequently, the Group

Ukraine continues to develop its economic relationship with the EU. In 2008, the EU was the largest external trade partner of Ukraine importing goods and services from Ukraine. In 2010, the EU imported goods and

services from Ukraine in the amount of US$16.2 billion (25.7 per cent. of Ukraine's total exports of goods and services), and exported goods and services to Ukraine in the amount of US$22.0 billion (33.3 per cent. of Ukraine's total imports of goods and services).

European Union imports from Ukraine are to a large extent liberalised. A significant proportion of Ukrainian goods entering the European Union market benefit from the General System of Preferences (**GSP**). GSP obligates WTO member countries to treat the imports of all other WTO member countries no worse than they treat the imports of their "most favoured" trading partner. Ukraine's accession to the WTO created the necessary preconditions for the launch of formal negotiations for introduction of a free trade area (**FTA**) with the EU. In fifteen rounds of negotiations on the FTA held between Ukraine and the EU from 2008 to February 2011, the parties achieved progress in harmonisation of, among others, the following areas: trade in goods (including in relation to instruments of trade protection, tariffs, technical barriers in trade, sanitary and customs issues), intellectual property, rules relating to origin of goods, sustainable development and trade, trade in services, and public procurement.

Should Ukraine's relationship with the EU deteriorate, it may have an adverse effect on the Ukrainian economy and, consequently, could have a material adverse effect on our business, results of operations, financial condition and prospects.

Economic instability in Ukraine could materially affect our business

In recent years the Ukrainian economy has been characterised by a number of features that contribute to economic instability, including a relatively weak banking system providing limited liquidity to Ukrainian enterprises, tax evasion, significant capital flight and low (but rising) wages for a large portion of the Ukrainian population.

The Ukrainian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The Ukrainian economy grew at an average of approximately 7.0 per cent. each year between 2000 and 2007. This growth was driven mainly by a rapid increase in foreign demand, rising commodity prices on external markets and the availability of foreign financing. While positively affecting the pace of Ukrainian economic growth in those years, these factors made the Ukrainian economy overly vulnerable to adverse external shocks. Thus, as the global economic and financial situation started to deteriorate, the Ukrainian economy was one of the most heavily affected by the downturn. The negative impact of these factors has been compounded by weaknesses in the Ukrainian economy, which is sensitive to external and internal events. In particular, although the Government has generally been committed to economic reform, the implementation of reform has been impeded by lack of political consensus, controversies over privatisation (including privatisation of land in the agricultural sector and privatisation of large industrial enterprises), restructuring of the energy sector, and removal of exemptions and privileges for certain state-owned enterprises or for certain industry sectors. As a result, according to the State Statistics Committee of Ukraine, the rate of inflation for the past three years was 9.1 per cent. in 2010, 12.3 per cent. in 2009 and 22.3 per cent. in 2008. The rate of CPI inflation for the two months ended 28 February 2011 was 1.9 per cent. In the fourth quarter of 2008, Ukraine's GDP declined by 8.0 per cent. as compared to the same period in 2007. In 2009, Ukrainian GDP decreased by 20.2 per cent. in the first quarter of the year, 17.8 per cent. in the second quarter of the year, 16.0 per cent. in the third quarter of the year and 6.8 per cent. in the fourth quarter of the year, each as compared to the corresponding periods in 2008. The GDP growth started to recover in 2010, reaching 4.9 per cent. in the first quarter of 2010, 5.9 per cent. in the second quarter of 2010, 3.4 per cent. in the third quarter of 2010 and 3.0 per cent. in the fourth quarter of 2010, respectively. In August 2010, the Cabinet of Ministers of Ukraine approved its forecast for Ukraine's macroeconomic development for 2011, according to which Ukraine's real GDP growth is estimated at 4.5 per cent. in 2011 while the rate of inflation is expected to be 8.9 per cent. in 2011.

When the global economic and financial situation began to deteriorate in 2008, the effect on Ukraine's economy was particularly severe. In particular, because Ukraine is a major producer and exporter of metal and agricultural products, the Ukrainian economy was and continues to be especially vulnerable to world commodity prices and the imposition of import tariffs by the United States, the EU or by other major export markets. Consequently, international capital markets ceased to be available for Ukrainian borrowers. Reduced external financing available for Ukrainian companies contributed to a decline in industrial production and cutting down of investment projects and capital expenditures generally. The negative trends in the Ukrainian economy may continue while commodity prices on the external market remain low and

access to foreign credit is limited, unless Ukraine undertakes certain important economic and financial structural reforms. Failure to achieve the political consensus necessary to support and implement such reforms could adversely affect the country's macroeconomic indices and economic growth. Furthermore, future political instability in the executive or legislative branches could hamper efforts to implement necessary reforms. A sustained deterioration of global or regional economic conditions may lead to a further worsening of the economic and financial crisis in Ukraine. Any such developments, including continued unavailability of external funding and increases in world prices for goods imported to Ukraine or decreases in world prices for goods exported from Ukraine, may have or continue to have a material adverse effect on the economy, which in turn could have a material adverse effect on our business, results of operations, financial condition and prospects.

Our working capital will be increased by a continued delay or non-repayment of VAT by the Ukrainian tax authorities

FPM, as an exporter, and FYM, as an investor, do not have substantial amounts of VAT on domestic revenues to offset against VAT incurred on purchases. The delay of repayment of VAT from the Ukrainian government will reduce cash flows for operations. As of 31 December 2010, the VAT receivable was UAH696.7 million (US$87.5 million) for FPM and UAH93.7 million (US$11.8 million) for FYM, of which the VAT overdue was UAH282.7 million (US$35.5 million) for FPM and UAH77.0 million (US$9.7 million) for FYM. Since 2009, the Ukrainian government has not been making timely repayments of VAT made on purchases of plant equipment and goods and services, to the extent that these cannot be offset against VAT charged on sales. The continued late repayment of VAT will result in our funding increased amounts of working capital. As a result, we have and will continue to incur increased borrowing costs or temporarily reduce levels of investment which could have a material adverse effect our business, results of operations, financial condition and prospects. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Year ended 31 December 2010 compared to year ended 31 December 2009 – Loss on disposal of financial assets (VAT bonds)*".

Inability to obtain financing from external sources could affect the Ukrainian economy

Ukraine's internal debt market remains illiquid and underdeveloped as compared with markets in most western countries. In the wake of the emerging market crisis in the autumn of 1998 and until the second half of 2002, loans from multinational organisations such as the EBRD, the World Bank, the European Union and the IMF comprised Ukraine's only significant sources of external financing.

From 2003 until 2008, the international capital markets were Ukraine's main source of external financing but they ceased to be available from mid-2008 due to the global economic and financial crisis. As a result, Ukraine sought IMF financing. In November 2008, the IMF approved a two-year Stand-By Arrangement (the **2008 SBA**) with Ukraine for approximately US$16.4 billion to assist the Ukrainian government in restoring financial and economic stability. In 2008 and 2009, total disbursements under the 2008 SBA amounted to approximately U.S.$10.6 billion. In accordance with the terms of the 2008 SBA, Ukraine had received three tranches of the IMF financing with the fourth suspended due to an increased level of political instability and controversies between the President, the Government and Parliament on the eve of the presidential elections. Following inauguration of the new President Yanukovych in late February 2010, the newly-formed Government has resumed negotiations with the IMF. From March to July 2010, the IMF missions visited Ukraine to review the macroeconomic situation and budgetary, fiscal and monetary policy of the Government and the NBU, and to consider possible resumption of IMF support. On 28 July 2010, the IMF Executive Board noted the cancellation of the 2008 SBA, and on the same date approved a new US$15.15 billion Stand-By Arrangement for Ukraine (the **2010 SBA**) to be drawn in ten tranches in 2010-2012, subject to Ukraine's compliance with the 2010 SBA terms. On 2 August 2010, Ukraine received the first tranche of approximately US$1.89 billion with US$1.0 billion earmarked for the financing of the state budget deficit. The goal of the Ukrainian economic programme supported by the 2010 SBA is to entrench fiscal and financial stability, advance structural reforms and put Ukraine on a path of sustainable and balanced growth. To achieve these aims, the 2010 SBA established a number of requirements for the Ukrainian government in fiscal policy, monetary and exchange rate policy, and financial sector policy. In addition, the 2010 SBA sets out quantitative and continuous performance criteria that are to be met by Ukraine. Such criteria include, among other things, a ceiling on the cash deficit of the Government, a floor on net international reserves of the NBU, a ceiling on the net domestic assets and a ceiling on the state-guaranteed debt.

The first review of Ukraine's compliance with the 2010 SBA terms commenced in November 2010 and was completed in mid-December 2010. On 22 December 2010, following the completion of the first review, the IMF board approved the second tranche to be provided to Ukraine in the amount of approximately US$1.5 billion, with US$1.0 billion earmarked for the financing of the State Budget deficit. The second review is expected to take place in March 2011 using 2010 year-end targets.

If the international capital markets or syndicated loan markets become unavailable to Ukraine, it would have to further rely to a significant extent on official or multilateral borrowings to finance part of the budget deficit, fund its payment obligations under domestic and international borrowings and support foreign exchange reserves. However, reliance on internal debt and unavailability of external financing may place additional pressure on Ukraine's ability to meet its payment obligations.

External borrowings from multilateral organisations such as the IMF, the EBRD, the World Bank or the EU may be conditional on Ukraine's satisfaction of certain requirements, which may include, amongst other things, implementation of strategic, institutional and structural reforms; reduction of overdue tax arrears; absence of increase of budgetary arrears; improvement of sovereign debt credit ratings; and reduction of overdue indebtedness for electricity and gas. If Ukraine is unable to resort to the international capital markets or syndicated loan markets, a failure by official creditors and of multilateral organisations to grant adequate financing could put pressure on Ukraine's budget and foreign exchange reserves, which could have an adverse effect on Ukraine's economy.

Adverse changes in global or Ukrainian economic conditions have resulted in several restructurings of Ukrainian commercial debt and a significant liquidity risk.

In 2007 and 2008, Ukraine's total debt as a percentage of GDP, including both State debt (direct debt) and State-guaranteed debt (contingent liabilities), was at a relatively moderate level, amounting to 12.3 per cent. at the end of 2007 and 20.0 per cent. at the end of 2008. Ukraine's total debt as a percentage of GDP increased to 34.8 per cent. as at 31 December 2009 and increased further to 39.6 per cent. by the end of 2010. Pursuant to the Law of Ukraine "On State Budget for 2011", the total state direct debt threshold is set at the level of UAH 375.6 billion (being 30 per cent. of GDP) and current authorisations permit issuance of new State-guaranteed debt up to an aggregate of UAH15.0 billion.

The substantial payment obligations of Ukraine and many state-owned companies that fell due in 2009 and 2010 (including debt repayments, payments for natural gas supplied for domestic consumption to Ukraine) have exerted additional pressure on Ukraine's liquidity. In particular, during 2009, Naftogaz began negotiations with its lenders to restructure its debts to foreign banks by extending payment terms and amending other substantial terms of its loan undertakings. On 5 November 2009, Naftogaz completed the restructuring of its term loan facilities from foreign banks of approximately US$1.6 billion. Further, Ukrzaliznytsya began negotiations with its lenders to reschedule certain of its debts to foreign banks amounting to approximately US$440 million with the aim of extending payment terms of its loan undertakings.

In addition, it should be noted that many enterprises in the Ukrainian private sector have significant levels of indebtedness, and as a result of the ongoing financial crisis may experience difficulty accessing new financing. Although private-sector debt, unlike State debt, does not have a direct negative effect on the State's foreign currency reserves or liquidity, high levels of indebtedness of, and limited availability of new credit to, the private sector may complicate economic recovery and pose a significant risk in an already challenging economic environment. Any further deterioration in the economic environment in Ukraine could have a material adverse effect on our business, results of operations, financial condition and prospects.

The Ukrainian currency is subject to volatility which may adversely impact our results of operations and financial condition

The functional currency of our Ukrainian companies is the hryvnia. The functional currency of our parent company and certain other non-Ukrainian businesses is the US dollar. On consolidation, income statements and cash flows of our subsidiaries for which the US dollar is not the functional currency are translated into US dollars at the average rates of exchange prevailing during the accounting period. The exchange rate between the hryvnia and the US dollar has historically been volatile, and the translation effect of such fluctuations could have a material adverse effect on both our individual and consolidated results of

operations. Due to the absence in Ukraine of a legislative basis for creating hedging instruments, the prevailing market practice in Ukraine, to which we adhere, is not to hedge against currency fluctuations.

In view of the high dollarisation of the Ukrainian economy and increased activity of Ukrainian borrowers on external markets in 2005-2007, Ukraine has become increasingly exposed to the risk of hryvnia exchange rate fluctuations. Since September 2008, the interbank US dollar/hryvnia exchange rate has fluctuated significantly. In total, in 2008, the hryvnia depreciated against the U.S. dollar by 52.5 per cent. and against the euro by 46.4 per cent. as compared to year-end 2007, and further depreciated against these currencies in 2009 by 3.8 per cent. and 5.4 per cent., respectively, as compared to year-end 2008. The fluctuations in the US dollar and Euro/hryvnia exchange rate have negatively affected the ability of Ukrainian borrowers to repay their indebtedness to Ukrainian banks (approximately 50 per cent. of the domestic loans are denominated in foreign currency as of 1 January 2011) as well as to external lenders. In 2008 and 2009, the NBU sought to address the instability of the hryvnia by taking administrative measures (including certain foreign exchange market restrictions), and used approximately US$3.9 billion and US$10.4 billion of its foreign exchange reserves, respectively, to support the Ukrainian currency. In 2010, due to increased supply, and resulting surplus, of foreign currency in the market, the hryvnia appreciated against the U.S. dollar by 0.29 per cent. and against the euro by 7.65 per cent.

Although the value of the hryvnia against the US dollar has stabilised since the beginning of 2010 due to the growing export demand for Ukrainian products, high rollovers of external corporate debt, and increased foreign currency revenues of Ukrainian exporters, it may depreciate further in the future in case of a lack of currency inflow from exports and foreign investment, limited foreign currency reserves, the need for borrowers to repay a substantial amount of short-term external private debt (estimated by the NBU to be approximately US$22.0 billion as at 1 October 2010) and requirements to pay a substantial amount of foreign currency for energy supplies from Russian and the rest of the CIS. The depreciation of the hryvnia in 2008 was beneficial in terms of our reported costs in US dollars but reduced the value of our net assets at historical reported costs, which were denominated in local currency. If the hryvnia were to strengthen against the US dollar, this could have an adverse effect on our business, results of operations, financial condition and prospects. The Ukrainian currency may, however, appreciate if there is a significant increase of currency inflow from exports and foreign investments, in particular, due to the revival of the steel industry. Any strengthening of the local currency is likely to have a negative effect on our US dollar cost base. Thus any further currency fluctuations could have a material adverse effect on our business.

Any future attempts to re-privatise private enterprises could lead to a deterioration in the climate for foreign direct investment in Ukraine

Notwithstanding recent improvements in the Ukrainian economy, cumulative foreign direct investment remains relatively low for an industrialised country with a population as large as that of Ukraine. As has happened in the past, an increase in the perceived risks associated with investing in Ukraine could dampen foreign direct investment and adversely affect the Ukrainian economy. Ukraine might not remain receptive to foreign trade and investment. In particular, despite statements by the previous Government that plans announced in early 2005 to review the privatisation of a number of major companies were no longer under consideration, the present or any future government might attempt to re-privatise or nationalise private enterprises. Any such steps, as well as any other developments which make Ukraine less attractive to foreign investors, could lead to a deterioration in the climate for foreign direct investment in Ukraine, which could in turn have a material adverse effect on the economy and thus on our business, results of operations, financial condition and prospects.

The business environment in Ukraine could deteriorate

Ukrainian enterprises have a limited history of operating in free-market conditions and have had limited experience (compared with companies in more developed jurisdictions) of entering into and performing contractual obligations. Ukrainian enterprises, when compared to businesses operating in more developed jurisdictions, are often characterised by management that lacks experience in responding to changing market conditions and limited capital resources with which to develop their operations. In addition, Ukraine has a limited infrastructure to support a market system and communications, banks and other financial infrastructure are less well developed and less well regulated than their counterparts in more developed jurisdictions. Ukrainian enterprises face significant liquidity problems due to a limited supply of domestic savings, few foreign sources of funds, high taxes and limited lending by the banking sector to the industrial

sector, among other factors. Many Ukrainian enterprises cannot make timely payments for goods or services and owe large amounts in taxes, as well as wages to employees. Any further deterioration in business environment could have a material adverse effect on our business, results of operations, financial condition and prospects.

Corruption and money laundering may have an adverse effect on the Ukrainian economy

External analysts have identified corruption and money laundering as problems in Ukraine. In accordance with Ukrainian anti-money laundering legislation which came into force in Ukraine in June 2003, the NBU and other state authorities, as well as various entities performing financial transactions, are required to monitor certain financial transactions more closely for evidence of money laundering. As a result of the implementation of this legislation, Ukraine was removed from the list of non-cooperative countries and territories by the Financial Action Task Force on Money Laundering (**FATF**) in February 2004, and in January 2006 FATF suspended the formal monitoring of Ukraine.

To address the remaining deficiencies in the Ukrainian anti-money laundering legislation, Ukraine has made a high-level political commitment to work with FATF and the Committee of Experts on the Evaluation of Anti- Money Laundering Measures and the Financing of Terrorism (**MONEYVAL**) and developed an action plan to address these deficiencies. The FATF closely monitors progress of Ukraine and the implementation of its action plan.

On 21 August 2010, a new law entered into force significantly amending the Ukrainian anti-money laundering legislation and implementing 40 revised recommendations and nine special recommendations of the FATF, as well as the directive of the European Parliament on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing. In particular, the law extends the list of entities that are required to monitor financial transactions at the primary level, extends the list of State agencies authorised to conduct State financial monitoring, and broadens the list of grounds on the basis of which a financial transaction may be subject to monitoring.

In June 2009, the Parliament adopted several laws setting forth a general framework for the prevention and counteraction of corruption in Ukraine, which were to become effective from 1 January 2011. However, in December 2010 the Parliament abolished the package of earlier adopted anti-corruption laws with effect from 5 January 2011, while at the same time adopting in the first reading a new draft anti-corruption law.

Although this new legislation, if adopted, is expected to facilitate anti-corruption efforts in Ukraine upon its entry into force, there can be no assurance that the law will be effectively applied and implemented by the relevant supervising authorities in Ukraine.

Any future allegations of corruption in Ukraine or evidence of money laundering could adversely affect on the ability of Ukraine to attract foreign investment and thus have an adverse effect on the economy of Ukraine which in turn could have a material adverse effect on our business, results of operations, financial condition and prospects.

The potential for labour and social unrest in Ukraine could have a materially adverse effect on our business

The failure of the Government and many private enterprises to pay full salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living have led in the past, and could lead in the future, to labour and social unrest. Labour and social unrest may have political, social and economic consequences, such as increased support for a renewal of centralised authority, increased nationalism including calls for restrictions on foreign ownership of Ukrainian businesses, and violence. Any of these events could restrict our operations and lead to the loss of revenue, thereby materially adversely affecting both our ability to conduct our business effectively and the market price of the Notes.

Ukraine's physical infrastructure is in need of improvement and could deteriorate further

Ukraine's physical infrastructure, including its power generation, transmission, communication systems and building stock, largely dates back to Soviet times and has not been adequately funded and maintained over the past decade. Road conditions throughout Ukraine are relatively poor in comparison with more developed countries. The Ukrainian government has been implementing plans to develop the nation's rail, electricity and

telephone systems, which may result in increased charges and tariffs while failing to generate the anticipated capital investment needed to repair, maintain and improve these systems. The deterioration of Ukraine's physical infrastructure could have an adverse effect on the national economy, disrupt the transportation of goods and supplies, add costs to doing business in Ukraine and can interrupt business operations. Any further deterioration in Ukraine's physical infrastructure could have a materially adverse effect on our business, results of operations, financial condition and prospects.

Uncertainties relating to the legal system in Ukraine could have a negative effect on the Ukrainian economy

Risks associated with the Ukrainian legal system include, but are not limited to:

- inconsistencies between and among Ukraine's Constitution, laws, presidential decrees, and governmental, ministerial and local orders, decisions, resolutions and other acts;
- provisions in laws and regulations that are ambiguously worded or lack specificity and thereby create difficulties when implemented or interpreted;
- a lack of judicial and administrative guidance on the interpretation of Ukrainian legislation, including the complicated mechanism through which the Constitutional Court of Ukraine exercises its constitutional jurisdiction;
- general inconsistency in the judicial interpretation of Ukrainian legislation in the same or similar cases; and
- corruption within the judiciary.

Furthermore, the recent enactment of many of the Ukrainian laws, their limited history of applicability in the conditions of economic downturn, as well as the lack of consensus as to measures necessary to address adverse developments in the Ukrainian economy may place the enforceability and underlying constitutionality of such laws in doubt and result in ambiguities, inconsistencies and anomalies in the legal system. In addition, Ukrainian legislation often contemplates implementing regulations. Often such regulations have either not been promulgated, leaving substantial gaps in the regulatory infrastructure, or have been promulgated with substantial deviation from the principal rules and conditions imposed by the respective legislation, which results in a lack of clarity and growing conflicts between companies and regulatory authorities. These and other factors that impact Ukraine's legal system make an investment in the Notes subject to greater risks and uncertainties than an investment in a country with a more mature legal system.

Uncertainties relating to the judicial system in Ukraine (including the difficulties in enforcing court orders and judgments) could have a negative effect on the economy; such uncertainty could have a material impact on our business, financial condition, results of operations and prospects

The independence of the judicial system and its immunity from economic and political influences in Ukraine remain questionable. Although the Constitutional Court of Ukraine is the only body authorised to exercise constitutional jurisdiction and has mostly proven impartial in its judgments, the system of constitutional jurisdiction itself remains too complicated to ensure smooth and effective removal of discrepancies between Ukraine's Constitution on the one hand and various laws of Ukraine on the other hand. The court system is understaffed and underfunded. Because Ukraine is a civil law jurisdiction, judicial decisions under Ukrainian law have no precedential effect. For the same reason, courts themselves are generally not bound by earlier decisions taken under the same or similar circumstances, which can result in the inconsistent application of Ukrainian legislation to resolve the same or similar disputes. Not all Ukrainian legislation is readily available to the public or organised in a manner that facilitates understanding. Further, a limited number of judicial decisions are not publicly available and, therefore, their role as guidelines in interpreting applicable Ukrainian legislation to the public at large is limited. However, according to the law "On Access to Court Decisions" which became effective on 1 June 2006, decisions of courts of general jurisdiction in civil, economic, administrative and criminal matters issued from 1 June 2006 and decisions of local courts of general jurisdiction issued from 1 January 2007 are becoming generally available to the public. As a result of recent judicial reforms, the Ukrainian judicial system became more complicated and hierarchical and has become even slower than before.

On 30 July 2010, a new Law of Ukraine "On Court System and Status of Judges" entered into effect (with the effectiveness of certain provisions postponed). The new law provides for the establishment of a High Specialised Court of Ukraine on Civil and Criminal Matters, which has the status of the cassation court together with the High Administrative Court of Ukraine and High Commercial Court of Ukraine, and limits the powers of the Supreme Court of Ukraine. The law also establishes new procedures for the appointment of judges and introduces a clear list of grounds for imposing disciplinary liabilities on judges. No assurance can be given however that the new law will positively affect the Ukrainian judicial system and cure currently existing deficiencies.

Enforcement of court orders and judgments can in practice be very difficult in Ukraine. Often, enforcement procedures are very time-consuming and may fail for a variety of reasons, including the defendant lacking sufficient bank account funds, the complexity of auction procedures for the sale of the defendant's property or the defendant undergoing bankruptcy proceedings. In addition, the State Execution Service, the independent body responsible for enforcement of court orders and judgments in Ukraine, has limited authority to enforce court orders and judgments quickly and effectively. Ukrainian enforcement agencies are bound by the method of execution envisaged by the relevant court order or judgment and may not independently change such method even if it proves to be inefficient or unrealisable. Notwithstanding successful execution of a court order or judgment, a higher court could reverse the court order or judgment and require that the relevant funds or property be restored to the defendant. Moreover, in practice, the procedures employed by the State Execution Service do not always comply with applicable legal requirements, resulting in delays or failure in enforcement of court orders or judgments.

These uncertainties also extend to certain rights, including investor rights. In Ukraine, there is no established history of investor rights or responsibility to investors and, in certain cases, the courts may not enforce these rights. In the event courts take a consistent approach in protecting rights of investors granted under applicable Ukrainian legislation, the legislature of Ukraine may attempt legislatively to overrule any such court decisions by backdating such legislative changes to a previous date.

Court claims are often used to further political aims. We may be subject to such claims and may not be able to receive a fair hearing. Uncertainties relating to the judicial system could have an adverse effect on the economy and thus on our business, results of operations, financial condition and prospects.

These and other factors that impact Ukraine's legal system make an investment in the Notes subject to greater risks and uncertainties than an investment in a country with a more mature legal system.

The interpretation and application of Ukrainian tax laws and regulations continues to evolve, which increases the risks associated with our operations and investment in Ukraine

Historically, Ukraine has had a number of laws relating to various taxes imposed by both central and regional governmental authorities. Applicable taxes include VAT, corporate income tax (profits tax), customs duties, personal income tax, payroll (social) taxes and other taxes. Ukrainian tax legislation has not been in force for as significant a period of time compared to more developed market economies, and, as a result, there is uncertainty as to its application. Differing opinions regarding legal interpretation often exist both among and within governmental ministries and organisations, including the tax administration, creating uncertainties and areas of conflict. Ukrainian enterprises also commonly face delays in obtaining VAT refunds from the tax authorities, which can adversely affect their cash flow. See also "– *We rely on the repayment of VAT from the Ukrainian tax authorities*". Furthermore, tax laws are subject to changes and amendments, which could have a material adverse effect on our operations or financial condition.

On 4 December 2010, a new tax code (**Tax Code**) was officially promulgated with most provisions taking effect from 1 January 2011. The Tax Code aims to create a comprehensive legal framework for tax reform and provides for a wide range of changes to the existing tax system in the areas of tax collection and administration. Among other things, the Tax Code provides for a gradual decrease in the rate of the corporate income tax from the current 25 per cent. to 16 per cent. in a period from 2011 to 2014; a decrease in the value added tax rate from 20 per cent. to 17 per cent. from 1 January 2014; a new residential real estate tax under which residential real estate property owned by individuals and legal entities (residents as well as non-residents) will be subject to taxation at the rates calculated based on the residential area of the real estate property; and taxation of interest accrued on bank deposits which will take effect from 1 January 2015. Although the Tax Code is viewed by the Government as a substantial progress in the implementation of the

tax reform aimed at modernising and simplifying the Ukrainian tax system, the adoption of the Tax Code may have an adverse effect on the Ukrainian tax system.

Tax returns and supporting documents (including customs and currency control documentation) are subject to review and investigation by a number of authorities, which are authorised by law to impose fines, penalties and interest charges for non-compliance. If violations of the tax laws involving sums of UAH434,500 (approximately equivalent to US$54,300) or more are discovered, the prosecutor's office generally initiates criminal proceedings against a corporate taxpayer's general director, chief accountant or other senior managers. This creates tax risks in Ukraine that are substantially more significant than those typically found in countries with more developed tax systems. Generally, tax liabilities of taxpayers remain open for re-assessment by Ukrainian tax authorities for three years after the filing of the relevant tax declarations. However, this statutory limitation period may not be observed, or may be extended, in certain circumstances. Moreover, the fact that a period has been reviewed does not exempt this period, or any tax declaration/return applicable to that period, from further review.

As at the date hereof, the Ukrainian tax authorities have reviewed substantially all of the tax returns of FPM up to 31 December 2009. See "*Business Description – Litigation*" for a discussion of certain disputes between FPM and the local tax authorities. While we believe that we are currently substantially in compliance with the tax laws affecting our operations, except for the claim by the tax authorities described above, the relevant authorities have taken differing positions with regard to interpretative issues, which could, if upheld by the courts, have a material adverse effect on our results of operations and financial condition.

Official Ukrainian statistics and economic data may not be accurate or reliable

Although a range of Government authorities, along with the NBU and the State Statistics Committee of Ukraine, produce statistics on Ukraine and other data on its economy, such information may not be as accurate or reliable as that compiled in more developed countries. We have not independently verified such official statistics and other data, and any discussion of matters relating to Ukraine in this Prospectus is, therefore, subject to uncertainty due to questions regarding the completeness or reliability of such information. Certain statistical information and other data contained in this Prospectus has been extracted from official governmental sources in Ukraine and was not prepared in connection with the preparation of this Prospectus. In particular, figures relating to Ukraine's GDP and many other aggregate figures cited in this Prospectus may be subject to some degree of uncertainty and may not be fully in accordance with international standards.

Furthermore, standards of accuracy of statistical data may vary from ministry to ministry and from period to period due to the application of different methodologies. In this Prospectus, data are presented as provided by the relevant ministry to which the data are attributed, and no attempt has been made to reconcile such data to the data compiled by other ministries or by other organisations, such as the IMF. Starting in the first quarter of 2003, Ukraine has been producing data in accordance with IMF's Special Data Dissemination Standard. However, this IMF standard may not be correctly applied.

The existence of a sizeable unofficial or shadow economy may also affect the accuracy and reliability of statistical information. Ukraine has experienced variable rates of inflation, including periods of hyperinflation. Unless indicated, the information and figures presented in this Prospectus have not been restated to reflect such inflation and, as a result, period-to-period comparisons may not be meaningful. Prospective investors should be aware that none of these statistics has been independently verified by any person in connection with the Offering. We only accept responsibility for the correct extraction and reproduction of such information.

Risks relating to our ownership structure

Our major shareholder exercises significant control over the Group

Our majority shareholder is Fevamotinico S.à r.l. (**Fevamotinico**), a company wholly-owned by The Minco Trust, the beneficiaries of which include Kostyantin Zhevago who is currently the Chief Executive Officer of Ferrexpo plc and a member of the Board of Directors as well as the Executive Committee. Kostyantin Zhevago has the ability to influence the business indirectly through his beneficial interest in The Minco Trust, which as a 51 per cent. holder of the entire issued share capital has the ability to influence all actions that

require shareholder approval, including the approval of significant corporate transactions. Kostyantin Zhevago, however, has entered into a relationship agreement with us to ensure that we are capable of carrying on our business independently, and to ensure that transactions and relationships between us and Kostyantin Zhevago are on an arm's length basis and on normal commercial terms. See "*Shareholders and Related Party Transactions – Relationship Agreement*" for further information about the Relationship Agreement. Nevertheless, Kostyantin Zhevago's interests may be different from those of other shareholders, and he may seek to cause us to take actions that are not in the best interests of the minority shareholders.

We may enter into transactions with our affiliates

We have engaged and may continue to engage in transactions with related parties, including Kostyantin Zhevago and companies controlled by him or in which he owns a controlling interest, and with entities with which the Executive Directors are connected. We are aware of our obligations under the Listing Rules with respect to related party transactions, and we have procedures in place to ensure that prospective related party transactions are properly reported and approved, including by the shareholders where necessary. However, transactions may be entered into on terms that are not solely determined by market prices and that may not represent terms that would normally prevail between unaffiliated parties.

Any change in the rights of minority shareholders may impact our ability to execute management's strategy

FPM has a number of minority shareholders comprising legal entities, partnerships and individuals, most of whom are not known to us and who may have certain rights under Ukrainian law. A certain portion of FPM shares are traded on the over-the-counter market in Ukraine. There is no assurance that minority shareholders will not gain further rights resulting from changes in law.

FPM shares do not currently exist in dematerialised form

According to recent amendments to Ukrainian securities and related legislation, as of 29 October 2010, shares of Ukrainian joint stock companies may only exist in dematerialised form. The amended regulations do not establish a specific sanction for a failure to comply with the above requirement, therefore, the State Commission on Securities and Stock Market of Ukraine (the "SEC") has a discretion of imposing on a company in breach sanctions pursuant to general rules of the Ukrainian securities legislation. We note that such penalties vary from a written order to cure the breach up to suspension of circulation of shares. We further note that according to the recommendation issued by the SEC, the regulator shall limit initial sanctions for the failure to timely dematerialise shares in a joint stock company to a written order to cure the breach within 6 months. As at the date of this Prospectus, FPM has not yet dematerialised its shares and they still exist in physical form. At the same time, the failure by FPM did not entail any adverse actions from the SEC and FPM intends to complete the dematerialising of its shares within the following 3 months.

There are weaknesses in corporate governance standards under Ukrainian law

Our operations are conducted entirely through Ukrainian companies. We may face obstacles in implementing international best practice in mining operations at our facilities in Ukraine due to the legacy of FPM's previous State ownership. Disclosure and reporting requirements have only recently been enacted in Ukraine. Although our Board of Directors and Executive Committee apply IFRS financial reporting and best practice risk management procedures, our principal operating subsidiary, FPM, has historically applied Ukrainian corporate practice and reporting procedures. Although these procedures and practices have been effective, FPM may face difficulties in correctly applying them in all circumstances.

Anti-fraud legislation has only recently been adapted to the requirements of a market economy and remains largely untested. Most Ukrainian companies do not have corporate governance procedures that are in line with U.S. standards, including the standards set forth in the U.S. Sarbanes-Oxley Act of 2002 or with generally accepted international standards. The concept of fiduciary duties of management or members of the board to their companies or shareholders remains undeveloped in Ukraine. Violations of disclosure and reporting requirements or breaches of fiduciary duties by our Ukrainian subsidiaries or their management could significantly affect the receipt of material information or result in inappropriate management decisions, which may have a material adverse effect on the our business, results of operations, and financial condition and prospects. However, we are bound by our reporting obligations in the UK as a listed company.

Risks relating to our debt and the Notes

Our ability to service our indebtedness depends upon the ability of our subsidiaries to pay dividends and to advance funds

Because we conduct business primarily through Ferrexpo AG, FPM, and other subsidiaries, our ability to service our indebtedness, including the Notes, depends on the earnings and cash flow of Ferrexpo AG, FPM and our other subsidiaries and their ability to pay us dividends and to advance funds to us. The operating performance and financial condition of our operating subsidiaries and the ability of such subsidiaries to provide funds to us will in turn depend, to some extent, on general economic, financial, competitive, market and other factors, many of which are beyond our control. Our operating subsidiaries may not generate income and cash flow sufficient to enable the Issuer to meet its payment obligations on the Notes. Other contractual and legal restrictions applicable to our subsidiaries could also limit our ability to obtain cash from them. Our rights to participate in any distribution of our subsidiaries' assets upon their liquidation, reorganisation or insolvency would generally be subject to prior claims of the subsidiaries' creditors, including any trade creditors and preferred shareholders.

The payment of dividends by FPM to its shareholders outside Ukraine, including Ferrexpo AG, is also subject to a number of procedural requirements imposed by law and by the Charter and other internal documents of FPM. In particular, FPM is required to submit to its servicing bank a set of documents prescribed by Ukrainian currency exchange regulations, in order to transfer dividends to Ferrexpo AG. Tax is withheld at source on payments of dividends to Ferrexpo AG at the reduced rate of five per cent. under the Switzerland/Ukraine double taxation convention, or at the rate of fifteen per cent. absent a tax residency certificate attesting to Ferrexpo AG's tax residency in Switzerland. Further restrictions on the payment of dividends to a foreign shareholder may be applied in the future.

The terms of other agreements to which we and our subsidiaries may be or become subject may restrict the ability of our subsidiaries to provide funds to us. In addition, we and our subsidiaries may incur other debt in the future that may contain financial or other covenants more restrictive than those contained in the trust deed.

Goodwill impairment and other non-cash charges in our consolidated income statement, as well as charges recognised directly in equity, such as actuarial losses, foreign exchange rate adjustments and losses on hedges, if incurred, could potentially reduce the reserves available for distribution and thus reduce or prevent dividend payments to us.

If our operating subsidiaries' future cash flows from operations and other capital resources are insufficient for the us to pay our obligations as they mature or to fund our liquidity needs, we and our subsidiaries may, among other things be forced to:

- reduce or delay business activities and capital expenditures;
- sell assets;
- obtain additional debt or equity capital;
- restructure or refinance all or a portion of our debt on or before maturity; or
- forego opportunities such as acquisitions of other businesses.

These alternatives may not be able to be accomplished on a timely basis or on satisfactory terms, if at all. In addition, the terms of our existing and future debt, including the Notes, may limit their ability to pursue any of these alternatives.

Our business may be adversely affected as a result of our substantial indebtedness

We and our subsidiaries have and will continue to have a substantial amount of outstanding indebtedness and obligations with respect to the servicing of such indebtedness. As at 31 December 2010, after giving effect to the Offering and assuming no repayment of debt:

- We would have had long-term senior debt of US$401.3 million, all of which would rank senior to the Notes;
- the Guarantors together, after the elimination of any intercompany indebtedness and liabilities, would have had total indebtedness (other than the Note Guarantee or the Note Suretyship) of US$397.3 million of bank borrowings, all of which would have been secured and effectively have ranked senior to the Notes. See "*Description of Other Indebtedness*"; and
- in addition, there would have been US$24.2 million of capital leases and US$2.4 million of vendor financing that would effectively rank senior to the Notes, the Note Guarantee and the Note Suretyship.

This substantial indebtedness could have an adverse effect on our business, including:

- requiring us to dedicate a substantial portion of cash flow to make payments on indebtedness, thereby reducing the availability of cash flow to fund working capital, capital expenditures, new acquisitions and other general corporate purposes;
- increasing our vulnerability to general adverse economic and industry conditions;
- limiting our flexibility in planning for, or reacting to, changes in our business and in the iron ore industry;
- limiting our ability to make acquisitions or take other corporate actions;
- placing us at a competitive disadvantage compared to competitors who have less indebtedness in relation to cash flow; and
- limiting our ability to borrow additional funds and increasing the cost of any such borrowings, particularly because of the financial and other restrictive covenants contained in the Notes.

In addition, to the extent that our debt obligations are based on fixed interest rates, our ability to service these debt obligations could be adversely affected by deflationary periods in which prices for our products may decline, resulting in reduced cash inflows.

The Conditions provide significant flexibility for value to leave the Group

The Conditions provide significant flexibility for value to leave the Group through dividends in respect of the Parent's ordinary shares and through investments in joint ventures and other entities which we do not control. Although certain dividends and similar distributions are restricted, such provisions permit the payment of up to US$60 million per year in dividends in respect of the Parent's ordinary shares without regard to such restrictions and do not include any restrictions on investments by us. The making of such investments and the payment of such dividends may reduce funds that would otherwise be available to the Issuer and/or the Guarantors to make payments in respect of the Notes. See Condition 3.14 (*Limitation on Restricted Distributions*).

Restrictions in our debt instruments may limit our ability to operate our business

The Notes and certain of our other debt instruments contain covenants that limit our discretion with respect to certain business matters. For example, these covenants will significantly restrict our ability, and the ability of certain of our subsidiaries to, among other things:

- incur additional debt;
- pay dividends or distributions on, redeem or repurchase capital stock;
- make certain restricted payments and investments;
- create certain liens;
- transfer or sell assets;

- engage in sale and leaseback transactions;
- merge or consolidate with other entities; and
- enter into transactions with affiliates.

These covenants could materially and adversely affect our ability to finance our future operations or capital needs or to engage in other business activities. See "*Description of Other Indebtedness*" and "*Description of Notes – Certain Covenants*".

Our subsidiaries have indebtedness that is secured and therefore effectively senior to the Notes, the Note Guarantee and the Note Suretyship

As at 31 December 2010, after giving effect to the Offering and assuming no repayment of debt, our operating subsidiaries would have an aggregate amount of approximately US$397.3 million of secured indebtedness (excluding vendor financing and capital leases). All of such secured indebtedness will be effectively senior to our obligations under the Notes and the Guarantors' respective obligations under the Note Guarantee and the Note Suretyship, which are unsecured. As a result, if we default under the Notes, and this default triggers an event of default under any of such secured indebtedness, holders of such secured indebtedness will have priority over the Noteholders to the extent of the assets securing such indebtedness.

The terms of the Notes allow us to increase the amount of our secured indebtedness under certain conditions. See "*Description of Other Indebtedness*" and "*Description of Notes*".

We may not be able to finance a change of control offer required by the Trust Deed

Upon the occurrence of certain change of control events, we will be required to offer to repurchase all outstanding Notes at 101 per cent. of the principal amount of the Notes plus accrued and unpaid interest and additional amounts, if any, to the date of the repurchase. If any such change of control event were to occur, we may not have sufficient funds available at the time to pay the price of the outstanding Notes. The change of control may cause the acceleration of other indebtedness that may be senior to the Notes or rank equally with the Notes. In any case, we expect that we would require third party financing to make a change of control offer. We may not be able to obtain this financing. See "*Description of Notes – Repurchase at the Option of Holders – Change of Control*".

The claims of holders of the Notes may be limited in the event that we or one or more of the Guarantors is declared bankrupt

The Issuer, FPM and the Trustee will enter into a suretyship agreement to be dated on or around 7 April 2011 (the **Surety Agreement**). Ukrainian bankruptcy regulations may prohibit FPM from making payments pursuant to the Surety Agreement. Ukrainian bankruptcy regulations differ from bankruptcy laws of England and the United States, and is subject to varying interpretations. There is not enough precedent to be able to predict how claims of holders of the Notes would be resolved in the event of the bankruptcy of FPM. In the event of the bankruptcy of FPM, its obligations to holders of the Notes would be subordinated to the following obligations:

- obligations secured by pledges or mortgages of its assets;
- severance pay and employment-related obligations, including mandatory pension and social security contributions, payment of wages to FPM's employees due as of the commencement of the liquidation procedure;
- expenditures associated with the conduct of the bankruptcy proceedings and expenses of the liquidator;
- obligations arising as a result of causing harm to life or health of individuals;
- local and state taxes and other mandatory payments (including claims of the respective governmental authorities managing the state reserve fund); and

- expenditures arising from measures to prevent property and ecological damage, harm to the health and safety of individuals.

In the event of the bankruptcy of FPM and, to the extent effected thereby, the Issuer or one of the other Guarantors, Ukrainian bankruptcy law may materially adversely affect their ability to make payments to holders of the Notes.

In the event of bankruptcy proceedings against FPM, Ukrainian bankruptcy law may materially adversely affect FPM's ability to make payments to the Trustee on behalf of the holders of the Notes

Claims against FPM may be incapable of enforcement upon commencement of bankruptcy proceedings. After any bankruptcy proceeding is commenced, the Ukrainian court imposes a moratorium on claims of creditors which became payable prior to the commencement of the bankruptcy proceeding. During the term of such moratorium, FPM would be unable to make payments to the Trustee on behalf of the holders of the Notes, and the Noteholders' claims against the FPM would not be enforceable in Ukraine. FPM may not be held liable in Ukraine for the non-performance of its obligations to the holders of the Notes resulting from the imposition of the moratorium. Upon the termination of the moratorium (other than as a result of FPM entering bankruptcy proceedings), the Noteholders would be entitled to make, and to enforce, claims against FPM in the amounts existing as of the date when the moratorium was imposed.

Further, Article 17 of the Law of Ukraine "On Restoration of a Debtor's Solvency or Declaration of its Bankruptcy" dated 14 May 1992 (**Bankruptcy Law**) permits a receiver appointed by the court to carry out any acts aimed at the financial rehabilitation of a debtor, including but not limited to applying to the court for invalidation of the agreements concluded by such debtor prior to the commencement of the bankruptcy proceeding if: (i) such agreement is concluded between the debtor and an interested party and, as a result of such agreement, the creditors incur or may incur losses; or (ii) such agreement is concluded between the debtor and one of its creditors or any third party within a six-month period prior to the introduction of the financial rehabilitation stage of the bankruptcy proceeding and such agreement gives priority to one creditor over the others or relates to the payment of money or allocation of assets to a participant who withdraws from the debtor company and has the right to receive a compensation of his or her share in the authorised capital.

Furthermore, the receiver may terminate, within a three-month period from the commencement of the financial rehabilitation stage of the bankruptcy proceeding, any agreement which has not yet been performed in full or in part by the debtor provided that: (i) the debtor incurs losses as a result of the performance of such agreement; or (ii) the term of such agreement is longer than one year or such agreement provides benefits to the debtor only in the long-term perspective (other than in case of manufacture of goods with technological cycle exceeding the debtor's financial rehabilitation period); or (iii) the performance of such agreement hampers the restoration of the debtor's solvency. Under Article 25 of the Bankruptcy Law, at the liquidation stage of the bankruptcy proceeding, a liquidator appointed by the court may ask the court to invalidate the agreement of the debtor on the same grounds as those governing the termination of the agreements by a receiver at the financial rehabilitation stage of the bankruptcy proceeding.

If the Surety Agreement were to be declared invalid on any of the above grounds, the holders of the Notes would be required to repay to FPM all funds received pursuant to the Surety Agreement. There is a lack of certainty as to whether, in such event, the court might impose other requirements as a result of the invalidity. In light of the risks associated with the Ukrainian legal system no assurance can be given as to how the courts in Ukraine would react in the event of the Surety Agreement being invalidated.

Moreover, under the Bankruptcy Law FPM is deemed to be a town-forming enterprise and, being a mining and concentration complex, is ranked as hazardous enterprise. According to the Bankruptcy Law, town-forming enterprises as well as hazardous enterprises are subject to special rules on insolvency, including, *inter alia*, the participation of state and municipal authorities in any insolvency proceedings, an extended term for any financial rehabilitation proceedings and a prohibition on auction sales. Insolvency proceedings may also become protracted as the court may extend the term of any financial rehabilitation by up to ten years upon request by state and/or municipal authorities. In such a case, however, the state or municipal authorities would provide suretyship for FPM's liabilities; however, if FPM's debts are not repaid within three years of the extension of the financial rehabilitation period, FPM would be subject to liquidation. In the event any such

insolvency proceedings are initiated, FPM's creditors would have to wait for it to be either financially rehabilitated or liquidated and its remaining assets to be distributed.

Exchange rate risks and exchange controls generally

Principal and interest on the Notes will be paid in US dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than US dollars. These include the risk that exchange rates may significantly change (including changes due to the devaluation of US dollar or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to US dollars would decrease (a) the Investor's Currency equivalent yield on the Notes, (b) the Investor's Currency equivalent value of the principal payable on the Notes and (c) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Swiss law may limit Ferrexpo AG's liability for payments due in respect of the Notes under the Note Guarantee

The liability of Ferrexpo AG as Guarantor of payments of all amounts due in respect of the Notes issued by the Issuer is (to the extent that such requirement of applicable Swiss law is in force at the relevant time) limited to a sum equal to the maximum amount of Ferrexpo AG's profits available for distribution at any time (being the balance sheet profits and any reserves made for this purpose, in each case in accordance with Articles 675 (2) and 678 (1) and (2) no. 3 of the Swiss Federal Code of Obligations) provided that such limitations shall not free Ferrexpo AG from payment obligations in excess of its distributable profits, but merely postpone the payment date of those obligations until such times as payment is permitted notwithstanding such limitations. Any payment under the Guarantee by Ferrexpo AG of payments of all amounts due in respect of Notes issued by the Issuer may require certain corporate formalities to be completed prior to payment including, but not limited to, obtaining an audit report, shareholder's resolutions and board of directors' resolutions approving payment. As at 31 December 2010, Ferrexpo AG profits available for distribution as a dividend were estimated to be in the region of CHF 486 million before deduction of withholding taxes (if applicable). In March 2011, CHF 430 million was distributed by Ferrexpo AG to its shareholder Ferrexpo plc.

Any payment made by Ferrexpo AG pursuant to the Guarantee of amounts due in respect of Notes may give rise to Swiss withholding taxes on dividends (of up to 54 per cent. at present rates) to the extent that such payment is regarded as a deemed distribution by Ferrexpo AG to its shareholder Ferrexpo plc.

Ukrainian currency control regulations may impact FPM's ability to make payments under the Note Suretyship

The NBU is empowered to establish policies for and to regulate currency operations in Ukraine and has the power to establish restrictions on currency operations and repatriation. Ukrainian currency controls and practice are subject to continuing change, with the NBU exercising considerable autonomy in interpretation and practice.

The obligations of FPM under the Note Suretyship will constitute a suretyship under Ukrainian law. Under applicable Ukrainian legislation and recent NBU clarifications, a resident Ukrainian entity is required to obtain a Foreign Payment Licence from the NBU in order to make cross border payments pursuant to a suretyship issued in favour of a foreign entity (although no Foreign Payment Licence is required for a resident Ukrainian entity to issue the suretyship). However, the NBU does not issue Foreign Payment Licences in advance or for contingent payments when the amount and date of a cross border payment are not known. Taking into account that the NBU has discretion in the issuance of Foreign Payment Licences, it might not grant a Foreign Payment Licence. The failure or refusal of the NBU to grant such a Foreign Payment Licence should not affect the validity of the underlying legal obligation and such failure or refusal by the NBU may be challenged in a Ukrainian court. The Ukrainian court may order that the NBU issue the Foreign Payment Licence should it decide that such Foreign Payment Licence was unlawfully rejected.

The ability of FPM to make cross border payments under the Note Suretyship would be further impeded by Ukrainian currency control regulations restricting a resident Ukrainian entity's ability to purchase foreign currency in order to make payments under a suretyship issued with respect to obligations of a foreign debtor. In particular, FPM may make a cross border payment under the Note Suretyship only out of its own foreign currency funds and would not be entitled under Ukrainian currency control regulations to borrow or purchase any foreign currency funds for the purpose of making such cross border payment, irrespective of whether or not a Foreign Payment Licence has been obtained by it for the purpose of making a payment under the Note Suretyship.

The validity of the Note Suretyship could be challenged

The Note Suretyship creates a suretyship (in Ukrainian, *poruka*), which is a secondary liability of FPM in relation to the underlying obligations of the Notes and, therefore, if those obligations are invalid, the suretyship under the Note Suretyship will also be invalid. Furthermore, if the underlying obligations are amended so as to increase the scope of responsibility of the surety or are assigned, the prior consent of the surety should be obtained to ensure continued validity of the Note Suretyship. The suretyship is not a guarantee (in Ukrainian, *guarantiya*). For the avoidance of doubt, the obligations of FPM under the Note Suretyship shall not constitute a guarantee obligation as that term is interpreted under Ukrainian law.

Under the Law of Ukraine "On Financial Services and the State Regulation of the Markets of Financial Services" dated 12 July 2001, suretyships are considered "financial services", which may only be rendered by a duly licensed bank or other financial institution or, as an exception, by a non-financial institution when expressly permitted by a law of Ukraine or the State Commission of Ukraine on the Regulation of the Markets of Financial Services (the **Commission**). The Commission permitted non-financial institutions to issue suretyships, subject to compliance by the issuer of a suretyship with anti-money laundering requirements and procedures. Ukrainian companies often conclude suretyship agreements, and neither the Commission nor Ukrainian courts have as yet recognised such practice as invalid. However, due to a lack of guidance by the Commission with regard to the exact scope of such compliance, a particular surety could be viewed by the Ukrainian authorities or courts as not complying with such requirements and procedures and, accordingly, the legal capacity of such surety to issue a suretyship and the validity of any particular suretyship could be challenged.

The gross-up obligation under the Surety Agreement may not be enforceable

Payments by FPM under the Surety Agreement may be subject to withholding tax at the rate of 15 per cent (See "*Taxation – Ukraine – Payments under the Surety Agreement*"). In the event of the imposition of such tax, the Surety Agreement obliges FPM to pay additional amounts such that the recipient receives the amount due to them had no such withholding been required. Ukrainian law generally prohibits payment of tax for another person and contractual provisions requiring such payment. If interpreted broadly, such restriction would also apply to gross-up provisions of the Surety Agreement and obligations of FPM to pay additional amounts thereunder. As a result, Ukrainian courts may construe the "gross-up" provisions in the Surety Agreement null and void and, therefore, unenforceable against FPM.

Foreign judgments may not be enforceable in Ukraine

Courts in Ukraine will generally not recognise and/or enforce any judgment obtained in a court of a country other than Ukraine unless such enforcement is envisaged by an international treaty to which Ukraine is a party, and then only in accordance with the terms of such treaty. There is no such treaty in effect between Ukraine and the United Kingdom or the United States.

In the absence of such international treaty, the Ukrainian courts may recognise and enforce a foreign court judgment only on the basis of the principle of reciprocity. Ukrainian legislation provides that unless proven otherwise the reciprocity is deemed to exist in relations between Ukraine and the country where the judgment was rendered. However, Ukrainian legislation does not provide for any clear rules on the application of the principle of reciprocity and there is no official interpretation or court practice on these provisions of Ukrainian legislation. Accordingly, the Ukrainian courts might not recognise or enforce a judgment rendered by United States or United Kingdom courts on the basis of the principle of reciprocity. Furthermore, the Ukrainian courts might refuse to recognise and enforce a foreign court judgment on the basis of the principle of reciprocity on the grounds provided in Ukrainian legislation in effect on the date on which such recognition and/or enforcement are sought. Accordingly, the holders of the Notes and other parties to the Trust Deed and the Surety Agreement may be unable to enforce foreign judgments in respect thereof in Ukraine. Since Ukraine

is a party to the New York Convention, an arbitral award would be enforceable in Ukraine, subject to the terms of the New York Convention. See "*Service of Process and Enforcement of Civil Liabilities*".

The Notes may be redeemed prior to maturity

In the event that a change in tax law causes the Issuer or the Guarantors to be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the UK, Switzerland or Ukraine or any political subdivision thereof or any authority therein or thereof having power to tax, we may redeem all outstanding Notes in accordance with the Terms and Conditions. See "*Terms and Conditions of the Notes – Redemption and Purchase for Taxation Reasons*)."

As the Global Note Certificates are held by or on behalf of Euroclear, Clearstream, Luxembourg and DTC, investors will have to rely on their procedures for transfer, payment and communication with the Issuer or the Guarantors

The Notes will be represented by Global Note Certificates except in certain limited circumstances described therein. The Regulation S Global Note Certificate will be deposited with a common depositary on behalf of Euroclear and Clearstream, Luxembourg. The Rule 144A Global Note Certificate will be registered in the name of a nominee of, and deposited with a custodian for, DTC. Except in certain limited circumstances described in the Global Note Certificates, investors will not be entitled to receive definitive Notes. Euroclear, Clearstream, Luxembourg and DTC will maintain records of the beneficial interests in the Global Note Certificates. While the Notes are represented by the Global Note Certificates, investors will be able to trade their beneficial interests only through DTC, Euroclear and Clearstream, Luxembourg.

The Issuer and the Guarantors will discharge their payment obligations under the Notes by making payments through DTC or to the common depositary for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in the Global Note Certificates must rely on the procedures of DTC, Euroclear and Clearstream, Luxembourg to receive payments under the Notes. The Issuer and the Guarantors have no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Note Certificates.

The Notes may not be a suitable investment for all investors

Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Prospectus;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;
- understand thoroughly the terms of the Notes; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

A potential investor should not invest in the Notes, which are complex financial instruments, unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

There is no public market for the Notes

There is no existing market for the Notes, and there may be no future development of a market for the Notes. Application has been made for admission to trading of the Notes on the London Stock Exchange's Regulated

Market. However, an active trading market in the Notes may not develop or be maintained after listing. No assurance can be made as to the liquidity of any market that may develop for the Notes, the ability of Noteholders to sell the Notes or the price at which Noteholders may be able to sell the Notes. The liquidity of any market for the Notes will depend on the number of Noteholders, prevailing interest rates, the market for similar securities and other factors, including general economic conditions and the Issuer's financial condition, performance and prospects, as well as recommendations of securities analysts. Disruptions recently experienced in the global capital markets have led to reduced liquidity and increased credit risk premiums and have therefore resulted in a reduction in investment in securities globally.

If an active trading market does not develop or cannot be maintained, this could have a material adverse effect on the liquidity and the trading price of the Notes.

The market price of the Notes may be volatile

The market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in our operating results and those of our competitors, adverse business developments, changes to the regulatory environment in which we operate, changes in financial estimates by securities analysts and the actual or expected sale of a large number of Notes, as well as other factors, including the credit rating of the Group, and the trading market for notes issued by or on behalf of Ukraine as a sovereign borrower. In addition, in recent years the global financial markets have experienced significant price and volume fluctuations which, if repeated in the future, could adversely affect the market price of the Notes without regard to our operating results, financial condition or prospects or the credit rating of the Group.

Financial turmoil in emerging markets could cause the price of the Notes to suffer

The market price of the Notes is influenced by economic and market conditions in Ukraine and, to a varying degree, economic and market conditions in other CIS and eastern European countries and emerging markets generally. In the past, financial turmoil in Ukraine and other emerging markets has adversely affected market prices in the world's securities markets for companies that operate in these developing economies. Even if the Ukrainian economy remains relatively stable, financial turmoil in these other countries could materially adversely affect the market price of the Notes. Since the beginning of the current financial and economic crisis, many global securities markets have experienced extreme price and volume fluctuations, particularly those in Ukraine and other developing economies. Continuation or intensification of financial or economic turmoil could materially adversely affect the market price of the Notes.

Credit ratings of Ukraine, the Group or the Notes' could adversely affect the market price of the Notes

Ukraine has been assigned long-term credit ratings of B+(stable) by S&P, B(stable) by Fitch and B2(stable) by Moody's and the Notes are rated B+(stable) by S&P, B2(stable) by Moody's and B(stable) by Fitch. The Group has been assigned credit ratings of B+ (Stable) by S&P, B2 (Stable) by Moody's and B (Stable) by Fitch. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of notes do not necessarily mean the same thing. Ratings do not address the likelihood that the principal on the Notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the Notes. Ratings also do not address the marketability of the Notes at any market price. The significance of each rating should be analysed independently from any other rating. Any negative change in Ukraine's, the Group's or the Notes' credit rating could materially adversely affect the market price of the Notes.

In general, European regulated investors are restricted under Regulation (EC) No. 1060/2009 (the "**CRA Regulation**") from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). Certain information with respect to the credit rating agencies and ratings referred to in this Prospectus is set out on page 1 of this Prospectus.

Payments of interest within the jurisdiction of a European Union Member State are subject to the Savings Directive

Under EC Council Directive 2003/48/EC (the **Savings Directive**) on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to or for an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries) subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuer and the Guarantors are required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Savings Directive.

Potential changes in Swiss withholding tax legislation

On 22 December 2010 the Swiss Federal Council issued draft legislation, which, if enacted, may require a paying agent to deduct Swiss withholding tax at a rate of 35 per cent. on any payment of interest in respect of a Note to an individual resident in Switzerland or to a person resident in a country which has no double tax treaty with Switzerland. Under the current draft legislation the definition "*inländische Zahlstelle*" (domestic paying agent) includes any economic operator (*Wirschaftsbeteiligter*) who remits payments of interest to the beneficial owner (*überweisen*), recompenses the beneficial owner interest (*vergüten*), credits the beneficial owner interest (*gutschreiben*) or collects payments of interest for the beneficial owner (*einziehen*). If this legislation or similar legislation were enacted and an amount of, or in respect of, Swiss withholding tax were to be deducted or withheld from that payment, neither the Issuer nor the Guarantors nor any paying agent nor any other person would pursuant to Condition 7, as applicable, be obliged to pay additional amounts with respect to any Note as a result of the deduction or imposition of such withholding tax and accordingly a holder of a Note would receive payments in respect of that Note net of such withholding tax. See "*Taxation – Switzerland – Withholding Tax*".

Use of Proceeds

The net proceeds received by Ferrexpo from the offering of the Notes is estimated to be approximately US$485.43 million after deducting management and underwriting commissions and the estimated offering expenses. The net proceeds from the issue of the Notes will be used for general corporate purposes and to fund our capital expenditures and acquisitions. The net proceeds from the issue of the Notes will be received and, at all times while any Notes are outstanding, be used exclusively outside Switzerland.

Capitalisation

The following table sets forth our consolidated capitalisation as at 31 December 2010 and as adjusted to reflect the issuance of the Notes. The adjustments to the table below are designed to illustrate the effect of the Group's capitalisation of the issuance of the Notes. These adjustments have been provided for illustrative purposes only, address a hypothetical situation as at 31 December 2010 and, therefore, do not represent the Group's actual capitalisation as at that date. The table below should be read in conjunction with "*Selected Consolidated Financial Information*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and our consolidated financial statements included elsewhere in this Prospectus.

	As at 31 December 2010		
	Actual[1]	**Adjustment[2]**	**As Adjusted[3]**
		(US$ millions)	
CASH AND CASH EQUIVALENTS[4]	319.5	500.0	819.5
Current loans and borrowings	22.6	–	22.6
Non-current loans and borrowings	401.3	–	401.3
Notes offered hereby	0	500.0	500.0
TOTAL DEBT	423.9	500.0	923.9
TOTAL EQUITY	861.5	–	861.5
TOTAL CAPITALISATION	1,285.4	500.0	1,785.4

(1) Entries under the "Actual" column are derived from our consolidated financial statements for the year ended 31 December 2010, prepared in accordance with IFRS.

(2) Adjustment assumes the issuance of US$500 million aggregate principal amount of Notes and application of the aggregate proceeds therefrom received to cash and cash equivalents pending their use in accordance with "*Use of Proceeds*" (i.e., before adjustments for discounts, commissions and other estimated offering expenses and any fair value adjustments to the Notes).

(3) As adjusted to reflect the adjustment described in (2) above.

(4) Includes restricted cash of US$37.8 million held in escrow related to the acquisition of Helogistics.

Selected Historical Financial Information

The selected financial information provided below has been derived from our audited consolidated financial statements as at and for the years ended 31 December 2008, 2009 and 2010, all of which have been prepared in accordance with IFRS. Our audited consolidated financial statements as at and for the years ended 31 December 2008, 2009 and 2010 have been audited by Ernst & Young LLP.

You should read this summary historical financial information section along with "Management's Discussion and Analysis of Financial Condition and Results of Operation" and the consolidated financial statements included elsewhere in this Prospectus.

CONSOLIDATED INCOME STATEMENT DATA

	Year ended 31 December (audited)		
	2008	**2009**	**2010**
	$000	$000	$000
REVENUE	1,116,854	648,667	1,294,900
Cost of sales	(434,238)	(341,067)	(481,857)
GROSS PROFIT	682,616	307,600	813,043
Selling and distribution expenses	(152,528)	(162,266)	(212,006)
General and administrative expenses	(67,185)	(43,161)	(49,175)
Other income/(expenses)	(31,653)	684	(1,423)
Operating foreign exchange gain/(loss)	29,309	2,534	(1,078)
PROFIT FROM CONTINUING OPERATIONS BEFORE ADJUSTED ITEMS	460,559	105,391	549,361
Adjusted non-operating items[(1)]	6,177	(1,164)	3,800
PROFIT BEFORE TAX AND FINANCE	466,736	104,227	542,225
Net finance income	(18,367)	(20,825)	(40,211)
Non-operating foreign exchange loss	(72,788)	(2,552)	(3,888)
PROFIT BEFORE TAX	375,581	80,850	498,126
Income tax expense	(62,533)	(9,852)	(73,002)
PROFIT FOR THE YEAR	313,048	70,998	425,124

Note:

(1) Including costs for initial public offering of Ferrexpo plc and loss on sale of VAT Bonds.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION DATA

	At 31 December (audited)		
	2008	2009	2010
	$000	$000	$000
ASSETS			
Property, plant and equipment	412,440	452,100	647,137
Inventories	61,270	59,636	104,827
Trade and other receivables	59,636	38,117	111,890
Cash and cash equivalents	87,822	11,991	319,470
Other	232,867	257,728	294,319
TOTAL ASSETS	854,035	819,572	1,477,643
LIABILITIES			
Borrowings	305,896	269,522	423,853
Trade and other payables	35,603	27,926	88,089
Other	194,027	203,997	104,227
TOTAL LIABILITIES	396,142	348,128	616,169
Equity	457,893	471,444	861,474
TOTAL EQUITY AND LIABILITIES	854,035	819,572	1,477,643

CONSOLIDATED STATEMENT OF CASH FLOW DATA

	Year ended 31 December (audited)		
	2008	**2009**	**2010**
	$000	$000	$000
Net cash flows from operating activities	370,943	76,869	379,758
Net cash flows used in investing activities	(277,639)	(77,654)	(174,887)
Net cash flows from/(used) in financing activities	(23,594)	(74,090)	103,509
Net cash flows	69,710	(74,875)	308,380

EBITDA

EBITDA is not a uniformly or legally defined financial measure. We define EBITDA as profit from continuing operations before tax and finance plus depreciation and amortisation (included in cost of sales, administrative expenses and selling and distribution costs) and non-recurring cash items included in other income and other expenses plus the net gains and losses from disposal of investments and property, plant and equipment. This differs in certain respects from the definition of Consolidated EBITDA that is used in the covenants contained in the Terms and Conditions of the Notes. See Condition 19 (*Definitions*). The following table provides a reconciliation showing how EBITDA is derived from profit before tax and finance for the periods shown:

	Year ended 31 December		
	2008	**2009**	**2010**
	$000	$000	$000
Profit before tax and finance	466,736	104,227	542,225
Loss on sale of VAT Bond	–	–	10,936
Write-offs and impairment losses	27,326	2,757	1,618
(Gain)/loss on disposal of property, plant and equipment	–	(213)	1,305
Gain on disposal of available-for-sale investment	(1,571)	–	–
Initial public offering costs	4,120	427	55
Share-based payments	1,495	3,423	1,366
Gain recognised on rights issue at subsidiary	(35,049)	(503)	–
Gain on bargain purchase from business combination	–	–	(2,623)
Severance payments	6,764	–	–
Amortisation and depreciation	34,125	28,018	30,415
EBITDA	503,946	138,136	585,297

Like many of our competitors, we present EBITDA because we believe it to be an important supplemental measure of our performance, and believe it is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry. Our EBITDA figures are not, however, necessarily comparable to other companies' EBITDA figures, as each is calculated in its own way and must be read in conjunction with the explanations that accompany it. EBITDA has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for an analysis of our results as reported under IFRS. Some of these limitations are:

- EBITDA does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;
- EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- EBITDA does not reflect the significant interest expense, or the cash requirements necessary, to service interest or principal payments, on our debts;
- although depreciation and amortisation are non-cash charges, the assets being depreciated and amortised will often need to be replaced in the future and EBITDA does not reflect any cash requirements that would be required for such replacements; and
- the fact that other companies in our industry may calculate EBITDA differently than we do, which limits its usefulness as a comparative measure.

Because of these limitations, you should not consider EBITDA to be a measure of cash available to us to invest at our discretion in the growth of our business.

Management's Discussion and Analysis of Financial Condition and Results of Operation

The following discussion of our financial condition and results of operations should be read in conjunction with "Selected Historical Financial Information" and with the information relating to our business included elsewhere in this Prospectus. The discussion includes forward-looking statements that reflect the current view of our management and involve risks and uncertainties. Our actual results could differ materially from those contained in any forward-looking statements as a result of factors discussed below and elsewhere in this Prospectus, particularly in "Risk Factors". Investors should read the whole of this Prospectus and not just rely upon summarised information.

Ferrexpo is a Swiss-headquartered iron ore pellet producer. We own and operate an open-pit iron ore mine and associated processing facilities in central Ukraine and have been engaged in the mining, processing and sale of iron ore pellets for the global steel market for over 40 years. Iron ore pellets are an iron ore product used in the production of steel and are sold at a premium to other iron ore products as they increase productivity in the blast furnace, due to their form, substance and low level of impurities. We produced 10 million tonnes of pellets in 2010, making us the largest exporter of iron ore pellets in the CIS and among the ten largest producers of pellets in the global seaborne market, according to Metalytics 2011. Our pellets are delivered through our own established logistics infrastructure that includes railcars, barge and port facilities.

Our resource base consists of a magnetite ore with an average of 30 per cent. iron content, which is particularly well-suited for pelletising. The ore body is a single 50 kilometre-long strike divided into 10 adjacent deposits. As of 1 January 2011, we have estimated resources of over 6.8 billion tonnes classified under the JORC Code, and further estimated resources of over 14.2 billion tonnes classified under the FSU Classification. See *"Reserves and Resources"* and *"Risk Factors – The volume and grade of our reserves and our rate of production may not conform to current estimates"*.

For the year ended 31 December 2010, our sales revenue increased to US$1,294.9 million compared to US$648.7 million in 2009, as the global demand for iron ore recovered following a slump in 2009 due to the effect of the global financial crisis on the entire steel industry, and compared to US$1,116.9 million for 2008. These increases reflect:

- a strong global demand for iron ore by steel producers;
- the resulting increasing prices of iron ore and pellets; and
- expanding sales volumes from our business (by 7.8 per cent.).

These factors underpinned an increase in EBITDA to US$585.3 million, a more than four-fold increase over US$138.1 million for 2009, compared to US$503.9 million for 2008. See "EBITDA" in the table below. We recorded a net profit of US$425.1 million compared to US$71.0 million and US$313.0 million for 2009 and 2008, respectively.

We have maintained a low financial leverage level since our listing on the London Stock Exchange in 2007. Historically we have been able to secure funding on the international bank debt markets, including a $230 million syndicated pre-export loan facility in 2009.[1]

As our operating cash flow improved significantly during 2010 due to the recovery in sales prices and margins, we reduced our net financial indebtedness by US$153.2 million in 2010 to US$104.4 million for the year ended 31 December 2010, compared to US$257.6 million for 2009. As of 31 December 2010 our cash balance was US$319.5 million, compared to US$12 million as of 31 December 2009. For further details, see "*– Results of operations – Year ended 31 December 2010 compared to year ended 31 December 2009*".

(1) This loan was refinanced in September 2010. See "*– Borrowings*".

As part of our growth programme, in November 2010 we approved US$647 million of capital expenditure, with three principal expenditure components:

- US$267 million for the development of the FYM mine, which is located immediately north of our existing mine at FPM, to extract ore by 2013;
- US$168 million over an eight-year period to extend the life of our existing mine at FPM by 12 years to 2038; and
- US$212 million to increase the proportion of 65 per cent. iron content pellets we produce from approximately half of our total current pellet production to 100 per cent. by 2014.

For further details, see "*– Liquidity and capital resources – Capital expenditure"* and *"Business Description – Expansion of Our Mining Operations*."

The following table sets out our volumes of pellets produced, pellets sold, revenues, C1 cash cost of production, EBITDA and net financial indebtedness to EBITDA for the years ended 31 December 2008, 2009 and 2010.

	Year ended 31 December		
	2008	**2009**	**2010**
Pellets produced, own ore (*thousand tonnes*)	8,608	8,609	9,033
Total pellet production (*thousand tonnes*)	9,035	8,766	10,031
Sales volume (*thousand tonnes*)	8,711	9,015	9,721
Revenues (*US$ in millions*)	1116.9	648.7	1,294.9
Average C1 cash cost of production (*US$ per tonne*)[1]	42.3	34.4	39.7
EBITDA[2] (*US$ in millions*)	503.9	138.1	585.3
EBITDA[2] (*US$ per tonne*)	57.9	15.3	60.2
Net financial indebtedness/EBITDA	0.44	1.87	0.18

(1) C1 cash cost is a non-IFRS financial measure. See *"Non-IFRS Financial Measures"* and *"– Factors affecting our business and trends – Cost of sales"*.
(2) EBITDA is a non-IFRS financial measure. See "*Non-IFRS Financial Measures*" and "*Selected Historical Financial Information – EBITDA*".

The following table sets forth a breakdown of our revenues for the years ended 31 December 2008, 2009 and 2010:

	Year ended 31 December		
	2008	**2009**	**2010**
	(US$ in millions)		
Export sales:			
62 per cent. iron content pellets	472.9	286.2	646.6
65 per cent. iron content pellets	500.5	326.6	642.1
Total	973.4	612.8	1,288.7
Domestic sales:			
62 per cent. iron content pellets	134.4	34.5	0.4
Non-pellet sales[1]	9.1	1.4	5.8
Total revenue	1,116.9	648.7	1,294.9

(1) Primarily sales of gravel.

Factors affecting our business and trends

The key drivers of our business performance are the global demand for steel and iron ore, our average pellet prices, our sales volumes, our cost of sales, and our selling and distribution expenses.

Market demand for steel and iron ore

Our business is highly dependent on the market price of iron ore. We operate in a highly volatile commodity market. 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. In addition, there are a number of other factors beyond our control, the most significant of these being the prevailing level of worldwide demand for steel products, which influence the world steel industry and therefore demand for iron ore and the parameters for the contract price which we are able to obtain for our iron ore. At present, the global market price of iron ore is heavily dependent upon the steel sector in Asia, especially in China. Any potential contraction in demand or increase in supply may cause iron ore and pellet prices to fall.

Historically, changes in worldwide demand for steel have had a greater impact on demand for pellets than other iron ore products due to their higher cost. Over the last 10 years, iron ore prices have, as a general matter, increased significantly, reflecting strong demand from steel manufacturers. However, beginning in late 2008, demand for iron ore declined significantly in our Traditional markets in Central and Eastern Europe, as well as in most other industrialised economies. In addition, local demand for and domestic consumption of iron ore in Ukraine and Russia has been cyclical and was historically high from mid-2005 until mid-2008, when the recent economic downturn resulted in a significant decline in demand for iron ore in these local markets. Because of lack of demand visibility and general market uncertainty, the annual international seaborne traded iron ore benchmark price was settled at levels almost 50 per cent. below the previous year.

Global demand for steel has since recovered, driven by emerging markets, in particular Asian demand, and developed market restocking. Spot prices per tonne for iron ore (62 per cent. iron content fines to China) are expected to peak in mid 2011 and moderate gently thereafter according to CRU. For more information, see "*Risk Factors – Risks relating to the industry – We operate in a highly volatile commodity market for steel and steel products. Decreases in iron ore prices may depress our margins and adversely affect our results of operations and financial condition.*"

Our average iron ore pellet prices

Our average pellet price is dependent on market demand and global prices for steel and iron ore (over which we have little control as we are generally price takers) and can therefore vary significantly from period to period. Average pellet price is a function of a number of factors, the most important of which are discussed below.

- *Level of international iron ore prices and frequency of adjustments*. During the past year, there has been a marked shift in the pricing mechanism applied by the major iron ore suppliers. Historically, the industry determined prices once a year based on an initial price settlement by any major iron ore producer with any major steel mill, which was accepted as the "benchmark" price for the year by other iron ore producers and steel mills. During the financial crisis in late 2008 and 2009, however, iron ore spot prices fell from well above the annual benchmark price to well below the benchmark price. As a result, steel mills increasingly refused to pay the contracted benchmark price and reverted to a spot market rate for seaborne iron ore. Consequently, we understand that the major iron ore producers, including Rio Tinto, BHP Billiton and Vale, formally abandoned the benchmark pricing system in 2010 and most of these producers agreed quarterly pricing with most of their customer base from 1 April 2010. Currently in the global iron ore market, there are a number pricing methodologies being applied by industry participants depending on geography and customer.

  In 2010, we agreed a mixture of pricing arrangements with our customers including quarterly and six month pricing agreements. Our price strategy is to follow international pricing trends, once generally established, while continuing to focus on capturing the maximum price relative to our competitors' delivered cost through "value in use" to the customer. We believe that our geographic proximity to key steel customers represents an attractive alternative to the major seaborne suppliers due to the lower costs of transporting pellets over a shorter distance from Ukraine.

  As the new pricing mechanisms are based on shorter time periods, we believe there is likely to be higher price volatility. Additionally, emphasis in the spot market is progressively shifting towards CFR delivery away from delivery at frontier (**DAF**)/FOB pricing. This provides an advantage to producers with low freight rates.

- *Product mix*. We currently produce two types of iron ore pellets, pellets with 62 per cent. iron content and pellets with a 65 per cent. iron content, respectively. The pricing of iron ore pellets reflects their iron

content, with higher iron content pellets commanding higher prices per tonne. Currently, our production is split fairly evenly between 62 per cent. and 65 per cent. iron content pellets. We expect this split to remain broadly consistent until the end of 2014, when we expect that successful implementation of our capital expenditure programme will result in 65 per cent. iron content pellets comprising the entirety of our pellet production. See "*Business Description – Expansion of Our Existing Operations – Quality Upgrade Project*".

- *Contract/spot mix*. Our strategy has been and will remain centred on committing a large percentage of our production to sales under a portfolio of long-term volume framework agreements with international customers which are focused on producing sophisticated steel products, in order to maximise stable and reliable revenue streams for the Group. In the year ended 31 December 2010, such agreements accounted for approximately 90 per cent. of our sales volumes from own ore.

  We also expanded the term of and increased the volume supplied under a long-term framework agreement with Voestalpine, an existing key customer.

  To expand our long-term quality customer base in advance of the planned FYM mine expansion, we implement an ongoing strategy to allocate approximately 10 per cent. of our sales to potential new customers through trial spot cargos. In line with this strategy, we secured our first long term contract in Japan in 2010 with JFE. Steel Corporation, the eighth largest steel producer in the world according to Metalytics 4Q 2010, producing 26.3 million tonnes of steel in 2009. We currently have trial cargoes with several other significant producers in the region and in Western Europe.

- *Geographic mix of the markets into which we sell our pellets*. Our average sales price is influenced by the geographic mix of our sales. Proximity to customers has an impact on our average sales price per tonne due to the distances from the mine and therefore the cost of transportation and shipment to the customer. We increasingly carry additional costs of transportation of pellets by barges over the Danube or by ocean vessels to China and other Asian customers (DES, CFR or similar costs), depending on the commercial terms of the sale. This cost is recorded in selling and distribution expenses, and we charge a higher price to the customer, which is, in turn, reflected in revenues. Over time we anticipate that the proportion of our total sales to Asian customers on a CFR basis will increase.

  We measure and benchmark the Group's performance by reference to sales prices on a DAF/FOB basis – that is, excluding the components of revenue associated with transportation costs beyond the domestic borders of Ukraine. This approach facilitates comparison of the Group's performance in different years and markets, and relative to competitors. Because our DES, CFR or similar selling prices reflect reimbursed international transportation costs, an increase or decrease in such costs will translate into increased or decreased revenues, gross margin and gross profit. Such costs are included in selling and distribution expenses, however, changes in revenues associated with international freight do not affect our margins or profitability below the level of gross margin and gross profit.

  Historically, the majority of our contracts have been priced and delivered on a DAF/FOB basis. However, a growing portion of our sales in China and other Asian markets are made on a CFR, delivery including cost, insurance and freight (**CIF**) or similar basis. In 2010, reimbursed international transportation costs added US$74.9 million to our revenues, compared to US$45.2 million in 2009 and US$22.3 million in 2008.

Sales volumes

The following table sets out our sales and production volumes for the years ended 31 December 2008, 2009 and 2010.

	Year ended 31 December		
	2008	2009	2010
	(in thousands of tonnes)		
Sales volumes:	**8,711**	**9,015**	**9,721**
62 per cent. iron content pellets	4,826	4,624	5,103
65 per cent. iron content pellets	3,885	4,391	4,620
Production:	**9,035**	**8,766**	**10,031**
62 per cent. iron content pellets	5,021	4,462	5,152
65 per cent. iron content pellets	4,014	4,304	4,879

Our sales volumes are constrained by the ore extraction capacity of our existing mine. The following other factors affect our sales volumes:

- *Delivery logistics*. Our sales volumes are affected by our ability to deliver our pellets to our customers. We deliver our product by rail, barge and seaborne vessels. We transport iron ore pellets primarily on three routes: (i) in the direction of the Western border for most of our Traditional customers in Central Europe, (ii) in the direction of Izmail port for further delivery by barges over the Danube to Traditional customers and (iii) in the direction of Yuzhniy port on the Black Sea for seaborne export trade.

  Rail: In order to achieve our DAF/FOB pricing, we principally rely on rail transportation to the Ukrainian border, including both state-owned railcars and our own railcars. For the year ended 31 December 2010, we transported approximately 97 per cent. of our production to the border by rail. During October-November, we purchased 300 additional railcars from a related party to mitigate possible logistical constraints in the future. See "*Shareholders and Related Party Transactions – Related Party Transactions*". We currently own approximately 900 railcars. In February 2011, we entered into a contract to purchase 400 additional railcars from the same related party (and have an option to purchase a further 600 railcars). With the additional purchase of 400 railcars, our total holding of railcars will represent 60 per cent. of our planned sales volume for the year ended 31 December 2011.

  Barges: Once our product arrives at certain designated trans-shipment points along the Ukrainian border, it is loaded onto barges for continued shipment or delivery along the Rhine/Danube River corridor to customers in our Traditional markets. In January 2011, we completed the acquisition of Helogistics. See "*Business Description – Selling, transportation and distribution*". This acquisition provides us with increased access to European markets throughout the Rhine/Danube River corridor and enhances our logistical capability to transport our pellets from the transshipment points to the end users, completing our logistics chain from production to customers. The Danube is subject to high and low water levels and occasional freezing, causing disruptions to normal shipping operations, which affects delivery of our pellets and consequently our sales volumes.

  In 2010 we transported approximately 3 per cent. of our product directly from the FPM facility on the Dnieper River to the port of Yuzhniy in Ukraine. As part of our logistics strategy, we are planning further development of our barge facilities on the Dnieper River.

  Ocean access: Our TIS-Ruda port terminal on the Black Sea provides independent access to five million tonnes of annual capacity for delivery of our pellets to our seaborne markets in Asia as well as to Turkey and the Middle East. The TIS-Ruda terminal is capable of direct and full loading of up to post-panamax sized vessels. The majority of our ocean vessel shipments are loaded through the TIS-Ruda terminal and the balance via the common user state-owned terminals at Yuzhniy. We are also planning to further develop our ship loading capabilities at the TIS-Ruda terminal in order to increase shipments to our Growth markets and therefore diversify our customer mix.

- *Proportion of 62 per cent. iron content and 65 per cent. iron content pellets*. We currently mine two grades of iron ore, K22 and K23. K22 ore has higher iron content and requires less processing to produce a higher iron content pellet while K23 ore requires additional processing. Based on the current mining plan and given this blend of iron ore grades, we are currently able to produce approximately half of our total production as 65 per cent. iron content pellets with the remainder as 62 per cent. iron content pellets. In 2010 we produced 4.1 million tonnes of 65 per cent. iron content pellets, representing

45.0 per cent. of our total production from own ore in line with 2009 production. By the end of 2014, the Group aims to shift all of its production to 65 per cent. iron content pellets following additional capital investment to upgrade the concentrating and processing capabilities of the FPM facility. See "*Business Description – Expansion of Our Mining Operations – Quality Upgrade Programme*".

- *Third party concentrate.* FPM's pelletising plant currently has approximately 3 Mtpa of spare processing capacity. We currently use the spare processing capacity of the pelletising plant to convert iron ore and concentrate purchased on the market into iron ore pellets as and when it is profitable to do so. In 2010, due to high demand, we produced 998 kilotonnes of pellets from third party materials compared to 157 kilotonnes in 2009 and 427 kilotonnes in 2008. Sales of pellets produced using purchased ore and concentrate typically generate much lower margins than sales of pellets produced from our own ore, but contribute to better absorption of our fixed cost base. These sales also allow FPM to test the nominal processing capacity of the pelletising plant as well as to extend Ferrexpo's brand name through new customer trials.

Cost of sales

Cost of sales comprises the cash cost of production of pellets from our own ore, cost of production of pellets from purchased ore and concentrate, depreciation and amortization, along with other sundry production related items. A significant proportion of our input costs (approximately 70 per cent.) are incurred in Ukrainian hryvnia. As a result, our reported cost of sales is sensitive to the impact of domestic inflation and to the translation impact of exchange rate fluctuations between the hryvnia and the US dollar. See "– *Inflation*" and "– *Exchange rates*" below.

- *C1 cash cost.* The main component of our cost of sales is the cash cost of production of pellets from our own ore. To manage and evaluate our pellet production costs, we use a measure we refer to as "C1 cash cost". Our definition of "C1 cash cost" includes the principal production inputs related to energy (including electricity, natural gas and fuel), materials (including grinding media), personnel, and maintenance services and consumables (including repairs and spare parts). C1 cash cost excludes costs such as depreciation, pension costs, stock movements, costs of purchased ore and concentrate as well as production costs of gravel and one-off items.

  We define our "C1 cash cost of production per tonne" as the cash cost of production of own iron ore divided by the production volume of own iron ore.

  In 2010, our average C1 cash cost per tonne increased by 15.3 per cent. to US$39.69 per tonne from US$34.44 per tonne in 2009, reflecting local inflationary pressures and increases related to cyclical factors affecting the price of cost inputs, such as oil and steel. The increase was partly mitigated by BIP initiatives. See "– *Business Improvement Programme"* below.

  The following table shows a breakdown of our C1 cash cost of production per tonne of pellets for the years ended 31 December 2008, 2009 and 2010:

	Year ended 31 December					
	2008 (US$ per tonne of pellets)	Per cent. of total	**2009** (US$ per tonne of pellets)	Per cent. of total	**2010** (US$ per tonne of pellets)	Per cent. of total
Energy	19.39	45.8%	16.58	48.1%	18.99	47.8%
Materials	9.85	23.2%	7.03	20.5%	8.36	21.1%
Personnel	6.16	14.6%	4.38	12.7%	5.03	12.7%
Maintenance services and consumables	6.14	14.5%	5.71	16.6%	6.53	16.4%
Taxes	0.80	1.9%	0.74	2.1%	0.78	2.0%
Total C1 cash cost per tonne	42.34	100%	34.44	100%	39.69	100%
Production from own ore (kilotonnes)	8,608		8,609		9,033	

The utilisation of key material and energy inputs are discussed below:

Energy: FPM's principal energy requirements are electricity, fuel and natural gas, which together accounted for 45.8 per cent., 48.1 per cent. and 47.8 per cent. of our total C1 cash cost in 2008, 2009 and 2010, respectively.

FPM is supplied with electricity by State Enterprise Energorynok on the basis of an agreement entered into in June 2004, which is generally extended on a semi-annual basis. FPM is supplied with natural gas under a supply contract with Gaz Ukrainy, a subsidiary of the national company Naftogaz. The contract sets out the expected delivery volumes per month.

The following table shows a breakdown of our energy costs per tonne of pellets for the years ended 31 December 2008 and 2009 and 2010:

	Year ended 31 December					
	2008 (US$ per tonne of pellets)	Per cent. of total	**2009** (US$ per tonne of pellets)	Per cent. of total	**2010** (US$ per tonne of pellets)	Per cent. of total
Production from own ore (kilotonnes)	8,608		8,609		9,033	
Total C1 cash cost per tonne	42.34		34.44		39.69	
Energy	19.39	45.8%	16.58	48.1%	18.99	47.8%
Electricity	10.64	25.1%	9.12	26.5%	10.77	27.1%
Fuel (incl. diesel fuel)	4.97	11.8%	3.17	9.2%	3.45	8.7%
Gas	3.78	8.9%	4.29	12.4%	4.77	12.0%

Electricity tariffs are subject to regulation by the National Energy Regulation Commission (**NERC**), which sets tariffs for both industrial and household customers. We believe that domestic inflation and the changes in the oil and gas prices are determining factors in tariff setting. In 2010, FPM's average annual electricity price was US$60.0 per megawatt hour (**MWh**), compared to US$49.4 per MWh in 2009 and US$60.0 in 2008. The decrease in 2009 was primarily due to the devaluation of the Ukrainian hryvnia against the US dollar.

We ameliorated the impact of the price increase by reducing our consumption per tonne of production. FPM's electricity consumption per tonne of pellets has decreased from 183.7 kilowatt hours per tonne in 2008 and 184.6 kilowatt hours per tonne in 2009 to 179.5 kilowatt hours per tonne in 2010, principally as a result of the BIP. Our average consumption of electricity cost per tonne of pellets from our own ore was US$10.64, US$9.12 and US$10.77 in 2008, 2009 and 2010, following a tariff increase in December 2009.

Natural gas sales prices and tariffs for natural gas transportation in Ukraine are subject to regulation by the Cabinet of Ministers of Ukraine, which sets prices for natural gas sold domestically to industrial customers. This price setting in turn is influenced by the price set by Russia, which supplies gas to Ukraine. Natural gas transportation tariffs are also set by the NERC and payable to Gaz Ukrainy.

Gas is used mainly to fire the grate-kilns at the pelletising plant and the on-site water heating plant that supplies hot water during winter months. FPM's consumption of gas is therefore seasonal, ranging from approximately 11-12 million cubic metres per month during the summer to approximately 13-15 million cubic metres per month during winter months. FPM is connected to Ukrtransgaz's pipeline network by a supply pipeline owned by Ukrtransgaz. We believe that the capacity of the supply pipeline represents approximately twice FPM's current gas requirements when operating at full capacity. FPM's annual average natural gas prices per 1,000 cubic metres were US$223.4, US$262.6 and US$285.6 in 2008, 2009 and 2010, respectively.

FPM's natural gas consumption decreased from 17.4 cubic metres per tonne in 2008 to 16.3 cubic metres per tonne in 2009 and 16.7 cubic metres per tonne in 2010. The decrease in our natural gas consumption has helped to offset higher natural gas prices. On average our expenditure on natural gas

per tonne of pellets from our own ore was US$3.78, US$4.29 and US$4.77 in 2008, 2009 and 2010 respectively.

Fuel, including diesel, is used to run mining equipment. The principal factors affecting fuel consumption for any given period are mining and excavation man hours, which are impacted by the stripping ratio and extraction volumes. Our diesel fuel consumption, measured as tonnes used per tonne of iron ore pellets produced, was 0.0045, 0.0047 and 0.0042 in 2008, 2009 and 2010, respectively. Fuel expenditures are affected by movements in worldwide oil prices. We aim to mitigate fuel price increases through the BIP. Overall fuel expenditures per tonne were US$4.97, US$3.17 and US$3.45 in 2008, 2009 and 2010 respectively.

Materials: Spending on materials accounted for 23.2 per cent., 20.5 per cent. and 21.1 per cent. of our total C1 cash cost in 2008, 2009 and 2010, respectively. Our principal materials are grinding bodies, explosives and bentonite. Our average annual expenditure for materials has historically been influenced by inflation in Ukraine (as the majority of these materials are sourced locally and purchased in hryvnia), and by international trends in certain commodities (such as grinding bodies, for example, which are made from steel).

The following table shows a breakdown of our materials costs per tonne of pellets for the years ended 31 December 2008, 2009 and 2010.

	Year ended 31 December					
	2008 (US$ per tonne of pellets)	Per cent. of total	**2009** (US$ per tonne of pellets)	Per cent. of total	**2010** (US$ per tonne of pellets)	Per cent. of total
Production from own ore (kilotonnes)	8,608		8,609		9,033	
Total C1 cash cost per tonne	42.34		34.44		39.69	
Materials	9.85	23.2%	7.03	20.5%	8.36	21.1%
Grinding media	5.3	12.5%	3.37	9.8%	3.98	10.0%
Explosives and blasting materials	1.56	3.7%	1.05	3.1%	0.92	2.3%
Other materials	2.99	7.1%	2.61	7.5%	3.46	8.8%

Our consumption of grinding bodies (the largest component of materials), measured in tonnes consumed per tonne of iron ore pellets produced, was 0.0057, 0.0058 and 0.0056 in 2008, 2009 and 2010, respectively. We have maintained stable consumption of grinding bodies during the periods discussed. Cost movements were principally attributable to inflation and changes in the price of steel. Average expenditure on materials per tonne for 2008, 2009 and 2010 was US$9.85, US$7.03 and US$8.36, respectively. The substantial decrease in the cost per tonne in 2009 was due to a fall in the steel price for grinding media.

Personnel: Personnel costs accounted for 14.6 per cent., 12.7 per cent. and 12.7 per cent. of our total C1 cash cost in 2008, 2009 and 2010, respectively.

During the periods under review, personnel costs have been significantly influenced by reductions in headcount due to annual attrition, without replacement, of personnel, efficiency gains arising out of outsourcing of non-core businesses and BIP initiatives. The number of production workers on FPM's payroll was 6,728 in 2008, 6,319 in 2009 and 6,429 in 2010.

Fluctuations in the US dollar/hryvnia exchange rate have also affected personnel costs. As the wages of FPM employees are denominated in local currency, the devaluation of the Ukrainian hryvnia against the US dollar at the end of 2008 and throughout 2009 correspondingly reduced our reported personnel costs. The average production personnel costs per tonne in 2008, 2009 and 2010 were US$6.16, US$4.38 and US$5.03 respectively.

Business Improvement Programme: Since 2006, we have been implementing the BIP, which has resulted in a significant decrease in the consumption per tonne of our main production inputs. We estimate that as of 31 December 2010 the cumulative productivity gains since the inception of the BIP in 2006 represented savings of approximately US$5.27 per tonne of pellets, or US$47.6 million, through reduced consumption of key inputs, as illustrated below.

		Year ended 31 December						
	Unit of measurement	2005	2006	2007	2008	2009	2010	Change between 2005-2010
Electricity	kilowatt per tonne	205.5	195.6	190.9	183.7	184.6	179.5	-13%
Gas	cubic metre per tonne	22.0	19.2	18.4	17.4	16.3	16.7	-24%
Grinding media	kilogram per tonne of concentrate	5.5	5.0	4.8	4.7	4.7	4.5	-18%
	kilogram per tonne of pellets	6.4	6.0	5.8	5.7	5.8	5.6	-13%
Personnel	volume of pellets per employee	0.7	1.0	1.1	1.3	1.4	1.5	103%

In 2010, FPM was involved in 40 projects ranging from reducing the utilisation of key production inputs, such as electricity, natural gas, diesel fuel and tyres and grinding bodies, to improvements in information technology, internal power infrastructure and maintenance procedures.

Gas and electricity represent a high proportion of our C1 cash cost of production. Consequently, a major focus of the BIP is to identify and implement material energy savings projects in our mining and processing operations. A series of projects have been engineered to enhance the energy efficiency of each of the four pelletising lines.

For the year ended 31 December 2010, FPM reduced its average consumption per tonne of electricity by 2.8 per cent. and grinding media by 3.5 per cent. compared to 2009.

We aim to reduce costs within our control by at least 1 per cent. to 2 per cent. per annum, principally through increased output and efficiency enhancements achieved through the BIP.

Stripping ratio: The "stripping ratio" refers to the amount of overburden removed per tonne of iron ore extracted, and functions as a general indicator of trends in ore extraction costs. The cost of stripping is amortised into the future cost of sales for future production output. Our total stripping ratio was 0.74, 0.83 and 0.88 cubic metres per tonne in 2008, 2009 and 2010, respectively. As we implement our strategy to deepen and widen the pit, extending the life of the existing asset and gaining further access to the higher iron content K22 ore body, we believe the stripping ratio will increase until we reach a sustainable level of iron ore extraction, at which point the stripping ratio should decrease. See "*Business Description – Expansion of Our Mining Operations*".

Weather: Extreme weather conditions, particularly in winter, can have a disruptive effect on mining operations at the open pit, as well as in the transportation of our products, particularly seaborne transportation as well as the import to the processing facilities of third party purchased concentrate. The consumption of some production inputs, such as natural gas, is seasonal, usually increasing during winter months. Adverse weather conditions in January and February 2009 had a negative impact on our production levels by decreasing the amount of ore extracted, thereby reducing our revenues and affecting the level of absorption of our fixed costs.

Inflation: As the majority of our production costs are denominated in hryvnia, producer price index (PPI) inflation in Ukraine is a significant factor driving costs. PPI inflation is reflected in increased employee wages, consumable prices, and power generation costs, which are in turn reflected in our cost of sales.

The following table sets forth information with respect to increases compared to the corresponding period of the previous year in certain inflation indices for Ukraine for the years ended 31 December 2008, 2009 and 2010.

	Year ended 31 December		
	2008	2009	2010
		(percentage increase)	
Consumer price index	25.2	15.9	9.4
Producer price index	35.5	6.5	20.9

Source: National Bank of Ukraine.

In 2010, Ukraine's PPI inflation of 20.9% combined with a stronger commodity price environment contributed to increasing costs, compared to 2009 when inflation fell following the global recession. Ukraine experienced very high inflation in the years up to and including 2008 as a result of high government spending and rapid economic growth. The Government forecasts that inflation measured by CPI in 2011 against year-end 2010 will be approximately 8.9 per cent., while inflation measured by PPI will be approximately 11.3 per cent.

Exchange rates: Most of our revenues are earned in US dollars. However, approximately 70 per cent. of our operating costs are priced in Ukrainian hryvnia. Any depreciation of the hryvnia relative to the US dollar therefore reduces our costs when translated into US dollars, thereby increasing operating margins, while hryvnia appreciation has the opposite effect. The depreciation of the hryvnia compared with the US dollar resulted in lower costs and improvement of our operating results in 2008 and 2009. The hryvnia remained stable during 2010, at approximately UAH8.0 per US$1.00. See the exchange rate table in the section entitled "*Exchange Rates*".

The functional currency for each entity in the Group is determined as the currency of the primary economic environment in which it operates. The functional currency of FPM is the Ukrainian hryvnia and the functional currency of the Issuer, Ferrexpo plc, Ferrexpo AG and Ferrexpo Middle East FZE is the US dollar. Transactions in foreign currencies other than the functional currencies are recorded at the rate prevailing 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 are translated at the historic rate. For presentation of financials, the income statements of subsidiaries are translated into our presentation currency, which is the US dollar.

In addition to this, the exchange rate differences arising on translation of the foreign currency – denominated balance sheet items are recognised in accordance with IAS 21, in profit or loss in the period in which they arise. This includes foreign currency denominated trade receivables, trade payables and financial loans, except items which in substance form part of the Group's net investment in a foreign subsidiary, which are included in the translation reserve in equity.

We recognise as "operating foreign exchange gains and losses" the differences arising upon translation of the monetary balance sheet items related to operations such as trade receivables and trade payables. Our consolidated operating foreign exchange gains or losses in 2008, 2009 and 2010, were US$29.3 million, US$2.5 million and US$(1.1) million, respectively.

We recognise as "non-operating foreign exchange gains and losses" the differences arising upon translation of non-operating balance sheet items, such as financial loans (except those which form part of the Group's net investment into a foreign operation), dividends due to shareholders or income tax due. Our non-operating foreign exchange losses in 2008, 2009 and 2010 were US$72.8 million, US$2.6 million and US$3.9 million, respectively.

The differences arising from the translation of assets and liabilities of entities with a different functional currency than the presentation currency of the Group are included in the translation reserve in equity. These amounted to US$(270.8) million and US$(21.3) million and US$0.6 million in 2008, 2009 and 2010, respectively.

Non-C1 cash cost components of the cost of sales: The main components of cost of sales which are not included in the C1 cash cost of production are depreciation of existing production assets and the cost of processing third party iron ore and concentrate. Depreciation comprised 6.6 per cent., 6.9 per cent. and 5.1 per cent. of our cost of sales in the years ended 31 December 2008, 2009 and 2010, respectively, The cost of processing third party iron ore and concentrate comprised 12.2 per cent., 3.0 per cent. and 23.3 per cent. of our cost of sales in the years ended 31 December 2008, 2009 and 2010, respectively. Other non-C1 cash costs include production cost of gravel (a by-product of iron ore mining activity), and pension benefits under legacy agreements and local regulations.

Selling and distribution expenses

The main components of our marketing and distribution costs are railway freight costs in Ukraine (delivery to the border), as well as port charges and international freight for pellets shipped by water (river and ocean vessels) to customers on a DES/CFR or similar contractual basis.

Railway transportation services in Ukraine are provided by a State owned monopoly, Ukrzaliznytsa. The main port we use for seaborne sales (mainly Natural and Growth markets) is our TIS-Ruda terminal at Yuzhniy on the Black Sea. We use Izmail for shipments by barges on the Danube (two Traditional market customers).

The following table sets forth a breakdown of the selling and distribution expenses for the years ended 31 December 2008, 2009 and 2010:

	Year ended 31 December		
	2008	2009	2010
		(US$ million)	
Railway transportation	95.5	69.5	81.5
Port charges	15.9	35.3	32.3
International freight	22.3	45.2	74.9
Other (commissions, insurances, personnel, depreciation, advertising)	18.8	12.3	23.3
Total selling and distribution expenses	152.5	162.3	212.0
Total sales volume (kilotonnes)	8,711	9,015	9,721
Cost per tonne of pellets sold	17.51	18.00	21.80

- *Railway tariffs*. Railway tariffs are regulated by the government and are fixed by the Ministry of Transport, with cost of transportation depending on the categories of goods transported and the route used. Railway tariffs are denominated in UAH. Following substantial increases (+20.6 per cent. in 2007 and +76.1 per cent. in 2008), the railway tariffs stabilized in 2009 (–3.9 per cent.) and in 2010 (0 per cent.). FPM currently owns approximately 900 railway cars, which enables us to receive a discount to the tariff applied for the cars owned by Ukrzaliznytsa. Based on our usage, this discount currently represents approximately 18 per cent. of transportation tariffs.

- *Port charges*. Port charges are mainly the handling costs, and also include the agents' commissions and the applicable storage costs. Port charges are regulated by the Ukrainian government and fixed in US$ and during the periods analysed herein remained relatively stable.

  FPM owns 49.9 per cent. of the TIS-Ruda terminal at Yuzhniy port on the Black Sea. We benefit from a discount when making shipments through the TIS-Ruda terminal which therefore makes such shipment more economical.

Capital expenditure

Capital expenditure to develop and expand our operations is an important factor in our planning for increased production capacity and is expected to have a material impact on our liquidity and funding requirements for the foreseeable future. In November 2010, we approved US$647 million for capital expenditure projects aimed at the expansion and upgrade of our existing mine and processing facilities at FPM, and to further develop our reserves and resources, beginning with the extraction of initial ore at FYM. Capital expenditure is expected to increase significantly in connection with our expansion activities. See "– *Liquidity and capital resources – Capital expenditure*".

Recent developments

Following a successful 2010, our new financial year has benefitted from continued strong demand for our product. We are, however, aware that we operate in a cyclical environment and continue to look to mitigate any softening in demand across the industry through our broad high quality customer base and established infrastructure to seaborne and regional markets.

In March 2011, we incorporated Ferrexpo Middle East FZE, our Dubai sales office, and its subsidiary Ferrexpo Singapore, as part of our strategy to expand the Group's marketing reach into the Middle East and Asia.

In March 2011, we announced the appointment of Jason Keys as Group Chief Marketing Officer. Jason will join the Group in the second half of 2011 from BHP Billiton where he is currently Global Marketing Manager for Iron Ore.

In January 2011, Brian Maynard joined the Group as Group Chief Operating Officer. Most recently he was the Global Coal Director – Technical & Administrative Support in the Brisbane head office of the Vale Australia operations.

In December 2010 we acquired control of and in January 2011 we completed our acquisition of Helogistics, one of the largest inland waterway transportation companies in Europe. The transaction was completed by acquiring the bank debts of Helogistics for a total cash consideration of US$37.8 million. No consideration was paid to previous shareholders of Helogistics as part of this acquisition. Helogistics transports our pellets, mainly by barge, to core customers in Central Europe and provides increased access to European markets throughout the Rhine/Danube River corridor. During 2010 Ferrexpo provided a €6.0 million and a €2.4 million working capital loan to subsidiaries of Helogistics, which will remain in place.

The following table sets out our pellet production output for the months ended 31 January 2011 and 28 February 2011.

Production in Tonnes '000	February 2011	January 2011
Production from own raw materials		
Iron ore	2,217.5	2,408.7
Concentrate	872.3	932.4
Pellets from own raw materials	**681.4**	**740.1**
62 per cent. iron content	356.3	343.7
65 per cent. iron content	325.1	396.4
Production/reprocessing from purchased raw materials		
Pellets from purchased raw materials	**28.7**	**70.0**
62 per cent. iron content	13.7	19.8
65 per cent. iron content	15.0	50.2
Total pellets produced	**710.1**	**810.1**
62 per cent. iron content	370.0	363.5
65 per cent. iron content	340.1	446.6

There have been no recent events particular to the Issuer which are to a material extent relevant to the evaluation of the Issuer's solvency.

Our total pellet production for the first two months of 2011 increased 1.9 per cent. to 1,520 thousand tonnes, compared to 1,491 thousand tonnes in the corresponding period in 2010. Our production of pellets from own ore in February 2011 increased 1.5 per cent. to 681 thousand tonnes compared to 672 thousand tonnes in February 2010, and production of pellets from own ore for the first two months of 2011 are inline with the corresponding period in 2010. Production of pellet from third party concentrate increased significantly in 2011 to meet ongoing higher demand.

Results of operations

Year ended 31 December 2010 compared to year ended 31 December 2009

Revenue

Revenue for the year ended 31 December 2010 increased by 99.6 per cent., to US$1,294.9 million compared to US$648.7 million for the year ended 31 December 2009. This was primarily driven by increases in sales volumes and higher DAF/FOB prices. We recorded a 7.8 per cent. increase in sales volumes, to 9.7 million tonnes in 2010 compared to 9.0 million tonnes in 2009. We achieved an 88.4 per cent. increase in average DAF/FOB prices in 2010 compared to 2009, to US$124.90 per tonne in 2010 from US$66.30 per tonne in 2009. The increase in prices was primarily due to the recovery in global demand for iron ore in 2010.

Cost of sales

Cost of sales for the year ended 31 December 2010 was US$481.9 million compared to US$341.1 million for the year ended 31 December 2009, constituting 37.2 per cent. of our revenue compared to 52.6 per cent. in 2009. The overall increase in our cost of sales was primarily due to increased production of pellets from own ore and third party materials as well as an increase in our average C1 cash cost per tonne.

C1 cash cost

For the year ended 31 December 2010, our average C1 cash cost increased by 15.3 per cent. to US$39.69 per tonne compared with US$34.44 per tonne for 2009, primarily due to increased energy and materials costs as well as local inflation of 29.9 per cent. Electricity tariffs increased by 21.5 per cent. in 2010, and gas prices increased by 10.7 per cent. due to higher oil prices. Costs for grinding media increased by 24.4 per cent. in 2010 due to higher steel prices. This increase in steel prices was in turn reflected in higher sales prices for our iron ore pellets during the year.

Just over half of our C1 cash costs are denominated in Ukrainian hryvnia. The hryvnia has remained largely stable since the end of 2009, resulting in higher local production costs compared to 2009.

We mitigated the C1 cash cost increase by producing at full capacity throughout the period under review, which allowed us to absorb our fixed cost base. The BIP also mitigated inflationary cost pressures.

Purchased concentrate

Cost of sales also includes iron ore concentrate purchased from third parties and converted into pellets. During the year ended 31 December 2010, FPM purchased the equivalent of 998.1 kilotonnes of pellets in concentrate from third parties (amounting to US$101.4 million), compared to 157.4 kilotonnes (amounting to US$8.9 million) for the year ended 31 December 2009.

Selling and distribution expenses

Total selling and distribution expenses increased by 30.6 per cent. to US$212.0 million for the year ended 31 December 2010, compared to US$162.3 million for the year ended 31 December 2009. The increase was primarily driven by our higher sales volumes and higher international freight costs due to a progressive shift towards shipping on CFR (or similar) basis, rather than FOB, to customers in Asia.

Our sales volumes increased by 7.8 per cent. compared to 2009, to 9.7 million tonnes of pellets. Of the volumes sold, 65.5 per cent. was sold to our Traditional export customers in Central and Eastern Europe compared to only 45.3 per cent. in 2009. This resulted in a 17.3 per cent. increase in railway transportation costs to US$81.5 million in 2010 compared to US$69.5 million in 2009, as our Traditional customers largely receive their product by rail.

This increase was mitigated by an 8.5 per cent. decrease in port charges to US$32.3 million compared to US$35.3 million in 2009, reflecting lower seaborne sales to Growth markets as their share of sales volume fell to 27.3 per cent. in 2010 compared with 39.3 per cent. in 2009.

International freight costs increased 65.7 per cent. to US$74.9 million in 2010 from US$45.2 million in 2009 as a growing portion of our sales to customers in Asia were made on CFR or similar, rather than FOB basis. Our selling and distribution expenses for 2010 were also affected by higher freight tariffs.

General and administrative expenses

General and administrative expenses increased by 13.9 per cent. to US$49.2 million for the year ended 31 December 2010, compared to US$43.2 million in the year ended 31 December 2009. The increase was primarily due to professional fees related to increased levels of business development activity including transaction costs for the Helogistics acquisition, amounting to US$1.6 million.

Other contributing factors were higher depreciation and maintenance following increased levels of investment, and an increase in personnel costs reflecting local inflation in Ukraine.

Other income and expenses

Other income was US$4.5 million for the year ended 31 December 2010, compared to US$4.1 million for the year ended 31 December 2009. The increase reflected higher sales of current assets.

Other expenses increased by US$2.5 million to US$5.9 million for the year ended 31 December 2010 compared to US$3.4 million the equivalent 2009 period. The decrease primarily reflected a lower release of allowance for doubtful debts compared to the previous period partially offset by an increase in charitable donations.

EBITDA

EBITDA increased by 324 per cent. to US$585.3 million for the year ended 31 December 2010 compared to US$138.1 million for the year ended 31 December 2009. The increase was due to 7.8 per cent. higher sales volumes and a higher average DAF/FOB sales price. The EBITDA margin for 2010 was 45 per cent. compared with 21 per cent. for 2009. EBITDA is a non-IFRS financial measure. For more information, see "*Selected Historical Financial Information – EBITDA*".

Foreign exchange gain/(loss)

- *Operating foreign exchange gain/(loss)*. We recorded an operating foreign exchange loss of US$(1.1) million for the year ended 31 December 2010 compared to an operating foreign exchange gain of US$2.5 million for the year ended 31 December 2009. The change in the operating foreign exchange differences is related to the fluctuations in the UAH/US$ over the comparable periods. The Ukrainian hryvnia appreciated slightly during the period against the US dollar from UAH7.985 to UAH7.9617 for the year ended 31 December 2010 compared to UAH7.7 to UAH7.985 for the year ended 31 December 2009.

- *Non-operating foreign exchange (gain/loss)*. Non-operating foreign exchange losses increased to US$(3.9) million for the year ended 31 December 2010, compared to a loss of US$2.6 million for the year ended 31 December 2009. The change primarily related to re-translation of financial liabilities and loans.

Finance income and expenses

Finance income decreased to US$2.6 million for the year ended 31 December 2010 compared to US$2.9 million for the year ended 31 December 2009, due to lower average LIBOR rates in 2010 compared to 2009.

Finance expenses increased to US$42.8 million for the year ended 31 December 2010, compared to US$23.7 million for the year ended 31 December 2009. The Group's interest rates on its primary liquidity facility increased in 2010 to US LIBOR +7.0 per cent. compared to US LIBOR +2.35 per cent. in 2009. A write-off of arrangement fees for debt financing contributed US$7.5 million to finance expense for 2010.

Loss on disposal of financial assets (VAT bonds)

In 2009, due to the financial crisis, the Ukrainian government delayed refunding VAT to the business sector. During 2010, VAT bonds were issued by the Ukrainian government to Ferrexpo with a face value of UAH658.6 million (US$81.3 million). These bonds were subsequently traded and were sold in 2010, realising a loss of UAH86.5 million (US$10.9 million), reflecting prevailing conditions in the local bond market. See also "*Risk Factors – Risks relating to our operations – Our working capital will be increased by the delay or non-repayment of VAT by the Ukrainian tax authorities*".

Income tax expense

The Group pays tax in various jurisdictions. Our effective income tax rate was 14.7 per cent. for 2010 compared to 12.2 per cent. for 2009. The effective tax rate is influenced by the Group's mix of profits primarily between Switzerland and Ukraine.

Year ended 31 December 2009 compared to year ended 31 December 2008

Revenue

Revenue decreased by 41.9 per cent. to US$648.7 million for the year ended 31 December 2009 from US$1,116.9 million for the year ended 31 December 2008. This was primarily due to significantly lower pricing in the wake of significantly less favourable global economic conditions, which was mitigated by higher sales volumes.

For the year ended 31 December 2009, sales volumes were 3.5 per cent. higher than in 2008, at 9.0 million tonnes compared to 8.7 million tonnes in 2008. This was despite production difficulties associated with severe weather conditions during January and February 2009, and extremely challenging market conditions. Due to the significant weakness in iron ore demand during the year ended 31 December 2009, we shifted certain volume framework agreements with existing customers from long-term pricing to pricing on a spot-market basis. To offset weaker iron ore demand in our Traditional and domestic markets, the Group increased sales to China and India, principally on a spot-market basis, enabling us to continue to sell all of our production.

Significantly lower pricing, however, resulted following the sharp contraction in demand for steel and iron ore in late 2008 and early 2009 due to the global economic downturn. The Group's average DAF/FOB sales price in 2009 declined to US$66.3 per tonne compared to US$124.6 in 2008. To help mitigate the impact of lower prices, sales volume of 65 per cent. iron content pellets increased 13 per cent. while the sales volume of 62 per cent. iron content pellets fell by 3.6 per cent.

Additional sales made on the spot market in 2009 relative to 2008 increased the element of international freight cost reflected in the Group's revenues to US$45.2 million, as compared with US$22.3 million in 2008.

Cost of sales

Cost of sales improved by 21.5 per cent. to US$341.1 million for the year ended 31 December 2009 compared with US$434.2 million for the year ended 31 December 2008. This was primarily due to improvement in our C1 cash cost.

The average C1 cash cost per tonne of pellets produced in 2009 improved by 18.6 per cent. to US$34.4 per tonne, compared to US$42.4 per tonne in 2008. This was primarily driven by a 48.9 per cent. devaluation of the Ukrainian hryvnia versus the US dollar to UAH/US$7.79 in 2009 compared to UAH/US$5.27 in 2008. This benefitted costs denominated in domestic currency including personnel, electricity and local materials. Furthermore lower international prices for commodities such as oil and steel had a positive impact on production input related costs including fuel and grinding medias.

Selling and distribution expenses

Total selling and distribution expenses increased 6.4 per cent. to US$162.3 million in 2009, compared to US$152.5 million in 2008. The increase was a function of higher sales volumes and increased exposure to international freight rates. This was offset by a small decrease in rail tariffs during the year.

Sales volumes increased 3.5 per cent. in the period under review. We sold 9.0 million tonnes of pellets in 2009 compared with 8.7 million tonnes in 2008.

Of the volumes sold, 39.3 per cent. was sold to our Growth customers, compared to 17.9 per cent. of sales in 2008. This resulted in a doubling of international freight costs to US$45.2 million, compared to US$22.3 million in 2008, primarily because these sales were made on a CFR or similar basis. This reduction in sales volumes to our Growth market customers also led to a reduction in Port charges to US$32.3 million in 2010 compared to US$35.3 million in 2009, a 8.5 per cent. change reflecting lower seaborne sales to our Growth market customers. Railway transportation costs declined 27.2 per cent. to US$69.5 million in 2009, compared to US$95.5 million for 2008, as our Traditional export customers' share of sales fell to 45.3 per cent. compared with 66.4 per cent. in 2008, and we benefitted from a 3.9 per cent. decrease in rail tariffs during the year.

Excluding the additional freight costs incurred on the CFR or similar sales, the above factors resulted in a decline in our selling and distribution expense per tonne (excluding international freight and insurance) in 2009 to US$12.3 per tonne, compared to US$14.4 per tonne in 2008.

General and administrative expenses

General and administrative expenses decreased 35.8 per cent. to US$43.2 million for the year ended 31 December 2009, compared to US$67.2 million in 2008. This primarily reflected a reduction of US$18.9 million in head office costs following reorganisation costs incurred in the latter part of 2008 which were not repeated in 2009 and lower legal and professional fees as a result of reduced project activity.

Other income and expense

Other income was US$4.1 million for the year ended 31 December 2009 compared with US$6.4 million for the year ended 31 December 2008. This reflected a reduction in sales of equipment spare parts.

Other expense decreased by 91.0 per cent. to US$3.4 million for the year ended 31 December 2009 compared to US$38.0 million in 2008. Doubtful debt expense for 2008 was US$18.8 million relating to certain former CIS customers. These debts were partly recovered in 2009, which resulted in a US$5.2 million reversal of the provision for bad debts. The prior year also included foreign exchange gains of US$6.0 million resulting from translation differences arising on consolidation of the Group accounts. This did not occur in 2009 as the hryvnia/dollar exchange rate remained stable throughout the year.

EBITDA

EBITDA fell by 72.6 per cent. in 2009 to US$138.1 million for the year ended 31 December 2009 compared with US$503.9 million for the year ended 31 December 2008. The reduction was primarily due to the sharp decrease in the average achieved DAF/FOB price associated with the economic downturn. Price falls were partly offset by lower costs including UAH/US$ exchange rate movements and lower costs of commodities, and cost reduction efforts undertaken by the management, including the BIP and restructuring of the head office.

Negative goodwill

Ferrexpo plc, through its subsidiary Ferrexpo AG, incurred negative goodwill in 2009 of US$0.5 million through the purchase of shares in its subsidiary FPM. The remaining treasury shares of FPM were transferred to Ferrexpo AG resulting in an increase of its shareholding in FPM from 97.1 per cent. to 97.3 per cent. This transaction resulted in negative goodwill of US$0.5 million which was recorded in the 2009 income statement in accordance with our accounting policy on accounting for changes in ownership interests in subsidiaries.

Foreign exchange gain/(loss)

Due to a relatively stable Ukrainian hryvnia against the US dollar throughout 2009 operating foreign exchange gains decreased to US$2.5 million for the year ended 31 December 2009 from US$29.3 million in the year ended 31 December 2008. Non-operating foreign exchange losses were US$2.6 million for the year ended 31 December 2009 compared with US$72.8 million for the year ended 31 December 2008.

Currency movements resulting from the translation of net assets of foreign operations into US dollars are shown in the consolidated statement of comprehensive income. In 2009 a loss of US$24.5 million was recorded compared with US$332.7 million in 2008. This reduced loss reflected a more stable local currency in 2009 which depreciated from UAH7.70 to UAH7.99 to the US dollar compared to depreciation from UAH5.05 in 2008 to UAH7.70 in 2009.

Finance income and expense

Finance expense increased 13.8 per cent. to US$23.7 million for the year ended 31 December 2009, compared to US$20.8 million in 2008, due to higher average debt balances as we drew on available facilities during the fourth quarter of 2008. This was partly offset by a decrease in US LIBOR rates.

Income tax expense

Income tax expenses decreased 84.2 per cent. to US$9.9 million for the year ended 31 December 2009 compared with US$62.5 million for the year ended 31 December 2008 due to lower profit for the period.

We generate taxable income mainly in Switzerland and Ukraine. The tax charge to profits in the year was 12.2 per cent. compared with 16.6 per cent. in 2008. This reduction was as a result of the mix of profits between our countries of operation in 2009.

Liquidity and capital resources

Our principal sources of funds are cash generated from operations and amounts drawn down under short and long-term credit facilities. Our principal uses of funds are operating expenses and the service of debt and capital expenditures to renew and enhance our production facilities.

General

The main components of working capital include trade receivables and payables, VAT and other taxes receivable and inventories.

In addition to sales volume and pricing, our trade receivables are determined by the payment terms we negotiate with our customers and the geographic sales mix. Typically, the payment terms for our products vary from prepayments to 30 days. As a result, the amount of trade receivables may significantly fluctuate from period to period. Our closing trade and other receivables amounted to US$59.6 million, US$38.1 million and US$111.9 million as at 31 December of 2008, 2009 and 2010, respectively.

Our trade payables include amounts due to suppliers for production equipment, other inputs and services under typical payment terms. Our trade and other payables amounted to US$35.6 million, US$27.9 million and US$88.1 million as at 31 December of 2008, 2009 and 2010, respectively.

As we are principally an exporter, we do not have a substantial amount of VAT received on domestic sales which can be offset against VAT paid on supplies of goods and services. We therefore receive repayment from the Ukrainian government of VAT paid on purchases to the extent that it has not been offset by local sales, which affects our working capital requirements and accordingly our level of funding and interest expense. As a result of delayed repayment of VAT and an increase in capital expenditures toward the end of 2010, our total VAT balance increased to US$101.7 million at 31 December 2010, from US$81.3 million at 31 December 2009 and US$57.2 million at 31 December 2008.

Our inventories include raw materials and consumables used in production, work in progress and finished goods. Our inventories amounted to US$61.3 million, US$59.6 million and US$104.8 million as at 31 December 2008, 2009 and 2010, respectively. The main factors leading to the increase in value of inventories in 2010 were higher levels of third party concentrate on hand and a stockpile of finished goods representing approximately three weeks of Group sales.

Cash flows

The table below summarises our cash flows for the years ended 31 December 2008, 2009 and 2010.

	Year ended 31 December		
	2008	2009	2010
	(US$ in millions)		
EBITDA	503.9	138.1	585.3
Working capital movements	(33.8)	(12.5)	(136.8)
Net financial payments	(15.4)	(19.2)	(25.4)
Income tax paid	(67.2)	(18.9)	(37.8)
Movement in provisions and other non-cash items	(16.6)	(10.6)	(5.5)
Net cash flow from operating activities	370.9	76.9	379.8
Sustaining capital expenditure	(70.6)	(20.5)	(49.1)
Free cash flow	300.3	56.4	330.7
(Paid for)/received from: expansionary projects	(205.8)	(65.7)	(118.3)
Purchase of available for sale investments	(0.3)	0.0	–
Loans to associates	(4)	6.5	1.5
Dividends from associate	–	–	2.9
Distributions including to minorities and share repurchases	(126.3)	(36.6)	(41.7)
Net IPO proceeds	0.0	0.0	–
Pre-acquisition loans provided	–	–	(10.3)
Arrangement fees paid	–	–	(21.1)
Effect from offset of arrangement fees[1] (IAS 39)	–	–	12.3
Effect from acquisition of subsidiaries[2]	–	–	(3.5)
Other receipts	2.5	2.1	1.7
Currency translation differences	(68.9)	(0.3)	(0.9)
Movement in net financial indebtedness (negative number represents an increase)	(102.5)	(37.6)	153.3
Net financial indebtedness at the end of the period	(220.1)	(257.7)	(104.4)
Proceeds from borrowings and finance	172.1	35.6	668.8
Repayment of borrowings and finance	(69.4)	(73.2)	(505.4)
Effect from offset of arrangement fees[1] (IAS 39)	–	–	(12.3)
Effect from acquisition of subsidiaries[2]	–	–	3.5
Other	0.6	(0.6)	(0.4)
Net increase/(decrease) in cash and cash equivalents after currency translation differences	0.8	(75.8)	307.5
Cash and cash equivalents at the end of the period	87.8	12.0	319.5

(1) Non-cash effect from offsetting arrangement fees against borrowings in accordance with IAS 39.
(2) Non-cash effect from acquisition of bank loans of Mahart Duna Cargo Kft. (subsidiary of Helogistics Group).

We recorded a significant increase in cash and cash equivalents as at 31 December 2010, resulting in a cash balance of US$319.5 million at that date compared to US$12.0 million as at 31 December 2009. This was primarily due to positive cash flows from operating activities in 2010 as well as the re-financing and increase in our pre-export finance facility from US$207 million at 31 December 2009 to US$230 million (both of which were repaid in 2010) to US$350 million at 31 December 2010. The increase was reduced by the repayment of debt during 2010, amounting to US$47.3 million. Our cash balance also included restricted cash held in escrow amounting to US$37.8 million from the acquisition of Helogistics.

Our net cash flows from operating activities increased to US$379.8 million for the year ended 31 December 2010, compared to US$76.9 million in 2009 and US$370.9 million in 2008, driven primarily by changes in profitability and movements in our working capital.

Working capital outflow was US$136.8 million for the year ended 31 December 2010 compared to a US$13.8 million working capital outflow in 2009. The working capital outflow of US$136.8 million was primarily due to a US$74.0 million increase in trade receivables reflecting price increases, a US$30.4 million increase in taxes (mainly VAT) receivable, principally due to higher capital expenditures, and a US$42.9 million working capital outflow due to stocks of third party concentrate and pellets at year end.

Our VAT receivables increased to US$101.7 million as of 31 December 2010 from US$81.3 million as of 31 December 2009. The increase in VAT was due to VAT paid for local purchases of goods and services in Ukraine and the import of equipment during the period. See also "*– Results of Operations – Year ended 31 December 2010 compared to year ended 31 December 2009 – Loss on disposal of financial assets (VAT*

bonds)". The amounts have been classified in the accounts as repayable within one year, based on prior years' experience of refunds being paid no more than one year past due.

In 2009 working capital increased by US$12.5 million mainly due to an increase in other taxes recoverable and prepaid, and an increase of US$24.0 million in VAT receivable following a delay in repayment. This was partly offset by a decrease in trade and other receivables of US$27.1 million due to the decline in average pellet prices following the sharp contraction in demand for steel and iron ore in late 2008 and early 2009 as a result of the global economic downturn.

Capital expenditure

In budgeting for and making capital expenditures, we analyse planned capital expenditure in terms of:

Sustaining capital expenditure: maintenance and modernisation of existing facilities and equipment; and *Development capital expenditure:* further mine expansion, resource development, construction of new facilities or procurement of new equipment.

The following table sets out our capital expenditure for the years ended 31 December 2008, 2009 and 2010.

	Year ended 31 December		
	2008	2009	2010
		(US$ million)	
Sustaining capital expenditure	70.6	20.5	49.1
Development capital expenditure	205.8	65.7	118.3
Total	276.4	86.2	167.4

Total capital expenditure for the year ended 31 December 2010 was US$167.4 million compared to US$86.2 million for 2009 and US$276.4 million for 2008. Following strong cash flows in 2010 we increased our investments at both FPM and FYM. Capital expenditure for 2010 comprised US$49.1 million in sustaining capital expenditure at FPM for modernising existing equipment and processing facilities, and US$118 million in development capital expenditure.

Total development capital expenditure of US$118.3 million comprised US$55.1 million for the development of FPM and US$42.7 million for the development of FYM. Development expenditure for FPM and FYM included mining equipment while at FPM it also included capital stripping. These development expenditures do not form part of the US$647 million capital investment programme approved in November 2010.

In addition, during 2010, we spent US$2.4 million on the development of the Northern deposits and US$18.1 million on infrastructure including the purchase of over 300 railcars.

Assuming continued strong iron ore prices, we expect to spend approximately US$400 million in 2011 on sustaining and development capital expenditure for FPM (described below), for development of FYM (described below) and logistics.

We have an extensive pipeline of development projects, as described below. See also "*Business Description – Expansion of Our Mining Operations*".

In November 2010, we approved a US$647 million capital expenditure programme to increase the volume of ore mined and to upgrade the quality of our pellets. The capital expenditures comprising this programme are based on estimates of the costs of the projects including additional mining equipment, explosives, energy resources and personnel wages, and certain assumptions regarding anticipated pellet prices, exchange rates, cost and availability of equipment and labour, among others. Actual costs and capital expenditures may significantly exceed those estimates. See "*Risk Factors – Costs for our expansion activities may be greater than anticipated*".

We expect to fund these expenditures from the unused portion of our principal debt facility (which we refinanced in 2010 and increased to US$350 million from US$230 million), our cash flow from operations in 2010, anticipated future cash flows over the life of the capital expenditure programme and, if cash flow from operations is less than anticipated, available borrowings (including the net proceeds of the Offering).

Ferrexpo Poltava Mine

Quality Upgrade Programme. We have approved capital expenditure of US$212 million for the upgrade of the existing concentrator facilities at the FPM processing facilities to increase our total pellet production to 65 per cent. iron content pellets. We expect that successful completion of this upgrade will allow access to new markets and increase the average price that Ferrexpo receives for its pellets. Currently approximately half of our production is split between 65 per cent. iron content pellets and 62 per cent. iron content pellets. The project is scheduled for completion by the end of 2014. Of the US$212 million approved capital expenditure, approximately US$50 million is expected to be spent or committed in 2011. We envisage that until this project is completed, production of 65 per cent. and 62 per cent. iron content pellets will remain at around current levels.

Mine Life Extension Programme. We have approved capital expenditure of US$168 million for the Mine Life Extension programme over a period of 8 years to extend the estimated life of the FPM mine by 12 years to 2038. The project will involve additional stripping works in 2011 of around 15 million cubic metres to allow access to further ore from 2014. As a result, we anticipate that the ore output from the existing mine will peak at 35 Mtpa by 2014 compared to the current output of 28 Mtpa. Approximately US$25 million is expected to be spent or committed in 2011.

Ferrexpo Yeristovskoe Mine

We have also authorised expenditure of US$267 million to achieve an initial extraction of ore from the Yeristovskoe deposit by the first half of 2013, of which approximately US$100 million is expected to be spent or committed in 2011 on mining, infrastructure and equipment. We expect that successful development of this resource will deliver approximately 5.5 million tonnes of primary crushed ore to the FPM processing facilities for conversion into approximately 1.9 million tonnes of pellets, and increase our annualised pellet production from own ore to 12 Mtpa from 9 Mtpa in 2010.

To further enhance the cash flows from achieving first ore at the FYM mine, we are in the process of reworking a feasibility study initially prepared in 2008 to develop additional processing and pelletising facilities for the unprocessed available ore of approximately 21.5 million tonnes at the FYM mine to bring total combined output of both FPM and FYM mines to around 20 Mtpa of pellets or concentrate equivalent. The next phase would involve building a concentrator at FYM processing facilities which is still subject to further analysis. We are also completing a technical review and cost analysis for a pelletiser. Should we proceed with these next steps in the development of our business, it will allow us to produce saleable concentrate product, enhancing our cash flows. Whether we approve this next phase will depend on a variety of factors, including prevailing pellet prices, our anticipated cash flow from operations and the availability of additional borrowing facilities (included any net proceeds of the Offering then remaining). See *"Risk Factors – Risks relating to our expansion plans"*.

The capital expenditure programme is subject to risks and uncertainties which may cause us to exceed our estimated budget or extend our schedule. See *"Risk Factors—Risks relating to our expansion plans"*.

Distribution to shareholders

Total dividend payments for 2008 and 2009 were US$39.5 million and US$36.6 million, respectively. In 2010, we paid a dividend of US$41.7 million. The totals of paid and declared dividends for the respective financial years were 12.6 per cent., 51.6 per cent. and 9.8 per cent. respectively of the profit for the years 2008, 2009 and 2010. For further details on our dividend policy, see *"Business Description – Dividend Policy"*.

Borrowings

Our net financial indebtedness at 31 December 2010 was US$104.4 million compared to US$257.6 million at 31 December 2009.

Debt facilities at 31 December 2010 was US$596.9 million, with US$435.8 million drawn, compared to debt facilities of US$318.8 million at 31 December 2009, with US$268.8 million drawn. The average maturity increased to 2.3 years compared to 1.0 years in 2009.

In September 2010, we secured a new pre-export finance facility of US$350 million which was drawn down on 7 October 2010 to repay the prior facility. The new loan matures 42 months from 30 September 2010 and is to be repaid in 24 equal monthly instalments with the first instalment falling due in March 2012. See "*Description of Other Indebtedness*".

During 2010 we entered into a 7-year credit facility supported by an export credit agency for the purchase of mine transport equipment, which had an outstanding balance of US$49.1 million as at 31 December 2010, and from a sale/leaseback transaction of railcars, amounting to US$7.0 million as at 31 December 2010.

As at 31 December 2010 we had cash balances of US$319.5 million compared to US$12 million as of the 31 December 2009. The balance at 31 December 2010 included restricted cash held in escrow of US$37.8 million for payment of the Helogistics acquisition. Our net financial indebtedness to EBITDA ratio decreased significantly to 0.18 times compared to 1.87 times as at 31 December 2009. This ratio is well below the Group's internal limit of 2.5 times.

Neither the Company nor any of its subsidiaries are currently subject to externally imposed capital requirements other than a bank covenant requirement to maintain consolidated equity in the Group of at least US$500 million, including minority interests and excluding foreign currency translation adjustments. Compliance is ensured by balancing dividend payments against the earnings of the Group.

Contractual obligations

The following are the contractual maturities of financial liabilities by interest type:

	As at 31 December 2010			
	Less than one year	Between one to two years	Between two to five years	Total
	(US$ in millions)			
Interest bearing				
Total Banks	19.5	155.9	233.8	409.2
Bank overdrafts	–	–	–	–
Syndicated bank loans – secured	–	145.8	204.2	350.0
Other bank loans – secured	19.5	10.1	29.6	59.2
Other bank loans – unsecured	–	–	–	–
Finance lease liability	2.8	3.0	18.4	24.2
Commodity loans	0.5	1.4	0.5	2.4
Interest accrued	0.4	–	–	0.4
Future interest payable	29.8	24.3	13.7	67.8
Non interest bearing				
Trade and other payables	88.1	–	–	88.1
Accrued liabilities and deferred income	23.4	–	–	23.4
Other financial liabilities	–	–	–	–
Total Cash Flow Maturity[1]	164.5	184.6	266.4	615.5

	As at 31 December 2010				
	Less than one year	One to three years	Three to five years	More than five years	Total
			(US$ in millions)		
Debt obligations	22.8	160.3	247.3	5.4	435.8
Operating lease commitments	2.1	1.6	4.0	45.8	53.5
Capital commitments	70.6	–	–	–	70.6

(1) Excludes non-cash effect from offsetting arrangement fees against borrowings in accordance with IAS39.

Qualitative and quantitative analysis of market risk

We have exposure to the following types of market risk: credit risk, liquidity risk, currency risk, interest rate risk and commodity risk.

The Board of Directors has overall responsibility for the establishment and oversight of our risk management framework.

The Group's risk management policies are established to identify and analyse the risks we face, 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 our activities. We aim to develop, through our training and management standards and procedures, a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee oversees how management monitors compliance with our risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks we face. 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 and the CFO.

The Group operates a centralised financial risk management structure under the management of the Executive Committee, accountable to the Board. The Executive Committee delegates certain responsibilities to the CFO. The CFO's responsibilities include authority for approving all new physical, commercial or financial transactions that create a financial risk for the Group. Additionally, the CFO controls the management of treasury risks within each of the business units in accordance with a Board approved Treasury Policy.

Natural hedges that can be identified and the effectiveness of which can be quantified are used in preference to financial risk management instruments. Derivative transactions may be executed for risk mitigation purposes only, as speculation is not permitted under the approved Treasury Policy. Such transactions are designed to have the 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.

We have not to date used any financial risk management instruments that are derivative in nature or other hedging instruments.

Credit risk

Trade and other receivables

The Group, through its trading operations, enters into binding contracts which contain obligations that create exposure to credit, counterparty and country risks. It is our primary objective to manage such risks to reduce uncertainty of collection from buyers. A secondary objective is to minimise the cost of reducing risks within acceptable parameters.

Trade finance is used to balance risk and payment. 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 of the treasurer in evaluating these transactions is to ensure that the margins paid and conditions applicable to such finance should be the same or better than those which other organisations with similar creditworthiness would achieve, and compared with other alternative financing available to us.

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, we use letters of credit to assist in mitigating such risks or prepayments prior to delivery.

Counterparty risk crystallises when a party to an agreement defaults. Where letters of credit are used to minimise this risk, we use a confirming bank with a similar or higher credit rating as the issuing bank 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. During 2010 we reduced our exposure to Ukraine trade receivables risk by increasing the level of production exported to 99.9 per cent. from 93.3 per cent. in 2009.

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

We limit our cash exposure to credit, counterparty and country risk by only investing in liquid securities and with counterparties that are incorporated in an OECD country rated A+ or better by Standard & Poor's, and are rated at a level equivalent to long term A or short term A2 or better by Standard & Poor's.

Recognising that our principal activities are predominantly based in Ukraine, special consideration is given to investments with Ukrainian counterparties. Exceptions may be made under the following conditions:

- the counterparty is resident in Ukraine, and
- the counterparty is among the top 15 financial institutions in Ukraine based on the Group's assessment of the creditworthiness of the financial institution.

Cash and deposits are held with Bank Finance and Credit (**Bank F&C**), our transactional bank in Ukraine, a related party financial institution which is registered with the National Bank of Ukraine for receiving and disbursing payments under Group intercompany loans and is an approved Ukrainian counterparty. We are therefore exposed to Ukraine country risk.

Guarantees

At 31 December 2010 Ferrexpo AG and Ferrexpo Finance plc were joint and severally liable under the new US$350 million loan agreement, which was fully drawn at 31 December 2010 compared to an outstanding balance under a prior facility of US$207.7 million at 31 December 2009, which was fully repaid in 2010.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at 31 December 2010 and 2009 was as follows:

	As at 31 December	
	2010	2009
	(US$ in millions)	
Cash and cash equivalents	319.5	12.0
Trade and other receivables	111.9	38.1
Other financial assets	1.2	3.7
Total maximum exposure to credit risk	432.6	53.8

Liquidity risk

Liquidity risk is the risk that we will not be able to meet our financial obligations as they fall due. Our approach is to ensure, as far as possible, that we will always have sufficient liquidity to meet our liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to our reputation by holding surplus cash or undrawn credit facilities.

We prepare detailed rolling cash flow forecasts, which assist us in monitoring cash flow requirements and optimising our cash return on investments. Typically, we ensure that we have 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. For a summary of the contractual maturities of our financial liabilities by interest type, see note 38 of the Ferrexpo plc Annual Report & Accounts 2010.

Currency risk

We are exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Group. Operating currencies for the group are primarily the Ukrainian hryvnia, but also US dollars, Swiss francs, euro and British sterling.

Our major lines of borrowings and the majority of our sales are denominated in US dollars, with costs of local Ukrainian production mainly in Ukrainian hryvnia. During 2008 the value of the Ukrainian hryvnia moved from being informally pegged to the US dollar to a managed float.

Further devaluation of the Ukrainian hryvnia against the US dollar will reduce the operating costs of the production unit in US dollars terms and the value of hryvnia payables recorded in the statement of financial position at the year end in US dollars. As the majority of sales and receivables are denominated in US dollars, a devaluation in the local currency will result in operating exchange gains recorded in the income statement.

With a devaluation of the local currency, US dollar-denominated loans held by the Ukrainian subsidiary will result in non-operating exchange losses to the extent these are not matched by US dollar-denominated assets. Fixed assets are similarly held in local currency amounts and a devaluation in the currency will result in reduced net asset values which are recorded in reserves.

The National Bank of Ukraine manages and determines the official exchange rates. An inter-bank market for exchange of currencies exists in Ukraine and is monitored by the NBU. The Group, through its financial institutions, exchanges currencies at bank offered market rates.

Trade receivables are predominately in US dollars which are not hedged. Trade payables denominated in US dollars are also not hedged on the market, but are matched against US dollar currency receipts. This includes the interest expense, which is principally payable in US dollars. Trade receivables and trade payables in other currencies are not hedged as a forward market for the Ukrainian hryvnia is generally not available.

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. The net monetary assets after deducting monetary liabilities denominated in euro are considered to be immaterial to the Group.

A sensitivity analysis of foreign currency exposures indicates that a 20 per cent. strengthening of the US dollar against the following currencies at the year end would have increased/(decreased) the relevant line item in the income statement and equity by the amounts shown below. This assumes that all other variables, in particular interest rates, remain constant.

	Year ended 31 December Income statement/ Equity	
	2010	2009
	(US$ in millions)	
UAH	12.7	(9.4)
EUR	(7.6)	0.2
CHF	0.0	0.2
	5.1	(9.0)

As at 31 December 2010 our foreign currency exposure in hryvnia was a net financial asset, compared to 31 December 2009 when it was a net financial liability.

A 20 per cent. 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.

Interest rate risk

We predominantly borrow funds that are at floating interest rates and are exposed to interest rate movements. 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.

We do not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and we do not hold any derivatives (e.g. interest rate swaps). Therefore a change in interest rates would not affect profit or loss with respect to our fixed rate obligations.

With respect to variable rate obligations, as at the year end, a change of 100 basis points 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.

	Year ended 31 December	
	2010	2009
	(US$ in millions)	
Net finance charge	(2.9)	(2.1)

A decrease in of 100 basis points would have an equal but opposite effect to the amounts shown above, on the basis that all the other variables remain constant.

Commodity risk

We are exposed to longer term movements in the price of iron ore, but do not have a commodity risk exposure to our financial assets and liabilities once the sale has been made. 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 tradable exchange in the product to ascertain its market value.

General explanation of certain income statement line items

General and administrative expenses

General and administrative expenses consist principally of wages and on-costs of employees not involved in the production process or in selling and distribution at FPM as well as the costs of personnel at other corporate entities (namely Ferrexpo plc, Ferrexpo AG and Ferrexpo Finance plc). Additional general and administrative expenses include maintenance of non-production assets including offices and fees paid to consultants and other outside professionals.

Write-offs and impairment losses

This item includes principally impairment of goodwill; write-off of inventories that are not considered sellable; impairment of property, plant and equipment; other impairments or reversals of impairments; and impairment of value-added taxes formerly deemed recoverable.

Other income and expense

Other income consists principally of income from the sale of surplus spare parts for maintenance and income from operating leases. Other expense consists principally of charitable donations to support local community projects, losses on disposals of property, plant and equipment and fines and penalties paid.

Net gain/(loss) from associates and disposal of subsidiaries

Net gain/(loss) from associates and disposal of subsidiaries consists principally of profits/(losses) arising on the disposal of a number of non-core subsidiaries and associates and the share of profits/(losses) based on our percentage ownership interest in associates that are not consolidated in our financial results.

Finance income and expense

Finance income consists principally of interest income on cash balances on term deposits and on other loans made by us. Finance expense arises principally from interest expense on bank financing and bank charges, and includes arrangement fees and other expenses associated with obtaining financing.

Foreign exchange gain/(loss)

Transactions in foreign currencies are recorded at the rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into 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.

Income taxes

Our income is subject to taxation in Switzerland, the United Kingdom and Ukraine. While the corporate income tax rate varies in each jurisdiction, and may change from time to time, for the periods presented herein, the statutory income tax rate in each of the United Kingdom and Ukraine, has remained constant at 28 per cent. and 25 per cent., respectively. In Switzerland, the statutory income tax rate depends on the taxable status of the respective entity and varies from 7.8 per cent. to 10 per cent. The applicable tax rates for the different entities remained stable during the financial years 2008, 2009 and 2010. The weighted average of the statutory rates was 18.2 per cent. for 2008, 13.0 per cent. for 2009 and 13.1 per cent. for 2010. The weighted average is calculated as the average of the statutory rate applicable in each country where we operate, weighted by the profit/(loss) before tax of each company in the Group in its respective jurisdiction. The change in the weighted average income tax rate is largely due to a change in profits before tax in the various jurisdictions in which we operate.

Critical Accounting Policies

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates are based on information available as at the date of authorising the consolidated financial statements for issue. Actual results, therefore, could differ from those estimates. Information about significant areas of estimation, uncertainty and critical judgements made by management in preparing the consolidated financial information is set out below.

Revenue recognition

For sales to our Traditional markets, which remain the majority of our total sales, we invoice and recognise 100 per cent. of the agreed purchase price as revenue upon delivery when the risk and rewards of ownership passes, as defined in the sales contract. For deliveries to our customers in Growth markets, 95 per cent. or 98 per cent. of the agreed purchase price as defined in the contract is invoiced and recognised as revenue. The remaining difference of the delivery is recognised as accrued revenue. Upon confirmation of the final discharge quality and quantity the accrued revenue is released and the final invoice is issued to the customer. The release of the accrued revenue and the invoicing of the remaining amount may fall into a financial period subsequent to the financial period in which the principal amount of revenue was recognised.

Property, plant and equipment

The determination of fair value and value in use requires management to make estimates and assumptions about expected production and sales volumes, commodity prices (considering current and historical prices, price trends and related factors), reserves, operating costs, closure and rehabilitation costs and future capital expenditure. These estimates and assumptions are subject to risk and uncertainty; hence there is a possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances, some or all of the carrying value of the assets may be impaired and the impairment would be charged against the income statement.

Property, plant and equipment items of the Group were subject to a valuation performed by independent appraisers as at 1 January 2003, the date of our transition to IFRS. The value of buildings and construction was determined with reference to the market value. Buildings and construction of a specialised nature were valued at their depreciated replacement cost. We have adopted this fair value as the deemed cost at the transition date to IFRS.

The calculation of the average stripping ratio is based on the total estimated proved and probable reserves and is used to determine whether stripping costs are capitalised as mining assets or whether capitalised costs are released through the income statement.

Goodwill and other intangibles

Formal impairment tests are carried out annually for goodwill. Formal impairment tests for all other assets are performed when there is an indication of impairment. At each reporting date, an assessment is made to determine whether there are any indications of impairment. We conduct an internal review of asset values annually which is used as a source of information to assess for any indications of impairment.

External factors, such as changes in expected future processes, costs and other market factors are also monitored to assess for indications of impairment. If any indication of impairment exists an estimate of the asset's recoverable amount is calculated. The recoverable amount is determined as the higher of fair value less direct costs to sell and the asset's value in use.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the income statement so as to reduce the carrying amount in the statement of financial position to its recoverable amount.

Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Fair value for mining assets is generally determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset, including any expansion prospects, and its eventual disposal, using assumptions that an independent market participant may take into account. These cash flows are discounted by an appropriate discount rate to arrive at a net present value of the asset.

Value in use is determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form and its eventual disposal. Value in use is determined by applying assumptions specific to our continued use and cannot take into account future development. These assumptions are different to those used in calculating fair value and consequently the value in use calculation is likely to give a different result (usually lower) to a fair value calculation.

In testing for indications of impairment and performing impairment calculations, assets are considered as collective groups and referred to as cash generating units. Cash generating units are the smallest identifiable group of assets, liabilities and associated goodwill that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Goodwill acquired through business combinations has been allocated for impairment testing purposes to one cash generating unit. This represents the lowest level within the Group at which goodwill is monitored for internal management purposes. For the year ended 31 December 2009 cash flows have been projected for a maximum of 20 years.

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

Estimates/assumptions:	*Basis:*
• Future production	Proved and probable reserves, resource estimates and, in certain cases, expansion projects
• Commodity prices	Contract prices, and longer-term price protocol estimates
• Exchange rates	Current market exchange rates
• Discount rates	Cost of capital risk adjusted for the resource concerned

Fair value of financial instruments

Where the fair value of financial assets and liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Defined benefit pension liability

The valuation for defined benefit superannuation schemes requires management to make judgements as to the nature of benefits provided by each scheme and thereby determine the classification of each scheme. For defined benefit schemes, management is required to make annual estimates and assumptions about future returns on classes of scheme assets, future remuneration changes, employee attrition rates, administration costs, changes in benefits, inflation rates, exchange rates, life expectancy and expected remaining periods of service of employees. In making these estimates and assumptions, management considers advice provided by external advisers, such as actuaries.

Provision for site restoration

Our accounting policy for the recognition of site restoration provisions requires significant estimates and assumptions such as: requirements of the relevant legal and regulatory framework; the magnitude of possible contamination and the timing, extent and costs of required closure and rehabilitation activity. These uncertainties may result in future actual expenditure differing from the amounts currently provided.

The provision recognised is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs are recognised in the statement of financial position by adjusting both the closure and rehabilitation asset and provision.

Deferred income tax

Our accounting policy for taxation requires management's judgement as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the statement of financial position. Deferred tax assets, including those arising from un-recouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Deferred tax liabilities arising from temporary differences in investments, caused principally by retained earnings held in foreign tax jurisdictions, are recognised unless repatriation of retained earnings can be controlled and are not expected to occur in the foreseeable future.

Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, commodity prices, reserves, operating costs, closure and rehabilitation costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the statement of financial position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some, or all, of the carrying amount of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the income statement.

Reserves and Resources

Investors should note that we have prepared most of the reserve and resource estimates provided in this Prospectus to comply with the JORC Code. We also refer to resource estimates prepared in accordance with the FSU Classification. Reserves and resource estimates classified under the JORC Code and the FSU Classification do not necessarily comply with SEC Industry Guide 7. See also "*Risk Factors – Risks relating to our operations – The volume and grade of our reserves and our rate of production may not conform to current estimates*".

There are three principal differences between reporting under SEC Industry Guide 7 and the JORC Code:

- SEC Industry Guide 7 does not recognize the classification referred to as "resources" in the JORC Code. As a result, SEC registrants are permitted only to report proven and probable reserves;

- under SEC Industry Guide 7, reserves must be estimated on the basis of current economic and legal conditions, whereas the JORC Code permits the use of "realistic" assumptions, which may include forecast prices and reasonable expectations that required permits will be granted in the future and contracts will be entered into for the sale of production; and

- SEC Industry Guide 7 requires a feasibility study in order for an undeveloped mineral deposit to be classified as a reserve (for large metal mining projects, a "bankable" feasibility study would be required). In contrast, the JORC Code does not require that a final feasibility study has been undertaken for the declaration of reserves, but it does require that appropriate studies have been carried out that have determined there is a mine plan that is technically achievable and economically viable. No technical/economic study is required under the JORC Code for the declaration of resources.

Accordingly, investors should be aware that if we were preparing this Prospectus in accordance with SEC Industry Guide 7, we would not be permitted to report any resources, and the amount of reserves we have estimated may be lower.

Cut-off grade calculations assume an iron ore pellet selling range of US$63.0 to US$97.0 per tonne. Resources, where appropriate, are constrained spatially within a notional selling price of US$95.9 per tonne. Both reserves and resources assume production of pellets containing not less than 64.5 per cent. iron content total and not more than 5.7 per cent. of silica dioxide.

The tables below set out our estimates of iron ore reserves and measured, indicated and inferred mineral resources as at 1 January 2011. The reserves and resources estimates are presented in accordance with the JORC Code. Mineral resources are reported inclusive of those resources reported as ore reserves.

	Reserves					
Deposit	Proved (million tonnes)	Fe grade (total)	Fe (magnetite)	Probable (million tonnes)	Fe grade (total)	Fe (magnetite)
GPL[1]	255	27	18	614	30	22
Yeristovskoe[2]	–	–	–	632	34	26
Belanovskoe	–	–	–	–	–	
Galeschynskoe	–	–	–	–	–	

1 The reserves estimates for the GPL deposits are those estimated in the report by Turgis Consulting (Pty) Ltd. dated 25 July 2008 less our estimates of the volume of ore mined from GPL deposits in 2008, 2009 and 2010 from the estimates stated in that report.

2 The reserves estimates for the Yeristovskoe deposits are based on a report by SRK Consulting (UK) Ltd. (SRK) dated 15 June 2007.

Reserve statements as at 1 January 2011

Our reserves as at 1 January 2011 are estimated at 16 per cent. iron content magnetic cut-off grade, representing a decrease of 85.2 million tonnes (9.8 per cent.) from 2008.The decrease was primarily due to the volume of ore extracted from the current pit during 2008 (27.8 million tonnes), 2009 (28.5 million tonnes) and 2010 (28.9 million tonnes). The referred ore volumes were mined from the GPL deposits.

	Resources								
Deposit	Measured (million tonnes)	Fe grade (total)	Fe) (magnetite)	Indicated (million tonnes)	Fe grade (total)	Fe (magnetite)	Inferred (million tonnes)	Fe grade (total)	Fe (magnetite)
GPL[1]	414	29	20	1756	31	23	1449	31	23
Yeristovskoe[2]	268	34	27	560	32	26	364	30	23
Belanovskoe[2]	336	31	24	1149	31	23	217	30	21
Galeschynskoe[2]				268	55		58	55	

(1) The resource estimates for the GPL deposits were calculated based on a review conducted by SRK in March 2008.
(2) The resource estimates are based on a report by SRK Consulting (UK) Ltd. (SRK) dated 15 June 2007.

We have reported mineral resource estimates for the GPL, Yeristovskoe, Belanovskoe and Galeschinskoe deposits as set out in the table above reflecting our confidence that these have been sufficiently well assessed to confirm that they are potentially economically viable in accordance with the requirements of the JORC Code.

We have five other projects, namely the Manuilovskoe, Vasilievskoe, Kharchenkovskoe, Zarudenskoe and Brovarkovskoe deposits, where geological surveying has been completed but where either the continuity of the mineralisation or their potential to be exploited economically is unable to be confirmed in accordance with the JORC Code. We have reported resource estimates for these deposits in accordance with the FSU Classification of approximately 14,169 million tonnes of *in situ* material in total. The majority of this (approximately 13,745 million tonnes) falls within the "C2" and "P" categories under the FSU Classification and is therefore at a very early stage of exploration and part of which would not necessarily be classified as resources under the JORC Code.

Resource statements as at 1 January 2011

Under the JORC Code resource estimates include that portion separately assigned to the proved and probable reserves. As a result, under no circumstance should the reserve estimates be added to the corresponding resource estimates, as such reserves are already included within the resource estimates. For further information on the JORC Code definitions, see "*Relevant JORC Code Definitions*".

For that portion of the resource estimates not already included within the reserve estimates, such resource estimates are typically considered to be at the estimation stage prior to the application of more stringent economic criteria necessary to be reclassified as reserves, such as rigorously defined cut-off grade and mine design outlines, along with allowances for dilution and losses during mining. Such amounts are estimates only and have been determined on the basis of expressions of judgment by management, taking into account knowledge, experience and industry practice, and may require revision based upon actual production experience. Due to lower certainty of their recoverability, the inclusion of resource estimates should not be regarded as a representation by us that such amounts can necessarily be economically exploited, and investors are cautioned not to place undue reliance upon such figures. In addition, investors should not assume that the resource estimates are capable of being reclassified as reserves under the JORC Code. Therefore, no assurances can be given that the estimates of reserves or resources presented in this Prospectus will ever be recovered at the tonnages and ore grades presented, or at all. See "*Cautionary Note Regarding Forward-Looking Statements*" and "*Risk Factors*".

Reserve and Resource Reporting

Basis of Preparation

In this Prospectus, reserve and resource estimates are reported as at 1 January 2011, unless otherwise stated. We compile our reserve and resource statements in accordance with the criteria for internationally recognised reserve and resource categories as included in the JORC Code. In this Prospectus, reserve and resource estimates initially prepared by us in accordance with the classification system and estimation methods for

reserves and resources established by the Former Soviet Union and last revised in 1983 (the **FSU Classification**), have been substantiated by evidence obtained from SRK's site visits and observation and are supported by details of drilling results, analyses and other evidence and take account of all relevant information supplied by the Company's management and the Directors.

Before reporting, three consecutive steps of work are conducted:

1. Internal geological auditing of exploration practices, validation, QA/QC analysis, and 3D computer modelling of the deposits. This is conducted by the Ferrexpo geological group, which employs both Ukrainian and JORC reporting standards, each as described below. We prepare our reserve and resource statements according to current Ukrainian mining industry reporting standards, which provide instructions as to how certain deposits are to be explored and evaluated. These statements are then correlated with the broadly equivalent categories and terms under JORC reporting standards.

2. Independent auditing of geological models, exploration strategies, methods and methodology of resource estimation. SRK was chosen for this work due to their knowledge and experience in FSU countries. Our resource reports and the results of internal auditing as well as 3D computer geological models are reviewed and verified by SRK. In addition, we have developed financial risk assessment practice in calculation and estimation of our mineral assets.

3. Mine optimisation using mineral resource model and reserve calculation within optimised mine boundaries based on economic assumptions.

Accuracy of reserve calculations and resource estimates are assessed by internal and external methods. Internally, results from different methodological approaches are used: polygonal, statistical (IDW) and geostatistical (Ordinary Kriging). Each of our technical reports contain results of QA/QC analysis and estimation. Since collecting more exploration data improves our knowledge of the deposits, including their geological structure and grade continuity, methods to calculate the reserves and estimate the resources are subject to change. Comparison between different methods of estimation gives a basis for accuracy assessment. Our internal analysis has shown that our reserves and resource are within limits of accuracy as follows:

- Proved reserves – 2-5 per cent.
- Probable reserves – 5-10 per cent.
- Measured resources – 5-12 per cent.
- Indicated resources – 10-20 per cent.
- Inferred resources – 20-50 per cent.

External methods of accuracy assessment include re-estimation and re-calculation within optimized mine boundaries and reconciliation.

Ukrainian mining standards

Current Ukrainian mining industry reporting standards are advanced FSU standards that have been modified in accordance with the United Nations framework reserve/resource classification system. Ukrainian standards set out three groups of criteria to classify iron ore reserves and resources:

- geological classes, which group iron ore deposits in accordance with their geological structure;
- exploration classes, which take into account the level of geological and technical study performed on the deposit;
- economic classes, which consider the economic significance of the deposit (its commercial value).

Geological Class. The geological structure of the deposit is defined by the level of certainty about the shape of the ore body, its internal structure, iron grade continuity, and the distribution of impurities, which are

engineering and mining conditions on which both exploration strategy and the choice of mining method are based.

Our deposits belong to geological class 2, which means the ore body is of changeable thickness and is complicated by internal layers of barren rock and/or faults and iron grade variation is within limits of 40 - 100 per cent.

Exploration class. The exploration class is based on the level of study of the chemical and mineral composition of the deposit's ore, its quantity, quality and treatment characteristics as well as the geological structure and the hydrogeological, engineering and mining conditions of the deposit, which are then used in a definitive feasibility study and mine design.

According to the level of geological and technical study ore reserves are divided into two classes:

Explored reserves is the volume of the iron ore body which has been studied in sufficient detail to conduct an engineering design of the mine and/or processing facility. The class of explored reserves consists of three reserve categories – A, B, and C1.

Preliminary explored reserves is the volume of the iron ore body which has been studied in sufficient detail to determine its possible economic importance. The general parameters that influence the choice of mining and processing methods are evaluated based on direct observations, loose or irregular exploration grid and extrapolation. Extrapolation is conducted by comparison with developed or explored deposits belonging to the same geological class and based on the results of geological, geophysical, geochemical and other studies. The class of preliminary explored reserves includes one reserve category - C2.

According to the level of detail of the geological study, mineral resources are also divided into two classes:

Prospective resources is the volume of iron ore which quality and quantity estimations based on the results of geological, geophysical, geochemical and other studies have identified with a low level of confidence. According to the level of detail of the geological study, prospective resources are divided into two resource categories P1 and P2:

Inferred mineral resources is the volume of iron ore that can potentially form a mineral deposit of certain geological class. Estimation results are based on positive stratigraphical, lithological, mineragenic, paleogeographical or other preconditions established for a prospective area where the mineral deposit has yet to be discovered. The quantity of the resources is inferred by analogy with other prospective areas where mineral deposits of the same geological class have already been discovered.

The FSU Classification system is, however, both more complex and more rigid than its western counterparts.

In general, A and B resources for deposits such as those managed by Ferrexpo require relatively close spaced drilling at a spacing of 200m or less and/or mining development, C1 resources require drilling at a spacing of no more than 400m while C2 resources can be based on a wider drillhole spacing and/or extrapolation from C1 resource areas. P1 resources are often based on sparse sampling data or extrapolation beyond C2 resources and P2 resources are commonly based on geochemical or geophysical exploration.

Given that the geological and structural complexity of the iron ore deposits at FPM are considered to be low, the consistent distribution of the mineralisation throughout the orebodies and the quantity and quality of the data on which the resource estimates are based, SRK considers that, in this case, A and B reserves are equivalent to the Measured Resource category as defined by the JORC Code, C1 reserves to the Indicated Resource category and C2 reserves to the Inferred Resource category. In some instances P1 reserves are also converted to the Inferred Resource category although this is dependent on the level of understanding of geological and grade continuity of the particular deposit and also the deposit must be demonstrated to be potentially economic.

Economic Class. According to the level of economical study of the deposit, reserves and resources are subdivided into three classes as follows:

GEO-1 – explored reserves on which a definitive feasibility study was performed. Economic efficiency and economic indices were proved by GKZ.

GEO-2 – preliminary explored reserves on which a preliminary feasibility study was performed and which are economically viable for further exploration. Both economic efficiency and temporary economic indices were approbated by either GKZ or investor.

GEO-3 – reserves and resources on which either economic evaluation or geological assessment were performed. Economic efficiency and economic indices were agreed by the investor to the geological study.

In addition to the above classes of reserves and resources there are four other groups in accordance with their commercial importance:

- Balanced reserves/resources – reserves/resources for which exploitation is economically profitable and efficient using current modern equipment, technique and technology. It is guaranteed that mining, processing and utilization methods are rational and environmentally safe.

- Provisionally balanced reserves/resources –reserves/resources for which exploitation profitability and efficiency cannot be unambiguously determined at the time of the definitive feasibility study or part of balanced reserve that cannot be currently exploited for any other reason.

- Out of balance reserves/resources - reserves/resources for which exploitation is inefficient or not economic at the moment of their feasibility study but can be both efficient and economic in the future.

- Economic significance not determined – reserves/resources which are subject to preliminary feasibility, economic evaluation or geological assessment and for which technical and economic indices are assumed.

The Ukrainian reserves/resources classes and their categories are summarized in the table bellow:

Commercial importance	Economical study	Geological and technical study	Category
Balanced	GEO-1	Explored reserve	A and B
	GEO-2	Explored reserve	B and C_1
	GEO-2	Preliminary explored reserve	C_2
Provisionally balanced	GEO-1	Explored reserve	B
	GEO-2	Explored reserve	C_1
	GEO-2	Preliminary explored reserve	C_2
Economic significance not determined	GEO-3	Preliminary explored reserve	C_2
	GEO-3	Prospective resource	P_1 and P_2
	GEO-3	Inferred resource	–

In terms of adaptation of reserve/resource classes and categories to the international standards the State Commission on Reserves of Ukraine currently adopts the United Nation Framework Classification System, which in terms of definition of reserves only categories is analogous to the JORC Code, states as follows:

- Explored balanced reserve of GEO-1 category A and partly category B can be correlated with proved reserves;

- Explored balanced reserve of GEO-2 category B and partly of category C1 can be correlated with probable reserves.

In this respect, the majority of explored reserves of GEO-2 category C1, preliminary explored reserves of GEO-2 and GEO-3 category C2, as well as prospective resources of GEO-3 categories P1 and P2 can usually be correlated with the definition of the Mineral Resource group under the JORC Code guidelines.

As stated above, SEC Industry Guide 7 does not recognise the classification of mineral resources under either the JORC Code or the FSU Classification.

JORC Code

Correlation between Ukrainian mining standards and JORC standards is based on the definitions of different resource categories. The main principles on which the correlation is based are geological, mining and ore processing factors and the level of detail to which the deposit was drilled.

The geological factors are:

- Geological structure of the deposit;
- Morphology of the ore body;
- Grade continuity.

The mining factors are:

- Geotechnical and hydrogeological conditions of ore and wall rock;
- Specific gravity and bulk density measurements;
- Mining method including internal and external dilution.

The processing factors are:

- Iron magnetic content in the concentrate produced;
- Iron magnetic recovery into the concentrate;
- Concentrate yield.

Altogether these factors are objective preconditions of the level of detail of the deposit study, which in turn determines the level of economic evaluation and accuracy of assessment and financial risk.

The JORC Code recognizes a fundamental division between resources and reserves.

Ore reserves, as defined by the JORC Code, are the economically mineable part of measured or indicated resources, are designated as proved and probable, and are derived from the corresponding measured and indicated resource estimates by including allowances for dilution and losses during mining. It is an explicitly stated further requirement that other modifying economic, mining, metallurgical, marketing, legal, environmental, social, and governmental factors are also taken into account in determining the extent to which resources can be converted to reserves.

Resources are based on mineral occurrences quantified on the basis of geological data and an assumed cut-off grade, and are divided into measured, indicated and inferred categories reflecting decreasing confidence in geological and grade continuity. No allowances are included for dilution and losses during mining, but the reporting of resource estimates carries the implication that there are reasonable prospects for eventual economic exploitation. Resources may therefore be viewed as the estimation stage prior to the application of more stringent criteria for reserve definition, such as rigorously defined cut-off grade and mine design outlines, along with allowances for dilution and losses during mining. Under this system of reporting, it is common practice for companies to include in the resource category material with a high expectation of conversion to reserves, but for which final technical and economic viability has not yet been determined.

Mining companies that file registration statements or periodic reports with the SEC are required to report their reserves in accordance with SEC Industry Guide 7. Under SEC Industry Guide 7, a "reserve" is defined as "that part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination". Definitions of proven reserves and probable reserves are included below.

Relevant JORC Code Definitions

The relevant definitions from the JORC Code are as follows:

A **Mineral Resource** is defined in the JORC Code as a concentration or occurrence of material of intrinsic economic interest in or on the Earth's crust in such form and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge.

Mineral Resources are subdivided into Measured, Indicated and Inferred Categories as set out below.

- **Measured Mineral Resource** is defined as that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and/or grade continuity.

- **Indicated Mineral Resource** is defined as that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed.

- **Inferred Mineral Resource** is defined as that part of a Mineral Resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability.

An **Ore Reserve** is defined in the JORC Code as the economically mineable part of a Measured and/or Indicated Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified.

Ore Reserves are subdivided into Proved Ore Reserves and Probable Ore Reserves as set out below.

- **Proved Ore Reserve** is defined as the economically mineable part of a Measured Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified.

- **Probable Ore Reserve** is defined as the economically mineable part of an Indicated, and in some circumstances, a Measured Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified.

Except for certain resource estimates prepared in accordance with the FSU Classification, the reserve and resource estimates provided in this Prospectus comply with the reserve and resource definitions of the JORC Code. The resource estimates shown include that portion separately assigned to, and presented as, Proved and Probable Reserves.

Relevant United States Definitions

Under the current United States requirements as adopted by the SEC, a reserve is defined as "that part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination".

- **Proven (Measured) Reserves** are defined as reserves for which (i) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; grade and/or quality are computed from the results of detailed sampling; and (ii) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well established.

- **Probable (Indicated) Reserves** are defined as reserves for which quantity and grade and/or quality are computed from information similar to that used for Proven (Measured) Reserves, but the sites for inspection, sampling and measurement are further apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven (measured) reserves, is high enough to assume continuity between points of observation.

Business Description

Investors should read the whole of this prospectus and not just rely upon summarised information including the tables in this section. Where stated, information in this section has been extracted without material adjustment from "Selected Historical Financial Information".

Overview

Ferrexpo is a Swiss-headquartered iron ore pellet producer. We own and operate an open-pit iron ore mine and associated processing facilities in central Ukraine and have been engaged in the mining, processing and sale of iron ore pellets for the global steel market for over 40 years. Iron ore pellets are an iron ore product used in the production of steel and are sold at a premium to other iron ore products as they increase productivity in the blast furnace, due to their form, substance and low level of impurities. We produced 10 million tonnes of pellets in 2010, making us the largest exporter of iron ore pellets in the CIS, and among the ten largest producer of pellets in the global seaborne market, according to Metalytics 2011. Our pellets are delivered through our own established logistics infrastructure that includes railcars, barge and port facilities.

Our resource base consists of a magnetite ore of 30 per cent. iron content, which is particularly well-suited for pelletising. The ore body is a single 50 kilometre-long strike divided into 10 adjacent deposits. As of 1 January 2011, we have estimated resources of over 6.8 billion tonnes classified according to the JORC Code, and further estimated resources of over 14.2 billion tonnes classified according to the FSU Classification code. See *"Reserves and Resources"* and "*Risk Factors – The volume and grade of our reserves and our rate of production may not conform to current estimates*".

For the year ended 31 December 2010, we recorded net revenue of US$1,295 million, EBITDA of US$585 million and net financial indebtedness of US$104 million.

We are one of the lowest cost pellet producers in the world on a FOB basis, according to Metalytics. We operate a single site with a fully integrated mining and processing facility, comprising an open-pit iron ore mine, concentrating facility and pelletising plant located adjacent to the city of Komsomolsk in the Poltava region in Ukraine. See *"Business Description – Existing Operations"*. Our location and established logistics infrastructure allow us to benefit from a significant cost advantage over our seaborne competitors because of lower shipping costs and shorter distances for deliveries to customers in Central and Eastern Europe. We own 49.9 per cent. in a bulk export terminal on the Black Sea, which secures our access to the seaborne markets to supply our customers globally.

We are export-oriented, with 99.9 per cent. of our total sales volume in 2010 exported outside the CIS. Over the years, we have built a diversified global customer portfolio based on long-term framework agreements which typically cover periods up to 10 years. We have long-standing commercial relationships with a number of high quality international customers, such as Voestalpine in Central Europe, and also pursue and enter into long-term framework agreements with new customers, such as JFE Steel in Asia. We supply customers in both Traditional and Natural markets at a cost advantage due to our geographical proximity to these markets. We are also focused on increasing our overall market share by targeting potential customers in our Growth markets. Our marketing strategy is to commit the majority of our production to high quality customers who produce sophisticated steel products by building and maintaining long-term framework agreements with these customers. We believe this strategy enables us to record stable sales volumes.

The following chart sets out a breakdown of our markets by volume (tonnage sold) as at 31 December 2009 and 31 December 2010.

Customer Breakdown by sales volume

Market	2009	2010
Traditional	52.8%	65.5%
Growth	39.3%	27.3%
Natural	7.9%	7.2%

In the future, we intend to both increase the average quality of our existing products as well as to increase our mined ore capacity. In November 2010, our Board of Directors approved a US$647 million capital

expenditure programme to begin addressing these objectives. We anticipate that successful implementation of this programme will allow us to extract more ore, increase our annualised own ore pellet production from 9 Mtpa in 2010 to 12 Mtpa by the end of 2013 and allow us to produce all 65 per cent. iron ore pellets by the end of 2014.

This programme involves estimated capital expenditures of approximately:

- US$267 million on the development of the FYM mine, which is located immediately north of our existing FPM mine, to extract ore by 2013; and
- US$168 million over an eight-year period to extend the life of our existing mine at FPM by 12 years to 2038; and
- US$212 million to increase the proportion of 65 per cent. iron content pellets we produce from approximately half of our total current pellet production to 100 per cent. by 2014.

We anticipate funding these capital expenditures from available cash, anticipated cash flow from operations and available borrowings. See *"Use of Proceeds"*. We have also begun to evaluate other capital expenditure programmes to further develop and expand our concentrating and pelletising capacity. As at the date of this Prospectus, we have approved only the above-mentioned capital expenditures. Any further capital expenditure plans are subject to continuing our technical review, feasability analysis, availability of funds and approval of the Board of Directors. For further details, see *"Management's Discussion and Analysis of Financial Condition and Results of Operation – Liquidity and capital resources – Capital expenditure"* and *"Business Description – Expansion of Our Mining Operations"*.

The capital expenditure programme is subject to many risks and uncertainties which may cause us to exceed our estimated budget or extend our schedule. See *"Risk Factors – Risks relating to our expansion plans"*. Any further capital expenditure plans are subject to similar risks and uncertainties.

The Group's holding company, Ferrexpo plc, has been listed on the London Stock Exchange following its initial public offering in June 2007 and is currently a member of the FTSE 250 Index. Ferrexpo plc was incorporated on 22 April 2005 in England and Wales under the Companies Act 1985 as a public company limited by shares with registered number 5432915. Its registered office is at 2-4 King Street, London, SW1Y 6QL, United Kingdom, the telephone number is +44 (0)20 7389 8300.

Ferrexpo AG's principal place of business and registered office is at Bahnhofstrasse 13, CH-6340, Baar, Switzerland, the telephone number is +41 41 769 3660. Ferrexpo AG, a wholly owned subsidiary of Ferrexpo plc, is a Swiss stock corporation pursuant to Articles 620 et seqq. of the Swiss Code of Obligations (Aktiengesellschaft). It was incorporated on 6 November 2001 and is registered in Baar, Canton of Zug, with company number CH-170.3.025.159-2. Its principal activities are the sale of iron ore pellets produced by FPM and the holding of participating interests in the Group's subsidiaries.

The Group also incorporates a UK finance and administration company, Ferrexpo Finance plc, through which it sources the majority of its borrowings to fund its operating activities and growth projects. Ferrexpo Finance plc was incorporated as Ferrexpo UK Limited on 29 September 2003 in England and Wales under the Companies Act 1985 as a private company limited by shares with registered number 04914716. On 6 May 2010 it was re-registered as a public company limited by shares and changed its name from Ferrexpo UK Limited to Ferrexpo Finance plc. Its registered office is at 2-4 King Street, London, SW1Y 6QL, United Kingdom, the telephone number is +44 (0)20 7389 8300.

The Group's principal operating subsidiary is FPM. FPM was incorporated as a joint stock company on 5 January 1995 in Ukraine under Ukrainian law with identification number 00191282 in the Uniform State Register of Enterprises and Organizations of Ukraine. Its registered office is at 16, Budivelnykiv Street, Komsomolsk, Poltava Region, 39802, Ukraine, the telephone number is +380 53 487 4352.

The Group also includes Ferrexpo Middle East FZE. Ferrexpo Middle East FZE was incorporated as a free zone establishment on 14 March 2011 under UAE law with licence number 126286. Its registered office is at Business Center World FZE, JAFZA View 18 & 19, Jebel Ali Free Zone, PO Box 262746, Dubai, United Arab Emirates, the telephone number is +971 4813 7766.

Strategy

We intend to continue our strategy of positioning ourselves as a low cost premium producer of high quality iron ore pellets through the following means:

Develop our significant unexploited resources and increase production and mine life

We intend to increase our annualised pellet production from own ore by one-third by 2013. To accomplish this, we plan to develop the FYM mine where we expect to extract iron ore by the first half of 2013, as well as to extend the estimated life of the existing mining operations at FPM by 12 years to 2038. See *"Business Description – Expansion of Our Mining Operations – Developing the Yeristovskoe deposit"* and *"Business Description – Expansion of Our Mining Operations – Mine Life Extension Programme"*.

Expand our high quality customer base

We currently supply some of the world's leading steel producers, which are focused on producing steel for premium applications. We allocate approximately 10 per cent. of sales to potential new customers through trial spot cargos, and plan to conduct such trials with several significant producers in Asia ahead of the planned production growth from FYM.

Maintain low cost of production and high operating efficiency

We are in the lowest cost quartile of the global iron ore pellet cost curve on an FOB basis, based on analysis by Metalytics. The cornerstone of our cost reduction strategy is to maximise production outputs and continually implement efficiency enhancements through our BIP. The BIP has helped us significantly decrease our consumption of key production inputs, such as energy and raw materials, and reduced our cash costs of production by US$5.27 per tonne since 2005. See *"Management's Discussion and Analysis of Financial Condition and Results of Operations – Business Improvement Programme"*.

Improve the quality of our product mix

We intend to increase all our production to 65 per cent. iron content pellets by 2014. Currently, 65 per cent. iron content pellets account for approximately half of our total output. The Board of Directors approved a capital expenditure of US$212 million for the upgrade of the mining operations and existing concentrator facilities at the FPM mine in order to meet this objective. This product mix improvement should allow us to expand our presence in the premium segment of the iron ore market and increase our average profitability margin. See *"Business Description – Expansion of Our Mining Operations – Quality Upgrade Programme"*.

Enhance our logistics capability ahead of our planned increase in production output

Our current logistics platform includes approximately 900 railcars, port capacity for export of our current seaborne product, and river transport capacity on the Rhine/Danube River corridor through our recent acquisition of Vienna-based Helogistics. Ahead of our planned production growth from the FYM facility, our strategy is to further secure the logistics supply chain for delivery of increased product to our end customers. This includes acquiring up to 1,000 additional railcars during 2011, as well as developing our ship loading capabilities at our Black Sea port terminal. This will allow Ferrexpo to further capitalise on its geographic proximity to Middle East and Asian markets compared to other seaborne pellet producers in the Americas and Scandinavia.

Maintain strong credit metrics and ample financial liquidity

Throughout the recent financial crisis, we maintained strict financial discipline. Key tenets of our financial strategy include funding capital expenditures out of operating cash flows, maintaining robust liquidity and retaining competitive credit metrics. Our credit position reflects this strategy, as evidenced by our strong balance sheet and our low gearing ratio. Our credit metrics include net gearing5 of 11 per cent. as of 31 December 2010 (compared to 36 per cent. as of 31 December 2009) and net financial leverage6 of 0.2x as of 31 December 2010 (compared to 1.9x as of 31 December 2009).

Key Strengths

Ferrexpo believes it is well-positioned to execute our strategy for the following reasons, among others:

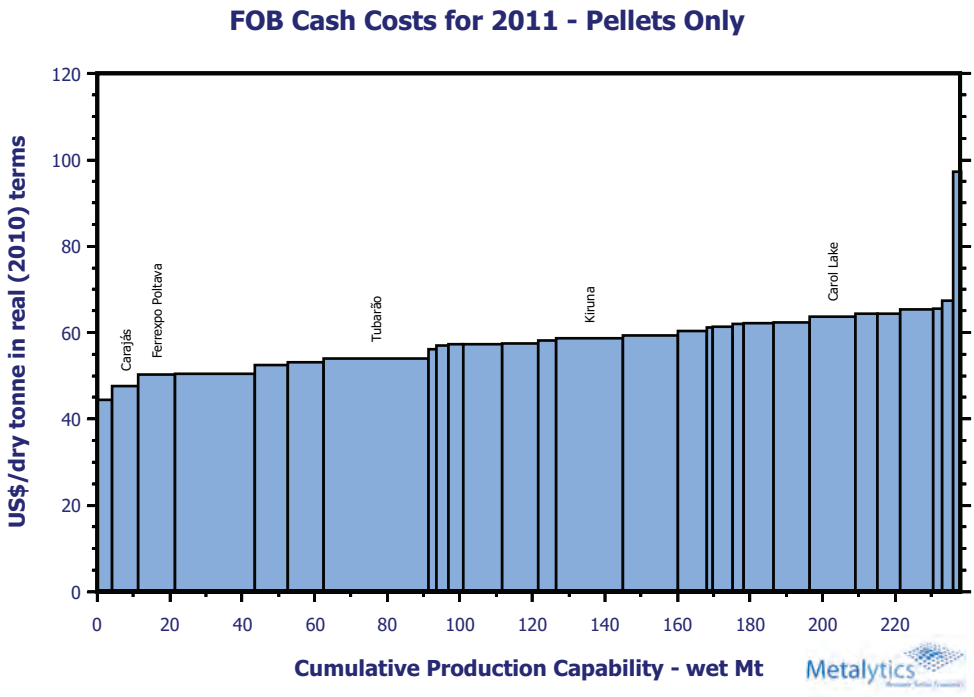
Premium iron ore product producer

We produce iron ore pellets, which are a premium input used in the steel production industry. Our product improves blast furnace productivity in the steel production process because of its form, substance and low level of impurities.

Low cost producer with strong operating cash flows

We are one of the lowest cost producers of pellets in the world on an FOB basis according to estimates produced by Metalytics. For the year ended 31 December 2010, our cash cost of production of pellets from own ore was US$39.69 per tonne of pellets. Relative to our competitors, our low cost position enables us to sustain profitability in periods of downturn such as in 2009. This has allowed us to maintain a positive operating cash flow each quarter since 2006.

The following chart reflects Metalytics' 2011 estimates of the global FOB pellet cost curve:



Source: Metalytics January 2011

Note: This chart was created by Metalytics in January 2011 and reflects Metalytics' estimates of the 2011 global pellet supply cost curve. The forecast cash production costs estimated by Metalytics are based on industry data sources and assumptions that may be incomplete or inaccurate. Like all such forecasts, they are subject to a significant degree of economic and other uncertainty. See "*Cautionary Note Regarding Forward-Looking Statements*".

Significant resource base to support production growth

Our significant resource base is situated along a single ore body, which will allow us to efficiently expand production through brownfield developments. Our current FPM mine has consistent geology and allows for a long-life production profile. Our development of FYM will utilise known and existing technology and infrastructure as well as our current workforce. As of 1 January 2011, we have estimated resources of over 6.8 billion tonnes classified according to the JORC Code (of which 1.0 billion tonnes were measured

5 We calculate net gearing as net financial indebtedness over net financial indebtedness plus shareholder's equity.

6 We calculate net financial leverage as net financial indebtedness to EBITDA.

resources, 3.7 billion tonnes were indicated resources and 2.1 billion tonnes were inferred resources), and further estimated resources of over 14.2 billion tonnes classified according to the FSU Classification. We also have 0.3 billion tonnes of proved reserves and 1.2 billion tonnes of probable reserves. For more detailed information on reserves and resources, see *"Reserves and Resources"* and *"Business Description – Resources"*.

Quality customer portfolio under long-term framework agreements

We remain committed to our long-term framework agreements with customers which are focused on producing sophisticated steel products. We have supplied the vast majority of our customer portfolio for a number of decades. This allows us to produce at maximum capacity. Production delivered under long-term framework agreements accounted for over 90 per cent. of our sales volume as of 31 December 2010, maximising stable and reliable revenue.

Strong balance sheet and available liquidity

We strive to maintain a low gearing ratio, adopting a strict financial discipline even during the 2009 down-cycle. In addition, we continually focus on maintaining ample financial liquidity, as represented by our available cash and credit facilities which as of 31 December 2010 amounted to US$345.7 million including undrawn committed facilities and excluding restricted cash relating to the acquisition of Helogistics in December 2010 held in escrow (US$37.8 million).

Strong corporate governance and experienced management team

Consistent with our listing on the LSE, we follow robust corporate governance and internal control procedures, and are overseen by our Board of Directors, which is required to follow the independence standards of the LSE. We are managed by an Executive Committee comprised of individuals with an aggregate of over 100 years of experience in global resources industries. Members of our senior management also have a detailed knowledge of the Ukrainian business and political environment, iron ore mining and pellet production, project delivery, marketing and financial management.

History

Mining operations began at the site of the current FPM mining facility in the 1960s, with production of iron ore concentrate commencing in 1970 and iron ore pellets in 1977. Initially, the business was owned by the state and operated as a state enterprise under the name Dneprovsky Mining and Concentration Plant. Its name was changed to the Poltava State Mining and Concentration Plant in 1981. On 5 January 1995, following its corporatisation, the entity was registered by the Executive Committee of Komsomolsk City Council of Poltava region as an open joint stock company with the state of Ukraine (the **State**), represented by the Ministry of Industry of Ukraine, as the sole founder. The entity's official name in English was JSC Poltava GOK, and was subsequently changed to Ferrexpo Poltava GOK Corporation. The State sold its ownership in FPM through privatisation of FPM's shares, which commenced in February 1995 and was finalised in April 2001. During 1996-2006, Kostyantin Zhevago through affiliated companies acquired up to 85 per cent. of FPM's shares. Kostyantin Zhevago's interest in FPM was subsequently sold down through the initial public offering of Ferrexpo plc in June 2007, following a Group reorganisation in May 2007. Since 1995, FPM conducted seven share placements, the last of which took place in 2008. Currently, FPM has a total of 191 million shares issued, of which Ferrexpo AG owns 97.3 per cent.

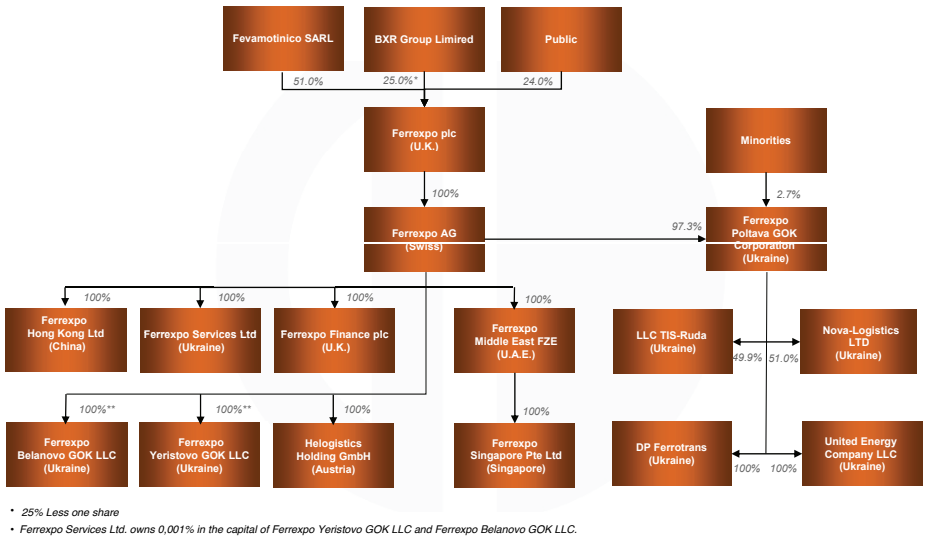
Fevamotinico, an entity controlled by Kostyantin Zhevago, currently holds 51 per cent of Ferrexpo plc which in turn holds 97.3 per cent. of FPM through Ferrexpo AG. See "*– Structure and principal facilities*". Fevamotinico is wholly-owned by The Minco Trust, one of the beneficiaries of which is Kostyantin Zhevago. The remaining 2.7 per cent. of the shares of FPM are owned by other legal entities and individuals (including employees of FPM). See "*Shareholders and Related Party Transactions*".

Group structure and principal facilities

Our principal operating asset and production facility is FPM. See "– *Existing operations*". Most of our export sales are currently handled by our specialist sales and marketing arm, Ferrexpo AG, based in Switzerland. See "– *Sales and marketing*". In addition, we have a finance subsidiary in the United Kingdom, Ferrexpo Finance plc, together with ancillary transport and logistics units in Ukraine.

The following chart shows the structure of the Group including the Company and its principal subsidiaries:

Ferrexpo – Group Structure – March 2011



* 25% Less one share

* Ferrexpo Services Ltd. owns 0,001% in the capital of Ferrexpo Yeristovo GOK LLC and Ferrexpo Belanovo GOK LLC.

Reserves and Resources

We own licenses to ten deposits of magnetite ore, all of which are located within the Kremenchuk Magnetic Anomaly site on the banks of the Dnieper River in central Ukraine. We currently mine GPL deposits in one large open-pit mining operation at GPL, which is approximately 6 kilometres long by 2 kilometres wide and over 300 metres deep. All of our iron ore production to date has been from these deposits.

With approximately 6.8 billion tonnes of estimated resources based on Group estimates (of which approximately 1.0 billion tonnes were measured resources, approximately 3.7 billion tonnes were indicated resources and approximately 2.1 billion tonnes were inferred resources, as classified under the JORC Code). Included in these resources are proven and probable iron ore reserves of 1,502 million tonnes, of which 870 million tonnes are located within the existing GPL deposits. Based on the 2010 ore production level of 28.9 million tonnes, the existing mine has an estimated production lifespan of approximately 30 years.

The tables below set out Ferrexpo's JORC-classified reserves and resources as at 1 January 2011.

	Reserves					
Deposit	Proved (million tonnes)	Fe grade (total)	Fe (magnetite)	Probable (million tonnes)	Fe grade (total)	Fe (magnetite)
GPL	255	27	18	615	30	22
Yeristovskoe	–	–	–	632	34	30
Belanovskoe	–	–	–	–	–	–
Galeschynskoe	–	–	–	–	–	–

	Resources								
Deposit	Measured (million tonnes)	Fe grade (total)	Fe) (magnetite)	Indicated (million tonnes)	Fe grade (total)	Fe (magnetite)	Inferred (million tonnes)	Fe grade (total)	Fe (magnetite)
GPL	414	29	20	1756	31	23	1449	31	23
Yeristovskoe	268	34	27	560	32	26	364	30	23
Belanovskoe	336	31	24	1149	31	23	217	30	21
Galeschynskoe				268	55		58	5	

For more information, see "*Reserves and Resources*" and "*Risk Factors – The volume and grade of our resources and our rate of production may not conform to current estimates*".

Existing Operations

Overview

Our principal operating asset and production facility is FPM, where we process all of the iron ore we mine and produce substantially all of our iron ore concentrate and pellets. FPM has a production history of 40 years. It is the second largest producer of iron ore pellets in Ukraine, according to Metalytics, and the largest exporter of iron ore pellets, accounting for 86 per cent. of total Ukrainian pellet exports in 2010. In 2010, FPM produced 9.0 million tonnes of pellets from its own iron ore resources (and a further 0.998 million tonnes from purchased ore and concentrate).

The following table sets out our iron ore pellet production levels at FPM for the years ended 31 December 2008, 2009 and 2010.

	Year ended 31 December		
	2008	2009	2010
		(in kilotonnes)	
Ore mined	27,763	28,547	28,930
Concentrate production[1]	10,459	10,565	11,226
Iron ore pellet production[1]	8,608	8,609	9,033
65 per cent. iron content pellets	4,014	4,304	4,061
62 per cent. iron content pellets	4,594	4,305	4,972

(1) From our own ore. In addition, pellets from purchased third party concentrate and ore were 428 kilotonnes, 157 kilotonnes and 998 kilotonnes for the years ended 31 December 2008, 2009 and 2010, respectively.

We produce both 62 per cent. iron content pellets and higher quality 65 per cent. iron content pellets. Approximately half of our pellet production is 65 per cent. iron content pellets, with the remainder being 62 per cent. iron content pellets. In 2010, 4,061 kilotonnes of our pellet production had 65 per cent. iron content and 4,972 tonnes had 62 per cent. iron content.

Production process

The production process consists of mining, beneficiation (crushing and concentration) to increase the iron content of the ore before pelletisation, and a pelletising facility

Mining. Mining operations include drilling facilities, mining transport, and facilities for power delivery. Mining is carried out using conventional open-pit mining technology. Ore is loaded onto trucks and transported to reloading stations, where it is reloaded onto railcars for transport to the crushing plant. Waste (overburden) is transported by truck or bulldozer either to in-pit temporary waste dumps or in-pit reloading stations where it is reloaded onto railcars and hauled to the surface waste dump. Ore and waste are transported separately in order to optimise costs. We expect that, as the pit deepens and the distance to the surface increases, we will increase the use of conveyors to transport ore to the surface of the pit.

Crushing. Mined ore is transported directly from the excavation site to FPM's two crushing plants using trucks with a capacity of 90 to 180 tonnes each. The crushing plants incorporate a primary crushing unit, two identical medium and fine crushing units and a dry magnetic separation unit with a combined installed capacity of up to 33.2 Mtpa. The crushing plants have multiple crushing lines equipped with modern and fully automated cone crushers and screens. In addition, Barmac 9000 high-speed impact crushers are installed in the dry magnetic separation plant. In the crushing plants, the mined ore goes through three stages of crushing by cone crusher, a preliminary screening for ore quality, a fine crushing stage, and finally dry magnetic separation with additional crushing of the magnetic products using an impact speed rotary crusher.

Concentration. After crushing and magnetic separation, the ore is fed into FPM's two concentration plants, which contain 56 crushing equipment modules, 376 magnetic separators and 14 spiral classifiers, 424 hydro cyclones of various types (350, 500 and 710) and a fleet of pumping equipment. The concentration plants are controlled using an automated management system and use reverse captive flotation to upgrade the resultant

mined ore (average ore grade of approximately 30 per cent. iron content) into concentrate (up to 67 per cent. iron content). The concentrating plants each have several lines of rod and ball mills, spiral classifiers and cyclones for grinding ore and a modern flotation concentrator that processes concentrate from both concentrator plants. The flotation concentrator uses technology and procedures developed by Metso Minerals (Sweden) and the Mekhanobrchermet Institute (Ukraine). Each concentration plant has a maximum capacity of 1,300 tonnes per hour and a combined installed capacity of 10.8 Mtpa.

Pelletising plant The concentrate is further processed in the pelletisation plant. It is pumped from the concentration plant as pulp and combined with small amounts of dolomitic limestone and bentonite clay to produce the pellet material. It is then condensed in radial thickeners and, finally, transported for dewatering with disk vacuum filters through the pulp separator. The pelletising plant has four grate-kiln induration lines with annular ring cooling systems procured from Metso Minerals (formerly Allis Chalmers). This technology minimises environmental discharge and produces very hard iron ore pellets that can be handled and transported long distances without significant degradation and that are unaffected by extreme weather conditions, relative to other iron ore products. Each of the lines is equipped with a thickener, homogenisation tank, disc filters and pellet balling drums to prepare the raw unfired pellets and a pelletiser consisting of travelling grate, rotary kiln and ring cooler. The pelletising plant has a design capacity of 12 Mtpa, and excluding periods for maintenance and repairs, the maximum capacity of each line is approximately 3.3 Mtpa, although each pelletising line is currently operating at an average capacity of approximately 2.5 Mtpa based on 2010 production levels.

Cost of production

We are the third lowest cost producer in the world in terms of global cash cost of production of iron ore pellets on an FOB basis, according to an estimated cost of supply curve produced by Metalytics in January 2011. Furthermore, due to our strategic location close to port, rail and river links and our established infrastructure, we are highly cost and service competitive on a delivered basis to our key customers in our Traditional and Natural markets. We are also well-positioned to deliver to China on a CFR or similar basis, particularly as we develop our currently uncommercialised resources and expand our production, which will reduce our overhead costs.

We define our cash cost of pellet production from own ore as our "C1 cash cost of production". We define our "C1 cash cost of production per tonne" as the C1 cash cost divided by production volume. This excludes costs such as depreciation, pension costs, stock movement, costs of purchased ore and concentrate, production cost of gravel, and one-off items. The largest components of our C1 cash cost are listed below:

- energy costs, including electricity, fuel and natural gas (approximately 48 per cent. of the C1 cash cost for the year ended 31 December 2010);
- labour cost (approximately 13 per cent. of the C1 cash cost for the year ended 31 December 2010); and
- grinding bodies (approximately 10 per cent. of the C1 cash cost for the year ended 31 December 2010).

For further details, see *"Management's Discussion and Analysis of Financial Condition and Results of Operations – Cost of Sales"*.

In 2010, our average C1 cash cost increased to US$39.69 per tonne from US$34.44 per tonne in 2009. This was primarily a result of increases in commodities prices including electricity, gas and fuel as well as high domestic inflation in Ukraine. These increases were partly offset by our ongoing BIP initiatives (see *"– Business Improvement Programme"*) which focus on energy savings related to improvements in the production process and efficient consumption.

Raw materials and energy

The principal inputs used to produce iron ore pellets at the FPM mining facility are raw materials (principally steel grinding bodies, explosives and blasting materials, spare parts and replaceable equipment) and energy (principally electricity, gas and fuel). Raw materials are both sourced domestically and imported. Ferrexpo's policy has been to maintain a large supplier base in order to avoid supplier-related risks. Raw materials and

energy together represented approximately 77.7 per cent., 77.7 per cent. and 75.9 per cent. of our C1 cash costs for the years ended 31 December 2008, 2009 and 2010, respectively.

Steel grinding bodies

FPM obtains most of the steel grinding bodies that it uses in the crushing process from Ukrainian producers, principally Ferrolit, Metinvest (Azovstal, Mariupol) and Evraz (Nizhny Tagil, Russia), under supply contracts. Alternative suppliers are available. The Group is also considering internal production or utilization of alternative materials. Steel grinding bodies represented approximately 12.5 per cent., 9.8 per cent. and 10.0 per cent. of our C1 cash costs for the years ended 31 December 2008, 2009 and 2010, respectively.

Electricity

Electricity in Ukraine is generated from a number of sources, approximately 50 per cent. of which is nuclear, with the remainder comprised of hydro energy and fossil fuels. Compared to the international market, the reliance of Ukraine on nuclear and hydro energy provides a lower input cost to the Group. FPM is supplied with electricity by State Enterprise Energorynok on the basis of an agreement entered into in June 2004, which is extended on a semi-annual basis. Electricity tariffs are subject to regulation by the NERC, which sets minimum tariffs for both industrial and household customers. Payments for electricity are calculated monthly based on the amount consumed and the prevailing wholesale electricity price in Ukraine. Electricity is transmitted to FPM's network via the local distribution company, OJSC Poltavaoblenergo, for a monthly fee, which averaged US$0.0042, US$0.0024 and US$0.0025 in 2008, 2009 and 2010, respectively. FPM's average annual electricity price per MWh, including distribution, was US$60.0, US$49.4 and US$60.0 in 2008, 2009 and 2010, respectively. Electricity represented approximately 25.1 per cent. and 26.5 per cent. and 27.1 per cent. of our C1 cash costs for the years ended 31 December 2008, 2009 and 2010, respectively.

Based on 2010 levels, the production power demand for the existing FPM mining facility (without auxiliary consumption) averages 200 MWh at nominal capacity, which is 100 per cent. utilization of equipment under normal working conditions, with a peak loading of 225 MWh. The total power demand for the FPM mining facility is expected to increase to an average of 400 MWh with a peak loading of 450 MWh when the Yeristovskoe deposit becomes fully operational. Power is supplied from the local Kremenchug switchyard which also supplies 70 to 80 MWh of power to the surrounding district. The switchyard has a current capacity of 400 MWh, which is expected to increase to 600 MWh once the fourth transformer (which is currently installed) is connected electrically to the system. This will provide sufficient transmission capacity for the planned developments. An agreement in principle has been reached with the energy authority (Severnaya Energosystema) for the supply of up to 450 MWh for FPM from the upgraded Kremenchug switchyard, although we are in discussions in relation to funding the renovation of the switchyard.

A third party company, Komsomolsk Cogeneration Company (**KCC**), in which Kostyantin Zhevago has an ownership interest, has completed a definitive feasibility study for construction of electricity generation facilities located near the Yeristovskoe site, with capacity of 450 MWh. We understand that construction of the KCC facilities is provisionally scheduled for the first quarter of 2012 to 2015. Upon completion of this project, FPM may purchase electricity from KCC at market prices.

Natural gas

FPM is supplied with natural gas by Gaz Ukrainy, a subsidiary of Naftogas, Ukraine's state-owned natural gas company, under a supply contract. The contract sets out the expected delivery volumes per month. Any excess paid over the value of gas delivered is credited towards future deliveries. Prices for natural gas sales and tariffs for natural gas transportation in Ukraine are subject to regulation by the Cabinet of Ministers of Ukraine, which sets maximum threshold prices for natural gas sold domestically to industrial customers. There is no clear formula to determine natural gas prices to customers and price levels are subject to extensive negotiations involving Naftogas, the country's largest natural gas consumers, and the NERC. Natural gas transportation tariffs are also set by the NERC and payable to Ukrtransgaz, the State-owned gas pipeline operator. FPM's average annual natural gas price per 1,000 cubic metres was US$223.4, US$262.6 and US$285.6 in 2008, 2009 and 2010, respectively. Natural gas represented approximately 8.9 per cent. and 12.5 per cent. and 12.0 per cent. of our C1 cash costs for the years ended 31 December 2008, 2009 and 2010, respectively.

Gas is used mainly to fire the grate-kilns at the pelletising plant and the on-site water heating plant that supplies heating water during winter months. FPM's consumption of gas is seasonal, ranging from approximately 12 to 13 million cubic metres during summer to approximately 16 to 17.5 million cubic metres during winter months. FPM is connected to Ukrtransgaz's pipeline network by a supply pipeline owned by Ukrtransgaz, to which FPM pays a distribution fee, which averaged US$20.0, US$15.7 and US$22.2 in 2008, 2009 and 2010, respectively. We believe that the capacity of the supply pipeline represents approximately twice FPM's current gas requirements when operating at full capacity.

We expect that prices of energy, including natural gas, are likely to increase above current levels over time. See "*Risk Factors – Risks relating to our operations – Production costs for pellets are greater than other iron ore forms. Increases in raw material and energy costs affect our production costs disproportionately, which may have a material adverse effect on our business, results of operations, financial condition and prospects*".

A number of independent gas suppliers have become active market participants following recent disputes between Naftogas and Russia's Gazprom on natural gas supply and pricing. During January 2009, when Gazprom cut the supply of natural gas to Ukraine, FPM used independent suppliers in order to mitigate the supply risk. The use of independent gas suppliers did not increase costs as their prices were not higher than the price established by the Government for Naftogas. Russia and Ukraine have now agreed that the pricing of natural gas will be indexed to international prices for gas and oil and we consequently anticipate more stability in the future supply of natural gas.

We are currently reviewing plans to install a heat recovery system in our pelletising plant, which we believe would reduce our usage of natural gas, which represents approximately five per cent. of our production costs, taking into account the expected price of gas in 2010. We believe that the installation of such a system will enable us to minimise the impact of recent gas price increases on our production costs. See "*– Business Improvement Programme*" below.

Fuel

Fuel is used primarily to run mining equipment to transport iron ore and overburden. FPM is supplied with fuel mainly by UkrTatNafta, which is located in Kremenchug approximately 20 kilometres from the FPM mine, on the basis of three annual contracts. Alternative suppliers are available, including LLC "NK Polyus", which supplies fuel produced by Lisichansk oil refining plant. Prices are set out for each delivery lot and depend on market factors. The price of fuel in Ukraine generally follows trends in international oil prices.

Fuel represented approximately 11.8 per cent., 9.2 per cent. and 8.7 per cent. of our C1 cash costs for the years ended 31 December 2008, 2009 and 2010, respectively.

Maintenance

Maintenance, including spare parts and replaceable equipment, represented approximately 14.6 per cent., 16.5 per cent. and 16.4 per cent. of our C1 cash cost for the years ended 31 December 2008, 2009 and 2010, respectively.

FPM has its own maintenance department which is responsible for the routine maintenance and repair of the vast majority of its plant, equipment and infrastructure, and a laboratory for assessing the condition of its equipment. In addition, FPM has an ongoing contract for maintenance and the supply of spare parts with Sandvik (for crushing equipment) and has entered into service contracts with Sumitec Ukraine (for servicing Komatsu dump trucks), Zeppelin Ukraine GMBH (for servicing Caterpillar bulldozers and trucks), Euromash (for servicing of Hitachi excavators and trucks) and recently with Atlas Copco (for servicing of drilling equipment). Such suppliers have service offices on FPM's premises.

As part of its routine maintenance programme, each of FPM's pelletising lines is shut down periodically to replace footings and perform other maintenance. FPM seeks to stagger these maintenance shutdowns. The maintenance department continually replaces equipment, as required.

Our planned expansion is expected to result in additional pressure on production capacity at our current processing facilities and create the need for increased maintenance of our production equipment. Accordingly, we expect that we are likely to increase our dependence on external contractors for maintenance in the future.

Business Improvement Programme

We believe that, as a result of our favourable geographic location and logistics, our cost of supply to our historic core markets in Central and Eastern Europe is highly competitive. We are currently implementing a phased BIP to increase production efficiency, implement industry best practice and reduce costs at the current pit and processing plants. This is being implemented with the assistance of an external mining consultant with global experience.

The goals of the BIP include increasing ore throughput at the plant, managing the truck fleet more effectively, identifying and removing operational bottlenecks, freezing increases in labour and better process management to save costs. This programme includes measures such as rationalising our structure and internal organisation and providing training to address the local lack of project management skills.

Gas and electricity represent approximately 40 per cent. of our cash cost of production and a major component of the BIP is to identify and implement material energy savings projects in our mining and processing operations. A series of projects have been engineered to enhance the energy efficiency of each of the four pelletising lines. In 2010, the BIP reduced the utilisation of major inputs by 1 to 2 per cent. per tonne.

We estimate that as of 31 December 2010 the cumulative productivity gains since the inception of the BIP in 2006 represented savings of approximately US$5.27 per tonne of pellets, or US$47.6 million.

For further details, see *"Management's Discussion and Analysis of Financial Condition and Results of Operations – Business Improvement Programme"*.

Selling, transport and distribution

We sell the majority of our exports on a DAF/FOB basis, while sales to other customers are made on a DES/CFR or equivalent basis. In 2010 the average cost of transportation was US$21.8 per tonne.

We deliver our product by rail, barge and seaborne vessels. We transport iron ore pellets primarily on three routes: (i) in the direction of the Western border for most of our Traditional customers in Central Europe, (ii) in the direction of Izmail port for further delivery by barges over the Danube to Traditional customers and (iii) in the direction of Yuzhniy port on the Black Sea for seaborne export trade. See *"Management's Discussion and Analysis of Financial Condition and Results of Operation – Sales volumes – Delivery logistics"*.

We are further expanding our logistics infrastructure ahead of planned production growth. This includes further developing our port and barge facilities to allow for CFR delivery to customers in Asia and Western Europe.

Rail

Pellets transported by rail accounted for 99 per cent., 100 per cent. and 97 per cent. of our sales volumes in 2008, 2009 and 2010, respectively, while the remaining pellets were shipped by barge on the Dnieper River. Most pellets are shipped by rail to the Ukrainian border or one of the Black Sea ports via the State-owned Railway Authority (Ukrzaliznytsya) pursuant to an indefinite term contract. The applicable rail tariffs are regulated by the State. See "*Risk factors – Risks relating to our operations – Increases in transportation costs and disruptions to transportation could have a material adverse effect on our business, results of operations, financial condition and prospects*" for details of increases in tariffs. We rely upon Slavutich-Ruda-Ukraine Ltd., a logistics agent, for the coordination of rail transit and customs clearance.

We operate our own loading railway station at the FPM mine. We currently own approximately 900 railcars. In February 2011, we entered into a contract to purchase 400 additional railcars from a related party (and have an option to purchase a further 600 railcars). With the additional purchase of 400 railcars, our total holding of railcars will represent 60 per cent. of our planned sales volume for the year ended 31 December 2011.

Barges

River transport from FPM provides additional capacity and can be used as a back-up in case of interruptions in rail transport. We have a contract with the shipping company JSSC Ukrrichflot, the largest company providing transport on the Dnieper River. Pellets transported from FPM by barge on the Dnieper River accounted for 1 per cent., 0 per cent. and 3 per cent. of our sale volumes in 2008, 2009 and 2010, respectively.

Furthermore, in January 2011, we completed the acquisition of Helogistics for US$37.8 million cash. Helogistics is one of the largest inland waterway transportation companies operating on the Danube River. It employs approximately 600 people; including leasing crews, and operates 253 vessels. It transports iron ore pellets as well as other bulk cargos along the Danube and Rhine rivers from the ports of Ismail, Ukraine, and Rotterdam, the Netherlands, to various locations in Northern, Central and Eastern Europe. In 2010, Helogistics transported approximately 504 kilotonnes and 636 kilotonnes of Ferrexpo pellets, respectively, to Ferrexpo's core customer in Central Europe. Helogistics will enable us to further control the supply chain securing existing customer relationships and provide increased access to European markets throughout the Rhine/Danube River corridor, solidifying our presence as the regional market leader in iron ore pellet supply.

Ocean access

Pellets transported by ocean vessels accounted for 21.6 per cent., 47.2 per cent. and 27.3 per cent. of our sales volumes in 2008, 2009 and 2010, respectively. Pellets transported by ocean vessels are generally transported by rail to Yuzhniy port on the Black Sea, which is our principal port for seaborne exports. FPM has an agreement in place with the state-owned Port Yuzhniy authority, which is responsible for handling pellets shipped through the port (including unloading them from the railcars, storing them at the port and loading them on board the designated vessels for onward shipment).

In 2007, FPM acquired a 49.9 per cent. stake in TIS-Ruda, a Ukrainian enterprise which, in 2007, completed development of a new berth in Yuzhniy port. The TIS-Ruda terminal has an annual capacity of 5 Mtpa of dry bulk materials and is designed for vessels carrying over 100,000 tonnes, and typically loads vessels in the range of 70,000 to 85,000 tonnes. This captive storage and loading capacity enabled us to enhance our operational flexibility by increasing our logistical competitiveness in supplying emerging Asian markets in 2009, as we were able to successfully redirect significant pellet tonnage from our Traditional markets (with weaker demand) to Chinese and Indian markets (with stronger demand), while other ports in Ukraine experienced severe bottlenecks due to iron ore producers looking to export excess product. We believe that the ability to ship larger ocean vessel quantities of pellets will improve loading time at the port, reducing the risks of demurrage and handling costs and improving the reliability of delivery to our export customers. The TIS-Ruda terminal stockpile areas reduce the risks associated with temporary interruptions to rail or barge transport and contamination of our pellets. See "*Risk factors – Risks relating to our operations – Increases in transportation costs and disruptions to transportation could have a material adverse effect on our business,results of operations, financial condition and prospects*".

We are looking to further develop our ship loading capabilities at the TIS-Ruda terminal ahead of the ramp up of production through our development of the Yeristovskoe deposit, allowing us to increase our exports to key Asian markets.

FPM also uses Slavutich-Ruda-Ukraine Ltd. to handle pellets exported through Izmail, a barge port on the Danube River which is the load port for pellets destined to our customers in Serbia and Austria.

Expansion of Our Mining Operations

We are undertaking a number of development and improvement projects, including new mine developments and the upgrading and expanding of existing processing capacity. The rationale underlying our projects is to increase production from the FPM mine, to employ best practice mining, to further introduce efficiency and quality improvements to optimise and fully utilise our existing processing facilities and to develop the underexploited reserves and resources, starting with the Yeristovskoe deposit at FYM. For further information about the risks and uncertainties relating to our expansion plans see *"Risk Factors—Risks relating to our expansion plans" and "Management's Discussion and Analysis of Financial Condition and Results of Operation – Liquidity and capital resources – Capital expenditure"*.

Mine Life Extension Programme

Capital expenditure of US$168 million over a period of 8 years has been approved to extend the estimated life of the existing FPM mine by 12 years to 2038. The project will involve additional stripping works in 2011 of around 15 million cubic metres to allow access to additional ore from 2014. We expect that successful implementation of this project will result in the ore output from the existing mine peaking at 35 Mtpa by 2014 compared to the current output of 28 Mtpa.

Quality Upgrade Programme

Capital expenditure of US$212 million has been approved for additions to and modifications of the existing crushing and concentrating facilities at the FPM mine with the aim of improving the grade of iron content in our pellets. Our facilities are currently limited to producing up to 50 per cent. proportion of 65 per cent. iron content pellets and 50 per cent. proportion of 62 per cent. iron content pellets. These additions and modifications are expected to provide us the capability to produce up to 100 per cent. proportion of 65 per cent. iron content pellets. Development will include additional grinding facilities within the current concentrator plant to achieve a finer grade as well as a second flotation plant to allow the concentrate to be processed through the flotation stage producing a single grade suitable for 65 per cent. iron content pellets. The upgrade project is scheduled for completion by the end of 2014.

Developing the Yeristovskoe deposit

We hold a licence to mine the Yeristovskoe iron ore deposit at FYM, which is located approximately three miles north of the FPM mine. The rate of stripping works at FYM increased in 2010 as we received full delivery of and commissioned trucks and draglines. We have also authorised expenditure of US$267 million for the initial extraction of ore from the Yeristovskoe deposit. The FYM deposit has estimated resources of 632 million tonnes under the JORC Code, which we believe lies below 70 meters of soft overburden. Assuming an iron ore production rate of 27 Mtpa (broadly similar to FPM's current production), it has the capacity to add 23 years to the Group's production profile. Overburden is currently being stripped by five draglines and 16 trucks for extraction of initial ore by the first half of 2013.

The FYM mine will be managed and operated independently from the existing FPM mine, although its proximity to the FPM mine will facilitate the sharing of certain facilities and resources, particularly during the early stages of operation. The ore initially extracted from the FYM mine will be processed using FPM's spare processing capacity. We expect this will deliver approximately 5.5 million tonnes of primary crushed ore to FPM processing facilities for conversion into approximately 1.9 million tonnes of pellets. Together with existing output from the FPM mine, successful development of the deposit at the FYM mine is expected to increase our annualised pellet production from 9 Mtpa in 2010 to 12 Mtpa of pellets from own ore by 2013.

To fully realise the cash benefit of achieving first ore at the FYM mine, we are undertaking studies to develop additional processing and pelletising facilities for the unprocessed expected available ore of approximately 21.5 million tonnes at FYM successful development of both the FYM deposit and these additional processing and pelletising facilities is expected to increase total combined output of both the FPM and FYM mines to around 20 Mtpa of pellets or concentrate equivalent. The next phase would involve building a concentrator at the FYM facility which is still subject to further feasibility analysis. Should we proceed with this next step in the development of our business, it will allow us to produce saleable concentrate product, enhancing our cash flows.

Commercialisation of undeveloped deposits

We hold iron ore extraction licences for the Belanovskoye and Galeschinskoye deposits, located immediately north of the FYM mine. Belanovskoye has estimated total JORC classified resources of 1,664 million tonnes, while Galeschinskoye's are estimated at 354 million tonnes. We also hold renewable exploration licences for five additional deposits, Vasilevskoye, Kharchenkovskoye, Manuilovskoye, Brovarskoye and Zerodonskoye, located to the north of Galeschinskoye. An initial assessment of these deposits has been undertaken and total in situ reserves of 14.2 billion tonnes classified according to the FSU Classification have been delineated. These deposits are situated adjacent to the Group's existing logistics infrastructure and we believe development will be relatively low risk.

We are carrying out preliminary evaluation work of the Belanovskoe and Galeschinskoe deposits regarding the most appropriate method of maximising our value by accelerating the commercialisation of our extensive undeveloped ore deposits. Our options include developing the deposits ourselves, introducing development partners and the selective early development of the potentially higher grade formations within a given deposit, or a combination thereof.

Non-core business opportunities

Our business plan is not predicated on vertical or horizontal integration. We may, however, from time to time consider bolt-on acquisitions. We currently have an interest in the following opportunities which may be commercially developed in the future if the projects meet the Group's own economic and financial requirements including strategic fit and internal rate of return criteria.

Steel plant

We have entered into a memorandum of understanding with the Vorskla Stahl AG group of companies (**Vorskla Steel**), in which Kostyantin Zhevago has an ownership interest, and which plans to establish a steel plant adjacent to the FPM mining facility to convert iron ore pellets into steel slabs. Pursuant to this memorandum of understanding, we will have the exclusive right to negotiate a long-term pellet supply agreement with Vorskla Steel, subject (among other things) to our assessment of the economic viability of the project and to agreeing suitable commercial terms. It is anticipated that Vorskla Steel may purchase up to five million tonnes of pellets per annum. Vorskla Steel is being managed independently from us and will not be funded by us.

Oil and gas licences

FPM has a 9.95 per cent. share in LLC Atol and a nine per cent. stake in each of CJSC AMA and CJSC Amtek, companies which together own the rights to a number of licences for oil and gas deposits in the Dnepr basin in Ukraine. Kostyantin Zhevago indirectly owns a 75 per cent. share in LLC Atol and 50 per cent. stake in each of CJSC AMA and CJSC Amtek. We and Kostyantin Zhevago are currently considering options for the further development of these licences.

Sales and marketing

Overview

FPM's products are mainly sold in the international markets. We exported 99.9 per cent., 93 per cent. and 88 per cent. of our production outside of the CIS in 2010, 2009 and 2008, respectively. Historically, FPM has principally supplied pellets to iron and steel plants in Central and Eastern Europe. We expanded sales into China and other markets in Asia in 2009 due to decreased demand in our Traditional markets as a result of the recent financial crisis. Of the total iron ore exported by the Group in 2010, 24 per cent. was sold into China, compared to 39 per cent. in 2009 and 18 per cent. in 2008. Most of the remainder was sold into our Traditional and Natural markets in Central and Western Europe and Turkey. In 2010 our geographic sales mix returned to more normal patterns as we witnessed a return of demand in our Traditional Markets.

The following table shows our principal markets for iron ore pellets for the periods indicated.

	As at and for the Year ended 31 December		
	2008	2009	2010
	(in thousands of tonnes)		
Traditional markets	5,781	4,083	6,359
Natural markets	323	713	699
Growth markets	1,558	3,545	2,659
Total exports	7,662	8,341	9,717
Domestic market	1,049	674	6
Total sales	8,711	9,015	9,721

The following table shows our principal export markets for iron ore pellets for the years ended 31 December 2008, 2009 and 2010 (by sales):

	Year ended 31 December		
	2008	2009	2010
		US$000	
Austria	298,209	105,690	405,511
China	173,761	241,882	320,572
Slovakia	117,093	77,537	143,478
Serbia	170,972	84,193	156,806
Czech Republic	80,746	21,293	99,235
Turkey	30,649	39,272	62,166
Japan	34	5,027	45,318
Germany	–	5,573	24,833
Hungary	–	6,539	16,575
India	–	21,225	14,175
Other	5,113	4,598	–
Russia	42,606	–	–
Bulgaria	12,189	–	–
Poland	31,708	–	–
Romania	–	–	–
Italy	10,340	–	–
Total	973,420	612,829	1,288,669

Customer base

We divide the markets for our products as follows:

- *Traditional:* markets we have supplied over a long period in which we have longstanding customer relationships, and enjoy clear and established competitive advantages. These markets include Austria, Bulgaria, Poland, Romania, Russia, Czech Republic, Serbia and Slovakia.

- *Natural:* markets in which, because of our location, we believe we have potential competitive advantages over more distant producers, and hence we are targeting for future growth. Our Natural markets include Turkey, the Middle East and Western Europe.

- *Growth:* markets which have the potential to add new and significant tonnage to the Group, especially Asia.

Customers in our Traditional markets comprise steel plants in Central and Eastern Europe. Ferrexpo AG has longstanding relationships with most of these key strategic customers. Some of these customers operate iron making facilities that were specifically designed to use FPM's pellets as feedstock and have well-established transport and logistical links to the FPM mining facility. We can deliver in small lots on a 'just in time' basis to Traditional market customers, which provides minimum working capital application by our customers and maximum timing and product type flexibility. Due to our proximity to these markets, we benefit from low transportation costs compared to our international seaborne competitors located in Brazil, Africa and Russia. Our top two customers, which are located in Central and Eastern Europe, together accounted for approximately 55 per cent. of our net sales revenue in 2010, compared to 44 per cent. in 2009 and 60 per cent. in 2008. We have direct customer supply contracts, and do not deal through sales and logistics agents.

In 2009, sales to customers in our Traditional markets decreased markedly following a sharp fall in steel production due to the global financial crisis. Although our competitive advantage allowed our share of these markets to increase, the volume of sales to customers in our Traditional markets decreased to 45 per cent. in 2009 compared to 66 per cent. in 2008. To mitigate this fall in demand, we exported 36 per cent. of our product to China during 2009. In 2010, the Group's customer volumes normalised with 65 per cent. of sales going to our Traditional markets, 7 per cent. to our Natural markets and 28 per cent. to our Growth markets.

Our sales strategy is to maintain and consolidate our Traditional markets in Central and Eastern Europe while attempting to maximise opportunities for sales growth in our Natural markets in Western Europe, Turkey and the Middle East, where we believe we have a natural logistical advantage, as well as targeting our Growth

markets in Asia. We believe that, for customers throughout Europe, our products represent an attractive alternative to those of Brazilian and Canadian suppliers due to the lower costs of transporting pellets over a shorter distance from Ukraine, together with a continuous small-parcel delivery chain.

It is our ongoing strategy to allocate approximately 10 per cent. of sales to potential new customers through trial spot cargos to expand our customer base in advance of the planned FYM mine expansion. This is part of our strategy to build a sustainable customer portfolio in these markets with high quality steel mills. We secured our first long term contract in Japan in 2010 with JFE Steel following trial cargoes to JFE Steel in Japan in 2007 and 2009, and with Dillinger Hütte in Western Europe. We currently have trial cargoes with several other significant producers in the region, including further trials with prospective customers in Japan, Taiwan and Korea.

Volume framework agreements

We generally seek to negotiate long term framework agreements with our customers and we currently have such agreements in place with our key strategic customers, including, amongst others, all of the largest customers in our Traditional markets. Approximatley 90 per cent. of our sales volumes are supplied under long-term framework agreements. In 2006, we signed our first framework agreement with a customer in China, and in 2010 had three such framework agreements in China. In 2010, we signed our first framework agreement with a customer in Japan. In 2007, we signed our first framework agreement in our Natural markets with a major Turkish mill, which is easily reached in small vessel lots across the Black Sea from the TIS-Ruda terminal.

Our framework agreements are generally entered into for a term of up to ten years, although they can be terminated prior to their expiry in accordance with market practice. These agreements typically set out the minimum amount of pellets which the parties expect to be shipped each year, although there is no obligation on the part of the customer to purchase the minimum amount of pellets specified. Any volume increases are typically agreed on an annual basis and the agreed terms are set forth in a supplement to the framework agreement. See "– *Pricing*" for details of how prices are set. The agreements generally contain provisions for adjusting shipments by up to 10 per cent. of the amount specified in the supplement at either the seller's option or by mutual option. The agreements also generally specify that pellets must have an iron content of 62 per cent. or 65 per cent., and contain a price adjustment formula based upon the actual iron content and quality of the pellets supplied. In the event of any reasonable shortfall between the volumes specified in the contract and the amounts delivered, we generally agree extended delivery times with the customer.

We generally sell any iron ore pellets that are not sold pursuant to framework agreements on shorter term contracts consistent with the terms of trade in certain markets. Approximately 12 per cent., 30 per cent. and 11 per cent. of our pellets were sold according to these shorter term contracts in 2008, 2009 and 2010, respectively.

Approximately 62 per cent. of our contracts on open credit terms require payment fifteen days after shipping the products, although certain key customers have longer payment terms of up to 30 days. For sales into China and India, we require customers to open irrevocable documentary letters of credit, payable on presentation, and established with an international bank accepted by us and in a form acceptable to us. For sales into CIS countries, we require payment prior to loading.

Pricing

Iron ore pellets are generally priced at a premium per tonne compared to iron ore in fines or lump form. This price is due to the cost of producing pellets and also because pellets provide iron and steelmakers with a higher level of productivity in the blast furnace, requiring less coke in the iron making production process. Our pellets are relatively low in phosphorus, which is particularly important to flat steel manufacturers. Moreover, unlike concentrate, which cannot be shipped during very cold weather, pellets can be shipped all year because compression of the iron ore into pellets inhibits freezing.

Over the past year there has been a marked shift in the pricing mechanism applied by the major iron ore suppliers. Historically, the industry determined prices with steel mills once a year based on the Japanese fiscal year, which began on 1 April. The initial price settlement by any major iron ore producer with any major steel mill typically set the "benchmark" price for the year and all other iron ore producers would follow that

benchmark. The prices for iron ore fines were settled first, followed by a settlement for iron ore lumps and then pellets.

During the financial crisis in late 2008 and 2009, however, iron ore spot prices fell from well above the annual benchmark price to well below the benchmark price. As a result, steel mills increasingly refused to pay the contracted benchmark price and instead bought iron ore from the spot market. This represented a fundamental change to the pricing system that had been in place for 40 years. Consequently, the major iron ore producers formally abandoned the benchmark pricing system in 2010 and largely agreed quarterly pricing with their customer base from 1 April 2010.

Currently in the global iron ore market, there are a number pricing methodologies being applied by industry participants depending on geography and customer. With regards to the major suppliers, Rio Tinto and Vale currently support the quarterly pricing mechanism while BHP Billiton is pushing for shorter pricing horizons ultimately aiming for spot pricing. In 2010, we agreed a mixture of pricing arrangements with our customers including quarterly and six month pricing agreements.

As the new pricing mechanisms are based on shorter time periods, we believe there is likely to be higher price volatility. Additionally, emphasis in the spot market is progressively shifted towards CFR delivery (i.e. price agreed as landed price at the disport) away from DAF/FOB pricing (price agreed at load port and customer bears freight cost). This provides an advantage to those producers with low freight rates.

The average achieved sales price is influenced by our product mix of 62 per cent. iron content pellets versus 65 per cent. iron content pellets. Although pricing of pellets is determined by supply and demand and technical parameters, the cornerstone of the iron ore pricing system is the delivered price of an iron unit (where 1 per cent. Fe = 1 iron unit). This is the basis upon which other 'value in use' merits and demerits are calculated. Once freight relativities have been established, iron ore pellets with the higher iron content will yield a higher FOB return.

We are focusing on achieving higher prices through increasing our pellet quality from 62 per cent. iron content to 65 per cent. iron content pellets, in order to capture the maximum price relative to our competitors' delivered cost to the customer. Approximately half of our production volume consists of 62 per cent. iron content pellets, which achieve a lower price per tonne than 65 per cent. iron content pellets. Through the successful completion of our Quality Upgrade Programme, we aim for 100 per cent. of our pellet production to consist of 65 per cent. iron content pellets by 2014. See *"– Expansion of Our Mining Operations – Quality Upgrade Program"*. We believe that this will also better position us to capture new markets in northern and southern Europe (where we have a logistical supply advantage), and in Asia as the quality of our pellets improves.

Marketing

Ferrexpo AG, together with Ferrexpo Middle East FZE, negotiates all of the sales contracts for our pellets outside Ukraine; arranging export transportation from Ukraine by barge, rail and ocean-going vessels and carrying associated risks; invoicing, insurance, transportation (including ocean vessel chartering, and carriage of quality risks); and arranging customs formalities on our behalf. Ferrexpo AG and Ferrexpo Middle East FZE purchase pellets from FPM on either a FOB or a DAF basis at prices negotiated to reflect the cost and risk carried by Ferrexpo AG and Ferrexpo Middle East FZE plus a profit margin for providing full sales and logistics services for sales plans and long term market developments. In most cases Ferrexpo AG and Ferrexpo Middle East FZE sell the pellets to the end customer on the same delivery terms or on CIF, CFR or DES or similar terms.

Ferrexpo's marketing organisation comprises a front office, with marketing and sales managers based near major customers in Vienna, Kyiv, Shanghai and Dubai, and a back office team in Baar (Switzerland). We currently have three marketing managers and an acting chief marketing officer who is responsible for the overall implementation of our sales and marketing strategy and associated logistics.

We incorporated Ferrexpo Middle East FZE, our Dubai sales office, in March 2011 as part of our strategy to expand the Group's marketing reach into the Middle East and Asia ahead of planned increases in the Group's output with the commissioning of FYM.

Competitive environment

The international iron ore export market is highly competitive, with three large producers dominating the export market and several mid-tier producers operating in selected markets. The principal factors affecting competition are price, quality, range of products offered, reliability and transportation costs. Historically, Central and Eastern European markets have been the primary markets for our pellets, although we are now expanding our sales into Western Europe (where we believe we have a natural logistical advantage) and Asia, primarily China (our main Growth market) as well as Japan and India.

We believe that we have relatively fewer competitors in our Traditional markets in Central and Eastern Europe due to our long-standing historical customer base and technical compatibility with steel plants in that region, but face competition in our Natural markets in Western Europe and our Growth markets in Asia, where we are currently attempting to increase our market share and presence. We consider that our principal competitors are Vale, Luossavaara Kiirunavaara AB (LKAB), Iron Ore Company of Canada (IOC), BHP Billiton, Samarco Lebidinsky-GOK and Mikhailovsky-GOK and Severny-GOK.

We consider that the major market trends impacting competition include:

Markets. Chinese imports of iron ore are driving the majority of seaborne iron ore global trade flows. The rapid growth in demand in China has caused most major iron ore producers to expand their capacity and has caused China to buy a significant tonnage of iron ore imports on a spot basis, which is considered to be relatively high cost ore supply. In addition, strong domestic demand in Russia at peaks in the cyclical market has tended to reduce the stable volume of Russian iron ore competing on the export market. This in turn has improved demand and prices for Ukraine domestic and export iron ores.

Concentration of ownership. The last decade has seen increased concentration of ownership in the seaborne iron ore industry, which has the tendency to increase the bargaining power of iron ore suppliers during strong demand periods.

Products. Generally strong global demand for iron and steel, particularly in China, has resulted in increased demand for agglomerated iron ore, pellets, lump, and, to a lesser extent, sinter, as iron and steelmakers who use blast furnace technology strive to increase productivity from their furnaces. Demand for pellets has increased over time due to a dwindling supply of high quality lump iron ores available to he market, and growing environmental pressure on sinter plant output. This trend has benefited producers of such iron ore products. At the same time, direct reduction steelmaking, which uses higher quality iron ore pellet and lump feeds at premium prices, has been growing rapidly. There is evidence that Brazilian producers, in particular, may be favouring increased production of such types of iron ore feedstock rather than pellets intended for use in a blast furnace.

Transportation. China's demand for iron ore and many other bulk commodities has caused significant upward pressure on global freight rates with demand outstripping new vessel supply. In addition, Chinadriven bulk shipping demand has at times caused imbalances in Atlantic-Pacific ocean freight rates, which at times has affected the landed cost competitiveness of regional supply.

Costs. Compared to our competitors, we are positioned in the three lowest cost producers of the global pellet supply cost curve, which is annually forecast by industry analysts. The second and third quartiles of the curve are typically relatively flat. Positions on the curve are generally influenced by currency exchange rates, energy costs and transport costs. In order to remain competitive in the long term, given expected movements in costs and prices, we believe a pellet production level, from current installed pelletising capacity, of at least 10 Mtpa should be maintained.

Regulatory and health and safety matters

Mining Licences

Exploration licences are required to search for mineral deposits in Ukraine. There is a requirement to obtain a separate licence for the extraction of natural resources from deposits which are deemed to be of national importance. See "*Industry – Ukrainian regulatory framework – Exploration and mining licences*". Mining (extraction) licences together with corresponding licensing agreements grant the right to work deposits for a specified resource, but do not convey ownership of the deposit, which is the exclusive property of the

Ukrainian people. Mining licences allow the owner to extract iron ore from the relevant mine for an agreed period of time. Licences are generally awarded through an auction (tender) process. With effect from 2004, the procedure and conditions for obtaining licences by way of tender and any exemptions from the tender process are approved by the Cabinet of Ministers of Ukraine each year. Licences may be extended, without a public tender, if the holder applies for the extension at least six months prior to termination of the mining licence (or three months in the case of exploration licences). Generally, licences are not transferable, although they may be re-issued in case of reorganisation of the licence holder or in certain other specified cases. Changes in the ownership structure of the licence holder do not affect the licence.

Licences may be revoked under certain circumstances, including, among others, where the licence holder no longer wishes to use or misuses the relevant natural resources, if the holder fails to comply with the disclosure and other obligations required by the licence and the licensing agreement (including the requirement to start work within the statutory two-year time limit following issuance of the licence) or if a court declares that either the licence or the tender by which it was awarded is invalid.

We hold a number of mining and exploration licences as described below.

Gorishne-Plavninskoe and Lavrikovskoe deposits. FPM currently holds licences for the extraction of iron ore from the GPL deposits, which were issued by the then subsoil licensing authority (the State Committee for Geology and Use of Natural Resources of Ukraine) on 29 July 1997. These licences expire in July 2017 (unless extended). The licences are subject to conditions that FPM complies with the requirements of the State environmental agency of the Poltava region; makes mandatory payment for geological works; and prepares annual reports on its deposits in the prescribed form. The Lavrikovskoe deposit is also used to store overburden, which may contravene the terms of its existing licence.

Yeristovskoe deposit. FPM obtained a licence for the extraction of iron ore from the Yeristovskoe deposit, which was issued by the Ministry of Ecology and Natural Resources of Ukraine on 27 August 2002. This licence expires in August 2012. It contains similar conditions to the licences for the GPL deposits and also requires annual monitoring of radiation to be carried out. This license was re-issued in the name of FYM in 2009.

Other deposits. On 20 December 2004, FPM obtained a further two licences for the extraction of iron ore from the Belanovskoye and Galeschinskoe deposits which expire in December 2024 and 2016, respectively. These licenses were re-issued in the name of Ferrexpo Belanovo Mining in 2009.

FPM holds licenses for exploration of the five Northern deposits, which are along the strike from the current pit. These are Vasilyevskoye, Zarudenskoye, Brovarkovskoye, Kharchenkovskoye and Manuylovskoye deposits. The licenses were issued on 28 December 2004 and were due to expire in December 2009. On 7 October 2009, however, the Ministry for Environmental Protection of Ukraine adopted a decision on extension of the licenses for a further five years, until December 2014.

On 12 January 2010, the State Geological Service of Ukraine issued a letter imposing an obligation on FPM to make certain mandatory payments for the extension of the Northern deposits licences and to duly execute the Agreement on Terms and Conditions of Use of Subsoil as conditions precedent to issue the extended licences. Although FPM has made the required payments, these licences have not yet been issued.

Mining allotments

Mining allotments are documents which evidence the right to use the land area of a particular deposit for mining works. FPM holds a mining allotment for the GPL deposits and a mining allotment for the Yeristovskoe deposit which were issued by the State Committee of Ukraine on Supervision of Labour Protection on 27 December 2000 and 12 December 2002, respectively. The mining allotment for the GPL deposits was issued for an unlimited period while the allotment for the Yeristovskoe deposit was issued for a period of ten years. Ferrexpo Belanovo Mining intends to apply for mining allotments for the Belanovskoe and Galeschinskoe deposits when it is required to do so (which is typically before commencing mining operations). No mining allotments are required for deposits for which exploration licences are held.

Environmental standards

All operating units are required to develop and implement environmental management systems in line with Group policy, which meets existing environmental regulatory requirements. Our operating practices and growth plans will be implemented in a manner consistent with the principles underlying long-term sustainable resource development, balancing the long-term environmental consequences of our actions against short-term economic returns.

All new capital projects will include environmental risk assessments and mitigation plans.

The table below shows emissions of key performance indicators in tonnes for the years ended 31 December 2008, 2009 and 2010.

	Year ended 31 December		
	2008	2009	2010
		(in tonnes)	
Emissions			
Total gas emissions	6,177	6,167	6,294
Of which:			
Nitrogen dioxide	2,879	2,876	2,922
Carbon monoxide	2,312	2,306	2,336
Sulphur dioxide	888	886	937
Total solid emissions	3,224	3,212	3,575
Total emissions	9,401	9,379	9,868

In 2010, FPM spent UAH57.4 million (US$7.2 million) on the implementation of environmental measures. Payments for emissions and waste placement amounted to UAH20.5 million (US$2.6 million). The increase in emissions in 2010, compared to 2009, was primarily due to a higher volume of production.

Environmental management systems

The primary responsibilities of FPM's dedicated Environmental Department are 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, use and storage of toxic agents, solid waste disposal, tailings disposal, mine waste disposal and industrial use of fresh water. The permit for waste disposal is valid through 2011 and is updated annually. The permit for air pollutant emissions is valid 2008-2013, and the permit for industrial water use is valid from 2010-2015. Until 2007, the environmental monitoring and management programme was designed solely to meet the current statutory requirements. In 2006, however, the Environmental Department started to develop a full Environmental Management System (**EMS**) in accordance with ISO 14001. The EMS was externally audited by the Ukrainian UkrSEPRO authority and given a certificate of conformity with ISO 14001 which is valid 2007-2012.

Project evaluation

In 2007 the Group endorsed the Equator Principles as a benchmark when evaluating new projects. As part of any new project proposal, we will undertake an environmental impact assessment which will be reviewed alongside other project evaluation documents presented to the Board for approval. During 2009 Ferrexpo completed an independent review of the Ukrainian EIA (OVOS), which covers our regulatory environmental requirements, for the Yeristovskoe mine pre-strip and the actual environmental performance of current FYM operations against the requirements of the International Finance Corporation's (**IFC**) Environmental and Social Performance Standards. Ferrexpo remains committed to applying the IFC requirements as it prepares plans for further development of the Yeristovskoe mine.

Environmental initiatives

Following the requirements of the Ukraine Law on Environment Protection, FPM specialists have developed measures aimed at improving the ecological situation in Poltava. These measures mainly concerned water and air protection, sound management of underground resources, waste treatment, and planting greenery on the production site. Historically, FPM has spent on average 2-3 per cent. of its revenues in Ukrainian hryvnia on its environmental initiatives. FPM spent UAH63.5 million (US$1.21 million), UAH31.4 million (US$4.0 million) and UAH58.7 million (US$7.4 million) on environmental initiatives in 2008, 2009 and 2010, respectively.

Air quality. FPM carefully monitors and controls dust and gas emissions 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 2010, initiatives for the reduction of air pollution included stabilising banks of dry waste material by sowing grass on them, and intensive watering of the work face in the pit after blasting and in dry weather.

Water management. FPM uses approximately 458 million cubic metres of water each year, much of which is recycled through the tailings facility, although approximately 3.4 million cubic metres is extracted from a combination of the local river and the municipal drinking water supply. The Tailings Storage Facility (**TSF**) also receives the treated effluent from Komsomolsk's sewage treatment plant. Excess water from the TSF is passed through an extensive bio-engineered treatment system commissioned in may 2002. Storm water from the site is treated in a new cascade treatment plant with a filtering dam commissioned in late 2005. The plant is designed to remove suspended solids and organic pollutants. Other rain and melt water is pumped to the slurry pit for clarification; in the case of excess water it is directed to the bioengineered treatment unit for additional treatment together with the remainder of the TSF dam-filtered water. During 2006 and 2007, the washing facilities of the mining transport department were rebuilt to prevent the pollution of ground water by oil products that had been carried by the surface water as it drained away, as had previously occurred due to damage to the washing area and dirt collector.

In 2010, initiatives for the protection of the local river system included advanced water treatment of clarified water at the sludge depository in the biological purification plant; this ensured that the concentration of pollutants in the water discharged into the local river system lay within the standard accepted range.

Waste management. The GPL open pit has generated some 500 million cubic metres of waste rock that is deposited in two dumps. Annual monitoring of the western and eastern dumps indicates that run-off from the waste rock dumps has no negative effect on air quality or water basins, and vegetation has been successfully cultivated on the inaccessible and abandoned areas of the rock dumps.

Waste rock from future operations, including the Yeristovskoe pit now being excavated, is being deposited at these two dumps or used to back-fill part of the GPL pit. Other measures including planting seedlings and more mature deciduous and coniferous trees and shrubs, and sowing and maintaining grassland assist in the absorption of gases that would otherwise pollute the air, whilst also reducing noise. Investment in waste management, including management of the depositing sites and the tailings dam, allows for the use of slurry (tailings) and stripping material in production, as well as securing the continuous operation of the water recycling system to supply water to the company departments.

Mine closure and rehabilitation. We recognise that our activities have an impact on the environment and the communities in which we operate. We are aware that a commitment to sustainability requires FPM to prepare now for the cessation of mining operations even though that eventuality remains many years in the future. In 2005, we developed a closure and rehabilitation plan for the existing GPL pit and associated waste rock dumps. The site will be restored primarily to forestry, with an area of open water remaining in part of the open pit. We will fully provide for the costs of mine closure and rehabilitation as they develop, and we are committed to complying fully with the terms of our operating licences and the requirements of Ukrainian law.

Health and safety standards

We are required to comply with a range of health and safety laws and regulations, and consider the health and safety of our employees to be our highest priority. In accordance with Ukrainian law, we have developed

a health and safety policy applicable to our operations and categories of activity. All of our operating assets are required to develop and implement health and safety management systems in line with this policy, including performance management. Compliance with this policy is monitored through a three-tiered system. Daily control is conducted by operating personnel, engineers and technicians. Our production managers carry out weekly inspections, and senior management conducts periodic inspections with governmental personnel. All personnel are given annual medical tests and provided with special clothing, footwear and other protective equipment as required by applicable regulations. FPM owns medical facilities at the Poltava site. Maintaining the health and welfare of our employees is an important objective of our management. Accordingly, the medical facilities are available at no cost or at subsidised rates to our employees and their dependants. Ferrexpo also 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. A department has been created within FPM with responsibility for all aspects of health and safety, security and environmental protection. The 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. The department reports directly to the Director General of FPM.

FPM is subject to an annual inspection by the State Committee of Industrial Safety, Labour Protection and Mining Supervision, which is responsible for inspecting working conditions, safety standards and equipment. We are required by law to dedicate at least 0.5 per cent. of sales to labour protection and safety, including implementation of our health and safety policy, described above, which is required under Ukrainian labour safety legislation. The statutory payment amounted to approximately US$5.22 million in 2010 or 0.6 per cent. of sales. We believe that we are in compliance in all material respects with applicable health and safety legislation in Ukraine and have obtained confirmation of OHSAS 18001 certification, the internationally recognised standard for health and safety management. The OHSAS specification sets out requirements for an occupational health and safety (**OH&S**) management system, to enable an organisation to control its OH&S risks and improve its performance. We are implementing a number of measures to improve the health and safety of our workers in the collective bargaining agreement with our workforce, including the introduction of enhanced OH&S standards, upgrading technology, introducing systemic changes and sanitary measures, better protective equipment and health care measures. Our health and safety management regime was most recently externally audited under the Ukrainian UkrSEPRO system in March 2010.

The main health and safety hazards at the FPM mining facility involve the danger of falling from heights, electrocution and vehicle accidents. FPM is currently investigating recent accidents for the purpose of improving work-site safety. Road traffic accidents are the most common cause of injury or fatalities in mining operations. As production at Poltava increases, more sophisticated traffic monitoring equipment will be introduced to improve road safety conditions at the pit. We are also focusing on training and instilling a culture of safety that encourages reporting of all non-compliance with safety policies and procedures. We expect that the number of reported health and safety policy violations and accidents is likely to increase as a result of the increased emphasis on accident and safety reporting. In 2008, 2009 and 2010, we experienced 17, 15 accidents and 19, respectively, which are defined as work-related injuries that prevent the affected employee from working for at least one day. This is slightly higher than the domestic industry average as our policy is to report all accidents and injuries rather than only those required by Ukrainian legislation. In 2010, we had one work-related fatal accident, compared with none in 2009 and three in 2008.

Operational hazards and insurance

Our operations are subject to numerous operating risks, including geological conditions, seismic activity, climatic conditions, interruptions to power supplies, environmental hazards, technical failures, fires, explosions and other accidents which may occur at a mine, processing plant or related facility. These risks and hazards could result in damage to production facilities, personal injury, fatalities, environmental damage, business interruption and possible legal liability.

FPM maintains mandatory insurance policies against certain types of risk in accordance with Ukrainian law. Specifically, it insures all vehicle drivers and employees engaged in hazardous occupations (such as blasting) against death or injury in accordance with Ukrainian law. It also insures assets that are pledged as security for loans against loss or damage and maintains an insurance policy in respect of liability for damage to the environment in relation to the use of its tailings pond. FPM does not have full coverage against loss of or damage to all of its plant and equipment, losses arising from interruption of business or third party liability in respect of accidents occurring on its premises or as a result of its operations, including environmental

damage. See "*Risk Factors – Risks relating to our operations – We are not insured against catastrophic loss and other liabilities*". We periodically evaluate the procurement of additional insurance cover. As Ukrainian law currently prohibits foreign insurance companies from operating directly in Ukraine, the underdeveloped insurance market in Ukraine offers only limited opportunities for insuring risks associated with our business, and reinsurance with an international insurance house would substantially increase costs.

In 2007 and 2008, two claims were filed against FPM by its current and former employees as to labour safety and health matters. These claims were decided in FPM's favour by the City Court of Komsomolsk and on appeal of the claimant by the Poltava District Appellate Court. In 2010, a claim in relation to health protection matters was filed against FPM by one of its employees, but the claimant withdrew this claim before its consideration by the court. There are no current claims outstanding. Any further such events could materially adversely affect our business, results of operations, financial condition and prospects.

Social and community programmes

The town of Komsomolsk was established adjacent to the original Poltava mine and plant to support mining operations and a range of ancillary industries. FPM is still the largest employer in the town, which has a population of approximately 56,610 people. We estimate that approximately 24.3 per cent. of the working population of Komsomolsk is employed by FPM. FPM has been a significant investor in local community initiatives from the outset, investing substantial funds in the social infrastructure of Komsomolsk and the surrounding area. These funds have been spent on charities, medical facilities, social services, education, religion, culture and sporting activities, as well as on the maintenance of certain of the city's social and cultural structures. Total expenditure on social projects in 2010 was UAH35 million compared to UAH30.3 million in 2009. This included expenditure on medical centres in Komsomolsk, educational organisations, local community and sports associations. Links with the local community are strengthened by meetings of senior management with heads of schools and colleges, supporting local celebration days, giving vocational guidance and vacation work to the students of local schools and organising student excursions to Polatava and its museum.

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

In 2010, the objects of such support included railcar repair operations, lift repair and some cleaning services. In 2010, there were no transfers of Ferrexpo employees into stand-alone businesses. During 2010, we donated UAH25 million (as part of UAH35 million spent on social projects) to support and develop social infrastructure and enhance welfare of the local communities.

Intellectual property

The Ferrexpo Group undertakes its mining and processing operations in line with established international practice. It is our strategy to be a fast follower of any new technologies and as such we do not invest specifically in our own new research and development.

We do not own any material intellectual property rights in respect of our technologies or production methods and processes. FPM obtains rights to use its principal equipment and technology upon purchase. There are currently three patents registered in the name of FPM. Two of theses patents are registered with the Russian patent office and the third patent is registered with the Ukrainian State patent bureau. These patents relate to improvements in the concentration process and management does not consider them to be material to its business.

The "Ferrexpo-Poltava Mining" trademark was registered by FPM in 1997 under the Madrid Protocol in several countries as well as in 1999 in Ukraine. Kostyantin Zhevago is also using the Ferrexpo brand in connection with his separate oil and gas business.

Employees and employee relations

As of 31 December 2010, we had 8,200 full time employees. Additional information concerning the average number of our employees by category (based on management information) for the years 2008, 2009 and 2010 is set forth in the table below.

	2008	2009	2010
Production	6,647	6,220	6,035
Sales, marketing and distribution	152	156	155
Administration & other employees	1,720	1,724	1,794
Total	8,519	8,100	7,984

We do not have individual contracts with our employees in Ukraine other than with our senior managers. As of 31 December 2010 approximately 89 per cent. of FPM's personnel were members of the FPM's Trade Union. There have been no significant industrial actions or labour disputes at FPM since its privatisation in 1995. In 2006, FPM resolved a dispute with the FPM's Trade Union relating to the basis for calculating employees' salaries through arbitration. FPM is required under Ukrainian law to enter into a collective bargaining agreement with its employees represented by the FPM's Trade Union. The collective bargaining agreement provides for certain benefits for the employees (including, among other things, additional retirement benefits, vacation rights and medical insurance). On 17 February 2011, FPM signed the new collective bargaining agreement for 2011, effective for one year but in any case valid until execution of a new collective bargaining agreement for the next year. FPM has signed a protocol of intent with the FPM's 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 the level of inflation set forth by the Law of Ukraine "On the State Budget of Ukraine" for the relevant year, and by the collective bargaining deed for the mining and metallurgical industry sector, and that an annual reduction in average annual headcount will occur subject to the agreed maximum. We consider that we have good relations with our employees.

Worker salary levels are specified in the collective bargaining agreement with the Poltava Trade Union. Salary levels are set with reference to the statutory minimum wage. As of 1 January 2011, workers with the lowest qualifications are entitled to the minimum wage of UAH941 per month. Salary levels are higher for persons working in strenuous working conditions and employees with qualifications. Additional compensation is paid for such things as overtime work and shift work and workers may receive a bonus based upon production levels. We believe that wages paid by us are higher than average wages in Ukraine, although they tend to be less than the average wages paid by other Ukrainian mining companies. In addition, FPM provides financial support (mainly in the form of providing guarantees for loans taken out by employees to purchase housing) to enable specialists to relocate to the town of Komsomolsk to take up employment. The Ukrainian State budget for 2011 provides for the minimum monthly wage of UAH941 as of 1 January 2011, which shall be increased up to UAH960 from 1 April 2011 to UAH985 from 1 October 2011 and to UAH1,004 from 1 December 2011. We do not believe that this increase will have a material impact on our financial condition and believes that the protocol of intent which we have signed with the Poltava Trade Union as described above, together with a freeze on hiring additional workers and natural attrition, will enable us to manage our real labour costs over this period.

FPM makes mandatory contributions, equal to 39.1 per cent. of total payroll in 2010, to the Ukrainian state retirement fund and other mandatory state funds as part of its statutory employer's contribution to social security taxes on behalf of its employees. It does not finance any voluntary (non-State) retirement schemes for its employees, although we may consider implementing such a voluntary retirement scheme if the Ukrainian Parliament passes the legislation currently being debated which would reform the Ukrainian pensions system. There is no automatic retirement age for workers, although the statutory retirement age is 60 for men and 55 for women. Employees working in hazardous conditions may retire earlier, at age 50 or 55, depending on their type of employment and the hazard level. The average age of employees at the mine is 41 years.

We believe that, taking into account production levels, our headcount is consistent with or better than most of our CIS competitors. However, it is significantly higher than producers of iron ore in other parts of the world and productivity per worker is relatively low. The primary reason is that we do not currently outsource ancillary services, which is a holdover from our prior State ownership. For example, within FPM, approximately 24 per cent. of all employees are support personnel. Our labour rates, however, are relatively low, with the majority of our employees receiving approximately US$360 per month in 2009 and

approximately US$435 per month in 2010. Labour costs represented 14.6 per cent., 12.7 per cent. and 12.7 per cent. of our C1 cost for the years ended 31 December 2008, 2009 and 2010, respectively.

Our goal is to bring our current workforce in line with international industry standards by reducing our headcount, primarily through outsourcing of support functions and natural attrition, increasing our average wages, and increasing productivity. We believe that plan will ameliorate inflationary pressure on our labour costs, as well as increasing our workers' standard of living. We face certain statutory constraints, however, in seeking to reduce headcount, and any reduction has been achieved mainly through natural departures without forced redundancies. As a result, there can be no assurance that we will succeed in reducing our headcount or lowering our overall employment costs, which may impair our competitiveness compared with iron ore producers with lower employment costs per tonne of iron ore produced.

Long term incentive plan

We implement a long-term incentive plan for our employees which provides for annual awards of performance shares and options up to an aggregate limit of 200 per cent. of salary in normal circumstances. The LTIP framework was approved by shareholders at the 2008 Annual General Meeting. Initial awards were made in 2008 with the same number of shares being given to participants at the same level in the organisation. Further awards were made in 2009 and 2010 to broadly the same participants, on a similar basis. None of the awards granted in 2009 or 2010 exceeded 100 per cent. of salary. These awards are in the form of performance shares which vest according to the extent to which Ferrexpo's three year total shareholder return (**TSR**) matches or outperforms that of a comparator index (the **Index**), as discussed below.

The Remuneration Committee has chosen relative TSR as the primary long-term incentive measure as it considers this to be the most objective external measure of the Group's success. The Remuneration Committee reviewed the constituents of the Index and their weightings prior to the grant of the 2009 LTIP awards and increased the weighting on the focused iron ore miners from 30 per cent. to 40 per cent., while commensurately reducing the weighting on the single commodity/emerging market miners. The resulting comparator index for 2009 and 2010 awards was based 50 per cent. on the median TSR of global diversified mining companies, 40 per cent. on the median TSR of smaller focused iron ore miners and 10 per cent. on the median TSR of selected other single commodity/emerging market miners, as illustrated below.

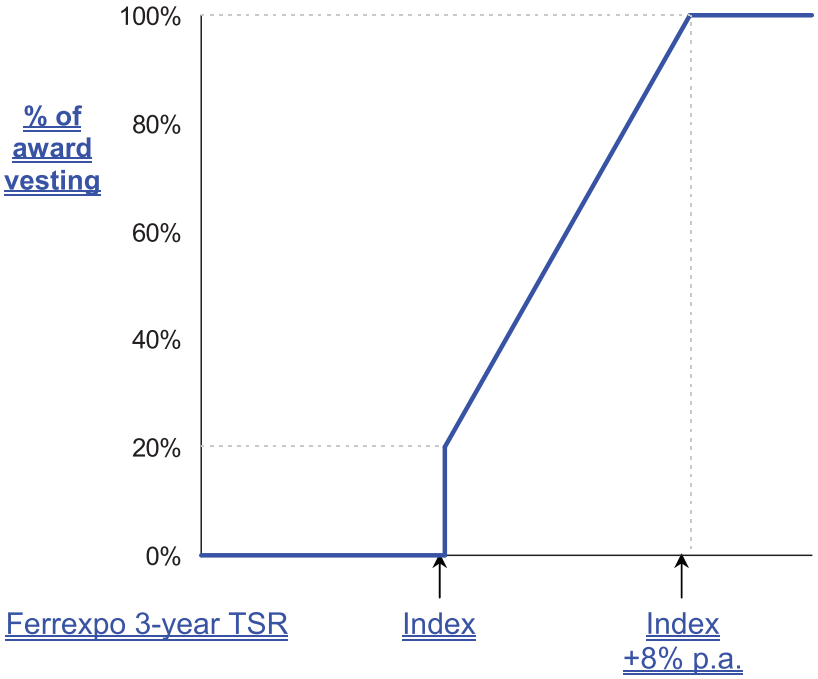
Aggregate Index component	Constituents		weighting
Global diversified miners (10% each)	Vale	Rio Tinto	50%
	BHP Billiton	Xstrata	
	Anglo American		
Focused iron ore miners (10% each)	Cliffs Natural Resources	Kumba Iron Ore	40%
	Fortescue Metals Group	Mount Gibson Iron	
Single commodity/emerging market miners (0.5% each)	African Rainbow Minerals	Industrias Penoles	10%
	Alcoa	Katanga Mining	
	Alumina	Kazakhmys	
	Aluminium Corp of China	KGHM Polska Miedz	
	Antofagasta	Lundin Mining	
	Boliden	Norilsk	
	ENRC	OZ Minerals	
	Eramet	Peabody Energy	
	First Quantum Minerals	Teck Cominco	
	Freeport McMoRan	Vedanta Resources	

TSR is calculated on a common currency basis to ensure that comparisons with international comparators listed overseas are fair.

The Remuneration Committee has discretion to review the comparator index if any of the constituent companies are affected by corporate events such as mergers and acquisitions.

The Remuneration Committee also reviews the constituents and their weightings prior to the start of each LTIP cycle to ensure they remain appropriate. The comparator index will be similar for the 2011 LTIP awards.

No performance shares will vest if Ferrexpo's TSR underperforms the comparator index. Twenty per cent. 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 per cent. per annum; there will be straight-line *pro rata* vesting in between those points. 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:



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 deems it to be in shareholders' interests to do so.

Transitional award of performance shares

The two-year TSR performance period of these awards ended on 31 December 2009. The Remuneration Committee concluded that the performance condition had not been satisfied and that the awards should therefore not vest.

2008 LTIP award vesting

From 1 January 2008 to 31 December 2010, Ferrexpo's TSR performance was 23.9 per cent. and Index TSR was 0.5 per cent. This outperformance of 7.2 per cent. per annum of Index TSR resulted in 92 per cent. of 2008 LTIP awards vesting for TSR. The Committee has considered the Company's overall performance and determined that the recorded TSR outperformance was a fair reflection of Ferrexpo's underlying performance over the performance period and therefore determined, in accordance with the rules of the plan that 92% of the 2008 LTIP awards vested

Proposed 2011 LTIP awards

The Remuneration Committee intends to operate the LTIP framework in 2011 in the same manner as in 2010. However, as intimated in the 2009 Remuneration Report, the Committee has looked at ways to improve the comparison of the management long-term incentive in relation to potential short-term share price movements in Ferrexpo's share price or the share price of comparator companies. After consulting the principal shareholders of Ferrexpo in the summer of 2010, the Remuneration Committee determined that it would extend the TSR share-price averaging period from 3 to 6 months to help eliminate this potential short term variability.

This change will be implemented for LTIP awards to be made in 2011. The TSR performance requirements for threshold and full vesting will remain unchanged. Existing 2009 and 2010 LTIP cycles will continue to employ 3-month share price averaging.

LTIP: share ownership guidelines

The Committee has agreed that, with effect from 2010, Executive Directors and members of the Executive Committee should, in line with the growing practice among FTSE 250 companies, be encouraged to build up a holding of shares of equivalent value to a year's salary (in the case of Executive Directors) or six months' salary (for other members of the Executive Committee). Executives will be encouraged to retain their vested LTIP shares on an after-tax basis until the applicable guideline is achieved.

Share options

The LTIP also allows for the grant of options to acquire Ordinary Shares at a specified exercise price to the extent that performance conditions have been satisfied after a specified vesting period. The exercise price will not be less than the market value of an Ordinary Share at the time of grant.

The Grantor has discretion as to which type of incentive it will use and whether it will grant an individual a performance share award, a share option or a combination of the two. In countries where an award or option involving real shares is not appropriate or feasible for legal, regulatory or tax reasons, a phantom version may be used. This will deliver a cash payment equal to the net benefit a participant would have derived from the vesting or exercise of a performance share award or share option.

To date all awards have been of performance shares. No grants of options have yet been made and there are at present no plans to make any.

Eligibility

All our employees and Executive Directors are eligible to participate in the LTIP at the discretion of the Grantor. In practice grants under the LTIP have been limited to the senior management (about 15 individuals).

Individual limits

The maximum number of Ordinary Shares that an Executive Director and/or an employee may acquire pursuant to performance share awards or options granted to him in any 12 month period under the LTIP may not have an aggregate market value, as measured at the date of grant, exceeding 200 per cent. of the Executive Director's annual base salary or such higher limit as the Grantor may determine is appropriate in exceptional circumstances in any individual case. Market value for this purpose will be based on the average closing middle market quotations for an Ordinary Share as derived from the Daily Official List of the London Stock Exchange for the five dealing days immediately preceding the date of grant.

Grant of performance share awards and options

The Grantor (at the recommendation of the Remuneration Committee) may grant performance share awards or options under the LTIP at any time during the period of six weeks following the Company's announcement of its results for any period or at such other time as the Grantor considers that exceptional circumstances exist which justify a grant. No payment will be required for the grant of a performance share award or option.

Release or exercise of performance share awards and options

Performance share awards (which are made in the form of a nil-cost option to acquire shares) normally vest at the end of a three year period. The Transitional award made in 2008 had a two-year vesting period. The relevant performance conditions are measured over these vesting periods, which start at the beginning of the financial year in which a performance share award or option is granted. Subject to fulfilment of the performance condition, vested performance shares become exercisable after the end of the performance period of each award. Share options (if any are granted) will either become exercisable on the third anniversary of

grant or on each anniversary of grant in equal tranches over the three year period. Vested performance shares or options are exercisable for a maximum of seven years, after which they will lapse.

Share options (if any are granted) will entitle participants to acquire Ordinary Shares at a price per Ordinary Share which will be fixed by the Grantor at the time of grant. The exercise price per Ordinary Share will not be less than the market value of such a share on the date of grant, or, in case of an option to subscribe for newly issued Ordinary Shares, if greater, the nominal value of an Ordinary Share. Market value will be based on the average closing middle market quotations of an Ordinary Share as derived from the Daily Official List of the London Stock Exchange for the five dealing days immediately preceding the date of grant.

Performance share awards and options may normally only vest if the participant remains in our employment. If a participant leaves employment during the vesting period, any unvested part of his award will normally lapse. However, a performance share award or option may be retained in the event of a participant's death or if the reason for leaving is injury, disability, ill-health, redundancy, the sale of the business or company in which the participant is employed, or any other reason if the Grantor so decides. In such circumstances, a performance share award or option will vest in accordance with the normal vesting schedule to the extent that the performance condition has been satisfied (as determined by the Grantor) at that time. The Grantor, however, has a discretion, where it considers it appropriate, to allow a performance share award or option to vest immediately upon the cessation of employment to the extent that, in the Grantor's opinion, the performance condition has been satisfied (measured, if appropriate, over a shortened period of performance) at the date of leaving. In both cases, the number of Ordinary Shares which may be acquired will be reduced on a time pro-rated basis to reflect the proportion of the vesting period which has not been completed prior to the cessation of employment.

In the event of a takeover, merger, reconstruction or amalgamation, demerger or voluntary winding-up of the Company, performance share awards or options which have not yet vested will vest to the extent that the performance condition has been satisfied (as determined by the Grantor and measured (if appropriate) over a shortened period of performance) at the date of the relevant event. The number of Ordinary Shares which may be acquired will be reduced on a time pro-rated basis to reflect the proportion of the vesting period which has not been completed at the time of the relevant event. The Grantor has a discretion to allow performance share awards or options to vest to a greater or lesser extent if it considers it appropriate having regard to the circumstances of the transaction and our financial performance up to the date of the relevant event. Performance share awards or options may also be exchanged for performance share awards or options over shares in the acquiring company.

Scheme limits

To the extent that new Ordinary Shares are to be issued to satisfy share awards and options granted under the LTIP, no performance share award or option may be granted under the LTIP if it would cause the aggregate number of Ordinary Shares that are capable of being issued pursuant to performance share awards and options granted under the LTIP, when added to the number of Ordinary Shares issued or issuable pursuant to rights to subscribe for Ordinary Shares granted during the preceding 10 years under any other discretionary executive share plan operated by the Company, to exceed 10 per cent. of the issued ordinary share capital of Ferrexpo plc from time to time.

The listing bonuses granted upon Admission to certain of the Directors and to the Senior Managers do not count towards the percentage limits stated above.

If awards or options are to be satisfied by a transfer of Ordinary Shares, the percentage limits stated above will not apply.

Adjustment of awards and options

In the event of any rights or capitalisation issue, sub-division, consolidation, reduction or other variation of our share capital or the implementation of a demerger, or the payment of a dividend *in specie* or a super-dividend which would otherwise materially affect the value of an award or option, the Grantor may adjust the number of Ordinary Shares subject to awards and options and any exercise price payable on the exercise of options.

Participant's rights

Benefits under the LTIP are not pensionable.

Awards granted under the LTIP are not transferable and may only be released to or exercised by the persons to whom they were granted or their personal representatives.

Rights attaching to Ordinary Shares

Ordinary Shares allotted or transferred under the LTIP rank *pari passu* with Ordinary Shares of the same class then in issue (except in respect of entitlements arising prior to the date of allotment or transfer).

Amendments

The Grantor may amend the LTIP. However, the provisions governing eligibility requirements, equity dilution, individual participation limits and the adjustments that may be made following a rights issue or any other variation of capital cannot be altered to the advantage of eligible employees or participants without the prior approval of Shareholders in general meeting (except minor amendments to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment or to benefit administration).

The Grantor may adopt appendices to the LTIP without Shareholder approval to take account of any applicable legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for employees or any member of the Group.

Termination

The LTIP will terminate on the tenth anniversary of adoption, or such earlier time as the Grantor may determine, after which time, no further awards may be granted but the rights attaching to existing awards will not be affected by such termination.

Employee Trust

The LTIP operates in conjunction with an employee discretionary trust (the Ferrexpo AG Listing Bonus Trust) established by one of the Company's subsidiaries (the Trust). The beneficiaries of the Trust are the employees and former employees of the Group, and their spouses, widows, widowers and children or stepchildren under the age of 18. The Trust may grant performance share awards and options to eligible employees and acquire and hold Ordinary Shares required to satisfy awards and options granted under the LTIP. Existing Ordinary Shares may be acquired by the trustee of the Trust or we may issue new Ordinary Shares to the trustee. The Company and any relevant subsidiaries have provided sufficient funds by way of loan or gift to the trustee of the Trust to enable it to fulfil its obligations under the LTIP. The company that established the Trust has the power to appoint new and additional trustees or to remove any trustee. It also has the power to amend the trust deed with the agreement of the trustee. The trustee is entitled to an indemnity out of the assets of the trust fund and, if they are insufficient, from the Company or its our relevant subsidiaries against claims, costs and liabilities that it may incur in carrying out its duties (other than where it has been fraudulent, negligent or guilty of gross misconduct). The aggregate number of Ordinary Shares that the Trust and any other trust set up for the benefit of non-executive directors may hold at any time is limited to five per cent. of the Company's issued share capital.

Dividend policy

We believe we should pay modest consistent dividends based on continuing profitability through the economic cycle. The Directors intend to pursue a dividend policy consistent with our growth prospects, reflecting the investment we are making to drive future growth and the cash generated by our existing operations. An interim and final dividend of approximately equal proportions will be paid. We paid total dividends of 6.5 US cents per share for 2008 (amounting to US$39.5 million), 6.6 US cents per share for 2009 (amounting to US$38.6 million) and 6.6 US cents per share for 2010 (amounting to US$38.6 million).

In 2008, pricing and earnings were significantly above long run expectations and additional cash was generated. We considered various ways of returning this cash to shareholders. The most tax efficient method

was via a share buyback, which was executed in September 2008. The Company repurchased 25.3 million, or 4.1 per cent., of its own shares at an average price (including applicable costs and duties) of 170 pence per share. Total consideration including costs amounted to US$77.3 million.

Dividends will be declared in US dollars. We may only pay dividends if distributable reserves are available for this purpose. As a holding company, the ability of the Company to pay dividends will principally depend upon dividends or interest paid to it by its subsidiaries.

Depending on our future financial position and expected cash flows from operations, we may in the future consider a share buyback or a special dividend to be paid out of cash which cannot be used profitably in the business at a rate of return expected by our shareholders.

Although we are incorporated in England and Wales, the Directors currently intend to conduct our affairs in a manner such that it continues to be regarded as resident in Switzerland, and not in the UK, for Swiss and UK tax purposes and for the purposes of the Switzerland/UK Double Taxation convention. Any dividends paid by us will be regarded as Swiss dividends rather than UK dividends.

Litigation

FPM is currently disputing several tax claims by the local tax authorities following tax audits for the fiscal year 2005, 2006 and part of 2007. The claims relate, among other things, to payments of corporate profits tax, VAT, environmental payments and other taxes and duties. The aggregate amount claimed by the tax authorities including alleged underpayments of tax and duties and an allegedly overstated VAT refund together with applicable fines and penalties is approximately UAH51.4 million (US$6.5 million). FPM disputes the basis on which the tax authorities are claiming these amounts and is currently disputing certain of the claims in the Ukrainian courts. See "*Risk Factors – Risks relating to our operations – We are in disputes with the Ukrainian tax authorities*".

Ferrexpo AG has an outstanding claim, in the amount of approximately US$1.5 million, from GPR Dehler, former business consultants engaged to work on the BIP programme at FPM in 2007 and 2008. Ferrexpo AG has been served with notice of a request for arbitration filed by GPR Dehler with the ICC Court of Commercial Arbitration in Paris, and filed its answer to the request in October 2010. GPR Dehler's full statement of claim is due at the end of April 2011. Even if the claim succeeds, we believe that it would not have a material effect on our business.

There are legal proceedings relating to the ownership of approximately 14 per cent. of FPM which, if adversely decided, could ultimately decrease Ferrexpo AG's ownership of FPM by approximately 14 per cent. *"Risk Factors – Our ownership of a related interest in FPM has been challenged"* and *"Shareholders and Related Party Transactions – Shareholder Litigation"*.

Industry

Industry overview

Background

The majority of iron ore consumed worldwide is used in blast furnace operations to produce steel, with over 98 per cent. of the iron ore mined worldwide being used to make steel. Iron ore is used to make metallic iron (**pig iron**), which is the main raw material used to make steel. Steel is produced either through the blast furnace/basic oxygen furnace (**BF/BOF**) process, or via the electric arc furnace (**EAF**) process. The BF/BOF process liberates iron by smelting iron ore in a blast furnace (**BF**), which is then converted to make steel via a basic oxygen furnace (**BOF**). In the EAF process, iron, steel scrap and often direct reduced iron are melted to produce steel.

There are three forms of iron ore products used in the production of steel: fines, lump and pellets. The behaviour of iron ore in the steel-making process is determined by its chemical composition and by its form, both of which affect BF productivity. The chemical constituents that affect BF productivity are iron content, the relative levels of undesirable substances such as silica and alumina, moisture and other impurities (such as phosphorus and sulphur) and levels of desirable substances such as limestone and dolomite.

Iron ore is mined in a number of different forms including magnetite (with 30-40 per cent. iron content), haematite (60-67 per cent. iron content), goethite (62 per cent. iron content), limonite (50-60 per cent. iron content) and siderite (48 per cent. iron content). Due to lower iron ore content, magnetite ore needs to be beneficiated. Haematite ore is complex and costly to beneficiate and is usually mined at a grade of about 65 per cent. Iron ore is reduced by being charged in combination with limestone flux and coke into a blast furnace that is heated with air. The pig iron produced will contain high levels of carbon, sulphur, phosphorus and magnesium. These need to be significantly reduced from the pig iron for steel-making.

Iron ore is traded in three principal forms: fines, lumps and pellets. Sinter fines and lumps are produced from the same ore and are separated by screening and sorting. Neither product is typically concentrated (i.e. beneficiated), unlike pellets. Lumps and pellets are most commonly charged directly into a BF to produce pig iron. However, the lump ore may "decrepitate" (break down under thermal load) in the furnace, thereby lowering its efficiency. The availability of global high quality direct charge lump ore is dwindling.

The particle size of fines needs to be increased before they can be charged into a BF. This is required to improve permeability in the furnace burden and to prevent loss of fines up the stack. Therefore, fines require sintering before being charged to the BF. High grade lump ore is better than fines in terms of BF productivity. Pellets are usually the most desirable form of iron ore as they make a major contribution to the productivity of the BF as they are a clean smelting agent in blast furnace steel production. Pellets are therefore considered a premium product, well-suited towards production of higher quality steel products.

Lump ore is essentially un-beneficiated naturally-occurring clumps of iron ore, with a diameter of more than 5 mm and generally less than 30 mm. The value of lump ore is greater if it does not break up during transportation. An integrated steel mill will normally screen lump ore prior to it being fed into the blast furnace. Lump ore that does not quickly decrepitate in the blast furnace is highly valued by steel-makers.

Pellets begin as fine-grained concentrate. They are the product of an agglomeration process that involves very fine, pure ore (pellet feed) being mixed with a binder (such as a slurry of bentonite), rolled into "green" ball-like pellets and then fired on a grate or in a kiln at about 1,200°C to produce the final indurated (i.e. hardened) product. Pellets are typically 8-20mm in diameter and may also contain fluxes to aid smelting.

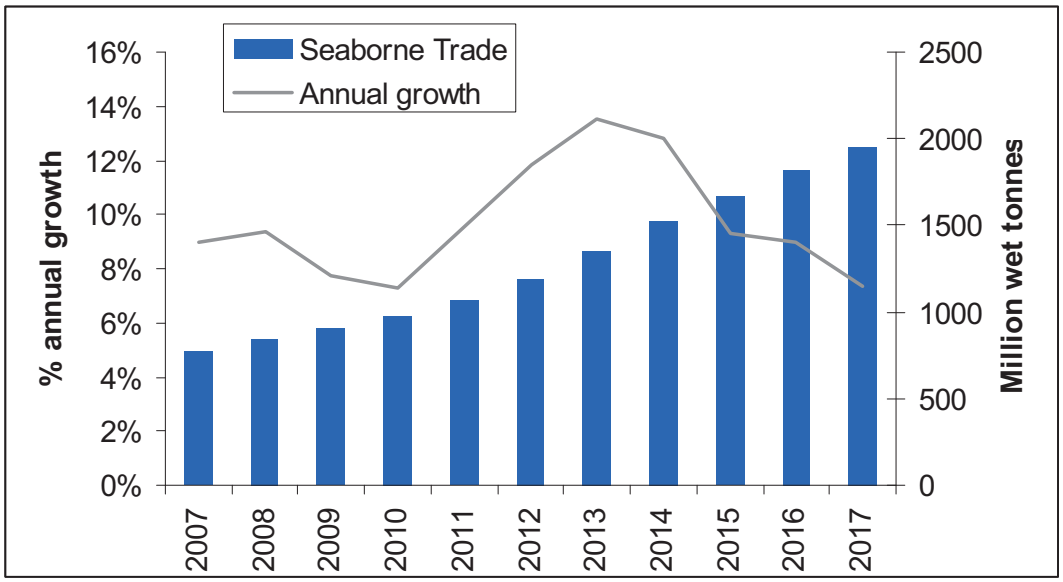
Capacity

According to Metalytics 4Q 2010, global iron ore production totalled 1,870 million tonnes in 2010, representing a 12 per cent. increase over 2009. Global iron ore supply is expected to grow strongly over the remainder of the decade with annual output projected to increase by more than 135 million tonnes to over 2,000 million tonnes by 2011.

Global pellet production totalled 420 million tonnes in 2010, and pellet sales represented 23 per cent. of the total global iron ore production in 2010. There are constraints globally on the ability of pellet suppliers to increase production capacity and product sales to steel customers. These constraints include the significant capital and long lead times associated with expansion of mining, concentrating and processing capacity, logistics bottlenecks and general barriers to entry for new industry participants. Due to these and other reasons, CRU projects that global pellet capacity will increase at a slower rate than pellet demand. Specifically, pellet capacity will grow from 489 million tones in 2010 to 628 million tones in 2015, a CAGR of 5.1%, which is roughly one-third less than the growth rate in pellet demand. Capacity expansion constraints are expected to contribute to continued tightness in the global pellet supply/demand balance.

Steel production has historically been centered in the EU, Japan and the United States. In recent years, steel production in Asia, and in particular China, has increased significantly. Moreover, while production in Europe, Japan and the United States remains significant, steel producers in those regions have increasingly focused on the rolling and finishing of semi-finished products.

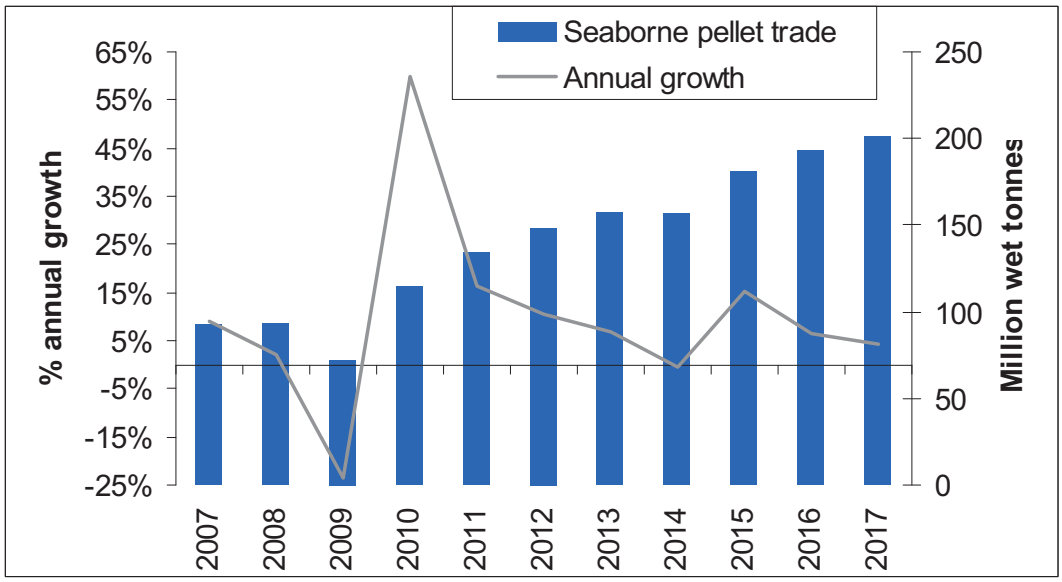
The graph below illustrates expected iron ore seaborne trade to 2017 (*source:* Metalytics 4Q 2010)



The main pellet producing geographies include Brazil, North America, Russia and Ukraine. The major producers within these regions include Comanhia Vale do Rio Doce (Vale) and Samarco Mineracao (Samarco) in Brazil, and Cliffs Natural Resources (Cliffs) in North America. The main pellet producers are Vale, Cleveland Cliffs, Samarco, LKAB and Metalloinvest which collectively accounted for 32.8 per cent. of the total pellet market in 2010.

Ferrexpo is not large in the global iron ore context but is an important player in the seaborne pellets market as we are the largest exporter of pellet products from CIS and are among the ten largest seaborne pellets players. The largest iron ore producers are Vale, BHP Billiton and Rio Tinto (the **Big Three**), which control approximately 36 per cent. of world iron ore production and approximately 66 per cent. of world seaborne trade in iron ore in 2010.

The graph below illustrates expected seaborne trade in pellets to 2017 (*source:* Metalytics 4Q 2010)



Consumption

Global iron ore consumption is expected to grow strongly from 1.9 billion tonnes in 2010 to around 2.6 billion tonnes in 2015, mainly powered by fixed asset investment in Asia, particularly China and India as China has the world's largest steel industry, both in terms of production and consumption. The economic recovery of the Western markets has also led to increased iron ore consumption as the European steel market has been growing steadily at an average annual growth rate of 1 per cent. since the downturn in 2008, according to CRU. Rising iron ore demand will be further supported by emerging industrial economies in the FSU, South America and the Middle East. The global iron ore consumption growth rate is expected to increase at a compound annual growth rate of approx 8 per cent. in the period to 2015.

Consumption growth in China is expected to increase by 56 million tones annually between 2010 and 2015. In 2010, China accounted for 54 per cent. of global iron ore consumption on an unadjusted basis. Consumption growth in India is expected to increase by 51 million tones annually between 2010 and 2015. Demand for pellets is generally driven by steel production trends. An increase in global iron ore demand will likely result in strong consumption levels for pellets, according to CRU.

Imports of ore into China are projected to grow by 455 million tonnes from 604 million tonnes in 2010 to around 1,059 million tonnes by 2015. In 2010, imports accounted for 61 per cent. of China's iron ore supply. Indian iron ore consumption is expected to grow from 120 million tonnes in 2010 to 168 million tonnes by 2015.

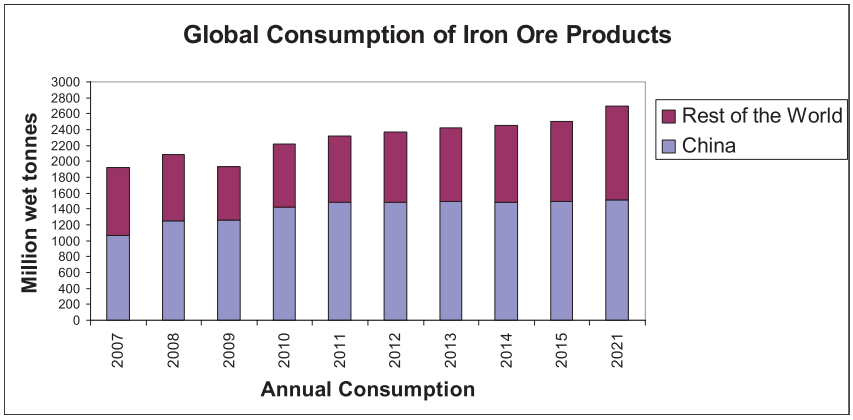
Steel sector reconstruction and modernisation in the CIS is expected to result in iron ore consumption growth of over 50 million tonnes to 189 million tonnes between 2010 and 2015.

South American iron ore consumption is expected to increase from 79 million tonnes in 2010 to 126 million tonnes in 2015, driven largely by plans of the Brazilian steel industry to lift steel production through blast furnace upgrades, new furnaces and Greenfield projects.

North American iron ore product consumption is expected to increase from 71.7 million tonnes in 2010 to 89.5 million tonnes in 2015, driven by economic recovery in the Western markets.

Iron ore consumption growth of 31 million tonnes is forecast for the Middle East in the period 2010–2015, driven by expanding direct reduced iron based steel production as steel-makers in the region capitalise on cheap natural gas supplies.

The following chart sets out projected iron ore consumption of China and the rest of the world (source: CRU 2010: Iron Ore Market Service interim report).



The table below illustrates the compound annual growth rates of iron ore consumption in selected countries between 2010 and 2014 (*source:* Metalytics 4Q 2010).

Country	CAGR %, 2010–2014
Brazil	11%
China	9%
CIS	8%
India	9%
Middle East	18%

Pellets are playing an important role in meeting this consumption growth. Consumption of pellets is expected to increase from 406 million tones in 2010 to 590 million tones in 2015, according to CRU. This represents a demand CAGR of 7.8 per cent. Factors influencing global iron ore pellet demand (and availability) include:

- limited sources of high-grade lump ore which can be direct-charged to blast furnaces;
- the need for iron ore producers to do more processing and concentration of raw ore as existing deposits become depleted and new deposits of lower-grade ore are exploited to meet rising demand;
- the productivity benefits of pellets in blast furnaces;
- growth of direct reduced iron production, which is largely pellet-based (outside India);
- expected future environmental limitations on sinter plant emissions; and
- increasing rates of pulverised coal injection in blast furnaces, which puts additional quality requirements on the iron ore feed.

An important factor affecting the form of iron ore which is used is steel demand. When demand is low, steel-makers tend to switch to fines because they allocate a lower priority to productivity targets. In a tighter supply market, however, when global blast furnace capacity utilization is high, more pellets and lump are consumed to increase blast furnace productivity.

Markets and pricing

Iron ore pricing had historically occurred on an annual basis between the key iron ore producers and steel consumers. The two dominant markets in international iron ore trade are Europe and East Asia, now led by China (formerly by Japan). Benchmark prices have historically been set annually in these two trade zones, with agreed price movements flowing from one market to the other.

Since the annual Benchmark price mechanism was formally abandoned in March 2010 (see "– *Level of international benchmark prices and frequency of adjustments*") the major iron ore suppliers have moved to

quarterly or more frequent price setting mechanisms. Iron ore pricing discussions are, as a general matter, currently negotiated on a bespoke basis primarily driven by international pricing trends. Other factors relevant to pricing negotiations include the end customer profile of specific steel consumers and the desires of iron ore and steel companies to lock-in pricing on a term basis. The larger players are, as a result, continuing to drive the market towards shorter pricing horizons such as monthly and, some towards spot pricing.

Pricing for iron ore pellets are similarly determined on a periodic basis during the course of the year. While pellet price trends tend to follow pricing patterns for the larger iron ore fines market, specific product prices are determined based on bilateral negotiations between pellet suppliers and steel customers.

The table below shows the historic percentage changes achieved to the Benchmark price of fines in Asia and Europe which formed the basis for price changes to lump and pellet. (*source:* Metalytics 4Q 2010)

	Fines % price change		First settlement		
	Asia	Europe	Market	Who	Where
1982	17.2%	15.7%	Europe	CVRD	Germany
1983	–11.4%	–11.2%	Europe	IOC	Germany
1984	–11.6%	–8.5%	Europe	QCM	Germany
1985	0.0%	0.0%	Europe	QCM & IOC	Germany
1986	–1.9%	–1.1%	Europe	QCM & IOC	Germany
1987	5.0%	–9.3%	Asia	BHP	Japan
1988	–4.0%	8.6%	Asia	Hamersley	Japan
1989	13.0%	13.0%	Asia	Hamersley	Japan
1990	16.0%	16.0%	Europe	CVRD	Germany
1991	7.9%	8.0%	Europe	CVRD	Germany
1992	–4.9%	–4.9%	Asia	Hamersley	Japan
1993	–11.0%	–13.5%	Europe	SNIM	France
1994	–9.5%	–9.5%	Asia	Hamersley	Japan
1995	5.8%	5.8%	Asia	BHP	Japan
1996	6.0%	6.0%	Asia	BHP	Japan
1997	1.1%	–1.9%	Asia	BHP	Japan
1998	2.8%	2.8%	Asia	BHP	Japan
1999	–11.0%	–11.0%	Asia	Hamersley	Japan
2000	4.4%	5.4%	Europe	SNIM	France
2001	4.3%	4.3%	Europe	CVRD	Italy
2002	–2.4%	–2.4%	Europe	CVRD	Germany
2003	4.3%	9.0%	Europe	CVRD	Arcelor
2004	18.6%	18.6%	Europe	CVRD	Arcelor
2005	71.5%	71.5%	Asia	CVRD	Japan
2006	19.0%	19.0%	Europe	CVRD	Germany
2007	9.5%	9.5%	Asia	CVRD	China
2008*	71%*	66%*	Asia	Vale	Japan
2009	–33.0%	–28.2%	Asia	Rio Tinto	Japan
2010**	99.7%**	97.3%**	Asia	BHPB	Japan

* Carajas. Rio Tinto settled at 79.9% in Asia

** Apr – Jun Qtr: Prices set against indexes and vary with product

Approximately 90 per cent. of Ferrexpo's sales volumes are supplied under long-term framework agreements. These framework agreements have fixed pellet supply volumes, with negotiated pricing based primarily on international pricing trends as well as individual contract negotiations.

Ukrainian regulatory framework

General

Ukrainian law, notably the Code of Ukraine on the Subsoil, dated 27 July 1994 (the **Subsoil Code**), the Law of Ukraine No. 1775-III on Licensing of Certain Entrepreneurial Activities, dated 1 June 2000 (the **Licensing Law**), the Land Code of Ukraine, dated 25 October 2001 (the **Land Code**) and the Law of Ukraine No. 1264-XII On Environmental Protection, dated 25 June 1991 (the **Environmental Law**) and other laws and regulations, including annual resolutions of the Cabinet of Ministers of Ukraine, impose a number of

restrictions on mining companies in Ukraine. Such restrictions relate to, amongst other things:

- the procedure for obtaining rights to mineral deposits;
- the manner in which mineral deposits are exploited;
- the protection of the environment and prevention of pollution; and
- the health and safety of workers.

The Subsoil Code provides that the subsoil (including its mineral resources) is the exclusive property of the Ukrainian people and may only be granted for the use of legal entities and individuals. Mining companies in Ukraine can only prospect for and mine mineral resources pursuant to production sharing agreements or licences and permits granted by the relevant state authorities. With effect from 2004, exploration and mining licences are generally sold on a competitive basis to the highest bidder at an auction (tender) according to the procedure adopted by the Cabinet of Ministers of Ukraine on an annual basis. As of the date of this Prospectus, the procedure for issuance of permits for 2011 has not yet been adopted.

Exploration and mining licences

A company that intends to develop an unexplored deposit (being a deposit whose resources have not been estimated and approved by the Ukrainian State Commission on Mineral Reserves) must first obtain an exploration licence and carry out prospecting works at its own expense. The Ministry of Ecology and Natural Resources of Ukraine (the **Ministry**) currently grants exploration licences for deposits to applicants for an initial period of five years (other than oil and gas deposits), which may be extended for a further period of up to five years. The licence is subject to various conditions and may be suspended or revoked in specified circumstances. Prospecting work must begin within two years of the date of issue of the licence.

If the geological exploration reveals the existence of commercially extractable minerals, the results of the survey must be confirmed by the State Commission on Mineral Reserves of Ukraine and registered in the State Balance of Mineral Deposits of Ukraine. The applicant may then apply for a mining licence and a mining allotment. The State Committee of Ukraine for Industrial Safety, Labour Protection and Mining Supervision grants a mining allotment to applicants on submission of the mining licence, estimated reserves report and field development or extraction programme. A mining company may also apply for a mining licence for a deposit which has already been explored by the State and whose reserves are registered in the State Balance of Mineral Deposits of Ukraine, subject to payment for the geological data.

The Ministry also grants licences for the extraction of minerals (other than oil and gas) for an initial period of up to 20 years. The licensee may apply to extend a mining licence. A mining licence may be subject to special conditions relating, amongst other things, to the mining technology used, environmental protection, scope of work and termination of mining activities. In general, mining activities must begin within two years of the date of issue of the mining licence. Mining licences may be suspended or revoked, or an extension may be refused, in specified circumstances, including breach of licence conditions or non-payment of fees.

See "*Business – Regulatory and health and safety matters – Mining licences*" and "*– Mining allotments*" for details of FPM's exploration and mining licences and mining allotments. Mining companies are subject to fees for conducting exploration and mining works which are calculated based on the type of ore, size and geological features of the deposit, duration of mining works and other factors. Excess profits of mining companies may be subject to excise tax for certain types of minerals.

Ancillary licences

In addition to licences for exploration and mining, we are required to obtain a number of ancillary licences in connection with our operations. FPM also has licences or permits to conduct ancillary operations, including the following:

- supplying electricity at an unregulated tariff;
- supplying natural gas at an unregulated tariff;

- manufacturing explosives;
- blasting;
- operating telecommunications equipment and networks and using radio frequencies; and
- construction works.

Land

Land in Ukraine is divided into categories depending on its use. Land used for mining purposes falls within the category of industrial land. Each category of land is subject to a particular legal regime. Mining companies may obtain rights to land following the allocation of a mining allotment (see "*Exploration and mining licences*" above). Under the Land Code, land may be held for mining purposes under rights of ownership or rights of use. Rights of use may be conveyed pursuant to a grant of rights of permanent use or a lease. Only State-owned entities are eligible to hold land under rights of permanent use under the current Land Code.

FPM has the right of permanent use of an area of approximately 4,998 hectares of land on which its mine and production facilities are situated. The right of permanent use was granted by the Komsomolsk City Council on 26 December 2000 and FPM obtained a State Act on the Right of Permanent Use of Land for the property on 20 June 2001. FPM has bought most of the land where its main industrial facilities are located (totalling approximately 435 hectares).

Land tax is assessed on the land currently occupied by FPM's mining and production facilities at the rate of approximately UAH10.5 million per year (US$1.3 million at current exchange rate).

FPM leases the land over the Yeristovskoe deposit pursuant to three land lease agreements entered into with the local village council for a term of 49 years.

Environmental standards

State and local laws (principally the Environmental Law, the Subsoil Code and other regulations) contain provisions for the control and protection of the environment in Ukraine. These laws and regulations govern, amongst other things, the use of natural resources, the reclamation and restoration of mining areas, ecological safety standards including atmospheric emissions, the treatment of industrial effluents, the use, handling and disposal of waste and the control of water resources. The use of the subsoil in such a manner as to adversely affect the condition of the subsoil, the environment or public health entails the termination of mining rights. In addition, environmental protection legislation in Ukraine provides that subsoil users (including mining companies) are liable for damage caused by the contamination of the environment and deterioration of natural resources as a result of their activities. Mining activities are subject to mandatory ecological inspections. Mining companies are subject to payments for environmental contamination based on the actual levels of pollutants discharged. Mining sites must be liquidated or conserved after mining operations cease and the land affected by mining operations must be restored for future use.

FPM's mining and production facilities are subject to environmental monitoring and regulation with respect to the following:

- air quality control with respect to dust and gas emissions from the open-pit mine, crushing and processing and waste (tailings dam) operations;
- the disposal of solid waste from the mine and town-site (including hazardous material and waste rock);
- the disposal and storage of waste from the production facilities, mine water and sewage;
- the treatment of excess tailings dam water;
- monitoring ground water quality;

- the disposal of mine waste in dumps;
- the extraction of fresh water from the Dnieper River for use in mining and production; and
- mining operations.

FPM holds a number of environmental licences and permits, including permits for air emission control, solid waste disposal, tailings disposal, mine waste disposal and special use of fresh water. All permits are subject to annual renewal except for air emission and water use permits which are issued for a five year period. FPM has all the permits required for its current operations.

In addition to the above, FPM has adopted its own system of environmental standards and environmental controls. We consider that we have an effective internal environmental management and monitoring system, including a dedicated ecology unit and an ecological laboratory which continually monitors air and water quality, gas filtering equipment and the working environment. All gas emission points are equipped with filters. Dust control measures have been implemented to prevent wind-borne dust pollution from the tailings dams. Most of the dam water is recycled for use in the production process; the excess is biologically treated before being released into the environment.

FPM is subject to monitoring by several national and regional environmental bodies, chiefly the State Department of Environmental Protection in the Poltava region, the Poltava Regional Environmental Reconnaissance Institute and the State Committee of Ukraine on Water Management, and to regular and random inspections by the environmental authorities, including annual monitoring of its tailings dam and waste dumps. FPM is generally in compliance with all environmental requirements.

Management

Directors and senior management

Management structure

We are managed by the Board of Directors of the listed entity, Ferrexpo plc, which is in compliance with the rules of the UK Listing Authority, and are comprised of a majority of independent non-executive directors. The Board members bring many years of resource sector experience and knowledge from outside the company. The Board has a corporate governance framework that includes Board committees, internal procedures and Group policies which are critical to the management of the Group, and good governance to an international standard.

The following are the members of the Board of Directors of Ferrexpo plc.

Michael Abrahams (Chairman)
Ferrexpo plc

Michael Abrahams joined the Board on 14 June 2007. He is chairman of the London Clinic, the Prudential Staff Pension Scheme and imJack 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.

Kostyantin Zhevago
Non-Executive Director and Chief Executive Officer
Ferrexpo plc

Kostyantin Zhevago joined the Board as a Non-executive Director on 14 June 2007 and was appointed Chief Executive on 1 November 2008. He 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, he 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 Bank F&C and as a member of the supervisory board of JSC Ukrnafta. Between 1993 and 1996, he was financial director of Bank F&C. He is a non-executive director of New World Resources NV, a subsidiary of RPG Industries SE.

Kostyantin Zhevago graduated from the Kyiv State Economic University in 1996, specialising in international economics.

Christopher Mawe
Chief Financial Officer
Ferrexpo plc

Chris Mawe 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 he was finance director of UK Coal plc.

Oliver Baring
Senior Independent Director
Ferrexpo plc

Oliver Baring joined the Board on 1 December 2007. He has been chairman of Mwana Africa plc since its reverse takeover of African Gold plc in September 2005. He 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. He was a partner in Rowe and Pitman before its merger with SG Warburg.

He is non-executive chairman of First Africa Holdings Limited, and is a non-executive director of Blackrock World Mining Trust plc, and a member of the Advisory Council of Sentient Resources Fund.

Lucio Genovese
Ferrexpo plc

Lucio Genovese joined the Board on 14 June 2007. He is the chief executive officer of Nage Capital Management, a Swiss-based advisory and proprietary company specialising in the metals and mining sector, and serves on a number of boards of directors. 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).

Wolfram Kuoni
Ferrexpo plc

Wolfram Kuoni joined the Board on 14 June 2007. He is the founder and senior partner of Kuoni Attorneys-at-Law, Zurich, Switzerland, and serves on a number of boards of directors. He has over 12 years of experience in investment banking. Prior to 2005, 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.

He 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.

Ihor Mitiukov
Ferrexpo plc

Ihor Mitiukov joined the Board on 14 June 2007. He is the managing director and head of country for Ukraine, Morgan Stanley. He was the general director of the Financial Policy Institute until March 2008. From 2002 to 2005 he 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).

Miklos Salamon
Ferrexpo plc

Mike Salamon joined the Board on 27 March 2009. He is executive chairman of New World Resources NV, a subsidiary of RPG Industries SE. He is also a non-executive member of the board of directors of OKD, Co-President of AMCI Capital and a non-executive director of Central Rand Gold and of Gem Diamonds. With a career spanning more than 30 years, recently with BHP Billiton, he has extensive knowledge of the international mining and extractive industries. Between 2003 and 2006, he served as an executive director of BHP Billiton with responsibilities for the aluminium, copper and nickel businesses. From 2001 to 2006, he also chaired BHP Billiton's Operating Committee, which was accountable for inter alia the BHP Billiton group's health, safety and environment, projects, purchasing and operating excellence. In 2001, Mr. Salamon oversaw the merger integration of Billiton plc and BHP Limited. He was a co-founding director of Billiton plc in 1997 and oversaw the company's listing on the London Stock Exchange in 1997. Before 1997, he held a number of positions, first at Anglo American and later in the coal divisions of Shell and Gencor Ltd.

He graduated in 1975 from The University of Witwatersrand, Johannesburg with a degree in Mining Engineering (Cum Laude) and obtained an MBA from the London Business School, University of London in 1981.

The following are the members of the Board of Directors of Ferrexpo AG.

Christopher Mawe
Chief Financial Officer

Biographical details shown on page 143.

Lucio Genovese
Director

Biographical details shown on page 144.

Wolfram Kuoni
Director

Biographical details shown on page 144.

The following are the members of the Board of Directors of Ferrexpo Finance plc.

Christopher Mawe
Chief Financial Officer

Biographical details shown on page 143.

David Leonard
Director

David Leonard joined the Ferrexpo Group as Company Secretary in August 2008. In the past 10 years, he has held company secretarial posts at Eurotunnel, P&O and Nikanor plc.

The following are the members of the FPM Managing Board.

Victor Lotous
Director General, FPM

Viktor Lotous joined FPM 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 Chief Operating Officer in April 2007.

Nikolay Kladiev
Chief Financial Officer, FPM

Nikolay Kladiev joined the Ferrexpo Group in June 2005 and FPM in October 2007. Over the course of his career he 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.

Vladimir Ivanov *Chief Production Officer, FPM*	Vladimir Ivanov joined FPM in September 1989. He graduated from the Kharkov polytechnic institute in 1983. Over the course of his career he has spent several years as an engineer at Kharkov tractor building plant. In October 2006, he was appointed as deputy to the General Director responsible for organisation of production and implementation of new technologies. In October 2007, he became Chief Engineer. From January 2009, he is designated in the position of Chief Production Officer.
Dmitriy Spatar *Chief Commercial Officer, FPM*	Dmitriy Spatar joined FPM in February 2006. He graduated the Donetsk technical university in 1997 and Ukrainian academy international trading in 1999. Over the course of his career he has spent several years at ZAO Energotransinvest as specialist in commercial questions. Starting from February 2006 he is an Executing Director on Strategic Development and Commercial Questions. In January 2009, he was designated in the position of Chief Commercial Officer.
Aleksandr Krasulya *Chief Technical Officer, FPM*	Aleksandr Krasulya joined FPM in 1984. He graduated the Dnepropetrovsk Mining Institute. Starting from 1989, he was a Chief Specialist on Concentration. In April 2000, he became Chief Technical Officer.
Ekateryna Vavaka *Chief Accountant, FPM*	Ekateryna Vavaka joined FPM in 1974. After graduating from Kyiv Institute of National Economy in 1982, she became deputy of Chief Accountant. In 1989, she was designated in the position of Chief Accountant.

Board Committees

The following are our board committees:

Audit Committee	Committee members: Wolfram Kuoni (Chairman), Lucio Genovese, Ihor Mitiukov 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. The Committee monitors the integrity of our financial statements, including its annual and interim reports, interim management statements, preliminary results announcements and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain. The Audit Committee is also responsible for reviewing internal controls and risk management systems, whistleblowing procedures and internal audit processes, and oversees the relationship with the external auditors.
Remuneration Committee	Committee members: Lucio Genovese (Chairman), Michael Abrahams, Ihor Mitiukov, Oliver Baring 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.
Nominations Committee	Committee members: Oliver Baring (Chairman), Michael Abrahams, Wolfram Kuoni, Ihor Mitiukov, Kostyantin Zhevago The Nominations Committee meets as required. The role of the Nominations Committee is to identify and nominate candidates for

	the approval of the Board, to fill vacancies and make recommendations to the Board on Board composition and balance and on succession planning. The Nominations Committee consults regularly with the Board when filling vacancies. The Executive Directors and Chairman also assist in identifying the scope and required skills for the vacant role.
Corporate Safety and Social Responsibility Committee	Committee members: Viktor Lotous (Chairman), Michael Abrahams, Kostyantin Zhevago The CSR Committee's role is to formulate and recommend to our Board policies on corporate safety and social responsibility issues as they affect our operations. In particular it focuses on ensuring that we have effective systems and standards, procedures and practices are in place. The CSR Committee is responsible in conjunction with the Executive Committee for reviewing management's investigation of incidents or accidents that occur in order to assess whether policy improvements are required.
Committee of Independent Directors	The Committee of Independent Directors (**CID**) (which consists of all five Independent Directors) considers and, if appropriate, authorises on behalf of the Board related party transactions and otherwise ensures compliance with Chapter 11 of the Listing Rules of the Financial Services Authority and the Relationship Agreement entered into between Fevamotinico, Mr. Zhevago, The Minco Trust and the Company. The CID holds delegated authority to consider and, if appropriate, authorise conflicts of interest of any member of the Board under the relevant section of the Companies Act 2006.
The Executive Committee	The day to day operational management of the Company is through the Executive Committee. This consists of 2 main board directors, the Chief Executive and Finance Director and other executives with talent and experience gained from international resource companies. This gives us unparalleled depth of expertise across its functional areas.

The following are the members of our Executive Committee:

Kostyantin Zhevago *Chief Executive Officer* *Ferrexpo plc*	Biographical details shown on page 143.
Christopher Mawe *Chief Financial Officer* *Ferrexpo plc*	Biographical details shown on page 143.

Brian Maynard
Group Chief Operating Officer, Ferrexpo

Brian Maynard joined the Group in January 2011. He graduated in 1981 from the University of Manitoba, Canada with a B.Sc. in Geological Engineering. He spent 30 years with Vale Inco & Vale Australia in the nickel and coal operations respectively, working in technical, operations management, and executive roles. In 2007 he was Vice President-Mining in the Vale Inco Ontario, Canada operations (6 u/g mines & 1 o/p). He moved to the President's role in the Manitoba, Canada operations in 2008 and was accountable for the fully integrated mining, milling, smelting and refining complex. Most recently he was the Global Coal Director – Technical & Administrative Support (incl. Finance, Sustainability, Logistics, Technical Services) in the Brisbane head office of the Vale Australia operations.

Yaroslavna Blonska
Acting Chief Marketing Officer Ferrexpo plc

Yaroslavna Blonska joined the Ferrexpo Poltava Marketing Group in 2002 where she was responsible for iron ore and concentrate supply as well as sales to Natural and Asian markets. She has been a Director of Ferrexpo Services Ltd since Jan 2006. In 2007 Yaroslavna was appointed the Marketing Manager of the Ferrexpo Group, where she is responsible for CIS and Eastern European sales. She has also been a Member of the TIS-Ruda Supervisory Board since 2007. As of 1 January 2011, Yaroslavna was appointed Acting Chief Marketing Officer of Ferrexpo plc. Yaroslavna graduated from Kyiv State Economic University in 1996, with a degree of MSc in International management, and completed post graduate studies in Law at Kyiv State University, Ukraine. From 1996 to 2006 she worked with JSC Ukrenergozbut as Vice Chairman. She has held senior marketing sales and financial positions for the past 12 years, and is a Member of Supervisory Board and Auditing committee of a number of major Ukrainian industrial enterprises.

Nikolay Goroshko
Acting Director General, Ferrexpo Yeristovo

Nikolay Goroshko has worked for FPM since 1984. He is a graduate of the Kyiv Institute of National Economics, specialising in Industrial Planning. He previously held the positions of Acting Group Chief Financial Officer and Chief Commercial Officer of Growth Projects prior to his current role.

Nikolay Kladiev
Chief Financial Officer, FPM

Biographical details shown on page 145.

Victor Lotous
Director General, FPM

Biographical details shown on page 145.

In addition the finance function is complemented by an experienced Group treasurer responsible for ensuring our liquidity, the raising of external bank debt, the investment of surplus funds and the control over cash.

John Arnold *Group Treasurer* *Ferrexpo plc*	John Arnold is a Chartered Accountant, and prior to joining Ferrexpo in January 2006, held a position of Head of Corporate Sales at JPMorgan Chase Bank (Sydney) Treasury Services division for five years. Previously he worked for Baker Hughes Incorporated, a global U.S. oil field services company, where he held many finance and treasury positions in liquidity management, cross border finance, entity structuring, acquisitions, risk management, and debt finance. Prior to moving to Sydney he worked as Regional Treasurer for Asia Pacific/Middle East Company, based in Singapore, for eight years.

The persons listed in "*Management structure*" under "*The Executive Committee*" above and John Arnold make up the our management team (the **Management Team**).

Jason Keys *Incoming Chief Marketing Officer,* *Ferrexpo plc*	In addition, in the second half of 2011 Jason Keys is to join Ferrexpo, and become a member of the Executive Committee, as the Group Chief Marketing Officer. Jason joins from BHP Billiton where he is currently Global Marketing Manager for Iron Ore. He has significant industry experience in both the European and Asian iron ore markets having lead BHP Billiton's Iron Ore commercial marketing team over the past 5 years. For the 12 years prior to that, Jason held senior sales and marketing roles within BHP Billiton Coal and Rio Tinto Coal and Iron Ore. He has a background in finance having qualified as a Certified Professional Accountant and has a Bachelor of Commerce degree from the University of Western Australia.

Certain Information on the Members of the Board of Directors and Management Team

Ferrexpo plc's registered address is the business address of the members of the Board of Directors of Ferrexpo Finance plc, Ferrexpo Plc and Ferrexpo AG, the Managing Board of FPM and the Management Team: 2-4 King Street, London SW1Y 6QL, United Kingdom.

No member of the Board of Directors and no Management Team member has been convicted of any fraudulent offences, publicly incriminated, and/or sanctioned by statutory or regulatory authorities (including professional associations) within the past five years.

No member of the Board of Directors and no Management Team member has, within the past five years, been deemed by a court or any other statutory or regulatory authority to be unfit for membership in an administrative, management, or supervisory body of a company or to be unfit to exercise management duties or to manage the business of an issuer.

There are no family relationships among the members of our Board of Directors and Management Team members.

No member of the Board of Directors of Ferrexpo Finance plc has a potential or actual conflict of interest between any duties owed to our members and his/her private interests and other duties.

No member of the Board of Directors or the Management Team of Ferrexpo plc has a potential or actual conflict of interest between any duties owed to our members and his/her private interests and other duties.

No member of the Board of Directors of Ferrexpo AG has a potential or actual conflict of interest between any duties owed to our members and his/her private interests and other duties.

No member of the Managing Board of FPM has a potential or actual conflict of interest between any duties owed to members of the Group and his/her private interests and other duties.

Management Team and Director Compensation

See also "*Listing and General Information – Directors' terms of service contracts and appointment*".

Shareholdings of Management Team and Directors

For information on the shareholding of members of the Board of Directors and the management team, see "*Principal Shareholders*".

CSR committee

We have established a Corporate Safety and Social Responsibility Committee (the **CSR Committee**) to monitor the implementation of CSR policies. The CSR Committee is chaired by Viktor Lotous (Chief Operating Officer of FPM), and includes Michael Abrahams (Chairman of the Board) and Kostyantin Zhevago (Chief Executive Officer). To assist them in the exercise of their duties, the CSR Committee will, from time to time, engage specialist technical advisers.

Code of ethics

A Group-wide Code of Corporate Responsibility and Business Ethics has been adopted by the Board which enshrines Ferrexpo's values. These are to maintain high standards of behaviour with all those the Company deals with, both inside and outside Ferrexpo, to benefit those around it by its presence, and to develop and manage its resources and facilities in a sensible manner, having regard for the natural and social environment in which Ferrexpo operates.

Shareholders and Related Party Transactions

Major shareholders

Our total number of 10p ordinary shares in issue is 613,967,956 including 25,343,824 shares held in treasury and 4,019,759 shares held in the employee benefit trust reserve. The number of voting shares outstanding is 584,604,383 as at 15 March 2011. Our authorised capital is US$121,627,585. The following table shows the top 10 shareholders of Ferrexpo plc as of 15 March 2011.

Shareholder	Holding	Per cent. Holding
Fevamotinico S.a.r.l.[1][2]	300,198,313	51.00
BXR Group Limited[3]	147,156,035	25.00
J.P. Morgan Asset Management	17,529,054	2.97
M&G Investment Management Ltd (UK)	9,669,956	1.64
Baring Asset Management Ltd	6,770,078	1.15
Legal & General Investment Mgmt Ltd	6,280,841	1.07
Old Mutual Asset Managers	5,776,849	0.98
Employee Benefit Trusts	4,612,637	0.78
BlackRock Inc	3,522,460	0.60
T. Rowe Price International Inc.	3,243,513	0.55

(1) The ultimate beneficial owner of Fevamotinico S.à.r.l. is The Minco Trust. Beneficiaries of the Minco Trust include Kostyantin Zhevago.

(2) On 16 September 2008, Ferrexpo plc repurchased 19,398,814 of its own Ordinary Shares from Fevamotinico S.a.r.l., an entity under common control, at the market price of £1.673 per share for settlement on 19 September 2008. The gross consideration paid amounted to US$58.2 million.

(3) On 22 October 2009, BXR Group (formerly known as RPG Industries) sold 12 per cent. of the shares of Ferrexpo plc (just under half of its holding) to J.P. Morgan, Citigroup and Morgan Stanley in three separate Total Return Swap (**TRS**) transactions of 4 per cent. each. The TRS deal allows BXR Group to retain the equivalent financial exposure to its full 25 per cent. holding but effectively increases our freefloat. As of 15 March 2011 our freefloat was approximately 36 per cent.

Miklos Salamon is a non-executive director on Ferrexpo plc's Board. Mr. Salamon is also executive chairman of New World Resources NV, a subsidiary of BXR Group Ltd. In turn, Kostyantin Zhevago is a non-executive director of New World Resources NV. For further information see "*Management*".

Save as disclosed above, in so far as is known to us, there is no other person who at 15 March 2011 (being the latest practicable date prior to the publication of this prospectus) is, directly or indirectly, interested in 3 per cent. or more of our issued share capital, or of any other person who can, will or could, directly or indirectly, jointly or severally, exercise control over us.

The Issuer's total number of £1 shares outstanding is 600,000. The authorised capital of the Issuer is £600,000.

Shareholder Litigation

In November 2005, one of the sellers from whom certain nominee companies controlled by Kostyantin Zhevago purchased a 40 per cent. stake in FPM initiated legal proceedings in the Ukrainian courts seeking to invalidate the shares sale and purchase agreement dated November 2002 pursuant to which those shares were sold (the 2002 SPA), together with an ancillary agreement, claiming that the agreements were not executed in compliance with certain formal requirements of Ukrainian securities laws. The shares were subsequently sold on to other companies controlled by Kostyantin Zhevago and the initial buyers were wound up. The claims succeeded at first instance and on appeal but were dismissed and the proceedings terminated without further right of appeal by the Supreme Court of Ukraine in April 2006. In September 2006 and January 2007, the Supreme Court of Ukraine subsequently ordered that, as a result of the refusal of the International Commercial Arbitration Court at the Ukrainian Chamber of Commerce and Industry to adjudicate the matter, the claims should be retried by the court of first instance. In March 2007, the Donetsk regional court again declared the 2002 SPA invalid. This ruling was purely declaratory and no order for restitution of the shares was sought or granted. The regional court's ruling was upheld on appeal by the Donetsk Appellate

Court in April 2007 and in April 2010, following a new retrial of the case, the High Commercial Court of Ukraine ruled in favour of the former shareholder. The defendant is currently contemplating to challenge the ruling of the High Commercial Court of Ukraine with the Supreme Court of Ukraine on points of inconsistent application of law and has until April 2011 to file the respective application. At this stage, it is unclear whether the defendant will file this application and whether the High Commercial Court of Ukraine will grant the leave to defendant to challenge its ruling. Furthermore, the effect of the High Commercial Court of Ukraine's ruling is unclear as the High Commercial Court of Ukraine did not rule on any consequences of the invalidity of 2002 SPA. Having taken appropriate legal advice, we believe that the claims are without merit and that even if judgment on the invalidity of 2002 SPA remains in force it is unlikely that the claimant would be able to recover the shares. Moreover, as the initial 40 per cent. shareholding has been diluted to less than 14 per cent. of FPM's current issued share capital as a result of additional capital increases, even if this matter were to be ultimately adjudicated in favour of the claimant and it were to be able to obtain the shares, we do not believe that the claimant would be in a position to block decisions by the general meeting of shareholders. Having taken professional advice, the Directors do not currently expect that we will suffer a material liability in connection with this matter and accordingly no provision has been made in the accounts in respect of this claim. There can be no assurance, however, that the claim will not succeed. See "*Risk Factors – Risks relating to our operations – Title to our mineral properties or production facilities, or to any privatised company we have acquired, may be challenged*".

Relationship Agreement

In June 2007, our majority shareholder, Fevamotinico, a company owned by The Minco Trust (one of the beneficiaries of which is Kostyantin Zhevago), Kostyantin Zhevago, and Ferrexpo plc entered into an agreement (the **Relationship Agreement**) which regulates the ongoing relationship between them to ensure that Ferrexpo plc is capable of carrying on its business independently of Fevamotinico and Kostyantin Zhevago, and to ensure that transactions and relationships between Fevamotinico, Kostyantin Zhevago, and Ferrexpo plc are at arm's length and on a commercial basis. The Relationship Agreement shall continue for so long as (a) the Ordinary Shares of Ferrexpo plc are listed on the Official List of the Financial Services Authority and traded on the London Stock Exchange and (b) Fevamotinico or Kostyantin Zhevago control directly or indirectly a shareholding of at least 24.9 per cent. in the Company. The Relationship Agreement was subsequently amended in October 2008 at the time of the appointment of Kostyantin Zhevago as CEO.

Under the Relationship Agreement, as amended the Company, Fevamotinico, The Minco Trust and Kostyantin Zhevago agree, *inter alia*:

(i) that Ferrexpo plc shall have its own management and that it shall operate and make decisions for the benefit of all of the Shareholders (including Fevamotinico,) as a whole and independently of Fevamotinico, and Kostyantin Zhevago at all times;

(ii) to ensure that Ferrexpo plc is capable, at all times, of carrying on its business independently of Fevamotinico, and Kostyantin Zhevago, but not so as to prevent Kostyantin Zhevago from serving as CEO;

(iii) that all transactions and relationships between Fevamotinico, and Kostyantin Zhevago and/or any of their associates and any member of the Ferrexpo Group (as the case may be) shall be on terms which are at arm's length and on a commercial basis;

(iv) there shall at all times be a majority of Directors independent of Fevamotinico, and Kostyantin Zhevago (and who are therefore not a director or officer of Fevamotinico or an employee of either of them and free from any business or other relationship, association or interest with either of them) (the **Independent Directors**) on the Board;

(v) that the quorum for all Board meetings shall include one non-executive director who is an Independent Director and either Kostyantin Zhevago (while he is CEO) or one non-executive director who is a Representative Director (being Kostyantin Zhevago or his nominee as a representative of Fevamotinico), and that such quorum, in cases where Kostyantin Zhevago as CEO, or else the Representative Director, is not permitted by law or under the Articles of Association of Ferrexpo to count towards he quorum, shall be three Independent Directors;

(vi) Fevamotinico will vote so that any Independent Director will (insofar as may be necessary to ensure that there continues to be a majority of Independent Directors on the Board) be replaced by a new executive or non-executive director, as the case may be, who is also an Independent Director;

(vii) unless the Independent Directors agree otherwise, only the Independent Directors shall vote on any resolutions of the Board to approve any aspect of Ferrexpo plc's involvement in or enforcement of any arrangements, agreements or transactions with Fevamotinico, and Kostyantin Zhevago and/or any of their associates and any of our members (as the case may be);

(viii) that Fevamotinico undertakes to, and Kostyantin Zhevago undertakes to procure, so far as he has power to do so (by giving appropriate directions to The Minco Trust or otherwise), that Fevamotinico shall exercise its voting rights or other rights in favour of our being managed in accordance with the Listing Rules, Prospectus Rules and Disclosure and Transparency Rules and the principles of good governance set out in the Combined Code;

(ix) that Fevamotinico undertakes to, and Kostyantin Zhevago undertakes to procure, so far as he has power to do so (by giving appropriate directions to The Minco Trust or otherwise), that Fevamotinico shall observe the provisions in the Articles;

(x) that Fevamotinico shall have the same voting rights as all other Shareholders;

(xi) that Fevamotinico undertakes not to, and Kostyantin Zhevago undertakes to procure, so far as he has power to do so (by giving appropriate directions to The Minco Trust or otherwise), that Fevamotinico shall not exercise its voting rights to requisition, approve or vote in favour of any amendment to our constitutional documents which would be inconsistent with, conflict with or undermine, the terms of the Relationship Agreement;

(xii) that each party will keep confidential any information which it acquires in connection with the Relationship Agreement and subject to customary exceptions shall not disclose or make use of such information for any purpose whatsoever other than for the purposes of properly performing its obligations under the Relationship Agreement;

(xiii) that Kostyantin Zhevago represents and warrants that he does not directly or indirectly (whether through Fevamotinico or otherwise), own or have any form of ownership interest in any company, business, business operation or other entity or enterprise which is involved in the mining, processing, distributing, selling, supplying or dealing in iron ore and which is carried on in whole or in substantial part within Ukraine (a **Ukrainian Iron Ore Company**) at the date of the Relationship Agreement, other than (i) through Ferrexpo or any other member of the Group; (ii) through Vostok-Ruda Ltd., or any other enterprise which owns and operates the Nova iron ore mine and concentrator; or (iii) where iron ore is produced as a by-product or is ancillary but is not the primary, material or substantial part of the relevant business and is therefore agreed by the parties not to be a direct competitor of the Company or any member of the Group;

(xiv) that for a period of two years following listing on the London Stock Exchange in June 2007, Fevamotinico, and Kostyantin Zhevago each agree that:

(A) Kostyantin Zhevago shall not, directly or indirectly, become Ferrexpo plc's direct competitor (save as provided for in paragraph 1.12 (i), (ii) and (iii) above),

(B) Kostyantin Zhevago and/or Fevamotinico will give Ferrexpo plc the first right of refusal to enter into any transaction with, invest in or acquire any interest in any Ukrainian Iron Ore Company (other than transactions where the production of iron ore is simply a by-product or is ancillary but is not the primary, material or substantial part of the business) such that it would be a direct competitor of the Company or any member of its Group (each a **Competing Transaction**) in preference to any other party.

Ferrexpo plc shall be given a period of six months to resolve to proceed with any Competing Transaction that is offered to it or decline to do so. If Ferrexpo plc elects not to proceed with a Competing Transaction, or is unable to complete a Competing Transaction within a period of 12 months of the

Competing Transaction having been offered to it, each of Fevamotinico, and Kostyantin Zhevago shall have fulfilled its obligations under paragraph (ii) above (and in the case of Kostyantin Zhevago, any separate but similar obligations he may have as a director) provided, however, that Kostyantin Zhevago shall remain bound by the undertaking at paragraph (i) above in relation to such Competing Transaction;

(xv) that Fevamotinico, and Kostyantin Zhevago shall not solicit for employment any of Ferrexpo plc's senior executives, or materially increase the limited amount of time which Ferrexpo plc has permitted the Executive Directors to spend on other business interests connected with Kostyantin Zhevago and his associates; and

(xvi) that Fevamotinico, and Kostyantin Zhevago undertake not to, and each procure that their associates shall not do, cause or authorise to be done anything which will or may impair, damage, devalue or otherwise be detrimental to the reputation or goodwill associated with us, any form of intellectual property registered or owned by any of our members and the Ferrexpo brand or bring the Company or any of our members or the Ferrexpo brand into disrepute.

Related party transactions

The Issuer is a wholly owned subsidiary of Ferrexpo plc as of the date of this Prospectus.

Entities under common control

All entities controlled by Kostyantin Zhevago are considered to be entities under common control. We purchase material and services from entities under common control and enter into transactional banking agreements with a financial institute controlled by Kostyantin Zhevago. See "– *Transactional banking agreements*".

Associated companies and other related parties

We hold a 48.6 per cent. interest in TIS-Ruda, a Ukrainian company operating a port located on the Black Sea which provides our selling and distribution services.

Other related parties are entities controlled by Olexander Moroz (until 14 May 2010 a supervisory board member of FPM), from which we purchase material and selling and distribution services.

Material transactions

During the periods covered by the Prospectus, we entered into arm's length transactions with entities under the common control of Kostyantin Zhevago and with other related parties. We believe we have appropriate procedures in place to identify and properly disclose transactions with related parties.

Other sales

In the year ended 31 December 2010, we made sales of scrap metal amounting to US$2.2 million to Ferrolit, a company under the control of Olexander Moroz, compared to US$1.4 million in the year ended 31 December 2009. Such sales are unpredictable and can fluctuate from one period to another. However, all such sales to other related parties are transactions at arm's length.

In the year ended 31 December 2010, we sold power and other materials to Kislorod PCC, an entity under common control, in the amount of US$0.5 million, compared to US$0.4 million for the year ended 31 December 2009. In addition to the sales made to Kislorod, we sold power and other materials to another entity under common control named Vorskla Steel Ltd. Our annual sales to Vorskla Steel Ltd made in the financial years 2010 and 2009 amounted to approximately US$0.1 million.

Purchase of material

We purchase concentrate for use in the production of iron ore pellets from Vostok-Ruda Ltd., an entity under common control. During the year ended 31 December 2010, we purchased concentrate in the amount of

US$104.4 million from Vostok-Ruda Ltd. (of which US$92.7 million is related to third party merchant concentrate purchased by us through Vostok-Ruda Ltd), compared to the year ended 31 December 2009, in which we purchased US$1.8 million. We currently have surplus pelletising capacity which we utilise where possible by purchasing concentrate produced by third parties on the open market. We earned a margin on the third party concentrate business of US$16.2 million. Vostock Ruda earned fees of US$140,000 which covered only costs incurred procuring and delivering of the purchased third party concentrate.

During the financial year 2010, we purchased pellets produced by FPM from SIA Wellmark Latvia, which is controlled by Kostyantin Zhevago. The related party acted on our behalf and earned a handling commission of US$0.10 per ton amounting in total to US$69,000 (2009: US$ nil). The lower volume of purchased concentrate in 2009 was due to our decision to cease such purchases during the general downturn of the market.

We also purchase cast iron balls from Ferrolit. During the year ended 31 December 2010, we purchased cast iron balls in the amount of US$14.9 million from Ferrolit, compared to US$11.3 million during the year ended 31 December 2009. The increase of the volume of purchased cast iron balls was due to an increase in pellet production in 2010 compared to 2009, from 8,609 kilotonnes to 9,033 kilotonnes.

We purchased compressed air, oxygen, nitrogen and services of US$4.0 million in 2010 (31 December 2009: US$3.0 million) from Kislorod, a company controlled by Kostyantin Zhevago. Purchase of materials also comprise the purchase of gas amounting to US$14,432 (2009: nil) from OJSC Ukrzakordongeologia, which is a related party to the Group, at rates which are competitive to those supplied by Naftogaz.

Purchase of services

Kuoni Attorneys at law Ltd. provided an employee secondment to us between December 2009 and June 2010. The recharge was made at cost and amounted to US$106,000. Other services provided to us amounted to US$13,000 in the year ended 31 December 2010 compared to US$23,000 in the year ended 31 December 2009. No such services were provided in previous periods. Wolfram Kuoni, a name partner in the firm, is also an independent non-executive director of Ferrexpo plc. The services were provided on an arm's length basis by other members of Kuoni Attorneys at law Ltd.

General and administrative expenses

We have engaged FC Vorskla for advertisement, marketing and general public relations related services under a contract initially entered into in October 2005 and last re-executed in February 2011. We paid US$3.3 million to FC Vorskla during the year ended 31 December 2010, compared to US$2.6 million for the year ended 31 December 2009. In 2008, we purchased services for US$2.1 million from FC Vorskla. A new agreement was signed with FC Vorskla. Based on this contract, we plan to purchase additional services from FC Vorskla for an expected aggregate amount of approximately US$1.1 million.

Selling and distribution expenses

We purchase selling and distribution services, including port charges, handling costs, agent commissions and storage costs, from TIS-Ruda. The purchased port services decreased from US$11.8 million for the year ended 31 December 2009 to US$8.4 million for the year ended 31 December 2010. The decrease is mainly related to lower iron ore pellet volumes delivered to our Growth markets in China and India compared to the comparative period in 2009. The annual purchases of port services significantly increased from US$3.5 million in the year ended 31 December 2008 to US$11.8 million in the year ended 31 December 2009, due to higher volumes shipped to China and India during the downturn of our Traditional markets in Europe in 2009.

We also purchase logistic management services, mainly related to custom clearance and coordination of rail transit, from Slavutich-Ruda-Ukraine Ltd., an entity under the control of Olexander Moroz. The services purchased in the year ended 31 December 2010 amounted to US$18.3 million, compared to US$11.5 million in the year ended 31 December 2009 and Slavutich-Ruda-Ukraine earned US$0.8 million and US$793,000 million respectively in commissions. The increase was related to higher volumes transported to the western border in 2010 compared to the comparative period in 2009 when a higher volume of iron pellets were transported to the port on the Black Sea. These purchases were at prices below the prevailing market rate.

Other operating expenses

Our other operating expenses mainly relate to communication services provided by TV & Radio Co. In the year ended 31 December 2010, communication services fees paid to TV & Radio Co. amounted to US$108,000, compared to US$60,000 in the year ended 31 December 2009.

Finance income and expenses

We enter into transactional banking arrangements with Bank F&C, which is under common control of Kostyantin Zhevago. See "– *Transactional banking arrangements*".

We paid bank and interest expenses to Bank F&C in the amount of US$0.4 million in the year ended 31 December 2010 compared to US$0.8 million in 2009.

We generate interest income on cash and cash equivalent balances with Bank F&C. Our interest income for the year ended 31 December 2010 decreased from US$1.3 million in the year ended 31 December 2009 to US$1.0 million, due to lower cash and cash equivalent balances with Bank F&C in this period.

Sale and purchases of property, plant and equipment and investments

Between October and December 2010, we purchased 300 railcars from a related party named Trading house Wagonplant LLC in the amount of US$17.5 million (31 December 2009: nil). In 2010, drilling programmes have been conducted by OJSC Donbasgeology at the Northern deposits of FPM and at Ferrexpo Belanovo Mining amounting to US$5.0 million (31 December 2009: nil). See "*Management's Discussions and Analysis – Factors affecting our business and trade – Sales volumes*".

On 31 March 2009, we entered into the agreement on manufacturing, delivery and assembling of a trial filter press with Progress Plant Company, an entity under the common control of Kostyantin Zhevago, for US$2.2 million.

On 28 November 2008, we entered into a purchase agreement for property for the total amount of US$1.1 million, plant and equipment (principally trucks and cranes) with Auto Kraz, an entity under common control.

On the 16 September 2008, Ferrexpo plc repurchased 19,398,814 of its own ordinary shares from Fevamotinico, an entity under common control, at the market price of £1.673 per share for settlement on 19 September 2008. The gross consideration paid amounted to US$58.2 million.

On 15 July 2008, FPM and Subsidiary Ferrotrans, another Group subsidiary, subscribed for additional shares of OJSC Stakhanov Wagon Works, for consideration of US$0.3 million, in the course of an additional shares issue conducted by that company. Our total shareholdings as at 31 December 2010 was 3.1 per cent. As at 31 December 2010 the market value of the total shares of OJSC Stakhanov Wagon Works held by us through our subsidiaries amounted to US$2.7 million, compared to US$0.8 million as at 31 December 2009. See "– *Investments available-for-sale*".

In May 2008, we acquired a truck from Auto Kraz, an entity under common control, for US$0.1 million.

On 8 May 2008, we disposed of a 2.10 per cent. share holding in Vostok-Ruda Ltd., an available-for-sale investment, to entities under common control for a consideration of US$1.8 million. Our remaining shareholding in Vostok-Ruda Ltd. is 1.1 per cent. as of 31 December 2010, and in unchanged from 31 December 2009. See "– *Investments available-for-sale*".

Investments available-for-sale

Our investments available-for-sale are comprised of shareholdings in LLC Atol (9.95 per cent.), OJSC Stakhanov Wagon Works (3.1 per cent.) and Vostok-Ruda Ltd. (1.10 per cent.). Further interests in these companies are held through entities controlled by Kostyantin Zhevago. Our shareholdings remained unchanged between 31 December 2008 and 31 December 2010. However, the investments available-for-sale are subject to fair value adjustments and impairment tests.

Our investment in LLC Atol was subject to impairments of US$22.7 million as of 31 December 2008 and US$1.9 million as of 31 December 2009. An additional impairment of US$2.1 million for the investment in LLC Atol was recorded as of 30 June 2010 resulting in a full impairment of the investment.

The carrying value of the investment in OJSC Stakhanov Wagon Works increased from US$0.5 million as of 31 December 2008 to US$0.8 million as of 31 December 2009, due to a fair value adjustment based on the increased share price of the listed company. A further fair value adjustment of US$1.9 million was recorded as of 31 December 2010 due to a further share price increase.

The investment in Vostok-Ruda Ltd. has been classified as current available-for-sale investment in our financial statements for the financial years 2008 and 2009. In our financial statements as of 31 December 2010, the investment has been reclassified from current to non-current as we intend to hold the investments longer than 12 months.

Prepayments for property, plant and equipment

Prepayments for the drilling programmes in the amount of US$0.2 million have been made to OJSC Donbasgeology in the period ended 31 December 2010 (31 December 2009: US$ nil). The company is controlled by Kostyantin Zhevago.

Loans

During the year ended 31 December 2007, Ferrexpo Finance plc (formerly Ferrexpo UK Limited) and TIS-Ruda entered into a loan agreement in the amount of US$5.0 million (**2007 Loan Agreement**). In 2008, Ferrexpo Finance plc and TIS-Ruda entered into another loan agreement in the amount of US$4.0 million which was repaid in full in 2009. Due to repayments made by TIS-Ruda, the outstanding loan balance under the 2007 Loan Agreement as at 31 December 2010 amounted to US$1.0 million.

The interest rates charged to TIS-Ruda are based on the 1 year LIBOR plus a margin of 2.65 per cent.

Trade and other receivables

As of 31 December 2010 trade and other receivables included outstanding amounts from Kislorod amounting to US$0.3 million, which are mainly related to sales of power, steam and water (31 December 2009: US$0.4 million). The outstanding balances as of the end of the prior year included US$1.1 million relating to the disposal of shares in Vostock Ruda to Progress Plant Company during the financial year 2008. Both companies are under common control of Kostyantin Zhevago.

Trade and other payables

As of 31 December 2010, we have trade and other payables due to other related parties in the amount of US$1.0 million, compared to zero amounts payable at 31 December 2009. The increase is mainly related to the increased purchases of concentrate from Vostok-Ruda Ltd.

As of 31 December 2010, we also have trade and other payables due to entities under common control in the amount of US$1.3 million in respect of the purchased material from Ferrolit, compared to US$1.0 million as of 31 December 2009 and in the amount of US$0.4 million as of 31 December 2010, and US$0.4 million as of 31 December 2009 related to compressed air and oxygen purchased from Kislorod.

Transactional banking arrangements

Bank F&C is registered with the National Bank of Ukraine and is our transactional bank in Ukraine for receiving and disbursing payments under Group intercompany loans to FPM and FYM. It is beneficially owned by Konstyantin Zhevago. As of 31 December 2010 our cash and cash equivalents with Bank F&C were US$156.8 million, compared with US$2.1 million at 31 December 2009.

We entered into a multi-currency revolving loan facility agreement in April 2007 with Bank F&C. On 27 February 2009, due to the devaluation of the local currency after October 2008, the maximum facility limit was increased from UAH50.5 million to UAH80.0 million. The initial maturity date under the agreement was 16 April 2010. On that date the maturity date was extended to 16 April 2013 upon the same terms and conditions except for two changes. The maximum facility limit has been increased to UAH80.0 million

(approximately US$10.0 million at the exchange rate as of 31 December 2010) and the interest rates have been increased from 12 per cent. per annum to 18 per cent. per annum for UAH advances, and from 12 per cent. per annum to 14 per cent. per annum for amounts advanced in USD and euro. The total value of pledges for this loan facility is US$12.6 million. See "*Description of Other Indebtedness — Finance and Credit multicurrency revolving loan facility*".

Chapter 11 class test

As a Group with a premium listing of equity securities, we are required to review and report related party transactions in accordance with Chapter 11 of the UKLA Listing Rules. As of the date of this Prospectus, the following transactions were subject to the Chapter 11 class test during the last twelve months:

- A drilling programme at the Northern deposits in August 2010 with related party Donbasgeology for US$4.6 million;
- Purchase of 200 railcars during October-November 2010 with related party LLC Trading house Wagonplant for US$11.3 million;
- A drilling programme at Belanovskoe deposit in October 2010 with related party Donbasgeology for US$0.3 million;
- Purchase of 100 railcars in December 2010 with related party LLC Trading house Wagonplant for US$6.2 million; and
- Purchase order for 400 railcars in March 2011 with related party OJSC Stakhanov Wagon Works for US$26.0 million.

The Group entered into a contract (conditional upon shareholder approval) on 25 February 2011 to purchase up to 1,000 railcars (comprising the purchase order for 400 railcars listed above and an option to acquire up to a further 600 railcars) from OJSC Stakhanov Wagon Works. This transaction, when aggregated with other relevant related party transactions entered into by the Group within the previous twelve months exceeded the percentage ratio of 5 per cent. relating to gross assets. This transaction therefore required the approval of shareholders under the Listing Rules which was obtained at a shareholders general meeting on 15 March 2011.

Other related party transactions

In August 2009, we paid Swiss withholding tax of US$1.0 million on behalf of Kostyantin Zhevago in relation to costs incurred for the Initial Public Offering of Ferrexpo plc completed in June 2007. This was settled in accordance with terms and conditions entered into at the time of the Initial Public Offering.

Description of Other Indebtedness

The following are summaries of all of the contracts, other than contracts entered into in the ordinary course of business, that we have entered into within the two years immediately preceding the date of this prospectus or are expected to enter into prior to the Offering and are, or may be, material or that we have entered into at any time and which contain provisions under which we have an obligation or entitlement that is material as at the date of this prospectus. The following summaries are not complete and are subject to the full text of the documents described below.

Pre-export financing facility

On 27 November 2009, Ferrexpo Finance plc (formerly Ferrexpo UK Limited) and Ferrexpo AG entered into a committed US$230.0 million pre-export finance facility agreement with Deutsche Bank AG as Coordinating Mandated Lead Arranger. The agreement provided for a US$230 million term loan facility and was drawn down on 8 January 2010. Amounts advanced under this facility bore interest at a floating rate of 7.0 per cent. per annum over LIBOR (plus any mandatory costs associated with syndication in the European markets). In September 2010 a further pre-export finance facility of US$350 million was secured and was fully drawn down on 7 October 2010 to repay the 2009 facility. Amounts advanced under the new facility bear interest at a floating rate of 5.5 per cent. per annum over LIBOR (plus any mandatory costs associated with syndication in the European market). The term loan facility is guaranteed and secured. In particular:

- FPM and FYM have provided an unlimited financial and performance suretyship covering all of Ferrexpo AG and Ferrexpo Finance plc's obligations under the pre-export finance facility agreement (and related financing documents);
- Ferrexpo plc has provided a parent company guarantee;
- Ferrexpo AG has pledged its bank account held with Deutsche Bank AG into which all proceeds from the sale of iron ore pellets under certain contracts are required to be paid;
- FPM and Ferrexpo AG have pledged all of their rights under certain contracts for the export of iron ore pellets;
- Ferrexpo AG has pledged all its rights under certain contacts for the sale of iron ore pellets and its rights under certain related credit support documents; and

The loan facility is repayable in twenty four equal monthly instalments of approximately US$14.6 million starting on the last day of March 2012.

Credit Suisse trade financing facility

On 26 October 2009, Ferrexpo AG entered into an uncommitted credit facility with Credit Suisse (the **CS Credit Facility Agreement**) for the financing of short-term trade related self liquidating commercial transactions. The CS Credit Facility Agreement provides for a US dollar denominated loan facility in an aggregate amount not exceeding US$40 million. The amount advanced under the CS Credit Facility Agreement bears interest at the rate of LIBOR plus 1.5 per cent. to LIBOR plus 2.5 per cent., depending on the type of financing being provided. As at 31 December 2010, there was no outstanding amount under this facility. Ferrexpo AG's obligations under the CS Credit Facility Agreement are *inter alia* secured as follows:

- Ferrexpo AG has pledged its cash deposits and/or fiduciary investments and/or all assets in safekeeping accounts;
- Ferrexpo AG has pledged goods which, either at present or in the future, are held by Credit Suisse or are held at Credit Suisse's disposal; and
- Ferrexpo AG has assigned all of its rights over the proceeds of the receivables related to transactions financed by Credit Suisse under the CS Credit Facility Agreement.

Finance and Credit multicurrency revolving loan facility

On 19 April 2007, FPM entered into a multicurrency revolving loan facility agreement (the **Finance and Credit Multicurrency Facility Agreement**) with the Bank F&C. The Finance and Credit Multicurrency Facility Agreement provided for a Ukrainian hryvnia, US dollar and euro denominated term loan facility in an aggregate amount not exceeding UAH50.5 million. The final repayment date was 16 April 2010. The loan facility was granted for working capital purposes. The amounts advanced in Ukrainian hryvnia under the Finance and Credit Multicurrency Facility Agreement bore interest at the rate of 12 per cent. per annum and amounts advanced in USD and euro bore interest at the rate of 9 or 12 per cent. per annum (depending on the term of use of the respective advanced amount) (as amended on 12 November 2009). Under the Finance and Credit Multicurrency Facility Agreement, Bank F&C has the right to accelerate the loan in the event of a breach by FPM of the terms specified therein, including failure to notify changes in its constituent documents or a change of owners of FPM, upon giving one day's notice. The loan facility is secured by a pledge of equipment and mortgage of premises.

On 27 February 2009, due to the sharp devaluation of the local currency after October 2008, FPM and Bank F&C amended the Finance and Credit Multicurrency Facility Agreement to increase the maximum debt limit from UAH50.5 million to UAH77 million, which amount equalled US$10 million at the official NBU exchange rate as at 27 February 2009.

On 16 April 2010, FPM and Bank F&C extended the Finance and Credit Multicurrency Facility Agreement for three years until 16 April 2013, increasing the maximum debt limit from UAH77 million to UAH80 million, for the same equivalent of approximately US$10 million. The amounts advanced in Ukrainian hryvnia under the amended Finance and Credit Multicurrency Facility Agreement bear interest at the rate of eighteen per cent. per annum and the amounts advanced in US dollars and Euro bear interest at the rate of fourteen per cent. per annum. All other conditions remained similar to the conditions set forth in the Finance and Credit Multicurrency Facility Agreement. As at 31 December 2010, there was no outstanding amount under this facility.

Natixis Borrowing Base Facility

On 23 April 2010, Ferrexpo AG entered into an uncommitted borrowing base facility agreement (the **Borrowing Base Facility Agreement**) with Natixis (**Natixis**), which was amended on 18 November 2010 to increase the sub-limit of the borrowing base amount available under the Borrowing Base Facility Agreement. The amended Borrowing Base Facility Agreement provides for a US$30 million loan facility for the purpose of financing the purchase, transportation, storage and sale of iron ore pellets produced by iron ore concentrate purchased from third parties. The final repayment date is 364 days from the date of the Borrowing Base Facility Agreement plus up to 70 days. The amount advanced under this Borrowing Base Facility Agreement bears interest at a fixed rate of 3.75 per cent. per annum (plus a percentage rate per annum of the costs to Natixis associated with the funding of an advance). As at 31 December 2010, Ferrexpo AG had financing of US$6.6 million outstanding under this facility. Ferrexpo AG's obligations under the Borrowing Base Facility Agreement are *inter alia* secured as follows:

- Ferrexpo AG has pledged its bank account held with Natixis into which all proceeds from the sale of iron ore pellets under certain contracts are required to be paid; and
- Ferrexpo AG and FPM have assigned all of their rights over the proceeds of the receivables for the sale of goods financed under this Borrowing Base Facility Agreement and of the insurance policies established in respect of such goods.
- FPM has pledged all of its rights over the goods financed under the Borrowing Base Facility Agreement; and
- FPM has provided a suretyship covering all of Ferrexpo AG's obligations under the Borrowing Base Facility Agreement;

ABN AMRO Facility

On 14 October 2010, Ferrexpo AG entered into a US$20 million uncommitted facility agreement with ABN AMRO Bank N.V. (the **Uncommitted Facility Agreement**) for the purposes of financing Ferrexpo AG's working capital requirements in relation to its iron ore pellets trading business. The Facility under the

Uncommitted Facility Agreement may be utilized in a form of advances and overdraft and is repayable and subject to cancellation at any time upon the written demand by ABN AMRO Bank N.V. Obligations of Ferrexpo AG under the Uncommitted Facility Agreement are secured, inter alia, by assignment of receivables by Ferrexpo AG, pledge of stock of FPM and Ferrexpo AG. As at 31 December 2010, there was no outstanding amount under this facility.

OTP Ukraine

On 14 December 2010, FPM entered into a committed facility agreement on provision of banking services such as loans, guarantees, letters of credit, for an aggregate amount not exceeding US$50 million with OTP Bank (the **General Facility Agreement**). The General Facility Agreement will be effective until 13 December 2012. Loan amounts advanced in US dollars under the General Facility Agreement bear interest of LIBOR plus 8.25 per cent. per annum or LIBOR plus 10.25 per cent. per annum in the event of FPM's failure to fulfil certain obligations under the General Facility Agreement. Loan amounts advanced in Euro under the General Facility Agreement bear interest of EURIBOR plus 8.25 per cent. per annum or EURIBOR plus 10.25 per cent. per annum in the event of FPM's failure to fulfil certain obligations under the General Facility Agreement. Guarantees and letters of credit granted under the General Facility Agreement bear interest of 2.75 per cent. per annum or 4.75 per cent. per annum in the event of FPM's failure to fulfil certain obligations under the General Facility Agreement. FPM's obligations under the General Facility Agreement are secured by a pledge over movable property of FPM, mortgage over premises of FPM and a corporate guarantee granted by Ferrexpo AG. As at 31 December 2010, there was no outstanding amount under this committed facility.

BNPP/U.S. Ex-Im Bank Credit Agreements

On 1 April 2010, Ferrexpo AG entered into an export financing credit agreement with BNP Paribas, New York Branch, as lender, Export-Import Bank of the United States as guarantor and FPM and FYM as obligors (the **April Credit Agreement**). The April Credit Agreement provides for a US dollar denominated term loan facility in an aggregate amount of around US$18 million. The loan facility was granted for the purpose of financing in part the purchase of U.S. mining equipment and services related thereto. All amounts disbursed under the April Credit Agreement are to be repaid in thirteen approximately equal, successive semi-annual instalments, with each such instalment to be payable on 5 January and 5 July of each year, beginning on 5 July 2010. The final maturity date is 5 July 2016. The amount advanced bears interest at the rate of LIBOR plus 1.7 per cent. per annum. Ferrexpo AG's obligations are secured *inter alia* by a guarantee from Export-Import Bank of the United States, sureties from FPM and FYM, and a pledge of equipment owned by FYM.

On 17 August 2010, Ferrexpo AG entered into an export financing credit agreement with BNP Paribas, New York Branch, as lender, Export-Import Bank of the United States as guarantor and FPM and FYM as obligors (the **August Credit Agreement**). The August Credit Agreement provides for a US dollar denominated term loan facility in an aggregate amount of around US$18 million. The loan facility was granted for the purpose of financing in part the purchase of U.S. mining equipment. All amounts disbursed under the August Credit Agreement are to be repaid in fourteen approximately equal, successive semi-annual instalments, with each such instalment to be payable on 5 June and 5 December of each year, beginning on 5 December 2010. The final maturity date is 5 June 2017. The amount advanced bears interest at the rate of LIBOR plus 1.7 per cent. per annum. Ferrexpo AG's obligations are secured inter alia by a guarantee from Export-Import Bank of the United States, sureties from FPM and FYM, and a pledge of equipment owned by FYM.

UniCredit Leasing

On 5 January 2009, FPM entered into a financial leasing agreement with Limited Liability Company UniCredit Leasing (the **Leasing Agreement**). The Leasing Agreement provides for a US dollar denominated lease facility in an aggregate amount of around US$26 million (the **Facility Amount**), whereof 75 per cent., are financed by Limited Liability Company UniCredit Leasing and the remaining 25 per cent. were settled by a down payment made by FPM. The lease facility was granted for a term of seven years and for the purpose of financing in part the purchase of railcars as a strategic imperative to ensure pellet dispatches from FPM. As at 31 December 2010, FPM had financing of around US$16.7 million outstanding under this facility. The Leasing Agreement provides for principal repayments of 45 per cent. of the Facility Amount paid in equal monthly instalments, starting on 10 February 2009 and for payment of the residual value of 30 per cent. of

the Facility Amount on 10 January 2016. Limited Liability Company UniCredit Leasing remains the sole and unrestricted legal owner of the railcars leased to FPM.

UkrEximbank non-revolving loan facilities

FPM has entered into two multicurrency revolving loan facilities with the Public Joint Stock Company "State Export and Import Bank of Ukraine" (**Eximbank**):

On 9 February 2007, FPM entered into a non-revolving loan facility (the **2007 Non-Revolving Facility**) with Eximbank. The 2007 Non-Revolving Facility agreement provides for a US dollar denominated term loan facility in an aggregate amount not exceeding US$3,684,750 (as amended on 7 May 2007). As at 31 December 2010 FPM had financing of around US$1.1 million outstanding under this facility. The final repayment date is 9 February 2012. The amount advanced bears interest at the rate of 9.4 per cent. per annum. The loan facility was granted to finance the cost of purchasing equipment. The 2007 Non-Revolving Facility agreement contains negative covenants, including, among others, in respect of failure to notify changes in its constituent documents, shareholders holding 10 per cent. or more of its charter capital, related parties or officials, liquidation, initiation of bankruptcy proceedings, or any decrease in its assets by more than 50 per cent. and in respect of the commencement of any criminal investigation of FPM's management or shareholders or the freezing of its bank accounts. Under the 2007 Non-Revolving Facility agreement, the Lender has the right to accelerate the loan in the event of a breach by FPM of any of the terms upon giving ten days' notice. FPM's obligations are secured by a pledge of equipment which value should be maintained at the level of 150 per cent. of outstanding loan during the lifetime of the loan facility.

On 27 October 2009, FPM entered into a non-revolving loan facility (the **2009 Non-Revolving Facility**) with Eximbank. The 2009 Non-Revolving Facility agreement provides for a US dollar denominated term loan facility in an aggregate amount not exceeding around US$17,425,000. As at 31 December 2010, FPM had financing of around US$15.7 million outstanding under this facility. The final repayment date is 28 April 2015. The amounts advanced bear interest at the rate of CIRR (which is the Commercial Interest Reference Rate used by the Japan Bank for International Cooperation (**JBIC**) as determined in accordance with OECD guidelines) fixed rate notified by JBIC and/or Bank of Tokyo Mitsubishi UFJ plus 4.92 per cent. per annum, with respect to Tranche A in amount of US$10,455,000, and LIBOR plus 2.1 per cent. per annum, with respect to Tranche B in amount of US$6,970,000. The 2009 Non-Revolving Facility is granted to finance the economic program submitted by FPM to Eximbank. The 2009 Non-Revolving Facility agreement contains negative covenants, including, among others, in respect of failure to notify changes in its constituent documents, shareholders holding 10 per cent. or more of its charter capital, related parties or officials, liquidation, initiation of bankruptcy proceedings, or any decrease in its assets by more than 50 per cent. and in respect of the commencement of any criminal investigation of FPM's management or shareholders or the freezing of its bank accounts. Under the 2009 Non-Revolving Facility agreement, the Lender has the right to accelerate the loan in the event of a breach by FPM of any of the terms upon giving ten days' notice. The 2009 Non-Revolving Facility is secured by a pledge of property rights, mining equipment, and the transport vehicles, which value should be maintained at the level of 200 per cent. of the outstanding loan during the lifetime of the loan facility.

OTP Leasing

On 30 November 2010, FPM entered into two financial leasing agreements with OTP Leasing Limited Liability Company (the **OTP Leasing Agreements**). The OTP Leasing Agreements provide for two US dollar denominated lease facilities in aggregate amounts of around US$6.8 million and US$3.1 million, respectively (the **OTP Facilities Amounts**), whereof 73 per cent. and 70 per cent., respectively, were financed by OTP Leasing Limited Liability Company and the remaining 27 per cent. and 30 per cent., respectively, were settled by a down payment made by FPM. The lease facilities were granted for a term of five years and for the purpose of financing in part the purchase of railcars as a strategic imperative to ensure pellet dispatches from FPM. As at 31 December 2010, FPM had financing of around US$7 million outstanding under these facilities. The OTP Leasing Agreements provide for principal repayments of 100 per cent. of the OTP Facilities Amounts paid in equal monthly instalments, starting on 25 December 2010. OTP Leasing Limited Liability Company remains the sole and unrestricted legal owner of the railcars leased to FPM.

Citibank Ukraine

On 27 December 2010, FPM entered into a committed general short-term credit agreement (the **Citibank Loan Facility**) with public joint stock company "Citibank". The Citibank Loan Facility provides for a non-revolving loan facility in an aggregate amount not exceeding US$15 million. The loans under the Citibank Loan Facility may be extended in Ukrainian hryvnia, as well as in other foreign currencies. The final repayment date is 27 December 2011. The loan facility was granted to finance working capital needs. The amounts advanced in US dollars under the Citibank Loan Facility bear interest at the rate of LIBOR plus 7.0 per cent. per annum. Interest rates may be increased by Citibank by half as much as the interest rate at drawdown date, if FPM fails to fulfil certain obligations under the Citibank Loan Facility. As at 31 December 2010, there was no outstanding amount under this facility. FPM's obligations are secured by a pledge of equipment and mortgage of premises of FPM and a corporate guarantee issued by Ferrexpo AG.

Description of the Transaction

The following information about the Notes should be read in conjunction with, and is qualified in its entirety by, the information set forth under "Terms and Conditions of the Notes" appearing elsewhere in this Prospectus.

The transaction will be structured as a Note issue, guaranteed by Ferrexpo and Ferrexpo AG pursuant to the Trust Deed (subject to the limitations described in the section entitled *"Risk Factors"* relating to Ferrexpo AG) and issued with the benefit of a suretyship from FPM (subject to the limitations described in the section entitled *"Risk Factors"* relating to FPM).

The Notes are unconditionally, irrevocably and jointly guaranteed (subject to the limitations described in the section entitled *"Risk Factors"* relating to Ferrexpo AG) by the Guarantors under the Trust Deed and (subject to the limitations described in the section entitled *"Risk Factors"* relating to FPM) the Surety Agreement. Pursuant to the Trust Deed, Ferrexpo and Ferrexpo AG jointly and severally guarantee that, if either: (a) the Issuer does not pay any sum payable by it under the Trust Deed or the Notes by the time and on the date specified for such payment; or (b) FPM (or any Additional Note Surety) does not pay any sum payable by it under the Surety Agreement, Ferrexpo and/or Ferrexpo AG will pay that sum to the Trustee. Ferrexpo and Ferrexpo AG will be liable under the Trust Deed as if they were the sole principal debtors and not merely guarantors. Ferrexpoís and Ferrexpo AG's obligations under the Trust Deed will remain in full force and effect until no sum remains payable under the Trust Deed, the Surety Agreement or the Notes.

Likewise, pursuant to the Surety Agreement, FPM unconditionally and irrevocably agrees that, if either (a) the Issuer does not pay any sum payable by it under the Trust Deed; or (b) Ferrexpo and/or Ferrexpo AG do not pay any sum payable by them under the Trust Deed, by the time and date specified, it will pay that sum to the Trustee. For the avoidance of doubt, the obligations of FPM under the Surety Agreement shall constitute a suretyship (in Ukrainian: *poruka*) for the purposes of Ukrainian law and shall not constitute a guarantee obligation (in Ukrainian: *garantiya*) as that term is interpreted under Ukrainian law. Accordingly, the FPC Suretyship is a secondary liability in relation to the underlying obligations under the Notes and, therefore, if those obligations are invalid, the FPC Suretyship will also be invalid. Furthermore, FPM must obtain an individual license (a **Foreign Payment Licence**) from the NBU in order to make cross border payments and such licence cannot be obtained prior to the contingent obligation under the FPC Suretyship becoming actual and the amount and date of payment becoming known. See *"Risk Factors – Risks relating to our debt and the Notes – Ukraine currency control regulations may impact FPM's ability to make payments under the FPC Suretyship"* and *"Risk Factors – Risks relating to our debt and the Notes – The validity of the FPC Suretyship could be challenged"*.

Terms and Conditions of the Notes

The following is the text of the terms and conditions of the notes which, subject to amendment and except for the provisions in italics, will be endorsed on each Individual Certificate (as defined below) and will be attached and (subject to the provisions thereof) apply to the Global Note Certificates.

The issue of the U.S.$500,000,000 7.875 per cent. Guaranteed Notes due 2016 (the "Notes", which expression shall include any further Notes issued pursuant to Condition 15 and consolidated and forming a single series therewith) was authorised by a resolution of the Board of Directors of Ferrexpo Finance plc (the "Issuer") on 29 June 2010. The Note Guarantee (as defined in Condition 19) was authorised by a resolution of the Board of Directors of Ferrexpo plc (the "Parent") on 20 May 2010 and the Board of Directors of Ferrexpo AG ("AG") on 29 June 2010 and the Note Suretyship (as defined in Condition 19) was authorised by a resolution of the shareholders of Ferrexpo Poltava (or "FPC") on 14 May 2010.

The Notes are constituted by a Trust Deed (the "Trust Deed") dated 7 April 2011 (the "Issue Date") between the Issuer, the Initial Guarantors (as defined in Condition 19) and BNY Mellon Corporate Trustee Services Limited (the "Trustee", which expression shall include all Persons (as defined in Condition 19) for the time being the trustee or trustees under the Trust Deed) as trustee for the holders of the Notes and are the subject of a paying and transfer agency agreement dated 7 April 2011 (the "Agency Agreement") between the Issuer, the Initial Guarantors, The Bank of New York Mellon (Luxembourg) S.A. as registrar (the "Registrar", which expression includes any successor registrar appointed from time to time in connection with the Notes), The Bank of New York Mellon, London Branch as principal paying and transfer agent (the "Principal Paying and Transfer Agent", which expression includes any successor principal paying and transfer agent appointed from time to time in connection with the Notes), and The Bank of New York Mellon, New York Branch as U.S. paying and transfer agent (the "U.S. Paying and Transfer Agent" and, together with the Principal Paying and Transfer Agent, the "Paying and Transfer Agents", which expression includes any successor or additional paying and transfer agents appointed from time to time in connection with the Notes) and the Trustee.

The Notes are unconditionally and irrevocably guaranteed by the Parent and AG under the Trust Deed and payments in relation to the Notes and the Trust Deed have the benefit of an unconditional and irrevocable surety by FPC under the Surety Agreement (as defined in Condition 19), in each case, to the maximum extent permitted by law.

References herein to the "Agents" are to the Registrar, the Principal Paying and Transfer Agent and the Paying and Transfer Agents and any reference to an "Agent" is to any one of them. Unless a contrary indication appears, any reference in these Conditions to the "Issuer", the "Guarantors", the "Trustee" and any "Agent" shall be construed so as to include its successors in title, permitted assigns and permitted transferees.

Copies of the Trust Deed, the Agency Agreement and the Surety Agreement are available for inspection during usual business hours at the principal office of the Trustee (presently at One Canada Square, London E14 5AL) and at the Specified Offices (as defined in the Agency Agreement) of each of the Agents, the initial Specified Offices of which are set out below.

The Noteholders (as defined in Condition 1(b)) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Surety Agreement and are deemed to have notice of those provisions of the Agency Agreement applicable to them.

1. Form, Denomination, Register, Title and Transfer

(a) **Form and denomination**

The Notes are in registered form, without interest coupons attached, in the denomination of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. An individual note certificate (each, an "Individual Certificate") will be issued to each Noteholder in respect of its registered holding of Notes. Each Note and each Individual Certificate will have an identifying number which will be recorded on the relevant Individual Certificate and in the Register (as defined in Condition 1(b)).

Individual Certificates issued with respect to Rule 144A Notes ("Rule 144A Certificates") will bear the Rule 144A Legend (as defined in the Trust Deed), unless determined otherwise in accordance with the

provisions of the Agency Agreement by reference to applicable law. Individual Certificates issued with respect to the Regulation S Notes ("Regulation S Certificates") will not bear the Rule 144A Legend.

Upon issue, the Rule 144A Notes will be represented by a restricted global note certificate (the "Rule 144A Global Note Certificate") and the Regulation S Notes will be represented by the unrestricted global note certificate (the "Regulation S Global Note Certificate" and, together with the Rule 144A Global Note Certificate, the "Global Note Certificates"). The Rule 144A Global Note Certificate will be deposited with a custodian for, and registered in the name of Cede & Co, as nominee of the Depository Trust Company ("DTC") and the Regulation S Global Note Certificate will be registered in the name of, and deposited with The Bank of New York Depositary (Nominees) Limited as nominee of the common depositary for Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg").

The Conditions are modified by certain provisions contained in the Global Note Certificates. See "Summary of Provisions Relating to the Notes While in Global Form".

Except in the limited circumstances described in the Global Note Certificates, owners of interests in Notes represented by the Global Note Certificates will not be entitled to receive physical Individual Certificates in definitive form in respect of their individual holdings of Notes. The Notes are not issuable in bearer form.

(b) **Register**

The Registrar will maintain outside the United Kingdom a register (the "Register") in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions, the "Holder" of a Note means the Person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "Noteholder" shall be construed accordingly.

(c) **Title**

Title to the Notes passes only by transfer and registration in the Register. The Holder of each Note shall (except as otherwise required by a court of competent jurisdiction or applicable law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Individual Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Individual Certificate) and no Person shall be liable for so treating such Holder. No Person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

(d) **Transfers**

Subject to the terms of the Agency Agreement and Condition 1(g) and Condition 1(h), a Note may be transferred by delivering the Individual Certificate in respect of it, with the endorsed form of transfer duly completed and signed, at the Specified Office of the Registrar or any Paying and Transfer Agent. No transfer of a Note will be valid unless and until entered on the Register.

Transfers of interests in the Notes evidenced by the Global Note Certificates will be effected in accordance with the rules of the relevant clearing system.

Upon the transfer, exchange or replacement of a Rule 144A Note, a Paying and Transfer Agent will only deliver Individual Certificates with respect to Rule 144A Notes that do not bear the Rule 144A Legend if there is delivered to such Paying and Transfer Agent such satisfactory evidence as may be reasonably required by the Issuer, that neither the Rule 144A Legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the U.S. Securities Act of 1933 (the "Securities Act").

An interest in Notes represented by the Regulation S Global Note Certificate may be transferred to a person within the United States subject to any applicable transfer restrictions under the Securities Act.

Interests in Notes represented by the Rule 144A Global Note Certificate may be transferred to a person who wishes to take delivery of any such interest in the form of an interest in Notes represented by the

Regulation S Global Note Certificate only if a Paying and Transfer Agent receives a written certificate (in the form provided in the Agency Agreement) to the effect that such transfer is being made in accordance with Rule 903 or 904 of Regulation S.

Transfers of Notes are also subject to the restrictions described under "Selling and Transfer Restrictions".

(e) **Registration and delivery of Individual Certificates**

Within five business days of the surrender of an Individual Certificate in accordance with Condition 1(d), the Registrar will register the transfer in question and deliver a new Individual Certificate of a like principal amount to the Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Paying and Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first-class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder.

In this paragraph, "business day" means a day on which banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Paying and Transfer Agent has its Specified Office.

Except in the limited circumstances described in "Summary of Provisions Relating to the Notes While in Global Form", owners of interests in Notes represented by the Global Note Certificates will not be entitled to receive physical delivery of Individual Certificates. Issues of Individual Certificates upon transfers of Notes are subject to compliance by the transferor and transferee with the certification procedures described above and in the Agency Agreement and, in the case of the Rule 144A Notes, compliance with the Rule 144A Legend.

(f) **No charge**

The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or any Paying and Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Paying and Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(g) **Closed periods**

Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

(h) **Regulations concerning transfers and registration**

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar and/or any Paying and Transfer Agent to any Noteholder who requests in writing a copy of such regulations.

2. Guarantees, Suretyship and Status

(a) **Note Guarantees and Note Suretyship**

The Parent and AG have, pursuant to the guarantee contained in the Trust Deed, unconditionally and irrevocably guaranteed, to the maximum extent permitted by law, the due payment of all moneys payable by the Issuer under the Notes and the Trust Deed or by FPC under the Surety Agreement (the "**Note Guarantee**"). The Note Guarantee will constitute a guarantee for the purposes of English law.

FPC has provided an unconditional and irrevocable suretyship, pursuant to the Surety Agreement, to the maximum extent permitted by law, in relation to the due payment of all moneys payable by the Issuer, the Parent or AG under the Notes and the Trust Deed (the "**Note Suretyship**"). The Note Suretyship constitutes a suretyship (in Ukrainian: Poruka) for the purposes of Ukrainian law.

The obligations of FPC under the Surety Agreement create a secondary liability of FPC in relation to the underlying obligations of the Notes and therefore, if those obligations are invalid, the suretyship under the Suretyship Agreement will also be invalid. The Surety Agreement shall not constitute a guarantee obligation (in Ukrainian: garantiya) as that term is interpreted under Ukrainian law.

(b) **Addition and Release of Guarantors**

The Issuer will cause each Additional Note Guarantor to execute and deliver to the Trustee a deed of accession to the Trust Deed, pursuant to which such Additional Note Guarantor will unconditionally and irrevocably guarantee, to the maximum extent permitted by law, the due payment of all moneys payable by the Issuer, the Parent or AG under the Notes and the Trust Deed or by FPC under the Surety Agreement.

The Issuer will cause each Additional Note Surety to execute and deliver to the Trustee a deed of accession to the Surety Agreement, pursuant to which such Additional Note Surety will unconditionally and irrevocably ensure, to the maximum extent permitted by law, the due payment of all moneys payable by the Issuer, the Parent or AG under the Notes and the Trust Deed.

The Issuer shall give not less than 30 days' notice to the Trustee and the Noteholders in accordance with Condition 16 of the accession of each Additional Note Guarantor to the Trust Deed or each Additional Note Surety to the Surety Agreement, as the case may be. The accession of the Additional Note Guarantors or the Additional Note Sureties pursuant to this Condition 2(b) shall be conditional upon receipt by the Trustee of (x) a legal opinion, in form and substance satisfactory to the Trustee, of independent legal counsel of recognised standing as to the enforceability of the Note Guarantee or the Note Suretyship, as the case may be, from such Additional Note Guarantors or Additional Note Sureties, as the case may be, (y) an Officers' Certificate certifying compliance with Condition 3 and (z) such other documents or certificates as the Trustee may reasonably require. The Trustee shall be entitled to accept the legal opinion referred to in sub-paragraph (x) and the certificate referred to in sub-paragraph (y) above without further enquiry or liability to any Person as sufficient evidence of the matters certified therein.

The Note Guarantee of an Additional Note Guarantor or the Note Surety of an Additional Note Surety, as the case may be, will be released:

(1) in connection with any sale, assignment, transfer, conveyance or other disposition of all or substantially all of the assets of that Additional Note Guarantor or Additional Note Surety (including by way of merger, consolidation, amalgamation or combination) to a Person that is not (either before or after giving effect to such transaction) the Issuer, an Initial Guarantor or any of their Subsidiaries, provided that the sale or other disposition does not breach Condition 3.4;

(2) in connection with any sale or other disposition of Capital Stock of that Additional Note Guarantor or Additional Note Surety to a Person that is not (either before or after giving effect to such transaction) the Issuer, an Initial Guarantor or any of their respective Subsidiaries, provided that the sale or other disposition does not breach Condition 3.4; or

(3) upon repayment in full of the Notes.

The Issuer shall promptly notify the Trustee and the Noteholders in accordance with Condition 16 of the release of any Additional Note Guarantee or Additional Note Surety, as the case may be.

The Note Guarantee of the Parent and AG will only be released upon repayment in full of the Notes. The Note Suretyship of FPC will only be released upon repayment in full of the Notes.

The obligations of each Additional Note Guarantor or Additional Note Surety will be limited under relevant laws applicable to such Additional Note Guarantor or Additional Note Surety to the extent that the granting of the relevant Note Guarantee or Note Suretyship, as the case may be, would:

(i) not be consistent with corporate benefit, capital preservation, financial assistance or fraudulent conveyance rules or any other general statutory laws or regulations (or analogous restrictions) of any applicable jurisdiction; or

(ii) cause the directors of an Additional Note Guarantor or Additional Note Surety, as the case may be, to contravene their fiduciary duties, to incur civil or criminal liability or to contravene any legal prohibition.

(c) **Status**

The Notes constitute senior, direct, unsecured, unsubordinated and unconditional obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves, with all outstanding unsecured and unsubordinated obligations of the Issuer, present and future.

The Note Guarantee and the Note Suretyship constitute direct, unsecured, unsubordinated and unconditional obligations of the Parent and AG in relation to the Note Guarantee and FPC in relation to the Note Surety, and shall at all times rank *pari passu* and without any preference among themselves, with all outstanding unsecured and unsubordinated obligations of the Parent, AG and FPC, as the case may be, present and future.

3. Covenants

3.1 **Limitation on Liens**

The Issuer and each Guarantor (as defined in Condition 19) will not, and will not permit any of their respective Subsidiaries to, directly or indirectly, create, Incur, assume or suffer to exist any Lien, other than a Permitted Lien, on any of its assets, now owned or hereafter acquired, or any income or profits therefrom, securing any Indebtedness unless, at the same time or prior thereto, the Notes or the relevant Note Guarantee or Note Suretyship, as the case may be, (a) is secured equally and rateably therewith to the satisfaction of the Trustee or (b) has the benefit of other security or other arrangements as the Trustee in its absolute discretion shall deem to be not materially less beneficial to the Noteholders or as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders, (the "Initial Lien").

Any Lien created for the benefit of the Trustee and the holders of the Notes pursuant to the preceding sentence shall provide by its terms that such Lien shall be automatically and unconditionally released and discharged upon (a) the release and discharge of the Initial Lien, (b) the sale or other disposition of the assets subject to such Initial Lien (or the sale or other disposition of the Person that owns such assets) in compliance with the Conditions, or (c) the full and final payment of all amounts payable by the Issuer and the Guarantors under the Notes, the Trust Deed, the Note Guarantee and the Note Suretyship (as applicable).

3.2 **Incurrence of Indebtedness**

(a) The Issuer and each Guarantor will not, and will not permit any of their respective Subsidiaries to, Incur, directly or indirectly, any Indebtedness except that if, on the date of such Incurrence and after giving effect thereto on a pro forma basis, the Consolidated Leverage Ratio would be 2.5 to 1.0 or lower, then the Issuer and/or a Guarantor may Incur Indebtedness.

(b) Notwithstanding the foregoing Condition 3.2(a), the Issuer, a Guarantor and/or any of their respective Subsidiaries may incur any or all of the Permitted Indebtedness.

(c) For purposes of determining compliance with any U.S. dollar denominated restriction on the Incurrence of Indebtedness where the Indebtedness Incurred is denominated in a different currency, the amount of such Indebtedness will be the U.S. Dollar Equivalent determined on the date of the Incurrence of such Indebtedness; provided, however, that if any such Indebtedness denominated in a different currency is subject to a Currency Agreement with respect to U.S. dollars covering all principal, premium, if any, and interest payable on such Indebtedness, the amount of such Indebtedness expressed in U.S. dollars will be as provided in such Currency Agreement. Notwithstanding any other provision of this Condition 3.2, the maximum amount that the Issuer,

a Guarantor, or any of their respective Subsidiaries may Incur pursuant to this Condition 3.2 shall not be deemed to be exceeded with respect to any outstanding Indebtedness due solely to the result of fluctuations in the exchange rates of currencies.

(d) For purposes of determining compliance with this Condition 3.2:

(i) the outstanding principal amount of any particular Indebtedness shall be counted only once and any obligations arising under any Guarantee, Lien, letter of credit or similar instrument supporting such Indebtedness shall not be double counted;

(ii) Indebtedness permitted by this Condition 3.2 need not be permitted solely by reference to this Condition 3.2 or one provision of the definition of Permitted Indebtedness in Condition 19 permitting such Indebtedness but may be permitted in part by one such provision and in part by one or more other provisions of Condition 3.2 and the definition of Permitted Indebtedness; and

(iii) in the event that any item of Indebtedness meets the criteria of more than one of the types of Indebtedness described in this Condition 3.2 or one of the provisions of the definition of Permitted Indebtedness in Condition 19 permitting such Indebtedness, the Parent will be permitted, in its sole discretion, to divide, classify or reclassify all or a portion of such item of Indebtedness in any manner that complies with this condition.

3.3 **Transactions with Affiliates**

The Issuer and each Guarantor will not, and will not permit any of their respective Subsidiaries to, enter into or permit to exist any transaction or a series of related transactions (including the purchase, sale, lease or exchange of any property, employee compensation arrangements or the rendering of any service) with, or for the benefit of, any Affiliate of the Issuer, a Guarantor or any of their respective Subsidiaries (an "Affiliate Transaction") unless:

(a) the terms of the Affiliate Transaction are no less favourable to the Issuer, the relevant Guarantor or such Subsidiary than those that could be obtained at the time of the Affiliate Transaction in arm's length dealings with a Person who is not an Affiliate; and

(b) with respect to any transaction or series of related transactions involving an aggregate value in excess of U.S.$10 million or its U.S. Dollar Equivalent, such transaction or series of related transactions has been approved by a majority of the Disinterested Directors of the Parent or, in the event there is only one Disinterested Director, by such Disinterested Director provided, however, that the Issuer, any Guarantor, or any of their Subsidiaries will not be required to comply with this paragraph (b) with respect to any transaction that complies with, or is exempt from, the requirements contained in Chapter 11 of the Listing Rules of the UK Financial Services Authority (the "Listing Rules") or any successor rules thereto for so long as the Parent has any class of it's "equity securities" (as such term is defined in the Listing Rules) listed on the main market of the London Stock Exchange plc.

provided, however, that this provision shall not apply to:

(i) any employment agreement, collective bargaining agreement or employee benefit arrangements with any officer or director of the Issuer, the relevant Guarantor or the relevant Subsidiary, including under any stock option or stock incentive plans, entered into in the ordinary course of business;

(ii) payment of reasonable fees and compensation to employees, officers, directors, consultants or agents (including D&O insurance premiums) in the ordinary course of business;

(iii) transactions between the Issuer, a Guarantor and any of their respective Subsidiaries or between their respective Subsidiaries;

(iv) the issuance or sales of Capital Stock (other than Disqualified Stock) of the Issuer or a Guarantor;

(v) the issuance of securities or other payments, award or grants in cash, securities or similar transfers pursuant to, or for the purpose of funding, employment arrangements and deferred compensation, retirement, savings, stock options, stock ownership and insurance plans, provided that the terms thereof are or have been previously approved by the Parent's Board of Directors;

(vi) any payments or other transactions pursuant to a tax-sharing agreement or arrangement among the Issuer, the Guarantors and any of their respective Subsidiaries or other Persons with whom the Issuer, the Guarantors and any of their respective Subsidiaries files a consolidated tax return or with which the Issuer, the Guarantors and any of their respective Subsidiaries is or could be part of a group for tax purposes or any tax advantageous group contribution made pursuant to applicable legislation; provided, however, that any such tax-sharing agreement or arrangement and any payment pursuant thereto does not permit or require payments in excess of the amounts of tax that would be payable by the Issuer, the Guarantors and any of their respective Subsidiaries on a stand-alone basis;

(vii) transactions with customers, clients, suppliers contractors, joint venture partners or purchasers or sellers of goods (including raw materials) and services, in each case entered into in the ordinary course of business and otherwise in compliance with the Conditions, which are fair to the Issuer and the Guarantors and any of their relevant Subsidiaries in the reasonable determination of the Parent's Board of Directors or Officers or are on terms not materially less favourable to the relevant Person than those that would have been obtained in a comparable transaction by such Person with an unrelated Person;

(viii) transactions with Affiliates solely in their capacity as holders of Indebtedness or Capital Stock of the Issuer, the Guarantors or any of their respective Subsidiaries where such Affiliates are treated not materially more favourably than holders of Indebtedness or Capital Stock of the relevant Person that are not Affiliates;

(ix) any agreement as in effect on the Issue Date, including pursuant to any amendment, modification, supplement, extension, renewal or refinancing thereto, in any replacement agreement or arrangement thereto so long as any such amendment, modification, supplement, extension, renewal, refinancing or replacement agreement or arrangement is not more disadvantageous to the Issuer and/or the Guarantors or any of their respective Subsidiaries, as the case may be, in any material respect than the original agreement as in effect on the Issue Date;

(x) transactions with a Person that is an Affiliate of the Company solely because the Company owns shares of Capital Stock in, or controls, such Person;

(xi) any consolidation, merger, conveyance, transfer or lease permitted pursuant to Condition 3.5; and

(xii) loans or advances to officers, directors and employees of the Issuer, the Guarantors or their respective Subsidiaries in the ordinary course of business but in any event not to exceed U.S.$5 million (or its U.S. Dollar Equivalent) outstanding at any time.

3.4 **Asset Sales**

The Issuer and each Guarantor will not, and will not permit any of their respective Subsidiaries to, directly or indirectly, consummate:

(1) any Prohibited Asset Sale; or

(2) any Asset Sale, unless in respect of an Asset Sale only (i) the consideration received by the Issuer, the relevant Guarantor or the relevant Subsidiary, as the case may be, is at least equal to the Fair

Market Value of the assets subject to such Asset Sale and (ii) at least 75 per cent. of the consideration for the Asset Sale are in cash or Cash Equivalents provided, that, for purposes of this provision, each of the following will be deemed to be cash: (1) any liabilities, as shown on the Issuer's, such Guarantor's or any of their respective Subsidiaries most recent internal balance sheet (other than contingent liabilities, liabilities that are by their terms subordinated to the Notes and liabilities to the extent owned by the Issuer or any Guarantor), that are assumed by the transferee of any such assets (or a third party on behalf of the transferee), (2) any securities, notes or other obligations or assets received by the Issuer, such Guarantor, or any of their respective Subsidiaries from such transferee that are converted by the Issuer, such Guarantor or Subsidiary into cash or Cash Equivalents, to the extent of the cash or Cash Equivalents received in that conversion, within 120 days following the closing of the Asset Sale, and (3) any asset or stock of the kind referred to in clause (b) or clause (e) below and (iii) an amount equal to the Disposal Proceeds is:

(a) applied to repay permanently any Indebtedness of the Group (other than Disqualified Stock and Subordinated Obligations);

(b) invested in assets of a nature or type that is used or usable in the ordinary course of a Core or Related Business;

(c) retained as cash deposited with a bank or invested in Cash Equivalents;

(d) used by the Issuer to purchase the Notes, in whole but not in part, at their principal amount; and/or

(e) applied to finance an acquisition of the Capital Stock of a Person that becomes a Subsidiary as a result of the acquisition of such Capital Stock by a member of the Group; provided that such member is primarily engaged in a Core or Related Business,

in each case within 365 days of the date when such Disposal Proceeds are received (it being understood that receipt by a member of the Group of Capital Stock of any Person who, following the consummation of such Asset Sale is to become a member of the Group and is primarily engaged in a Core or Related Business, as consideration for such Asset Sale shall be deemed to satisfy the financing of the acquisition of Capital Stock requirement set out above).

Any remaining Disposal Proceeds from an Asset Sale not applied in accordance with the preceding paragraph within 365 days from the date of the receipt of such Disposal Proceeds shall constitute "Excess Proceeds."

(a) When the aggregate amount of Excess Proceeds exceeds U.S.$15 million or its U.S. Dollar Equivalent, the Issuer will be required to make an offer to purchase (the "Prepayment Offer") either any Indebtedness senior to the Notes or the Notes and any *pari passu* Indebtedness which offer shall be in the amount of the Excess Proceeds, in each case, on a pro rata basis according to principal amount, at a purchase price equal to 100 per cent. of the principal amount thereof, plus accrued and unpaid interest, if any, to the purchase date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), in accordance with the procedures (including prorating in the event of oversubscription) set forth in the Agency Agreement. To the extent that any portion of the amount of the Disposal Proceeds remains after compliance with the preceding sentence and provided that all holders of Notes have been given the opportunity to tender their Notes for purchase in accordance with the Agency Agreement, the Issuer, Guarantor or such Subsidiary may use such remaining amount for any purpose not prohibited by the Trust Deed and the amount of Excess Proceeds will be reset to zero.

(b) Within 10 Business Days after the Issuer is obliged to make a Prepayment Offer as described in the preceding paragraph, the Issuer shall send a notice to the holders of Notes in accordance with Condition 16, to inform the holder of the Notes of the Prepayment Offer.

(c) The Issuer and the Guarantors will comply, to the extent applicable, with the requirements of applicable securities laws or regulations in connection with the repurchase of Notes pursuant to this Condition 3.4. To the extent that the provisions of any securities laws or regulations conflict

with provisions of this Condition 3.4, the Issuer and the Guarantors will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the covenant described hereunder by virtue thereof,

provided that pending the final application of the Disposal Proceeds, the Issuer, the Guarantors or their respective Subsidiaries may temporarily reduce revolving credit facilities or borrowings or otherwise invest any portion of the Disposal Proceeds in any manner that is not prohibited by the Trust Deed.

Notwithstanding the above, any Asset Sale in relation to Ferrexpo Belanovo Mining or Ferrexpo Yeristovo or the sale of Capital Stock of Ferrexpo Belanovo Mining or Ferrexpo Yeristovo (i) will not be subject to the provisions of this Condition 3.4 (except for the provisions of Condition 3.4(2)(i), which shall apply to any such Asset Sale) and (ii) shall not be included in making the 10 per cent. of total Production Assets calculation contained in the definition of Asset Sale.

3.5 **Mergers and Similar Transactions**

(a) **The Issuer and Initial Guarantors**

Neither the Issuer nor an Initial Guarantor will consolidate with or merge with or into, or convey, transfer or lease, in one transaction or a series of transactions, directly or indirectly, all or substantially all its assets to, any Person, unless:

(i) either (A) the Issuer or the relevant Initial Guarantor, as the case may be, will be the surviving or continuing corporation or (B) the resulting, surviving or transferee Person, if not an Issuer or the relevant Initial Guarantor, as the case may be, (the "Successor Company"), shall be a Person organised and existing under the laws of England & Wales or Ukraine or Switzerland or any state or province which is a member of the European Union, Canada, the United States, any state thereof or the District of Columbia and the Successor Company (if not the Issuer or the relevant Initial Guarantor, as the case may be) shall expressly assume, by a trust deed or surety agreement, as the case may be, supplemental thereto, executed and delivered to the Trustee, in form and content satisfactory to the Trustee, all the obligations of the Issuer or the relevant Initial Guarantor, as the case may be, under the Notes, the Trust Deed or the Surety Agreement, as the case may be;

(ii) immediately after giving pro forma effect to such transaction (and treating any Indebtedness which becomes an obligation of the Issuer, the relevant Initial Guarantor or the Successor Company or any of their respective Subsidiaries as a result of such transaction as having been Incurred by the Issuer, the relevant Initial Guarantor, such Successor Company or such Subsidiary at the time of such transaction), no Potential Event of Default or Event of Default shall have occurred and be continuing;

(iii) immediately after giving pro forma effect to such transaction (1), the Issuer or an Initial Guarantor or the Successor Company, as the case may be, would be able to Incur an additional U.S.$1.00 or its U.S. Dollar Equivalent of Indebtedness pursuant to Condition 3.2(a) or (2) the Consolidated Leverage Ratio would not be greater than it was immediately prior to giving pro forma effect to such transaction;

(iv) the Issuer or the relevant Initial Guarantor, as the case may be, shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger or transfer and such supplemental trust deed (if any) comply with the Trust Deed; and

(v) the Issuer, or the relevant Initial Guarantor, as the case may be, shall have delivered to the Trustee an Opinion of Counsel to the effect that the Noteholders will not recognise income, gain or loss for U.S. Federal, Swiss, United Kingdom and Ukraine income tax purposes as a result of such transaction and will be subject to income tax on the same amounts, in the same manner and at the same times as would have been the case if such transaction had not occurred,

(b) **Additional Guarantors**

No Guarantor (other than the Initial Guarantors) will consolidate with or merge with or into, or convey, transfer or lease, in one transaction or a series of related transactions, directly or indirectly, all or

substantially all its and its respective Subsidiaries' assets to, any Person (other than the Issuer or the Guarantors), unless:

(i) either (A) the relevant Guarantor, as the case may be, will be the surviving or continuing corporation or (B) the resulting, surviving or transferee Person, if not the relevant Guarantor, as the case may be, (the "Successor Guarantor"), shall be a Person organised and existing under the laws of England & Wales or Ukraine or Switzerland or any state or province which is a member of the European Union, Canada, the United States, any state thereof or the District of Columbia and the Successor Guarantor (if not the Issuer or the relevant Guarantor, as the case may be) shall expressly assume, by a trust deed or surety agreement, as the case may be, supplemental thereto, executed and delivered to the Trustee, in form and content satisfactory to the Trustee, all the obligations of the Issuer or relevant Guarantor, as the case may be, under the Notes, the Trust Deed or the Surety Agreement, as the case may be;

(ii) immediately after giving pro forma effect to such transaction (and treating any Indebtedness which becomes an obligation of the Issuer, the relevant Guarantor or the Successor Guarantor or any of their respective Subsidiaries as a result of such transaction as having been Incurred by the Issuer, the relevant Guarantor, such Successor Guarantor or such Subsidiary at the time of such transaction), no Potential Event of Default or Event of Default shall exist;

(iii) immediately after giving pro forma effect to such transaction (1), the Issuer or an Initial Guarantor, as the case may be, would be able to Incur an additional U.S.$1.00 or its U.S. Dollar Equivalent. of Indebtedness pursuant to Condition 3.2(a) or (2) the Consolidated Leverage Ratio would not be greater than it was immediately prior to giving pro forma effect to such transaction;

(iv) the Issuer or the relevant Guarantor, as the case may be, shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger or transfer and such supplemental trust deed (if any) comply with the Trust Deed; and

(v) the Issuer or the relevant Guarantor, as the case may be, shall have delivered to the Trustee an Opinion of Counsel to the effect that the Noteholders will not recognise income, gain or loss for U.S. Federal, Swiss, United Kingdom and Ukraine tax purposes as a result of such transaction and will be subject to tax on the same amounts, in the same manner and at the same times as would have been the case if such transaction had not occurred,

provided that this paragraph (b) shall not apply to any such transaction that complies with Condition 3.4 or any Guarantor whose Note Guarantee or Note Surety, as the case may be, is unconditionally released in accordance with the provisions described under Condition 2(b).

The Successor Company will be the successor to the Issuer or the relevant Guarantor and shall succeed to, and be substituted for, and may exercise every right and power of, the Issuer, or the relevant Guarantor, as the case may be, under the Trust Deed, and the predecessor Issuer or the relevant predecessor Guarantor in relation to the Notes and the Trust Deed.

This Condition 3.5 will not apply to any merger, assignment, sale of assets, amalgamation, consolidation or similar transaction (a) of any Subsidiary that is not a Guarantor into the Issuer, or a Guarantor or (b) among Guarantors or among a Guarantor and the Issuer.

Clauses (ii) and (iii) of the first paragraph of Condition 3.5 and clauses (ii) and (iii) of the second paragraph of Condition 3.5 will not apply to any merger or similar transaction of the Issuer or any Guarantor with or into, or any sale, assignment, transfer, conveyance, lease or other disposition of assets by the Issuer or any Guarantor to an Affiliate solely for the purpose of reincorporating the Issuer or such Guarantor.

3.6 **Claims Pari Passu**

The Issuer and the Guarantors shall ensure that at all times the claims of the Noteholders and the Trustee against the Issuer under the Trust Deed and the Guarantors under the Trust Deed or the Surety Agreement, as the case may be, rank at least *pari passu* with the claims of all its other present and future

senior, unsubordinated, unsecured creditors, save for those claims that are preferred by any bankruptcy, insolvency, liquidation or similar laws of general application or any other mandatory provisions of applicable law.

3.7 **Limitations on Restrictions on Distributions from Subsidiaries**

The Issuer and the Guarantors will not, and will not permit any of their respective Subsidiaries to, create or otherwise cause or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Subsidiary to (A) pay dividends or make any other distributions on its Capital Stock to the Issuer, a Guarantor or any of their respective Subsidiaries or pay any Indebtedness owed to the Issuer, a Guarantor or any of their respective Subsidiaries, (B) make any loans or advances to the Issuer, a Guarantor or any of their respective subsidiaries or (C) transfer any of its property or assets to the Issuer, a Guarantor or any of their respective subsidiaries, except:

(a) with respect to (A), (B) and (C) above:

(i) any encumbrance or restriction pursuant to the Notes, the Trust Deed, the Note Guarantee, the Note Suretyship or in an agreement in effect at the Issue Date;

(ii) any encumbrance or restriction with respect to a Subsidiary pursuant to an agreement relating to any Indebtedness Incurred by such Subsidiary on or prior to the date on which such Subsidiary was acquired by the Issuer or a Guarantor (other than Indebtedness Incurred as consideration in, or to provide all or any portion of the funds or credit support utilised to consummate, the transaction or series of related transactions pursuant to which such Subsidiary became a Subsidiary or was acquired by the Issuer or a Guarantor) and outstanding on such date;

(iii) any encumbrance or restriction pursuant to an agreement effecting a Refinancing of Indebtedness; provided, however, that the encumbrances and restrictions with respect to such Subsidiary contained in any such refinancing agreement or amendment, supplement, extension, refinancing, renewal or replacement are, taken as a whole, no less favourable to the Noteholders in any material respect than encumbrances and restrictions with respect to such Subsidiary contained in such predecessor agreements;

(iv) any encumbrance or restriction with respect to a Subsidiary imposed pursuant to an agreement entered into for the sale or disposition of all or substantially all the Capital Stock or assets of such Subsidiary pending the closing of such sale or disposition;

(v) any encumbrance or restriction on cash or other deposits or net worth imposed by leases or other agreements entered into by a Subsidiary in the ordinary course of business;

(vi) any encumbrance or restriction existing under or by reason of applicable law, rule, regulation, decree or order of any governmental, local or regulatory authority;

(vii) customary limitations on the distribution of assets or property of a Subsidiary in joint venture agreements entered into by a subsidiary in the ordinary course of business and in good faith; provided that (x) the encumbrance or restriction is not materially more disadvantageous to Noteholders than is customary in comparable agreements; and (y) such encumbrance or restriction will not materially affect the ability of the Issuer or a Guarantor to make any anticipated principal or interest payments on the Notes and any other Indebtedness for borrowed money that is an obligation of the Issuer or a Guarantor;

(viii) any encumbrances or restrictions existing with respect to any Person or the Property or assets of such Person acquired by the Parent, the Guarantors or any of their respective Subsidiaries, existing at the time of such acquisition and not incurred in contemplation thereof, which encumbrances or restrictions are not applicable to any Person or the Property or assets of any Person other than such Person or the Property or assets of such Person so acquired, and any amendments, supplements, extensions, refinancings, renewals or replacements thereof, provided that the encumbrances and restrictions in any such amendment, supplement,

extension, refinancing, renewal or replacement, taken as a whole, are no less favourable to the holders of the Notes than the encumbrances or restrictions that are then in effect and that are being amended, supplemented, extended, refinanced, renewed or replaced;

(ix) any encumbrance or restriction existing by reason of Liens permitted to be incurred under the provisions of Condition 3.1 that limit the right of the debtor to dispose of the assets subject to such Liens;

(x) any encumbrance or restriction contained in agreements or instruments relating to Indebtedness that is permitted to be Incurred pursuant to Condition 3.2 and any amendments, supplements, extensions, refinancings, renewals or replacements of any of the foregoing agreements or instruments, provided that the encumbrances or restrictions are, at the time agreed to, not materially less favourable to the holders of the Notes than is customary in comparable financings and would not be expected to materially and adversely affect the ability of the Guarantors or the Issuer to make payments under the Note Guarantees or the Notes, as the case may be (in each case as determined in good faith by the Parent); and

(xi) any encumbrance or restriction consisting of customary non-assignment provisions in leases, contracts and licences entered into in the ordinary course of business;

(b) with respect to (C) above only:

(i) any encumbrance or restriction contained in security agreements or mortgages securing Indebtedness of a Subsidiary to the extent such encumbrance or restriction restricts the transfer of the property subject to such security agreements or mortgages;

(ii) customary encumbrances or restrictions in connection with Indebtedness for property acquired in the ordinary course of business; and

(iii) encumbrances or restrictions existing by reason of a Lien permitted in Condition 3.1.

3.8 **Limitation on Issuance and Transfer of Capital Stock**

The Issuer and each Guarantor:

(1) will not, and will not permit any of their respective Subsidiaries to, sell, lease, transfer or otherwise dispose of any Capital Stock of any of their respective Subsidiaries to any Person (other than to the Issuer or an Initial Guarantor); and

(2) will not permit any of their respective Subsidiaries to, issue any Capital Stock (other than, if necessary, shares of Capital Stock constituting directors' or other legally required qualifying shares of the Issuer of an Initial Guarantor) to any Person (other than to the Issuer or a Guarantor),

unless, in relation to Capital Stock of an entity that is not the Issuer or an Initial Guarantor only, such sale, lease, transfer, issuance or other disposition complies with the restrictions contained in Condition 3.4 provided that nothing in this Condition 3.8 shall prohibit the Issuer and the Initial Guarantors from offering Capital Stock to all Shareholders on a pro-rata basis and further provided that any Shareholder who is not a member of the Group need not take up any such offer of Capital Stock.

3.9 **Limitation on Sale/Leaseback Transactions**

The Issuer and each Guarantor will not, and will not permit any of their respective Subsidiaries to, enter into any Sale/Leaseback Transaction with respect to any property with a Person other than the Issuer or a Guarantor unless:

(1) the Issuer and each Guarantor or any of their respective Subsidiaries would be entitled to (A) Incur Indebtedness in an amount equal to the Attributable Debt with respect to such Sale/Leaseback Transaction pursuant to Condition 3.2 and (B) create a Lien on such property securing such Attributable Debt pursuant to Condition 3.1;

(2) the net proceeds received by the Issuer or a Guarantor or any of their respective Subsidiaries in connection with such Sale/Leaseback Transaction are at least equal to the Fair Market Value of such property, minus the reasonable fees, expenses and commissions incurred by the Issuer or a Guarantor or any of their respective Subsidiaries in connection with such Sale/Leaseback Transaction; and

(3) the Issuer and each Guarantor and their respective Subsidiaries applies the proceeds of such transaction in compliance with Condition 3.4 provided that, in the event that the Issuer or the relevant Guarantor or the relevant Subsidiary has, prior to the consummation of a Sale and Leaseback Transaction, paid an amount in relation to the acquisition of the property the subject matter of such transaction, an amount of the proceeds of the relevant Sale and Leaseback Transaction as is equal to the amount so paid shall not be subject to this Condition 3.9(3),

except that a Subsidiary which is not a Guarantor may enter into a Sale/Leaseback Transaction with a Person which is a member of the Group without complying with the requirements of this Condition 3.9.

3.10 **Change of Business**

Neither the Issuer, nor any Guarantor, nor any of their respective Subsidiaries, shall engage in any business other than the Core or Related Business, except to such extent as would not be material to the Issuer, the respective Guarantor and their subsidiaries taken as a whole.

3.11 **Additional Note Guarantors or Additional Note Sureties**

(a) In the event that a Subsidiary of the Parent that is not a Guarantor becomes a Material Subsidiary the Parent will, within 15 days of the date of the relevant determination, cause such Material Subsidiary to become a Guarantor and execute and deliver to the Trustee a deed of accession to the Trust Deed or the Surety Agreement, as the case may be, and such other documents as may be required by the Trust Deed or the Surety Agreement or the Trustee in accordance with Condition 2(b).

(b) The Issuer and the Guarantors will not permit any Subsidiary which is not at the relevant time a Guarantor, directly or indirectly, to guarantee any capital markets Indebtedness of the Issuer, a Guarantor, or any of their respective Subsidiaries ("Guaranteed Indebtedness"), unless such Subsidiary becomes a Guarantor and executes and delivers to the Trustee a deed of accession to the Trust Deed or the Surety Agreement, as the case may be, and such other documents as may be required by the Trust Deed, the Surety Agreement, or the Trustee in accordance with Condition 2(b) which Guarantee shall be senior to or *pari passu* with such Subsidiary's Guarantee of such other Indebtedness.

(c) The Issuer will promptly give notice in writing to the Trustee (in accordance with the Trust Deed) and the Noteholders of any Subsidiary becoming an Additional Note Guarantor or an Additional Note Surety (in accordance with Condition 16).

3.12 **Listing Information**

The Issuer undertakes to deliver to the Trustee, at the time it delivers to the relevant stock exchange, such information and at such times as the London Stock Exchange (or any other or further stock exchange or stock exchanges or any relevant authority or authorities on which the Notes may, from time to time, be listed or admitted to trading) may require as necessary in connection with the listing or admission to trading or the maintenance of such listing or admission to trading on such stock exchange or relevant authority of such instruments. In the event that the Notes are not so listed at any time, the Issuer undertakes to deliver to the Trustee such information and at such times as it was required to deliver by the relevant stock exchange immediately prior to the de-listing of the Notes.

3.13 **Amendments**

Except as provided in the Trust Deed, so long as any of the Notes remain outstanding (as defined in the Trust Deed), the Issuer and each Guarantor shall not agree to any amendment to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Trust Deed, the Note Guarantee, Surety Agreement or of the Note Suretyship, as applicable. Any amendment, modification,

waiver or authorisation made with the consent of the Trustee in accordance with the Trust Deed shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such amendment, waiver or modification shall be notified to the Noteholders in accordance with Condition 16 (Notices).

3.14 **Limitation on Restricted Distributions**

(a) The Issuer and each Guarantor will not, and will not permit any of their respective Subsidiaries, directly or indirectly, to, make a Restricted Distribution if at the time the Issuer, such Guarantor or such Subsidiary makes such Restricted Distribution:

(i) an Event of Default shall have occurred and be continuing (or would result therefrom);

(ii) the Issuer is not entitled to Incur an additional US$1.00 of Indebtedness pursuant to Condition 3.2(a); or

(iii) the aggregate amount of such Restricted Distribution and all other Restricted Distributions since the Issue Date would exceed the sum of (without duplication):

(a) 50 per cent. of the Consolidated Net Income accrued during the period (treated as one accounting period) from 1 January 2010 to the end of the most recent fiscal six-month period for which financial statements exist prior to the date of such Restricted Distribution (or, in case such Consolidated Net Income shall be a deficit, minus 100 per cent. of such deficit); plus

(b) 100 per cent. of the aggregate net cash proceeds received by the Parent since the Issue Date as a contribution to its common equity capital or from the issue or sale of Capital Stock of the Parent (other than Disqualified Stock) or the amount by which Indebtedness of the Group is reduced on the Group's balance sheet upon the conversion or exchange subsequent to the Issue Date of any Indebtedness of the Group convertible or exchangeable for Capital Stock (other than Disqualified Stock) of the Parent ((plus any cash proceeds received in connection with any such conversion or exchange) less the amount of any cash, or the fair value of any other property, distributed by the Parent upon such conversion or exchange); provided, however, that the foregoing amount shall not exceed the Net Cash Proceeds received by the Parent or any Subsidiary of the Parent from such conversion or exchange (excluding Net Cash Proceeds from sales to a Subsidiary of the Parent or to an employee stock ownership plan or a trust established by the Parent or any of its Subsidiaries for the benefit of their employees).

(b) The preceding provisions will not prohibit:

(i) the making of any Restricted Distribution in exchange for, or out of or with the net cash proceeds of the substantially concurrent sale (other than to a Subsidiary of the Parent) of, Capital Stock of the Parent (other than Disqualified Stock) or from the substantially concurrent contribution of common equity capital to the Parent; provided, however, that such Restricted Distributions shall be excluded in the calculation of the amount of Restricted Distributions;

(ii) any purchase, repurchase, redemption, defeasance or other acquisition or retirement for value of Subordinated Obligations of the Issuer or a Guarantor made by exchange for, or out of the proceeds of a substantially concurrent Incurrence of, Indebtedness of such Person which is permitted to be Incurred pursuant to Condition 3.2; provided, however, that such purchase, repurchase, redemption, defeasance or other acquisition or retirement for value shall be excluded in the calculation of the amount of Restricted Distributions;

(iii) dividends paid after the date of declaration thereof if at such date of declaration such dividend would have complied with this covenant; provided, however, that at the time of payment of such dividend, no Event of Default shall have occurred and be continuing (or result therefrom); provided further, however, that such dividend shall be included in the calculation of the amount of Restricted Distributions;

(iv) so long as no Event of Default has occurred and is continuing, the purchase, redemption or other acquisition of shares of Capital Stock of the Parent or any of its Subsidiaries from employees, former employees, directors or former directors of the Parent or any of its Subsidiaries (or permitted transferees of such employees, former employees, directors or former directors), pursuant to the terms of the agreements (including employment agreements) or plans (or amendments thereto) approved by the Board of Directors under which such individuals purchase or sell or are granted the option to purchase or sell, shares of such Capital Stock; provided, however, that the aggregate amount of such Restricted Distributions (excluding amounts representing cancellation of Indebtedness) shall not exceed U.S.$3 million (or its U.S. Dollar Equivalent) in any calendar year; provided further, however, that such Restricted Distributions shall be excluded in the calculation of the amount of Restricted Distributions;

(v) the declaration and payments of dividends on Disqualified Stock issued pursuant to Condition 3.2; provided, however, that, at the time of payment of such dividend, no Event of Default shall have occurred and be continuing (or result therefrom); provided further, however, that such dividends shall be excluded in the calculation of the amount of Restricted Distributions;

(vi) repurchases of Capital Stock deemed to occur upon exercise of stock options if such Capital Stock represents a portion of the exercise price of such options; provided, however, that such repurchases shall be excluded in the calculation of the amount of Restricted Distributions;

(vii) cash payments in lieu of the issuance of fractional shares in connection with the exercise of warrants, options or other securities convertible into or exchangeable for Capital Stock of the Parent; provided, however, that any such cash payment shall not be for the purpose of evading the limitation of the covenant described under this subheading (as determined in good faith by the Parent's Board of Directors); provided further, however, that such payments shall be excluded in the calculation of the amount of Restricted Distributions;

(viii) in the event of a Change of Control (as defined in Condition 5.3), and if no Event of Default shall have occurred and be continuing, the payment, purchase, redemption, defeasance or other acquisition or retirement of Subordinated Obligations of the Issuer or any Guarantor, in each case, at a purchase price not greater than 101 per cent. of the principal amount of such Subordinated Obligations, plus any accrued and unpaid interest thereon; provided, however, that prior to such payment, purchase, redemption, defeasance or other acquisition or retirement, the Issuer (or a permitted third party) has made a Change of Control Offer with respect to the Notes as a result of such Change of Control and has repurchased the Notes to the extent validly tendered and not withdrawn in connection with such Change of Control Offer; provided further, however, that such payments, purchases, redemptions, defeasances or other acquisitions or retirements shall be included in the calculation of the amount of Restricted Distributions; and

(ix) the declaration and payment of dividends in respect of ordinary shares of the Parent in an aggregate amount not to exceed US$60 million or its U.S. Dollar Equivalent per year (measured on the date of declaration); provided, in each case, that no Event of Default shall have occurred and be continuing (or result therefrom) and that such payments shall be included in the calculation of the amount of Restricted Distributions.

4. Interest

The Notes bear interest from the Issue Date at the rate of 7.875 per cent. per annum, payable semi-annually in arrear on 7 April and 7 October in each year (each an "Interest Payment Date") commencing on 7 October 2011. Each Note will cease to bear interest from the due date for redemption, unless, upon due presentation, payment of principal is improperly withheld or refused. In such event, it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Holder and (b) the day seven days after the Trustee or the Principal Paying and Transfer Agent has notified the Noteholders of receipt of all sums due in respect of all the Notes up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).

If interest is required to be calculated for a period of less than a complete Interest Period (as defined below), the relevant day-count fraction will be determined on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed. The period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date is called an "Interest Period".

5. Redemption and Purchase

5.1 Redemption at Maturity

(a) Unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Notes at their principal amount on 7 April 2016.

(b) Other than as specified below, the Notes are not optionally redeemable prior to 7 April 2016.

5.2 Redemption for Taxation Reasons

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their principal amount (together with interest accrued but unpaid to (but excluding) the date fixed for redemption) if (i) the Issuer satisfies the Trustee immediately prior to the giving of such notice that it (or, if the Note Guarantee or Note Suretyship were called, the relevant Guarantor) has or will become obliged to pay additional amounts as provided or referred to in Condition 7 as a result of any change in, or amendment to, the laws or regulations of the United Kingdom, Ukraine or Switzerland or any political or governmental subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date, and (ii) such obligation cannot be avoided by the Issuer (or the relevant Guarantor(s), as the case may be) taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (or the relevant Guarantor(s), as the case may be) would be obliged to pay such additional amounts were a payment in respect of the Notes (or the Note Guarantee or Note Suretyship, as the case may be) then due. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee (A) an opinion of independent legal counsel of recognised standing that the requirement in (i) above will apply on the next Interest Payment Date and (B) a certificate signed by two Directors of the Issuer (or the relevant Guarantor(s), as the case may be) stating that the obligation referred to in (i) above cannot be avoided by the Issuer (or the relevant Guarantor(s), as the case may be) taking reasonable measures available to it and the Trustee shall be entitled to accept such opinion and certificate as sufficient evidence of the satisfaction of the conditions precedent set out in (i) and (ii) above, in which event it shall be conclusive and binding on the Noteholders.

5.3 Redemption at the Option of the Holders Upon a Change of Control

(a) Upon the occurrence of any of the following events (each a "Change of Control"), each Noteholder shall have the right to require that the Issuer repurchase such Noteholder's Notes at a purchase price in cash equal to 101 per cent. of the principal amount thereof on the date of purchase plus accrued and unpaid interest, if any, to the date of purchase (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date):

(i) any person or any persons acting in concert (other than Permitted Holders or Related Persons) shall become the "beneficial owners" (as defined in Rule 13d-3 and 13d-5 of the Exchange Act) of shares in the capital of the Parent carrying more than 50 per cent. of the voting rights normally exercisable at a general meeting of the Parent; or

(ii) the allotted share capital of the Parent ceases to be listed on an Approved Market; or

(iii) the Permitted Holders or Related Persons cease to own directly or indirectly at least 30 per cent. of the issued and allotted share capital of the Parent.

(b) Within 30 days following any Change of Control, the Issuer will notify each Noteholder (with a copy to the Trustee) in accordance with Condition 16 (the "Change of Control Offer") stating:

(i) that a Change of Control has occurred and that such Noteholder has the right to require the Issuer to purchase such Noteholder's Notes at a purchase price in cash equal to 101 per cent. of the principal amount thereof on the date of purchase, plus accrued and unpaid interest, if any, to the date of purchase (subject to the right of Noteholders of record on the relevant record date to receive interest on the relevant interest payment date);

(ii) the circumstances and relevant facts regarding such Change of Control;

(iii) the purchase date (which shall be no earlier than 30 days nor later than 60 days from the date such notice is mailed); and

(iv) the procedure determined by the Issuer but in accordance with the terms of the Agency Agreement that a Noteholder must follow in order to have its Notes purchased.

(c) The Issuer will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations in connection with the repurchase of Notes as a result of a Change of Control. To the extent that the provisions of any securities laws or regulations conflict with the provisions of this Condition 5.3 as the related provisions of the Agency Agreement, the Issuer will comply with the applicable securities laws and regulations and shall not be deemed to have breached its obligations under this Condition 5.3 by virtue of compliance with such securities laws or regulations.

(d) The Issuer will not be required to make a Change of Control Offer following a Change of Control if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements of these Conditions and the Trust Deed applicable to a Change of Control Offer made by the Issuer and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer.

5.4 **Purchases**

The Issuer, the Guarantors or any of their respective Subsidiaries may at any time purchase Notes in any manner and at any price. The Notes so purchased, while held by or on behalf of any of them pending cancellation pursuant to Condition 5.5, shall not entitle them to vote at any meetings of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Condition 11(a).

5.5 **Cancellations**

All Notes which are (a) redeemed or (b) purchased by or on behalf of the Issuer, the Guarantors or any of their respective Subsidiaries will forthwith be cancelled and accordingly may not be held, reissued or resold.

6. Payments

(a) **Method of Payment**

Payments of principal, premium and interest shall be made by U.S. dollar cheque drawn on, or, upon application by a Holder of a Note to the Specified Office of the Principal Paying and Transfer Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account (or any account to which U.S. dollars may be credited or transferred) maintained by the payee and, in the case of payments of principal and premium in respect of the Notes and accrued interest payable on a redemption of the Notes otherwise than on an Interest Payment Date, shall only be made upon surrender (or, in the case of part payment only, endorsement) of the relevant Individual Certificates at the Specified Office of any Paying and Transfer Agent.

(b) **Payments subject to laws**

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(c) **Payments on business days**

Where payment is to be made by transfer to a U.S. dollar account, payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated and, where payment is to be made by U.S. dollar cheque, the cheque will be mailed (i) (in the case of payments of principal, premium and interest payable on redemption or, as the case may be, purchase pursuant to Condition 5.4) on the later of the due date for payment and the day on which the relevant Individual Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of any Paying and Transfer Agent and (ii) (in the case of payments of interest payable other than on redemption or, as the case may be, purchase pursuant to Condition 5.4) on the due date for payment. A Holder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a business day or (B) a cheque mailed in accordance with this Condition 6 arriving after the due date for payment or being lost in the mail. In this paragraph, "business day" means any day on which banks are open for general business (including dealings in foreign currencies) in London and New York City and, in the case of surrender (or, in the case of part payment only, endorsement) of an Individual Certificate, in the place in which the Individual Certificate is surrendered (or, as the case may be, endorsed).

(d) **Partial payments**

If a Paying and Transfer Agent makes a partial payment in respect of any Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of an Individual Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Individual Certificate.

(e) **Record date**

Each payment in respect of a Note will be made to the Person shown as the Holder in the Register at the close of business in the place of the Registrar's Specified Office on the business day before the due date for such payment (the "Record Date"). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

(f) **Agents**

The initial Agents and their initial specified offices are listed below. The Issuer and the Guarantors reserve the right at any time with the written approval of the Trustee to vary or terminate the appointment of any Agent and appoint additional or other Agents, provided that they will maintain (i) a Principal Paying and Transfer Agent, (ii) a Registrar, (iii) Paying and Transfer Agents having specified offices in at least two major European cities approved by the Trustee and (iv) a Paying and Transfer Agent with a specified office in (A) a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 and (B) a jurisdiction within Europe other than Switzerland that will not be required to withhold or deduct tax pursuant to laws enacted in Switzerland providing for the taxation of payments according to principles similar to those laid down in the draft legislation proposed by the Swiss Federal Council on 22 December 2010, in particular the principle to have a person other than the Issuer or the Guarantors withhold or deduct the tax, including, without limitation, any paying agent. In addition, the Issuer and the Guarantors shall forthwith appoint a Paying and Transfer Agent in New York City and shall maintain such a Paying and Transfer Agent.

Notice of any change in the Agents or their specified offices will promptly be given to the Noteholders.

7. Taxation

All payments of principal, premium and interest by or on behalf of the Issuer or the Guarantors in respect of the Notes or under the Note Guarantee or the Note Suretyship shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the United Kingdom, Ukraine or Switzerland or any authority therein or thereof, or any other jurisdiction or political subdivision or authority thereof having power to tax ("Taxes"), unless such withholding or deduction is required by law. In that event and in the event that any payment under the Note Guarantee or the Note Suretyship is subject to any such Taxes, the Issuer or the Guarantors shall pay such additional amounts as will result in receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note presented for payment:

(a) **Other connection:** by or on behalf of a Holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of his having some connection with Ukraine or the United Kingdom or Switzerland other than the mere receipt of such payment or the ownership or holding of the Note; or

(b) **Presentation more than 30 days after the Relevant Date:** more than 30 days after the Relevant Date, except to the extent that the Holder of it would have been entitled to such additional amounts on presenting such Note for payment on the last day of such period of 30 days; or

(c) **Deductions by persons other than the Issuer or the Guarantors:** where such withholding or deduction (i) is imposed on a payment to an individual or residual entity and is required to be made pursuant to any law implementing European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26 27 November 2000 ("EU Savings Tax Directive") or (ii) is imposed on a payment and is required to be made pursuant to laws enacted by Switzerland providing for the taxation of payments according to principles similar to those laid down in the draft legislation proposed by the Swiss Federal Council on 22 December 2010, in particular the principle to have a person other than the Issuer or Guarantor withhold or deduct the tax, such as, without limitation, any paying agent; or

(d) **Payment by another Paying and Transfer Agent:** by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying and Transfer Agent in a Member State of the European Union.

"Relevant Date" means whichever is the later of (i) the date on which such payment first becomes due and (ii) if the full amount payable has not been received by the Principal Paying and Transfer Agent or the Trustee on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the Noteholders. Any reference in these Conditions to principal, premium and/or interest shall be deemed to include, without duplication, any additional amounts in respect of principal, premium or interest (as the case may be) which may be payable under this Condition 7 or any undertaking given in addition to or substitution for it under the Trust Deed.

8. Events of Default

If any of the following events (an "Event of Default") occurs, the Trustee at its discretion may, and if so requested by holders of at least 25 per cent. in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution (as defined in the Trust Deed) shall, subject in each case to being indemnified, pre-funded and/or secured to its satisfaction, give written notice to the Issuer that the Notes are, and they shall immediately become, due and payable at their principal amount, together with accrued interest, if:

(a) **Non-Payment:** default is made in the payment of principal, premium or interest on any of the Notes when due and, in the case of interest, such failure continues for a period of 30 days; or

(b) **Breach of Other Obligations:** the Issuer or any of the Guarantors does not perform or comply with any of their respective obligations under Condition 3 or any one or more of its other obligations (other than a failure that is subject to the foregoing Clause (a)) under the Notes, the Trust Deed or the Surety

Agreement, which, in each case, is not remedied within 60 days after written notice of such default shall have been given to the Issuer or the relevant Guarantor(s) by the Trustee; or

(c) **Cross-Payment Default and Cross-Acceleration:** a default under any Indebtedness by the Issuer or a Guarantor that results in acceleration of the maturity of such Indebtedness, or failure to pay principal of, or interest or premium, if any, on any such Indebtedness when due, in each case after the expiration of any originally applicable grace period, in an aggregate amount greater than U.S.$25 million or its U.S. Dollar Equivalent at the time; or

(d) **Enforcement Proceedings:** a distress, attachment, execution or other legal process is levied, enforced or sued out on or against any, in the opinion of the Trustee, material part of the property, assets or revenues of the Issuer or any Guarantor or any of their Material Subsidiaries and is not discharged or stayed within 60 days; or

(e) **Security Enforced:** any step (including the taking of possession or the appointment of a receiver, administrative receiver, administrator, manager or other similar Person) is taken to enforce any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or any Guarantor or any Material Subsidiary over or in relation to a, in the opinion of the Trustee, material part of the property, assets or revenues of the Issuer, a Guarantor or a Material Subsidiary as the case may be (or such encumbrance becomes enforceable); or

(f) **Judgment Default:** any one or more judgments or orders is made against the Issuer or any Guarantor or any of their respective Subsidiaries involving an aggregate liability not paid or only with respect to that portion not covered by insurance in respect of a matter (or a series of related matters) greater than U.S.$25 million (or its U.S. Dollar Equivalent), unless all those judgments and orders (i) are discharged within 30 days of their being made or (ii) are being appealed in good faith and on reasonable grounds and the Issuer, the relevant Guarantor or Subsidiary, as the case may be, is maintaining adequate reserves for the amount of such judgment or order (as determined in accordance with Accounting Standards); or

(g) **Insolvency**

(i) (A) the Issuer, a Guarantor or any Material Subsidiary seeking, consenting or acquiescing in the introduction of proceedings for its liquidation or bankruptcy or the appointment to it of a liquidator or a similar officer; (B) the presentation or filing of a petition in respect of the Issuer, a Guarantor or any Material Subsidiary in any court, arbitration court or before any agency for its bankruptcy, insolvency, dissolution or liquidation which, in the case of a petition presented or filed by a Person other than the Issuer, a Guarantor or such Material Subsidiary, as the case may be, is not dismissed within 60 days; (C) the institution of supervision, external management or bankruptcy management to the Issuer, a Guarantor or any Material Subsidiary; (D) the convening of a meeting of creditors generally of the Issuer, a Guarantor or any Material Subsidiary for the purposes of considering an amicable settlement with its creditors generally; (E) a moratorium is agreed or declared or comes into effect in respect of or affecting all or any part of (or of a particular type of) the debts of the Issuer, a Guarantor or any of their Material Subsidiaries; and/or (F) any extra-judicial liquidation or analogous act in respect of the Issuer, a Guarantor or any Material Subsidiary by any governmental agency in or of the United Kingdom or Ukraine; or

(ii) the Issuer, a Guarantor or any Material Subsidiary: (A) fails or is unable to pay its debts generally as they become due; (B) proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts; (C) consents by answer or otherwise to the commencement against it of an involuntary case in bankruptcy or to the appointment of a custodian of it or of a substantial part of its property; or (D) a court of competent jurisdiction enters an order for relief or a decree in an involuntary case in bankruptcy or for the appointment of a custodian in respect of the Issuer, a Guarantor or any Material Subsidiary or any part of their respective property and such order or decree remains undischarged for a period of 60 days; or

(iii) the shareholders of the Issuer or a Guarantor approve any plan for the liquidation or dissolution of the Issuer or the relevant Guarantor; or

(h) **Winding-up:** an administrator is appointed, an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Issuer or any Guarantor or any of their respective Material Subsidiaries, or the Issuer or any of the Guarantors or any of their respective Material Subsidiaries ceases or threatens to cease to carry on all or, in the opinion of the Trustee, substantially all of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by the Trustee or by an Extraordinary Resolution of the Noteholders, or (ii) in the case of a Material Subsidiary of the Issuer or any Guarantor, whereby the undertaking and assets of the relevant Material Subsidiary are transferred to or otherwise vested in the Issuer, any Guarantors (as the case may be) or any of their respective Subsidiaries; or

(i) **Nationalisation:** all or, in the opinion of the Trustee, a significant part of the assets of the Issuer or a Guarantor are seized, compulsory acquired, expropriated or nationalised by any person or any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation or nationalisation thereof; or

(j) **Illegality:** it is or will become unlawful for (i) the Issuer or any of the Guarantors to perform or comply with any one or more of its obligations under any of the Notes, the Trust Deed, the Note Guarantees, the Surety Agreement or the Note Suretyships, as applicable; or

(k) **Note Guarantee or Note Suretyship:** the Note Guarantee or Note Suretyship are not (or are claimed by the relevant Guarantor not to be) in full force and effect; or

(l) **Analogous Events:** any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs.

9. Prescription

Claims in respect of principal, premium and interest will become void, unless presentation for payment is made as required by Condition 6 within a period of 10 years, in the case of principal and premium, and five years, in the case of interest, from the appropriate Relevant Date.

10. Replacement of Individual Certificates

If any Individual Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar, the Principal Paying and Transfer Agent or the U.S. Paying and Transfer Agent, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Individual Certificates must be surrendered before replacements will be issued.

11. Meetings of Noteholders; Modification, Waiver and Substitution

(a) **Meetings of Noteholders**

The Trust Deed contains provisions for convening meetings of Noteholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Trust Deed) of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by Noteholders holding not less than 10 per cent. in principal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more Persons holding or representing a clear majority in principal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more Persons being or representing Noteholders whatever the principal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the maturity of the Notes or the dates on which premium or interest is payable in respect of the Notes, (ii) to reduce or cancel the principal amount of, any premium payable on redemption of, or interest on, the Notes, (iii) to change the currency of payment of the Notes, (iv) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution or (v) to modify or cancel the Note Guarantee or the Note Suretyship (other than a modification pursuant to Condition 2(b)), in which case the necessary quorum will be two or more Persons holding or

representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in principal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed). The Trust Deed provides that a resolution in writing signed by or on behalf of holders of not less than 75 per cent. of the aggregate principal amount of Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held.

(b) **Modification and Waiver**

The Trustee may agree, without the consent of the Noteholders, to (i) any modification of any of the provisions of the Trust Deed which is in its opinion of a formal, minor or technical nature or is made to correct a manifest error and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed, which is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders and, if the Trustee so requires, such modification shall be notified to the Noteholders as soon as practicable.

(c) **Substitution**

The Trust Deed contains provisions permitting the Trustee to agree, subject to such amendment of the Trust Deed and these Conditions and such other conditions as the Trustee may require, but without the consent of the Noteholders, to the substitution of certain other entities in place of the Issuer or any of the Guarantors, or of any previous substituted company, as principal debtor or guarantor under the Trust Deed and the Notes. In the case of such a substitution, the Trustee may agree, without the consent of the Noteholders, to a change of the law governing the Notes and/or the Trust Deed, provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Noteholders.

(d) **Entitlement of the Trustee**

In connection with the exercise of its functions (including but not limited to those referred to in this Condition), the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer or any of the Guarantors any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

12. Trustee Reliance

The Issuer has undertaken in the Trust Deed to deliver to the Trustee annually a certificate of the Issuer as to there not having occurred an Event of Default or Potential Event of Default since the date of the last such certificate or, if such event has occurred, as to the details of such event. The Trustee shall be entitled to rely on any such certificate and shall not be obliged to monitor independently compliance by the Issuer or the Guarantors with the covenants set forth in Condition 3, nor shall it be liable to any person for not so doing and the Trustee need not enquire further as regards to circumstances existing on the date of such certificate.

13. Enforcement

At any time after the Notes become due and payable, the Trustee may, at its discretion and without further notice, institute such steps, actions or proceedings against the Issuer, the Guarantors or any or their respective Subsidiaries as it may think fit to enforce the terms of the Trust Deed and the Notes, but it need not take any such steps, actions or proceedings, unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least 25 per cent. in principal amount of the Notes outstanding and (b) it shall have been indemnified, pre-funded and/or secured to its satisfaction. No Noteholder may proceed directly against the Issuer, the Guarantors or any of their respective Subsidiaries, unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

14. Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer, the Guarantors and any entity related to the Issuer or the Guarantors without accounting for any profit.

The Trustee may rely without liability to the Noteholders on a report, confirmation or certificate or any advice of any accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuer, the Trustee and the Noteholders.

15. Further Issues

The Issuer may from time to time without the consent of the Noteholders create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Notes) or upon such terms as the Issuer may determine at the time of their issue. Provided, however, that any such further issue, for purposes of U.S. federal income taxation (regardless of whether any Noteholders are subject to U.S. federal income tax laws) are either (i) not issued with original issue discount, (ii) issued with less than a *de minimis* amount of original issue discount, or (iii) issued in a "qualified reopening" for U.S. federal income tax purposes. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes. Any further securities forming a single series with the outstanding securities of any series (including the Notes) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of securities of other series where the Trustee so decides.

16. Notices

Notices to the Noteholders will be sent to them by first-class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. In addition, notices to Noteholders will (so long as the Notes are admitted to trading on the London Stock Exchange be published either on the website of the London Stock Exchange or in a leading newspaper having general circulation in London (which is expected to be the Financial Times). Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made.

17. Contracts (Rights of Third Parties) Act 1999

No Person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

18. Governing Law

(a) **Governing Law**
The Trust Deed, the Notes, the Note Guarantee and the Note Suretyship, and any non contractual obligations arising out of or in connection with them, are governed by, and shall be construed in accordance with, English law.

(b) **Jurisdiction**
The courts of England are to have jurisdiction to settle any disputes which may arise out of, or in connection with, the Trust Deed, the Notes, the Note Guarantee or the Note Suretyship and, accordingly, any legal action or proceedings arising out of, or in connection with, the Trust Deed, the Notes, the Note Guarantee or the Note Suretyship ("Proceedings") may be brought in such courts. The

Issuer has in the Trust Deed and each of the Guarantors has in the Trust Deed or the Surety Agreement, as the case may be, irrevocably submitted to the jurisdiction of such courts and waives any objection to Proceedings in such court on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. These submissions are for the benefit of the Trustee and the Noteholders and shall not limit the right of any of them to take proceedings in any other court of competent jurisdiction nor shall the taking of proceedings in any one or more jurisdictions preclude the taking of proceedings in any other jurisdiction (whether concurrently or not).

(c) **Agent for Service of Process**
Each of AG and FPC has irrevocably appointed an agent in England to receive service of process in England in respect of any Proceedings.

(d) **Arbitration**
If any dispute or difference of whatever nature howsoever arises from or in connection with the Trust Deed, the Note Guarantee, the Surety Agreement or the Note Suretyship (each a "Dispute"), the Trustee may elect, by notice in writing to the Issuer, to settle such Dispute by arbitration in accordance with the following provisions. The Issuer has in the Trust Deed and each of the Guarantors has agreed in the Trust Deed or the Surety Agreement, as the case may be, that (regardless of the nature of the Dispute) any Dispute may, if the Trustee elects as aforesaid, be settled by arbitration in accordance with the LCIA Arbitration Rules (the "Rules") which are deemed to be incorporated by reference into this clause, save that Article 5.6 of the Rules shall be amended as follows: "unless the parties agree otherwise, the third arbitrator, who shall act as chairman of the tribunal, shall be nominated by the two arbitrators nominated by or on behalf of the parties. If he is not so nominated within 30 days of the date of nomination of the later of the two party-nominated arbitrators to be nominated, he shall be chosen by the LCIA", and save that any provision of the Rules relating to nationality of an arbitrator shall, to that extent, not apply. The seat of arbitration shall be London, England and the language of the arbitration shall be English. Save as provided in Clause 18(b) above, the parties agree to exclude the jurisdiction of the English court under section 45 of the Arbitration Act 1996.

19. Definitions

In these Conditions, the following terms have the meanings given to them in this Condition 19.

"Accounting Standards" means IFRS or any other internationally recognised set of accounting standards deemed equivalent to IFRS by the Committee of European Securities Regulators from time to time; provided however, that where such term is used with respect to the financial statements of FPC, it shall, where financial statements prepared in accordance with IFRS are not available, be deemed to include Ukrainian GAAP.

"Additional Note Guarantors" means Persons who become guarantors for any reason.

"Additional Note Sureties" means Persons who become sureties for any reason.

"Affiliate" of any specified Person means any other Person, directly or indirectly controlling, controlled by, or under direct or indirect common control with, such specified Person. For purposes of this definition, "control" (including, with correlative meanings, the terms "controlling", "controlled by" and "under common control with"), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

"Agency" means any agency, authority, central bank, department, committee, government, legislature, minister, ministry, official or public or statutory person (whether autonomous or not).

"Approved Jurisdiction" means England & Wales, Switzerland, the United States of America, Ukraine and any member nation of the European Union as constituted on the Issue Date.

"Approved Market" means any of: (i) the Regulated Market of the London Stock Exchange, (ii) an EEA Regulated Market, (iii) the New York Stock Exchange, (iv) the American Stock Exchange, (v) the Toronto Stock Exchange, (vi) NASDAQ or (vii) the Australian Stock Exchange, or any successor of any of the foregoing.

"Asset Acquisition" means (i) an Investment by the Issuer, a Guarantor or any of their respective Subsidiaries in any other Person pursuant to which such Person shall become a Subsidiary of the Issuer or a Guarantor or any of their respective Subsidiaries or shall be consolidated or merged with the Issuer or a Guarantor or any of their respective Subsidiaries or (ii) the acquisition by the Issuer or a Guarantor or any of their respective Subsidiaries of assets of any Person which constitute all or substantially all of the assets of such Person or which comprise a division or line of business of such Person.

"Asset Sale" means any direct or indirect lease, sale, sale and lease-back, transfer or other disposition either in one transaction or in a series of related transactions, by the Issuer, a Guarantor or any of their respective Subsidiaries to a Person that is not part of the Group, including any disposition by means of a merger, consolidation or similar transaction, of any of its assets (including any shares of Capital Stock of a member of the Group (other than directors' qualifying shares or shares required by applicable law to be held by a Person other than the Issuer, a Guarantor or any of their respective Subsidiaries)) or properties, the value of which exceeds 10 per cent. of total Production Assets as shown on the latest available annual or semi-annual consolidated balance sheet of the Group prepared in accordance with Accounting Standards in any 12-month period, other than:

(a) the creation of a Lien (but not the sale or other disposition of the property subject to such Lien) in compliance with Condition 3.1;

(b) the licensing or sublicensing of rights to intellectual property or other intangibles in the ordinary course of business;

(c) the sale, lease or other disposition of damaged, obsolete, worn out, negligible, surplus or outdated equipment or machinery or raw materials or inventory, in each case which is no longer used or usable, in the ordinary course of business;

(d) the lease, assignment or sublease of any property in the ordinary course of business;

(e) sales or other dispositions of assets or property received by the Issuer, a Guarantor or any of their respective Subsidiaries upon the foreclosure on a Lien granted in favour of the Issuer, a Guarantor or any of their respective Subsidiaries or any other transfer of title with respect to any ordinary course secured investment in default;

(f) the surrender or waiver of contract rights or the settlement, release, or surrender of contract, tort or other claims, in the ordinary course of business;

(g) sales and other dispositions of inventory in the ordinary course of business;

(h) sales and dispositions of cash and Cash Equivalents in the ordinary course of business;

(i) the exchange of assets provided that (i) the assets received will immediately constitute, be part of, or be used or useful in a Core or Related Business, (ii) the assets received are of a comparable Fair Market Value to the assets exchanged and (iii) any cash or Cash Equivalents received from the exchange must be applied in accordance with Condition 3.4;

(j) the disposition of receivables in connection with the compromise, settlement or collection thereof in the ordinary course of business or in bankruptcy or similar proceeds of any customers or vendors of the Issuer, a Guarantor or any of their respective Subsidiaries;

(k) the sale or transfer of value added tax receivables by FPC at Fair Market Value or the sale or transfer of any Investment received in exchange therefor;

(l) any royalty or similar arrangement in connection with a Core or Related Business to the extent that such royalty or similar arrangement is included in the definition of Indebtedness; and

(m) any sale or other disposition that complies with Condition 3.5.

"Attributable Debt" in respect of a Sale/Leaseback Transaction means, as at the time of determination, the present value (discounted at the interest rate borne by the Notes, compounded annually) of the total obligations of the lessee for rental payments during the remaining term of the lease included in such Sale/Leaseback Transaction (including any period for which such lease has been extended); provided,

however, that if such Sale/Leaseback Transaction results in a Capital Lease Obligation, the amount of Indebtedness represented thereby will be determined in accordance with the definition of "Capital Lease Obligation".

"Board of Directors" means, as to any Person, the board of directors or other equivalent executive body of such Person or any duly authorised committee thereof.

"Business Day" means a day which is a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in Kyiv, London and New York City.

"Capital Stock" means, with respect to any Person, any and all shares, interests (including partnership interests), rights to purchase, warrants, options, participations or other equivalents (however designated, whether voting or non-voting) of such Person's equity, including any Preferred Stock of such Person, whether now outstanding or issued after the Issue Date, including without limitation, all series and classes of such Capital Stock but excluding any debt securities convertible into or exchangeable for such Capital Stock.

"Capital Lease Obligation" means an obligation that is required to be classified and accounted for as a capital lease for financial reporting purposes in accordance with Accounting Standards, and the amount of Indebtedness represented by such obligation shall be the capitalised amount of such obligation determined in accordance with Accounting Standards; and the Stated Maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be terminated by the lessee without payment of a penalty. For purposes of Condition 3.2, a Capital Lease Obligation will be deemed to be secured by a Lien on the property being leased.

"Cash Equivalents" means:

(a) any evidence of Indebtedness with a maturity of one year or less issued or directly and fully guaranteed or insured by a corporation organised under the laws of an Approved Jurisdiction or any Agency or instrumentality thereof; provided that the full faith and credit of an Approved Jurisdiction (or similar concept under the laws of the relevant Approved Jurisdiction) is pledged in support thereof;

(b) commercial paper with a maturity of one year or less issued by a corporation organised under the laws of an Approved Jurisdiction and rated at all times at least the same rating as that of the unsecured, unsubordinated debt obligations of the Issuer by Standard & Poor's Ratings Services, a division of McGraw-Hill Companies, Inc., Moody's Investors Service Limited or Fitch Ratings Ltd. to the extent that the aggregate amount of Cash Equivalents (as defined in this paragraph (b)) invested by application of Disposal Proceeds do not exceed at any time U.S.$250 million or its U.S. Dollar Equivalent;

(c) commercial paper with a maturity of one year or less, issued by a corporation organised under the laws of an Approved Jurisdiction, and at all times listed or traded on the London Inter-bank Currency Exchange to the extent that the aggregate amount of Cash Equivalents (as defined in this paragraph (c)) invested by application of Disposal Proceeds do not exceed at any time U.S.$250 million or its U.S. Dollar Equivalent;

(d) current account balances, deposits, certificates of deposit, promissory notes, acceptances or money market deposits with a maturity of one year or less of (i) any institution organised in an Approved Jurisdiction having combined, consolidated, capital and surplus and undivided profits (or any similar concept) of not less than U.S.$250 million (or the equivalent in another currency) determined in conformity with Accounting Standards and as set forth in the most recent publicly available financial reports published by such institution or (ii) the Ukrainian branch or Subsidiary of an institution referred to in (i) or (iii) CJSC Commercial Bank Finance and Credit;

(e) repurchase agreements and reverse repurchase agreements relating to marketable direct obligations issued or unconditionally guaranteed by the government of an Approved Jurisdiction, which obligations mature within 30 days from the date of acquisition; and/or

(f) interests in any money market funds at least 95 per cent. of the assets of which consist of Cash Equivalents of the type referred to in paragraphs (a) to (e) above.

"Consolidated Depreciation and Amortisation" means, in respect of any period, the consolidated depreciation and amortisation expense of the Group as shown on the financial statements of the Group prepared in accordance with Accounting Standards (excluding amortisation expense attributable to a prepaid item that was paid in cash in a prior period).

"Consolidated EBITDA" for any period means the sum of Consolidated Net Income, plus the following to the extent deducted in calculating such Consolidated Net Income:

(a) Consolidated Net Interest Expense;

(b) Consolidated Income Tax Expense;

(c) Consolidated Depreciation and Amortisation; and

(d) all other non-cash charges of the Issuer, the Guarantors and any of their respective Subsidiaries (excluding any such non-cash charge to the extent that it represents an accrual of or reserve for cash expenditures in any future period) less all non-cash items of income of the Issuer, the Guarantors and any of their respective Subsidiaries (other than accruals of revenue by the Issuer, the Guarantors and any of their respective Subsidiaries in the ordinary course of business);

in each case for such period.

"Consolidated Income Tax Expense" means, in respect of any period, the consolidated expenses of the Group in respect of income taxes as shown on the financial statements of the Group prepared in accordance with Accounting Standards.

"Consolidated Indebtedness" means at any date of determination (and without duplication) all consolidated Indebtedness of the Group as shown on the financial statements of the Group prepared in accordance with Accounting Standards.

"Consolidated Leverage Ratio" as of any date of determination means the ratio of (x) the Consolidated Indebtedness of the Group as of such date of determination to (y) Consolidated EBITDA for the most recent two fiscal six-month consecutive periods for which financial statements exist (the "Reference Period") after giving effect on a pro forma basis to:

(a) the Incurrence of any Indebtedness the permissibility of which is then being measured as well as the incurrence, repayment, repurchase or other discharge of any other Indebtedness, in each case, during the Reference Period and the receipt and application of the proceeds therefrom as well as the funds for such repurchase, repayment or other discharge as if any such transaction occurred on the date of determination with respect to paragraph (x) above and on the first date of the Reference Period with respect to paragraph (y) above; and

(b) the exclusion of Consolidated EBITDA directly attributable to any Asset Sale or the inclusion of Consolidated EBITDA directly attributable to any Asset Acquisition (including, without limitation, any Asset Acquisition giving rise to the need to make such calculation as a result of the incurrence or assumption of Indebtedness) occurring during the Reference Period as if any such transaction occurred on the first day of the Reference Period; and

(c) Investments or Asset Acquisitions that have been made by the specified Person or any of its Subsidiaries, including through mergers or consolidations, or any Person or any of its Subsidiaries acquired by the specified Person or any of its Subsidiaries, and including ail related financing, transactions and including increases in ownership of Subsidiaries, during the Reference Period or subsequent to such Reference Period and on or prior to the date of determination, or that are to be made on the date of determination, will be given pro forma effect (as determined in good faith by the Parent's chief financial officer or group treasurer (or officer holding equivalent position) and may include anticipated expense and cost reduction synergies) as if they had occurred on the first day of the Reference Period.

If any Indebtedness bears a floating rate of interest and is being given pro forma effect, the interest on such Indebtedness shall be calculated as if the rate in effect on the date of determination had been the applicable

rate for the entire period (taking into account any Interest Rate Agreement applicable to such Indebtedness if such Interest Rate Agreement has a remaining term in excess of 12 months). If any Indebtedness is incurred under a revolving credit facility and is being given pro forma effect, the interest on such Indebtedness shall be calculated based on the average daily balance of such Indebtedness for the two fiscal six-month consecutive periods subject to the pro forma calculation to the extent such Indebtedness was incurred solely for working capital purposes.

"Consolidated Net Income" means, for any period, the consolidated net income of the Group; provided, however, that there shall not be included in such Consolidated Net Income:

(a) any net income of any Person (other than the Issuer or a Guarantor) if such Person is not a Subsidiary, except that:

    (i) subject to the exclusion contained in paragraph (b) below, the Issuer's or a Guarantor's equity in the net income of any such Person for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to the Issuer, a Guarantor or any of their respective Subsidiaries as a dividend or other distribution; and

    (ii) the Issuer's or a either Guarantor's equity in a net loss of any such Person for such period shall be included in determining such Consolidated Net Income but only to the extent that such loss has been funded by cash by the Issuer, either Guarantor or any of their respective Subsidiaries;

(b) any gain (or loss) realised upon the sale or other disposition of any assets of the Issuer, a Guarantor or their respective Subsidiaries which are not sold or otherwise disposed of in the ordinary course of business and any gain (or loss) realised upon the sale or other disposition of any Capital Stock of any Person;

(c) any exceptional or extraordinary net-of-tax gains or losses and any loss or gain associated with an impairment of assets;

(d) non operating foreign exchange gains and losses; and

(e) the cumulative effect of a change in accounting principles

in each case, for such period.

"Consolidated Net Interest Expense" means, for any period, the consolidated interest expense (net of interest income) of the Group including bank charges, amortisation of finance costs, net of finance income as shown on the financial statements of the Group prepared in accordance with Accounting Standards.

"Core or Related Business" means any and all principal and ancillary activities of the Group in the mining and metals industry, including, but not limited to, (i) all activities that the Group engages in on the Issue Date, (ii) the mining of iron ore and the production and sale of iron ore pellets, hot briquetted iron, pig iron and steel, (iii) the procurement, running and/or owning of all transport and logistics infrastructure related to the Core or Related Business, (iv) the procurement, running and/or owning of all infrastructure and logistics supply services related to the Core or Related Business (including power, gas, grinding bodies, and explosives), and (v) and any other activity reasonably related or complementary to any of the foregoing.

"Currency Agreement" means any foreign exchange contract, currency swap agreement or other similar agreement with respect to currency values.

"Disinterested Directors" means, with respect to any transaction or series of related transactions, a member of the Board of Directors of the Issuer, a Guarantor or its relevant Subsidiary who does not have any material direct or indirect financial interest in or with respect to such transaction or series of related transactions. A Person shall not be ineligible to constitute a Disinterested Director solely as a result of such Person owning any equity interests of the Issuer, a Guarantor or any of their respective Subsidiaries or acting as an officer, director or employee of the Issuer, a Guarantor or any of their respective Subsidiaries.

"Disposal Proceeds" from an Asset Sale means the proceeds thereof in the form of cash or Cash Equivalents, including payments in respect of deferred payment obligations when received in the form of cash or Cash Equivalents (except to the extent such obligations are financed or sold with recourse to the Issuer, a Guarantor or any of their respective Subsidiaries) and proceeds from the conversion of other property received when converted to cash or Cash Equivalents, net of:

(a) brokerage commissions and other fees and expenses (including fees and expenses of accounting and/or legal advisers and/or investment bankers), title and recording tax expenses, commissions and other fees and expenses relating to such Asset Sale;

(b) provision for all taxes required to be paid or payable, or required to be accrued as a liability determined in conformity with Accounting Standards as a result of such Asset Sale;

(c) payments made to repay Indebtedness or any other obligation outstanding at the time of such Asset Sale that either is secured by a Lien on the property or assets sold, or is required to be paid as a result of such sale;

(d) all distribution and other payments required to be made to minority interest holders in Subsidiaries as a result of such Asset Sale;

(e) any portion of the purchase price from an Asset Sale placed in escrow, whether as a reserve for adjustment of the purchase price, for satisfaction of indemnities in respect of such Asset Sale or otherwise in connection with that Asset Sale; provided, however, that upon the termination of that escrow, Net Cash Proceeds will be increased by any portion of funds in the escrow that are released to the Issuer or any Subsidiary; and

(f) appropriate amounts to be provided by the Issuer or any of its Subsidiaries as a reserve against any liabilities associated with such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligation associated with such Asset Sale, all as determined in conformity with Accounting Standards.

"Disqualified Stock" means, with respect to any Person, any Capital Stock which by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable at the option of the holder) or upon the happening of any event:

(a) matures or is mandatorily redeemable (other than redeemable only for Capital Stock of such Person which is not itself Disqualified Stock) pursuant to a sinking fund obligation or otherwise;

(b) is convertible or exchangeable at the option of the holder for Indebtedness or Disqualified Stock; or

(c) is mandatorily redeemable or must be purchased upon the occurrence of certain events or otherwise, in whole or in part;

in each case on or prior to the first anniversary of the Stated Maturity of the Notes; provided, however, that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to purchase or redeem such Capital Stock upon the occurrence of an "asset sale" or "change of control" occurring prior to the first anniversary of the Stated Maturity of the Notes shall not constitute Disqualified Stock if (i) the "change of control" provisions applicable to such Capital Stock are not more favourable to the holders of such Capital Stock than the terms applicable to the Notes and set forth in Condition 5.3, (ii) the "asset sale" provisions are not inconsistent with the provisions of Condition 3.4 and (iii) any such requirement only becomes operative after compliance with such terms applicable to the Notes.

The amount of any Disqualified Stock that does not have a fixed redemption, repayment or repurchase price will be calculated in accordance with the terms of such Disqualified Stock as if such Disqualified Stock were redeemed, repaid or repurchased on any date on which the amount of such Disqualified Stock is to be determined pursuant to the Trust Deed; provided, however, that if such Disqualified Stock could not be required to be redeemed, repaid or repurchased at the time of such determination, the redemption, repayment

or repurchase price will be the book value of such Disqualified Stock as reflected in the most recent financial statements of such Person.

"EEA Regulated Market" means a market as defined by Article 4.1 (14) of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.

"Event of Default" has the meaning set forth in Condition 8.

"Exchange Act" means the U.S. Securities Exchange Act of 1934, as amended.

"Fair Market Value" means the price that would be paid in an arm's-length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the Parent or, with respect to any transaction or series of related transactions involving an aggregate value in excess of U.S.$50 million (or its U.S. Dollar Equivalent), the price as determined by an Independent Appraiser.

"FPC Mining Facility" means the property, plant and equipment of FPC (as determined in accordance with Accounting Standards) but excluding the Non-GPL Licences.

"Group" means the Parent and its consolidated Subsidiaries.

"Guarantee" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness of any other Person and any obligation, direct or indirect, contingent or otherwise, of such Person:

(a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness of such other Person (whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise); or

(b) entered into for purposes of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part),

provided, that "Guarantee" shall not include endorsements for collection or deposit in the ordinary course of business. "Guarantee" used as a verb has a corresponding meaning.

"Guarantors" means the Initial Guarantors together with the Additional Note Guarantors and Additional Note Sureties and "Guarantor" means any of them.

"Hedging Obligations" of any Person means the obligations of such Person pursuant to any Interest Rate Agreement or Currency Agreement or other agreement or arrangement designed to protect such Person against fluctuations in currency, exchange rates, interest rates or commodity prices.

"IFRS" means International Financial Reporting Standards.

"Incur" means, with respect to any Indebtedness or other obligation of any Person, to create, issue, incur (including by conversion, exchange or otherwise), assume, guarantee or otherwise become liable in respect of such Indebtedness or other obligation of such Person (and "Incurrence," "Incurred" and "Incurring" shall have meanings correlative to the preceding). Indebtedness of any acquired Person or any of its Subsidiaries existing at the time such acquired Person becomes a Subsidiary of the Issuer, a Guarantor or any of their respective Subsidiaries (or is merged into or consolidated with the Issuer, a Guarantor or any of their respective Subsidiaries), whether or not such Indebtedness was Incurred in connection with, as a result of, or in contemplation of, such acquired Person becoming a Subsidiary of the Issuer, a Guarantor or any of their respective Subsidiaries (or being merged into or consolidated with the Issuer, a Guarantor or any of their respective Subsidiaries), shall be deemed Incurred at the time any such acquired Person becomes a Subsidiary of the Issuer, a Guarantor or any of their respective Subsidiaries (or merges into or consolidates with the Issuer, a Guarantor or any of their respective Subsidiaries) provided that the following will not be deemed to be an Incurrence:

(a) the accrual of interest or the accretion of original issue discount;

(b) the amortisation of debt discount or the accretion of principal with respect to a non-interest bearing or other discount security;

(c) the payment of regularly scheduled interest in the form of additional Indebtedness of the same instrument or the payment of regularly scheduled dividends on Capital Stock in the form of additional Capital Stock of the same class and with the same terms; and

(d) the obligation to pay a premium in respect of Indebtedness arising in connection with the issuance of the notice of redemption or the making of a mandatory offer to purchase such Indebtedness.

"Indebtedness" means, with respect to any Person at any date of determination (without duplication):

(a) the principal in respect of (A) indebtedness of such Person for money borrowed and (B) indebtedness raised under any note purchase facility or evidenced by notes, debentures, bonds or other similar instruments for the payment of which such Person is responsible or liable, including, in each case, any premium on such indebtedness to the extent such premium has become due and payable;

(b) all Capital Lease Obligations, exceeding U.S.$10 million or its U.S.$ Dollar Equivalent at any time, of such Person and all Attributable Debt in respect of Sale/Leaseback Transactions entered into by such Person;

(c) all obligations of such Person issued or assumed as the deferred purchase price of property or services (except where the purchase price is due no more than six months after the earlier of the placing of such property into service, the taking of delivery and title thereto or the date of performance of such service, as the case may be), all conditional sale obligations of such Person and all obligations of such Person under any title retention agreement (but excluding any accounts payable or other liability to trade creditors arising in the ordinary course of business);

(d) the amount of all obligations of such Person with respect to the redemption, repayment or other repurchase of any Disqualified Stock of such Person or, with respect to any Preferred Stock of any Subsidiary of such Person, the principal amount of such Preferred Stock to be determined in accordance with the Trust Deed (but excluding, in each case, any accrued dividends);

to the extent any of the preceding items (other than Attributable Debt) would appear as a liability upon a balance sheet of the specified Person prepared in accordance with Accounting Standards.

In addition, the term "Indebtedness" includes all Indebtedness of others secured by a Lien on any asset of the specified Person (whether or not such Indebtedness is assumed by the specified Person) and, to the extent not otherwise included, the Guarantee by the specified Person of any Indebtedness of any other Person.

In addition, for the purpose of avoiding duplication in calculating the outstanding principal amount of Indebtedness for purposes of Condition 3.2. Indebtedness arising solely by reasons of the existence of a Lien to secure other Indebtedness permitted to be incurred under Condition 3.2 will not be considered incremental Indebtedness.

"Independent Appraiser" means any of PricewaterhouseCoopers LLP, KPMG LLP, Deloitte & Touche LLP, Ernst & Young LLP or such investment banking, accountancy or appraisal firm of international standing selected by the competent management body of the Issuer or the relevant Subsidiary (with the prior written consent of the Trustee, which consent shall not be unreasonably withheld), provided it is not an Affiliate of the Issuer, or any Subsidiary.

"Initial Guarantors" means the Parent, AG and FPC and "Initial Guarantor" means any one of them.

"Interest Rate Agreement" means any interest rate swap agreement, interest rate cap agreement or other financial agreement or arrangement with respect to exposure to interest rates.

"Investment" in any Person means any direct or indirect advance, loan (other than advances to customers in the ordinary course of business that are recorded as accounts receivable on the balance sheet of the lender) or other extensions of credit (including by way of guarantee or similar arrangement but excluding amounts represented by deposits with a bank or other financial institution) or capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others), or any purchase or acquisition of Capital Stock, Indebtedness or other similar instruments issued by such Person, provided that each of the following shall not be deemed to be an Investment:

(a) Hedging Obligations entered into in the ordinary course of business and in compliance with the Trust Deed; and

(b) endorsements of negotiable instruments and documents in the ordinary course of business.

If the Issuer or a Guarantor or any of their respective Subsidiaries issues, sells or otherwise disposes of any Capital Stock of a Person that is a Subsidiary such that, after giving effect thereto, such Person is no longer a Subsidiary, any Investment by the Issuer or a Guarantor or any of their respective Subsidiaries in such Person remaining after giving effect thereto will be deemed to be a new Investment at such time. The acquisition by the Issuer or a Guarantor or any of their respective Subsidiaries of a Person that holds an Investment in a third Person will be deemed to be an Investment by the Issuer or a Guarantor or any of their respective Subsidiaries in such third Person at such time. Except as otherwise provided for herein, the amount of an Investment shall be its fair market value at the time the Investment is made and without giving effect to subsequent changes in value.

"Issue Date" means 7 April 2011.

"Issuer" means the party named as such above until a successor replaces it in accordance with Condition 3.5 and thereafter means such successor.

"Lien" means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including, without limitation, any conditional sale or other title retention agreement or lease in the nature thereof, any sale with recourse against the seller or any Affiliate of the seller, or any agreement to give any security interest) securing any obligation of any Person.

"Material Subsidiary" means at any relevant time a Subsidiary of the Parent:

(a) whose total consolidated assets (excluding intercompany loans, intercompany payables, intercompany receivables and intercompany unrealised gains and losses in inventories) represent not less than 10 per cent. of the total consolidated assets of the Issuer or a Guarantor, as the case may be, or whose gross consolidated revenues (excluding intercompany revenues) or operating income represent not less than 10 per cent. of the gross consolidated revenues or operating income of the Issuer or a Guarantor, as the case may be, (determined by reference to the most recent publicly available annual or interim financial statements of the Parent prepared in accordance with Accounting Standards and the latest financial statements of the Subsidiary determined in accordance with Accounting Standards); or

(b) to which is transferred all or substantially all the assets and undertakings of a Subsidiary which immediately prior to such transfer is a Material Subsidiary,

save that FPC and the Issuer shall at all times be deemed to be a Material Subsidiary and provided always that Ferrexpo Belanovo Mining and Ferrexpo Yeristovo will not be included within this definition.

"Moody's" means Moody's Investors Service, Inc. and any successor to its rating agency business.

"Net Cash Proceeds", with respect to any issuance or sale of Capital Stock or Indebtedness, means the cash proceeds of such issuance or sale net of legal fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees actually incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

"Non-GPL Licences" means those licenses held in the name of FPC other than the production licences relating to the Gorishnye-Plavninskoe field and the Lavrikovskoe field dated 29 July 1997 and as the same may be renewed, amended or extended from time to time.

"Noteholder" means the person in whose name the Note is registered in the register of the noteholders (or in the case of joint holders, the first named holder thereof).

"Notes" means the U.S.$500,000,000 7.875 per cent. notes due 2016 proposed to be issued by the Issuer pursuant to the Trust Deed.

"Note Guarantee" means the guarantee of the Parent, AG and any Additional Note Guarantors, as set out in the Trust Deed.

"Note Suretyship" means the surety of FPC and any Additional Note Sureties, as set out in the Surety Agreement.

"Officer" means, with respect to a Person, the Chairman of the Board of Directors, the General Director, the Chief Executive Officer, the President, or Vice-President, the Chief Financial Officer, the Controller, the Treasurer or the General Counsel of such Person as an individual occupying an equivalent position.

"Officers' Certificate" means a certificate signed by two Officers of the Issuer or a Guarantor, as the case may be.

"Opinion of Counsel" means a written opinion obtained at the Issuer's expense from legal counsel who is acceptable to the Trustee in form and content satisfactory to the Trustee. The counsel may be an employee of or counsel to the Company or the Trustee.

"Permitted Holder" means Kostyantan Zhevago.

"Permitted Indebtedness" means

(a) Indebtedness incurred to finance or facilitate the performance of Core or Related Business provided that the aggregate principal amount of such Indebtedness incurred in this clause does not exceed U.S.$700 million or its U.S.$ Dollar Equivalent at any time;

(b) Intercompany and intra-Group Indebtedness owed to and held by the Issuer, a Guarantor, or any of their respective Subsidiaries; provided, however, that (i) any subsequent disposition, pledge or transfer of such Indebtedness (other than to the Issuer, a Guarantor, or any of their respective Subsidiaries) shall be deemed, in each case, to constitute the Incurrence of such Indebtedness by the obligor thereon and (ii) if a Guarantor is the obligor on such Indebtedness, such Indebtedness is unsecured and, if such Indebtedness is owed to a Subsidiary of the Parent that is not a Guarantor, is expressly subordinated to the prior payment in full in cash of all obligations of a Guarantor in the Note Guarantee;

(c) Indebtedness represented by the Notes and the Note Guarantee and the Note Suretyship;

(d) Indebtedness of Issuer, a Guarantor, or any of their respective Subsidiaries Incurred and outstanding on or prior to the date on which such Subsidiary became a Subsidiary of the Issuer or a Guarantor or is merged, consolidated, amalgamated or otherwise combined with (including pursuant to any acquisition of assets and assumption of related liabilities) the Parent or any of its Subsidiaries (other than Indebtedness Incurred in connection with, or to provide all or any portion of the funds or credit support utilised to consummate, the transaction or series of related transactions pursuant to which such Subsidiary became a Subsidiary of the Issuer or a Guarantor); provided, however, that, on the date of such acquisition and after giving pro forma effect thereto, of the Issuer, or the relevant Guarantor would have been entitled to Incur at least U.S.$1.00 or its U.S. Dollar Equivalent of additional Indebtedness pursuant to Condition 3.2(a) or the Consolidated Leverage Ratio would not be greater than it was immediately prior to giving pro forma effect to the incurrence of such Indebtedness pursuant to this clause (d);

(e) Refinancing Indebtedness Incurred by Issuer, a Guarantor, or any of their respective Subsidiaries in respect of Indebtedness Incurred by Issuer, a Guarantor, or any of their respective Subsidiaries pursuant to Condition 3.2(a) or (b) and (c), (d) or (e) in this definition of Permitted Indebtedness;

(f) Hedging Obligations of Issuer, a Guarantor, or any of their respective Subsidiaries; *provided, however,* that each Interest Rate Agreement is entered into for the purpose of limiting interest rate risk and all such Hedging Obligations are not entered into for speculative purposes;

(g) Obligations in respect of performance, bid and surety bonds, completion guarantees, letters of credit, *veksels* (Ukrainian Hryvnia-denominated short-term promissory notes) or similar obligations provided by Issuer, a Guarantor, or any of their respective Subsidiaries in the ordinary course of business, *provided, however*, that, in relation to *veksels* only upon demand being made under such obligations, such obligations are reimbursed or the Indebtedness thereunder repaid within 30 days following such drawing or occurrence;

(h) Indebtedness arising from the honouring by a bank or other financial institution of a cheque, draft or similar instrument inadvertently drawn against insufficient funds in the ordinary course of business; *provided, however,* that such Indebtedness is extinguished within five Business Days of its Incurrence;

(i) Indebtedness arising from agreements of the Issuer, a Guarantor, or any of their respective Subsidiaries providing for indemnification, adjustment of purchase price deferred or contingent purchase price or similar obligations, in each case, incurred or assumed in connection with the acquisition or disposition of any business, assets or Capital Stock of the Issuer, a Guarantor, or any of their respective Subsidiaries; *provided, however,* that (A) the maximum aggregate liability in respect of all such Indebtedness shall at no time exceed the net proceeds (including the Fair Market Value of non-cash consideration) actually received by (or held in escrow as a collateral for such Indebtedness for later release to) the Issuer, a Guarantor, or any of their respective Subsidiaries in connection with such disposition (without giving effect to any subsequent changes in value) and (B) such Indebtedness is not reflected on the balance sheet of the Issuer, a Guarantor, or any of their respective Subsidiaries (contingent obligations referred to in a footnote to financial statements and not otherwise reflected on the balance sheet shall not be deemed to be reflected on such balance sheet for purposes of (B) immediately above);

(j) Indebtedness in respect of workers' compensation claims or claims arising under similar legislation, or pursuant to self-insurance obligations and not in connection with the borrowing of money or the obtaining of advances or credit;

(k) Customer deposits and advance payments received from customers in the ordinary course of business; and

(l) any Guarantee of Indebtedness permitted to be incurred under Condition 3.2.

Indebtedness outstanding on the Issue Date (other than Indebtedness that would be permitted to be incurred under clauses (b) through (l) of the definition of Permitted Indebtedness) will be deemed to have been incurred on such date in reliance on the exception provided by clause (a) of the definition of Permitted Indebtedness.

"Permitted Liens" means

(a) Liens granted by: (i) a Subsidiary of the Issuer or a Guarantor in favour of the Issuer or a Guarantor, or (ii) a Subsidiary of the Issuer or a Guarantor in favour of another Subsidiary of the Issuer or a Guarantor, or (iii) by the Issuer in favour of a Guarantor, in each case with respect to the property or assets, or any income or profits therefrom, of the Issuer or a Guarantor or such Subsidiary of the Issuer or either Guarantor, as the case may be;

(b) any Lien existing on the Issue Date and any amendments, restatements, modifications, renewals, supplements, refundings, replacements or refinancings of those Liens; provided that the amendments, restatements, modifications, renewals, supplements, refundings, replacements or refinancings are no more restrictive, taken as a whole, with respect to such dividend and other payment restrictions than those contained in those agreements on the Issue Date;

(c) Liens imposed by law, including but without limitation, Liens of landlords and carriers, warehousemen, mechanics, suppliers, material men, repairmen or other similar Liens arising in the ordinary course of business;

(d) Liens on property or shares of Capital Stock of another Person at the time such other Person becomes a Subsidiary of the Issuer or a Guarantor or any of their respective Subsidiaries; *provided, however,* that the Liens may not extend to any other property owned by the Issuer or a Guarantor or any of their respective Subsidiaries (other than assets and property affixed or appurtenant thereto);

(e) Liens on property at the time the Issuer or a Guarantor or any of their respective Subsidiaries acquires the property, including any acquisition by means of a merger or consolidation with or into the Issuer or a Guarantor or any of their respective Subsidiaries; *provided, however,* that the Liens may not extend to any other property owned by the Issuer or a Guarantor or any of their respective Subsidiaries (other than assets and property affixed or appurtenant thereto);

(f) any Lien securing the Notes and any Note Guarantee or Note Suretyship;

(g) any Lien incurred, or pledges or deposits in connection with workers' compensation, unemployment insurance and other social security benefits and other obligations of like nature in the ordinary course of business;

(h) any deposits or other Liens to secure the performance of bids, trade contacts, government contracts, leases, statutory obligations, customs duties, surety and appeal bonds, performance or return-of-money bonds or liabilities to insurance carriers under insurance or self-insurance arrangements and other obligations of like nature, in each case so long as, such Liens do not secure obligations constituting Indebtedness for borrowed money and are incurred in the ordinary course of business;

(i) easements, rights of way, restrictions (including zoning restrictions), reservations, permits, servitudes, utility lines, survey exceptions, leases or reservations of mineral or water rights, defects or irregularities in title and other similar charges and encumbrances, and Liens arising under leases or subleases granted to others, in each case not interfering in any material respect with the business of the Issuer or any of its Material Subsidiaries and existing, arising or incurred in the ordinary course of business;

(j) any Lien securing reimbursement obligations of the Issuer or a Guarantor or any of their respective Subsidiaries with respect to letters of credit encumbering only documents and other property relating to such letters of credit and other property relating to such letters of credit and the products or proceeds thereof in the ordinary course of business; provided that such letters of credit do not constitute Indebtedness;

(k) any Lien upon any iron ore export contracts (including contracts for sale, transportation or exchange) or other conditional sale, title retention, consignment or similar contracts entered into in the ordinary course of business of the Issuer or a Guarantor and its Subsidiaries in a form that is customary in the iron ore mining industry, Core or Related Business, as applicable;

(l) any Lien in respect of Hedging Obligations so long as any related Indebtedness is permitted to be incurred under the terms of the Trust Deed and such Hedging Obligations are not speculative;

(m) a right of set-off, right to combine accounts or any analogous right which any bank or other financial institution may have relating to any credit balance of any member of the Group; *provided, however,* that (i) such deposit account is not a dedicated cash collateral account and is not subject to restrictions against access by the Issuer or a Guarantor or any of their respective Subsidiaries and (ii) such deposit account is not intended by the Issuer or any Subsidiary to provide collateral to the depository institution;

(n) any Lien for taxes or assessments, customs charges, government charges and similar charges, including VAT, which either are not delinquent or are being contested in good faith by appropriate proceedings for which the Issuer or a Guarantor or relevant Subsidiary has set aside in its accounts reserves or other provisions to the extent required by Accounting Standards;

(o) Liens securing Indebtedness incurred pursuant to Condition 3.2(b) that falls under Clause (d) in the definition of Permitted Indebtedness and any amendments, restatements, modifications, renewals, supplements, refundings, replacements or refinancings in relation to those Liens;

(p) Liens, deposits or pledges to secure public or statutory obligations, surety, stay, appeal, indemnity, performance or other similar bonds or obligations; and Liens, deposits or pledges in lieu of such bonds or obligations, or to secure such bonds or obligations, or to secure letters of credit in lieu of or supporting the payment of such bonds or obligations;

(q) any interest or title of a lessor, licensor or sublicensor in the property subject to any lease, license or sublicense (other than any property that is the subject of a Sale and Leaseback Transaction);

(r) judgment and attachment Liens not giving rise to an Event of Default and notices of *lis pendens* and associated rights related to litigation being contested in good faith by appropriate proceedings and for which adequate reserves or other appropriate provision have been made;

(s) Liens resulting from escrow arrangements entered into in connection with the disposition of assets;

(t) any right of refusal, right of first offer, option or other agreement to sell or otherwise dispose of an asset or any other option, contract or other agreement to sell an asset; provided such sale is not otherwise prohibited under the Trust Deed; and

(u) Liens securing the higher of (X): Indebtedness Incurred pursuant to Condition 3.2(b) that falls under Clause (a) in the definition of Permitted Indebtedness and (Y) Indebtedness in an aggregate principal amount not exceeding a Consolidated Leverage Ratio of 1.00 to 1.00.

"Person" means any individual, corporation, partnership, joint venture, trust, unincorporated organisation or government or any Agency or political subdivision thereof.

"Potential Event of Default" means any condition, event or act which, with the lapse of time and/or the issue, making or giving of any notice, certification, declaration, demand, determination and/or request and/or the taking of any similar action and/or the fulfilment of any similar condition, would constitute an Event of Default.

"Preferred Stock", as applied to the Capital Stock of any Person, means Capital Stock of any class or classes (however designated) which is preferred as to the payment of dividends or distributions, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person.

"Production Assets" means property, plant and equipment of the Group determined in accordance with Accounting Standards;

"Prohibited Asset Sale" means any direct or indirect lease, sale, sale and lease-back, transfer or other disposition either in one transaction or in a series of transactions, by FPC (or the Issuer or an Initial Guarantor if relevant) to a Person that is not the Issuer or a Guarantor, in respect of:

(i) all and any licences to own and operate the FPC Mining Facility;

(ii) all and any assets constituting the FPC Mining Facility; and

(iii) all and any other assets (excluding (A) goods for sale, (B) transfers of cash and Cash Equivalents in the ordinary course of business and (C) dispositions of receivables in connection with the compromise, settlement or collection thereof in the ordinary course of business) that are material to the operation and performance of the FPC Mining Facility in the good faith determination of the Parent.

provided that FPC may sell, transfer or otherwise dispose of assets otherwise prohibited by this definition in an aggregate amount of up to U.S.$10,000,000 (or its U.S. Dollar Equivalent) in any 12 month period.

"Refinance" means, in respect of any security or Indebtedness, to refinance, extend, renew, refund, repay, prepay, redeem, defease or retire, or to issue a security or Indebtedness in exchange or replacement for, such security or Indebtedness in whole or in part. "Refinanced" and "Refinancing" shall have correlative meanings.

"Related Person" with respect to any Permitted Holder means:

(a) in the case of any individual, any spouse, family member or relative of such individual, any trust or partnership for the benefit of one or more of such individual and any such spouse, family member or relative, or the estate, executor, administrator, committee or beneficiaries of any thereof;

(b) any trust, corporation, partnership or other Person for which one or more of the Permitted Holders and other Related Persons of any thereof, directly or indirectly constitute the whole or entire stockholders, beneficiaries, partners or owners thereof, or persons beneficially holding in the aggregate the whole or entire controlling interest therein; or

(c) any investment fund or vehicle managed, sponsored or advised by such Permitted Holder on their behalf or any successor thereto or by any Affiliate of such Permitted Holder or on their behalf any such successor.

"Restricted Distribution", with respect to any Person, means:

(a) the declaration or payment of any dividends or any other distributions of any sort in respect of its Capital Stock (including any payment in connection with any merger or consolidation involving such Person) or similar payment to the direct or indirect holders of its Capital Stock (other than (A) dividends or distributions payable solely in its Capital Stock (other than Disqualified Stock) or in options, warrants or other rights to purchase such stock, (B) dividends or distributions payable solely to the Parent or a Subsidiary and (C) pro rata dividends or other distributions made by a Subsidiary that is not a wholly-owned Subsidiary to minority stockholders (or owners of an equivalent interest in the case of a Subsidiary that is an entity other than a corporation));

(b) the purchase, repurchase, redemption, defeasance or other acquisition or retirement for value of any Capital Stock of the Parent held by any Person (other than by a Subsidiary), including in connection with any merger or consolidation and including the exercise of any option to exchange any Capital Stock (other than into Capital Stock of the Parent that is not Disqualified Stock); or

(c) the purchase, repurchase, redemption, defeasance or other acquisition or retirement for value, prior to scheduled maturity, scheduled repayment or scheduled sinking fund payment of any Subordinated Obligations of the Issuer or any Guarantor (other than (A) from or by the Parent or a Subsidiary or (B) the purchase, repurchase, redemption, defeasance or other acquisition or retirement of Subordinated Obligations purchased in anticipation of satisfying a sinking fund obligation, principal instalment or final maturity, in each case due within one year of the date of such purchase, repurchase, redemption, defeasance or other acquisition or retirement).

"Sale/Leaseback Transaction" means an arrangement relating to property owned by the Issuer or a Guarantor or their respective Subsidiaries on the Issue Date or thereafter acquired by the Issuer or a Guarantor or their respective Subsidiaries whereby the Issuer or a Guarantor or a respective Subsidiary transfers such property to a Person and the Issuer, a Guarantor or their respective Subsidiaries leases it from such Person.

"Standard & Poor's" means Standard & Poor's, a division of The McGraw-Hill Companies, Inc., and any successor to its rating agency business.

"Stated Maturity" means:

(a) with respect to any Indebtedness, the date specified in such Indebtedness as the fixed date on which the final instalment of principal of such Indebtedness is due and payable; and

(b) with respect to any scheduled instalment of principal of or interest on any Indebtedness, the date specified in such Indebtedness as the fixed date on which such instalment is due and payable.

"Subordinated Obligation" means, with respect to a Person, any Indebtedness of such Person (whether outstanding on the Issue Date or thereafter Incurred) which is subordinate or junior in right of payment to the Notes or a Note Guarantee, pursuant to a written agreement to that effect.

"Subsidiary" of any Person means (a) any corporation more than 50 per cent. of the outstanding voting power of the Capital Stock of which is owned or controlled, directly or indirectly, by such Person or by one or more other Subsidiaries of such Person, or by such Person and one or more other Subsidiaries thereof, (b) any limited partnership of which such Person or any Subsidiary of such Person is a general partner, (c) any other Person in which such Person, or one or more other Subsidiaries of such Person, or such Person and one or more other Subsidiaries, directly or indirectly, has more than 50 per cent. of the outstanding partnership or similar interests or has the power, by contract or otherwise, to direct or cause the direction of the policies, management and affairs thereof or (d) any Person whose financial statements are required by Accounting Standards to be consolidated into the consolidated financial statements of the Issuer.

"Surety Agreement" means the surety agreement dated the Issue Date, between the Issuer, FPC and the Trustee as amended, varied or supplemented from time to time.

"Taxes" has the meaning set out in Condition 7.

"Trust Deed" means the trust deed to constitute the Notes for the equal and rateable benefit of the Noteholders to be dated the Issue Date between, among others, the Issuer, in its capacity as issuer, the Guarantor and the Trustee as amended, varied or supplemented from time to time.

"Trustee" means BNY Mellon Corporate Trustee Services Limited, as trustee under the Trust Deed and any successor thereto as provided thereunder.

"U.S. Dollar Equivalent" means with respect to any amount denominated in a currency other than U.S. Dollars, at any time for the determination thereof, the amount of U.S. Dollars obtained by converting such other currency involved into U.S. Dollars at the spot rate for the purchase of U.S. Dollars with such other currency as most recently published under "Currency Rates" in the section of the Financial Times entitled "Currencies, Bonds & Interest Rates".

Book-Entry, Delivery and Form

The Global Note Certificates

The Regulation S Notes will be evidenced on issue by the Regulation S Global Note Certificate registered in the name of a nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream, Luxembourg. Beneficial interests in the Regulation S Global Note Certificate may be held only through Euroclear or Clearstream, Luxembourg at any time. See "*—Book-entry Procedures for the Global Note Certificates*". By acquisition of a beneficial interest in the Regulation S Global Note Certificate, the purchaser thereof will be deemed to represent, among other things, that it is not a U.S. person, that it is located outside the United States and that, if it determines to transfer such beneficial interest prior to the expiration of the "distribution compliance period" (as such term is defined in Rule 902 of Regulation S), it will transfer such interest only (a) to a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (b) in accordance with Rule 144A, to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or the account of a QIB, in each case in accordance with any applicable securities laws of any state of the United States. See "*Selling and Transfer Restrictions*".

The Rule 144A Notes will be evidenced on issue by the Rule 144A Global Note Certificate deposited with a custodian for, and registered in the name of a nominee of, DTC. Beneficial interests in the Rule 144A Global Note Certificate may only be held through DTC at any time. See "*—Book-entry Procedures for the Global Note Certificates*". By acquisition of a beneficial interest in the Rule 144A Global Note Certificate, the purchaser thereof will be deemed to represent, among other things, that it is a QIB and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Trust Deed. See "*Selling and Transfer Restrictions*".

Beneficial interests in Global Note Certificates will be subject to certain restrictions on transfer set forth therein and in the Trust Deed, and the Global Note Certificates will bear the applicable legends regarding the restrictions set forth under "*Selling and Transfer Restrictions*". A beneficial interest in the Regulation S Global Note Certificate may be transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note Certificate only in denominations greater than or equal to the minimum denominations applicable to interests in the Rule 144A Global Note Certificate and only upon receipt by the Registrar of a written certification (in the form provided in an Agency Agreement relating to the Notes (the **Agency Agreement**)) to the effect that the transferor reasonably believes that the transferee is a QIB and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. Beneficial interests in the Rule 144A Global Note Certificate may be transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note Certificate only upon receipt by the Registrar of a written certification (in the form provided in the Agency Agreement) from the transferor to the effect that the transfer is being made in an offshore transaction in accordance with Regulation S.

Any beneficial interest in the Regulation S Global Note Certificate that is transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note Certificate will, upon transfer, cease to be an interest in the Regulation S Global Note Certificate and become an interest in the Rule 144A Global Note Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Rule 144A Global Note Certificate for as long as it remains such an interest. Any beneficial interest in the Rule 144A Global Note Certificate that is transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note Certificate will, upon transfer, cease to be an interest in the Rule 144A Global Note Certificate and become an interest in the Regulation S Global Note Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Regulation S Global Note Certificate for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Notes but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Except in the limited circumstances described below, owners of beneficial interests in Global Note Certificates will not be entitled to receive physical delivery of Definitive Certificates. The Notes are not issuable in bearer form.

In addition, each Global Note Certificate will contain a provision which modifies the Terms and Conditions of the Notes as they apply to the Notes evidenced by the Global Note Certificate. The following is a summary of this provision:

Exchange and Registration of Title

Owners of interests in the Notes in respect of which this Global Note Certificate is issued will only be entitled to have title to the Notes registered in their names and to receive individual definitive Notes if a Global Note Certificate is held by or on behalf of (A) DTC, and DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Global Note Certificate or ceases to be a "clearing agency" registered under the Exchange Act or, if at any time it is no longer eligible to act as such, the Issuer is unable to locate a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility on the part of DTC or (B) Euroclear or Clearstream, Luxembourg (or any other clearing system as shall have been designated by the Issuer and approved by the Trustee on behalf of which the Notes evidenced by this Global Note Certificate may be held), as the case may be, is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so.

In such circumstances, the Issuer will cause sufficient individual definitive Notes to be executed and delivered to the Registrar for completion, authentication and despatch to the relevant Noteholders. A person with an interest in the Notes in respect of which this Global Note Certificate is issued must provide the Registrar with a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such individual definitive Notes.

If only one of the Global Note Certificates (the **Exchanged Global Note Certificate**) becomes exchangeable for Definitive Certificates in accordance with the above paragraphs, transfers of Notes may not take place between, on the one hand, persons holding Definitive Certificates issued in exchange for beneficial interests in the Exchanged Global Note Certificate and, on the other hand, persons wishing to purchase beneficial interests in the other Global Note Certificate.

Legends

The holder of a Definitive Certificate may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Rule 144A Definitive Certificate bearing the legend referred to under "*Selling and Transfer Restrictions*", or upon specific request for removal of the legend on a Rule 144A Definitive Certificate, the Issuer will deliver only Rule 144A Definitive Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

Book-entry Procedures for the Global Note Certificates

Euroclear, Clearstream, Luxembourg and DTC

Custodial and depositary links have been established between Euroclear, Clearstream, Luxembourg and DTC to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading. See "– *Book-entry Ownership – Settlement and Transfer of Notes*".

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established

depositary and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in such Global Note Certificates directly through Euroclear or Clearstream, Luxembourg if they are accountholders (**Direct Participants**) or indirectly (**Indirect Participants** and, together with Direct Participants, **Participants**) through organisations which are accountholders therein.

DTC

DTC has advised the Issuer as follows: DTC is a limited-purpose trust company organised under the laws of the State of New York, a "banking organisation" under the laws of the State of New York, a member of the U.S. Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants (**DTC Participants**) and facilitate the clearance and settlement of securities transactions between DTC Participants through electronic computerised book-entry changes in accounts of its DTC Participants, thereby eliminating the need for physical movement of certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly.

Investors may hold their interests in the Rule 144A Global Note Certificate directly through DTC if they are DTC Participants in the DTC system or indirectly through organisations which are DTC Participants in such system.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more DTC Participants and only in respect of such portion of the aggregate principal amount of the relevant Rule 144A Global Note Certificates as to which such DTC Participant or DTC Participants has or have given such direction. However, in the circumstances described under "*Exchange for Definitive Notes*", DTC will surrender the relevant Rule 144A Global Note Certificate for exchange for individual Rule 144A Definitive Certificates (which will bear the legend applicable to transfers pursuant to Rule 144A).

Book-entry Ownership

Euroclear and Clearstream, Luxembourg

The Regulation S Global Note Certificate will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream, Luxembourg.

The address of Euroclear is 1 Boulevard du Roi Albert 11, B-1210 Brussels, Belgium, and the address of Clearstream, Luxembourg is 42 Avenue J.F. Kennedy, L-1855, Luxembourg.

DTC

The Rule 144A Global Note Certificate will have a CUSIP number and will be deposited with a custodian (the **Custodian**) for, and registered in the name of a nominee of, DTC. The Custodian and DTC will electronically record the principal amount of the Notes held within the DTC system. The address of DTC is 55 Water Street, New York, New York 10041, United States of America.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the holder of a Note evidenced by a Global Note Certificate must look solely to Euroclear, Clearstream, Luxembourg or DTC (as the case may be) for their share of each payment made by the Issuer to the holder of such Global Note Certificate and in relation to all other rights arising under the Global Note Certificate, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or DTC (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Note Certificate, the common depositary by whom such Note is held, or nominee in whose name

it is registered, will immediately credit the relevant participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Note Certificate as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants or DTC Participants, as the case may be, in any clearing system to owners of beneficial interests in any Global Note Certificate held through such Direct Participants or DTC Participants, as the case may be, in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Note Certificate and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Note Certificate in respect of each amount so paid. None of the Issuer, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Note Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants or DTC Participants, as the case may be, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such Note (the **Beneficial Owner**) will in turn be recorded on the Direct Participants' or DTC Participants', as the case may be, records. Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct Participant or DTC Participants, as the case may be, through which such Beneficial Owner entered into the transaction. Transfers of ownership interests in Notes held within the clearing system will be affected by entries made on the books of Direct Participants or DTC Participants, as the case may be, acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in any Global Note Certificate held within a clearing system are exchanged for Definitive Certificates.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system and their records will reflect only the identity of the Direct Participants or DTC Participants, as the case may be, to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Direct Participants or DTC Participants, as the case may be, will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants or DTC Participants, as the case may be, by Direct Participants to Indirect Participants, and by Direct Participants, Indirect Participants or DTC Participants, as the case may be, to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Note Certificate to such persons may be limited. Because DTC can only act on behalf of DTC Participants, the ability of a person having an interest in the Rule 144A Global Note Certificate to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

Trading between Euroclear and/or Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

Trading between DTC Participants

Secondary market sales of book-entry interests in the Notes between DTC Participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to U.S. corporate debt obligations in DTC's Same-Day Funds Settlement (**SDFS**) system in same-day funds, if payment is effected in US dollars or, free of payment, if payment is not effected in US dollars. Where payment

is not effected in US dollars, separate payment arrangements outside DTC are required to be made between DTC Participants.

Trading between DTC Seller and Euroclear/Clearstream, Luxembourg Purchaser

When book-entry interests in Notes are to be transferred from the account of a DTC Participant holding a beneficial interest in the Rule 144A Global Note Certificate to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in the Regulation S Global Note Certificate (subject to the certification procedures provided in the Agency Agreement), the DTC Participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12.00 p.m., New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC Participant and the relevant Euroclear or Clearstream, Luxembourg Participant. On the settlement date, the custodian of the Rule 144A Global Note Certificate will instruct the Registrar to (i) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Note Certificate of the relevant class and (ii) increase the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Note Certificate. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Trading between Euroclear/Clearstream, Luxembourg Seller and DTC Purchaser

When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC Participant wishing to purchase a beneficial interest in the Rule 144A Global Note Certificate (subject to the certification procedures provided in the Agency Agreement), the Euroclear or Clearstream, Luxembourg Participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7.45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC Participant on the settlement date. Separate payment arrangements are required to be made between the DTC Participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the custodian of the Rule 144A Global Note Certificate who will in turn deliver such book-entry interests in the Notes free of payment to the relevant account of the DTC Participant and (b) instruct the Registrar to (i) decrease the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Note Certificate; and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Note Certificate.

Although Euroclear, Clearstream, Luxembourg and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interest in Global Note Certificates among participants and accountholders of Euroclear, Clearstream, Luxembourg and DTC, they are under no obligation to perform or continue to perform such procedure, and such procedures may be discontinued at any time. None of the Issuer, the Trustee or any Agent will have the responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective Direct Participants, Indirect Participants or DTC Participants, as the case may be, of their respective obligations under the rules and procedures governing their operations.

Pre-issue Trades Settlement

It is expected that delivery of Notes will be made against payment therefor on the Closing Date, which is expected to be on or around the fifth business day following the date of pricing (such settlement being referred to as "T+5"). Under Rule 15c6-l under the Exchange Act, trades in the United States secondary market generally are required to settle in three business days (T+3), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes in the United States on the date of pricing or the next succeeding business day will be required, by virtue of the fact the Notes will initially settle in T+5, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries may vary and purchasers of Notes may be affected by such local settlement practices. Purchasers of Notes who wish to trade the Notes on the date of pricing or the next succeeding business day should consult their own adviser.

Summary of Provisions Relating to the Notes while in Global Form

The Global Note Certificates contain provisions which apply to the Notes in respect of which the Global Note Certificates are issued, some of which modify the effect of the Terms and Conditions of the Notes set out in this Prospectus. Terms defined in the Terms and Conditions of the Notes have the same meaning in the paragraphs below. The following is a summary of those provisions:

Meetings

The registered holder of each Global Note Certificate will be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, as having one vote in respect of each US$1,000 in principal amount of Notes for which the Global Note Certificates are issued. The Trustee may allow a person with an interest in Notes in respect of which the Global Note Certificates have been issued to attend and speak (but not vote) at a meeting of Noteholders on appropriate proof of his identity and interest.

Cancellation

Cancellation of any Note by the Issuer following its redemption or purchase by the Issuer, the Guarantors or any of their respective subsidiaries will be effected by a reduction in the principal amount of the Notes in the Register.

Trustee's Powers

In considering the interests of Noteholders while the Global Note Certificates are registered in the name of a nominee for a clearing system, the Trustee may, to the extent it considers it appropriate to do so in the circumstances, (a) have regard to any information as may have been made available to it by or on behalf of the relevant clearing system or its operator as to the identity of its accountholders (either individually or by way of category) with entitlements in respect of the Notes and (b) consider such interests on the basis that such accountholders were the holders of the Notes in respect of which the Global Note Certificates are issued.

Payment

Payments of principal, interest and premium (if any) in respect of Notes represented by the Global Note Certificates will be made without presentation or if no further payment is to be made in respect of the Notes, against presentation and surrender of the Global Note Certificates to or to the order of the Principal Paying and Transfer Agent or such other Paying and Transfer Agent as shall have been notified to the Noteholders for such purpose.

Notices

So long as the Notes are traded on the Market and are represented by the Global Note Certificate and the Global Note Certificate is held on behalf of Euroclear or Clearstream, Luxembourg or any alternative clearing system, notices to Noteholders may be given by delivery of the relevant notice to Euroclear or Clearstream, Luxembourg, or such alternative clearing system, for communication by it to entitled accountholders in substitution for notification as required by the Terms and Conditions of the Notes.

Enforcement

For the purposes of enforcement of the provisions of the Trust Deed against the Trustee, the persons named in a certificate of the holder of the Notes in respect of which the Global Note Certificates are issued shall be recognised as the beneficiaries of the trust set out in the Trust Deed, to the extent of the principal amount of their interest in the Notes set out in the certificate of the holder, as if they were themselves the holders of Notes in such principal amounts.

Prescription

Claims in respect of principal, premium and interest on the Notes while the Notes are represented by the Global Note Certificates will become void, unless presentation for payment is made as required by Condition 6 within a period of 10 years, in the case of principal and premium, and five years, in the case of interest, from the appropriate Relevant Date (as defined in Condition 7).

Taxation

The following summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities and commodities) may be subject to special rules.

Prospective purchasers of the Notes are advised to consult their own tax advisers as to the tax consequences, under the tax laws of the United Kingdom and Ukraine and each country of which they are residents, of a purchase of Notes including, without limitation, the consequences of receipt of interest and sale or redemption of the Notes or any interest therein.

United States

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, INVESTORS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF U.S. FEDERAL INCOME TAX ISSUES IN THIS PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, BY INVESTORS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON INVESTORS UNDER THE U.S. INTERNAL REVENUE CODE OF 1986 (THE "CODE"); (B) SUCH DISCUSSION IS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) INVESTORS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

The following is a general summary of certain material U.S. federal income tax consequences of the acquisition, ownership and retirement or other disposition of Notes by a U.S. Holder thereof (as defined below). This summary is not a complete analysis or description of all potential U.S. federal income tax consequences to holders, and does not address state, local, foreign, or other tax laws. This summary does not address aspects of U.S. federal income taxation that may be applicable to holders that are subject to special tax rules, such as U.S. expatriates or former long-term residents of the United States, "dual resident" companies, banks, thrifts, financial institutions, insurance companies, real estate investment trusts, regulated investment companies, grantor trusts, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations or investors, dealers or traders in securities, commodities or currencies, holders that will hold a Note as part of a position in a "straddle" or as part of a "synthetic security" or as part of a "hedging", "conversion", "integrated" or constructive sale transaction for U.S. federal income tax purposes or that have a "functional currency" other than the U.S. dollar, or holders otherwise subject to special tax rules. Moreover, this summary does not address the U.S. federal estate and gift or alternative minimum tax consequences of the acquisition, ownership, retirement or other disposition of Notes and does not address the U.S. federal income tax treatment of holders that do not acquire Notes as part of the initial distribution at the initial issue price (defined below) or of holders that are not U.S. Holders.

This summary is based on the Code, administrative pronouncements, judicial decisions and interpretations of the foregoing, and existing and proposed U.S. Treasury Regulations, in each case, as they exist and to the extent they are in effect on the date hereof. All of the foregoing are subject to change or differing interpretation, which could apply retroactively and affect the tax consequences described herein.

For purposes of this summary, a "**U.S. Holder**" is a beneficial owner of Notes that (a) purchases Notes in the offering at the initial issue price; (b) holds Notes as capital assets; and (c) is, for U.S. federal income tax purposes:

(i) a citizen or individual resident of the United States;

(ii) a corporation organised in or under the laws of the United States or any state thereof (including the District of Columbia);

(iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or

(iv) a trust (1) that validly elects to be treated as a United States person within the meaning of section 7701(a)(30) of the Code for U.S. federal income tax purposes or (2) (a) over the administration of which a U.S. court can exercise primary supervision and (b) all of the substantial decisions of which one or more United States persons have the authority to control.

If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds Notes, the U.S. federal income tax treatment of the partnership and a partner in such partnership will generally depend on the status of the partner and the activities of the partnership. Such a partner or partnership should consult its tax adviser as to the U.S. federal income tax consequences of acquiring, holding, retiring or other disposition of Notes.

The "**initial issue price**" of a Note will equal the initial offering price to the public (not including bond houses, brokers or similar persons or organisations acting in the capacity of underwriters, placement agents or wholesalers) at which a substantial amount of the Notes is sold for money.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. ALL PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF ACQUIRING, HOLDING, RETIRING OR OTHERWISE DISPOSING OF THE NOTES, INCLUDING THE APPLICABILITY AND EFFECT OF FEDERAL, STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

Payments of Interest

Interest paid on a Note (including the payment of any additional amount) will be included in a U.S. Holder's gross income as ordinary interest income at the time it is received or accrued in accordance with the U.S. Holder's usual method of tax accounting.

Interest on the Notes (including the payment of any additional amount) will be treated as foreign source income for U.S. federal income tax purposes, including U.S. foreign tax credit limitation purposes. The limitation on foreign taxes eligible for the U.S. foreign tax credit is calculated separately with respect to specific "baskets" of income. Interest on the Notes should generally constitute "passive category income", or in the case of certain U.S. Holders, "general category income".

In certain circumstances (see "*Terms and Conditions of the Notes—Redemption and Purchase—Redemption at the Option of the Holders Upon a Change of Control*"), the Company may be obligated to pay amounts in excess of stated interest or principal on the Notes. According to U.S. Treasury regulations, the possibility that any such payments in excess of stated interest or principal will be made will not affect the amount of interest income a U.S. Holder recognises if there is only a remote chance as of the date the Notes were issued that such payments will be made. The Company believes that the likelihood that it will be obligated to make any such payments is remote. Therefore, the Company does not intend to treat the potential payment of these amounts as part of the yield to maturity of the Notes. The Company's determination that these contingencies are remote is binding on a U.S. Holder unless such holder discloses its contrary position in the manner required by applicable U.S. Treasury regulations. The Company's determination is not, however, binding on the U.S. Internal Revenue Service (the **IRS**), and, if the IRS were to challenge this determination, a U.S. Holder might be required to accrue income on its Notes in excess of stated interest, and to treat as ordinary income rather than capital gain any income realised on the taxable disposition of a note before the resolution of the contingencies. In the event a contingency occurs, it would affect the amount and timing of the income recognised by a U.S. Holder. If any such amounts are in fact paid, U.S. Holders will be required to recognise such amounts as income.

Sale, Exchange or Retirement

Upon the sale, exchange, retirement or other disposition of a Note, a U.S. Holder will generally recognise taxable gain or loss equal to the difference, if any, between the amount realised on the sale, exchange, retirement or other disposition (other than amounts attributable to accrued but unpaid interest, which will be taxable as such) and the U.S. Holder's adjusted tax basis in such Note. A U.S. Holder's adjusted tax basis in a Note generally will equal the U.S. dollar cost of such Note to the U.S. Holder less any principal payments received on the Note. Any such gain or loss will generally be capital gain or loss and will generally be long-term capital gain or loss if such U.S. Holder's holding period for such Notes exceeds one year. Certain U.S.

Holders (including individuals) may be eligible for preferential rates of U.S. federal income tax in respect of long-term capital gain. Any gain or loss realised on the sale, exchange, retirement or other disposition by a U.S. Holder of a Note generally will be treated as U.S. source gain or loss for U.S. foreign tax credit limitation purposes, as the case may be. The deductibility of capital losses is subject to substantial limitations.

U.S. Backup Withholding Tax and Information Reporting

Backup withholding tax and information reporting requirements apply to certain payments of principal of, and interest on, and to proceeds of the sale or redemption of a Note, to certain U.S. Holders of the Notes. The payor will be required to withhold backup withholding tax on payments made within the United States, or by a U.S. payor or U.S. middleman, on a Note to a U.S. Holder, other than a U.S. Holder that is an exempt recipient if the holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, the backup withholding requirements. Payments within the United States, or by a U.S. payor or U.S. middleman, of principal, interest and proceeds of sale to a holder of a Note that is not a U.S. person should not be subject to backup withholding tax and information reporting requirements if an appropriate certification is provided by the holder to the payor and the payor does not have actual knowledge or a reason to know that the certificate is incorrect.

Backup withholding tax is not an additional tax. A holder generally will be entitled to credit any amounts withheld under the backup withholding rules against such holder's U.S. federal income tax liability provided the required information is furnished to the U.S. Internal Revenue Service in a timely manner.

Recently enacted legislation may require individual U.S. Holders to report to the IRS certain information with respect to their beneficial ownership of certain foreign financial assets, such as the Notes, if the aggregate value of such assets exceeds $50,000. U.S. Holders who fail to report required information could be subject to substantial penalties. Prospective investors should consult their tax advisors concerning the application of the information reporting and backup withholding rules to their particular circumstances.

United Kingdom

The following paragraphs are a summary of the Issuer's understanding of current tax law and H.M. Revenue & Customs (**HMRC**) practice in the UK (both of which are subject to change at any time, possibly with retrospective effect) in respect of certain aspects of United Kingdom taxation. They relate only to persons who are the beneficial owners of the Notes. Some aspects do not apply to certain classes of Noteholders (such as dealers and persons who are connected with the Issuer) to whom special rules may apply. These paragraphs do not consider the UK tax consequences of any payment under the Note Guarantee or the Note Suretyship. These paragraphs assume that there will be no substitution of the Issuer or any Guarantor and do not consider the tax consequences of any such substitution. The UK tax treatment of Holders depends on their individual circumstances and may be subject to change in the future.

Any Holders who are in doubt as to their own tax position, or who may be subject to tax in a jurisdiction other than the United Kingdom, should consult their professional advisors.

A. Interest on the Notes

Withholding tax

(i) Payments of interest on the Notes may be made by the Issuer without deduction for or on account of UK income tax provided that the Notes continue to be listed on a "recognised stock exchange" within the meaning of section 1005 of the Income Tax Act 2007 (the **Act**). The London Stock Exchange is a recognised stock exchange for these purposes. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part 6 of the Financial Services and Markets Act 2000) and admitted to trading on the London Stock Exchange. Provided, therefore, that the Notes remain so listed, interest on the Notes will be payable by the Issuer without withholding or deduction on account of United Kingdom tax.

(ii) Interest on the Notes may also be paid without withholding or deduction on account of United Kingdom tax where interest on the Notes is paid by the Issuer and, at the time the payment is made, the Issuer reasonably believes (and any person by or through whom interest on the Notes is paid reasonably believes) that the beneficial owner is within the charge to United Kingdom corporation tax as regards

the payment of interest, provided that HMRC has not given a direction (in circumstances where it has reasonable grounds to believe that it is likely that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

(iii) In other cases, an amount must generally be withheld from payments of interest on the Notes by the Issuer on account of United Kingdom income tax at the basic rate (currently 20 per cent.). However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a Holder, HMRC can issue a notice to the Issuer to pay interest to the Holder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

(iv) If a Guarantor makes any payments in respect of interest on the Notes (or other amounts due under the Notes other than the repayment of amounts subscribed for the Notes), such payments may be subject to United Kingdom withholding tax at the basic rate, subject to the availability of other reliefs or to any direction to the contrary from HMRC in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty.

Further United Kingdom Income Tax Issues

Interest on the Notes constitutes UK source income for tax purposes and, as such, may be subject to income tax by direct assessment even where paid without withholding.

However, interest with a UK source received without deduction or withholding on account of UK tax will not be chargeable to UK tax in the hands of a Holder (other than certain trustees) who is not resident for tax purposes in the UK unless that Holder carries on a trade, profession or vocation in the UK through a UK branch or agency in connection with which the interest is received or to which the Notes are attributable or, where that Holder is a company, unless that Holder carries on a trade in the UK through a permanent establishment in connection with which the interest is received or to which the Notes are attributable. There are exemptions for interest received by certain categories of agent (such as some brokers and investment managers). The provisions of an applicable double taxation treaty may also be relevant for such Holders.

B. United Kingdom Corporate Tax Payers

In general, Holders which are within the charge of the UK corporation tax will be charged to tax as income on all returns, profits or gains on, and fluctuations in value of, the Notes (whether attributable to currency fluctuations or otherwise) on a basis which is broadly in line with their statutory accounting treatment so long as the accounting treatment is in accordance with generally accepted accounting practice as that term is defined for tax purposes.

C. Other United Kingdom Tax Payers

Taxation of discount

HMRC's practice is not to treat debt securities such as the Notes as deeply discounted securities. Accordingly, no charge to income tax should arise on a disposal of the Notes, except in relation to accrued interest (see below the paragraph headed "*Accrued Income Scheme*").

Taxation of Chargeable Gains

A disposal of Notes by an individual Holder who is resident or ordinarily resident in the UK or who carries on a trade, profession or vocation in the UK through a branch or agency to which the Notes are attributable, may give rise to a chargeable gain or allowable loss (whether attributable to currency fluctuations or otherwise) for the purposes of the UK taxation of chargeable gains.

Accrued Income Scheme

On a transfer of Notes by a Holder, any interest which has accrued since the last interest payment date may be chargeable to tax as income under the rules of the accrued income scheme as set out in Part 12 of the Act,

if that Holder is resident or ordinarily resident in the UK or carries on a trade, profession or vocation in the UK through a branch or agency to which the Notes are attributable.

Stamp Duty and Stamp Duty Reserve Tax

No UK stamp duty or SDRT should be payable on the issue of the Notes or on a transfer of the Notes.

Disclosure of Information

Any person in the UK by or through whom interest is paid, or by whom interest is received on behalf of, an individual Holder (whether resident in the UK or elsewhere) or who either pays amounts payable on the redemption of the Notes to, or receives such amounts for the benefit of another person, may be required to provide information in relation to the payment (including the amount of the interest) and the Holder concerned (including name and address) to HMRC on being so required by a notice given to it by HMRC. Although HMRC published practice indicates that HMRC will not exercise the power referred to above to require this information in respect of amounts payable on redemption of Notes where such amounts are paid on or before 5 April 2012. In certain circumstances, HMRC may communicate this information to the tax authorities of certain other jurisdictions.

EU Savings Tax Directive

The EU has adopted a directive regarding the taxation of savings income (the "**Savings Directive**"). The Savings Directive requires each member state of the EU to provide to the tax authorities of another member states details of payments of interest and other similar income paid by a person within its jurisdiction to an individual resident, or certain other entities established in that other member state of the EU, except that Austria and Luxembourg will instead impose a withholding system for a transitional period (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries) unless during such period they elect otherwise subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld.

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

Ukraine

General

The following summary is included for general information only. Potential investors in and holders of the Notes should consult their own tax adviser as to the tax consequences under the laws of Ukraine of the acquisition, ownership and disposition of the Notes. This summary is based upon the Ukrainian tax laws and regulations as in effect on the date of this Prospectus. Such laws and regulations are subject to change or varying interpretations, possibly with retroactive effect. As with other areas of Ukrainian legislation, tax law and practice in Ukraine is not as clearly established as that of more developed jurisdictions. It is possible, therefore, that the current interpretation of the law or understanding of the practice may change or that the law may be amended with retroactive effect. Accordingly, it is possible that payments to be made to the holders of the Notes could become subject to taxation or that rates currently in effect with respect to such payments could be increased in ways that cannot be anticipated as at the date of this Prospectus.

Payments under the Surety Agreement

If FPM makes any payments in respect of interest on the Notes (or other amounts due in respect of the Notes), such payments could be viewed as Ukrainian source income of the recipient of such payments and, thereby, may be subject to 15 per cent. withholding tax if paid to a non-resident entity, and 15 or 17 per cent. withholding tax, if paid to a non-resident individual.

Ukrainian tax legislation does not specifically list payments made under the Surety Agreement as Ukrainian source income of the beneficiary of such payments. However, Article 160.1 of the Tax Code, the main part of which became effective on 1 January 2011, contains a catch-all clause, which considers "any other income" of a foreign resident received from carrying out business in Ukraine as Ukrainian source income. It remains uncertain whether the "Ukrainian source income" concept should apply to the whole amount of payment

under the Surety Agreement or only to that amount which corresponds to the unpaid interest under the Notes. The latter interpretations seems to be fair but has not been confirmed by the Ukrainian tax authorities.

Even if the payments under the Surety Agreement are viewed to be Ukrainian source income and, thereby, subject to withholding tax in Ukraine, the foreign beneficiary of such payments may, nevertheless, be exempt from withholding tax in Ukraine, provided such beneficiary is (i) a tax resident of a jurisdiction, which has a tax treaty with Ukraine, (ii) entitled to the benefits of such tax treaty and (iii) deemed not to carry on business in Ukraine through its permanent establishment. In order to benefit from the tax treaty exemption, confirmation of the current tax residency status of the foreign beneficiary must be available on or prior to the date of payment of Ukrainian source income.

Under the terms of the Convention between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of Ukraine for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital Gains signed on 10 February 1993 and effective from 11 August 1993 (the "Double Tax Treaty"), as it is currently applied, payments by FPM to the Trustee under the Surety Agreement may be exempt from withholding tax in Ukraine, provided that certain conditions set forth in the Double Tax Treaty and under applicable Ukrainian law are satisfied. However, there can be no assurance that the exemption from withholding tax is, or will continue to be, available.Payments to the Trustee under the Surety Agreement would be exempt from Ukrainian withholding tax under the Double Tax Treaty provided that the Trustee is a resident of the United Kingdom for the purposes of the Double Tax Treaty, is the "beneficial owner" of the payments and is "subject to tax" in respect of such payments in the United Kingdom. Under applicable Ukrainian law, the Trustee's residence in the United Kingdom for purposes of the Double Tax Treaty will be evidenced by a certificate issued by the taxing authority in the United Kingdom. The exemption of payments from Ukrainian withholding tax will not be available under the Double Tax Treaty if the Trustee carries on business in Ukraine through a permanent establishment situated therein, and the debt claim in respect of which the payments are made is effectively connected with such permanent establishment.

Ukraine does not have an established practice of applying the concept of "beneficial ownership" of payments. For tax law purposes, this concept was introduced in Ukraine by the new Tax Code of Ukraine, the main part of which became effective on 1 January 2011. Under the Tax Code of Ukraine, a person that acts as agent, nominal holder (owner) or intermediary in respect of Ukrainian source income would not qualify as the "beneficial owner" of the income. Although the Ukrainian tax authorities did not apply the "beneficial ownership" concept to deny tax treaty benefits to foreign payees in the past, and there is yet no practice of interpretation or application of this concept in Ukraine, it cannot be excluded that, based on the above specified provisions of the Tax Code of Ukraine, the Trustee may be viewed by the Ukrainian tax authorities as a person acting as agent, nominal holder or intermediary for the Noteholders and, for this reason, the Trustee may fail to satisfy the "beneficial ownership" test in respect of payments under the Surety Agreement. In such event, such payments would not be exempt from the Ukrainian withholding tax, and Ferrexpo Poltava would be required by the terms of the Surety Agreement to gross-up their payments to compensate the Trustee for such tax withholding. However, a recent interpretation of the Ukrainian tax authorities indicates that tax gross-up provisions like those contained in the Surety Agreement may be seen as contravening the Ukrainian tax law and unenforceable. For more information, see "– *Gross-up Provisions*".

In addition, Article 11(7) of the Double Tax Treaty contains a "main purpose" anti avoidance provision, which may apply to that part of payments under the Surety Agreement which corresponds to interest under the Notes. While there is no established practice of the Ukrainian tax authorities with respect to the application of this provision, if the Ukrainian tax authorities take the position that the main or one of the main purposes of using the United Kingdom as the Trustee's jurisdiction of residence for this transaction was to take advantage of the tax benefits (i.e. exemption of interest payments from withholding taxation in Ukraine) under the Double Tax Treaty, the tax authorities may potentially invoke the anti avoidance provision of Article 11(7) of the Double Tax Treaty. In such circumstances, there is a risk that payments to the Trustee under the Surety Agreement would cease to have the benefit of the Double Tax Treaty.

Gross-up Provisions

If any payments (including payments of premium and interest) under the Surety Agreement are subject to any withholding tax, FPM may, in certain circumstances specified in the Surety Agreement and subject to certain exceptions, become obliged to pay such additional amounts as may be necessary so that the net payments

received by the Trustee on behalf of Noteholders will not be less than the amount the Trustee on behalf of Noteholders would have received in the absence of such withholding. Notwithstanding the foregoing, the Tax Code prohibits contractual provisions under which residents undertake to pay taxes for non-residents on their income received from sources in Ukraine. If interpreted widely, the restriction would apply to gross-up provisions in the Surety Agreement and obligations of FPM to pay additional amounts thereunder. As a result, gross-up provisions set out in the Surety Agreement could be found null and void and, therefore, unenforceable in Ukraine.

Tax on Issue of and Principal, Premium and Interest Payments under the Notes

No Ukrainian withholding tax will be applicable to the issue of the Notes or principal, premium or interest payments on the Notes because the Notes will not be issued in Ukraine and principal, premium and interest payments on the Notes will not be made from Ukraine.

Tax on Redemption of Notes

Principal payments on redemption of the Notes will not be subject to Ukrainian tax because such payments will not be made by FPM.

Ukrainian Holders

A Ukrainian resident Noteholder, i.e., a qualifying physical person or a legal person organised under Ukrainian law, is subject to all applicable Ukrainian taxes.

Transfers of Notes by Non-Ukrainian Investors to Ukrainian Investors

Ukrainian source profits of non-resident legal persons derived from trading in securities are generally subject to 15 per cent. withholding tax (while Ukrainian source income of non-resident physical persons is, subject to certain exceptions, subject to 15 per cent. withholding tax), as may be reduced by an applicable treaty on the avoidance of double taxation.

Non-resident Noteholders are, therefore, likely to be subject to Ukrainian withholding tax on any gain on the disposal of Notes where the proceeds of such disposal are received from a source within Ukraine.

Ukrainian Stamp Duty

No Ukrainian stamp duty, transfer or similar tax will be payable by a Noteholder in respect of the subscription, issue, delivery or transfer of the Notes.

Switzerland

The following is a summary of some material Swiss tax consequences related to the ownership and disposal of Notes. The summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to acquire the Notes and does not take into account the specific circumstances of any particular holder of Notes. This summary of certain aspects of the Swiss federal tax consequences is based on Swiss law and regulations and the practice of the Swiss federal tax administration as in effect on the date hereof, all of which are subject to change (or subject to changes in interpretation), possibly with retroactive effect. Prospective Noteholders should consult their own professional advisors in light of their particular circumstances as to the tax laws, tax regulations and regulatory practices that could be relevant for them in connection with the Notes.

This summary does generally not address cantonal and municipal taxes. Cantons and municipalities are obliged, as concerns individual and corporate income taxes, to adhere to certain framework taxation rules stipulated in the Swiss Federal Tax Harmonization Act, which are essentially analogues to the Swiss federal individual and corporate income taxation rules discussed hereinafter.

Withholding Tax

Swiss Federal Withholding Tax

According to the present Swiss law and practice of the Swiss Federal Tax Administration, payments of interest on the Notes and repayment of principal of the Notes by the Issuer will not be subject to Swiss withholding

tax, even though the Notes are guaranteed by the Guarantors, provided that the Issuer uses the proceeds from the offering and sale of the Notes at all times while they are outstanding outside Switzerland.

On December 22, 2010 the Swiss Federal Council issued draft legislation, which, if enacted, may require a paying agent to deduct Swiss withholding tax at a rate of 35 per cent. on any payment of interest in respect of a Note to an individual resident in Switzerland or to a person resident in a country which has no double tax treaty with Switzerland. If this legislation or similar legislation were enacted and an amount of, or in respect of, Swiss withholding tax were to be deducted or withheld from that payment, neither the Issuer nor the Guarantor nor any paying agent nor any other person would pursuant to Condition 7, as applicable, be obliged to pay additional amounts with respect to any Note as a result of the deduction or imposition of such withholding tax.

Payments under the Note Guarantee by Ferrexpo AG of amounts due in respect of the Notes may give rise to Swiss withholding taxes on dividends (up to 54 per cent. at present rates) to the extent that such payments are regarded as a deemed distribution by Ferrexpo AG to its shareholder Ferrexpo plc as set out under "*Risk Factors – Swiss law may limit Ferrexpo AG's liability for payments due in respect of the Notes under the Note Guarantee*".

European Savings Tax

According to the agreement between Switzerland and the EU on the taxation of savings income, entered into force on 1 July 2005, Switzerland agreed to introduce a special withholding tax. Interest payments from non-Swiss sources made by a Swiss paying agent to a beneficial owner who is an individual and resident of an EU member state are subject to a withholding tax in Switzerland at a rate of 20 per cent. on the gross interest amount until June 30, 2011 and 35 per cent. thereafter.

Stamp Duties

The issue and the redemption of the Notes made by the Issuers will not be subject to Swiss federal stamp duty on the issuance of securities (*Emissionsabgabe*), or Swiss federal stamp duty on transfer of securities (*Umsatzabgabe*), as the case may be, even though the Notes are guaranteed by the Guarantors, provided that the relevant Issuer uses the proceeds from the offering and sale of the Notes at all times while they are outstanding outside Switzerland.

Dealings in Notes with a maturity in excess of 12 months where a Swiss domestic bank or a Swiss domestic securities dealer (as defined in the Swiss Federal Stamp Duty Act of June 27, 1973) acts as a party or as an intermediary to the transaction may be subject to Swiss federal stamp duty on dealing in securities at a rate of up to 0.3 per cent. of the purchase price of the Notes.

Income Taxation on Principal or Interest

Non-resident Noteholders

Under current Swiss law, payments of interest and repayment of principal to a holder of a Note who is a non-resident of Switzerland and who, during the current taxation year, has not engaged in trade or business through a permanent establishment or fixed place within Switzerland to which the Notes are attributable and who is not subject to income taxation in Switzerland for any other reason will not be subject to any Swiss federal, cantonal or communal income tax.

Swiss-resident Taxpayers (Notes Held as Private Assets)

Notes without a "predominant one-time interest payment": Holders of Notes without a predominant one-time interest payment (the yield-to-maturity predominantly derives from periodic interest payments and not from a one-time-interest-payment) who are individuals receive payments of interest on Notes are required to include such payments in their personal income tax return and will be taxable on any net taxable income (including the payments of interest on the Notes) for the relevant tax period.

Notes with a "predominant one-time interest payment": In the case of Notes with a "predominant one-time interest payment" (the yield-to-maturity predominantly derives from a one-time-interest-payment such as an original issue discount or a repayment premium and not from periodic interest payments), the positive

difference (including any capital and foreign exchange gain) between the amount received upon sale or redemption and the issue price (if price (if the Notes were purchased thereafter) will be classified as a taxable interest payment, as opposed to a tax-free capital gain (differential taxation method). Losses realised on the sale of Notes with a "predominant onetime interest payment" may be offset against gains realised within the same tax period on the sale of any notes with a "predominant one-time interest payment".

Swiss-resident Taxpayers (Notes Held as Business Assets)

Swiss-resident individual taxpayers who hold Notes as part of Swiss business assets and Swiss-resident corporate taxpayers and corporate taxpayers resident abroad holding Notes as part of a Swiss permanent establishment or a fixed place of business in Switzerland, are required to recognise the payments of interest on Notes in their income statement for the respective tax period and will be taxable on any net taxable earnings for such period.

Income Taxation on Gains on Sales or Redemption

Non-resident Noteholders

Under current Swiss law, a holder of a Note who is not resident in Switzerland and who, during the taxation year, is not engaged in trade or business through a permanent establishment or fixed place of business within Switzerland to which the Notes are attributable and who is not subject to income taxation in Switzerland for any other reason will not be subject to any Swiss federal, cantonal or communal income tax on gains realised during that year on the sale or redemption of a Note.

Swiss-resident Taxpayers (Notes Held as Private Assets)

Holders of Notes residing in Switzerland and who hold the Notes as private assets and who sell or otherwise dispose of the Notes during the taxation year realise, in general, either a taxfree capital gain or a tax-neutral capital loss. See "*Income Taxation on Principal and Interest*" above for a summary of the tax treatment of a gain or a loss realised on Notes with a "predominant one-time interest payment".

Swiss-resident Taxpayers (Notes Held as Business Assets)

Swiss-resident individual taxpayers holding Notes as part of Swiss business assets and Swiss-resident corporate taxpayers and corporate taxpayers resident abroad holding Notes as part of a Swiss permanent establishment or a fixed place of business within Switzerland are required to recognise capital gains or losses realised on the sale of a Note in their income statement for the respective tax period and will be taxable on any net taxable earnings for such period. The same taxation treatment also applies to Swiss-resident individuals who, for income tax purposes, are classified as "professional securities dealers" for reasons of, *inter alia*, frequent dealing and leveraged investments in securities.

Certain ERISA and Other Considerations

The U.S. Employee Retirement Income Security Act of 1974, as amended (**ERISA**), imposes certain requirements on "employee benefit plans" (as defined in Section 3(3) of ERISA) subject to Part 4 of Subtitle B of Title I of ERISA, including entities such as collective investment funds and separate accounts whose underlying assets include the assets of such plans (collectively, **ERISA Plans**) and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA's general fiduciary requirements, including, but not limited to, the requirement of investment prudence and diversification and the requirement that an ERISA Plan's investments be made in accordance with the documents governing the ERISA Plan.

Section 406 of ERISA and Section 4975 of the Internal Revenue Code of 1986, as amended (the **Code**) prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, **Plans**)) and certain persons (referred to as "**parties in interest**" under ERISA or "**disqualified persons**" under the Code) having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction. The types of transactions between Plans and parties in interest that are prohibited include: (a) sales, exchanges or leases of property, (b) loans or other extensions of credit and (c) the furnishing of goods and services. A party in interest or disqualified person who engages in a prohibited transaction may be subject to excise taxes under ERISA and the Code. In addition, the persons involved in the prohibited transaction may have to rescind the transaction and pay an amount to the Plan for any losses realized by the Plan or profits realized by such persons and certain other liabilities could result that have a significant adverse effect on such persons. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may apply depending in part on the type of Plan fiduciary making the decision to acquire a Note and the circumstances under which such decision is made. Included among these exemptions are Section 408(b)(17) of ERISA (relating to certain transactions between a plan and a non-fiduciary service provider), Prohibited Transaction Class Exemption (**PTCE**) 95-60 (relating to investments by insurance company general accounts), PTCE 91-38 (relating to investments by bank collective investment funds), PTCE 84-14 (relating to transactions effected by a "qualified professional asset manager"), PTCE 90-1 (relating to investments by insurance company pooled separate accounts) and PTCE 96-23 (relating to transactions determined by an in-house asset manager). There can be no assurance that any of these class exemptions or any other exemption will be available with respect to any particular transaction involving the Notes.

Prohibited transactions within the meaning of Section 406 of ERISA or Section 4975 of the Code may arise if any Notes are acquired by a Plan with respect to which the Joint Bookrunners or any of their affiliates are a party in interest or a disqualified person. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may be applicable, depending in part on the type of Plan fiduciary making the decision to acquire Notes and the circumstances under which such decision is made. There can be no assurance that any exemption will be available with respect to any particular transaction involving the Notes, or that, if an exemption is available, it will cover all aspects of any particular transaction. By its purchase and holding of any Notes, the purchaser thereof will be deemed to have represented and agreed either that: (i) it is not and for so long as it holds Notes will not be (and is not acquiring the Notes directly or indirectly with the assets of a person who is or while the Notes are held will be) an ERISA Plan or other Plan, an entity whose underlying assets include the assets of any such ERISA Plan or other Plan, or a governmental or church plan or non-U.S. employee benefit plan which is subject to any U.S. federal, state or local law, or non-U.S. law, that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code, or (ii) its purchase and holding of the Notes will not result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of such a governmental or church plan or non-U.S. employee benefit plan, any such substantially similar U.S. federal, state or local law, or non-U.S. law). Similarly, each transferee of any Notes, by virtue of the transfer of such Notes to such transferee, will be deemed to have represented and agreed either that: (i) it is not and for so long as it holds Notes will not be (and is not acquiring the Notes directly or indirectly with the assets of a person who is or while the Notes are held will be) an ERISA Plan or other Plan, an entity whose underlying assets include the assets of any such ERISA Plan or other Plan, or a governmental or church plan or non-U.S. employee benefit plan which is subject to any U.S. federal, state or local law, or non-U.S. law, that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code, or (ii) its purchase and holding of the Notes will not result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of

such a governmental or church plan or non-U.S. employee benefit plan, any such substantially similar federal, state or local law, or non-U.S. law).

Governmental plans, certain church plans and non-U.S. plans, while not subject to the fiduciary responsibility provisions of ERISA or the prohibited transaction provisions of ERISA and Section 4975 of the Code, may nevertheless be subject to U.S. federal, state or local laws, or non-U.S. laws that are substantially similar to the foregoing provisions of ERISA and the Code. Fiduciaries of any such plans should consult with their counsel before purchasing any Notes.

The foregoing discussion is general in nature and not intended to be all inclusive. Any Plan fiduciary who proposes to cause a Plan to purchase any Notes should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and Section 4975 of the Code to such an investment, and to confirm that such investment will not constitute or result in a non-exempt prohibited transaction or any other violation of an applicable requirement of ERISA.

The sale of Notes to a Plan is in no respect a representation by the Joint Bookrunners that such an investment meets all relevant requirements with respect to investments by Plans generally or any particular Plan, or that such an investment is appropriate for Plans generally or any particular Plan.

Selling and Transfer Restrictions

The Notes, the Note Guarantee and the Note Suretyship have not been and will not be registered under the Securities Act and, subject to certain exceptions may not be offered or sold within the United States. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Notes, the Note Guarantee and the Note Suretyship are being offered and sold outside of the United States in reliance on Regulation S. The Subscription Agreement provides that the Joint Bookrunners (as defined below) may directly or through their respective U.S. broker-dealer affiliates arrange for the offer and resale of Notes, the Note Guarantee and the Note Suretyship within the United States only to qualified institutional buyers in reliance on Rule 144A. In addition, until 40 days after the commencement of the offering of the Notes, the Note Guarantee and the Note Suretyship an offer or sale of Notes, the Note Guarantee and the Note Suretyship within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

Rule 144A Notes

Each purchaser of Rule 144A Notes within the United States pursuant to Rule 144A, by accepting delivery of this Prospectus and the Notes, will be deemed to have represented, agreed and acknowledged that:

(i) It is (a) a QIB, (b) acquiring such Notes for its own account, or for the account of one or more QIBs, and (c) aware, and each beneficial owner of such Notes has been advised, that the sale of such Notes to it is being made in reliance on Rule 144A.

(ii) It understands that the Rule 144A Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of one or more QIBs each of which is purchasing not less than US$100,000 principal amount of Notes, (b) outside the United States in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act or (c) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), and in each case in accordance with any applicable securities laws of any state of the United States.

(iii) It understands that the Rule 144A Notes, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will bear a legend to the following effect:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND may NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A "QIB") PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, AND IN AN AMOUNT NOT LESS THAN U.S.$100,000 PRINCIPAL AMOUNT OF NOTES OR (2) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT ("REGULATION S"), OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF ANY EXEMPTION UNDER THE SECURITIES ACT FOR RESALES OF THIS NOTE.

(iv) The Issuer, the Registrar, the Joint Bookrunners and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements. If it is acquiring any

Notes for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.

(v) It understands that the Rule 144A Notes will be evidenced by the Rule 144A Global Note Certificate. Before any interest in the Rule 144A Global Note Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note Certificate, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws. Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S Notes

Each purchaser of Regulation S Notes outside the United States will be deemed to have represented, agreed and acknowledged that:

(i) It understands that the Notes, the Note Guarantee and the Note Suretyship have not been and will not be registered under the Securities Act, and such Notes, Note Guarantee and FPC Suretyship are being offered and sold in accordance with Regulation S.

(ii) It or any person on whose behalf it is acting is, or at the time the Notes, the Note Guarantee and the Note Suretyship are purchased will be, the beneficial owner of such Notes, Note Guarantee and Note Suretyship and (i) it is purchasing the Notes, the Note Guarantee and the Note Suretyship in an offshore transaction (within the meaning of Regulation S) and (ii) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate.

(iii) It will not offer, sell, pledge or otherwise transfer Notes, except in accordance with the Securities Act and any applicable securities laws of any states of the United States.

(iv) The Issuer, the Registrar, the Joint Bookrunners and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements.

ERISA

Each purchaser of Notes, and each subsequent transferee of any Notes by virtue of the transfer of such Notes to such transferee, by accepting delivery of this Prospectus and the Notes, will be deemed to have represented, agreed and acknowledged that either:

- It is not (a) an "employee benefit plan" (as defined in Section 3(3) of ERISA that is subject to Title I of ERISA, (b) a "plan" subject to Section 4975 of the Code, (c) an entity whose underlying assets include "plan assets" (within the meaning of ERISA) or (d) a governmental or church plan or non-U.S. employee benefit plan which is subject to any U.S. federal, state or local law, or non-U.S. law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code; or

- Its purchase and holding of any note or Notes will not result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of a governmental or church plan or non-U.S. employee benefit plan, a violation of any substantially similar federal, state or local law, or non-U.S. law).

Subscription and Sale

J.P. Morgan Securities Ltd., Morgan Stanley & Co. International plc and UBS Limited (the **Joint Bookrunners**) have, pursuant to a Subscription Agreement dated 5 April 2011, jointly and severally agreed with the Issuer and the Guarantors, subject to the satisfaction of certain conditions, to subscribe the Notes at 100 per cent. of their principal amount less a combined selling concession and management and underwriting commission of 2.00 per cent. of such principal amount. In addition, the Issuer has agreed to reimburse the Joint Bookrunners for certain of their expenses in connection with the issue of the Notes. The Subscription Agreement entitles the Joint Bookrunners to terminate it in certain circumstances prior to payment being made to the Issuer. The yield of the Notes is 7.875 per cent. on an annual basis. The yield is calculated as at 7 April 2011 on the basis of the issue price. It is not an indication of future yield.

The Joint Bookrunners will make offers and sales in the United States through their U.S. Registered broker dealer affiliates.

The Joint Bookrunners and their respective affiliates have performed and expect to perform in the future various financial advisory, investment banking and commercial banking services for, and may arrange or participate in loans and other non-public market financing for, and enter into derivative transactions with, the Issuer and its affiliates (including its shareholders).

SELLING RESTRICTIONS

General

Neither the Issuer nor the Guarantors nor any Joint Bookrunner has made any representation that any action will be taken in any jurisdiction by the Joint Bookrunners or the Issuer or the Guarantors that would permit a public offering of the Notes, or possession or distribution of this Prospectus (in preliminary, proof or final form) or any other offering or publicity material relating to the Notes (including roadshow materials and investor presentations), in any country or jurisdiction where action for that purpose is required. Each Joint Bookrunner has agreed that it will comply to the best of its knowledge and belief in all material respects with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers Notes or has in its possession or distributes this Prospectus (in preliminary, proof or final form) or any such other material, in all cases at its own expense. It will also ensure that no obligations are imposed on the Issuer, the Guarantors or any other Joint Bookrunner in any such jurisdiction as a result of any of the foregoing actions.

United States

The Notes, the Note Guarantee and the Note Suretyship have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Subscription Agreement provides that the Joint Bookrunners may offer and sell the Notes within the United States to QIBs in reliance on Rule 144A under the Securities Act. Any offers and sales by the Joint Bookrunners in the United States will be conduct by broker-dealers registered with the SEC.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes, the Note Guarantee and the Note Suretyship within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

United Kingdom

Each Joint Bookrunner has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantors; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Ukraine
Each of the Joint Bookrunners has represented, warranted and agreed that the Notes shall not be offered for circulation, distribution, placement, sale, purchase or other transfer in the territory of Ukraine.

Accordingly, nothing in this Prospectus or any other documents, information or communications related to the Notes shall be interpreted as containing any offer or invitation to, or solicitation of, any such circulation, distribution, placement, sale, purchase or other transfer in the territory of the Ukraine.

Russia
Each of the Joint Bookrunners has agreed that the Notes will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian Law.

Hong Kong
Each Joint Bookrunner has represented and agreed that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Singapore
Each Joint Bookrunner has acknowledged that this Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Bookrunner has represented and agreed that it has not offered or sold the Notes or caused such Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell such Notes or cause such Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Notes, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Notes are subscribed or purchased under Section 275 by a relevant person which is:

(a) a corporation (which is not an accredited investor) (as defined in Section 4A of the SFA) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

(c) securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within 6 months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 except:

    (i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law; or

(iv) as specified in Section 276(7) of the SFA.

General Information

1. The listing of the Notes on the Official List will be expressed as a percentage of their nominal amount (exclusive of accrued interest). It is expected that listing of the Notes on the Official List and admission of the Notes to trading on the Market will be granted on or before 7 April 2011, subject only to the issue of the Global Note Certificates. Prior to official listing and admission to trading, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the third working day after the day of the transaction.

2. The Issuer and each of the Guarantors has obtained all necessary consents, approvals and authorisations in the United Kingdom and Ukraine, as the case may be in connection with the issue and performance of the Notes and the Guarantees. The issue of the Notes was authorised by a resolution of the Board of Directors of the Issuer, passed on 29 June 2010 and the giving of the Guarantees was authorised: (i) by a resolution of the Board of Directors of Ferrexpo plc passed on 20 May 2010 and a resolution of a committee of the Board of Directors of Ferrexpo plc passed on 29 June 2010, (ii) by a resolution of the Board of Directors of Ferrexpo AG on 29 June 2010 and (iii) by a resolution of the General Meeting of Shareholders of FPM on 14 May 2010 and a resolution of the Supervisory Board of FPM on 30 June 2010.

3. There has been no significant change in the financial or trading position of the Issuer, the Guarantors or of the Group since 31 December 2010 and no material adverse change in the financial position or prospects of the Issuer, the Guarantors or of the Group since 31 December 2010.

4. Neither the Issuer, the Guarantors nor the Group are, nor have been, involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer or the Guarantors or the Group are aware) during the 12 months preceding the date of this Prospectus which may have or has had in the recent past significant effects on the financial position or profitability of the Issuer or the Group or the Guarantors.

5. The Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems and DTC. The Common Code and ISIN numbers for the Regulation S Notes are 061432558 and XS0614325586 respectively. The ISIN and CUSIP numbers of the Rule 144A Notes are US31529TAB98 and 31529T AB9 respectively. The Common Code for the Rule 144A Notes is 061437401.

   The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy L-1855 Luxembourg. The address of DTC is 55 Water Street, New York, New York 10041, United States of America.

6. There are no material contracts entered into other than in the ordinary course of the Issuer's or Guarantors' or the Group's business, which could result in any member of the Group being under an obligation or entitlement that is material to the Issuer's or Guarantors' ability to meet its obligations to noteholders in respect of the notes being issued.

7. Where information in this Prospectus has been sourced from third parties, this information has been accurately reproduced and, as far as the Issuer and the Guarantors are aware and are able to ascertain from the information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of third-party information is identified where used.

8. For the period of 12 months starting on the date on which this Prospectus is made available to the public, copies (and English translations where the documents in question are not in English) of the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the office of Ferrexpo Finance plc:

   (a) the Surety Agreement, the Trust Deed (which includes the form of the Global Note Certificate and the definitive Notes);

   (b) the Memorandum and Articles of Association of the Issuer and each of the Guarantors;

(c) the published audited accounts of the Issuer for the three financial years most recently ended 31 December 2010 and the published annual report and audited consolidated annual accounts of the Group for the three years ended 31 December 2010;

(d) a copy of the Minerals Expert Report on the Mining Assets of the Ferrexpo Group, issued June 2007, from which Appendix 1 is derived;

(e) a copy of the GPL Reserve Statement Report, issued May 2009, from which Appendix 2 is derived;

(f) a copy of this Prospectus together with any Supplement to this Prospectus or further Prospectus; and

(g) all reports, letters and other documents, balance sheets, valuations and statements by any expert, any part of which is extracted or referred to in this Prospectus.

This Prospectus will be published on the website of the Regulatory News Service operated by the London Stock Exchange at *www.londonstockexchange.com*.

9. The non-consolidated accounts of the Issuer for the years ended 31 December 2010, 31 December 2009 and 31 December 2008 and the consolidated accounts of the Group for the years ended 31 December 2010, 31 December 2009 and 31 December 2008 contained in this document do not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006 (the "**Act**"). The Group's statutory accounts for the three financial years ended 31 December 2010 and the Issuer's statutory accounts for the three financial years ended 31 December 2010 have been delivered to the Registrar of Companies in England and Wales. The Issuer's and the Group's auditors have made a report under Section 495 of the Act on the last statutory accounts that was not "qualified" within the meaning of Section 539 of the Act and did not contain a statement made under Section 498(2) or Section 498(3) of the Act.

10. Ernst & Young LLP of 1 More London Place, London SE1 2AF (Independent Public Accountants) which is registered to carry out audit work by the Institute of Chartered Accountants in England and Wales have audited, and rendered unqualified audit reports on, the accounts of the Issuer and the Guarantors for the three years ended 31 December 2010 and the accounts of the Group for the three years ended 31 December 2010.

11. The Gorishne-Plavninskoe and Lavrikovskoe Deposit Resource Estimate Review at Appendix 1 (the **SRK Review**) was produced by SRK Consulting (UK) Ltd (**SRK**) of Floor 5, Churchill House, Churchill Way, Cardiff, United Kingdom CF10 2HH (Engineers and Scientists). SRK does not have any material interest in the Issuer. The SRK Review was produced in March 2008 at the Issuer's request but not in conjunction with the preparation of this Prospectus.

12. The Mineral Reserve Update for the Gorishne-Plavninskoe and Lavrikovskoe Open Cast Mining Operation at Appendix 2 (the **Turgis Reserve Update**) was produced by Turgis Consulting (Pty) Ltd (**Turgis**) of Building 1, 229 Pendoring Road, Blackheath, 2195, South Africa and P O Box 1995, Northcliff, 2115, South Africa (Mining Consultants) and signed off by Mr R B Wilson, a registered Professional Engineer with the Engineering Council of South Africa (ECSA), a Fellow in good standing of the South African Institute of Mining and Metallurgy (SAIMM) and considered to be a competent person in accordance with the guidelines of the JORC code. Turgis does not have any material interest in the Issuer. The Turgis Reserve Update was produced in July 2008 at the Issuer's request but not in conjunction with the preparation of this Prospectus.

13. The Company has not issued any non-voting equity securities such as participation certificates (*Partizipationsscheine*) or profit sharing certificates (*Genussscheine*).

GLOSSARY OF SELECTED TERMS

AMC	Ukrainian Anti-monopoly Committee
BIP	Business Improvement Programme
Cape size	Cape size vessels are typically above 150,000 tonnes deadweight. Ships in this class include oil tankers, supertankers and bulk carriers transporting coal, ore and other commodity raw materials
CFR	Delivery including cost and freight
C1 cash costs	Cash costs per tonne of pellets, ex-works, excluding administrative and distribution costs
CIF	Delivery including cost, insurance and freight
Company	Ferrexpo plc, a public company incorporated in England and Wales with limited liability
CPI	Consumer Price Index
CSR	Corporate Safety and Social Responsibility
DAF	Delivery at frontier
Ferrexpo	Ferrexpo plc
Ferrexpo AG	Ferrexpo AG, a company incorporated under the laws of Switzerland
FOB	Delivered free on board
FPM	Ferrexpo Poltava Mining, also known as Ferrexpo Poltava GOK Corporation or PGOK, a company incorporated under the laws of Ukraine
FYM	Ferrexpo Yeristovo Mining, also known as Limited Liability Company "Ferrexpo Yeristovo GOK" or YGOK, a company incorporated under the laws of Ukraine
GPL	Gorishne-Plavninskoe and Lavrikovskoe deposits operated by FPM
Growth markets	Markets which have the potential to add new and significant tonnage to the Group, especially Asia
Guarantors	Ferrexpo plc, Ferrexpo AG and FPM
Indicated resource	That part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence
Inferred resource	That part of a Mineral Resource for which tonnage, grade and mineral content can be estimated with a low level of confidence
Issuer	Ferrexpo Finance plc, a public company incorporated in England and Wales with limited liability
Helogistics	Helogistics Holdings GmbH

JORC	Australian Joint Ore Reserves Committee
Measured resource	That part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence
Mineral resource	Defined in the JORC Code as a concentration or occurrence of material of intrinsic economic interest in or on the Earthís crust in such form and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge
Mtpa	Million tonnes per annum
Natural markets	Markets in which, because of our location, we believe we have potential competitive advantages over more distant producers, and hence we are targeting for future growth. Our Natural markets include Turkey, the Middle East and Western Europe
Ore reserve	Defined in the JORC Code as the economically mineable part of a Measured and/or Indicated Mineral Resource
Overburden	Material that lies above an area of economic or scientific interest in mining; most commonly the rock, soil and ecosystem that lies above an ore body
PPI	Ukrainian Producer Price Index
Probable reserve	The economically mineable part of an Indicated, and in some circumstances, a Measured Mineral Resource
Proved reserve	The economically mineable part of a Measured Mineral Resource
Tax Code	The new Ukrainian tax code officially promulgated on 4 December 2010
Traditional markets	Markets we have supplied over a long period in which we have longstanding customer relationships, and enjoy clear and established competitive advantages. These markets include Austria, Russia, Czech Republic, Hungary, Serbia and Slovakia

Financial Statements

Ferrexpo Finance plc – Financial statements for the year ended 31 December 2010 F-1

Ferrexpo UK Limited – Financial statements for the year ended 31 December 2009 F-28

Ferrexpo UK Limited – Financial statements for the year ended 31 December 2008 F-57

Ferrexpo plc – Financial statements for the year ended 31 December 2010* F-85

Ferrexpo plc – Financial statements for the year ended 31 December 2009* F-150

Ferrexpo plc – Financial statements for the year ended 31 December 2008* F-205

* Extracts in respect of the Ferrexpo plc financial statements have been taken from the signed Annual Report and Accounts for the years ending 31 December 2008, 2009 and 2010. These extracts are not complete and therefore certain documents that are either cross-referred to within the included extracts or noted within the audit report may not appear. Such documents are not required to be included in the Prospectus and this daisy chained information does not form part of the Prospectus for the purposes of the Prospectus Directive.

FERREXPO FINANCE PLC
(FORMERLY FERREXPO UK LIMITED)

AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

Company Registration Number 04914716

FERREXPO FINANCE PLC *(FORMERLY FERREXPO UK LIMITED)*
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

CONTENTS **PAGE**

General information	2
The directors' report	3
Independent auditor's report	6
Statement of Comprehensive Income	8
Statement of Financial Position	9
Statement of Cash Flows	10
Statement of changes in equity	11
Notes to the financial statements	12

GENERAL INFORMATION

Directors
C. Mawe
G. Mackay (resigned as of 29 January 2010)
D. Leonard (appointed as of 29 January 2010)

Company secretary
D Leonard

Company Registration Number
04914716

Registered office
2-4 King Street
London
England
SW1Y 6QL

Auditors
Ernst & Young LLP
1 More London Place
London
England
SE1 2AF

THE DIRECTORS' REPORT

The directors present their report and audited financial statements of the Company for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW
The principal activity of the Company during the year was the financing of the Ferrexpo plc Group and the provision of management services.

It is the directors' intention that this business of the Company shall continue in the foreseeable future.

The financial statements are prepared in US Dollars as this is the functional currency of the Company, by virtue of the currency being in which the majority of the Company's trading transactions are denominated.

On 6 May 2010, the Company changed its name and legal form from Ferrexpo UK Limited to Ferrexpo Finance plc.

RESULTS AND DIVIDENDS
The trading results for the year and the Company's financial position at the end of the period are shown in the attached financial statements on pages 8 to 26. The profit after taxation for the year ended 31 December 2010 amounted to US$1,022 thousand (2009: loss of US$1,868 thousand)

The directors have not recommended the payment of a dividend (2009: nil).

SIGNIFICANT AGREEMENTS

On 23 September 2010 the Group entered into a new major bank debt term facility with a syndicate of banks in the amount of US$350,000 thousand, which matures on 31 March 2014, amortizing over 24 months following an 18 month grace period. This pre-export finance facility was drawn down in full on 7 October 2010 and was used to repay the pre-export finance facility of US$230,000 thousand that was drawn down on 8 January 2010. The remaining outstanding balance on the pre-existing pre-export finance facility as of 31 December 2009 amounting to US$207,727 thousand was repaid in full on 8 January 2010.

From the total of US$350,000 thousand, US$230,000 was drawn by the Company and was outstanding as of 31 December 2010, whereas the remaining amount of US$120,000 thousand was drawn down by another subsidiary of the Group.

Under the US$350,000 thousand pre-export finance facility, if Kostyantin Zhevago ceases to have beneficial ownership directly or indirectly of more than 50% plus one share of the Ferrexpo plc Group, any lender is entitled to demand repayment of their commitment to the facility including accrued interest

SUPPLIER PAYMENT POLICY AND PRACTICE.
It is the Company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers, provided that all trading terms and conditions have been complied with.

CHARITABLE AND POLITICAL DONATIONS
The Company made no charitable or political donations in either year.

The Director's Report (continued)

THE DIRECTORS AND THEIR INTERESTS IN SHARES OF THE COMPANY
The directors who served the Company during the year and changes since 31 December 2010 are listed on page 2. None of the directors had any beneficial interests in the shares of the Company.

RISKS AND KEY PERFORMANCE INDICATORS
Company level risks have been identified as financial risks and are disclosed in note 16. Risks relating to the Group, including the finance risk, are disclosed in the *Ferrexpo Annual Report & Accounts 2010*, which is available on the Group's website ***www.ferrexpo.com.***

DIRECTORS' INDEMNITY PROVISION
During the period under review, the Company had in force an indemnity provision in favour of one or more of the Directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in Section 234 of the Companies Act 2006.

DIRECTORS' RESPONSIBILITIES
The Directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the EU. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

GOING CONCERN

The Directors of the Company consider that it has adequate financial resources so that the Company is in the position to continue operating for the foreseeable future and that it is therefore appropriate to adopt the going concern basis in preparing the financial statements of the Company.

The Directors of the Company have satisfied themselves that it is in a sound financial position. It can therefore be considered that the Company has access to sufficient financial resources and it can be reasonably expected that those financial resources will be made available to the Company in order to meet the foreseeable cash requirements and to continue with the existing banking arrangements.

The Director's Report (continued)

DISCLOSURE OF INFORMATION TO THE AUDITOR

The directors who were members of the board at the time of approving the directors' report are listed on page 2. Having made inquiries 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 relevant to the preparation of 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.

AUDITORS

Ernst and Young LLP will be re-appointed as the Company's auditor in accordance with the elective resolution passed by the Company under Part 16, Chapter 2, section 487 of the Companies Act 2006.

On behalf of the Board

Christopher Mawe
Director

22 March 2011

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FERREXPO FINANCE PLC (FORMERLY FERREXPO UK LIMITED)

We have audited the financial statements of Ferrexpo Finance plc for the year ended 31 December 2010 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Equity and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report to the members of Ferrexpo Finance plc (formerly Ferrexpo UK Limited) (continued)

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Bob Forsyth (Senior statutory auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor

London
22 March 2011

STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year ended 31 December 2010 $000	Year ended 31 December 2009 $000
Revenue			
Interest income	3	19,505	7,789
Administration fees	3	13,307	2,585
Total revenue		32,812	10,374
Interest and finance expenses	5	(28,060)	(9,898)
Gross profit		4,752	476
			-
General and administrative expenses	4	(3,696)	(2,300)
Other expenses		(97)	-
Gain on disposal of property, plant & equipment		-	8
Operating foreign exchange loss		(112)	(52)
Profit/(Loss) before tax from continuing operations		847	(1,868)
Tax	6	175	-
Profit/(Loss) for the year		1,022	(1,868)
Other comprehensive income		-	-
Total comprehensive income (loss)		**1,022**	**(1,868)**

All profits are attributable to equity shareholders of the Company and arose from continuing operations.

STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2010 $000	As at 31 December 2009 $000
ASSETS			
Non-current assets			
Property, plant and equipment	7	375	543
Trade and other receivables	8	1,200	2,206
Deferred tax asset		294	-
		1,869	2,749
Current assets			
Trade and other receivables	8	244,273	204,095
Prepayments and accrued income	9	1,034	877
Income tax receivable		-	119
Other tax receivables		323	74
Cash and cash equivalents		32,161	33
		277,791	205,198
TOTAL ASSETS		279,660	207,947
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	10	986	986
Retained earnings		(394)	(1,416)
Total equity		592	(430)
Non-current liabilities			
Interest bearing loans and borrowings	11	224,524	-
		224,524	-
Current liabilities			
Interest bearing loans and borrowings	11	-	207,031
Trade and other payables	12	53,640	173
Other taxes payable		136	29
Accruals and deferred income	13	768	1,144
		54,544	208,377
TOTAL LIABILITIES		279,068	208,377
TOTAL EQUITY AND LIABILITIES		279,660	207,947

These financial statements were approved by the directors on 22 March 2011 and are signed on their behalf by:

Christopher Mawe
Director

STATEMENT OF CASH FLOWS

	Notes	Year ended 31 December 2010 $000	Year ended 31 December 2009 $000
Cash flows from operating activities			
Profit (loss) before tax from continuing operations		847	(1,868)
Adjusted for:			
Interest income	3	(19,505)	(7,789)
Interest and finance expenses	5	28,060	9,898
Depreciation	4	172	71
Gain on disposal of property, plant and equipment		-	(8)
Other		6	-
Net cash flows before changes in working capital		**9,580**	**304**
Increase in trade and other receivables		(4,673)	(28)
Decrease/(Increase) in prepayments and accrued income		4	(30)
Increase in trade and other payables		23	114
Decrease in accruals and deferred income		(77)	(107)
Net cash flows from operating activities after changes in working capital		**4,857**	**253**
Interest received		19,344	7,948
Interest and finance expenses paid		(17,521)	(11,255)
Net cash flows from operating activities		**6,680**	**(3,054)**
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(4)	(500)
Proceeds from the sale of property, plant and equipment		-	8
Repayments from Group undertakings		17,247	69,787
Repayments from related party	8	1,550	6,450
Net cash flows used in investing activities		**18,793**	**75,745**
Cash flows from financing activities			
Proceeds from borrowings		460,000	-
Repayment of borrowings		(437,727)	(72,727)
Arrangement fees paid		(15,618)	-
Net cash flows from financing activities		**6,655**	**(72,727)**
Net increase/(decrease) in cash		32,128	(36)
Cash and cash equivalents at the beginning of the period		33	69
Cash and cash equivalents at 31 December		**32,161**	**33**

STATEMENT OF CHANGES IN EQUITY

	Attributable to equity shareholders of the Company		
	Issued capital	Retained earnings	Total
	$000	$000	$000
At 31 December 2008	**986**	**452**	**1,438**
Loss for the year	-	(1,868)	(1,868)
Other comprehensive income	-	-	-
Total comprehensive income	-	(1,868)	(1,868)
At 31 December 2009	**986**	**(1,416)**	**(430)**
Profit for the year	-	1,022	1,022
Other comprehensive income	-	-	-
Total comprehensive income	-	1,022	1,022
At 31 December 2010	**986**	**(394)**	**592**

NOTES TO THE FINANCIAL STATEMENTS

1. Corporate information

The Company was initially incorporated on 29 September 2003 as a limited company under the name Ferrexpo UK Limited in England and Wales and is a wholly owned subsidiary of Ferrexpo AG. On 6 May 2010, the Company changed its name and legal form from Ferrexpo UK Limited into Ferrexpo Finance plc. The ultimate parent company of the Group is Fevamotinico S.a.r.l, a company held by Minco Trust. The country of residence of Minco Trust is Singapore.

The principal place of business is:

2-4 King Street
St James's
London
England
SW1Y 6QL

The Company employs 4 people (2009: 3)

2. Summary of significant accounting policies

Basis of preparation

The financial statements have been prepared on a historical cost basis.

The financial statements are presented in US Dollars (US$), the Company's functional currency, and all values are rounded off to the nearest thousand except where otherwise indicated.

The functional currency is determined as the currency of the primary economic environment in which it operates. The majority of the Company's operating activities are conducted in US dollars.

Statement of compliance

The accounting policies adopted are in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the European Union.

Changes in accounting policy

The accounting policies adopted are consistent with those of the previous financial year, except to reflect those new or revised standards and interpretations which are mandatory in 2010.

The adoption of the amendments to the following standards and interpretations did not have any impact on the financial position or reported performance of the Company:

- *IFRS 3 - Business combinations (revised)*
- *IAS 27 - Consolidated and separate financial statements)*
- *IFRS 2 - Share-based payment - group cash-settled share-based payment transactions*
- *IAS 28 - Investments in associates*
- *IFRIC 17 - Distribution of non-cash assets to owners*
- *IFRIC 18 - Transfers of Assets from Customers*
- *IFRS 9 – Financial Instruments: Classification and Measurement*
- *IAS 24) - Related Party Disclosures*
- *IFRS 7 – Financial instruments: disclosures*
- *IAS 12 - Income taxes*
- *IAS 32 – Financial instruments: presentation*
- *IFRIC 19 – Extinguishment of financial liabilities with equity instruments*

2. Summary of significant accounting policies (continued)

Significant accounting judgments and estimates

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reported period. Actual outcomes could differ from these estimates.

Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency of the Company (US dollar) at the 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. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction.

Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Leasehold improvements	- Over 4 years
Equipment	- Over 3 years

Where significant parts of an asset have differing useful lives, depreciation is calculated on each separate part.

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of plant and equipment is the greater of net selling price and value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in the income statement.

An item of property, plant and equipment is derecognised upon disposal or when no future economical benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition 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

Trade and other receivables

Trade receivables, which relate to interest-bearing loans provided to a related party or group entities are recognised at cost, being the fair value of the consideration transferred. After initial recognition, interest-bearing loans are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the net profit and loss when the assets are derecognised or impaired, as well as through the amortisation process.

Trade receivables relating to invoices raised to the parent company for management services are recognised at the lower of original invoice value and recoverable amount. A provision is made where the estimated recoverable amount is lower than the carrying amount.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity of three months or less.

2. Summary of significant accounting policies (continued)

For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received net of issue costs associated with the borrowing.

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 or impaired, as well as through the amortisation process.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefit will flow to the Company and revenue can be reliably measured.

Interest is recognised using the effective interest method applied to the net carrying amount of the related financial asset.

Revenue from the rendering of services is recognised as services are completed.

Income tax

Current tax

Current tax is measured on the basis of the local statutory rate enacted or substantially enacted at the balance sheet date.

Deferred 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.

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.

2. Summary of significant accounting policies (continued)

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 outside of income statement is recognised in other comprehensive income or directly in equity as appropriate.

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.

Employee benefits

Wages, salaries, bonuses, social security contributions, paid annual leave and sick leave are accrued in the period in which the associated services are rendered by employees of the Company.

Share capital

Ordinary shares issued by the Company are recorded at the net proceeds received, which is the fair value of the consideration received less costs that are incurred in connection with the share issue. The nominal par value of the shares issued is taken to the share capital account and any excess is recorded in the share premium account, including the costs that were incurred with the share issue.

Events after the reporting period

Events after the reporting period that provide additional information on the Company's position at the date of the statement of financial position (adjusting events) are reflected in the financial statements.

Events after the reporting period that are not adjusting events are disclosed in the notes when material. See note 19 for disclosures made in respect of events after the reporting period.

3. Revenue

	Year ended 31 December 2010 $000	Year ended 31 December 2009 $000
Revenue		
Interest income from Group undertakings	19,412	7,517
Interest income from related party	93	272
Total interest income	19,505	7,789
Administration fees	13,307	2,585
	32,812	10,374

The principal activity of the Company is the financing of Ferrexpo plc and its subsidiaries and the provision of management services. The interest income is generated through the borrowings provided to Poltava GOK Corporation, Yeristovo GOK Corporation and Ferrexpo AG whereas the administration fees are mainly in relation to management services provided to Ferrexpo plc and Ferrexpo AG.

4. General and administrative expenses

The total of general and administrative expenses for the years ended 31 December 2010 and 2009 includes the following components that require separate disclosure:

	Year ended 31 December 2010 $000	Year ended 31 December 2009 $000
Depreciation		
Owned assets	172	71
Auditors remuneration		
Company audit	24	24
Non-audit services [1]	572	28
	596	52
Operating lease		
Minimum lease payments recognised as an operating lease expense	237	164

[1] Fees paid for assurance services related to raising new debts for the Group

	Year ended 31 December 2010 $000	Year ended 31 December 2009 $000
Employee remuneration		
Wages and salaries	1,077	708
Pension payments to defined contribution plans	46	75
Social security costs	664	161
Other benefits and employment costs	324	146
	2,111	1,090

The amount of the employee remuneration above also includes the remuneration of US$246 thousand (2009: US$181 thousand) paid to a director of the Company.

Please see also note 15 - Related party disclosures.

5. Interest and finance expenses

	Year ended 31 December 2010 $000	Year ended 31 December 2009 $000
Interest and finance expenses		
Interest expenses	15,944	9,096
Guarantee charge	1,268	745
Bank expenses	10,848	57
	28,060	9,898

6. Taxes

Major components of taxes in the income statements for the years ended 31 December 2010 and 2009 are:

	Year ended 31 December 2010 $000	Year ended 31 December 2009 $000
Income statement		
Current income tax	(119)	
Current income tax expense	(119)	-
	-	-
Deferred income tax		
Deferred tax credit	294	-
	175	-

A reconciliation of income tax charge applicable to accounting profit before income tax at the standard rate of UK corporation tax to the Company's income tax credit reported in the income statement for the years ended 31 December 2010 and 31 December 2009 is as follows:

	Year ended 31 December 2010 $000	Year ended 31 December 2009 $000
Accounting profit (loss) before tax	847	(1,868)
At the standard income tax rate of 28.0% (2009: 28.0%)	(237)	523
Adjusted for:		
Effect from utilisation of non-recognised tax loss carry forwards	294	
Effect from capitalised tax loss carry forwards	237	
Tax related to prior year	(119)	
Timing difference	-	2
Expenditure not allowed for income tax purposes	-	(1)
Unrecognised temporary differences	-	(524)
At an effective tax rate of 20.7% (2009: 0.0%)	175	-

Deferred income tax

The Company has gross temporary differences in respect of tax losses of US$1,048 thousand (2009: US$2,028 thousand) which should be available to carry forward indefinitely for offset against future taxable profits arising in the Company. As of 31 December 2010, these temporary differences have been recognised as deferred tax assets as it is expected that the Company will have taxable profits in the foreseeable future against which these temporary differences can be offset.

7. Property, plant and equipment

	Leasehold improvements	Equipment	Total
	$000	$000	$000
Historic cost			
At 31 December 2008	225	261	486
Additions	494	6	500
Transfer	27	(27)	-
Disposal	-	(137)	(137)
At 31 December 2009	746	103	849
Additions	4	-	4
At 31 December 2010	750	103	853
Accumulated depreciation			
At 31 December 2008	150	222	372
Charge for year	61	10	71
Disposal	-	(137)	(137)
At 31 December 2009	211	95	306
Charge for year	164	8	172
At 31 December 2010	375	103	478
Net book value			
At 31 December 2009	535	8	543
At 31 December 2010	375	-	375

The gross value of fully depreciated property, plant and equipment that is still in use is US$ 466 thousand (2009: US$294 thousand).

8. Trade and other receivables

	As at 31 December 2010 $000	As at 31 December 2009 $000
Non-current		
Amounts owed by related party	1,000	2,000
Deposits	200	206
	1,200	2,206
Current		
Amounts owed by Group undertakings	243,803	203,545
Amounts owed by related party	-	550
Other	470	-
	244,273	204,095
Total trade and other receivables	245,473	206,301

Amounts owed by related parties totalling US$1,000 thousand (2009: US$2,550 thousand) relates to a loan to TIS Ruda, an associate of Ferrexpo plc Group.

9. Prepayments and accrued income

	As at 31 December 2010 $000	As at 31 December 2009 $000
Prepayments	122	126
Interest and fees receivable	912	751
	1,034	877

10. Issued capital and reserves

	As at 31 December 2010 £000	As at 31 December 2009 £000
Authorised:		
600,000 ordinary shares of £1 each	600	600
Issued, called up and fully paid:		
550,000 ordinary shares of £1 each	550	550

The Company's shares are issued in sterling and translated at historic foreign exchange rates giving a share capital of US$986 thousand as disclosed in the Company's Statement of Financial Position at 31 December 2010 and 2009.

11. Interest-bearing loans and borrowings

	As at 31 December 2010 $000	As at 31 December 2009 $000
Non-current		
Secured bank loans	224,524	-
Current		
Secured bank loans	-	207,031
Total interest-bearing loans and borrowings	224,524	207,031

All loans are made to the Company in US Dollars by the banks.

At 31 December 2010 the Group's major bank debt facility was a US$350,000 thousand pre-export finance facility (2009: US$335,000 thousand) with no unutilised amount available as of 31 December 2010 and 2009. The Company is a joint borrower with Ferrexpo AG.

The loan is secured as follows:

- Ferrexpo AG has assigned the rights to revenue from certain sales contracts, pledged rights under certain contracts and rights under certain related credit support documents,
- Poltava GOK Corporation and Ferrexpo AG have assigned all of its rights for certain export contracts for pellets sales in 2010,
- Ferrexpo AG has also pledged its bank account into which all proceeds from the sale of certain iron ore pellet contracts are received, and
- guarantees and indemnities separately provided by both Poltava GOK Corporation, Yeristovo GOK Corporation and Ferrexpo plc.

The borrowings under the pre-export term loan facility were on lent on to Yeristovo GOK Corporation and Poltava GOK Corporation (see note 15 - Related parties disclosures).

12. Trade and other payables

	As at 31 December 2010 $000	As at 31 December 2009 $000
Trade payables due to third parties	88	98
Amounts due to Group undertakings	53,552	75
	53,640	173

13. Accruals and deferred income

	As at 31 December 2010 $000	As at 31 December 2009 $000
Accrued interest payable	210	509
Other accruals	558	635
	768	1,144

14. Operating lease commitments

As at 31 December the Company had commitments under non-cancellable operating leases of:

	As at 31 December 2010 $000	As at 31 December 2009 $000
Property lease commitments expiring:		
Within one year	237	164
Between one and five years	860	266
More than five years	-	16
	1,097	446

15. Related party disclosures

The following table provides the total amount of transactions which have been entered into with related parties for the relevant financial years and the balances outstanding at 31 December are as follows:.

Related party	Year	Sales to / interest receivable from related party $000	Amounts owed by related party $000	Amounts owed to related party $000
Parent company	2010	2,261	244	-
	2009	1,803	-	112
Subsidiaries of the parent company	2010	30,448	244,444	53,651
	2009	8,298	204,789	-
Companies under common control of parent company	2010	93	1,027	-
	2009	271	2,643	-

The parent company of Ferrexpo Finance plc is Ferrexpo plc, a company incorporated in the United Kingdom. The ultimate parent company of the Group is Fevamotinico S.a.r.l., a company held by the Minco Trust.

Terms and conditions of transactions with related parties

Outstanding balances, except for interest-bearing loans, at the year end are unsecured, interest free and settlement occurs in cash.

Ferrexpo Finance plc and Ferrexpo AG are borrowers on a joint and several basis under a term loan and revolving credit facility. From this facility Ferrexpo Finance plc has drawn down US$230,000 thousand which was outstanding at 31 December 2010 (2009: US$207,727 thousand) and for which additional security is provided by Ferrexpo AG from the assignment of their rights to revenue from certain sales contracts.

For the years ended 31 December 2010 and 2009 the Company has not made any provisions for doubtful debts relating to amounts owed by related parties.

Compensation of key management personnel of the Company

	Year ended 31 December 2010	Year ended 31 December 2009
Short-term employee benefits	236,747	174,200
Post-employment benefits	8,919	6,525
Total	245,666	180,725

15. Related party disclosures (continued)

In addition to the disclosure above, a compensation of US$1,643 thousand (2009: US$1,237 thousand) has been paid by another Group undertaking for one of the directors of the Company. Detailed information in this respect is provided in the Remuneration Report of the Annual Report of the Group.

The directors of the Company receive post-employment benefits, with one director being enrolled in the UK defined contribution plan and another director in the Swiss defined benefit plan.

During 2010 no share options were exercised by the directors of the Company.

16. Financial risk management objectives and policies

The Company's principal financial instruments comprise bank debts and loans to Group undertakings. The main purpose of the bank debts is to raise finance for the Ferrexpo plc Group's operations.

The main risks arising from the Company's financial instruments are interest rate risk and concentration risk (counterparty and country).

The Company's exposure to interest rate risk relates primarily to long term debt with a variable rate of interest. The Company's policy is to manage its interest costs using a mixture of fixed and variable rate debt.

The Company is exposed to transactional currency exposure. Such exposure arises from costs being incurred in a currency i.e. Sterling, other than the functional currency of US$.

Currently the Company does not hedge against currency risk due to the values involved but continues to monitor the situation closely.

Details of the liquidity risk of the interest bearing loans and borrowings as well as further information on the pre-export finance facility are disclosed in note 11.

Capital Management
Ferrexpo plc manages capital on a Group basis. For details of the capital management policies please refer to the Ferrexpo plc annual report and accounts for the year ended 31 December 2010.

Credit Risk
The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	As at 31 December 2010	As at 31 December 2009
	$000	$000
Cash and term deposits	32,161	33
Accrued interest	912	751
Loan to related party	1,000	2,550
Other trade receivables	470	-
Loan to Group undertakings	243,803	203,545
Total maximum exposure to credit risk	278,346	206,879

All other debtors are current. There were no impairment losses in either period.

16. Financial risk management objectives and policies (continued)

Liquidity risk
The following are the contractual maturities of financial liabilities by interest type:

	As at 31 December 2010			
	Less than 1 year	Between 1 to 2 years	Between 2 to 5 years	Total
	$000	$000	$000	$000
Financial liabilities				
Interest bearing				
Bank debt (floating rate interest)	-	93,551	130,973	224,524
Amount due to Group undertaking	53,552	-	-	53,552
Interest accrued	210	-	-	210
Future interest payable	13,433	11,337	4,850	29,620
Non interest bearing				
Trade and other payables	88	-	-	88
Other financial liabilities	558	-	-	558
Total cashflow maturity	67,841	104,888	135,823	308,552

	As at 31 December 2009			
	Less than 1 year	Between 1 to 2 years	Between 2 to 5 years	Total
	$000	$000	$000	$000
Financial liabilities				
Interest bearing				
Bank debt (floating rate interest)	207,031	-	-	207,031
Interest accrued	509	-	-	509
Future interest payable	5,697			5,697
Non interest bearing				
Trade and other payables	173	-	-	173
Other financial liabilities	635	-	-	635
Total cashflow maturity	214,045	-	-	214,045

Ferrexpo Finance plc carries the majority of the Group's principal debt facility. On 23 September 2010, Ferrexpo Finance plc entered into a new three and a half year bank debt term facility as joint borrower with Ferrexpo AG in the amount of US$350,000 thousand. This pre-export finance facility was drawn in full on 7 October 2010 by Ferrexpo Finance plc to $230,000 thousand and Ferrexpo AG to $120,000 thousand. The amount drawn by Ferrexpo Finance plc was used for refinancing the pre-export finance facility that existed at this point of time.

The new facility contains covenants relating to Group's Earnings Before Interest Tax Depreciation and Amortisation (EBITDA) as well as normal short and long-term cover ratio requirements related to customer contracts.

The Group currently has sufficient long-term contracts to meet these ratios under all reasonable pricing assumptions. There is a risk that cancellation of contracts as a result of force majeure events and/or low price outcomes in subsequent price negotiations would require the Group to designate and assign additional contracts to the lenders under this facility to meet certain ratios. The Group is forecast to

16. Financial risk management objectives and policies (continued)

have sufficient liquidity to operate successfully throughout 2011 and 2012 and to meet its required debt repayments.

The new major bank debt facility drawn on 7 October 2010 is also guaranteed and secured on the same basis as the bank debt existing at 31 December 2009.

Currency Risk

The Group's exposure to foreign currency risk (limited to the British Pound) was as follows based on notional amounts:

	As at 31 December 2010	As at 31 December 2009
	$000	$000
Total financial assets	**127**	**230**
Bank debt	-	-
Interest accrued	-	-
Borrowings	**-**	**-**
Trade and other payables	-	-
Other financial liabilities	-	-
Total financial liabilities	**-**	**-**
Net financial assets/(liabilities)	**127**	**230**

Interest rate risk

At 31 December 2010, the interest rate profile of the Group's interest bearing-financial instruments was as follows:

US$ 000	Floating interest	Fixed interest	Other non-interest bearing	Total
	$000	$000	$000	$000
Financial assets				
Cash and term deposits	384	30,000	1,777	32,161
Loan to related party	1,000	-	-	1,000
Other trade receivables	-	-	470	470
Loan to Group undertakings	243,803	-	-	243,803
Accrued interest	-	-	912	912
Total financial assets exposure	**245,187**	**30,000**	**3,159**	**278,346**
Weighted av. interest rate (%)				
Financial liabilities				
Borrowings	(224,524)	-	-	(224,524)
Loan from Group undertakings	(53,552)	-	-	(53,552)
Trade and other financial liabilities	-	-	(88)	(88)
Total financial liability exposure	**(278,076)**	**-**	**(88)**	**(278,164)**
Weighted av. interest rate (%)	5.75%			

16. Financial risk management objectives and policies (continued)

At 31 December 2009, the interest rate profile of the Group's interest bearing-financial instruments was as follows:

US$ 000	Floating interest	Fixed interest	Other non-interest bearing	Total
	$000	$000	$000	$000
Financial assets				
Cash and term deposits	33	-	-	33
Loan to related party	2,550	-	-	2,550
Loan to Group undertakings	203,545	-	-	203,545
Accrued interest		-	751	751
Total financial assets exposure	**206,128**	**-**	**751**	**206,879**
Weighted av. interest rate (%)				
Financial liabilities				
Borrowings	(207,031)	-	-	(207,031)
Trade and other financial liabilities	-	-	(173)	(173)
Total financial liability exposure	**(207,031)**	**-**	**(173)**	**(207,204)**
Weighted av. interest rate (%)	2.67%			

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 as of 31 December 2010. In the prior year, US$2,000 thousand of the floating rate loan to associate was classified as non-current.

Sensitivity analysis
A 5% percent strengthening of the US dollar against the British Pound (GBP) at 31 December 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.

US$ 000	Year ended 31 December 2010	Year ended 31 December 2009
	Equity / Income Statement	Equity / Income Statement
GBP	**(6)**	**23**

A 5% weakening of the US dollar against the British Pound (GBP) 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 Company does not account for any fixed rate financial assets and liabilities at fair value through profit and loss, and the Company 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.

Cashflow sensitivity for fixed and variable rate instruments
A change of 100 basis points in interest rates would have (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.

16. Financial risk management objectives and policies (continued)

US$ 000	Year ended 31 December 2010	Year ended 31 December 2009
	100 bp increase	100 bp increase
Net finance charge	**(2,478)**	**(811)**

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.

The carrying amounts and fair values of the Company's financial instruments are equivalent.

17. Ultimate controlling beneficiary

The ultimate controlling party of Ferrexpo Finance plc is Kostyantin Zhevago through the Minco Trust.

18. Commitment and Contingencies

See notes 11 (pre-export finance facility), 14 (operating lease commitments) and 15 (intra-group guarantees). There are no other commitments and contingencies for the company.

19. Events after the reporting period

No material adjusting or non-adjusting events have occurred subsequent to the year end.

FERREXPO UK LIMITED

AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2009

Company Registration Number 04914716

The Issuer's 2009 financial statements contain certain amounts with respect to 2008 comparative figures that have been reclassified to be consistent with the form of presentation adopted for 2009. As a consequence the Issuer's attached audited 2008 financial statements show the same items unadjusted for the 2009 reclassification. If these reclassifications had been made in the Issuer's 2008 financial statements, the impact would have been as follows:

Income statement

Finance income would have been reclassified to interest income (2008: US$272,000; 2007: US$351,000) and finance expenses would have been reclassified to interest expenses (2008: US$802,000; 2007: US$28,000).

Cash flow statement

Intercompany loans included in cash flows from operating activities would have been reclassified to cash flows from investing activities (2008: US$77,724,000; 2007: US$145,331,000). In addition, interest income would have been grossed up to include intercompany interest income (2008: US$11,611,000; 2007: US$11,893,000), while interest expense would have been grossed up to include intercompany interest expense (2008: US $12,018,000; 2007: US $11,947,000).

The net profit and net cash flow for 2008 and 2007 would not have been impacted by these presentational adjustments.

FERREXPO UK LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

CONTENTS **PAGE**

General information	2
The directors' report	3
Independent auditor's report	6
Statement of Comprehensive Income	8
Statement of Financial Position	9
Statement of Cash Flows	10
Statement of changes in equity	11
Notes to the financial statements	12

FERREXPO UK LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

GENERAL INFORMATION

Directors
C. Mawe
G. Mackay (resigned as of 29 January 2010)
D. Leonard (appointed as of 29 January 2010)

Company secretary
D Leonard

Registered office
2-4 King Street
London
England
SW1Y 6QL

Auditors
Ernst & Young LLP
1 More London Place
London
England
SE1 2AF

THE DIRECTORS' REPORT

The directors present their report and audited financial statements of the Company for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company during the year was the financing of the Ferrexpo plc Group and the provision of management services.

It is the directors' intention that this business of the Company shall continue in the foreseeable future.

The financial statements are prepared in US Dollars as this is the currency in which the majority of the Company's trading transactions are denominated.

RESULTS AND DIVIDENDS

The trading results for the year and the Company's financial position at the end of the period are shown in the attached financial statements on pages 8 to 27. The loss for the period to 31 December 2009 after taxation amounted to US$1,868,000 (2008: US$439,000)

The directors have not recommended the payment of a dividend (2008: nil).

SIGNIFICANT AGREEMENTS

Under the US$335m pre-export finance facility with ABN Amro Bank N.V., BNP Paribas (Suisse) S.A. and Société Générale, of December 2006, if Kostyantin Zhevago ceases to own more than 51% of the Ferrexpo plc Group, the lenders are entitled to demand repayment of this facility.

On 27 November 2009, the Company entered into a new 3 year bank debt term facility in the amount of US$230 million. This pre-export finance facility was drawn in full on 8 January 2010 and was used for refinancing the pre-export finance facility described above. The new major bank debt facility is also guaranteed and secured on the same basis as the bank debt facility in place at 31 December 2009.

CHARITABLE AND POLITICAL DONATIONS

The Company made no charitable or political donations in either year.

THE DIRECTORS AND THEIR INTERESTS IN SHARES OF THE COMPANY

The directors who served the Company during the year and changes since 31 December 2009 are listed on page 2. None of the directors had any beneficial interests in the shares of the Company.

RISKS AND KEY PERFORMANCE INDICATORS

Company level risks have been identified as financial risks and are disclosed in note 16. Risks relating to the Group, including the finance risk, are disclosed in the *Ferrexpo Annual Report & Accounts 2009*, which is available on the Group's website *www.ferrexpo.com.*

The Companies Act requires directors to disclose the Company's Key Performance Indicators (KPIs). The Ferrexpo Group manages its KPIs at a group level. As a result the directors' have taken the decision not to disclose KPIs in individual subsidiary accounts.

DIRECTORS' INDEMNITY PROVISION

During the period under review, the Company had in force an indemnity provision in favour of one or

more of the Directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in Section 234 of the Companies Act 2006.

DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company at the end of the period and of the profit or loss for the period then ended. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

GOING CONCERN

The Directors of the Company consider that the Ferrexpo plc Group has adequate financial resources so that the Company is in the position to continue operating for the foreseeable future and that it is therefore appropriate to adopt the going concern basis in preparing the financial statements of the Company.

The Directors of the Company have satisfied themselves that the Group is in a sound financial position It can be therefore considered that the Company has access to sufficient financial resources and it can be reasonably expected that those financial resources will be made available to the Company in order to meet the foreseeable cash requirements and to continue with the banking arrangements.

DISCLOSURE OF INFORMATION TO THE AUDITOR

The directors who were members of the board at the time of approving the directors' report are listed on page 2. Having made inquiries of fellow directors and of the Company's auditors, each of these directors confirm that:

- To the best of each director's knowledge and belief, there is no information relevant to the preparation of 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.

The Director's Report (continued)

AUDITORS

Ernst and Young LLP will be re-appointed as the Company's auditor in accordance with the elective resolution passed by the Company under Part 16, Chapter 2, section 487 of the Companies Act 2006.

On behalf of the Board

Christopher Mawe
Director

19 April 2010.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FERREXPO UK LIMITED

We have audited the financial statements of Ferrexpo UK Limited for the year ended 31 December 2009 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Equity and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2009 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Bob Forsyth (Senior statutory auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor

London
19 April 2010

STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year ended 31 December 2009 $000	Year ended 31 December 2008 $000
Revenue			
Interest income	3	7,789	12,009,
Administration fees	3	2,585	3,104
Total revenue		10,374	15,113
Interest and finance expenses	5	(9,898)	(12,381)
Gross profit		476	2,732
		-	
General and administrative expenses	4	(2,300)	(3,125)
Other expenses		-	(16)
Gain on disposal of property, plant & equipment		8	-
Operating foreign exchange loss		(52)	(104)
Loss before tax from continuing operations		(1,868)	(513)
Income tax expense	6	-	74
Loss for the year		(1,868)	(439)
Other comprehensive income		-	-
Total comprehensive income		**(1,868)**	**(439)**

All profits are attributable to equity shareholders of the Company and arose from continuing operations.

STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2009 $000	As at 31 December 2008 $000
ASSETS			
Non-current assets			
Property, plant and equipment	7	543	114
Trade and other receivables	8	2,206	68,047
		2,749	68,161
Current assets			
Trade and other receivables	8	204,095	214,462
Prepayments and accrued income	9	1,573	1,135
Income tax receivable		119	151
Other tax receivables		74	99
Cash and cash equivalents		33	69
		205,894	215,916
TOTAL ASSETS		208,643	284,077
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	10	986	986
Retained earnings		(1,416)	452
Total equity		(430)	1,438
Non-current liabilities			
Interest bearing loans and borrowings	11	-	207,727
		-	207,727
Current liabilities			
Interest bearing loans and borrowings	11	207,727	72,727
Trade and other payables	12	173	62
Other taxes payable		29	26
Accruals and deferred income	13	1,144	2,097
		209,073	74,912
TOTAL LIABILITIES		209,073	282,639
TOTAL EQUITY AND LIABILITIES		208,643	284,077

These financial statements were approved by the directors on 19 April 2010 and are signed on their behalf by:

Christopher Mawe
Director

STATEMENT OF CASH FLOWS

	Notes	Year ended 31 December 2009 $000	Year ended 31 December 2008 $000
Cash flows from operating activities			
Loss before tax from continuing operations		(1,868)	(513)
Adjusted for:			
Interest income	3	(7,789)	(12,009)
Interest and finance expenses	5	9,898	12,381
Depreciation	4	71	99
Gain on disposal of property, plant and equipment		(8)	-
Net cash flows before changes in working capital		**304**	**(42)**
Increase in trade and other receivables		(28)	(281)
Increase / (decrease) in prepayments and accrued income		(30)	20
Increase in trade and other payables		114	6
(Decrease) / increase in accruals and deferred income		(107)	32
Net cash flows from operating activities after changes in working capital		**253**	**(265)**
Interest received		7,948	11,577
Interest and finance expenses paid		(11,255)	(10,079)
Income tax paid		-	(47)
Net cash flows from operating activities		**(3,054)**	**1,186**
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(500)	(12)
Proceeds from the sale of property, plant and equipment		8	-
Repayments from / (payments to) Group undertakings		69,787	(77,724)
Repayments from / (payments to) related party	8	6,450	(4,000)
Net cash flows used in investing activities		**75,745**	**(81,736)**
Cash flows from financing activities			
Proceeds from borrowings		-	135,000
Repayment of borrowings		(72,727)	(54,546)
Net cash flows from financing activities		**(72,727)**	**80,454**
Net (decrease)/increase in cash		(36)	(96)
Cash and cash equivalents at the beginning of the period		69	165
Cash and cash equivalents at 31 December		**33**	**69**

Certain prior year figures in the statement of cash flow have been reclassified to be consistent with the presentation of the current year.

STATEMENT OF CHANGES IN EQUITY

	Attributable to equity shareholders of the Company		
	Issued capital	Retained earnings	Total
	$000	$000	$000
At 31 December 2007	**986**	**891**	**1,877**
Loss for the year	-	(439)	(439)
Other comprehensive income	-	-	-
Total comprehensive income	-	(439)	(439)
At 31 December 2008	**986**	**452**	**1,438**
Loss for the year	-	(1,868)	(1,868)
Other comprehensive income	-	-	-
Total comprehensive income	-	(1,868)	(1,868)
At 31 December 2009	**986**	**(1,416)**	**(430)**

NOTES TO THE FINANCIAL STATEMENTS

1. Corporate information

Ferrexpo UK Limited is a limited company which was incorporated in England and Wales on 29 September 2003 and is a wholly owned subsidiary of Ferrexpo AG. The ultimate parent company of the Group is Fevamotinico S.a.r.l, a company held by Minco Trust.

The principal place of business is:

2-4 King Street
St James's
London
England
SW1Y 6QL

The Company employs 3 people (2008: 4)

2. Summary of significant accounting policies

Basis of preparation

The financial statements have been prepared on a historical cost basis.

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

The functional currency of the Company is US dollars (US$).

The functional currency is determined as the currency of the primary economic environment in which it operates. The majority of the Company's operating activities are conducted in US dollars.

Statement of compliance

The accounting policies adopted are in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the European Union.

Changes in accounting policy

The accounting policies adopted are consistent with those of the previous financial year except as follows:

IAS 1 *Revised Presentation of Financial Statements*
The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements.

The Company has elected to present a single statement which is contained on page 8.

IFRS 7 *'Financial Instrument: Disclosure'*
The amendments to the standard outline additional disclosure requirements for fair value measurements and in respect of the liquidity risk. The Group does not hold any financial instruments resulting in the disclosure of fair value hierarchy table in the notes to the financial statements.

2. Summary of significant accounting policies (continued)

Improvements to IFRSs
In 2009, the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments did not have any impact on the financial position or reported performance of the Company:

- *IFRS 7 Financial Instruments: Disclosures*
- *IFRS 8 Operating Segments*
- *IAS 8 Accounting Policies, Change in Accounting Estimates and Errors*
- IAS 7 *Statement of Cash Flows*
- *IAS 10 Events after the Reporting Period*
- *IAS 19 Employee Benefits*
- *IAS 27 Consolidated and SeparateFinancial Statements*
- *IAS 38 Intangible Assets*
- *IAS 39 Financial Instruments: Recognition and Measurement*

Significant accounting judgments and estimates

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reported period. Actual outcomes could differ from these estimates.

Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency of the Company (US dollar) at the 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. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction.

Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Leasehold improvements	- Over life of lease
Plant and equipment	- Over 3 years

Where significant parts of an asset have differing useful lives, depreciation is calculated on each separate part.

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of plant and equipment is the greater of net selling price and value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in the income statement.

An item of property, plant and equipment is derecognised upon disposal or when no future economical benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition 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

2. Summary of significant accounting policies (continued)

Trade and other receivables

Trade receivables, which relate to interest-bearing loans provided to third parties or group entities are recognised at cost, being the fair value of the consideration transferred. After initial recognition, interest-bearing loans are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the net profit and loss when the assets are derecognised or impaired, as well as through the amortisation process.

Trade receivables relating to invoices raised to the parent company for management services are recognised at the lower of original invoice value and recoverable amount. A provision is made where the estimated recoverable amount is lower than the carrying amount.

Cash and cash equivalents

Cash and cash equivalent in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity of three months or less.

For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of any outstanding bank overdrafts.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account probable discounts and premiums on settlement.

Gains and losses are recognised in the net profit and loss when the assets are derecognised or impaired, as well as through the amortisation process.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefit will flow to the Company and revenue can be reliably measured.

Interest is recognised as the interest accrues (using the effective interest method) to the net carrying amount of the financial asset.

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

Income tax

Current tax

Current tax is based on the local taxable income at the local statutory rate enacted or substantially enacted at the balance sheet date and includes adjustments to tax payable or recoverable in respect of previous periods.

Deferred 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

2. Summary of significant accounting policies (continued)

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.

Employee benefits

Wages, salaries, bonuses, social security contributions, paid annual leave and sick leave are accrued in the period in which the associated services are rendered by employees of the Company.

Share capital

Ordinary shares issued by the Company are recorded at the net proceeds received, which is the fair value of the consideration received less costs that are incurred in connection with the share issue. The nominal par value of the shares issued is taken to the share capital account and any excess is recorded in the share premium account, including the costs that were incurred with the share issue.

Events after the reporting period

Events after the reporting period that provide additional information on the Company's position at the date of the statement of financial position (adjusting events) are reflected in the financial statements.

Events after the reporting period that are not adjusting events are disclosed in the notes when material. See note 19 for disclosures made in respect of events after the reporting period.

3. Revenue

	Year ended 31 December 2009 $000	Year ended 31 December 2008 $000
Revenue		
Interest income from Group undertakings	7,517	11,611
Interest income from related party	272	398
Total interest income	7,789	12,009
Administration fees	2,585	3,104
	10,374	15,113

The principal activity of the Company is the financing of Ferrexpo plc and its subsidiaries and the provision of management services. The interest income is generated through the borrowings provided to Ferrexpo Poltava Mining and Ferrexpo AG whereas the administration fees are mainly in relation to management services provided to Ferrexpo plc and Ferrexpo AG.

The prior year balance of interest income - related party has been reclassified to be consistent with the presentation of the financial year 2009. The reclassification had no impact on the result for the year or the presentation of the balance sheet.

4. Costs

	Year ended 31 December 2009 $000	Year ended 31 December 2008 $000
Depreciation		
Owned assets	71	99
Auditors remuneration		
Company audit	24	73
Non-audit services	28	20
	52	93
Operating lease		
Minimum lease payments recognised as an operating lease expense	164	282

	Year ended 31 December 2009 $000	Year ended 31 December 2008 $000
Employee remuneration		
Wages and salaries	708	1,210
Pension payments to defined contribution plans	75	86
Social security costs	161	197
Other benefits and employment costs	146	565
	1,090	2,058

The amount of the employee remuneration above also includes the remuneration of US$180,725 (2008: US$262,999) paid to employees acting as directors.

Please see also note 15 - Related party disclosures.

5. Interest and finance expenses

	Year ended 31 December 2009 $000	Year ended 31 December 2008 $000
Interest and finance expenses		
Interest expenses	9,096	12,018
Guarantee charge	745	358
Bank expenses	57	5
	9,898	12,381

The prior year balances of guarantee charge and bank expenses have been reclassified to be consistent with the presentation of the financial year 2009. The reclassification had no impact on the result for the year or the presentation of the balance sheet.

6. Income tax

Major components of income tax expense for the years ended 31 December 2009 and 2008 are:

	Year ended 31 December 2009 $000	Year ended 31 December 2008 $000
Income statement		
Current income tax		
Current income tax credit	-	(66)
	-	(66)
Deferred income tax		
Deferred tax credit	-	(8)
Income tax charge/(credit) reported in the income statement	-	(74)

A reconciliation of income tax (credit)/charge applicable to accounting profit before income tax at the standard rate of UK corporation tax to the Company's income tax (credit)/charge reported in the income statement for the years ended 31 December 2009 and 31 December 2008 is as follows:

	Year ended 31 December 2009 $000	Year ended 31 December 2008 $000
Accounting loss before tax	(1,868)	(513)
At the standard income tax rate of 28.0% (2008: 28.5%)	(523)	(146)
Adjusted for:		
Timing difference	(2)	-
Expenditure not allowed for income tax purposes	1	2
Unrecognised temporary differences	524	70
At an effective tax rate of 0.0% (2008: 14.4%)	-	(74)

6. Income tax (continued)

Deferred income tax

The Company has gross unrecognised temporary differences in respect of tax losses of approximately US$2,137,000 (2008: US$375,000) and assets qualifying for capital allowances of approximately US$78,000 (2008: US$35,000) which should be available to carry forward indefinitely for offset against future taxable profits arising in the Company. These temporary differences have not been recognised as it is currently uncertain that the Company will have taxable profits in the foreseeable future against which these temporary differences can be offset.

7. Property plant and equipment

	Leasehold improvements $000	Plant and equipment $000	Total $000
Historic cost			
At 31 December 2007	225	249	474
Additions	-	12	12
At 31 December 2008	225	261	486
Additions	494	6	500
Transfer	27	(27)	-
Disposal	-	(137)	(137)
At 31 December 2009	746	103	849
Accumulated depreciation			
At 31 December 2007	106	167	273
Charge for year	44	55	99
At 31 December 2008	150	222	372
Charge for year	61	10	71
Disposal		(137)	(137)
At 31 December 2009	211	95	306
Net book value			
At 31 December 2008	75	39	114
At 31 December 2009	535	8	543

The gross value of fully depreciated property, plant and equipment that is still in use is US$52,000 (2008: US$187,000).

8. Trade and other receivables

	As at 31 December 2009 $000	As at 31 December 2008 $000
Non-current		
Amounts owed by Group undertakings	-	64,870
Amounts owed by related party	2,000	3,000
Deposits	206	177
	2,206	68,047
Current		
Amounts owed by Group undertakings	203,545	208,462
Amounts owed by related party	550	6,000
	204,095	214,462
Total trade and other receivables	206,301	282,509

Amounts owed by related parties totalling US$2,550,000 (2008: $9,000,000) relates to a loan to TIS Ruda, an associate of Ferrexpo plc Group, made on an arm's length basis.

9. Prepayments and accrued income

	As at 31 December 2009 $000	As at 31 December 2008 $000
Prepayments	126	96
Interest and fees receivable	1,447	1,039
	1,573	1,135

10. Issued capital and reserves

	As at 31 December 2009 £000	As at 31 December 2008 £000
Authorised:		
600,000 ordinary shares of £1 each	600	600
Issued, called up and fully paid:		
550,000 ordinary shares of £1 each	550	550

The Company's shares are issued in sterling and translated at historic foreign exchange rates giving a share capital of US$986,389 as disclosed in the Company's Statement of Financial Position at 31 December 2009 and 2008.

11. Interest-bearing loans and borrowings

	As at 31 December 2009 $000	As at 31 December 2008 $000
Non-current		
Secured bank loans	-	207,727
Current		
Secured bank loans	207,727	72,727
Total interest-bearing loans and borrowings	207,727	280,454

All loans are made to the Company in US Dollars by the banks.

At 31 December 2009 the Group's major bank debt facility was a US$335 million pre-export finance facility (2008: US$335 million) with no unutilised amount available as of 31 December 2009 and 2008.

The loan was secured as follows:

- Ferrexpo AG has assigned the rights to revenue from certain sales contracts, pledged rights under certain contracts and rights under certain related credit support documents.
- Ferrexpo Poltava GOK Corporation has assigned all of its rights for ten export contracts for pellets sales in 2009.

In addition Ferrexpo AG has also pledged its bank account into which all proceeds from the sale of certain iron ore pellet contracts are received.

A variable rate loan for borrowings under the terms of a pre-export term loan facility was on lent to Ferrexpo AG and Poltava GOK Corporation (see note 15 - Related parties disclosures). The loan was secured by way of:

- guarantees and indemnities separately provided by both Poltava GOK Corporation and Ferrexpo AG;
- pledged inventories held by Poltava GOK Corporation and pledged bank balances held by Ferrexpo AG;
- an assignment by Ferrexpo AG of the rights attaching to its export contract for the supply of iron ore pellets to a 3rd party;
- assignment of the Company's intercompany debt due from Poltava GOK Corporation and Ferrexpo AG.

On 27 November 2009, the Company entered into a new 3 year bank debt term facility in the amount of US$230 million. This pre-export finance facility was drawn in full on 8 January 2010 and was used for refinancing the pre-export finance facility described above. The new major bank debt facility is also guaranteed and secured on the same basis as the bank debt facility in place at 31 December 2009.

12. Trade and other payables

	As at 31 December 2009 $000	As at 31 December 2008 $000
Trade payables due from third parties	98	62
Trade payables due from Group undertakings	75	-.
	173	62

13. Accruals and deferred income

	As at 31 December 2009 $000	As at 31 December 2008 $000
Accrued employment costs and social security	-	145
Accrued interest payable	509	1,865
Other accruals	635	87
	1,144	2,097

14. Operating lease commitments

As at 31 December the Company had commitments under non-cancellable operating leases of:

	As at 31 December 2009 $000	As at 31 December 2008 $000
Property lease commitments expiring:		
Within one year	164	223
Between one and five years	266	445
More than five years	16	31
	446	699

15. Related party disclosures

The following table provides the total amount of transactions which have been entered into with related parties for the relevant financial years and the balances outstanding at 31 December are as follows:.

Related party	Year	Sales to / interest receivable from related party $000	Services received from related party $000	Amounts owed by related party $000	Amounts owed to related party $000
Parent company	2009	1,803	-	-	112
	2008	765	-	141	-
Subsidiaries of the parent company	2009	8,298	-	204,789	-
	2008	13,949	-	273,930	-
Companies under common control of parent company	2009	271	-	2,643	-
	2008	394	49	9,000	11

The parent company of Ferrexpo UK Limited is Ferrexpo plc, a company incorporated in the United Kingdom. The ultimate parent company of the Group is Fevamotinico S.a.r.l., a company held by the Minco Trust.

Terms and conditions of transactions with related parties

Outstanding balances, except for interest-bearing loans at the year end are unsecured, interest free and settlement occurs in cash.

Ferrexpo UK Limited and Ferrexpo AG are borrowers on a joint and several basis under a term loan and revolving credit facility fully drawn by Ferrexpo UK Limited of which US$207,727,272 was outstanding at 31 December 2009 (2008: US$280,454,545) and for which additional security is provided by Ferrexpo AG from the assignment of their rights to revenue from certain sales contracts.

For the years ended 31 December 2009 and 2008 the Company has not made any provisions for doubtful debts relating to amounts owed by related parties.

Compensation of key management personnel of the Company

	Year ended 31 December 2009 $000	Year ended 31 December 2008 $000
Short-term employee benefits	174,200	262,999
Post-employment benefits	6,525	-
Total	180,725	262,999

In addition to the disclosures above, compensations of US$1,237,000 (2008: US$1,005,000) have been paid by another Group undertakings for a Director of the Company. Detailed information in this respect is provided in the Remuneration Report of the Annual Report of the Group.

16. Financial risk management objectives and policies

The Company's principal financial instruments comprise bank debts and loans to Group undertakings. The main purpose of the bank debts is to raise finance for the Ferrexpo plc Group's operations.

The main risks arising from the Company's financial instruments are interest rate risk and concentration risk (counterparty and country).

The Company's exposure to interest rate risk relates primarily to long term debt with a variable rate of interest. The Company's policy is to manage its interest costs using a mixture of fixed and variable rate debt.

The Company is exposed to transactional currency exposure. Such exposure arises from costs being incurred in a currency i.e. Sterling, other than the functional currency of US$.

Currently the Company does not hedge against currency risk due to the values involved but continues to monitor the situation closely.

Details of the liquidity risk of the interest bearing loans and borrowings as well as further information on the pre-export finance facility are disclosed in note 11.

Capital Management
Ferrexpo plc manages capital on a group basis. For details of the capital management policies please refer to the Ferrexpo plc annual report and accounts for the year ended 31 December 2009.

16. Financial risk management objectives and policies (continued)

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:

	As at 31 December 2009	As at 31 December 2008
	$000	$000
Cash and term deposits	33	69
Accrued interest	1,447	1,039
Loan to related party	2,550	9,000
Loan to Group undertakings	203,545	273,096
Total maximum exposure to credit risk	207,575	283,204

All other debtors are current. There were no impairment losses in either period.

Liquidity risk

The following are the contractual maturities of financial liabilities by interest type:

	As at 31 December 2009			
	Less than 1 year	Between 1 to 2 years	Between 2 to 5 years	Total
	$000	$000	$000	$000
Financial liabilities				
Interest bearing				
Bank debt (floating rate interest)	207,727	-	-	207,727
Interest accrued	509	-	-	509
Future interest payable	5,697			5,697
Non interest bearing				
Trade and other payables	173	-	-	173
Other financial liabilities	635	-	-	635
Total cashflow maturity	214,741	-	-	214,741

Details of the interest accrued are disclosed in note 13.

16. Financial risk management objectives and policies (continued)

	As at 31 December 2008			
	Less than 1 year	Between 1 to 2 years	Between 2 to 5 years	Total
	$000	$000	$000	$000
Financial liabilities				
Interest bearing				
Bank debt (floating rate interest)	72,727	207,727	-	280,454
Interest accrued	1,865	-	-	1,865
Future interest payable	9,640	5,697		15,337
Non interest bearing				
Trade and other payables	62	-	-	62
Other financial liabilities	232	-	-	232
Total cashflow maturity	84,526	213,424	-	297,950

Ferrexpo UK Limited carries the Group's principal debt facility. On 27 November 2009, Ferrexpo UK Limited entered into a new 3 year bank debt term facility in the amount of US$230 million. This pre-export finance facility was drawn in full on 8 January 2010 and was used for refinancing the pre-export finance facility that existed at 31 December 2009.

The new facility as well as the existing facility as of 31 December 2009 contain covenants relating to Group's Earnings Before Interest Tax Depreciation and Amortisation (EBITDA) as well as normal short and long-term cover ratio requirements related to customer contracts.

The Group currently has sufficient long-term contracts to meet these ratios under all reasonable pricing assumptions. There is a risk that cancellation of contracts as a result of Force Majeure events and/or low price outcomes in subsequent price negotiations would require the Group to designate and assign additional contracts to the lenders under this facility to meet certain ratios. The Group is forecast to have sufficient liquidity to operate successfully throughout 2010 and 2011 and to meet its required debt repayments.

The new major bank debt facility drawn on 8 January 2010 is also guaranteed and secured on the same basis as the bank debt existing at 31 December 2009.

Currency Risk

The Group's exposure to foreign currency risk (limited to the British Pound) was as follows based on notional amounts:

	As at 31 December 2009	As at 31 December 2008
	$000	$000
Total financial assets	**230**	**157**
Bank debt	-	-
Interest accrued	-	-
Borrowings	**-**	**-**
Trade and other payables	-	-
Other financial liabilities	-	-
Total financial liabilities	**-**	**-**
Net financial assets/(liabilities)	**230**	**157**

16. Financial risk management objectives and policies (continued)

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 2009				
US$ 000	Floating interest	Fixed interest	Equity	Other non-interest bearing	Total
	$000	$000	$000	$000	$000
Financial assets					
Cash and term deposits	33	-	-	-	33
Loan to related party	2,550	-	-	-	2,550
Loan to Group undertakings	203,545	-	-	-	203,545
Accrued interest		-	-	1,447	1,447
Total financial assets exposure	**206,128**	**-**	**-**	**1,447**	**207,575**
Weighted av. interest rate (%)					
Financial liabilities					
Borrowings	(207,727)	-	-	-	(207,727)
Trade and other financial liabilities	-	-	-	(173)	(173)
Total financial liability exposure	**(207,727)**	**-**	**-**	**(173)**	**(207,900)**
Weighted av. interest rate (%)	2.67%				

	As at 31 December 2008				
US$ 000	Floating interest	Fixed interest	Equity	Other non-interest bearing	Total
	$000	$000	$000	$000	$000
Financial assets					
Cash and term deposits	63	-	-	6	69
Loan to related party	9,000	-	-	-	9,000
Loan to Group undertakings	273,096	-	-	-	273,096
Accrued interest	-	-	-	1,039	1,039
Total financial assets exposure	**282,159**	**-**	**-**	**1,045**	**283,204**
Weighted av. interest rate (%)	3.84%				
Financial liabilities					
Borrowings	(282,319)	-	-	-	(282,319)
Trade and other financial liabilities	-	-	-	(320)	(320)
Total financial liability exposure	**(282,319)**	**-**	**-**	**(320)**	**(282,639)**
Weighted av. interest rate (%)	4.63%				

16. Financial risk management objectives and policies (continued)

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$2m of the floating rate loan to associate which matures between 2 to 5 years as at 31 December 2009 (2008: US$3m).

Sensitivity analysis
A 5% percent strengthening of the US dollar against the following currencies at 31 December would have increased equity and profit and loss by the amounts shown below. This assumes that all other variables, in particular interest rates, remain constant.

US$ 000	Year ended 31 December 2009	Year ended 31 December 2008
	Equity/Income Statement	Equity/Income Statement
GBP	23	15

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 Company does not account for any fixed rate financial assets and liabilities at fair value through profit and loss, and the Company 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.

Cashflow sensitivity for fixed and variable rate instruments
A change of 100 basis points in interest rates would have (decreased)/increased equity and profit or

loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

US$ 000	Year ended 31 December 2009	Year ended 31 December 2008
	100 bp increase	100 bp increase
Net finance charge	(811)	(2,596)

A decrease in 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.

The carrying amounts and fair values of the Company's financial instruments are equivalent.

17. Ultimate controlling beneficiary

The ultimate controlling party of Ferrexpo UK is Kostyantin Zhevago through the Minco Trust.

18. Commitment and Contingencies

See notes 11 (pre-export finance facility), 14 (operating lease commitments) and 15 (intra-group guarantees).

19. Events after the reporting period

The Company entered into a new 3 year bank debt term facility on 27 November 2009 in the amount of US$230 million. This pre-export finance facility was drawn in full on 8 January 2010 and was used for refinancing the existing pre-export finance facility.

FERREXPO UK LIMITED

AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2008

Company Registration Number 04914716

FERREXPO UK LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

CONTENTS **PAGE**

General information	2
The directors' report	3
Independent auditor's report	5
Income statement	7
Balance sheet	8
Cash flow statement	9
Statement of changes in equity	10
Notes to the financial statements	11

FERREXPO UK LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

GENERAL INFORMATION

Directors
C Mawe (appointed 29 February 2008)
G Mackay (appointed 29 February 2008)
I Pellow (resigned 29 February 2008)
G Eyre (resigned 29 February 2008)

Company secretary
D Leonard (appointed 26 August 2008)
Throgmorton Secretaries LLP (resigned 25 August 2008)

Registered office
2-4 King Street
London
England
SW1Y 6QL

Auditors
Ernst & Young LLP
1 More London Place
London
England
SE1 2AF

THE DIRECTORS' REPORT

The directors present their report and audited financial statements of the Company for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW
The principal activity of the Company during the year was the financing of the Ferrexpo plc Group and the provision of management services.

It is the directors' intention that this business of the Company shall continue in the foreseeable future.

RESULTS AND DIVIDENDS
The trading results for the year and the Company's financial position at the end of the period are shown in the attached financial statements.

The directors have not recommended the payment of a dividend.

SIGNIFICANT AGREEMENTS
Under the US$335m pre-export finance facility with ABN Amro Bank N.V., BNP Paribas (Suisse) S.A. and Société Générale, of December 2006, if Kostyantin Zhevago ceases to own more than 51% of the Company, the lenders are entitled to demand repayment of this facility.

CHARITABLE AND POLITICAL DONATIONS
The Company made no charitable or political donations in either year.

THE DIRECTORS AND THEIR INTERESTS IN SHARES OF THE COMPANY
The directors who served the Company during the year and changes since 31 December 2007 are listed on page 2. None of the directors had any beneficial interests in the shares of the Company.

RISKS AND KEY PERFORMANCE INDICATORS
Company level risks have been identified as financial risks and are disclosed in Note 16.

The Companies Act requires directors to disclose the Company's Key Performance Indicators (KPIs). The Ferrexpo Group manages its KPIs at a group level. As a result the directors' have taken the decision not to disclose KPIs in individual subsidiary accounts.

DIRECTORS' INDEMNITY PROVISION
During the period under review, the Company had in force an indemnity provision in favour of one or more of the Directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006.

The Director's Report (continued)

DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company at the end of the period and of the profit or loss for the period then ended. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

DIRECTOR'S STATEMENT AS TO DISCLOSURE OF INFORMATION TO THE AUDITOR

The directors who were members of the board at the time of approving the directors' report are listed on page 2. Having made inquiries of fellow directors and of the Company's auditors, each of these directors confirm that:

- To the best of each director's knowledge and belief, there is no information relevant to the preparation of 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.

Approved by the order of the board of directors on 29 June 2009.

Chris Mawe
Director

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FERREXPO UK LIMITED

We have audited the financial statements of the Company for the year ended 31 December 2008 which comprise the Income Statement, Balance Sheet, Cash Flow Statement and Statement of Changes in Equity and the related notes 1 to 17. These financial statements have been prepared under the accounting policies set out therein.

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 auditors' 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 financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements 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 give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if 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 read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

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 financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 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.

Opinion
In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Company's affairs as at 31 December 2008 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

Ernst & Young LLP
Registered auditor
London
29 June 2009

FERREXPO UK LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

INCOME STATEMENT

	Notes	Year ended 31 December 2008 $000	Year ended 31 December 2007 $000
Revenue			
Interest receivable	3	11,611	11,893
Administration fees	3	3,104	4,875
		14,715	16,768
Cost of sales		(12,018)	(11,947)
Gross profit		2,697	4,821
Marketing and distribution expenses		(4)	-
Administration expenses		(3,121)	(4,072)
Other expenses		(120)	(4)
IPO costs		-	(895)
(Loss)/profit from continuing operations before tax and finance costs		(548)	(150)
Finance expense	5	(363)	(28)
Finance income	5	398	351
Profit before tax		(513)	173
Income tax expense	6	74	(86)
Profit for the year		(439)	87

All profits are attributable to equity shareholders of the company and arose from continuing operations.

FERREXPO UK LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

BALANCE SHEET

	Notes	2008 $000	2007 $000
ASSETS			
Non-current assets			
Property, plant and equipment	7	114	201
Trade and other receivables	8	68,047	4,238
		68,161	4,439
Current assets			
Trade and other receivables	8	214,561	196,931
Prepayments and accrued income	9	1,135	723
Income tax receivable		151	38
Cash and cash equivalents		69	165
		215,916	197,857
TOTAL ASSETS		284,077	202,296
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	10	986	986
Retained earnings		452	891
Total equity		1,438	1,877
Non-current liabilities			
Interest bearing loans and borrowings	11	207,727	145,455
		207,727	145,455
Current liabilities			
Interest bearing loans and borrowings	11	72,727	54,545
Trade and other payables	12	88	82
Deferred tax liability		-	8
Accruals and deferred income	13	2,097	329
		74,912	54,964
TOTAL LIABILITIES		282,639	200,419
TOTAL EQUITY AND LIABILITIES		284,077	202,296

These financial statements were approved by the directors on 29 June 2009 and are signed on their behalf by:

……..
Christopher Mawe
Director

CASH FLOW STATEMENT

	Notes	2008 $000	2007 $000
Cash flows from operating activities			
Profits before tax		(513)	173
Adjusted for:			
Depreciation	4	99	121
IPO costs		-	895
Finance income	5	(398)	(351)
Finance expense	5	363	28
Net cash flows before changes in working capital		(449)	866
(Increase)/decrease in trade and other receivables		(77,439)	(145,290)
Decrease in prepayments and accrued income		(412)	119
Decrease in trade and other payables		6	(95)
Decrease in accruals and deferred income		1,768	(1,621)
Net cash flows from operating activities after working capital		(76,517)	(146,021)
Interest paid		(372)	(28)
Income tax paid		(47)	(248)
Net cash flows from operating activities		(76,936)	(146,297)
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(12)	(27)
Interest received		398	351
Loan provided to related party	8	(4,000)	(5,000)
Net cash flows used in investing activities		(3,614)	(4,676)
Cash flows from financing activities			
Proceeds from borrowings		135,000	145,976
Repayment of borrowings		(54,546)	-
IPO costs		-	(895)
Net cash flows from financing activities		80,454	145,081
Net (decrease)/increase in cash		(96)	(5,892)
Cash and cash equivalents at the beginning of the period		165	6,057
Cash and cash equivalents at 31 December		69	165

STATEMENT OF CHANGES IN EQUITY

	Attributable to equity shareholders of the company		
	Issued capital	Retained earnings	Total
	$000	$000	$000
At 31 December 2006	986	804	1,790
Profit for the year	-	87	87
At 31 December 2007	**986**	**891**	**1,877**
Loss for the year	-	(439)	(439)
At 31 December 2008	**986**	**452**	**1,438**

NOTES TO THE FINANCIAL STATEMENTS

1. Corporate information

Ferrexpo UK Limited is a limited company which was incorporated in England and Wales on 29 September 2003 and is a wholly owned subsidiary of Ferrexpo AG. The ultimate parent company of the Group is Ferrexpo Plc.

The principal place of business is:

2-4 King Street
St James's
London
England
SW1Y 6QL

The Company employs 4 people (2007: 6)

2. Summary of significant accounting policies

Basis of preparation

The financial statements have been prepared on a historical cost basis.

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

The functional and presentational currency of the Company is US dollars ($).

The functional currency is determined as the currency of the primary economic environment in which it operates. The majority of the Company's operating activities are conducted in US dollars.

Statement of compliance

The accounting policies adopted are in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the European Union.

Changes in accounting policy

The accounting policies adopted are consistent with those of the previous financial year except as follows:

Improvements to IFRSs

In May 2008 the Board issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

The Company has early adopted the following amendments to standards:

- *IAS 1 Presentation of Financial Statements*: Assets and liabilities classified as held for trading in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* are not automatically classified as current in the balance sheet. The Company amended its accounting policy accordingly and analysed whether Management's expectation of the period of realisation of financial assets and liabilities differed from the classification of the instrument. This did not result in any re-classification of financial instruments between current and non-current in the balance sheet.
- *IAS 16 Property, Plant and Equipment*: Replace the term "net selling price" with "fair value less costs to sell". The Company amended its accounting policy accordingly, which did not result in any change in the financial position.

2. Summary of significant accounting policies (continued)

- *IAS 23 Borrowing Costs:* The definition of borrowing costs is revised to consolidate the two types of items that are considered components of 'borrowing costs' into one – the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39. The Company has amended its accounting policy accordingly which did not result in any change in its financial position.
- *IAS 36 Impairment of Assets:* When discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'. This amendment has no immediate impact on the consolidated financial statements of the Company because the recoverable amount of its cash generating units is currently estimated using 'value in use'.

New standards and interpretations not yet adopted

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 Company's 2009 financial statements but currently does not apply to the Company. In accordance with the transitional provisions the Company will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date.

IAS 1 "Presentation of financial statements" (revised September 2007) - Whilst the revised IAS 1 will have no impact on the measurement of the Company's results or net assets it is likely to result in certain changes in the presentation of the Company'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 Company is currently assessing its impact on the financial statements, although it is not expected to be material.

Improvements to IFRSs
As stated above the Company has early adopted some of the amendments to standards following the 2007 'Improvement to IFRSs' project. The Company has not yet adopted the following amendments and anticipates that these changes will have no material effect on the financial statements.

- *IFRS 7 Financial Instruments: Disclosures:*
  Removal of the reference to 'total interest income' as a component of finance costs.
- *IAS 8 Accounting Policies, Change in Accounting Estimates and Errors:*
  Clarification that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies.
- *IAS 10 Events after the Reporting Period*:
  Clarification that dividends declared after the end of the reporting period are not obligations.
- *IAS 16 Property, Plant and Equipment:*
  Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale.
- *IAS 18 Revenue:*
  Replacement of the term 'direct costs' with 'transaction costs' as defined in IAS 39.

2. Summary of significant accounting policies (continued)

- *IAS 19 Employee Benefits:*
  Revised the definition of 'past service costs', 'return on plan assets' and 'short term' and 'other long-term' employee benefits. Amendments to plans that result in a reduction in benefits related to future services are accounted for as curtailment. Deleted the reference to the recognition of contingent liabilities to ensure consistency with IAS 37.

Significant accounting judgments and estimates

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reported period. Actual outcomes could differ from these estimates.

Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency at the 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. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction.

Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Leasehold improvements	- Over life of lease
Plant and equipment	- Over 3 years

Where significant parts of an asset have differing useful lives, depreciation is calculated on each separate part.

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of plant and equipment is the greater of net selling price and value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in the income statement.

An item of property, plant and equipment is derecognised upon disposal or when no future economical 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

Trade and other receivables

Trade receivables, which relate to interest-bearing loans provided to third parties or group entities are recognised at cost, being the fair value of the consideration transferred. After initial recognition, interest-bearing loans are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the net profit and loss when the assets are derecognised or impaired, as well as through the amortisation process.

2. Summary of significant accounting policies (continued)

Trade receivables relating to invoices raised to the parent company for management services are recognised at the lower of original invoice value and recoverable amount. A provision is made where the estimated recoverable amount is lower than the carrying amount.

Cash and cash equivalents

Cash and cash equivalent in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity of three months or less.

For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of any outstanding bank overdrafts.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account probable discounts and premiums on settlement.

Gains and losses are recognised in the net profit and loss when the assets are derecognised or impaired, as well as through the amortisation process.

Leases

Finance leases, which transfer to the Company substantially all of the risks and benefits incidental to ownership are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the assets or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefit will flow to the Company and revenue can be reliably measured.

Interest is recognised as the interest accrues (using the effective interest method) to the net carrying amount of the financial asset.

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

Income tax

Current tax

Current tax is based on the local taxable income at the local statutory rate enacted or substantially enacted at the balance sheet date and includes adjustments to tax payable or recoverable in respect of previous periods.

Deferred 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.

2. Summary of significant accounting policies (continued)

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.

Pensions

The Company's contributions to its employee's personal pension plans are charged to the income statement in the year to which they relate.

Events after the balance sheet date

Events after the balance sheet date that provide additional information on the Company's position at the balance sheet date (adjusting events) are reflected in the financial statements.

Events after the balance sheet date that are not adjusting events are disclosed in the notes when material.

2. Summary of significant accounting policies (continued)

Share capital

Ordinary shares issued by the Company are recorded at the net proceeds received, which is the fair value of the consideration received less costs that are incurred in connection with the share issue. The nominal par value of the shares issued is taken to the share capital account and any excess is recorded in the share premium account, including the costs that were incurred with the share issue.

3. Revenue

	2008 $000	2007 $000
Revenue		
Finance	11,611	11,893
Management services	3,104	4,875
	14,715	16,768

4. Costs

	2008 $000	2007 $000
Depreciation		
Owned assets	99	121
Foreign exchange		
Profit / (loss) on currency translation	(114)	-
Auditors remuneration		
Company audit	73	50
Non-audit services	20	-
	93	50
Operating lease		
Minimum lease payments recognised as an operating lease expense	282	247

	2008 $000	2007 $000
Employee remuneration		
Wages and salaries	1,210	1,651
Pension payments to defined contribution plans	86	97
Social security costs	197	467
Other benefits and employment costs	565	158
	2,058	2,373

None of the directors received remuneration for their services as a director of the Company during the period. In 2007, one director received total remuneration of $21,018. This remuneration was borne by Ferrexpo AG (another company within the Ferrexpo plc Group) and was not charged to the Income Statement of Ferrexpo UK Limited.

Please see Note 15 - Related party disclosures.

5. Finance income and costs

	2008 $000	2007 $000
Finance income		
Bank interest receivable	398	351
Finance expense		
Guarantee charge	358	-
Bank charges	5	28
	363	28

6. Income tax

Major components of income tax expense for the years ended 31 December 2008 and 31 December 2007 are:

	2008 $000	2007 $000
Income statement		
Current income tax		
Current income tax (credit)/charge	(66)	78
Deferred income tax		
Deferred tax (credit)/charge	(8)	8
Income tax (credit)/charge reported in the income statement	(74)	86

A reconciliation of income tax (credit)/ charge applicable to accounting profit before income tax at the standard rate of UK corporation tax to the Company's income tax (credit)/ charge reported in the income statement for the years ended 31 December 2008 and 31 December 2007 is as follows:

	2008 $000	2007 $000
Accounting (loss)/ profit before tax	(513)	173
At the standard income tax rate of 28.5% (2007: 30.0%)	(146)	52
Adjusted for:		
Expenditure not allowed for income tax purposes	2	3
Unrecognised temporary differences	70	-
Recognition of previously unrecognised temporary differences	-	31
At an effective tax rate of 16.8% (2007: 49.7%)	(74)	86

Deferred income tax

The deferred tax balance recognised in the Company's balance sheet as at 31 December relates to the following:

	Balance sheet	
	2008	2007
	$000	$000
Deferred tax		
Accelerated depreciation for tax purposes	-	8
Tax losses	-	-
Deferred tax liability	-	8

The company has gross unrecognised temporary differences in respect of tax losses of approximately $211,000 and assets qualifying for capital allowances of approximately $35,000 which should be available to carry forward indefinitely for offset against future taxable profits arising in the company. These temporary differences have not been recognised as it is currently uncertain that the Company will have taxable profits in the foreseeable future against which these temporary differences can be offset.

7. Property plant and equipment

	Leasehold improvements	Plant and equipment	Total
	$000	$000	$000
Historic cost			
At 31 December 2006	225	222	447
Additions	-	27	27
At 31 December 2007	225	249	474
Additions	-	12	12
At 31 December 2008	225	261	486
Accumulated depreciation			
At 31 December 2006	61	91	152
Charge for year	45	76	121
At 31 December 2007	106	167	273
Charge for year	44	55	99
At 31 December 2008	150	222	372
Net book value			
At 31 December 2007	119	82	201
At 31 December 2008	75	39	114

8. Trade and other receivables

	2008 $000	2007 $000
Non-current		
Amounts owed by Group undertakings	64,870	-
Amounts owed by related party	3,000	4,000
Deposits	177	238
	68,047	4,238
Current		
Amounts owed by Group undertakings	208,462	195,608
Amounts owed by related party	6,000	1,000
Tax receivable	99	319
Other debtors	-	4
	214,561	196,931
Total trade and other receivables	282,608	201,169

Amounts owed by related parties totalling $9 million (2007: $5 million) relates to a loan to TIS Ruda, an associate of Ferrexpo plc Group, made on an arm's length basis.

9. Prepayments and accrued income

	2008 $000	2007 $000
Prepayments	96	116
Interest and fees receivable	1,039	607
	1,135	723

10. Issued capital and reserves

	2008 £000	2007 £000
Authorised:		
600,000 ordinary shares of £1 each	600	600
Issued, called up and fully paid:		
550,000 ordinary shares of £1 each	550	550

The Company’s shares are issued in sterling and translated at historic foreign exchange rates giving a share capital of $986,389 as disclosed in the Company’s Balance Sheet at 31 December 2007 and 2008.

11. Interest-bearing loans and borrowings

	2008 $000	2007 $000
Non-current		
Secured bank loans	207,727	145,455
Current		
Secured bank loans	72,727	54,545
Total interest-bearing loans and borrowings	280,454	200,000

All loans are made to the Company in US Dollars by the banks.

At 31 December 2008 the Group's major bank debt facility was a $335 million pre-export finance facility (2007: $335 million) with an unutilised amount of $nil (2007: $135 million). The loan was secured as follows:

- Ferrexpo AG has assigned the rights to revenue from certain sales contracts, pledged rights under certain contracts and rights under certain related credit support documents.
- Ferrexpo Poltava GOK Corporation has assigned all of its rights for ten export contracts for pellets sales in 2009.

In addition Ferrexpo AG has also pledged its bank account into which all proceeds from the sale of certain iron ore pellet contracts are received.

A variable rate loan for borrowings under the terms of a pre-export term loan facility was on lent to Ferrexpo AG and Poltava GOK Corporation (see note 15 - Related parties disclosures). The loan was secured by way of:

- guarantees and indemnities separately provided by both Poltava GOK Corporation and Ferrexpo AG;
- pledged inventories held by Poltava GOK Corporation and pledged bank balances held by Ferrexpo AG;
- an assignment by Ferrexpo AG of the rights attaching to its export contract for the supply of iron ore pellets to a 3rd party;
- assignment of the Company's intercompany debt due from Poltava GOK Corporation and Ferrexpo AG.

Prepaid arrangement fees of $4 million were recharged to Ferrexpo Poltava GOK Corporation in equal quarterly instalments of $1 million during 2007.

12. Trade and other payables

	2008 $000	2007 $000
Trade creditors	62	50
Other taxes payable	26	32
	88	82

13. Accruals and deferred income

	2008 $000	2007 $000
Accrued employment costs and social security	145	-
Accrued interest payable	1,865	129
General trade accruals	87	200
	2,097	329

14. Operating lease commitments

As at 31 December the Company had commitments under non-cancellable operating leases of:

	2008 $000	2007 $000
Property lease commitments expiring:		
Within one year	267	282
Between one and five years	521	1,234
More than five years	31	811
	819	2,327

15. Related party disclosures

The following table provides the total amount of transactions which have been entered into with related parties for the relevant financial years and the year end balances outstanding.

Related party	Year	Sales to / interest receivable from related party $000	Services received from related party $000	Amounts owed by related party $000	Amounts owed to related party $000
Parent company	2008	765	-	141	-
	2007	6,689	-	60,357	-
Subsidiaries of the parent company	2008	13,949	-	273,930	-
	2007	10,079	-	135,251	-
Companies under common control of key management personnel	2008	394	49	9,000	11
	2007	-	229	5,000	1

The ultimate parent company is Ferrexpo plc, a company incorporated in the United Kingdom.

Terms and conditions of transactions with related parties

Outstanding balances, except for interest-bearing loans at the year end are unsecured, interest free and settlement occurs in cash. For the years ended 31 December 2008 and 2007 the Company has not made any provisions for doubtful debts relating to amounts owed by related parties.

15. Related party disclosures (continued)

Compensation of key management personnel of the Company

	2008 $000	2007 $000
Short-term employee benefits	-	14
Post-employment benefits	-	7
Total	-	21

16. Financial risk management objectives and policies

The Company's principal financial instruments comprise of bank loans and cash at bank. The main purpose of these financial instruments is to raise finance for the Ferrexpo plc Group's operations.

The main risks arising from the Company's financial instruments are interest rate risk and foreign currency risk.

The Company's exposure to interest rate risk relates primarily to long term debt with a variable rate of interest. The Company's policy is to manage its interest costs using a mixture of fixed and variable rate debt.

The Company is exposed to transactional currency exposure. Such exposure arises from costs being incurred in a currency i.e. Sterling, other than the functional currency of US$.

Currently the Company does not hedge against currency risk due to the values involved but continues to monitor the situation closely.

Capital Management
Ferrexpo plc manages capital on a group basis. For details of the capital management policies please refer to the Ferrexpo plc annual report and accounts for the year ended 31 December 2008.

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:

	2008 $000	2007 $000
Cash and term deposits	69	165
Accrued interest	1,039	607
Loan to related party	9,000	5,000
Loan to Group undertaking	273,096	195,608
Tax receivable	228	266
Other debtors	-	4
Total maximum exposure to credit risk	283,432	201,650

All other debtors are current. There were no impairment losses in either period.

16. Financial risk management objectives and policies (continued)

Liquidity risk
The following are the contractual maturities of financial liabilities by interest type:

	Year ended 31 December 2008			
	Less than 1 year	Between 1 to 2 years	Between 2 to 5 years	Total
	$000	$000	$000	$000
Financial liabilities				
Interest bearing				
Bank debt (floating rate interest)	72,727	207,727	-	280,454
Interest accrued	1,865	-	-	1,865
Non interest bearing				
Trade and other payables	62	-	-	62
Taxes payable	26	-	-	26
Other financial liabilities	232	-	-	232
Total cashflow maturity	74,912	207,727	-	282,639

	Year ended 31 December 2007			
	Less than 1 year	Between 1 to 2 years	Between 2 to 5 years	Total
	$000	$000	$000	$000
Financial liabilities				
Interest bearing				
Bank debt (floating rate interest)	54,545	72,727	72,728	200,000
Interest accrued	129	-	-	129
Non interest bearing				
Trade and other payables	50	-	-	50
Taxes payable	40	-	-	40
Other financial liabilities	4	-	-	4
Total cashflow maturity	54,768	72,727	72,728	200,223

Ferrexpo UK Limited carries the Group's principal debt facility, which requires repayments of US$6.1 million per month in 2009 and in the first six months of 2010. From July 2010 the entire remaining facility is required to be repaid in equal instalments up to 31 December 2010. The facility contains covenants relating to Earnings Before Interest Tax Depreciation and Amortisation (EBITDA) as well as the normal long-term cover ratio requirements associated with a pre-Export Finance Facility. The Group currently has sufficient long-term contracts to meet these ratios under all reasonable pricing assumptions. There is a risk that cancellation of contracts as a result of Force Majeure events and/or low price outcomes in subsequent price negotiations would require the Group to seek the lender's permission to assign additional contracts to the lenders under this facility to meet certain ratios. The Group is forecast to have sufficient liquidity to operate successfully throughout 2009 and 2010 and to meet its required debt repayments. Development projects require additional funding above the cash generation capabilities of the existing operations. There is a risk that the banking crisis will hinder the Group's ability to refinance the existing facilities before maturity to obtain additional funding in the short and potentially the medium term.

16. Financial risk management objectives and policies (continued)

Currency Risk

The Group's exposure to foreign currency risk was as follows based on notional amounts:

	Year ended 31 December 2008	Year ended 31 December 2007
US$ 000	UK Pound	UK Pound
Financial assets	**157**	**432**
Financial liabilities		
Bank debt	-	-
Interest accrued	-	-
Borrowings	**-**	**-**
Trade and other payables	-	(50)
Taxes payable	-	(40)
Other financial liabilities	-	-
Total financial liabilities	**-**	**(90)**
Net financial assets/(liabilities)	**157**	**342**

Interest rate risk
Profile

At the reporting date the interest rate profile of the Group's interest bearing-financial instruments was:

	Year ended 31 December 2008				
US$ 000	Floating interest	Fixed interest	Equity	Other non-interest bearing	Total
Financial assets					
Cash and term deposits	63	-	-	6	69
Loan to related party	9,000	-	-	-	9,000
Loan to Group undertaking	273,096	-	-	-	273,096
Accrued interest	-	-	-	1,039	1,039
Taxes recoverable	-	-	-	228	228
Total financial assets	**282,159**	**-**	**-**	**1,273**	**283,432**
Weighted av. interest rate (%)	3.84%				
Financial liabilities					
Borrowings	(282,319)	-	-	-	(282,319)
Trade and other financial liabilities	-	-	-	(320)	(320)
Total financial liability exposure	**(282,319)**	**-**	**-**	**(320)**	**(282,639)**
Weighted av. interest rate (%)	4.63%				

16. Financial risk management objectives and policies (continued)

	Year ended 31 December 2007				
US$ 000	Floating interest	Fixed interest	Equity	Other non-interest bearing	Total
Financial assets					
Cash and term deposits	165	-	-	-	165
Loan to related party	5,000	-	-	-	5,000
Loan to Group undertaking	196,608	-	-	-	196,608
Accrued interest	607	-	-	-	607
Taxes recoverable	-	-	-	266	266
Other debtors	-	-	-	4	4
Total financial assets	**202,380**	**-**	**-**	**270**	**202,650**
Weighted av. interest rate (%)	7.82%	-			
Financial liabilities					
Borrowings	(200,129)	-	-	-	(200,129)
Trade and other financial liabilities	-	-	-	(94)	(94)
Total financial liability exposure	**(200,129)**	**-**	**-**	**(94)**	**(200,223)**
Weighted av. interest rate (%)	7.51%	-			

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 $3m of the floating rate loan to associate which matures between 2 to 5 years as at 31 December 2008 (2007: $4m).

Sensitivity analysis
A 5% percent strengthening of the US dollar against the following currencies at 31 December would have increased equity and profit and loss by the amounts shown below. This assumes that all other variables, in particular interest rates, remain constant.

US$ 000	2008	2007
	Equity/Income Statement	Equity/Income Statement
GBP	15	17

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 Company does not account for any fixed rate financial assets and liabilities at fair value through profit and loss, and the Company 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.

16. Financial risk management objectives and policies (continued)

Cashflow sensitivity for fixed and variable rate instruments
A change of 100 basis points in interest rates would have (decreased)/increased equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

US$ 000	2008	2007
	100 bp increase	100 bp increase
Net finance charge	(2,596)	27

A decrease in 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.

The carrying amounts and fair values of the Company's financial instruments are equivalent.

17. Ultimate controlling beneficiary

The ultimate controlling party of Ferrexpo UK is Konstantyn Zhevago through the Minco Trust.

Independent Auditor's Report to the Members of Ferrexpo plc

We have audited the financial statements of the Group and parent company for the year ended 31 December 2010 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, Consolidated, Statements of Financial Position, the Consolidated Statement of Cash Flows, Consolidated Statement of Changes in Equity, Parent Company Balance Sheet and the related notes 1 to 41 for the Group financial statement and notes 1 to 10 for the Parent Company financial statements. The financial reporting framework that has been applied in the preparation of the Group financial statement is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 63, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- The financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2010 and of the group's profit for the year then ended
- The group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union
- The parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Account Practice; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- The part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006
- The information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- The parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and return, or
- Certain disclosures of directors' remuneration specified by law are not made, or
- We have not received all the information and explanations we require for our audit

Under the Listing Rules we are required to review:

- The directors' statement, set out on page 62, in relation to going concern
- The part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review
- Certain elements of the report to shareholders by the Board on directors' remuneration

Ernst & Young LLP
Bob Forsyth (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
22 March 2011

Consolidated Income Statement

US$000	Notes	Year ended 31.12.10	Year ended 31.12.09
Revenue	6	**1,294,900**	648,667
Cost of sales	7	**(481,857)**	(341,067)
Gross profit		**813,043**	307,600
Selling and distribution expenses	8	**(212,006)**	(162,266)
General and administrative expenses	9	**(49,175)**	(43,161)
Other income	10	**4,515**	4,102
Other expenses	11	**(5,938)**	(3,418)
Operating foreign exchange (losses)/gains	12	**(1,078)**	2,534
Operating profit from continuing operations before adjusted items		**549,361**	105,391
Under recovery of VAT receivable	27	**(10,936)**	–
Write-offs and impairment losses	13	**(1,618)**	(2,757)
Share of profit of associates	14	**4,155**	1,304
Gain on bargain purchase	15/41	**2,623**	503
Initial public offering costs	39	**(55)**	(427)
(Losses)/gains on disposal of property, plant and equipment		**(1,305)**	213
Profit before tax and finance from continuing operations		**542,225**	104,227
Finance income	16	**2,632**	2,893
Finance expense	16	**(42,843)**	(23,718)
Non-operating foreign exchange losses	12	**(3,888)**	(2,552)
Profit before tax		**498,126**	80,850
Income tax expense	17	**(73,002)**	(9,852)
Profit for the year from continuing operations		**425,124**	70,998
Attributable to:			
Equity shareholders of Ferrexpo plc		**422,906**	70,627
Non-controlling interests		**2,218**	371
		425,124	70,998
Earnings per share:			
Basic (US cents)	18	**72.34**	12.08
Diluted (US cents)	18	**72.24**	12.05

Consolidated Statement of Comprehensive Income

US$000	**Year ended 31.12.10**	Year ended 31.12.09
Profit for the period	**425,124**	70,998
Exchange differences on translating foreign operations		
Exchange differences arising during the year	**533**	(20,842)
Exchange differences arising on hedging of foreign operations	**110**	(3,697)
Available-for-sale investments		
Gain arising on revaluation during the year	**1,915**	400
Income tax effect	**(492)**	2,895
Other comprehensive income for the period, net of tax	**2,066**	(21,244)
Total comprehensive income for the period, net of tax	**427,190**	49,754
Total comprehensive income attributable to:		
Equity shareholders of Ferrexpo plc	**424,923**	49,633
Non-controlling interests	**2,267**	121
	427,190	49,754

Consolidated Statement of Financial Position

US$000	Notes	As at 31.12.10	As at 31.12.09
Assets			
Property, plant and equipment	19	**647,137**	452,100
Goodwill and other intangible assets	20	**102,715**	100,354
Investments in associates	14	**21,132**	19,915
Available-for-sale financial assets	21	**3,356**	2,917
Other non-current assets	22	**24,767**	9,824
Deferred tax assets	23	**16,596**	13,673
Total non-current assets		**815,703**	598,783
Inventories	24	**104,827**	59,636
Trade and other receivables	25	**111,890**	38,117
Prepayments and other current assets	26	**18,922**	19,394
Income taxes recoverable and prepaid	27	**35**	9,741
Other taxes recoverable and prepaid	27	**103,647**	81,284
Available-for-sale financial assets	21	**–**	626
Cash and cash equivalents	28	**319,470**	11,991
		658,791	220,789
Assets classified as held for sale		**3,149**	–
Total current assets		**661,940**	220,789
Total assets		**1,477,643**	819,572
Equity and liabilities			
Issued capital	29	**121,628**	121,628
Share premium	29	**185,112**	185,112
Other reserves	29	**(344,420)**	(347,858)
Retained earnings		**885,353**	501,175
Equity attributable to equity shareholders of Ferrexpo plc		**847,673**	460,057
Non-controlling interests		**13,801**	11,387
Total equity		**861,474**	471,444
Interest bearing loans and borrowings	30	**401,290**	18,143
Defined benefit pension liability	32	**17,819**	14,529
Provision for site restoration	33	**2,746**	1,268
Deferred tax liabilities	23	**2,432**	3,739
Total non-current liabilities		**424,287**	37,679
Interest bearing loans and borrowings	30	**22,563**	251,503
Trade and other payables	31	**88,089**	27,802
Accrued liabilities and deferred income	34	**25,496**	12,146
Income taxes payable	27	**41,811**	11,105
Other taxes payable	27	**13,923**	7,893
Total current liabilities		**191,882**	310,449
Total liabilities		**616,169**	348,128
Total equity and liabilities		**1,477,643**	819,572

The financial statements were approved by the Board of Directors on 22 March 2011.

Kostyantin Zhevago
Chief Executive Officer

Christopher Mawe
Chief Financial Officer

Consolidated Statement of Cash Flows

US$000	Notes	Year ended 31.12.10	Year ended 31.12.09
Profit before tax		**498,126**	80,850
Adjustments for:			
Depreciation of property, plant and equipment and amortisation of intangible assets		**30,415**	28,018
Interest expense	16	**42,843**	20,622
Under recovery of VAT receivable	27	**10,936**	–
Interest income	16	**(2,632)**	(2,893)
Share of income of associates	14	**(4,155)**	(1,304)
Movement in allowance for doubtful receivables	25	**(3,685)**	(5,199)
Losses/(gains) on disposal of property, plant and equipment		**1,305**	(213)
Write-offs and impairment losses	13	**1,618**	2,757
Site restoration provision	33	**1,478**	159
Employee benefits		**3,281**	5,474
IPO costs	39	**55**	427
Share-based payments		**1,366**	3,423
Gain recognised on rights issue at subsidiary	15	–	(503)
Gain on bargain purchase from business combination	41	**(2,623)**	–
Operating foreign exchange (losses)/gains	12	**1,078**	(2,534)
Non-operating foreign exchange losses	12	**3,888**	2,552
Operating cash flow before working capital changes		**583,295**	131,636
Changes in working capital:			
(Increase)/decrease in trade and other receivables		**(74,020)**	14,961
(Increase)/decrease in inventories		**(42,938)**	1,777
Increase/(decrease) in trade and other accounts payable		**11,215**	(6,474)
(Increase) in VAT recoverable and other taxes prepaid[1]	27	**(31,062)**	(24,038)
Cash generated from operating activities		**446,490**	117,862
Interest paid		**(25,437)**	(19,197)
Income tax paid	27	**(37,827)**	(18,899)
Post-employment benefits paid		**(3,468)**	(2,897)
Net cash flows from operating activities		**379,758**	76,869
Cash flows from investing activities			
Purchase of property, plant and equipment	19	**(166,775)**	(85,823)
Proceeds from sale of property, plant and equipment		–	213
Purchases of intangible assets	20	**(633)**	(598)
Interest received		**1,270**	2,104
Proceeds from loans to associates	22/26	**1,550**	6,450
Pre-acquistion loans provided	41	**(10,881)**	–
Acquisition of subsidiaries, net of cash acquired	41	**582**	–
Net cash flows used in investing activities		**(174,887)**	(77,654)
Cash flows from financing activities			
Proceeds from borrowings and finance		**668,802**	35,637
Repayment of borrowings and finance		**(505,359)**	(73,168)
Arrangement fees paid		**(21,074)**	–
Dividends paid to equity shareholders of Ferrexpo plc[2]		**(41,744)**	(36,325)
Dividends from associates		**2,931**	–
Dividends paid to non-controlling shareholders		**(47)**	(234)
Net cash flows from/(used) in financing activities		**103,509**	(74,090)
Net increase/(decrease) in cash and cash equivalents		**308,380**	(74,875)
Cash and cash equivalents at the beginning of the year		**11,991**	87,822
Currency translation differences		**(901)**	(956)
Cash and cash equivalents at the end of the year[3]	28	**319,470**	11,991

1 The movement includes effect of VAT receivable amounting to US$72,318 thousand, which was recovered through VAT bonds. See note 27 for further details
2 Difference to statement of change in equity represents unpaid withholding tax amounting to US$3,163 thousand on dividend paid in the prior year.
3 The balance of cash and cash equivalents includes restricted cash of US$37,768 thousand (2009: US$ nil).

Consolidated Statement of Changes in Equity

	Attributable to equity shareholders of Ferrexpo plc										
US$000	Issued capital (Note 29)	Share premium (Note 29)	Uniting of interest reserve (Note 29)	Treasury share reserve (Note 29)	Employee benefit trust reserve (Note 29 and 40)	Net unrealised gains reserve (Note 29)	Translation reserve (Note 29)	Retained earnings	Total capital and reserves	Non-controlling interests (Note 1)	Total equity
At 1 January 2009	121,628	185,112	31,780	(77,260)	(15,443)	813	(270,604)	470,098	446,124	11,769	457,893
Profit for the period	–	–	–	–	–	–	–	70,627	70,627	371	70,998
Other comprehensive income	–	–	–	–	–	301	(21,295)	–	(20,994)	(250)	(21,244)
Total comprehensive income for the period	–	–	–	–	–	301	(21,295)	70,627	49,633	121	49,754
Equity dividends paid to shareholders of Ferrexpo plc	–	–	–	–		–	–	(39,550)	(39,550)	–	(39,550)
Share-based payments (note 39)	–	–	–	–	3,850	–	–	–	3,850	–	3,850
Adjustments relating to the decrease in non-controlling interests	–	–	–	–	–	–	–	–	–	(503)	(503)
At 31 December 2009	**121,628**	**185,112**	**31,780**	**(77,260)**	**(11,593)**	**1,114**	**(291,899)**	**501,175**	**460,057**	**11,387**	**471,444**
Profit for the period	–	–	–	–	–	–	–	422,906	422,906	2,218	425,124
Other comprehensive income	–	–	–	–	–	1,401	616	–	2,017	49	2,066
Total comprehensive income for the period	**–**	–	–	–	–	1,401	616	422,906	424,923	2,267	427,190
Equity dividends paid to shareholders of Ferrexpo plc	–	–	–	–	–	–	–	(38,581)	(38,581)	–	(38,581)
Share-based payments (note 39)	–	–	–	–	1,421	–	–	–	1,421	–	1,421
Adjustments relating to the decrease in non-controlling interests[1]	–	–	–	–	–	–	–	(147)	(147)	147	–
At 31 December 2010	**121,628**	**185,112**	**31,780**	**(77,260)**	**(10,172)**	**2,515**	**(291,283)**	**885,353**	**847,673**	**13,801**	**861,474**

1 Transfer of shareholdings in subsidiaries resulted in change of non-controlling interets. See note 2 for further details.

Notes to the Consolidated Financial Information

Note 1: Corporate information

Organisation and operation

Ferrexpo plc (the 'Company') is incorporated in the United Kingdom with registered office at 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, an interest in a port in Odessa and a sales and marketing company in Switzerland and Kiev. The Group also owns a logistic group located in Austria which operates a fleet of vessels operating on the Rhine and Danube waterways. The Group's operations are vertically integrated from iron ore mining through to iron ore concentrate and pellet production and subsequent logistics. 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 majority shareholder of the Group is Fevamotinico S.a.r.l. ('Fevamotinico'), a company owned The Minco Trust, of the beneficiaries of which is Kostyantin Zhevago, the Group's Chief Executive Officer. At the time this report was published, Fevamotinico held 51.0% (2009: 51.0%) of Ferrexpo plc's issued share capital.

The Group's operations are largely conducted through Ferrexpo plc's principal subsidiary, Ferrexpo Poltava GOK Corporation and logistics for Western Europe are managed through the Helogistics subsidiaries. The Group comprises of Ferrexpo plc and its consolidated subsidiaries as set out below:

			Equity interest owned at 31 December	
Name	Country of incorporation	Principal activity	**2010 %**	2009 %
Ferrexpo Poltava GOK Corporation[1]	Ukraine	Iron ore mining	**97.3**	97.3
Ferrexpo AG[2]	Switzerland	Sale of iron ore pellets	**100.0**	100.0
DP Ferrotrans[3]	Ukraine	Trade, transportation services	**97.3**	97.3
United Energy Company LLC[3]	Ukraine	Holding company	**97.3**	97.3
Ferrexpo Finance plc (formerly Ferrexpo UK Limited[1])	England	Finance	**100.0**	100.0
Ferrexpo Services Limited[1]	Ukraine	Management services and procurement	**100.0**	100.0
Ferrexpo Hong Kong Limited[1]	China	Marketing services	**100.0**	100.0
Ferrexpo Yeristovo GOK LLC[4]	Ukraine	Iron ore mining	**100.0**	98.6
Ferrexpo Belanovo GOK LLC[4]	Ukraine	Iron ore mining	**100.0**	98.6
Nova Logistics Limited[3]	Ukraine	Service company (dormant)	**51.0**	51.0
Helogistics Holding GmbH[5]	Austria	Holding company	**100.0**	–
EDDSG GmbH[5]	Austria	Logistic company	**100.0**	–
DDSG Tankschiffahrt GmbH[5]	Austria	Logistic company	**100.0**	–
Helogistics Transport GmbH[5]	Austria	Logistic company	**100.0**	–
Mahart Duna Cargo Kft.[5]	Hungary	Logistic company	**100.0**	–
Pancar Kft.[5]	Hungary	Logistic company	**100.0**	–

1 The Group's interest in these entities is held through Ferrexpo AG. For details in respect to the change in equity interest we refer to note 15.
2 Ferrexpo 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.
4 The Group's interest in this entity is held through both Ferrexpo AG and Ferrexpo Service Limited. The shares initially held by Ferrexpo Poltava GOK Corporation have been transferred as of 31 August 2010 to Ferrexpo AG and Ferrexpo Services Ltd.
5 The Group's interest in these entities are held through Ferrexpo AG. Helogistics Holding GmbH and its subsidiaries were acquired on 14 December 2010 and have been consolidated for the first time as of 31 December 2010. Legal completion of the acquisition occured on 19 January 2011. The details of the business combination are disclosed in note 41.

The Group also holds an interest of 48.6% (2009: 48.6%) in TIS Ruda, a Ukrainian port located on the Black Sea. As this is an associate, it is accounted for using the equity method of accounting and further disclosed in note 14.

Note 2: Summary of significant accounting policies

Basis of preparation

The consolidated financial statements of Ferrexpo plc and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS) 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 would be no different had the Group applied IFRS as issued by the IASB, as it applies to accounting periods ended 31 December 2010.

The consolidated financial statements have been prepared on a historical cost basis, except for post-employment benefits and available-for-sale financial instruments, the latter 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 financial statements are presented in thousand of US dollars and all values are rounded to the nearest thousand except where otherwise indicated.

Note 2: Summary of significant accounting policies continued

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2009, except for those changes detailed in note 3. Risks in relation to the facilities and re-financing are contained in the Business Review of this report.

Basis of consolidation

The consolidated financial statements comprise 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.

Subsidiaries acquired are fully consolidated from the date of effective control, when Group obtains effective control. Similarly, subsidiaries disposed of are deconsolidated from the date on which the Group ceases to hold effective control.

All intercompany 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 combination and goodwill

Business combinations from 1 January 2010

On the acquisition of a subsidiary, the business combination is accounted for using the acquisition method. The cost of an acquisition is measured as the aggregated amount of the consideration transferred, measured at the date of acquisition. The consideration paid is allocated to the assets acquired and liabilities assumed on the basis of fair values at the date of acquisition. Acquisition costs are expensed when incurred and included in general and administrative expenses.

If the cost of acquisition exceeds the identifiable net assets attributable to the Group, the difference is considered as purchased goodwill, which is not amortised but annually reviewed for impairment or in case of an indication of impairment. In the case that the identifiable net assets attributable to the Group exceed the cost of acquisition, the difference is recognised in profit and loss as a gain on bargain purchase. For each business combination, the Group measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. If the initial accounting for a business combination cannot be completed by the end of the reporting period in which the combination occurs, only provisional amounts are reported, which can be adjusted during the measurement period of 12 months after acquisition date.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Details to the impairment testing are given in section Impairment testing of assets on page 90.

Business combinations prior to 1 January 2010

The following accounting treatment was applied for business combination prior to 1 January in comparison to the above-mentioned policy:

Transaction costs directly attributable to the acquisition were considered as acquisition costs and had an impact on the goodwill calculation. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps and any additional acquired share of interest did affect either previously recognised goodwill or profit and loss in case of a bargain purchase.

Similar procedures are applied in accounting for the purchase of interests in associates.

Investments in associates

The Group's investments in associates are accounted for using 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 statement of financial position 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 nor individually tested for impairment. 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 investment in the associate.

The share of profit of an associate is shown on the face of the income statement. This is the profit attributable to the Group and therefore is profit after tax and non-controlling interests in the subsidiaries of the associate.

The reporting dates of the associates and Ferrexpo plc are identical and the associates' accounting policies are generally in conformity of those applied by the Group.

Notes to the Consolidated Financial Information continued

Note 2: Summary of significant accounting policies continued

Functional and presentational currencies

Based on the economic substance of the underlying business transactions 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 based on its own circumstances. The Group has chosen the US dollar as its presentation currency and Ferrexpo Poltava GOK Corporation (the principal subsidiary) has determined that its functional currency is Ukrainian hryvnia.

Foreign currency translation

For individual subsidiary Company accounts, transactions in foreign currencies (i.e. other than the functional currency) 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 reporting date and non-monetary assets and liabilities at the historic rate. Foreign exchange differences arising on translation are recognised in the income statement.

For presentation of Group consolidated accounts, if the functional currency of a subsidiary is different to the presentation currency as at the reporting date, the assets and liabilities of this entity are translated into the presentation currency at the rate ruling at the reporting 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.

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. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods including pellet sales
Revenue is recognised when the 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, customs duties and sales taxes. Risks and rewards of the ownership of goods passes when title for the goods passes to the customer as determined by the terms of the sales agreement. The sales are typically made under the following terms:

- CIF (Cargo Insurance and Freight);
- CFR (Cargo and Freight);
- DAF (Delivery At Frontier);
- DES (Delivered Ex Ship); or
- FOB (Free on Board).

Under the CFR and FOB terms the title passes on the bill of lading date whereas under the other terms revenue is recognised when goods arrive at agreed destination or at boarder crossing.

If the sales agreement allows for adjustment of the sales prices based on survey of the goods by the customer (e.g. ore content) the revenue is recognised based on the most recent determined product specification.

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

Logistic services
Revenue from logistic services rendered is recognised as the services are completed. Where services are invoiced in advance of discharge, amounts attributable to the time between the end of the reporting period and the discharge date are deferred.

Rendering of services
Revenue from the rendering of services is recognised when services are complete. Sales of services primarily include repairs and spare parts, canteen revenue and recharges to local customers for electricity consumption and railway usage.

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

Foreign exchange gains and losses

Foreign exchange gains and losses are reported on a net basis. Operating foreign exchange gains and losses are those items that are directly related to the production and sale of pellets (e.g. trade receivables, trade payables on operating expenditure). Non-operating gains and losses are those associated with the Group's financing and treasury activities (e.g. interest-bearing loans, cash and cash equivalents).

Note 2: Summary of significant accounting policies continued

Finance income and expense

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

Finance expenses comprise the interest expense on borrowings and other financial liabilities.

Taxes

Current income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount estimated to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax

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

Deferred tax liabilities are recognised for all taxable temporary differences, if it is probable that they become taxable, 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 reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred 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 reporting 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 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 note 27 to the financial statements.

VAT receivable balances are not discounted unless the overdue balances are expected to be received after more than 12 months following the period end. Where intentions have been communicated officially that VAT repayments which are due are to be converted into bonds or other financial instruments, these are valued at the estimated market value of such instruments with any adjustment charged to the income statement.

Notes to the Consolidated Financial Information continued

Note 2: Summary of significant accounting policies continued

Equity

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 the 'employee benefit trust reserve' 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, issue or cancellation of equity shares.

Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognised in other capital reserves.

Financial assets

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 assets as at fair value through profit or loss (FVTPL).

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 along with the the amortisation process.

Available-for-sale financial assets

All investment, except for investments in associates, are accounted for as 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 loans or receivables, held-to-maturity investments or financial assets at fair value through profit or loss (FVTPL).

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised. At this time the cumulative gain or loss is recognised in other operating income, or determined to be impaired, at which time the cumulative loss is recognised in the income statement in finance costs and removed from the available-for-sale reserve.

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 reporting 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.

Financial liabilities

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.

Note 2: Summary of significant accounting policies continued

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 reporting 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 either directly or through use of an allowance account. The amount of the loss is 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.

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

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement) is removed from other comprehensive income and recognised in the income statement.

Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in other comprehensive income.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, i.e. whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even it that right is not specified in an arrangement.

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the income statement.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Group as a lessor

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

Notes to the Consolidated Financial Information continued

Note 2: Summary of significant accounting policies continued

Borrowing costs

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

The Group capitalises borrowing costs for all qualifying assets where construction was commenced on or after 1 January 2009. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. 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 assets 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 expenditure results in future economic benefits, the expenditure is capitalised as an additional cost.

Property, plant and equipment is depreciated over its estimated useful life which is calculated with 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.

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
- Vessels: 30–40 years
- Plant and equipment: 3–15 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.

Assets in the course of construction are capitalised as a separate component of property, plant and equipment. On completion, the cost of construction is transferred to the appropriate category. Assets under construction are not depreciated.

On acquisition the cost of property, plant and equipment is capitalised on the statement of financial position. Depreciation commences when the item is available for use. Freehold land is not depreciated.

Stripping costs included in mining assets and assets under construction

Stripping costs in relation to mine exploration, evaluation and development costs incurred up to the commencement of the production are included in assets under construction. Stripping work comprises overburden removed at the pre-production, mine extension and production stages.

After the commencement of production, the respective pre-production stripping costs are transferred to mining assets and depreciated using the unit of production method based on the estimated economically recoverable reserves to which they relate.

The production stripping costs are generally charged to the income statement as variable production costs. The production stripping costs are only capitalised if the stripping activities are related to a betterment of the mining property and the duration of the future benefits is ascertained without a high degree of judgement. If capitalised, the production stripping costs are included in mining assets and depreciated using the same methodology as for the capitalised pre-production stripping costs (see above).

The cost of removal of the waste material during a mine's production phase is expensed as incurred.

Note 2: Summary of significant accounting policies continued

Intangible assets

Goodwill

The policies applied for the initial recogniation and subsequent measurement of goodwill is described under Goodwill and other intangible assets and Business combination on page 90 and page 117 respectively.

Other intangible assets

Other intangible assets acquired separately are measured on initial recognition at cost. The cost of other intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, if any.

The useful lives of other intangible assets are assessed as either finite or indefinite.

Amortisation

Other intangible assets, other than goodwill, primarily comprise capitalised software costs, which are amortised on a straight-line basis over the estimated useful life of the asset, ranging between one and three years.

Capitalised mineral licences are amortised on a unit of production basis.

Impairment of assets (excluding 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. If 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 market-determined 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. Refer to note 20 for details on the impairment testing of goodwill.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the 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.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Inventories

Inventories are stated at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition is accounted for as follows:

- Raw materials – at cost on a first-in, first-out basis.
- Finished goods and work in progress – at cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity, but excluding borrowing costs.

The 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.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Notes to the Consolidated Financial Information continued

Note 2: Summary of significant accounting policies continued

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, if 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 of Ferrexpo AG.

Costs relating to these plans are accrued in the consolidated financial statements 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 reporting 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 higher of planned assets/obligation for funded schemes (corridor approach). These gains or losses are recognised as income or expense over the expected average remaining working lives of the employees participating in the plan.

The past service cost is recognised as an expense on a straight-line basis over the average period until the benefits become vested. 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.

Earnings per share

The basic number of Ordinary Shares is calculated based on the weighted average number of shares in issue, excluding shares held in treasury.

For the current and prior year periods, 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. The number of Ordinary Shares in issue excludes the shares held by the Employee Benefit Trust and the treasury shares held by the Group. Diluted earnings per share are 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.

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 is 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, except for market conditions.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is dependent upon a market condition. In these cases, the awards are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each reporting 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 reporting date is recognised in the income statement, with a corresponding entry in equity.

Note 2: Summary of significant accounting policies continued

Long-Term Incentive Plans (LTIPs)

The LTIPs are share-based schemes whereby certain senior management and executives receive rewards based on the relative Total Shareholder Return (TSR) outperformance of the Group compared with a group of companies, which operate within a similar environment. The cost of equity-settled awards is measured as described above together with an estimate of future social security contributions payable in respect of this value. Where the granting of an LTIP is subject to the satisfaction of certain market conditions, a vesting charge is recognised irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where awards terminate before the performance period is complete, any unamortised expense is recognised immediately.

Note 3: New accounting policies

The Group adopted the following new and amended standards as at 1 January 2010:

Standards affecting the reported results and financial positions

IFRS 3 Business combinations

The revised standard was issued in January 2008 and became effective for financial years beginning on or after 1 July 2009. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial and subsequent measurement of a contingent consideration and business combinations achieved in stages. Its adoption has affected the accounting for the business combination in the current period and the acquisition costs incurred have been expensed and included in administrative expenses.

In the current period, the changes contained in IFRS 3 have affected the accounting for the acquisition of Helogistics Group and its subsidiaries. Acquisition related costs amounting to US$1,624 thousand have been expensed when incurred this reduced the amount of goodwill resulting from this transaction by this amount.

IAS 27 – Consolidated and separate financial statements

The revised standard was issued in January 2008 and became effective for financial years beginning on or after 1 July 2009. The changes of the revised standard affect the Group's accounting policies regarding changes in ownership interests in its subsidiaries that do not result in a change in control. Under the revised standard, all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.

The transfer of the shareholdings in Ferrexpo Yeristovo GOK LLC and Ferrexpo Belanovo GOK LLC from Ferrexpo Poltava GOK Corporation to Ferrexpo AG resulted in a decrease of the non-controlling interests in these subsidiaries. Due to the change of IAS 27, the effect of US$147 thousand from the decrease of the non-controlling interests has been recognised directly in equity.

Standards and interpretations adopted with no effect on reported results, financial position and disclosure

IFRS 2 – Share-based payment – group cash-settled share-based payment transactions

The amendment to the standard was issued in June 2009 and became effective for financial years beginning on or after 1 January 2010. The amendment clarifies the accounting for group cash-settled share-based payment transactions and supersedes IFRIC 8 and IFRIC 11. The adoption of this amendment did not have any impact on the reported results, financial position and disclosures.

IAS 28 – Investments in associates

The revised standard was issued in May 2008 and became effective for financial years beginning on or after 1 July 2009. The principle adopted under IAS 27 – *Consolidated and separate financial statements* that a loss of control is recognised as a disposal and reacquisition of any retained interest at fair value is extended by consequential amendment to IAS 28. Therefore, when significant influence is lost, the investor measures any investment retained in the former associate at fair value, with any consequential gain or loss recognised in profit or loss. The adoption of the revised standard did not have any impact on the reported results, financial position and disclosures.

IFRIC 17 Distribution of non-cash assets to owners

This interpretation is effective for annual periods beginning on or after 1 July 2009 and provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognise a liability, how to measure it and the associated assets, and when to derecognise the asset and liability. The adoption of the interpretation did not have any impact on the reported results, financial position and disclosures.

IFRIC 18 Transfers of assets from customers

The new interpretation is effective for annual periods beginning on or after 1 July 2009 and clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant, and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services. The adoption of the interpretation did not have any impact on the reported results, financial position and disclosures.

Notes to the Consolidated Financial Information continued

Note 3: New accounting policies continued

New standards and interpretations not yet adopted

The Group has elected not to early adopt the following revised and amended standards:

IAS 24 Related party disclosures

The amended standard was issued in November 2009 and becomes effective for financial years beginning on or after 1 January 2011. The revised standard introduces a partial exemption of disclosure requirements for government-related parties and clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in the application. The Group does not expect any impact on its financial position or performance and does not intend to take advantage of the possibility of an early adoption.

IAS 32 Financial instruments: presentation – classification of rights issues

The amendment to IAS 32 on the classification of rights issues has been issued in October 2009 and is effective for annual periods beginning on or after 1 February 2011. For rights issues offered for a fixed amount of foreign currency current practice appears to require such issues to be accounted for as derivative liabilities. The amendment states that if such rights are issued pro rata to an entity's all existing shareholders in the same class for a fixed amount of currency, they should be classified as equity regardless of the currency in which the exercise price is denominated. This amendment will have no impact on the Group after initial application and will be adopted by Group for the Group's reporting financial statements for the period beginning 1 January 2012.

IFRS 9 Financial instruments: classification and measurement

The IASB has issued the first phase of IFRS 9 that will replace IAS 39. The new standard applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. The adoption of the first phase of IFRS 9 might have an effect on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture. The IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition in separate phases and the completion of the new standard is expected to be in early 2011.

IFRIC 14 Prepayment of a minimum funding requirement

The amendment to IFRIC 14 is effective for financial years beginning on or after 1 January 2011 and will have to respectively applied. The amendment provides guidance on assessing the recoverable amount of net pension assets and permits an entity to treat the prepayment of a minimum funding requirement as asset. The future application of this amendment is deemed to have no impact on the financial statements of the Group.

IFRIC 19 Extinguishing financial liabilities with equity instruments

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The new interpretation addresses the accounting by the entity that issues equity instruments in order to settle, in full or in part, a financial liability. The adoption of this interpretation will have no effect on the financial statements of the Group.

Note 4: Use of estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates are based on information available as at the date of authorising the consolidated financial statements 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:

Property, plant and equipment

The determination of fair value and value-in-use requires management to make estimates and assumptions about expected production and sales volumes, commodity prices (considering current and historical prices, price trends and related factors), reserves, operating costs, closure and rehabilitation costs and future capital expenditure. These estimates and assumptions are subject to risk and uncertainty; hence there is a possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances, some or all of the carrying value of the assets may be impaired and the impairment would be charged against the income statement. The total of property, plant and equipment amounted to US$647,137 thousand as of 31 December 2010 (2009: US$452,100 thousand).

Pre-production stripping costs

Overburden and other mine waste materials have to be removed prior to the production of the mine in order to become access to the iron ore body. These activities are referred to as pre-production stripping costs and are capitalised under assets under construction. The pre-production stripping costs are capitalised based on calculations which require the use of judgement and estimates in terms of estimated tonnage of overburden and waste material to be removed during the life time of the mine and the expected recoverable reserves that can be extracted. The change of the mine plan (life and design) in the future may result in changes to the expected stripping ratio (waste to mineral reserves ratio) and require adjustment of the capitalised pre-production stripping costs. At 31 December 2010, the carrying amount of capitalised pre-production stripping costs was US$61,243 thousand (2009: US$23,337 thousand).

Note 4: Use of estimates continued

Impairment testing of goodwill and intangible assets

As outlined in note 20 the impairment testing of goodwill is based on significant judgements and assumptions made by the management when performing the annual impairment testing of these non-current assets. Changes to be made to these assumptions may alter the results of the impairment testing, the impairment charges recorded in profit or loss and the resulting carrying values of the non-current assets tested. The carrying amount of the goodwill amounted to US$98,747 thousand as of 31 December 2010 (2009: US$94,459 thousand).

Fair value of financial instruments

Where the fair value of financial assets and liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. Detailed information on the carrying amounts of financial assets and liabilities are given in note 38.

Defined benefit pension liability

The valuation for defined benefit superannuation schemes requires management to make judgements as to the nature of benefits provided by each scheme and thereby determine the classification of each scheme. For defined benefit schemes, management is required to make annual estimates and assumptions about future returns on classes of scheme assets, future remuneration changes, employee attrition rates, administration costs, changes in benefits, inflation rates, exchange rates, life expectancy and expected remaining periods of service of employees. In making these estimates and assumptions, management considers advice provided by external advisers, such as actuaries. At 31 December 2010, the carrying amount of defined benefit pension liability was US$17,819 thousand (2009: US$14,529 thousand).

Provision for site restoration

The Group's accounting policy for the recognition of site restoration provisions requires significant estimates and assumptions such as: requirements of the relevant legal and regulatory framework; the magnitude of possible contamination and the timing, extent and estimated future costs of required closure and rehabilitation activity. These uncertainties may result in future actual expenditure differing from the amounts currently provided. At 31 December 2010, the carrying amount of the provision for site restoration amounted to US$2,746 thousand (2009: US$1,268 thousand).

Deferred income tax

The Group's accounting policy for taxation requires management's judgement in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the statement of financial position. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the expected generation of sufficient future taxable profits.. A deviation between expected and effective future taxable profits in the different local jurisdictions may have an adverse impact on the recognised deferred tax balances in the consolidated financial statements of the Group.

Assumptions about the generation of expected future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, commodity prices, reserves, operating costs, closure and rehabilitation costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of recognised deferred tax balances in the consolidated financial statement of the Group and the amounts of other tax losses and temporary differences not yet recognised. In such circumstances, some, or all, of the carrying amount of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the income statement. At 31 December 2010, the Group's consolidated financial statements showed deferred tax assets of US$16,596 thousand (2009: US$13,673 thousand) and deferred tax liabilities of US$2,432 thousand (2009: US$3,739 thousand).

Note 5: Segment information

The Group is managed as a single entity which produces, develops and markets its principal product – iron ore pellets – for sale to the metallurgical industry. In December 2010, the Group acquired a logistics company engaged in the transport of bulk commodities and liquids through the Rhine Danube corridor in Europe and the provision of bunkering fuel services on the same routes. The management of the Group monitors the operating results of the pellet and logistics business separately for the purpose of making decisions about resource allocation and performance assessment. In accordance with IFRS 8 Operating Segments, the Group presents its results in a single segment which are disclosed in the income statement for the Group. The acquired logistics business is below the quantitative thresholds requiring separate disclosure as set by the standard and its revenue and result for the year is immaterial.

The management monitors the operating result of the Group based on a number of measures including EBITDA, 'C1' costs and the net financial indebtedness.

Notes to the Consolidated Financial Information continued

Note 5: Segment information continued

EBITDA

The Group calculates EBITDA as profit from continuing operations before tax and finance plus depreciation and amortisation (included in cost of sales, administrative expenses and selling and distribution costs) and non-recurring cash items included in other income and other expenses plus the net of gains and losses from disposal of investments and property, plant and equipment. The Group presents EBITDA because it believes that EBITDA is a useful measure for evaluating its ability to generate cash and its operating performance.

US$000	Notes	Year ended 31.12.10	Year ended 31.12.09
Profit before tax and finance		**542,225**	104,227
Under recovery of VAT receivable	27	**10,936**	–
Write-offs and impairment losses	13	**1,618**	2,757
Losses/(gains) on disposal of property, plant and equipment		**1,305**	(213)
Initial public offering costs	39	**55**	427
Share-based payments	39	**1,366**	3,423
Gain on bargain purchase	15/41	**(2,623)**	(503)
Depreciation and amortisation		**30,415**	28,018
EBITDA		**585,297**	138,136

'C1' costs

'C1' costs represent the cash costs of production of iron pellets from own ore divided by production volume of own ore, and excludes non-cash costs such as depreciation, pension costs and inventory movements, costs of purchased ore, concentrate and production cost of gravel and excludes one-off items which are outside the definition of EBITDA.

US$000	Year ended 31.12.10	Year ended 31.12.09
Cost of sales – pellets production	**481,857**	341,067
Depreciation and amortisation	**(24,662)**	(23,370)
Purchased ore and concentrate	**(101,351)**	(8,914)
Processing costs for purchased ore and concentrate	**(11,042)**	(1,206)
Production cost of gravel	**(88)**	(357)
Inventory movements	**18,608**	(10,543)
Pension service costs	**(2,049)**	(1,857)
Other	**(2,754)**	1,662
C1 cost	**358,519**	296,482
Own ore produced (tonnes)	**9,033,000**	8,609,200
C1 cash cost per tonne (US$)	**39.69**	34.44

Net financial indebtedness

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.

US$000	Notes	Year ended 31.12.10	Year ended 31.12.09
Cash and cash equivalents	28	**319,470**	11,991
Current borrowings	30	**(22,563)**	(251,503)
Non-current borrowings	30	**(401,290)**	(18,143)
Net financial indebtedness		**(104,384)**	(257,655)

Disclosure of revenue and non-current assets

The Group does not generate significant revenues from external customers attributable to the country of domicile. The information on the revenues from external customers attributed to the individual foreign countries is given in note 6.

The Group does not have any significant non-current assets that are located in the country of domicile of the Group. The vast majority of the non-current assets are located in Ukraine.

Note 6: Revenue

Revenue for the year ended 31 December 2010 consisted of the following:

US$000	Year ended 31.12.10	Year ended 31.12.09
Revenue from sales of iron ore pellets and concentrate:		
Export	**1,288,665**	612,829
Ukraine	**453**	34,483
Total revenue from sale of iron ore pellets and concentrate	**1,289,118**	647,312
Revenue from services provided	**674**	790
Revenue from other sales	**5,108**	565
Total revenue	**1,294,900**	648,667

Export sales of iron ore pellets and concentrate by geographical destination were as follows:

US$000	Year ended 31.12.10	Year ended 31.12.09
Austria	**405,511**	105,690
China	**320,572**	241,882
Serbia	**156,806**	84,193
Slovakia	**143,478**	77,537
Czech Republic	**99,235**	21,293
Turkey	**62,166**	39,272
Japan	**45,318**	5,027
Germany	**24,833**	5,573
Hungary	**16,575**	6,539
India	**14,153**	21,225
Other	**18**	4,598
Total exports	**1,288,665**	612,829

During the year ended 31 December 2010 sales made to three customers accounted for approximately 62.5% of the sales revenue (2009: 51.9%).

Sales made to two customers individually amounted to more than 10% of the total sales. These are disclosed below:

US$000	Year ended 31.12.10	Year ended 31.12.09
Customer A	**405,511**	105,690
Customer B	**300,284**	161,730

Note 7: Cost of sales

Cost of sales for the year ended 31 December 2010 consisted of the following:

US$000	Year ended 31.12.10	Year ended 31.12.09
Materials	**67,661**	60,607
Purchased ore and concentrate	**101,351**	8,914
Electricity	**101,528**	81,438
Personnel costs	**47,930**	41,670
Spare parts and consumables	**16,616**	13,007
Depreciation and amortisation	**24,662**	23,370
Fuel	**31,299**	23,969
Gas	**48,236**	28,744
Repairs and maintenance	**45,230**	38,503
Royalties and levies	**8,489**	6,484
Inventory movements	**(18,608)**	10,543
Other	**7,463**	3,818
Total cost of sales	**481,857**	341,067

Notes to the Consolidated Financial Information continued

Note 8: Selling and distribution expenses

Selling and distribution expenses for the year ended 31 December 2010 consisted of the following:

US$000	Year ended 31.12.10	Year ended 31.12.09
Railway transportation	**81,451**	69,477
Other transportation and port charges	**115,640**	80,998
Agent fees	**2,490**	799
Custom duties	**2,562**	1,423
Advertising	**3,472**	2,757
Personnel cost	**1,329**	1,055
Depreciation	**1,757**	1,581
Other	**3,305**	4,176
Total selling and distribution expenses	**212,006**	162,266

Note 9: General and administrative expenses

General and administrative expenses for the year ended 31 December 2010 consisted of the following:

US$000	Year ended 31.12.10	Year ended 31.12.09
Personnel costs	**26,362**	23,933
Buildings and maintenance	**2,475**	2,391
Taxes other than income tax and other charges	**1,581**	3,930
Consulting and other professional fees	**4,840**	2,731
Depreciation and amortisation	**3,867**	2,534
Communication	**899**	529
Vehicles maintenance and fuel	**1,222**	854
Repairs	**815**	1,041
Audit fees	**1,094**	1,112
Non-audit fees	**1,395**	184
Security	**1,613**	1,659
Other	**3,012**	2,263
Total general and administrative expenses	**49,175**	43,161

Auditor remuneration

Auditor remuneration paid in respect of the audit of the financial statements of the Group and its subsidiary companies and for the provision of other services not in connection with the audit is disclosed below:

US$000	Year ended 31.12.10	Year ended 31.12.09
Audit services		
Ferrexpo plc Annual Report	**680**	628
Subsidiary entities[1]	**414**	484
Total audit services	**1,094**	1,112
Non-audit services		
Tax advisory	**80**	154
Assurance related services	**102**	–
Other services[2]	**1,213**	30
Total non-audit services	**1,395**	184
Total auditor remuneration	**2,489**	1,296

1 The agreed fees for audit servicices in relation to Helogistics are not included due to the first consolidation as of 31 December 2010. The agreed fees of US$246 thousand is however included in the amount of the liabilities assumed for the acquired group. See note 41 for further details.
2 Other services include fees paid for due diligence services and assurance services related to raising new debts for the Group.

Note 10: Other income

Other income for the year ended 31 December 2010 consisted of the following:

US$000	Year ended 31.12.10	Year ended 31.12.09
Sale of surplus maintenance spares	**2,909**	867
Lease income	**762**	670
Reversal of fines and penalties	**–**	4
Refunds from social security institutions	**–**	1,735
Other income	**844**	826
Total other income	**4,515**	4,102

Note 11: Other expenses

Other expenses for the year ended 31 December 2010 consisted of the following:

US$000	Year ended 31.12.10	Year ended 31.12.09
Charitable donations	**4,418**	4,043
Movements in allowance for doubtful receivables	**(3,685)**	(5,199)
Research	**658**	1
Other personnel costs	**1,551**	830
Other	**2,996**	3,743
Total other expenses	**5,938**	3,418

The allowance for doubtful receivables relates to receivables from certain customers in Russia and other former CIS countries recorded in the financial year 2008. Following a stabilisation in the markets during the latter part of the financial year 2009 as well as as during the financial year 2010 the recorded allowance has been partially released in both reporting periods.

Note 12: Foreign exchange gains and losses

US$000	Year ended 31.12.10	Year ended 31.12.09
Operating foreign exchange (losses)/gains		
Revaluation of trade receivables	**222**	1,818
Revaluation of trade payables	**(1,300)**	716
Total operating foreign exchange (losses)/gains	**(1,078)**	2,534
Non-operating foreign exchange losses		
Revaluation of interest-bearing loans	**258**	(1,639)
Revaluation of cash and cash equivalents	**(767)**	84
Other	**(3,379)**	(997)
Total non-operating foreign exchange losses	**(3,888)**	(2,552)

Other non-operating foreign exchange losses in 2010 were principally related to the revaluation of income tax payables in Swiss francs.

Note 13: 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 2010 consisted of the following:

US$000	Notes	Year ended 31.12.10	Year ended 31.12.09
(Reversals)/write-off of inventories		**(254)**	144
(Reversals)/write-off of property, plant and equipment		**(251)**	717
Impairment of available-for-sale assets	21	**2,123**	1,896
Total write-offs and impairment losses		**1,618**	2,757

Notes to the Consolidated Financial Information continued

Note 14: Investments in associates

As at 31 December 2010 investments in associates comprised:

	Principal activity	Country of incorporation	Ownership %	**As at 31.12.10 US$000**	As at 31.12.09 US$000
TIS Ruda	Port development	Ukraine	48.6	**21,132**	19,915

For the year ended 31 December 2010 the summarised financial information for the associate was as follows:

	Total assets		Total liabilities		Revenue		Net profit	
US$000	**As at 31.12.10**	As at 31.12.09	**As at 31.12.10**	As at 31.12.09	**Year ended 31.12.10**	Year ended 31.12.09	**Year ended 31.12.10**	Year ended 31.12.09
TIS Ruda	**26,648**	27,187	**1,840**	4,837	**18,486**	20,147	**8,326**	2,614

The information above is for 100% of the associate named and not as a percentage based on Group's ownership. The movement in the investment in the year represents the Group's share of profit of US$4,155 thousand in TIS Ruda (2009: US$1,304 thousand). TIS Ruda paid a dividend amounting to US$2,931 thousand during the financial year 2010 (2009: nil).

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

Note 15: Bargain purchase

A bargain purchase arose from the acquisition of Helogistics in 2010 and as a result of equity transactions in Ferrexpo Poltava GOK Corporation during the prior period.

Acquisition of Helogistics

As outlined in detail in note 41, the acquisition of Helogistics resulted in a bargain purchase of US$2,623 thousand in 2010 representing the difference between the fair value of the net assets acquired and the purchase consideration, not including the costs of acquisition which are expensed in the income statement.

Treasury shares in Ferrexpo Poltava GOK Corporation

In 2009, treasury shares of Ferrexpo Poltava GOK Corporation were transferred to Ferrexpo AG resulting in an increase of the shareholding from 97.1% to 97.3%. This transaction resulted in a bargain purchase of US$503 thousand which is included in profit or loss. The Group did not early adopt IAS 27 *Consolidated and separate financial statements* for the financial year 2009 so that the effect from change in ownership was reflected in profit and loss and not in equity as it would be required with under the revised standard.

Note 16: Finance income and expense

Finance income and expenses for the year ended 31 December 2010 consisted of the following:

US$000	**Year ended 31.12.10**	Year ended 31.12.09
Finance income		
Interest income	**1,357**	1,894
Other finance revenue	**1,275**	999
Total finance income	**2,632**	2,893
Finance expense		
Interest expense on financial liabilities measured at amortised cost	**(24,509)**	(16,805)
Interest on defined benefit plans	**(3,344)**	(2,967)
Bank charges	**(12,694)**	(535)
Other finance costs	**(2,296)**	(3,411)
Total finance expenses	**(42,843)**	(23,718)
Net finance expense	**(40,211)**	(20,825)

Bank charges include arrangement fees charged in relation to the Group's major bank debt facility.

Note 17: Income tax expense

The income tax expense for the year ended 31 December 2010 consisted of the following:

US$000	Year ended 31.12.10	Year ended 31.12.09
Current income tax		
Current income tax charge	**73,700**	12,659
Amounts under/(over) provided in previous years	**270**	(2,497)
Total current income tax	**73,970**	10,162
Deferred income tax		
Origination and reversal of temporary differences	**(4,494)**	(310)
Effect from changes in tax laws and rates	**3,526**	–
Total deferred income tax	**(968)**	(310)
Total income tax expense	**73,002**	9,852

A breakdown of the deferred tax balances is contained in note 23.

The effective income tax rate differs from the corporate income tax rates. The weighted average statutory rate was 13.1% for 2010 (2009: 13.0%). This is calculated as the average of the statutory tax rates applicable in the countries in which the Group operates, weighted by the profits/(losses) before tax of the subsidiaries in the respective countries, as included in the consolidated financial information. The effective tax rate is 14.7% (2009: 12.2%).

A reconciliation between the income tax charged in the accompanying financial information and income before taxes multiplied by the weighted average statutory tax rate for the year ended 31 December 2010 is as follows:

US$000	Year ended 31.12.10	Year ended 31.12.09
Profit before tax	**498,126**	80,850
Notional tax computed at the weighted average statutory tax rate of 13.1% (2009: 13.0%)	**65,254**	10,526
Derecognition of deferred tax asset	**(902)**	135
Effect from difference in local tax rates	**3,526**	–
Effect from utilisation of non-recognised deferred tax assets	**(274)**	–
Effect from capitalised tax loss carry forwards	**(293)**	–
Inflation related indexation of fixed assets for tax	**–**	(1,792)
Expenses not deductible for tax purposes	**7,338**	3,359
Tax exempted income	**(623)**	(942)
Non recognition of deferred taxes on current year losses	**555**	780
Effect from change in permanent differences	**(2,079)**	–
Tax related to prior years	**270**	(2,497)
Other	**230**	283
Total income tax expense	**73,002**	9,852

Note 18: Earnings per share and dividends paid and proposed

Basic earnings per share (EPS) is calculated by dividing the net profit for the year attributable to ordinary equity shareholders of Ferrexpo plc by the weighted average number of Ordinary Shares.

	Year ended 31.12.10	Year ended 31.12.09
Profit for the year attributable to equity shareholders:		
Basic earnings per share (US cents)	**72.34**	12.08
Diluted earnings per share (US cents)	**72.24**	12.05
Underlying earnings for the year:		
Basic earnings per share (US cents)	**72.98**	12.80
Diluted earnings per share (US cents)	**72.91**	12.77

Notes to the Consolidated Financial Information continued

Note 18: Earnings per share and dividends paid and proposed continued

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

Thousand	Year ended 31.12.10	Year ended 31.12.09
Weighted average number of shares		
Basic number of Ordinary Shares outstanding	**584,568**	584,652
Effect of dilutive potential Ordinary Shares	**854**	1,361
Diluted number of Ordinary Shares outstanding	**585,422**	586,013

The basic number of Ordinary Shares is calculated by reducing the total number of Ordinary Shares in issue by the shares held in treasury (refer to note 29).

Diluted earnings per share is calculated by adjusting the weighted average 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 non-controlling interests and excludes adjusted items. The calculation of underlying earnings per share is based on the following earnings data:

US$000	Notes	Year ended 31.12.10	Year ended 31.12.09
Profit attributable to equity holders		**422,906**	70,627
Write offs and impairment losses	13	**1,618**	2,757
IPO costs	39	**55**	427
Gain on bargain purchase	15/41	**(2,623)**	(503)
Losses/(gains) on disposal of property, plant and equipment		**1,305**	(213)
Non-operating foreign exchange losses	12	**3,888**	2,551
Tax on adjusted items		**(346)**	(823)
Underlying earnings		**426,803**	74,823

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 adjusted items include gains and losses on disposal of investments and businesses and non-operating foreign exchange gains and losses.

Dividends paid and proposed

US$000	Year ended 31.12.10
Dividends proposed	
Final dividend for 2010: 3.3 US cents per Ordinary Share	**19,289**
Total dividends proposed	**19,289**
Dividends paid during the period	
Interim dividend for 2010: 3.3 US cents per Ordinary Share	**19,292**
Final dividend for 2009: 3.3 US cents per Ordinary Share	**19,289**
Total dividends paid	**38,581**

US$000	Year ended 31.12.09
Dividends proposed	
Final dividend for 2009: 3.3 US cents per Ordinary Share	19,289
Total dividends proposed	19,289
Dividends paid during the period	
Interim dividend for 2009: 3.3 US cents per Ordinary Share	19,289
Final dividend for 2008: 3.3 US cents per Ordinary Share	20,261
Total dividends paid	39,550

Note 19: Property, plant and equipment

As at 31 December 2010 property, plant and equipment comprised:

US$000	Land	Mining assets[1]	Buildings	Vessels	Plant & equipment	Vehicles	Fixtures and fittings	Assets under construction[1]	Total
Cost:									
At 1 January 2009	3,225	15,749	112,531	–	141,742	109,752	4,201	137,020	524,220
Additions			535	–	5		21	85,445	86,006
Transfers			24,289	–	57,524	5,719	575	(88,107)	–
Disposals			(3,409)	–	(3,033)	(1,154)	(53)	(530)	(8,179)
Translation differences	(115)	(562)	(4,008)	–	(5,059)	(3,917)	(66)	(3,342)	(17,069)
At 31 December 2009	3,110	15,187	129,938	–	191,179	110,400	4,678	130,486	584,978
Additions	–	1,248	5,308	–	1,691	709	318	156,501	166,775
Acquisition of subsidiaries	14	–	162	61,863	163	5	79	3,062	65,348
Transfers	–	3,189	17,153	–	29,888	62,059	561	(112,850)	–
Disposals	–	–	(1,498)	–	(1,797)	(3,009)	(1,897)	(468)	(8,669)
Translation differences	10	44	381	–	560	323	7	252	1,577
At 31 December 2010	**3,134**	**19,668**	**151,444**	**61,863**	**221,684**	**170,487**	**3,746**	**176,983**	**809,009**
Depreciation:									
At 1 January 2009	–	543	20,091	–	67,628	21,411	2,107	–	111,780
Depreciation charge	–	278	5,366	–	15,124	7,924	829	–	29,521
Disposals	–	–	(1,657)	–	(2,413)	(908)	(37)	–	(5,015)
Transfers	–	–	–	–	–	–	–	–	–
Impairment	–	–	450	–	14	233	(1)	21	717
Translation differences	–	(20)	(874)	–	(2,441)	(764)	(26)	–	(4,125)
At 31 December 2009	–	801	23,376	–	77,912	27,896	2,872	21	132,878
Depreciation charge	–	334	7,531	–	18,069	8,875	861	–	35,670
Disposals	–	–	(772)	–	(1,556)	(2,593)	(1,892)	–	(6,813)
Transfers	–	–	–	–	–	–	–	–	–
Impairment	–	–	(271)	–	–	–	–	20	(251)
Translation differences	–	2	73	–	228	82	3	–	388
At 31 December 2010	**–**	**1,137**	**29,937**	**–**	**94,653**	**34,260**	**1,844**	**41**	**161,872**
Net book value at:									
31 December 2009	3,110	14,386	106,562	–	113,267	82,504	1,806	130,465	452,100
31 December 2010	**3,134**	**18,531**	**121,507**	**61,863**	**127,031**	**136,227**	**1,902**	**176,942**	**647,137**

1 Mining assets and assets under construction constitute mine stripping costs which are accounted for under the Group's accounting policy outlined in note 2. Capitalised pre-production stripping costs are included in assets under construction whereas the production stripping costs are shown under mining assets.

The carrying value of plant and equipment held under finance leases and hire purchase contracts at 31 December 2010 was US$27,457 thousand (2009: US$20,204 thousand). During the year, a sale and lease back transaction for assets of plant and equipment was completed and is considered to be a finance lease. No gain or loss was realised on the sale of the assets subject to this finance lease. Leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

US$88,498 thousand (2009: US$82,505 thousand) of property, plant and equipment have been pledged as security for liabilities.

The gross value of fully depreciated property, plant and equipment that is still in use is US$38,847 thousand (2009: US$30,149 thousand).

Notes to the Consolidated Financial Information continued

Note 20: Goodwill and other intangible assets

As at 31 December 2010 goodwill and other intangible assets comprised:

US$000	Goodwill	Other intangible assets	Total
At 1 January 2009	102,104	2,240	104,344
Cost:			
Additions	–	598	598
Disposals	–	(53)	(53)
Translation differences	(3,646)	(74)	(3,720)
At 31 December 2009	98,458	2,711	101,169
Additions	–	633	633
Acquisition of subsidiaries	–	1,637	1,637
Disposals	–	(63)	(63)
Translation differences	289	7	296
At 31 December 2010	**98,747**	**4,925**	**103,672**
Accumulated amortisation and impairment:			
At 1 January 2009	–	589	589
Amortisation charge	–	301	301
Disposals	–	(53)	(53)
Translation differences	–	(22)	(22)
At 31 December 2009	–	815	815
Amortisation charge	–	203	203
Disposals	–	(63)	(63)
Translation differences	–	2	2
At 31 December 2010	**–**	**957**	**957**
Net book value at:			
31 December 2009	98,458	1,896	100,354
31 December 2010	**98,747**	**3,968**	**102,715**

The goodwill acquired through business combinations in previous periods has been allocated for impairment purposes to one cash-generating unit, as the Group only had one operating segment, being the production and sale of iron ore. This represents the lowest level within the Group at which goodwill is monitored for internal management purposes.

During the financial year 2010, the Group acquired the Helogistics Holding GmbH and its subsidiaries. This resulted in a gain on bargain purchase of US$2,623 thousand recognised in profit or loss and not affecting the balance of capitalised goodwill as of 31 December 2010. Further details on the business combination are given in note 41.

Goodwill from business combinations are not amortised, but reviewed for impairment losses at every balance sheet date and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Impairment testing was performed at 31 December 2010 based on a value-in-use calculation using cash flow projections over the remaining estimated life of the mine (27 years), a common practice in the mining industry. The cash flow projection was based on the financial budget covering the next four years and approved by senior management.

The major component of other intangible assets as at 31 December 2010 comprises purchased software.

Note 20: Goodwill and other intangible assets continued

Key assumptions

The principal key assumptions are:

Estimates/assumptions	Basis
Future production:	Proved and probable reserves and resource estimates
Commodity prices:	Contract prices and longer-term price estimates
Cost of raw materials and other production/distribution costs:	Expected future costs
Exchange rates:	Current market exchange rates
Discount rates:	Cost of capital risk adjusted for the resource concerned

Cash flows are projected based on management expectations regarding the development of the iron ore and steel market and the cost of producing and distributing the pellets.

The Company takes into account two principal key assumptions, selling price and total production costs. Within this both macro and local factors which influence these are considered.

In determining the future long-term selling price, the Company takes into account external and internal analysis of the long-term and shorter-term supply and demand dynamics in the local region and throughout the world along with costs of production of competitors and the marginal cost of incremental production in a particular market. The Company considers local supply demand balances affecting its major customers and the effects this could have on the longer-term price.

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

For the purpose of the goodwill impairment test, the future cash flows were discounted using the real pre-tax discount rate of 10% (2009: 15%) per annum. These rates reflect the time value of money and risk associated with the asset, and is in line with the rates used by competitors with a similar background.

Sensitivity to changes in assumptions

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

Note 21: Available-for-sale financial assets

As at 31 December 2010 available-for-sale financial assets comprised:

	Ownership %		Carrying value	
US$000	**As at 31.12.10**	As at 31.12.09	**As at 31.12.10**	As at 31.12.09
Current				
Investments available for sale – equity instruments:				
Vostock Ruda	**–**	1.10%	**–**	626
Total current			**–**	626
Non-current				
Investments available-for-sale – equity instruments:				
OJSC Stahanov	**3.14%**	3.14%	**2,728**	813
Vostock Ruda	**1.10%**	–	**628**	–
LLC Atol	**9.95%**	9.95%	**–**	2,104
CJSC AMA	**9.00%**	9.00%	**–**	–
CJSC Amtek	**9.00%**	9.00%	**–**	–
Total non-current			**3,356**	2,917

All investments relate to companies incorporated in Ukraine.

Notes to the Consolidated Financial Information continued

Note 21: Available-for-sale financial assets continued

Impairment testing

Ferrexpo Petroleum

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 key assumptions used in this calculation were gas/condensate prices, gas/oil/condensate conversion rates, production volumes, production costs, tax rates, projected capital expenditure, the Ukrainian hryvnia to US dollar exchange rate and the discount rate. The calculation took into account the projected future cash flows attributable to the Lubachevsko-Sherbakivska licence (projected to make up 90% of the total value of the investment) over a period of 19 years (the length of the licence) with an applied pre-tax discount rate of 15.0% (2009: 15.0%) per annum.

As a result of the above review, management recognised an additional impairment charge against the carrying value of the investments in LLC Atol in 2010 resulting in fully impaired investments as of 31 December 2010 (2009: US$2,104 thousand). The decrease of the carrying value of the investment is related to the impairment testing performed for the interim report as of 30 June 2010, when an additional impairment loss was recorded through the income statment.

There are no indications at the year-end that require a reversal of any impairment losses booked in previous periods.

OJSC Stahanov

The value of OJSC Stahanov was increased due to a higher quoted market price for its shares on the Ukrainian stock exchange (PFTS) as of 31 December 2010. The increase of the fair value in the amount of US$1,915 thousand (2009: US$441 thousand) has been recorded against the net unrealised gains reserve as a reversal of previously recorded impairment losses.

Further details regarding available-for-sale investments can be found in note 13 – write-offs and impairment losses as well as note 35 – related party transactions.

Note 22: Other non-current assets

As at 31 December 2010 other non-current assets comprised:

US$000	**As at 31.12.10**	As at 31.12.09
Prepayments for property, plant and equipment	**23,173**	7,320
Loan provided to associate	**1,000**	2,000
Other non-current assets	**593**	504
Total other non-current assets	**24,767**	9,824

Note 23: Deferred income tax

Deferred income tax assets and liabilities at 31 December 2010 relate to the following:

	Consolidated statement of financial position		Consolidated income statement	
US$000	**As at 31.12.10**	As at 31.12.09	**Year ended 31.12.10**	Year ended 31.12.09
Trade and other receivables	**4,106**	2,466	**1,480**	(1,584)
Inventories	**–**	144	**(96)**	132
Accrued income and prepaid expenses	**294**	–	**–**	–
Property, plant and equipment	**9,789**	9,122	**640**	393
IPO costs netted against share premium	**726**	1,226	**(499)**	(499)
Tax losses recognised	**5,322**	743	**293**	743
Other financial assets	**2**	187	**(104)**	(10)
Trade and other payables	**29**	77	**(48)**	47
Accrued expenses	**2,004**	1,602	**45**	169
Defined benefit pension liability	**2,666**	3,596	**(944)**	504
Provision for site restoration	**411**	298	**112**	41
Other financial liabilities	**81**	134	**(55)**	136
Other items	**7**	–	**–**	–
Total deferred tax assets	**25,438**	19,595	**824**	72
Thereof netted against deferred tax liabilities	**(8,842)**	(5,922)		
Total deferred tax assets as per the statement of financial position	**16,596**	13,673		
Trade and other receivable	**(1,490)**	(498)	**(992)**	(498)
Inventories	**(3,952)**	(2,522)	**(1,424)**	1,424
Accrued income/prepaid expenses	**(3,111)**	(2,477)	**(628)**	(638)
Property, plant and equipment	**(2,479)**	(554)	**(224)**	(398)
Intangible assets	**(112)**	(277)	**266**	(69)
Other non-current assets	**(49)**	(171)	**101**	(11)
Employee benefit trust	**(49)**	(3,025)	**3,045**	204
Trade and other payables and advance receivables	**(29)**	–	**–**	360
Lease obligations	**(4)**	(4)	**–**	(4)
Other items	**–**	(133)	**–**	(132)
Total deferred tax liabilities	**(11,274)**	(9,661)	**144**	238
Thereof netted against deferred tax assets	**8,842**	5,922		
Total deferred tax liabilities as per the statement of financial position	**(2,432)**	(3,739)		
Net deferred tax assets/net change	**14,164**	9,934	**968**	310

The movement in the deferred income tax balance is as follows:

US$000	**Year ended 31.12.10**	Year ended 31.12.09
Opening balance	**9,934**	8,745
Income statement credit	**968**	310
Charges booked outside of profit or loss	**(492)**	1,251
Acquisition of subsidiaries	**3,383**	–
Foreign currency exchange rate adjustment	**371**	(372)
Closing balance	**14,164**	9,934

As at 31 December 2010, the Group had deductible temporary differences on available tax loss carry forwards in the amount of US$100,699 thousand (2009: US$2,182 thousand) for which no deferred tax assets were recognised. The vast majority of the avaible tax loss carry forwards relates to the acquired logistics business in Austria and Hungary. Tax loss carry forwards in both tax jurisdictions do not expire. The balance of available tax loss carry forwards is after the offset of temporary differences on property, plant and equipment in Austria of US$16,780 thousand. Temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised amount to US$522,876 thousand (2009: US$147,080 thousand).

Notes to the Consolidated Financial Information continued

Note 24: Inventories

As at 31 December 2010 inventories comprised:

US$000	As at 31.12.10	As at 31.12.09
Raw materials and consumables	**70,440**	47,405
Finished ore pellets	**23,668**	5,135
Work in progress	**8,461**	7,565
Other	**2,580**	104
Provision for slow-moving and obsolete inventory	**(322)**	(573)
Total inventories	**104,827**	59,636

Inventory is held at the lower of cost or net recoverable amount.

Note 25: Trade and other receivables

At 31 December 2010 trade and other receivables comprised:

US$000	As at 31.12.10	As at 31.12.09
Trade receivables	**114,923**	42,956
Other receivables	**848**	1,616
Allowance for doubtful receivables	**(3,881)**	(6,455)
Total trade and other receivables	**111,890**	38,117

Trade receivables at 31 December 2010 includes US$1,057 thousand (2009: US$2,098 thousand) owed by related parties. The detailed related party disclosures are made in note 35.

The movement in the provision for doubtful receivables during the period under review was:

US$000	Year ended 31.12.10	Year ended 31.12.09
Opening balance	**6,455**	11,956
Recognition	**146**	187
Reversal	**(3,831)**	(5,386)
Acquisition of subsidiaries	**1,046**	–
Foreign currency translation	**65**	(302)
Closing balance	**3,881**	6,455

The following table shows the Group's receivables at the reporting date that are subject to credit risk and the ageing and impairment profile thereon:

As at 31.12.10				**Receivables past due but not impaired**		
US$000	**Gross amount**	**Receivables past due and impaired**	**Receivables neither past due nor impaired**	**Less than 45 days**	**45 to 90 days**	**Over 90 days**
Trade receivables	**114,923**	**3,560**	**105,302**	**5,074**	**529**	**458**
Other receivables	**848**	**321**	**234**	**104**	**4**	**185**

As at 31.12.09				Receivables past due but not impaired		
US$000	Gross amount	Receivables past due and impaired	Receivables neither past due nor impaired	Less than 45 days	45 to 90 days	Over 90 days
Trade receivables	42,956	6,322	33,932	2,160	173	369
Other receivables	1,616	133	1,263	7	12	201

The Group's exposures to credit and currency risks are disclosed in note 38.

Note 26: Prepayments and other current assets

As at 31 December 2010 prepayments and other current assets comprised:

US$000	As at 31.12.10	As at 31.12.09
Prepayments to suppliers		
Electricity and gas	**5,348**	4,036
Materials and spare parts	**2,606**	1,879
Services	**1,569**	1,922
Other prepayments	**946**	3,110
Loan provided to associate	**–**	550
Accrued income	**8,337**	6,062
Other	**116**	1,835
Total prepayments and other current assets	**18,922**	19,394

Note 27: Taxes payable, recoverable and prepaid

The income tax payable balance as of 31 December 2010 is shown below:

US$000	As at 31.12.10	As at 31.12.09
Opening balance	**(1,364)**	(8,604)
Income statement charge	**(73,970)**	(10,162)
Tax paid	**37,827**	18,899
Changes booked through equity	**–**	(99)
Acquisition of subsidiaries	**(81)**	–
Foreign exchange adjustment	**(4,188)**	(1,398)
Closing balance	**(41,776)**	(1,364)

Split by:

US$000	As at 31.12.10	As at 31.12.09
Income tax receivable balance	**35**	9,741
Income tax payable balance	**(41,811)**	(11,105)
Income tax payable at the year end	**(41,776)**	(1,364)

As at 31 December 2010 taxes recoverable and prepaid comprised:

US$000	As at 31.12.10	As at 31.12.09
VAT receivable	**101,683**	81,269
Other taxes prepaid	**1,964**	15
Total taxes recoverable and prepaid	**103,647**	81,284

The VAT receivable results from VAT paid on domestic purchases of goods and services and on the imports of equipment and where relevant services into Ukraine to the extent that this can not be offset on VAT paid on the sale of goods and services.

The Ukrainian government has not been making timely repayments of VAT in 2009 and the first half of the financial year 2010 due to the economic downturn and general financial crisis in 2009 allied with the presidential elections in early 2010 and the ongoing negotiations for financial aid from the IMF. The increase of the VAT receivable balance is related to higher imports of equipment in the period under review. During the financial year 2010, the Group received VAT bonds from the Ukrainian government relating to the outstanding VAT receivable balance as of the end of December 2009. All VAT bonds were sold in the latter half of the financial year 2010 with a discount of US$10,936 thousand. Subsequent to the issuance of the VAT bonds in August 2010, the Ukrainian government has started repayments of the outstanding VAT.

Further information on the Ukrainian VAT situation is provided in the risk section on page 33.

Notes to the Consolidated Financial Information continued

Note 27: Taxes payable, recoverable and prepaid continued

As at 31 December 2010 other taxes payable comprised:

US$000	As at 31.12.10	As at 31.12.09
Withholding tax	**415**	3,233
Environmental tax	**1,045**	2,267
Source tax	**–**	317
VAT payable	**4,250**	–
Other taxes	**8,213**	2,076
Total taxes payable	**13,923**	7,893

Note 28: Cash and cash equivalents

As at 31 December 2010 cash and cash equivalents comprised:

US$000	Year ended 31.12.10	Year ended 31.12.09
Cash at bank and on hand	**251,572**	11,991
Restricted cash	**37,768**	–
Short-term deposits	**30,123**	–
Marketable securities	**7**	–
Total cash and cash equivalents	**319,470**	11,991

The balance of restricted cash of US$37,768 thousand, which is related to an acquisition made in December 2010, is held in an escrow account at 31 December 2010 (2009: US$nil) and unavailable to the Group. This amount was released subsequent to the year end.

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 38.

Note 29: Share capital and reserves

	US$000	Number of shares
Balance at 31 December 2010 and 2009	121,628	613,967,956

Share capital represents the nominal value on issue of the Company's equity share capital, comprising £0.10 Ordinary Shares.

The fully paid share capital of Ferrexpo plc at 31 December 2010 was 613,967,956 (2009: 613,967,956) Ordinary Shares at a par value of £0.10 paid for in cash, resulting in share capital of US$121,628 thousand (2009: US$121,628 thousand) per the statement of financial position.

The closing balance as of 31 December 2010 and 2009 includes 25,343,814 shares which are held in treasury and 4,019,759 shares held in the employee benefit trust reserve (2009: 4,092,285) .

Share premium

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

Treasury share reserve

During September 2008, Ferrexpo plc completed a buyback of 25,343,814 shares for a total cost of US$77,260 thousand. These shares are currently held as treasury shares by the Group. The Companies Act 2006 forbids the exercise of any rights (including voting rights) and the payment of dividends in respect of treasury shares.

Employee benefit trust reserve

This reserve represents 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 incentive schemes.

Note 29: Share capital and reserves continued

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 non-controlling interests.

Subsequent increases in the stake have been accounted for using the parent extension concept method of accounting as described in the accounting policy section of the financial statements (note 2).

Net unrealised gains reserve

This reserve records fair value changes on available-for-sale investments.

Translation reserve

The translation reserve represents exchange differences arising on the translation of non-US dollar (e.g. hryvnia) functional currency operations within the Group into US dollars.

Note 30: 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. All loans are in US dollars. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 38.

US$000	Notes	As at 31.12.10	As at 31.12.09
Current			
Syndicated bank loans – secured	38	**–**	207,723
Other bank loans – secured	38	**18,818**	41,662
Commodity loans	38	**495**	124
Obligations under finance leases	38	**2,832**	1,264
Interest accrued	38	**418**	730
Total current interest bearing loans and borrowings		**22,563**	251,503
Non-current			
Syndicated bank loans – secured	38	**341,938**	–
Other bank loans – secured	38	**36,128**	933
Commodity loans	38	**1,898**	–
Obligations under finance leases	38	**21,326**	17,210
Total non-current interest bearing loans and borrowings		**401,290**	18,143
Total interest bearing loans and borrowings		**423,853**	269,646

As at 31 December 2010 the other bank loans are secured by property, plant and equipment with a carrying amount of US$68,695 thousand (2009: US$104,579 thousand) and finished goods inventory of US$6,600 thousand (2009: nil) and rights to a purchase contract in respect of equipment to be delivered of US$20,890 thousand as of the end of the prior year. Secured Ukrainian property, plant and equipment includes crushing, excavators and mine transport equipment. The syndicated bank loans of US$350,000 thousand (2009: US$207,723 thousand) are secured by rights to proceeds from future export sales of US$378,310 thousand (2009: US$370,444 thousand).

As at 31 December 2010 the Group's major bank debt facility was a US$350,000 thousand (2009: US$335,000 thousand) pre-export finance facility, which was fully drawn down as of 31 December 2010. The remaining outstanding balance of the major bank facility as of 31 December 2009 amounting to US$207,727 thousand was repaid in full on 8 January 2011.

The Group entered into a new bank debt term facility on 23 September 2010 in the amount of US$350,000 thousand, which matures on 31 March 2014, amortising over 24 months following an 18 month grace period. This pre-export finance facility was drawn in full on 7 October 2010 and was used for refinancing of the pre-export finance facility of US$230,000 thousand that was drawn down on 8 January 2011.

Notes to the Consolidated Financial Information continued

Note 30: Interest bearing loans and borrowings continued

The major bank debt facility as at 31 December 2010 was guaranteed and secured as follows:

- Ferrexpo AG assigned the rights to revenue from certain sales contracts;
- Ferrexpo Poltava GOK Corporation assigned all of its rights of certain export contracts for the pellets sales to Ferrexpo AG;
- the Group pledged its bank account into which all proceeds from the sale of certain iron ore pellet contracts are received; and
- Ferrexpo AG pledged all its rights under certain contracts for the sale of iron ore pellets and its rights under certain related credit support documents.

Ferrexpo AG is subject to minimum capital requirements which restrict the amount of profit that can be distributed to the parent.

As at 31 December 2010, the Group has two committed facilities amounting to US$65,000 thousand (2009: US$nil) available that are not drawn down.

Note 31: Trade and other payables

As at 31 December 2010 trade and other payables comprised:

US$000	Note	As at 31.12.10	As at 31.12.09
Payables for equipment		**4,307**	4,323
Materials and services		**41,616**	20,255
Dividends payable		**31**	78
Other	41	**42,135**	3,146
Total current trade and other payables		**88,089**	27,802

Trade and other payables at 31 December 2010 includes US$3,263 thousand (2009: US$1,660 thousand) due to related parties. See note 35. Included in the balance of other payables stated above is a liability of US$37,768 thousand in relation to an acquisition made in December 2010.

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 38.

Note 32: Defined benefit pension liability

Ukrainian defined benefit plan

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 to the income statement 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 are unfunded. Costs relating to this plan are accrued using the projected unit credit method in respect of those employees entitled to such payments. Actuarial techniques have been used in calculating the liability related to this retirement obligation at the reporting date.

Gains and losses resulting from the use of internal actuarial valuation methodologies are recognised when the cumulative unrecognised actuarial gains or losses for the scheme exceed 10% of defined benefit obligation. These gains or losses are recognised as income or expense over the expected average remaining working lives of the employees participating in the plan.

The past service cost is recognised as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, 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 past service cost not yet recognised.

Note 32: Defined benefit pension liability continued

At 31 December 2010 this defined benefit plan covered 4,612 current employees (2009: 4,669 people). There are 1,193 former employees currently in receipt of pensions (2009: 1,246 people).

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; this has also been included in the provision.

Swiss defined benefit plan

The employees of the Group's Swiss operation are covered under a multi-employer pension plan, which is governed in accordance with the requirements of Swiss law. The assets of the pension scheme are held separately from those of the Group and are invested with an insurance company. The annual pension costs and the defined benefit obligation as well as the fair value of the plan assets are assessed annually by an independent professionally qualified actuary.

The accumulated capital of the employees is subject to interests determined by the local legislation and defined in the regulatory of the pension scheme.

On retirement employees are entitled to receive either a lump sum or an annual proportion of their accumulated capital as a pension underpinned by certain guarantees. The Group and in certain cases the employees make contributions to the pension scheme as a percentage of the insured salaries and depending on the age of the employees.

At 31 December 2010 this defined benefit plan covered 20 people (2009: 21 people).

Austrian defined benefit plan

The Group has an unfunded retirement benefit obligation covering the Austrian employees of Helogistics. At 31 December 2010, 37 current employees (2009: 42 employees) are covered by this plan. All payments under the scheme are made by the employer as a lump sum in cases of retirement, occupational disability, death in service or redundancy. The amount payable is dependant on the years of service up to a maximum of a full annual salary.

The annual costs relating to this plan are accrued using the projected unit credit method. The annual costs and the defined benefit obligation are assessed annually by an independent professionally qualified actuary.

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

	Year ended 31.12.10			Year ended 31.12.09	
	Swiss scheme	**Austrian scheme**	**Ukrainian scheme**	Swiss scheme	Ukrainian scheme
Discount rate	**2.40%**	**5.00%**	**11.00%**	3.25%	15.00%
Retail price inflation	**1.50%**	**2.80%**	**7.00%**	1.50%	7.00%
Expected future salary increase	**3.00%**	**2.50%**	**7.00%**	3.00%	7.00%
Expected future benefit increase	**0.00%**	**0.00%**	**0.00%**	0.00%	0.00%
Female life expectancy (years)	**86.0**	**n/a**	**74.5**	86.0	74.5
Male life expectancy (years)	**82.9**	**n/a**	**63.5**	82.9	63.5

Notes to the Consolidated Financial Information continued

Note 32: Defined benefit pension liability continued

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

	Year ended 31.12.10				Year ended 31.12.09		
US$000	**Swiss scheme**	**Austrian scheme**	**Ukrainian scheme**	**Total**	Swiss scheme	Ukrainian scheme	Total
Opening defined benefit obligation	**2,234**	**–**	**23,880**	**26,114**	2,096	22,187	24,283
Current service cost	**565**	**–**	**1,291**	**1,856**	375	1,142	1,517
Employee contribution	**102**	**–**	**–**	**102**	14	–	14
Interest cost	**73**	**–**	**3,344**	**3,417**	66	3,074	3,140
Contribution by plan participants	**14**	**–**	**–**	**14**	469	–	469
Benefits paid	**(220)**	**–**	**(3,468)**	**(3,688)**	(926)	(2,987)	(3,913)
Actuarial loss	**(383)**	**–**	**28,282**	**27,899**	101	1,230	1,331
Past service cost	**–**	**–**	**–**	**–**			
Acquisition of subsidiaries	**–**	**819**	**–**	**819**	–	3,502	3,502
Foreign exchange translation adjustment	**249**	**-**	**(27)**	**222**	39	(4,268)	(4,229)
Closing defined benefit obligation	**2,634**	**819**	**53,302**	**56,755**	2,234	23,880	26,114
Opening plan assets	**1,375**	**–**	**–**	**1,375**	1,507	–	1,507
Expected return on plan assets	**45**	**–**	**–**	**45**	48	–	48
Employer contribution	**309**	**–**	**–**	**309**	474	–	474
Employee contribution	**102**	**–**	**–**	**102**	14		14
Contribution by plan participants	**14**	**–**	**–**	**14**	469	–	469
Benefits paid	**(220)**	**–**	**–**	**(220)**	(926)	–	(926)
Actuarial loss	**(194)**	**–**	**–**	**(194)**	(230)	–	(230)
Foreign exchange translation adjustment	**148**	**–**	**–**	**148**	19	–	19
Closing plan assets	**1,579**	**–**	**–**	**1,579**	1,375	–	1,375
Net funded status	**1,055**	**819**	**53,202**	**55,176**	859	23,880	24,739
Unrecognised actuarial losses	**(584)**	**–**	**(34,046)**	**(34,630)**	(807)	(6,333)	(7,140)
Unrecognised past service cost	**–**	**–**	**(2,664)**	**(2,664)**	–	(3,113)	(3,113)
Foreign exchange translation adjustment	**(63)**	**–**	**–**	**(63)**	(34)	77	43
Closing balance defined benefit pension liability	**408**	**819**	**16,592**	**17,819**	18	14,511	14,529
Benefit expense							
Current service cost	**667**	**–**	**1,291**	**1,958**	389	1,142	1,531
Interest cost	**72**	**–**	**3,344**	**3,416**	66	3,074	3,140
Amortisation of actuarial loss	**68**	**–**	**496**	**564**	37	439	476
Expected return on plan assets	**(45)**	**–**	**–**	**(45)**	(48)	–	(48)
Recognised past service cost	**–**	**–**	**382**	**382**	–	389	389
Employee contribution	**(102)**	**–**	**–**	**(102)**	(14)	–	(14)
Curtailment gain	**–**	**–**	**–**	**–**	–	–	–
Current year expense	**660**	**–**	**5,513**	**6,173**	430	5,044	5,474
Net movement on defined benefit pension liability:							
Opening balance	**18**	**–**	**14,511**	**14,529**	62	12,878	12,940
Recognition of liability	**–**	**–**	**–**	**–**	–	–	
Benefits expense	**660**	**–**	**5,514**	**6,174**	430	5,044	5,474
Benefits paid	**–**	**–**	**(3,468)**	**(3,468)**	–	(2,897)	(2,897)
Employer contribution	**(309)**	**–**	**–**	**(309)**	(474)	–	(474)
Foreign exchange translation adjustment	**40**	**–**	**36**	**76**	–	(514)	(514)
Closing balance	**409**	**819**	**16,593**	**17,820**	18	14,511	14,529
Experience adjustments arising on plan liabilities	**(383)**	**–**	**28,282**	**27,796**	101	1,230	1,331

Contributions to the defined benefit plans in 2011 are expected to be US$4,065 thousand.

Note 32: Defined benefit pension liability continued

The asset allocation of the plan assets of the Swiss scheme is as follows:

US$000	As at 31.12.10 %	As at 31.12.10	As at 31.12.09 %	As at 31.12.09
Scheme assets at fair value				
Equities	**21.5**	**339**	18.3	252
Bonds	**45.8**	**723**	49.7	683
Properties	**18.1**	**286**	18.1	248
Other	**14.6**	**231**	13.9	192
Fair value of scheme assets	**100.0**	**1,579**	100	1,375

The overall expected rate of return on assets is determined based on the market value weighted expected return applicable to the underlying asset category.

	Year ended 31.12.10 Swiss scheme	Year ended 31.12.09 Swiss scheme
Expected rate of return on plan assets:		
Equities	**4.31%**	6.50%
Bonds	**2.50%**	2.50%
Properties	**2.35%**	4.50%
Other	**4.92%**	2.25–4.00%
Total	**3.06%**	3.50%
Actual rate of return on plan assets:		
Equities	**0.91%**	28.53%
Bonds	**2.77%**	8.93%
Properties	**6.11%**	5.59–33.60%
Other	**4.72%**	(44.94)–24.63%
Total	**4.52%**	11.60%

The actual returns on the plan assets for the Swiss scheme were US$63 thousand (2009: US$114 thousand).

A change in the assumed discount rates would have the following effects:

	Year ended 31.12.10					
	Increase			Decrease		
US$000	Swiss scheme (+0.25%)	Austrian scheme (+0.25%)	Ukrainian scheme (+1.00%)	Swiss scheme (-0.25%)	Austrian scheme (-0.25%)	Ukrainian scheme (-1.00%)
Effect on the aggregated current service costs and interest costs	**(13)**	**–**	**(128)**	**14**	**–**	**144**
Effect on the defined benefit obligation	**(74)**	**(16)**	**(4,243)**	**78**	**17**	**4,931**

	Year ended 31.12.09			
	Increase		Decrease	
US$000	Swiss scheme (+0.25%)	Ukrainian scheme (+1.00%)	Swiss scheme (-0.25%)	Ukrainian scheme (-1.00%)
Effect on the aggregated current service costs and interest costs	(23)	(122)	25	139
Effect on the defined benefit obligation	(87)	(1,460)	93	1,650

Notes to the Consolidated Financial Information continued

Note 32: Defined benefit pension liability continued

The history of experience adjustments (unrecognised losses) is as follows for the current and previous three periods:

	Year ended 31.12.10	Year ended 31.12.09	Year ended 31.12.08	Year ended 31.12.07
Opening balance	**(7,140)**	(6,294)	(3,292)	(945)
Experience adjustments on plan liabilities	**(27,899)**	(1,331)	(6,219)	(2,347)
Experience adjustments on plan assets	**(194)**	(230)	(84)	–
Gain on change in assumptions	**–**	–	–	–
Foreign exchange translation adjustment	**603**	715	3,301	–
Closing balance	**(34,630)**	(7,140)	(6,294)	(3,292)

Note 33: Provision for site restoration

The costs of decommissioning open pit mines are based on the amounts determined by third party experts based on various codes of practice and laws applicable in Ukraine. The provision represents the discounted value of the estimated costs of decommissioning and restoring the mines at the dates when the deposits are expected to be depleted. The present value of the provision has been calculated using a nominal pre-tax discount rate of 9.22% per year (2009: 10.25%). The liability becomes payable at the end of the useful life of the mine, currently estimated to be 2055. Uncertainties in estimating these costs include potential changes in regulatory requirements, decommissioning and reclamation alternatives and the levels of discount and inflation rates. The increase as of 31 December 2010 is due to the extension of the expected useful lives of the mines.

US$000	**As at 31.12.10**	As at 31.12.09
Opening balance	**1,268**	1,071
Unwind of the discount	**133**	159
Arising during the year	**1,328**	76
Translation adjustment	**17**	(38)
Closing balance	**2,746**	1,268

Note 34: Accrued liabilities and deferred income

As at 31 December 2010 accrued liabilities and deferred income comprised:

US$000	**As at 31.12.10**	As at 31.12.09
Accrued expenses	**12,563**	1,582
Accrued employee costs	**10,830**	10,398
Advances from customers	**801**	166
Deferred income	**1,302**	–
Total accrued liabilities and deferred income	**25,496**	12,146

Note 35: Related party disclosure

During the periods presented the Group entered into arm's length transactions with entities under common control of the majority owner of the Group, Kostyantin Zhevago and with other related parties. Management considers that the Group has appropriate procedures in place to identify and properly disclose transactions with the related parties.

Entities under common control are those under control of Kostyantin Zhevago. TIS Ruda, in which the Group holds an interest of 48.6%, is the only associated company of the Group. The other related parties are principally those entities controlled by Olexander Moroz (who was a supervisory board member of Ferrexpo Poltava GOK Corporation until 14 May 2010).

Note 35: Related party disclosure continued

The related party transactions entered into by the Group during the periods presented are summarised below:

Revenue, expenses, finance income and finance costs

US$000	Year ended 31.12.10 Entities under common control	Associated companies	Other related parties	Year ended 31.12.09 Entities under common control	Associated companies	Other related parties
Other sales[1]	**1,398**	**951**	**2,263**	506	–	1,480
Total revenue	**1,398**	**951**	**2,263**	506	–	1,480
Purchase of materials[2]	**125,093**	**–**	**15,105**	4,458	–	11,930
Purchase of services[3]	**732**	**–**	**119**	444	–	23
General and administration expenses[4]	**4,612**	**–**	**1**	3,315	–	–
Selling and distribution[5]	**–**	**8,362**	**18,496**	–	11,849	11,736
Other expenses[6]	**201**	**–**	**21**	91	–	8
Total expenses	**130,638**	**8,362**	**33,742**	8,308	11,849	23,697
Finance income[7]	**964**	**96**	**–**	1,329	267	–
Finance costs[7]	**(443)**	**–**	**–**	(816)	–	–
Net finance income/(expenses)	**521**	**96**	**–**	513	267	–

1 Other sales to other related parties consist of scrap metal sales made to Ferrolit, a company under control of a former supervisory board member of Ferrexpo Poltava (see above). Other sales to entities under common control are mainly related to sales of power, steam and water and the lease of premises to Kislorod and Vorskla-Steel.

2 Purchase of materials from entities under common control consists of purchased concentrate in the amount of US$104,367 thousand from Vostock Ruda (31 December 2009: US$1,386 thousand) of which US$92,667 thousand are related to third party merchant concentrate purchased by the Group through this company. The Group currently has surplus pelletising capacity which it utilises where possible by purchasing concentrate produced by third parties on the open market. Concentrate itself is a tradable end product and as such prices paid reflect the market for that product. As a result, the Group is able to earn a margin by converting this product into pellets albeit of a lower level than from its own produced ore. It is the Group's strategy to produce pellets from purchased third party concentrate in order to make full use of the available pelletising capacity where adequate margin can be earned. The Group earned a margin on the third party concentrate business of US$16,174 thousand. Vostock Ruda earned fees of US$140 thousand which covered only costs incurred which were associated with procuring and delivering of the purchased third party concentrate. During the financial year 2010, the Group purchased through Ferrexpo Poltava pellets from SIA Wellmark Latvia, which is controlled by Kostyatin Zhevago. The related party acted on behalf of the Group and earned a handling commission of US$0.10 per ton amounting in total to US$69 thousand (2009: US$nil). The Group purchased compressed air and oxygen of US$3,667 thousand (31 December 2009: US$1,414 thousand) from Kislorod, company controlled by Kostyantin Zhevago . Purchase of materials from other related parties includes purchased cast iron balls from Ferrolit of US$14,946 thousand (31 December 2009: US$11,286 thousand), which are used in the production process. Purchase of materials also comprise the purchase of gas amounting to US$14,432 thousand (2009: nil) OJSC Ukrzakordongeologia, which is a related party to Group, at rates which are competitive to those for supply from Naftogaz.

3 Kuoni Attorneys at law Ltd. provided an employee secondment to the Group between December 2009 and June 2010. The recharge was made at cost and amounted to US$106 thousand. Other services provided were US$13 thousand (US$23 thousand). Wolfram Kuoni who is a partner in the law firm is also an independent non-executive Director of Ferrexpo plc. The services were provided on an arm length basis by other members of Kuoni Attorneys at law Ltd.

4 The Group paid US$3,313 thousand to FC Vorskla under a contract entered into on 1 April 2009 and renewed on 10 December 2009 for advertisement, marketing and general PR related services (31 December 2009: US$2,631 thousand).

5 Selling and distribution services are purchased from TIS Ruda, an associated company as the Group holds an interest of 48.6%. These services relate to port services including port charges, handling costs, agent commissions and storage costs. Services from other related parties are mainly provided by Slavutich Ruda which is under control of Olexander Moroz, a supervisory board member of Ferrexpo Poltava until 14 May 2010. Slavutich Ruda provided logistic management services mainly related to custom clearance services and coordination of rail transit. The total billings amounted to US$18,294 thousand (31 December 2009: US$11,507 thousand) and Slavutich Ruda earned commission income of US$755 thousand on these services (31 December 2009: US$793 thousand). These purchases were at prevailing market rates.

6 Other operating expenses mainly relate to communication services provided by TV & Radio Co amounting to US$108 thousand (31 December 2009: US$60 thousand).

7 The Group has transactional banking arrangements with Bank Finance & Credit (Bank FC), which is under common control of Kostyantin Zhevago. Finance income and expenses relate to these transactional banking arrangements. Further information is provided under transactional banking arrangements in this note.

Sale and purchases of property, plant and equipment and investments

US$000	Year ended 31.12.10 Entities under common control	Associated companies	Other related parties	Year ended 31.12.09 Entities under common control	Associated companies	Other related parties
Purchase of property, plant and equipment[1]	**22,459**	**–**	**–**	2,200	–	–

1 Between October and December 2010, the Group purchased 300 rail cars from a related party named Trading house Wagonplant LLC in the amount of US$17,500 thousand (31 December 2009: nil). In 2010, drilling programmes have been conducted by OJSC Donbasgeology at the Northern deposit of Ferrexpo Poltava and at Ferrexpo Belanovo amounting to US$4,959 thousand (31 December 2009: nil). On 31 March 2009, the Group acquired a trial filter press from Progress Plant Company, an entity under common control, for US$2,200 thousand. All transactions were on arm's length basis and supplied after a competitive tender process.

Notes to the Consolidated Financial Information continued

Note 35: Related party disclosure continued

The outstanding investments/balances with related parties for the periods presented are as follows:

	Year ended 31.12.10			Year ended 31.12.09		
US$000	**Entities under common control**	**Associated companies**	**Other related parties**	Entities under common control	Associated companies	Other related parties
Investments available-for-sale[1]	**3,353**	**–**	**–**	2,917	–	–
Prepayments for PPE[2]	**182**	**–**	**–**			
Loans[3]	**–**	**–**	**–**	–	2,550	–
Total non-current assets	**3,535**	**–**	**–**	2,917	2,550	–
Investments available-for-sale[1]	**–**	**–**	**–**	626	–	–
Loans[3]	**–**	**1,000**	**–**			
Trade and other receivables[4]	**514**	**203**	**15**	1,999	93	6
Prepayments and other current assets[2]	**95**	**27**	**1**	995	–	1
Cash and cash equivalents[5]	**156,807**	**–**	**–**	2,123	–	–
Total current assets	**157,416**	**1,230**	**16**	5,742	93	7
Trade and other payables[6]	**1,563**	**12**	**1,668**	514	–	1,146
Total current liabilities	**1,563**	**12**	**1,668**	514	–	1,146

1 The investments available-for-sale comprised of shareholdings in LLC Atol (9.95%), OJSC Stahanov (3.14%) and Vostock Ruda (1.10%). The majority ownership of these companies is held by the principal shareholder of Ferrexpo plc and OJSC Stahanov is also listed at the Ukrainian stock exchange. The changes of the values in the table above are related to fair value adjustments recorded during the financial year 2010. The shareholdings for all investments remained unchanged during the periods disclosed above. The investment in LLC Atol was subject of an additional impairment of US$2,124 thousand recorded as of 30 June 2010 (31 December 2009: US$nil) resulting in a full impairment of this investment. Further information is provided in note 21 of the Annual Report & Accounts 2010.

2 Prepayments for drilling programmes on the Northern Deposits in the amount of US$182 thousand have been made to OJSC Donbasgeology in period ended 31 December 2010 (31 December 2009: US$nil). The company is controlled by Kostyantin Zhevago.

3 Loans were granted to TIS Ruda in 2007 and 2008, which have been partially repaid during the financial year 2009 and 2010. The Group holds an interest of 48.6% in this Ukrainian company operating a port located on the Black Sea and is an associated company of the Group. The company provides port services to the Group (see above).

4 As of 31 December 2010 trade and other receivables included outstanding amounts from Kislorod amounting to US$311 thousand, which are mainly related to sales of power, steam and water (31 December 2009: US$368 thousand). The outstanding balances as of the end of the prior year included US$1,169 thousand relating to the disposal of shares in Vostock Ruda to Progress Plant Company during the financial year 2008. Both companies are under common control of Kostyantin Zhevago.

5 As of 31 December 2010 cash and cash equivalents with Bank F&C were US$156,807 thousand (31 December 2009: US$2,123 thousand). Further information is provided under transactional banking arrangements below.

6 Trade and other payables due to entities under common control amounting to US$1,013 thousand as of 31 December 2010 related to concentrate purchased from Vostock Ruda (31 December 2009: US$ il) and to compressed air and US$416 thousand (31 December 2009: US$ 368 thousand) to oxygen purchased from Kislorod. Trade and other payables due to other related parties amounting to US$1,291 thousand as of 31 December 2010 related to purchased material from Ferrolit (31 December 2009: US$989 thousand).

Transactional banking arrangements

The Group has transactional banking arrangements with Bank Finance & Credit (Bank F&C) in Ukraine which is under common control of the majority shareholder of Ferrexpo plc. Finance income and finance costs are disclosed in the table above.

The Group entered into a multi-currency revolving loan facility agreement in April 2007 with Bank F&C which expired on 16 April 2010 and has been extended to 16 April 2013 upon the same terms and conditions except for two changes. The maximum facility limit has been increased from UAH50,500 thousand to UAH80,000 thousand (US$10,048 thousand at the exchange rate as of 31 December 2010) and the interest rates increased for UAH advances from 16% to 18% per annum. The total value of pledges for this loan facility is US$13,300 thousand.

Other related party transaction

In August 2009, the Group paid Swiss Withholding Tax of US$984 thousand on behalf of Kostyantin Zhevago on costs incurred for the Initial Public Offering completed in June 2007. This was settled in accordance with terms and conditions entered into at the time of the Initial Public Offering of the Company.

Note 36: Employee benefits expenses

Employee benefits expenses for the year ended 31 December 2010 consisted of the following:

US$000	Year ended 31.12.10	Year ended 31.12.09
Wages and salaries	**53,774**	39,905
Social security costs	**17,037**	11,520
Post-employment benefits	**2,172**	2,653
Other employee costs	**2,186**	7,248
Share-based payments	**923**	3,850
Total employee benefits expenses	**76,092**	65,176

Average number of employees

US$000	Year ended 31.12.10	Year ended 31.12.09
Production	**6,897**	6,319
Marketing and distribution	**174**	169
Administration	**1,119**	958
Other	**724**	907
Total average number of employees	**8,914**	8,353

Compensation for key management was as follows:

US$000	Year ended 31.12.10	Year ended 31.12.09
Wages and salaries	**4,927**	4,540
Social security costs	**277**	646
Other employee costs	**361**	287
Total compensation for key management	**5,565**	5,472

Share-based payments, calculated under the Black-Scholes option pricing model, amounting to US$1,409 thousand (2009: US$560 thousand) are included in wages and salaries. Under this model, the expected future costs of the award grants made to employees is spread over the period of vesting.

The balances above include compensation for Non-executive and Executive Directors as well as for other key management personnel. Refer to the Remuneration Report for details of compensation relating to Non-executive and Executive Directors.

Note 37: Commitments and contingencies

Operating lease commitments – Group as lessee

Future minimum rentals payable under non-cancellable operating leases as at 31 December 2010 are as follows:

US$000	As at 31.12.10	As at 31.12.09
Less than one year	**2,128**	849
Between one and five years	**5,587**	2,374
More than five years	**45,813**	16,479
Total minimum rentals payable	**53,528**	19,702

During the year ended 31 December 2010 US$1,076 thousand was recognised as an expense in the income statement in respect of operating leases (2009: US$1,665 thousand).

The Group leases land and buildings under operating leases. The leases on land typically run for 49 years, with a lease period of 5 to 10 years on buildings.

Notes to the Consolidated Financial Information continued

Note 37: Commitments and contingencies continued

Operating lease commitments – Group as lessor

The Group does not have any commitments from lease agreements acting as lessor.

Finance lease commitments

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	As at 31.12.10	
US$000	**Minimum payments**	**Present value of payments (note 30)**
Less than one year	**5,389**	**2,832**
Between one and five years	**20,142**	**13,162**
More than five years	**8,245**	**8,164**
Total minimum lease payments	**33,776**	**24,158**
Less: amounts representing finance charges	**(9,618)**	–
Present value of minimum lease payments	**24,158**	**24,158**

	As at 31.12.09	
US$000	Minimum payments	Present value of payments (note 30)
Less than one year	1,264	1,264
Between one and five years	9,023	6,049
More than five years	8,188	2,906
Total minimum lease payments	18,475	10,219
Less: amounts representing finance charges	(8,256)	–
Present value of minimum lease payments	10,219	10,219

Other

US$000	**As at 31.12.10**	As at 31.12.09
Capital commitments on purchase of property, plant and equipment	**70,618**	41,404

Legal

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.

Tax and other regulatory compliance

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 enterprises in Ukraine.

Note 38: Financial instruments

The accounting classification of each category of financial instruments, and their carrying amounts, are set out below:

US$000	Notes	As at 31.12.10 Loans and receivables	Available-for-sale financial fassets	At fair value through profit or loss	Financial liabilities measured at amortised cost	Total at 31.12.10
Financial assets						
Cash and cash equivalents	28	**319,470**	**–**	**–**	–	**319,470**
Available-for-sale investments	21	**–**	**3,356**	**–**	**–**	**3,356**
Trade and other receivables	25	**111,890**	**–**	**–**	**–**	**111,890**
Other financial assets		**1,164**	**–**	**–**	**–**	**1,164**
Total financial assets		**432,524**	**3,356**	**–**	**–**	**435,880**
Financial liabilities						
Trade and other payables	31	**–**	**–**	**–**	**88,089**	**88,089**
Accrued liabilities and deferred income	34	**–**	**–**	**–**	**23,393**	**23,393**
Interest bearing loans and borrowings	30	**–**	**–**	**–**	**423,853**	**423,853**
Other financial liabilities		**–**	**–**	**–**	**–**	**–**
Total financial liabilities		**–**	**–**	**–**	**535,335**	**535,335**

US$000	Notes	As at 31.12.09 Loans and receivables	Available-for-sale financial fassets	At fair value through profit or loss	Financial liabilities measured at amortised cost	Total at 31.12.09
Financial assets						
Cash and cash equivalents	28	11,991	–	–	–	11,991
Available-for-sale investments	21		3,543	–	–	3,543
Trade and other receivables	25	38,117	–	–	–	38,117
Other financial assets		3,719	–	–	–	3,719
Total financial assets		53,827	3,543	–	–	57,370
Financial liabilities						
Trade and other payables	31	–	–	–	24,656	24,656
Accrued liabilities and deferred income	34	–	–	–	12,146	12,146
Interest bearing loans and borrowings	30	–	–	–	269,646	269,646
Other financial liabilities		–	–	–	3,161	3,161
Total financial liabilities		–	–	–	309,609	309,609

Financial risk management

Overview

The Group has exposure to the following risks from its use of financial instruments:

> credit risk
> liquidity risk
> market risk – including currency and commodity 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.

Notes to the Consolidated Financial Information continued

Note 38: Financial instruments continued

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 and the CFO.

The Group operates a centralised financial risk management structure under the management of the Executive Committee, accountable to the Board. The Executive Committee delegates certain responsibilities to the CFO. The CFO's responsibilities include authority for approving all new physical, commercial or financial transactions that create a financial risk for the Group. Additionally, the CFO controls the management of treasury risks within each of the business units in accordance with a Board approved Treasury Policy.

Financial instrument risk exposure and management

Natural hedges that can be identified and their 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 under the approved Treasury Policy – and are designed to have the 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 other hedging instruments, in this or prior periods.

Credit risk

Trade and other receivables

The Group through its trading operations enters into binding contracts which contain 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 reducing risks within acceptable parameters.

In order to react to the significant weakness in iron ore demand during the financial year 2009, certain sales arrangements with customers have been changed from long-term to spot.

Trade finance is used to balance risk and payment. 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 as, or better than, those which other organisations with similar credit worthiness would achieve, and compared with other 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 crystallises when a party to an agreement defaults. Where letters of credit are used to minimise this risk, 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. During the year the Group reduced its exposure to Ukraine trade receivables risk by increasing the level of production exported.

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

Investment securities

The Group limits its cash 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 by S&P or Moody's at a level to long-term A (S&P) or short-term A2 (S&P) or better.

Note 38: Financial instruments continued

Recognising that the principal activities of the Group are predominantly in Ukraine, special consideration is given to investments with Ukrainian counterparties. Exceptions may be made under the following conditions:

> the counterparty is resident in Ukraine; and
> the counterparty is included in the Top 15 financial institutions in Ukraine based on the Group's assessment of the creditworthiness of the financial institution.

Cash and deposits are held with the Group's transactional bank in Ukraine, which is a related party financial institution. This bank is registered with the National Bank of Ukraine for receiving and disbursing payments under Group intercompany loans, and is an approved Ukrainian counterparty. The Group is therefore exposed to Ukraine country risk.

Guarantees

The Group's policy is to provide financial guarantees only to wholly-owned subsidiaries. At 31 December 2010 Ferrexpo AG and Ferrexpo Finance plc were jointly and severally liable under a US$350 million loan agreement having an outstanding balance of US$350,000 thousand (31 December 2009: US$207,723 thousand).

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 31.12.10**	As at 31.12.09
Cash and cash equivalents	**319,470**	11,991
Trade and other receivables	**111,890**	38,117
Other financial assets	**1,164**	3,719
Total maximum exposure to credit risk	**432,524**	53,827

The total receivables balance relating to the Group's top three customers was US$73,749 thousand (2009: US$24,999 thousand) making up 65.9% of the total amounts receivable (2009: 68.5%).

Impairment profile

The Group's exposure to credit risk relating to trade and other receivables is disclosed in note 25.

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 is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation by holding surplus cash or undrawn credit facilities.

The Group prepares detailed rolling cash flow 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.

Notes to the Consolidated Financial Information continued

Note 38: Financial instruments continued

The following are the contractual maturities of financial liabilities by interest type:

US$000	As at 31.12.10 Less than 1 year	Between 1 to 2 years	Between 2 to 5 years	Total
Interest bearing				
Syndicated loans – secured	**–**	**142,288**	**199,651**	**341,939**
Other banks – secured	**19,313**	**10,750**	**27,275**	**57,338**
Obligation under finance lease	**2,832**	**2,999**	**18,327**	**24,158**
Interest accrued	**418**	**–**	**–**	**418**
Future interest payable	**29,812**	**24,305**	**13,703**	**67,820**
Non interest bearing				
Trade and other payables	**88,089**	**–**	**–**	**88,089**
Accrued liabilities and deferred income	**23,393**	**–**	**–**	**23,393**
Other financial liabilities	**–**	**–**	**–**	**–**
Total financial liabilities	**163,857**	**180,342**	**258,956**	**603,155**

US$000	As at 31.12.09 Less than 1 year	Between 1 to 2 years	Between 2 to 5 years	Total
Interest bearing				
Syndicated loans – secured	207,727	–	–	207,727
Other banks – secured	31,170	6,044	5,500	42,714
Obligation under finance lease	1,264	1,419	15,792	18,475
Interest accrued	730	–	–	730
Future interest payable	9,923	3,827	2,674	16,424
Non interest bearing				
Trade and other payables	24,656	–	–	24,656
Accrued liabilities and deferred income	12,146	–	–	12,146
Other financial liabilities	3,161	–	–	3,161
Total financial liabilities	290,777	11,290	23,966	326,033

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 the Group. Operating currencies for the Group are primarily the Ukrainian hryvnia, 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 local Ukrainian production mainly in hryvnia. During the year the value of the hryvnia moved from being pegged to a managed float.

Further devaluation of the Ukrainian hryvnia will reduce the operating costs of the production unit in US dollars terms and the value of hryvnia payables recorded in the statement of financial position at the year end in US dollars. As the majority of sales and receivables are denominated in US dollars, a devaluation in the local currency will result in operating exchange gains recorded in the income statement.

With a devaluation of the local currency, US dollar denominated loans held by the Ukrainian subsidiary will result in non-operating exchange losses to the extent these are not matched by US dollar denominated assets. Fixed assets are similarly held in local currency amounts and a devaluation in the currency will result in reduced net asset vales which are recorded in reserves.

The National Bank of Ukraine (NBU) manages and determines the official exchange rates. An inter-bank market for exchange of currencies exists in Ukraine and is monitored by the NBU. The Group, through its financial institutions, exchanges currencies at bank offered market rates.

Note 38: Financial instruments continued

Trade receivables are predominately in US dollars and are not hedged. Trade payables denominated in a US dollars are also not hedged on the market, but are matched against US dollar currency receipts.This includes the interest expense which is principally payable in US dollars. Trade receivables and trade payables in other currencies are not hedged as a forward market for the currency is generally not available.

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.

The Group's exposure to foreign currency risk was as follows based on notional amounts:

	As at 31.12.10					
US$000	Ukraine hryvnia	US dollar	Euro	Swiss franc	Other currencies	Total
Financial assets	**–**	**111,589**	**38,315**	**375**	**357**	**150,636**
Financial liabilities						
Syndicated bank loans – secured	**–**	**–**	**–**	**–**	**–**	**–**
Other banks – secured	**–**	**(16,735)**	**–**	**–**	**–**	**(16,735)**
Obligation under finance lease	**–**	**(24,088)**	**–**	**–**	**–**	**(24,088)**
Interest accrued	**–**	**(75)**	**–**	**–**	**–**	**(75)**
Total borrowings	**–**	**(40,898)**	**–**	**–**	**–**	**(40,898)**
Trade and other payables	**–**	**(6,910)**	**(501)**	**(242)**	**(67)**	**(7,720)**
Accrued liabilities and deferred income	**–**	**–**	**–**	**–**	**(81)**	**(81)**
Other financial liabilities	**–**	**–**	**–**	**–**	**(68)**	**(68)**
Total financial liabilities	**–**	**(47,808)**	**(501)**	**(242)**	**(216)**	**(48,767)**
Net financial assets/(liabilities)	**–**	**63,781**	**37,814**	**133**	**141**	**101,869**

	As at 31.12.09					
US$000	Ukraine hryvnia	US dollar	Euro	Swiss franc	Other currencies	Total
Financial assets	249	816	2	76	44	1,187
Financial liabilities						
Other banks – secured	–	(26,840)	(124)	–	–	(26,964)
Obligation under finance lease	–	(18,475)	–	–	–	(18,475)
Interest accrued	–	(188)	(5)	–	–	(193)
Total borrowings	–	(45,503)	(129)	–	–	(45,632)
Trade and other payables	–	(2,246)	(811)	(763)	(139)	(3,959)
Other financial liabilities	–	(17)	(5)	(419)	(106)	(547)
Total financial liabilities	–	(47,766)	(945)	(1,182)	(245)	(50,138)
Net financial assets/(liabilities)	249	(46,950)	(943)	(1,106)	(201)	(48,951)

Interest rate risk

The Group predominantly borrows funds that are at floating interest rates and is exposed to interest rate movements. 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.

Notes to the Consolidated Financial Information continued

Note 38: Financial instruments continued

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	As at 31.12.10			
US$000	Floating interest	Fixed interest	Other non-interest bearing	Total
Financial assets				
Cash and cash equivalents	**161,912**	**156,507**	**1,051**	**319,470**
Available-for-sale investments	**–**	**–**	**3,356**	**3,356**
Trade receivables	**–**	**–**	**111,890**	**111,890**
Other financial assets	**–**	**1,000**	**164**	**1,164**
Total financial assets	**161,912**	**157,507**	**116,461**	**435,880**
Weighted av. interest rate (%)	**0.1%**	**1.7%**		
Financial liabilities				
Trade and other payables	**–**	**–**	**88,089**	**88,089**
Accrued liabilities and deferred income	**–**	**–**	**23,393**	**23,393**
Interest bearing loans and borrowings	**403,832**	**19,603**	**418**	**423,853**
Other financial liabilities	**–**	**–**	**–**	**-**
Total financial liabilities	**403,832**	**19,603**	**111,900**	**535,335**
Weighted av. interest rate (%)	**5.7%**	**–**		

	As at 31.12.09			
US$000	Floating interest	Fixed interest	Other non-interest bearing	Total
Financial assets				
Cash and cash equivalents	10,227	1,465	299	11,991
Available-for-sale investments	–	–	3,543	3,543
Trade receivables	–	–	38,117	38,117
Other financial assets	2,550	–	1,169	3,719
Total financial assets	12,777	1,465	43,128	57,370
Weighted av. interest rate (%)		7.7%		
Financial liabilities				
Trade and other payables			24,656	24,656
Accrued liabilities and deferred income			12,146	12,146
Interest bearing loans and borrowings	251,036	18,610	–	269,646
Other financial liabilities	–	–	3,161	3,161
Total financial liabilities	251,036	18,610	39,963	309,609
Weighted av. interest rate (%)	4.1%	–		

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$1,000 thousand of the floating rate loan to associate which matures between two to five years as at 31 December 2010 (2009: US$2,000 thousand).

Note 38: Financial instruments continued

Commodity risk

The Group is exposed to longer-term movements in the price of iron ore, but does not have a commodity risk exposure to its financial assets and liabilities once the sale has been made. 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 tradable exchange in the product to ascertain its market value.

Sensitivity analysis

A 20% strengthening of the US dollar against the following currencies at 31 December would have increased/(decreased) income statement and equity by the amounts shown below. This assumes that all other variables, in particular interest rates, remain constant.

US$000	**Year ended 31.12.10 Income statement/ Equity**	Year ended 31.12.09 Income statement/ Equity
UAH	**12,756**	(9,440)
EUR	**(7,563)**	189
CHF	**(27)**	221
Total	**5,166**	(9,030)

A 20% 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 or loss, and the Group does not hold any derivatives (eg 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 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.

US$000	**Year ended 31.12.10**	Year ended 31.12.09
Net finance charge	**(2,885)**	(2,080)

A decrease in 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 are the carrying amounts and fair values of the Group's financial instruments that are carried in the consolidated statement of financial position:

	Carrying amount		Fair value	
US$000	**As at 31.12.10**	As at 31.12.09	**As at 31.12.10**	As at 31.12.09
Financial assets				
Available-for-sale financial assets	**3,356**	3,543	**3,356**	3,543
Cash and cash equivalents	**319,470**	11,991	**319,470**	11,991
Total financial assets	**322,826**	15,534	**322,826**	15,534
Financial liabilities				
Interest bearing loans and borrowings	**423,853**	269,646	**423,853**	276,419
Total financial liabilities	**423,853**	269,646	**423,853**	276,419

Notes to the Consolidated Financial Information continued

Note 38: Financial instruments continued

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.

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices).

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	As at 31.12.10			
US$000	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Available-for-sale financial assets	**3,356**	**–**	**–**	**3,356**
Total available-for-sale financial assets	**3,356**	**–**	**–**	**3,356**

	As at 31.12.09			
US$000	Level 1	Level 2	Level 3	Total
Financial assets				
Available-for-sale financial assets	1,449	–	2,104	3,553
Total available-for-sale financial assets	1,449	–	2,104	3,553

There were no transfers between Level 1 and 2 in the period.

Reconciliation of Level 3 fair value measurements of financial assets

US$000	**As at 31.12.2010 Available-for-sale financial assets Unquoted equities**	As at 31.12.2009 Available-for-sale financial assets Unquoted equities
Opening balance	**2,104**	4,000
Total gains or losses:		
– in profit or loss	**(2,104)**	(1,896)
– in other comprehensive income	**–**	–
Purchases	**–**	–
Issues	**–**	–
Settlements	**–**	–
Transfer out of level 3	**–**	–
Closing balance	**–**	2,104

Note 38: Financial instruments continued

Capital management

The Board's policy is to maintain a strong capital base. 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 non-controlling interests, and the level of dividends to Ordinary Shareholders. Please refer to the Statement of Changes in Equity for details of the capital position of the Group.

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. Access to securing borrowings in the context of the events affecting the global financial credit markets during the year has affected the elasticity at which the Board can maintain this balance. The Board continues to support maintaining a sound capital base balanced against these market constraints.

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.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements other than a bank covenant requirement to maintain consolidated equity in respect of the Ferrexpo AG group of US$300,000 thousand including non-controlling interests. Compliance is ensured by balancing dividend payments against the earnings of the Ferrexpo AG group.

For more information about the Group's interest bearing loans and borrowings, see note 30.

Note 39: Share-based payments

Listing bonus share award

Share awards were granted in 2007 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 values 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 2010 is US$55 thousand (2009: US$427 thousand), all of which arose from equity-settled share-based payment transactions.

	Year ended 31.12.10 WAFV ($)	Year ended 31.12.09 WAFV ($)	**Year ended 31.12.10 No. ('000)**	Year ended 31.12.09 No. ('000)
Beginning of the year	**3.63**	3.63	**91**	442
Awards granted during the year	**–**	–	**–**	–
Vested during the year	**3.63**	3.63	**(91)**	(349)
Forfeited during the year	**–**	3.63	**–**	(2)
Outstanding at 31 December	**–**	3.63	**–**	91

Long-term incentive plan (LTIP)

The following share awards were granted under the LTIP and the Interim LTIP in the previous financial years. The LTIP runs for three years whereas the period for the Interim LTIP is two years.

No. ('000)	**2010 LTIP**	2009 LTIP	2008 LTIP	Interim LTIP	Total
Year ended 31.12.10	**330**	**–**	**–**	**–**	**330**
Year ended 31.12.09	–	320	–	–	320
Year ended 31.12.08	–	–	695	415	1,110

The LTIP and Interim LTIP are subject to a performance condition based on the Total Shareholder Return ('TSR') compared to a comparator group, measured over the vesting period, as described in the Director's Remuneration Report.

Notes to the Consolidated Financial Information continued

Note 39: Share-based payments continued

The following expenses have been recognised in 2010 and 2009 in respect of the LTIP and the Interim LTIP:

US$000	2010 LTIP	2009 LTIP	2008 LTIP	Interim LTIP	Total
Year ended 31.12.10	**178**	**188**	**557**	**–**	**923**
Year ended 31.12.09	–	80	1,836	1,480	3,396

The awards of the Interim LTIP were forfeited in 2009 as they did not satisfy the market related performance conditions as of 31 December 2009.

The fair value of these awards was assessed at their grant date using a simulation or 'Monte Carlo' model consistent with the mathematics underlying the standard Black-Scholes options pricing model, extended to allow for the performance conditions. Each simulation of the model projects the Company's and comparator's share prices (with reinvested dividends) over the vesting period, allowing for the volatilities and correlations between the shares as estimated from historical data. From this projection the proportion of awards vesting, and the value to employees, is calculated. 100,000 simulations were run to calculate the fair values. The fair value is set as the average value over all the simulations.

	Year ended 31.12.10 WAFV ($)	Year ended 31.12.09 WAFV ($)	Year ended 31.12.10 No. ('000)	Year ended 31.12.09 No. ('000)
LTIP				
Beginning of the year	**4.11**	5.52	**810**	695
Awards granted during the year	**3.28**	1.94	**330**	320
Forfeited during the year	**3.47**	5.52	**(235)**	(180)
Lapsed during the year	**–**	5.52	**–**	(25)
Vested during the year	**–**	–	**–**	–
Outstanding at 31 December	**3.92**	4.11	**905**	**810**
Interim LTIP				
Beginning of the year	**–**	5.22	**–**	–
Awards granted during the year	**–**	–	**–**	415
Forfeited during the year	**–**	5.22	**–**	–
Vested during the year	**–**	–	**–**	–
Outstanding at 31 December	**–**	–	**–**	415

Note 40: Operating profit by function

US$000	Notes	Before adjusting items	Adjusted items	Year ended 31.12.10	Before adjusting items	Adjusted items	Year ended 31.12.09
Revenue	6	**1,294,900**	**–**	**1,294,900**	648,667	–	648,667
Cost of sales	7	**(481,857)**	**–**	**(481,857)**	(341,067)	–	(341,067)
Gross profit		**813,043**	**–**	**813,043**	307,600	–	307,600
Selling and distribution expenses	8	**(212,006)**	**–**	**(212,006)**	(162,266)	–	(162,266)
General and administrative expenses	9	**(49,175)**	**–**	**(49,175)**	(43,161)	–	(43,161)
Other income	10	**4,515**	**–**	**4,515**	4,102	–	4,102
Other expenses	11	**(5,938)**	**(11,291)**	**(17,229)**	(3,418)	(2,468)	(5,886)
Operating foreign exchange gain	12	**(1,078)**	**–**	**(1,078)**	2,534	–	2,534
Operating profit		**549,361**	**(11,291)**	**538,070**	105,391	–	102,923
Share of profit of associates	14	**4,155**	**–**	**4,155**	1,304	–	1,304
Total profit from operations and associates		**553,516**	**(11,291)**	**542,225**	106,695	(2,468)	104,227

Note 40: Operating profit by function continued
Summary of adjusted items:

US$000	Notes	**Year ended 31.12.10**	Year ended 31.12.09
Operating adjusting items			
Under recovery of VAT receivable	27	**(10,936)**	–
Write-offs and impairment losses	13	**(1,618)**	(2,757)
Gain on bargain purchase	15	**2,623**	503
Initial public offering costs	39	**(55)**	(427)
(Losses)/gains on disposal of property, plant and equipment		**(1,305)**	213
Total operating adjusting items		**(11,291)**	(2,468)

Note 41: Business combination

Subsidiaries acquired

On 31 December 2010, the Group acquired Helogistics Holding GmbH and its subsidiaries ('Helogistics') in order to develop the Group's distribution and logistics capabilities. The acquisition agreements were signed on 14 December 2010 and the completion of the acquisition was subject to the approval from the Austrian merger control authorities which was obtained on 10 January 2011. The Group however obtained effective control on the 14 December 2010 and Helogistics has been consolidated as at the 31 December 2010 as no material transactions or events occurred between 14 December 2010 and 31 December 2010 that would have a material impact on the amounts recognised in the income statement in that period.

The controlled entities acquired as part of this business combination are identified below:

Subsidiaries	Country of incorporation	Principal activity	Proportion of shares acquired in %
Helogistics Holding GmbH (Group)	Austria	Holding company	100.0
EDDSG GmbH	Austria	Logistic company	100.0
DDSG Tankschiffahrt GmbH	Austria	Logistic company	100.0
Helogistics Transport GmbH	Austria	Logistic company	100.0
Mahart Duna Cargo Kft.	Hungary	Logistic company	100.0
Pancar Kft.	Hungary	Logistic company	100.0

Consideration transferred

No consideration has been transferred in cash for this acquisition to previous shareholders of the Helogistics. Transaction costs of US$1,624 thousand have been incurred and expensed by the Group. These costs are included in general and administrative expenses.

In relation with the acquisition of Helogistics Holding GmbH, the Group acquired bank debts amounting to US$95,472 thousand for a consideration transferred in cash to the lending banks of US$37,768 thousand. The amount was held in an escrow account at 31 December 2010 as the financial closing of the transaction was on 19 January 2011. The debts acquired have been fair valued for the purpose of the acquisition accounting.

There is no contingent consideration to be paid by the Group to the previous shareholders of Helogistics.

Notes to the Consolidated Financial Information continued

Note 41: Business combination continued

Assets acquired and liabilities assumed at the date of acquistion

The provisional fair value of the identifiable assets and liabilities assumed of Helogistics as at the date of acquisition were:

US$000	Helogistics Holding GmbH
Non-current assets	
Property, plant and equipment	**65,348**
Financial assets	**4**
Intangible assets	**1,637**
Deferred tax assets	**5,258**
Current assets	
Inventories	**2,252**
Trade and other receivables	**3,096**
Prepayments and other current assets	**4,179**
Available-for-sale financial assets	**7**
Cash and cash equivalents	**582**
Assets classified as held for sale	**3,149**
Total assets acquired	**85,512**
Non-current liabilities	
Defined benefit pension liability	**(819)**
Deferred tax liabilities	**(1,875)**
Current liabilities	
Interest bearing loans and borrowings	**(38,726)**
Trade and other payables	**(14,596)**
Income taxes payable	**(81)**
Accrued liabilities and deferred income	**(15,911)**
Total liabilities assumed	**(72,008)**
Fair value of identifiable net assets acquired	**13,504**

The fair value of intangible assets consists of licenses amounting to US$397 thousand and capitalised software of US$2,140 thousand. The license were capitalised as acquired intangible assets in the course of the accounting for the business combination. The Group acquired trade and other receivables amounting to US$3,096 thousand. This amount is net of an allowance for doubtful receivables of US$564 thousand. The outstanding balances with the five largest customers representing 65.3% of the total balance as of 31 December 2010 were fully paid in March 2011.

The initial accounting for the acquisition of Helogistics has been provisionally determined at the end of the reporting period. At the date of finalisation of these financial statements, the fair values of the vessels acquired and the certain liabilities assumed had not been finalised and they have therefore been provisionally determined based on the directors' best estimate of the likely values. The actual fair values may also impact the recognised fair values of the other assets acquired as part of the business combination.

Non-controlling interests from business combination

The Group acquired 100% of Helogistics Holding GmbH which wholly owned its subsidiaries listed above. The business combination did not result in the recognition of any non-controlling interests to be measured at fair value.

Bargain purchase arising on acquisition

The acquisition of Helogistics resulted in a bargain purchase of US$2,623 thousand recognised in profit or loss as of 31 December 2010.

US$000	Helogistics Holding GmbH
Consideration paid in cash	–
Value of pre-existing loan balances	**10,881**
Less: fair value of identifiable net assets acquired	**(13,504)**
Bargain purchase on acquisition	**2,623**

Note 41: Business combination continued

Loans amounting to US$10,881 thousand were provided by the Group to Helogistics prior to the acquistion. These loan balances were considered to be settled for the the purpose of the business combination. The amount of US$10,881 thousand reflects the fair value of the loans granted. As a result of overcapacity in its market, Helogostics sustained continual losses allowing Ferrexpo to acquire Helogistics at a consideration below the estimated fair value of the assests acquired and liabilities assumed, resulting in the recogniation of a gain on bargain purchase amounting to US$2,623 thousand. Further informaiton is provided on page 23 in the Operational Review of the Annual Report.

No tax impact is expected on the gain on bargain purchase arising on this transaction.

Net cash outflow on acquisition

US$000	Helogistics Holding GmbH
Consideration paid in cash	**–**
Cash and cash equivalent balances acquired[1]	**582**
Transaction costs of the acquisition[2]	**(1,624)**
Net cash outflow on acquisition (net of cash acquired)	**(1,042)**

1 Included in cash flow from investing activities.
2 Included in cash flow from operating activities.

Impact of acquisition on the result of the Group

Had this business combination been affected at 1 January 2010, the revenue of the Group would have been US$52,200 thousand higher, and the profit for the year would have been US$13,300 thousand lower. The Directors of the Group consider these 'pro-forma' numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

Note 42: Events after the reporting period

No material adjusting or non-adjusting events have occurred subsequent to the year end other than the proposed dividend disclosed in note 18 and the completion of the acquisition of Helogistics Holding GmbH and its subsidiaries described in note 41.

Parent Company Balance Sheet

US$000	Notes	As at 31.12.10	As at 31.12.09
Fixed assets			
Non-current investments			
Subsidiary undertakings	2	**147,496**	134,732
Total fixed assets		**147,496**	134,732
Current assets			
Debtors – amounts falling due:			
Amounts due from subsidiaries		**134,441**	181,026
Deferred tax assets	3	**1,156**	1,596
Prepayments and other current assets		**1,165**	1,121
Other taxes recoverable and prepaid		**3**	10
Cash at bank and in hand		**20**	25
Total current assets		**136,785**	183,778
Creditors – amounts falling due within one year			
Trade and other creditors	5	**512**	357
Accruals and deferred income	6	**900**	450
Income taxes payable		**16**	–
Other taxes payable	7	**–**	3,233
Total creditors		**1,428**	4,040
Net assets		**282,853**	314,470
Represented by			
Capital and reserves			
Share capital	4	**121,628**	121,628
Share premium	4	**185,112**	185,112
Treasury share reserve	4	**(77,260)**	(77,260)
Employee benefit trust reserve	4	**(10,172)**	(11,593)
Retained earnings	4	**63,545**	96,583
Total capital and reserves	4	**282,853**	314,470

All liabilities held by the Company are current in nature.

The financial statements were approved by the Board of Directors on 22 March 2011.

Kostyantin Zhevago
Chief Executive Officer

Christopher Mawe
Chief Financial Officer

Parent Company Notes to the Financial Statements

Note 1: Parent company accounting policies

Basis of preparation

The parent company financial statements of Ferrexpo plc are presented as required by the Companies Act 2006 and were approved for issue on 22 March 2011. The financial statements are prepared under the historical cost convention and are prepared in accordance with applicable UK accounting standards. No profit and loss account is presented by the Company as permitted by Section 408 of the Companies Act 2006.

The Company is exempt from the disclosure requirements of FRS 29 Financial Instruments, under its section 2D (a) as the entity is included in publicly available consolidated financial statements, which include disclosures that comply with FRS 29/IFRS 7.

Disclosures and narratives have not included 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.

Investments

Equity investments in subsidiaries are carried at cost less any provision for impairments.

Deferred income tax

Deferred income tax is recognised in respect of all timing differences that have originated but not reversed at the reporting 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 following exceptions:

> provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the reporting date, dividends have been accrued as receivable; and
> 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 reporting 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 reporting 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 instruments

Derivative financial instruments

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

Other

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

Parent Company Notes to the Financial Statements
continued

Note 1: Parent company accounting policies continued

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 or 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 reporting date whether a financial asset or a group of financial assets is impaired. Investments in subsidiaries undertakings are held at cost. The Company assesses investments for impairment whenever events or changes in circumstances indicate that the carrying amount of an investment may not be recoverable. If any such indication of impairment exists, the Company makes an estimate of its recoverable amount (valuation). Where the carrying amount of an investment exceeds its recoverable amount, the investment is considered impaired and is written down to its recoverable amount.

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 (ie 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 grant date and is 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, except for market conditions. No expense is recognised for awards that do not ultimately vest.

At each reporting 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 reporting date is recognised in the income statement, with a corresponding entry in equity.

All costs related to the share-based payments of the Group are recorded in Ferrexpo plc. Note 42 provides further information on the valuation related to the share-based payments and the costs recorded.

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.

Note 2: Investments

US$000	As at 31.12.10	As at 31.12.09
Non-current investments	**147,496**	134,732

The balance above relates to the Company's investment in Ferrexpo AG which is a 100% owned subsidiary based on Switzerland. During the financial year 2010, the Company purchased 3,178,877 shares of Ferrexpo AG which have been previously held in treasury by the subsidiary.

Note 3: Deferred tax assets

Deferred tax assets at 31 December 2010 relate to the following:

US$000	As at 31.12.10	As at 31.12.09
Deferred tax assets:		
Tax loss recognised	**430**	370
Timing difference on IPO costs	**726**	1,226
Total deferred tax assets	**1,156**	1,596

Note 4: Capital and reserves

US$000	Issued capital	Share premium	Treasury share reserve	Employee benefit trust reserve	Retained earnings	Total equity
At 1 January 2009	121,628	185,112	(77,260)	(15,443)	134,508	348,545
Profit for the period	–	–	–	–	1,625	1,625
Total comprehensive income for the year	–	–	–	–	1,625	1,625
Equity dividends paid to shareholders	–	–	–	–	(39,550)	(39,550)
Share-based payments	–	–	–	3,850	–	3,850
At 31 December 2009	121,628	185,112	(77,260)	(11,593)	96,583	314,470
Profit for the period	–	–	–	–	5,544	5,544
Total comprehensive income for the year	–	–	–	–	5,544	5,544
Equity dividends paid to shareholders	–	–	–	–	(38,582)	(38,582)
Share-based payments	–	–	–	1,421	–	1,421
At 31 December 2010	**121,628**	**185,112**	**(77,260)**	**(10,172)**	**63,545**	**282,873**

Note 5: Trade and other creditors

Trade and other creditors at 31 December 2010 relate to the following:

US$000	As at 31.12.10	As at 31.12.09
Trade and other creditors:		
Falling due within one year	**512**	357
Total trade and other creditors	**512**	357

Note 6: Accrued liabilities and deferred income

Accrued liabilities and deferred income at 31 December 2010 relate to the following:

US$000	As at 31.12.10	As at 31.12.09
Accrued liabilities and deferred income:		
Falling due within one year	**900**	450
Total accrued liabilities and deferred income	**900**	450

Parent Company Notes to the Financial Statements
continued

Note 7: Other taxes payable
Other taxes payable at 31 December 2010 comprises the following taxes:

US$000	As at 31.12.10	As at 31.12.09
Other taxes payable:		
Withholding tax on dividend	–	3,225
Other taxes	–	8
Total other taxes payable	**–**	3,233

Note 8: Related party disclosures
There are no related party transactions and balances to be disclosed. All transactions and balances are with subsidiaries, which are wholly owned.

Note 9: Auditor remuneration
The audit fee in respect of the parent company was US$16 thousand (2009: US$16 thousand).

Note 10: Events after the reporting period
No material adjusting or non-adjusting events have occurred subsequent to the year end other than the proposed dividend disclosed in note 18 to the consolidated financial statements and the refinancing of the Group described below.

Glossary

Act	The Companies Act 2006
AGM	The Annual General Meeting of the Company to be held on Thursday 26 May 2011
Articles	Articles of Association of the Company
Audit Committee	The Audit Committee of the Company's Board
Belanovo or Belanovskoye	An iron ore deposit situated immediately to the north of Yeristovo
Benchmark Price	International seaborne traded iron ore benchmark price agreed between the major iron ore producers and specific West European or British steel producers for a given year
BIP	Business Improvement Programme, a programme of projects to increase production output and efficiency at FPM
Board	The Board of Directors of the Company
bt	Billion tonnes
Cape size	Cape size vessels are typically above 150,000 tonnes deadweight. Ships in this class include oil tankers, supertankers and bulk carriers transporting coal, ore, and other commodity raw materials
Capital Employed	The aggregate of equity attributable to shareholders, non-controlling interests and borrowings
CFR	Delivery including cost and freight
C1 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 2008
Company	Ferrexpo plc, a public company incorporated in England and Wales with limited liability
CPI	Consumer Price Index
CSR	Corporate Safety and Social Responsibility
CSR Committee	The Corporate Safety and Social Responsibility Committee of the Board of the Company
DAF	Delivery at frontier
DFS	Detailed Feasibility Study
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
EBITDA	The Group calculates EBITDA as profit from continuing operations before tax and finance plus depreciation and amortisation (included in cost of sales, administrative expenses and selling and distribution costs) and non-recurring cash items included in other income and other expenses plus the net of gains and losses from disposal of investments and property, plant and equipment
EBT	Employee Benefit Trust
EPS	Earnings per share
Executive Committee	The Executive Committee of management appointed by the Company's Board

Glossary continued

Executive Directors	The Executive Directors of the Company
Fe	Iron
Ferrexpo	Ferrexpo plc
Ferrexpo AG Group	Ferrexpo AG and its subsidiaries including FPM
Fevamotinico S.a.r.l.	A company incorporated with limited liability in Luxembourg
FOB	Delivered free on board
FPM	Ferrexpo Poltava Mining, also known as Ferrexpo Poltava GOK Corporation or PGOK, a company incorporated under the laws of Ukraine
FRMC	Financial Risk Management Committee, a sub-committee of the Executive Committee
FTSE 250	Financial Times Stock Exchange top 250 companies
FYM	Ferrexpo Yeristovskoye Mining, also known as YGOK, a company incorporated under the laws of Ukraine to administer the three major growth projects
GPL	Gorishne, Plavninskoye and Lavrikovskoye Mine, the mine operated by FPM
Group	The Company and its subsidiaries
Growth Markets	Those markets that offer to add new and significant tonnage expansion potential
Helogistics	Helogistics Holding GmbH and its subsidiaries, an inland waterway transport group operating on the Danube/ Rhine corridor
HSE	Health, safety and environment
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 enriched iron content
Iron ore sinter 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
JORC	Australasian Joint Ore Reserves Committee – the internationally accepted code for ore classification
K22	GPL ore has been classified as either K22 or K23 quality, of which K22 ore is of higher quality (richer)
KPI	Key Performance Indicator
kt	Thousand tonnes
LIBOR	The London Inter Bank Offered Rate
LLC	Limited Liability Company
LTIFR	Lost-Time Injury Frequency Rate

LTIP	Long-Term Incentive Plan
m^3	Cubic metre
Majority Shareholder	Fevamotinico S.a.r.l., The Minco Trust and Kostyantin Zhevago (together)
mm	Millimetre
mt	Million tonnes
mtpa	Million tonnes per annum
Natural Markets	Relatively new markets in regions where the Group believes it has competitive advantage which is yet to be exploited
Nominations Committee	The Nominations Committee of the Company's Board
Non-executive Directors	Non-executive directors of the Company
NOPAT	Net operating profit after tax
OHSAS 18001	International safety standard 'Occupational Health & Safety Management System Specification'
Ordinary Shares	Ordinary Shares of 10 pence each in the Company
Ore	A mineral or mineral aggregate containing precious or useful minerals in such quantities, grade and chemical combination as to make extraction economic
Panamax	Modern Panamax ships typically carry a weight of between 65,000 to 75,000 tonnes of iron ore and can transit both Panama and Suez canals
PPI	Ukrainian 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
Rail car	Railway wagon used for the transport of iron ore concentrate or pellets
Relationship Agreement	The relationship agreement entered into among Fevamotinico S.a.r.l., Kostyantin Zhevago, The Minco Trust and the Company
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
$/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
Spot price	The current price of a metal for immediate delivery
Sterling/£	Pound sterling, the currency of the United Kingdom
STIP	Short-Term Incentive Plan

Glossary continued

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
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
Treasury Shares	A company's own issued shares that it has purchased but not cancelled
TSF	Tailings storage facility
Traditional Markets	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
TSR	Total shareholder return. The total return earned on a share over a period of time, measured as the dividend per share plus capital gain, divided by initial share price
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 and non-operating foreign exchange gains and losses
UAH	Ukrainian hryvnia, the currency of the Republic of the Ukraine
Ukr SEPRO	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
USS	United States Steel Corporation
VAT	Value Added Tax
Value-in-use	The implied value of a material to an end user to use one material relative to other options, eg 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
Yeristovo or Yeristovskoye	The mine being developed by FYM

Shareholder Information

Registered Office
2–4 King Street
London
SW1Y 6QL
Web: www.ferrexpo.com

Advisors
Share Registrars
Equiniti
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
UK
Tel: 0871 384 2030
Overseas +44 121 415 7047
Web: www.equiniti.com

Financial
JPMorgan Cazenove Ltd
20 Moorgate
London EC2R 6DA

Corporate brokers
JP Morgan Cazenove Ltd
20 Moorgate
London EC2R 6DA

Deutsche Bank AG
1 Great Winchester Street
London EC2N 2DB

Legal
Allen & Overy LLP
One Bishops Square
London E1 6AD

Auditors
Ernst & Young LLP
1 More London Place
London SE1 2AF

Designed and produced by **Emperor Design Consultants Ltd**
Telephone **+44 (0)20 7729 9090 www.emperordesign.co.uk**

Independent Auditor's Report to the Members of Ferrexpo plc

We have audited the financial statements of the Group and parent company for the year ended 31 December 2009 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated statement of financial position, the Consolidated statement of cash flows, the Consolidated statement of changes in equity and the parent company statement of financial position and the related notes 1 to 44 for the Group financial statements and notes 1 to 7 for the parent company financial statements. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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
As explained more fully in the Directors' Responsibilities Statement set out on page 60, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group and parent financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements
In our opinion:
- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2009 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion:
- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:
- the Directors' statement, set out on page 58. in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Ernst & Young LLP
Bob Forsyth (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
22 March 2010

Financial Statements

Consolidated Income Statement

US$000	Notes	Year ended 31.12.09	Year ended 31.12.08
Revenue	6	**648,667**	1,116,854
Cost of sales	7	**(341,067)**	(434,238)
Gross profit		**307,600**	682,616
Selling and distribution expenses	8	**(162,266)**	(152,528)
General and administrative expenses	9	**(43,161)**	(67,185)
Other income	10	**4,102**	6,387
Other expenses	11	**(3,418)**	(38,040)
Operating foreign exchange gains	12	**2,534**	29,309
Operating profit from continuing operations before adjusted items		**105,391**	460,559
Write-offs and impairment losses	13	**(2,757)**	(27,326)
Share of profit of associates	14	**1,304**	1,003
Negative goodwill	15	**503**	35,049
Initial public offering costs	42	**(427)**	(4,120)
Gain on disposal of property, plant and equipment		**213**	–
Gain on disposal of available-for-sale investment		**–**	1,571
Profit before tax and finance from continuing operations		**104,227**	466,736
Finance income	16	**2,893**	2,467
Finance expense	16	**(23,718)**	(20,834)
Non-operating foreign exchange loss	12	**(2,552)**	(72,788)
Profit before tax		**80,850**	375,581
Income tax expense	17	**(9,852)**	(62,533)
Profit for the year from continuing operations		**70,998**	313,048
Attributable to:			
Equity shareholders of Ferrexpo plc		**70,627**	292,436
Minority interests		**371**	20,612
		70,998	313,048
Earnings per share:			
Basic (US cents)	18	**12.08**	48.60
Diluted (US cents)	18	**12.05**	48.46

Consolidated Statement of Comprehensive Income

US$000	**Year ended 31.12.09**	Year ended 31.12.08
Profit for the period	**70,998**	313,048
Exchange differences on translating foreign operations		
Exchange differences arising during the year	**(20,842)**	(210,616)
Exchange differences arising on hedging of foreign operations	**(3,697)**	(122,068)
Available-for-sale investments		
Gain arising on revaluation during the year	**400**	–
Net loss on disposal of available-for-sale financial assets	**–**	(1,789)
Change in deferred taxes on transaction costs	**–**	(3,454)
Tax impact on employee benefits	**–**	(317)
Income tax effect	**2,895**	40,805
Other comprehensive income for the period, net of tax	**(21,244)**	(297,439)
Total comprehensive income for the period, net of tax	**49,754**	15,609
Total comprehensive income attributable to:		
Equity shareholders of Ferrexpo plc	**49,633**	16,304
Minority interests	**121**	(695)
	49,754	15,609

Consolidated Statement of Financial Position

US$000	Notes	As at 31.12.09	As at 31.12.08
Assets			
Property, plant and equipment	20	**452,100**	412,440
Goodwill and other intangible assets	21	**100,354**	103,755
Investments in associates	14	**19,915**	18,640
Available-for-sale financial assets	22	**2,917**	4,435
Other non-current assets	23	**9,824**	10,116
Deferred tax assets	24	**13,673**	14,043
Total non-current assets		**598,783**	**563,429**
Inventories	25	**59,636**	61,270
Trade and other receivables	26	**38,117**	59,636
Prepayments and other current assets	27	**19,394**	18,108
Income taxes recoverable and prepaid	28	**9,741**	5,835
Other taxes recoverable and prepaid	28	**81,284**	57,285
Available-for-sale financial assets	22	**626**	650
Cash and cash equivalents	29	**11,991**	87,822
Total current assets		**220,789**	**290,606**
Total assets		**819,572**	**854,035**
Equity and liabilities			
Issued capital	30	**121,628**	121,628
Share premium	30	**185,112**	185,112
Other reserves	30	**(347,858)**	(330,714)
Retained earnings		**501,175**	470,098
Equity attributable to equity shareholders of Ferrexpo plc		**460,057**	446,124
Minority interests		**11,387**	11,769
Total equity		**471,444**	457,893
Interest bearing loans and borrowings	31	**18,143**	231,373
Trade and other payables	32	**–**	570
Defined benefit pension liability	33	**14,529**	12,940
Provision for site restoration	34	**1,268**	1,071
Deferred tax liabilities	24	**3,739**	5,298
Total non-current liabilities		**37,679**	251,252
Interest bearing loans and borrowings	31	**251,379**	74,523
Trade and other payables	32	**27,926**	35,033
Accrued liabilities and deferred income	35	**12,146**	14,470
Income taxes payable	28	**11,105**	14,439
Other taxes payable	28	**7,893**	6,425
Total current liabilities		**310,449**	144,890
Total liabilities		**348,128**	396,142
Total equity and liabilities		**819,572**	854,035

The financial statements were approved by the Board of Directors on 22 March 2010.

Kostyantin Zhevago
Chief Executive Officer

Christopher Mawe
Chief Financial Officer

Consolidated Statement of Cash Flows

US$000	Notes	Year ended 31.12.09	Year ended 31.12.08
Net cash flows from operating activities	37	**76,869**	370,943
Cash flows from investing activities			
Purchase of property, plant and equipment		**(85,823)**	(276,264)
Proceeds from sale of property, plant and equipment		**213**	2,016
Purchase of intangible assets		**(598)**	(1,597)
Purchases of available-for-sale financial assets		**–**	(266)
Interest received		**2,104**	2,472
Proceeds from loans to associates/(provided)		**6,450**	(4,000)
Net cash flows used in investing activities		**(77,654)**	(277,639)
Cash flows from financing activities			
Proceeds from borrowings and finance		**35,637**	172,143
Repayment of borrowings and finance		**(73,168)**	(69,412)
Dividends paid to equity shareholders of Ferrexpo plc		**(36,325)**	(38,954)
Dividends paid to non-controlling shareholders		**(234)**	(1,186)
Proceeds from issue of share capital to minority interests		**–**	2,123
Acquisition of non-controlling interest in subsidiaries	15	**–**	(11,048)
Share buy back	30	**–**	(77,260)
Net cash flows used in financing activities		**(74,090)**	(23,594)
Net increase/(decrease) in cash and cash equivalents		**(74,875)**	69,710
Cash and cash equivalents at the beginning of the year		**87,822**	86,966
Currency translation differences		**(956)**	(68,854)
Cash and cash equivalents at the end of the year	29	**11,991**	87,822

Consolidated Statement of Changes in Equity

US$000	Attributable to equity shareholders of Ferrexpo plc										
	Issued capital (note 30)	Share premium (note 30)	Uniting of interest reserve (note 30)	Treasury share reserve (note 30)	Employee benefit trust reserve (note 30 and 42)	Net unrealised gains reserve (note 30)	Translation reserve (note 30)	Retained earnings	Total capital and reserves	Minority interests (note 1)	Total equity
At 1 January 2008	121,628	188,566	31,780	–	(20,092)	2,384	186	216,616	541,068	45,854	586,922
Profit for the period	–	–	–	–	–	–	–	292,436	292,436	20,612	313,048
Other comprehensive income	–	(3,454)	–	–	(317)	(1,571)	(270,790)	–	(276,132)	(21,307)	(297,439)
Total comprehensive income for the period	–	(3,454)	–	–	(317)	(1,571)	(270,790)	292,436	16,304	(695)	15,609
Equity dividends paid to shareholders of Ferrexpo plc	–	–	–	–	–	–	–	(38,954)	(38,954)	–	(38,954)
Equity dividends paid by subsidiary undertakings to non-controlling shareholders	–	–	–	–	–	–	–	–	–	(301)	(301)
Share-based payments (note 42)	–	–	–	–	4,966	–	–	–	4,966	–	4,966
Participation of non-controlling shareholders in subsidiary share issue	–	–	–	–	–	–	–	–	–	1,960	1,960
Adjustments relating to the decrease in minority interests	–	–	–	–	–	–	–	–	–	(35,049)	(35,049)
Share buy back (note 30)	–	–	–	(77,260)	–	–	–	–	(77,260)	–	(77,260)
At 31 December 2008	**121,628**	**185,112**	**31,780**	**(77,260)**	**(15,443)**	**813**	**(270,604)**	**470,098**	**446,124**	**11,769**	**457,893**
Profit for the period	–	–	–	–	–	–	–	70,627	70,627	371	70,998
Other comprehensive income	–	–	–	–	–	301	(21,295)	–	(20,994)	(250)	(21,244)
Total comprehensive income for the period	–	–	–	–	–	301	(21,295)	70,627	49,633	121	49,754
Equity dividends paid to shareholders of Ferrexpo plc	–	–	–	–		–	–	(39,550)	(39,550)	–	(39,550)
Share-based payments (note 42)	–	–	–	–	3,850	–	–	–	3,850	–	3,850
Adjustments relating to the decrease in minority interests (note 15)	–	–	–	–	–	–	–	–	–	(503)	(503)
At 31 December 2009	**121,628**	**185,112**	**31,780**	**(77,260)**	**(11,593)**	**1,114**	**(291,899)**	**501,175**	**460,057**	**11,387**	**471,444**

Notes to the Consolidated Financial Information

Note 1: Corporate information
Organisation and operation
Ferrexpo plc (the 'Company') is incorporated in the United Kingdom with registered office at 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, an interest in a port in Odessa and a sales and marketing company in Switzerland and Kiev. 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 comprises of Ferrexpo plc and its consolidated subsidiaries as set out below:

			Equity interest owned at 31 December	
Name	Country of incorporation	Principal activity	**2009 %**	2008 %
Ferrexpo Poltava GOK Corporation[1]	Ukraine	Iron ore mining	**97.3**	97.1
Ferrexpo AG[2]	Switzerland	Sale of iron ore pellets	**100.0**	100.0
DP Ferrotrans[3]	Ukraine	Trade, transportation services	**97.3**	97.1
United Energy Company LLC[3]	Ukraine	Holding company	**97.3**	97.1
Ferrexpo UK Limited[1]	England	Finance	**100.0**	100.0
Ferrexpo Services Limited[1]	Ukraine	Management services and procurement	**100.0**	100.0
Ferrexpo Hong Kong Limited[1]	China	Marketing services	**100.0**	100.0
Ferrexpo Yeristovo GOK LLC[4]	Ukraine	Iron ore mining	**98.6**	98.5
Ferrexpo Belanovo GOK LLC[4]	Ukraine	Iron ore mining	**98.6**	–

1 The Group's interest in these entities is held through Ferrexpo AG. For details in respect to the change in equity interest we refer to note 15.
2 Ferrexpo 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.
4 The Group's interest in this entity is held through both Ferrexpo AG and Ferrexpo Poltava GOK Corporation.

The Group also holds an interest of 49.9% (2008: 49.9%) in TIS Ruda, a Ukrainian port located on the Black Sea. As this is an associate, it is accounted for using the equity method of accounting and further disclosed in note 14.

Note 2: Summary of significant accounting policies
Basis of preparation
The consolidated financial statements of Ferrexpo plc and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS) 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 financial statements have been prepared on a historical cost basis, except for post-employment benefits and available-for-sale financial instruments, the latter 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 financial statements are presented in thousands of US dollars and all values are rounded to the nearest thousand except where otherwise indicated.

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2008, except for those changes detailed in note 3. Risks in relation to the facilities and re-financing are contained in the Business Review of this report.

Basis of consolidation
The consolidated financial statements comprise 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 intercompany 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, subsidiaries disposed of are deconsolidated from the date on which the Group ceases to hold effective control.

Notes to the Consolidated Financial Information continued

Note 2: Summary of significant accounting policies continued

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. As there is currently no specific IFRS guidance relating to this issue the Group has developed a policy that is consistent with the pronouncements under UK GAAP. The Group's subsidiaries are accounted for using the pooling of interests method of accounting whereby net assets are pooled at their historic carrying value. This has been applied in the accounting for Ferrexpo plc's interest in Ferrexpo Poltava GOK Corporation, the principal subsidiary.

Changes in ownership interests in subsidiaries

The Group has 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.

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 statement of financial position 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 associates and Ferrexpo plc are identical and the associates' accounting policies conform to those used by the Group.

Functional and presentational currencies

Based on the economic substance of the underlying business transactions 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 based on its own circumstances. The Group has chosen the US dollar as its presentation currency and Ferrexpo Poltava GOK Corporation (the principal subsidiary) has determined that its functional currency is Ukrainian hryvnia.

Foreign currency translation

For individual subsidiary Company accounts, transactions in foreign currencies (ie other than the functional currency) 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 reporting date and non-monetary assets and liabilities at the historic rate. Foreign exchange differences arising on translation are recognised in the income statement.

For presentation of Group consolidated accounts, if the functional currency of a subsidiary is different to the presentation currency as at the reporting date, the assets and liabilities of this entity are translated into the presentation currency at the rate ruling at the reporting 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.

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. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods including pellet sales and other sales

Revenue 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, customs duties 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, the sale of parts, materials and crushed rocks and the repair and rental of railway wagons.

Rendering of services

Revenue from the rendering of services is recognised when services are complete. Sales of services primarily include repairs and spare parts, canteen revenue and recharges to local customers for electricity consumption and railway usage.

Rental income

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

Foreign exchange gains and losses
Foreign exchange gains and losses are reported on a net basis. Operating foreign exchange gains and losses are those items that are directly related to the production and sale of pellets (eg trade receivables, trade payables on operating expenditure). Non-operating gains and losses are those associated with the Group's financing and treasury activities.

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

Finance expenses comprise the interest expense on borrowings and other financial liabilities.

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

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

Deferred tax liabilities are recognised for all taxable temporary differences, if it is probable that they become taxable, 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 reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred 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 reporting 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 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 note 28 to the financial statements.

Overdue VAT receivable balances are not discounted.

Equity
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.

Notes to the Consolidated Financial Information continued

Note 2: Summary of significant accounting policies continued

Employee benefit trust reserve

Ferrexpo plc shares held by the Group are classified in capital and reserves as the 'employee benefit trust reserve' 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, issue or cancellation of equity shares.

Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognised in other capital reserves.

Financial assets

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 (ie 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 assets as at fair value through profit or loss (FVTPL).

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 accounted for as 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, held-to-maturity investments or financial assets at fair value through profit or loss (FVTPL).

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised. At this time the cumulative gain or loss is recognised in other operating income, or determined to be impaired, at which time the cumulative loss is recognised in the income statement in finance costs and removed from the available-for-sale reserve.

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 reporting 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.

Financial liabilities

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 reporting 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 (ie the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is 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.

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
For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement) is removed from other comprehensive income and recognised in the income statement.

Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in other comprehensive income.

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

Group as a lessee
Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the income statement.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Group as a lessor
Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income.

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

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

Property, plant and equipment
Property, plant and equipment is stated at 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.

Notes to the Consolidated Financial Information continued

Note 2: Summary of significant accounting policies continued

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 expenditure results in future economic benefits, the expenditure is capitalised as an additional cost.

Property, plant and equipment is depreciated over its estimated useful life which is calculated with 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. Freehold land is not 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.

Assets in the course of construction are capitalised as a separate component of property, plant and equipment. On completion, the cost of construction is transferred to the appropriate category. Assets under construction are not depreciated.

On acquisition the cost of property, plant and equipment is capitalised on the statement of financial position.

Stripping costs included in mining assets and assets under construction

Stripping costs in relation to mine exploration, evaluation and development costs incurred up to the commencement of the production are included in assets under construction. Stripping work comprises overburden removed at the pre-production, mine extension and production stages.

After the commencement of production, the respective pre-production stripping costs are transferred to mining assets and depreciated using a unit of production method based on the estimated economically recoverable reserves to which they relate.

The production stripping costs are generally charged to the income statement as variable production costs. The production stripping costs are only capitalised if the stripping activities are related to a betterment of the mining property and the duration of the future benefits is ascertained without a high degree of judgement. If capitalised, the production stripping costs are included in mining assets and depreciated using the same methodology as for the capitalised pre-production stripping costs (see above).

The cost of removal of the waste material during a mine's production phase is expensed as incurred.

Intangible assets

Goodwill

Goodwill is not amortised but rather tested annually for impairment through a value-in-use calculation. An impairment loss in respect of goodwill is not reversed. Refer to note 4 for details of the approach taken and assumptions used in impairment testing.

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.

Amortisation

Intangible assets, other than goodwill, primarily comprise mineral licence acquisition costs, which are amortised on a unit of production basis. All other intangible assets are amortised on a straight-line basis over the estimated useful life of the asset, ranging between one and 20 years.

Impairment of 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 market-determined 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.

Impairment losses relating to goodwill cannot be reversed in future periods.

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 – at cost on a first-in, first-out basis.
- Finished goods and work in progress – at cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

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

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

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 of Ferrexpo AG.

Costs relating to these plans are accrued in the consolidated financial statements 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 reporting date.

Notes to the Consolidated Financial Information continued

Note 2: Summary of significant accounting policies continued

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 higher of planned assets/obligation 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.

The past service cost is recognised as an expense on a straight-line basis over the average period until the benefits become vested. 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.

Earnings per share

The basic number of Ordinary Shares is calculated based on the weighted average number of shares in issue, excluding shares held in treasury.

For the current and prior year periods, 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. The number of Ordinary Shares in issue excludes the shares held by the Employee Benefit Trust and the treasury shares held by the Group. 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.

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 is 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, except for market conditions.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is dependent upon a market condition. In these cases, the awards are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each reporting 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 reporting date is recognised in the income statement, with a corresponding entry in equity.

Long-Term Incentive Plans (LTIPs)

The LTIPs are share-based schemes whereby certain senior management and executives receive rewards based on the relative Total Shareholder Return (TSR) performance of the Group compared with a group of companies which operate within a similar environment. The cost of equity-settled awards is measured as described above together with an estimate of future social security contributions payable in respect of this value. Where the granting of an LTIP is subject to the satisfaction of certain market conditions, a vesting charge is recognised irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where an award terminates before the performance period is complete, any unamortised expense is recognised immediately.

Events after the reporting date

Events after the reporting date that provide additional information on the Group's position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Events after the reporting date that are not adjusting events are disclosed in the notes when material.

Note 3: New accounting policies

The Group adopted the following new and amended standards as at 1 January 2009:

Standards affecting presentation and disclosures

IFRS 7 Financial instruments: Disclosures (amendments)

The amendments to the standard outline additional disclosure requirements for fair value measurements and in respect of the liquidity risk. The Group adopted the amendments resulting in the disclosure of fair value hierarchy table in the notes to the financial statements. The Group has elected not to provide comparative information for these expanded disclosures in the current year in accordance with the transitional reliefs offered in these amendments.

IFRS 8 Operating Segments (new)
This standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. Adoption of this standard did not have any effect on the financial position or performance of the Group. The Group determined that it only has one operating segment under the new standard. Additional description of the operating segment under IFRS 8 and the segments under IAS 14 Segment Reporting are shown in note 5.

IAS 1 Presentation of Financial Statements (revised)
The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements which are contained on pages 64 and 65 of the financial statements.

IAS 23 Borrowing Costs (revised)
The standard has been revised to require capitalisation of borrowing costs on qualifying assets and the Group has amended its accounting policy accordingly. In accordance with the transitional requirements of the standard this has been adopted as a prospective change. Therefore, borrowing costs have been capitalised on qualifying assets with a commencement date on or after 1 January 2009. No changes have been made for borrowing costs incurred prior to this date that have been expensed.

None of the above stated standards affected the reported result or financial position.

Standards and interpretations adopted with no effect on presentation and disclosure
IFRS 2 Share-based Payment – Vesting Conditions and Cancellations (amendments)
The standard has been amended to clarify the definition of vesting conditions and to prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

IAS 32 Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation (amendments)
The standards have been amended to allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfil a number of specified criteria. The adoption of these amendments did not have any impact on the financial position or performance of the Group.

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (amendments)
The amendments address the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The Group has concluded that the amendment had no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

New standards and interpretations not yet adopted
The Group has elected not to early adopt the following revised and amended standards:

IFRS 3 Business combinations (revised) and IAS 27 Consolidated and separate financial statements (revised)
The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. The changes will affect future acquisitions or loss of control and transactions with minority interests. The standards may be early-adopted however the Group does not intend to take advantage of this possibility.

IAS 7 Statement of cash flows (amendments)
The revision to IAS 27 principally affects the accounting for transactions or events that result in change in the Group's interest in subsidiaries. The amendments will be adopted for the Group's financial statements for the period beginning 1 January 2010.

IAS 28 Investments in associates (revised)
The principle adopted under IAS 27 (2008) that a loss of control is recognised as a disposal and re-acquisition any retained interests at fair value is extended by consequential amendment to IAS 28. The Group does not intend to take advantage of the possibility of an early adoption. The revised standard will be adopted for the Group's financial period beginning 1 January 2010.

IFRIC 17 Distributions of Non-cash Assets to Owners
This interpretation is effective for annual periods beginning on or after 1 July 2009 with early application permitted. It provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognise a liability, how to measure it and the associated assets, and when to derecognise the asset and liability. The Group does not expect IFRIC 17 to have an impact on the consolidated financial statements as the Group has not made non-cash distributions to shareholders in the past.

Notes to the Consolidated Financial Information continued

Note 4: Use of estimates
The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates are based on information available as at the date of authorising the consolidated financial statements 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:

Property, plant and equipment
The determination of fair value and value-in-use requires management to make estimates and assumptions about expected production and sales volumes, commodity prices (considering current and historical prices, price trends and related factors), reserves, operating costs, closure and rehabilitation costs and future capital expenditure. These estimates and assumptions are subject to risk and uncertainty; hence there is a possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances, some or all of the carrying value of the assets may be impaired and the impairment would be charged against the income statement.

Property, plant and equipment items of the Group were subject to a cost as at 1 January 2003, the date of Group's transition to IFRS, performed by independent appraisers. The value of buildings and construction was determined with reference to the market value. Buildings and construction of a specialised nature were valued at their depreciated replacement cost. This fair value has been adopted by the Group as the deemed cost at the transition date to IFRS.

The calculation of the average stripping ratio is based on the total estimated proved and probable reserves and is used to determine whether stripping costs are capitalised as mining assets or whether capitalised costs are released through the income statement.

Goodwill and other intangibles
Formal impairment tests are carried out annually for goodwill. Formal impairment tests for all other assets are performed when there is an indication of impairment. At each reporting date, an assessment is made to determine whether there are any indications of impairment. The Group conducts annually an internal review of asset values which is used as a source of information to assess for any indications of impairment.

External factors, such as changes in expected future processes, costs and other market factors are also monitored to assess for indications of impairment. If any indication of impairment exists an estimate of the asset's recoverable amount is calculated. The recoverable amount is determined as the higher of fair value less direct costs to sell and the asset's value-in-use.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the income statement so as to reduce the carrying amount in the statement of financial position to its recoverable amount.

Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Fair value for mining assets is generally determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset, including any expansion prospects, and its eventual disposal, using assumptions that an independent market participant may take into account. These cash flows are discounted by an appropriate discount rate to arrive at a net present value of the asset.

Value-in-use is determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form and its eventual disposal. Value-in-use is determined by applying assumptions specific to the Group's continued use and cannot take into account future development. These assumptions are different to those used in calculating fair value and consequently the value-in-use calculation is likely to give a different result (usually lower) to a fair value calculation.

In testing for indications of impairment and performing impairment calculations, assets are considered as collective groups and referred to as cash-generating units. Cash-generating units are the smallest identifiable group of assets, liabilities and associated goodwill that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Goodwill acquired through business combinations has been allocated for impairment testing purposes to one cash-generating unit. This represents the lowest level within the Group at which goodwill is monitored for internal management purposes. For the year ended 31 December 2009 cash flows have been projected for a maximum of 20 years.

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

Estimates/assumptions	Basis
Future production	Proved and probable reserves, resource estimates and, in certain cases, expansion projects
Commodity prices	Contract prices, and longer-term price protocol estimates
Exchange rates	Current market exchange rates
Discount rates	Cost of capital risk adjusted for the resource concerned

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

Defined benefit pension liability
The valuation for defined benefit superannuation schemes requires management to make judgements as to the nature of benefits provided by each scheme and thereby determine the classification of each scheme. For defined benefit schemes, management is required to make annual estimates and assumptions about future returns on classes of scheme assets, future remuneration changes, employee attrition rates, administration costs, changes in benefits, inflation rates, exchange rates, life expectancy and expected remaining periods of service of employees. In making these estimates and assumptions, management considers advice provided by external advisers, such as actuaries.

Provision for site restoration
The Group's accounting policy for the recognition of site restoration provisions requires significant estimates and assumptions such as: requirements of the relevant legal and regulatory framework; the magnitude of possible contamination and the timing, extent and costs of required closure and rehabilitation activity. These uncertainties may result in future actual expenditure differing from the amounts currently provided.

The provision recognised is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs are recognised in the statement of financial position by adjusting both the closure and rehabilitation asset and provision.

Deferred income tax
The Group's accounting policy for taxation requires management's judgement as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the statement of financial position. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Deferred tax liabilities arising from temporary differences in investments, caused principally by retained earnings held in foreign tax jurisdictions, are recognised unless repatriation of retained earnings can be controlled and are not expected to occur in the foreseeable future.

Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, commodity prices, reserves, operating costs, closure and rehabilitation costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the statement of financial position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some, or all, of the carrying amount of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the income statement.

Note 5: Segment information
The Group is managed as a single entity which produces, develops and markets its principal product – iron ore pellets – for sale to the metallurgical industry. In accordance with IFRS 8 *Operating Segments*, the Group presents its results in a single segment which are disclosed in the income statement for the Group.

In the prior period, in accordance with the requirements of IAS 14 *Segment Reporting*, the Group disclosed geographical segments split between Ukraine and Switzerland. This is no longer required.

The Group does not generate significant revenues from external customers attributable to the country of domicile. The information on the revenues from external customers attributed to the individual foreign countries is given in note 6.

The Group does not have any significant non-current assets that are located in the country of domicile of the Group. The vast majority of the non-current assets are located in Ukraine.

Notes to the Consolidated Financial Information continued

Note 6: Revenue

Revenue for the year ended 31 December 2009 consisted of the following:

US$000	**Year ended 31.12.09**	Year ended 31.12.08
Revenue from sales of ore pellets:		
Export	**612,829**	973,420
Ukraine	**34,483**	134,413
	647,312	1,107,833
Revenue from services provided	**790**	1,229
Revenue from other sales	**565**	7,792
Total revenue	**648,667**	1,116,854

Export sales by geographical destination were as follows:

US$000	**Year ended 31.12.09**	Year ended 31.12.08
China	**241,882**	173,761
Austria	**105,690**	298,209
Serbia	**84,193**	170,972
Slovakia	**77,537**	117,093
Turkey	**39,272**	30,649
Czech Republic	**21,293**	80,746
India	**21,225**	–
Hungary	**6,539**	–
Germany	**5,573**	–
Japan	**5,027**	34
Russia	**–**	42,606
Poland	**–**	31,708
Bulgaria	**–**	12,189
Italy	**–**	10,340
Other	**4,598**	5,113
Total exports	**612,829**	973,420

During the year ended 31 December 2009 sales made to three customers accounted for approximately 51.9% of the sales revenue (2008: 52.5%).

Sales made to two customers individually amounted to more than 10% of the total sales. These are disclosed below:

US$000	**Year ended 31.12.09**	Year ended 31.12.08
Customer A	**161,730**	288,065
Customer B	**105,690**	298,209

Note 7: Cost of sales
Cost of sales for the year ended 31 December 2009 consisted of the following:

US$000	**Year ended 31.12.09**	Year ended 31.12.08
Materials	**60,607**	79,321
Purchased ore and concentrate	**8,914**	47,491
Electricity	**81,438**	92,021
Personnel costs	**41,670**	68,781
Spare parts and consumables	**13,007**	17,613
Depreciation and amortisation	**23,370**	28,860
Fuel	**23,969**	41,517
Gas	**28,744**	34,106
Repairs and maintenance	**38,503**	33,120
Royalties and levies	**6,484**	6,764
Stock movement	**10,543**	(19,596)
Other	**3,818**	4,240
Total cost of sales	**341,067**	434,238

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

US$000	**Year ended 31.12.09**	Year ended 31.12.08
Cost of sales	**341,067**	434,238
Depreciation and amortisation	**(23,370)**	(28,860)
Purchased ore and concentrate	**(8,914)**	(47,491)
Processing costs for purchased ore and concentrate	**(1,206)**	(5,418)
Production cost of gravel	**(357)**	(375)
Stock movement in the period	**(10,543)**	19,596
Pension service costs	**(1,857)**	(5,058)
Other	**1,662**	(2,214)
C1 cost	**296,482**	364,418
Own ore produced (tonnes)	**8,609,200**	8,607,500
C1 cash cost per tonne (US$)	**34.44**	42.34

'C1' costs represent the cash costs of production of iron pellets from own ore divided by production volume of own ore, and excludes non-cash costs such as depreciation, pension costs and stock movements, costs of purchased ore, concentrate and production cost of gravel and excludes one-off items which are outside the definition of EBITDA.

Note 8: Selling and distribution expenses
Selling and distribution expenses for the year ended 31 December 2009 consisted of the following:

US$000	**Year ended 31.12.09**	Year ended 31.12.08
Railway transportation	**69,477**	95,477
Other transportation and port charges	**80,998**	43,697
Agent fees	**799**	1,656
Custom duties	**1,423**	1,678
Advertising	**2,757**	2,395
Personnel cost	**1,055**	1,448
Depreciation	**1,581**	1,406
Other	**4,176**	4,771
Total selling and distribution expenses	**162,266**	152,528

Notes to the Consolidated Financial Information continued

Note 9: General and administrative expenses

General and administrative expenses for the year ended 31 December 2009 consisted of the following:

US$000	Year ended 31.12.09	Year ended 31.12.08
Personnel costs	**23,933**	38,900
Buildings and maintenance	**2,391**	3,092
Taxes other than income tax and other charges	**3,930**	4,185
Consulting and other professional fees	**2,731**	7,000
Depreciation and amortisation	**2,534**	3,137
Communication	**529**	826
Vehicles maintenance and fuel	**854**	1,096
Repairs	**1,041**	1,120
Audit fees	**1,112**	1,348
Non-audit fees	**184**	1,153
Security	**1,659**	1,641
Research	**1**	352
Other	**2,262**	3,335
Total general and administrative expenses	**43,161**	67,185

Auditor remuneration

Auditor remuneration paid in respect of the audit of the financial statements of the Group and its subsidiary companies and for the provision of other services not in connection with the audit is disclosed below:

US$000	Year ended 31.12.09	Year ended 31.12.08
Audit services		
Ferrexpo plc Annual Report	**628**	1,058
Subsidiary entities	**484**	290
Total audit services	**1,112**	1,348
Non-audit services		
Tax advisory	**154**	742
Assurance related services	**–**	323
Other	**30**	88
Total non-audit services	**184**	1,153
Total auditor remuneration	**1,296**	2,501

Note 10: Other income

Other income for the year ended 31 December 2009 consisted of the following:

US$000	Year ended 31.12.09	Year ended 31.12.08
Sale of surplus maintenance spares	**867**	3,434
Lease income	**670**	1,090
Reversal of fines and penalties	**4**	926
Refunds from social security institutions	**1,735**	–
Other income	**826**	937
Total other income	**4,102**	6,387

Note 11: Other expenses
Other expenses for the year ended 31 December 2009 consisted of the following:

US$000	Year ended 31.12.09	Year ended 31.12.08
Charitable donations	**4,043**	6,081
Doubtful debts expense	**(5,199)**	18,755
Loss on disposal of plant, property and equipment	**1,121**	1,280
Other personnel costs	**830**	1,056
Foreign exchange difference arising on consolidation	**–**	5,992
Other	**2,623**	4,876
Total other expenses	**3,418**	38,040

The allowance for doubtful debts relates to receivables from certain customers in Russia and other former CIS countries. Following a stabilisation in the markets during the latter part of the financial year the recorded allowance has been partially released.

Note 12: Foreign exchange gains and losses

US$000	Year ended 31.12.09	Year ended 31.12.08
Operating foreign exchange gains		
Revaluation of trade receivables	**1,818**	31,200
Revaluation of trade payables	**716**	(1,891)
Total operating foreign exchange gains	**2,534**	29,309
Non-operating foreign exchange losses		
Revaluation of interest-bearing loans	**(1,639)**	(85,907)
Revaluation of cash equivalents	**84**	13,422
Other	**(997)**	(303)
Total non-operating foreign exchange losses	**(2,552)**	(72,788)

Note 13: 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 2009 consisted of the following:

US$000	Notes	Year ended 31.12.09	Year ended 31.12.08
Write-off of inventories		**144**	941
Write-off of property, plant and equipment		**717**	21
Impairment of available-for-sale assets	22	**1,896**	26,364
Total write-offs and impairment losses		**2,757**	27,326

Note 14: Investments in associates
As at 31 December 2009 investments in associates comprised:

	Principal activity	Country of incorporation	Ownership %	As at 31.12.09 US$000	As at 31.12.08 US$000
TIS Ruda	Port development	Ukraine	49.9	**19,915**	18,640

For the year ended 31 December 2009 the summarised financial information for the associate was as follows:

	Total assets		Total liabilities		Revenue		Net profit	
US$000	As at 31.12.09	As at 31.12.08	As at 31.12.09	As at 31.12.08	Year ended 31.12.09	Year ended 31.12.08	Year ended 31.12.09	Year ended 31.12.08
TIS Ruda	**27,187**	29,672	**4,837**	9,048	**20,147**	18,865	**2,614**	2,010

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$1,304,000 in TIS Ruda (2008: US$1,003,000).

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 15: Negative goodwill
Negative goodwill arose as a result of several equity transactions in Ferrexpo Poltava GOK Corporation during the prior period:

Rights issues
On 30 June 2008 Ferrexpo AG purchased additional shares in the Ferrexpo Poltava GOK Corporation in to which certain minorities did not participate, thus increasing its shareholding from 85.9% to 87.8%. As a result Ferrexpo AG held a larger proportion of previously generated retained profit. The resulting negative goodwill of US$5,077,018 was recognised in the income statement in accordance with the Group's accounting policy on accounting for changes in ownership interests in subsidiaries.

A second rights issue occurred on 16 December 2008, increasing Ferrexpo AG's shareholding to 90.9%. This resulted in an additional negative goodwill charge of US$5,027,479.

Treasury shares in Ferrexpo Poltava GOK Corporation
On 22 December 2008, Ferrexpo Poltava GOK Corporation repurchased own shares from DCM Decometal International Trading GmbH ('DCM'). These shares were placed in treasury for cancellation or subsequent sale to its principal shareholder, Ferrexpo AG. Ferrexpo AG. As a result of this transaction Ferrexpo AG's shareholding increased to 97.1%, which resulted in a further negative goodwill charge of US$24,944,267 recognised through the income statement.

In 2009, the remaining treasury shares of Ferrexpo Poltava GOK Corporation have been transferred to Ferrexpo AG resulting in an increase of the shareholding from 97.1% to 97.3%. This transaction resulted in a negative goodwill of US$503,000 which is included in the income statement.

Note 16: Finance income and expense
Finance income and expenses for the year ended 31 December 2009 consisted of the following:

US$000	**Year ended 31.12.09**	Year ended 31.12.08
Finance income		
Interest income	**1,894**	1,448
Other finance revenue	**999**	1,019
Total finance income	**2,893**	2,467
Finance expense		
Interest expense on financial liabilities measured at amortised cost	**(16,805)**	(15,002)
Interest on defined benefit plans	**(2,967)**	(1,776)
Bank charges	**(535)**	(336)
Other finance costs	**(3,411)**	(3,720)
Total finance expense	**(23,718)**	(20,834)
Net finance expense	**(20,825)**	(18,367)

Other finance costs include the unwinding of the discount on the site restoration provision, discounting of the share redemption liability and other costs.

Note 17: Income tax expense
The income tax expense for the year ended 31 December 2009 consisted of the following:

US$000	**Year ended 31.12.09**	Year ended 31.12.08
Current income tax	**10,162**	79,016
Deferred income tax	**(310)**	(16,483)
Total income tax expense	**9,852**	62,533

Refer to note 24 for a breakdown of the deferred tax balances.

The effective income tax rate differs from the corporate income tax rates. The weighted average statutory rate was 13.0% for 2009 (2008: 18.2%). 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 financial information. The effective tax rate is 12.2% (2008: 16.6%).

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

A reconciliation between the income tax charged in the accompanying financial information and income before taxes multiplied by the weighted average statutory tax rate for the year ended 31 December 2009 is as follows:

US$000	Year ended 31.12.09	Year ended 31.12.08
Profit before tax	**80,850**	375,581
Notional tax computed at the weighted average statutory tax rate of 13.0% (2008: 18.2%)	**10,526**	68,496
Derecognition of deferred tax assets	**135**	4,359
Inflation related indexation of fixed assets for tax	**(1,792)**	(12,456)
Expenses not deductible for tax purposes	**3,359**	9,669
Tax exempted income	**(942)**	–
Tax effect on asset impairment and negative goodwill	**–**	(7,849)
Non-recognition of deferred taxes on current year losses	**780**	–
Tax related to prior years	**(2,497)**	(286)
Other	**283**	600
Total income tax expense	**9,852**	62,533

Note 18: Earnings per share and dividends paid and proposed

Basic earnings per share (EPS) is calculated by dividing the net profit for the year attributable to ordinary equity shareholders of Ferrexpo plc by the weighted average number of Ordinary Shares.

	Year ended 31.12.09	Year ended 31.12.08
Profit for the year attributable to equity shareholders:		
Basic earnings per share (US cents)	**12.08**	48.60
Diluted earnings per share (US cents)	**12.05**	48.46
Underlying earnings for the year:		
Basic earnings per share (US cents)	**12.80**	57.74
Diluted earnings per share (US cents)	**12.77**	57.58

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

Thousands	Year ended 31.12.09	Year ended 31.12.08
Weighted average number of shares		
Basic number of Ordinary Shares outstanding	**584,652**	601,697
Effect of dilutive potential Ordinary Shares	**1,361**	1,717
Diluted number of Ordinary Shares outstanding	**586,013**	603,414

The basic number of Ordinary Shares is calculated by reducing the total number or Ordinary Shares in issue by the shares held in treasury (refer to note 30).

Diluted earnings per share is calculated by adjusting the weighted average 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 31.12.09	Year ended 31.12.08
Profit attributable to equity holders		**70,627**	292,436
Write offs/impairments	13	**2,757**	27,326
IPO costs	42	**427**	4,120
Negative goodwill generated on rights issue	15	**(503)**	(35,049)
Gain on disposal of available-for-sale investment		**–**	(1,571)
Gain on disposal of property, plant and equipment		**(213)**	–
Non-operating foreign exchange losses	12	**2,551**	72,788
Tax on adjusted items		**(823)**	(12,619)
Underlying earnings		**74,823**	347,431

Notes to the Consolidated Financial Information continued

Note 18: Earnings per share and dividends paid and proposed continued

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 adjusted items include gains and losses on disposal of investments and businesses and non-operating foreign exchange gains and losses.

Dividends paid and proposed

US$000	Year ended 31.12.09
Dividends proposed	
Final dividend for 2009: 3.3 US cents per Ordinary Share	**19,289**
Total dividends proposed	**19,289**
Dividends paid during the period	
Interim dividend for 2009: 3.3 US cents per Ordinary Share	**19,289**
Final dividend for 2008: 3.3 US cents per Ordinary Share	**20,261**
Total dividends paid during the period	**39,550**

US$000	Year ended 31.12.08
Dividends proposed	
Final dividend for 2008: 3.3 US cents per Ordinary Share	20,000
Total dividends proposed	20,000
Dividends paid during the period	
Interim dividend for 2008: 3.2 US cents per Ordinary Share	19,505
Final dividend for 2007: 3.2 US cents per Ordinary Share	19,449
Total dividends paid during the period	38,954

Note 19: EBITDA

The Group calculates EBITDA as profit from continuing operations before tax and finance plus depreciation and amortisation (included in cost of sales, administrative expenses and selling and distribution costs) and non-recurring cash items included in other income and other expenses plus the net of gains and losses from disposal of investments and property, plant and equipment. The Group presents EBITDA because it believes that EBITDA is a useful measure for evaluating its ability to generate cash and its operating performance.

US$000	Notes	Year ended 31.12.09	Year ended 31.12.08
Profit before tax and finance		**104,227**	466,736
Write-offs and impairment losses	13	**2,757**	27,326
Gain on disposal of property, plant and equipment		**(213)**	–
Gain on disposal of available-for-sale investment		**–**	(1,571)
Initial public offering costs	42	**427**	4,120
Share-based payments	42	**3,423**	1,495
Negative goodwill generated on rights issue	15	**(503)**	(35,049)
Severance payments		**–**	6,764
Depreciation and amortisation		**28,018**	34,125
EBITDA		**138,136**	503,946

The severance payments disclosed above relate to the amounts paid to the former CEO and the Director of Business Development upon their resignation in the prior year.

Note 20: Property, plant and equipment
As at 31 December 2009 property, plant and equipment comprised:

US$000	Land	Mining assets[1]	Buildings	Plant and equipment	Vehicles	Fixtures and fittings	Assets under construction[1]	Total
Cost:								
At 1 January 2008	4,884	11,371	137,849	179,910	92,704	3,655	74,882	505,255
Additions	–	–	–	50	64	239	284,670	285,023
Transfers	35	13,396	35,005	40,464	80,593	1,323	(170,779)	37
Disposals	–	(420)	(507)	(3,347)	(4,045)	(25)	(836)	(9,180)
Translation differences	(1,694)	(8,598)	(59,816)	(75,335)	(59,564)	(991)	(50,917)	(256,915)
At 31 December 2008	3,225	15,749	112,531	141,742	109,752	4,201	137,020	524,220
Additions	–	–	535	5	–	21	85,445	86,006
Transfers	–	–	24,289	57,524	5,719	575	(88,107)	–
Disposals	–	–	(3,409)	(3,033)	(1,154)	(53)	(530)	(8,179)
Translation differences	(115)	(562)	(4,008)	(5,059)	(3,917)	(66)	(3,342)	(17,069)
At 31 December 2009	3,110	15,187	129,938	191,179	110,400	4,678	130,486	584,978
Accumulated depreciation:								
At 1 January 2008	–	633	24,324	87,717	26,340	1,655	41	140,710
Depreciation charge	–	199	6,425	18,478	9,465	962	–	35,529
Disposals	–	–	(273)	(2,600)	(2,991)	(20)	–	(5,884)
Transfers	–	–	73	(72)	–	(106)	105	–
Impairment	–	–	168	–	–	–	–	168
Reversals	–	–	–	–	–	–	(147)	(147)
Translation differences	–	(289)	(10,626)	(35,895)	(11,403)	(384)	1	(58,596)
At 31 December 2008	–	543	20,091	67,628	21,411	2,107	–	111,780
Depreciation charge	–	278	5,366	15,124	7,924	829	–	29,521
Disposals	–	–	(1,657)	(2,413)	(908)	(37)	–	(5,015)
Transfers	–	–	–	–	–	–	–	–
Impairment	–	–	450	14	233	(1)	21	717
Translation differences	–	(20)	(874)	(2,441)	(764)	(26)	–	(4,125)
At 31 December 2009	–	801	23,376	77,912	27,896	2,872	21	132,878
Net book value at:								
31 December 2008	3,225	15,206	92,440	74,114	88,341	2,094	137,020	412,440
31 December 2009	3,110	14,386	106,562	113,267	82,504	1,806	130,465	452,100

1 Mining assets and assets under construction constitute mine stripping costs which are accounted for under the Group's accounting policy outlined in note 2. Capitalised pre-production stripping costs are included in assets under construction whereas the production stripping costs are shown under mining assets.

The carrying value of plant and equipment held under finance leases and hire purchase contracts at 31 December 2009 was US$20,204,282 (2008: $nil). During the year, a sale and lease back transaction for assets of plant and equipment was completed and is considered to be a finance lease. No gain or loss was realised on the sale of the assets subject to this finance lease. Leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

US$82,505,184 (2008: US$61,966,218) of property, plant and equipment have been pledged as security for liabilities.

The gross value of fully depreciated property, plant and equipment that is still in use is US$30,148,597 (2008: US$26,745,388).

Notes to the Consolidated Financial Information continued

Note 21: Goodwill and other intangible assets

As at 31 December 2009 goodwill and other intangible assets comprised:

US$000	Goodwill	Other intangible assets	Total
Cost:			
At 1 January 2008	155,682	1,781	157,463
Additions	–	1,597	1,597
Disposals	–	(13)	(13)
Translation differences	(53,578)	(1,125)	(54,703)
At 31 December 2008	102,104	2,240	104,344
Additions	–	598	598
Disposals	–	(53)	(53)
Translation differences	(3,646)	(74)	(3,720)
At 31 December 2009	98,458	2,711	101,169
Accumulated amortisation and impairment:			
At 1 January 2008	–	636	636
Amortisation charge	–	279	279
Disposals	–	(13)	(13)
Translation differences	–	(313)	(313)
At 31 December 2008	–	589	589
Amortisation charge	–	301	301
Disposals	–	(53)	(53)
Translation differences	–	(22)	(22)
At 31 December 2009	–	815	815
Net book value at:			
31 December 2008	102,104	1,651	103,755
31 December 2009	98,458	1,896	100,354

The major component of other intangible assets as at 31 December 2009 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.

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

Impairment testing was performed at 31 December 2009 based on a value-in-use calculation using cash flow projections over a 20-year period, a common practice in the industry. The cash flow projection was based on the financial budget approved by senior management.

Key assumptions

The key assumptions used in the value-in-use calculations were:

- production volume from own ore; and
- evolution of iron ore prices, costs of raw materials and other production and distribution costs.

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

The Company takes into account two principal key assumptions, selling price and total production costs. Within this both macro and local factors which influence these are considered.

In determining the future long-term selling price, the Company takes into account external and internal analysis of the long-term and shorter-term supply and demand dynamics in the local region and throughout the world along with costs of production of competitors and the marginal cost of incremental production in a particular market. The Company considers local supply demand balances affecting its major customers and the effects this could have on the longer-term price.

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

For the purpose of the goodwill impairment test, the future cash flows were discounted using the real pre-tax discount rate of 15% (2008: 15%) per annum. This rate reflects the time value of money and risk associated with the asset, and is in line with the rates used by competitors with a similar background.

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

Note 22: Available-for-sale financial assets
As at 31 December 2009 available-for-sale financial assets comprised:

	Ownership %		Carrying value	
US$000	**As at 31.12.09**	As at 31.12.08	**As at 31.12.09**	As at 31.12.08
Current				
Investments available for sale – equity instruments:				
Vostock Ruda	**1.10%**	1.10%	**626**	650
Total current available-for-sale financial assets			**626**	650
Non-current				
Investments available for sale – equity instruments:				
OJSC Stahanov	**3.14%**	3.14%	**813**	435
LLC Atol	**9.95%**	9.95%	**2,104**	4,000
CJSC AMA	**9.00%**	9.00%	**–**	–
CJSC Amtek	**9.00%**	9.00%	**–**	–
Total non-current available-for-sale financial assets			**2,917**	4,435

All investments relate to companies incorporated in Ukraine.

Impairment testing
Ferrexpo Petroleum
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 key assumptions used in this calculation were gas/condensate prices, gas/oil/condensate conversion rates, production volumes, production costs, tax rates, projected capital expenditure, the Ukrainian hryvnia to US dollar exchange rate and the discount rate. The calculation took into account the projected future cash flows attributable to the Lubachevsko-Sherbakivska licence (projected to make up 90% of the total value of the investment) over a period of 19 years (the length of the licence) with an applied real discount rate of 15.0% (2008: 14.5%) per annum.

As a result of the above review, management recognised impairment charges against carrying value of investment in LLC Atol, CJSC AMA and CJSC Amtek. The total fair value of the investment as of 31 December 2009 was determined as US$2,104,000 (2008: US$4,000,000), being entirely attributable to LLC Atol. The decrease of the carrying value of the investment is related to the impairment testing performed for the interim report as of 30 June 2009, when an additional impairment loss was recorded through profit or loss.

The impairment testing performed at year-end supported the carrying value so that no additional impairment or reversal of impairment had to be booked.

OJSC Stahanov
The value of OJSC Stahanov was increased due to a positive change in the quoted market price for the Company's shares on the Ukrainian stock exchange (PFTS) as of 31 December 2009. As of 30 June 2009, an additional impairment loss of US$63,884 has been recorded through profit or loss. The increase of the fair value in the amount of US$440,661 has been recorded against the net unrealised gains reserve as a reversal of previously recorded impairment losses.

Further details regarding available-for-sale investments can be found in note 13 – write-offs and impairment losses as well as note 36 – related party transactions.

Notes to the Consolidated Financial Information continued

Note 23: Other non-current assets

As at 31 December 2009 other non-current assets comprised:

US$000	As at 31.12.09	As at 31.12.08
Prepayments for property, plant and equipment	**7,320**	6,922
Loan provided to associate	**2,000**	3,000
Other non-current assets	**504**	194
Total other non-current assets	**9,824**	10,116

Note 24: Deferred income tax

Deferred income tax assets and liabilities at 31 December 2009 relate to the following:

	Consolidated statement of financial position		Consolidated income statement	
US$000	As at 31.12.09	As at 31.12.08	Year ended 31.12.09	Year ended 31.12.08
Trade and other receivables	**2,466**	4,160	**(1,584)**	5,888
Trade and other payables and advance receivables	**144**	16	**132**	(1)
Property, plant and equipment	**9,122**	9,063	**393**	11,972
IPO costs netted against share premium	**1,226**	1,725	**(499)**	–
Tax losses recognised	**743**	–	**743**	(1,564)
Other financial assets	**187**	204	**(10)**	–
Trade and other payables	**77**	29	**47**	–
Accrued expenses	**1,602**	1,485	**169**	3,508
Defined benefit pension liability	**3,596**	3,219	**504**	1,554
Provision for site restoration	**298**	269	**41**	180
Other financial liabilities	**134**	–	**136**	119
Total deferred tax assets	**19,595**	20,170	**72**	21,656
Thereof netted against deferred tax liabilities	**(5,922)**	(6,127)	**–**	–
Total deferred tax assets as per the statement of financial position	**13,673**	14,043	**–**	–
Trade and other receivable	**(498)**	–	**(498)**	–
Inventories	**(2,522)**	(4,052)	**1,424**	(5,170)
Accrued income/prepaid expenses	**(2,477)**	(1,915)	**(638)**	–
Property, plant and equipment	**(554)**	(210)	**(398)**	34
Intangible assets	**(277)**	(218)	**(69)**	–
Exploration rights	**–**	–	**–**	154
Advances and other current assets	**–**	–	**–**	(189)
Other non-current assets	**(171)**	(166)	**(11)**	–
Loans and borrowings	**–**	–	**–**	(520)
Employee benefit trust	**(3,025)**	(4,442)	**204**	–
Trade and other payables and advance receivables	**–**	(420)	**422**	518
Lease obligations	**(4)**	–	**(4)**	–
Other items	**(133)**	(2)	**(132)**	–
Total deferred tax liabilities	**(9,661)**	(11,425)	**300**	(5,173)
Thereof netted against deferred tax assets	**5,922**	6,127	**–**	–
Total deferred tax liabilities as per the statement of financial position	**(3,739)**	(5,298)	**–**	–
Net deferred tax asset/net change	**9,934**	8,745	**372**	16,483

The movement in the deferred income tax balance is as follows:

US$000	Year ended 31.12.09	Year ended 31.12.08
Opening balance	**(8,745)**	(7,082)
Income statement credit	**(372)**	(16,483)
Changes booked through equity	**(1,251)**	7,896
Foreign currency exchange rate adjustment	**434**	6,924
Closing balance	**(9,934)**	(8,745)

As at 31 December 2009, the Group had deductible temporary differences on current financial receivables in the amount of US$2,182,216 (2008: US$7,180,000) for which no deferred tax assets have been recognised.

Temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised amount to US$147,080,471 (2008: US$181,204,000).

Note 25: Inventories
As at 31 December 2009 inventories comprised:

US$000	**As at 31.12.09**	As at 31.12.08
Raw materials and consumables	**47,405**	41,889
Finished ore pellets	**5,135**	15,456
Work in progress	**7,565**	4,294
Other	**104**	76
Provision for slow moving and obsolete stock	**(573)**	(445)
Total inventories	**59,636**	61,270

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

Note 26: Trade and other receivables
At 31 December 2009 trade and other receivables comprised:

US$000	**As at 31.12.09**	As at 31.12.08
Trade receivables	**42,956**	70,113
Other receivables	**1,616**	1,479
Allowance for uncollectability	**(6,455)**	(11,956)
Total trade and other receivables	**38,117**	59,636

Trade receivables at 31 December 2009 includes US$2,098,000 (2008: US$1,898,000) owed by related parties.

The movement in the allowance for uncollectability during the year was:

US$000	**Year ended 31.12.09**	Year ended 31.12.08
Opening balance	**11,956**	401
Recognition	**187**	18,629
Reversal	**(5,386)**	(320)
Foreign currency translation	**(302)**	(6,754)
Closing balance	**6,455**	11,956

The following table shows the Group's receivables at the reporting date that are subject to credit risk and the ageing and impairment profile thereon:

	As at 31.12.09					
				Receivables past due but not impaired		
US$000	**Gross amount**	**Receivables past due and impaired**	**Receivables neither past due nor impaired**	**Less than 45 days**	**45 to 90 days**	**Over 90 days**
Trade receivables	**42,956**	**6,322**	**33,932**	**2,160**	**173**	**369**
Other receivables	**1,616**	**133**	**1,263**	**7**	**12**	**201**

	As at 31.12.08					
				Receivables past due but not impaired		
US$000	Gross amount	Receivables past due and impaired	Receivables neither past due nor impaired	Less than 45 days	45 to 90 days	Over 90 days
Trade receivables	70,113	11,521	34,883	14,065	2,781	6,863
Other receivables	1,479	435	1,028	–	–	16

The Group's exposures to credit and currency risks are disclosed in note 41.

Notes to the Consolidated Financial Information continued

Note 27: Prepayments and other current assets
As at 31 December 2009 prepayments and other current assets comprised:

US$000	As at 31.12.09	As at 31.12.08
Prepayments to suppliers		
Electricity and gas	**4,036**	1,830
Materials and spare parts	**1,879**	2,954
Services	**1,922**	2,059
Other prepayments	**3,110**	663
Loan provided to associate	**550**	6,000
Accrued income	**6,062**	3,869
Other	**1,835**	733
Total prepayments and other current assets	**19,394**	18,108

Note 28: Taxes payable, recoverable and prepaid
The income tax payable balance as of 31 December 2009 is shown below:

US$000	As at 31.12.09	As at 31.12.08
Opening balance	**(8,604)**	(2,367)
Income statement charge	**(9,852)**	(79,016)
Tax paid	**18,899**	67,217
Changes booked through equity	**(99)**	4,125
Foreign exchange adjustment	**(1,708)**	1,437
Closing balance	**(1,364)**	(8,604)

Split by:

US$000	As at 31.12.09	As at 31.12.08
Income tax receivable balance	**9,741**	5,835
Income tax payable balance	**(11,105)**	(14,439)
Total income tax payable at the year end	**(1,364)**	(8,604)

As at 31 December 2009 taxes recoverable and prepaid comprised:

US$000	As at 31.12.09	As at 31.12.08
VAT receivable	**81,269**	57,244
Other taxes prepaid	**15**	41
Total taxes recoverable and prepaid	**81,284**	57,285

During the year the VAT receivable increased from US$57,243,752 to US$81,268,909 mainly relating to Ferrexpo Poltava Mining. As an exporter, Ferrexpo Poltava Mining, the Group's principal subsidiary, does not have substantial amounts of VAT received on sales which can be offset against VAT paid for purchases of goods and services. It therefore relies heavily on the government for refunds. VAT on trading items is due to be repaid three months after it is incurred. However, due to slow repayments VAT amounting to nine months of trading was outstanding at the end of the year with none of the amounts being in dispute. It is expected that VAT refunds will resume in 2010.

Further information is given in the Financial Review of this report.

As at 31 December 2009 other taxes payable comprised:

US$000	As at 31.12.09	As at 31.12.08
Withholding tax	**3,233**	2,420
Environmental tax	**2,267**	1,698
Source tax	**317**	236
Other taxes	**2,076**	2,071
Total other taxes payable	**7,893**	6,425

Note 29: Cash and cash equivalents
As at 31 December 2009 cash and cash equivalents comprised:

US$000	As at 31.12.09	As at 31.12.08
Cash at bank	**11,987**	87,819
Petty cash	**4**	3
Total cash and cash equivalents	**11,991**	87,822

The cash at bank balance as of 31 December 2008 includes an amount of US$1,046,000 held in an escrow account which was unavailable to the Group. This amount was released subsequent to year end. No such balances existed as of 31 December 2009.

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 41.

Note 30: Share capital and reserves

	US$000	Number of shares
Balance at 31 December 2009 and 2008	121,628	613,967,956

Share capital represents the nominal value on issue of the Company's equity share capital, comprising £0.10 Ordinary Shares.

The fully paid share capital of Ferrexpo plc at 31 December 2009 was 613,967,956 (2008: 613,967,956) Ordinary Shares at a par value of £0.10 paid for in cash, resulting in share capital of US$121,627,585 (2008: US$121,627,585) per the statement of financial position.

The closing balance includes 25,343,814 shares which are held in treasury.

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

Treasury share reserve
During September 2008, Ferrexpo plc completed a buyback of 25,343,814 shares for a total cost of US$77,260,476. These shares are currently held as treasury shares by the Group. The Companies Act 2006 forbids the exercise of any rights (including voting rights) and the payment of dividends in respect of treasury shares.

Employee benefit trust reserve
This reserve represents 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 incentive 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.

Subsequent increases in the stake have been accounted for using the parent extension concept method of accounting as described in the accounting policy section.

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

Translation reserve
The translation reserve represents exchange differences arising on the translation of non-US dollar (ie hryvnia) functional currency operations within the Group into US dollars.

Notes to the Consolidated Financial Information continued

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. All loans are in US dollars. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 41.

US$000	Notes	As at 31.12.09	As at 31.12.08
Current			
Ukrainian banks		**25,738**	738
Other banks		**223,647**	71,715
Obligations under finance leases	40	**1,264**	–
Interest accrued		**730**	2,070
Total current interest bearing loans and borrowings		**251,379**	74,523
Non-current			
Ukrainian banks		**844**	24,659
Other banks		**89**	206,714
Obligations under finance leases	40	**17,210**	–
Total non-current interest bearing loans and borrowings		**18,143**	231,373
Total interest bearing loans and borrowings		**269,522**	305,896

As at 31 December 2009 the Ukrainian bank facilities are secured by property, plant and equipment with a carrying amount of US$82,505,184 (2008: US$61,966,218) and rights to a purchase contract in respect of equipment to be delivered of US$20,890,000 (2008: US$nil). Secured Ukrainian property, plant and equipment includes crushing and locomotive buildings, excavators, and mine transport, flotation and crushing equipment. Non-Ukraine bank loans of US$207,723,000 are secured by rights to proceeds from future export sales of US$370,444,800 (2008: US$775,173,008), and US$15,919,000 secured by Ukrainian mine transport equipment with a carrying value of US$22,074,460.

As at 31 December 2009 the Group's major bank debt facility was a US$335,000,000 (2008: US$335,000,000) pre-export finance facility with no unutilised amount (2008: nil). On 8 January 2010 the remaining outstanding balance of US$207,727,272 was repaid in full.

The Group entered into a new three year bank debt term facility on 27 November 2009 in the amount of US$230,000,000. This pre-export finance facility was drawn in full on 8 January 2010 and was used for refinancing the existing pre-export finance facility.

The term loan and revolving credit facilities as at 31 December 2009 were guaranteed and secured as follows:
- Ferrexpo AG assigned the rights to revenue from certain sales contracts;
- Ferrexpo Poltava GOK Corporation assigned all of its rights for 10 export contracts for the pellets sales to Ferrexpo AG;
- the Group pledged its bank account into which all proceeds from the sale of certain iron ore pellet contracts are received; and
- Ferrexpo AG pledged all its rights under certain contracts for the sale of iron ore pellets and its rights under certain related credit support documents.

It should also be noted that Ferrexpo AG is subject to minimum capital requirements which restrict the amount of profit that can be distributed to the parent.

The new major bank debt facility drawn on 8 January 2010 is also guaranteed and secured on the same basis as the bank debt existing at 31 December 2009.

Note 32: Trade and other payables

As at 31 December 2009 trade and other payables comprised:

US$000	As at 31.12.09	As at 31.12.08
Current trade and other payables		
Payables for equipment	**4,323**	3,821
Commodity loans	**124**	1,446
Materials and services	**20,255**	23,114
Promissory notes	**–**	797
Dividends payable	**78**	312
Liability for severance payments	**–**	1,046
Other	**3,146**	4,497
Total current trade and other payables	**27,926**	35,033
Non-current trade and other payables		
Commodity loans	**–**	570
Total non-current trade and other payables	**–**	570

Trade and other payables at 31 December 2009 includes US$1,662,000 (2008: US$1,909,000) due to related parties. See note 36.

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 41.

Note 33: Defined benefit pension liability

Ukrainian defined benefit plan

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 to the income statement 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 are unfunded. Costs relating to this plan are accrued using the projected unit credit method in respect of those employees entitled to such payments. Actuarial techniques have been used in calculating the liability related to this retirement obligation at the reporting date.

Gains and losses resulting from the use of internal actuarial valuation methodologies are recognised when the cumulative unrecognised actuarial gains or losses for the scheme exceed 10% of defined benefit obligation. These gains or losses are recognised as income or expense over the expected average remaining working lives of the employees participating in the plan.

The past service cost is recognised as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, 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 past service cost not yet recognised.

At 31 December 2009 this defined benefit plan covered 4,669 current employees (2008: 4,673 people). There are 1,246 former employees currently in receipt of pensions (2008: 1,226 people).

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; this has also been included in the provision.

Swiss defined benefit plan

The employees of the Group's Swiss operation are covered under a multi-employer pension plan, which is governed in accordance with the requirements of Swiss law. The assets of the pension scheme are held separately from those of the Group and are invested with an insurance company. The annual pension costs and the defined benefit obligation as well as the fair value of the plan assets are assessed annually by an independent professionally qualified actuary.

The accumulated capital of the employees is subject to interests determined by the local legislation and defined in the regulatory of the pension scheme.

On retirement employees are entitled to receive either a lump sum or an annual proportion of their accumulated capital as a pension underpinned by certain guarantees. The Group and in certain cases the employees make contributions to the pension scheme as a percentage of the insured salaries and depending on the age of the employees.

At 31 December 2009 this defined benefit plan covered 21 people (2008: 23 people).

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

	Year ended 31.12.09		Year ended 31.12.08	
	Swiss Scheme	**Ukrainian Scheme**	Swiss Scheme	Ukrainian Scheme
Discount rate	**3.25%**	**15.00%**	3.25%	10.00%
Retail price inflation	**1.50%**	**7.00%**	2.40%	6.00%
Expected future salary increase	**3.00%**	**7.00%**	3.00%	7.61%
Expected future benefit increase	**0.00%**	**0.00%**	0.00%	0.00%
Female life expectancy (years)	**86.0**	**74.5**	86.9	74.7
Male life expectancy (years)	**82.9**	**63.5**	83.5	63.5

Notes to the Consolidated Financial Information continued

Note 33: Defined benefit pension liability continued

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

	Year ended 31.12.09			Year ended 31.12.08		
US$000	**Swiss scheme**	**Ukrainian scheme**	**Total**	Swiss scheme	Ukrainian scheme	Total
Opening defined benefit obligation	**2,096**	**22,187**	**24,283**	1,647	18,853	20,500
Current service cost	**375**	**1,142**	**1,517**	310	1,607	1,917
Employee contribution	**14**	**–**	**14**	–	–	–
Interest cost	**66**	**3,074**	**3,140**	46	1,730	1,776
Contribution by plan participants	**469**	**–**	**469**	697	–	697
Benefits paid	**(926)**	**(2,987)**	**(3,913)**	(766)	(4,103)	(4,869)
Actuarial loss	**101**	**1,230**	**1,331**	52	6,167	6,219
Past service cost	**–**	**3,502**	**3,502**	–	9,972	9,972
Foreign exchange translation adjustment	**39**	**(4,268)**	**(4,229)**	110	(12,039)	(11,929)
Closing defined benefit obligation	**2,234**	**23,880**	**26,114**	2,096	22,187	24,283
Opening plan assets	**1,507**	**–**	**1,507**	1,039	–	1,039
Expected return on plan assets	**48**	**–**	**48**	33	–	33
Employer contribution	**474**	**–**	**474**	274	–	274
Employee contribution	**14**	**–**	**14**	–	–	–
Contribution by plan participants	**469**	**–**	**469**	942	–	942
Benefits paid	**(926)**	**–**	**(926)**	(766)	–	(766)
Actuarial loss	**(230)**	**–**	**(230)**	(84)	–	(84)
Foreign exchange translation adjustment	**19**	**–**	**19**	69	–	69
Closing plan assets	**1,375**	**–**	**1,375**	1,507	–	1,507
Net funded status	**859**	**23,880**	**24,739**	589	22,187	22,776
Unrecognised actuarial losses	**(807)**	**(6,333)**	**(7,140)**	(527)	(5,767)	(6,294)
Unrecognised past service cost	**–**	**(3,113)**	**(3,113)**	–	(5,543)	(5,543)
Foreign exchange translation adjustment	**(34)**	**77**	**43**	–	2,001	2,001
Defined benefit liability at the end of the year	**18**	**14,511**	**14,529**	62	12,878	12,940
Benefit expense						
Current service cost	**389**	**1,142**	**1,531**	310	1,607	1,917
Interest cost	**66**	**3,074**	**3,140**	46	1,730	1,776
Amortisation of actuarial loss/(gain)	**37**	**439**	**476**	(30)	92	62
Expected return on plan assets	**(48)**	**–**	**(48)**	(33)	–	(33)
Recognised past service cost	**–**	**389**	**389**	–	4,429	4,429
Employee contribution	**(14)**	**–**	**(14)**	–	–	–
Curtailment gain	**–**	**–**	**–**	(162)	–	(162)
	430	**5,044**	**5,474**	131	7,858	7,989
Net movement on defined benefit liability						
Opening balance	**62**	**12,878**	**12,940**	191	15,978	16,169
Recognition of liability	**–**	**–**		–	–	–
Benefits expense	**430**	**5,044**	**5,474**	131	7,858	7,989
Benefits paid	**–**	**(2,897)**	**(2,897)**	–	(4,103)	(4,103)
Employer contribution	**(474)**	**–**	**(474)**	(274)	–	(274)
Foreign exchange translation adjustment	**–**	**(514)**	**(514)**	14	(6,855)	(6,841)
Closing balance	**18**	**14,511**	**14,529**	62	12,878	12,940
Experience adjustments arising on plan liabilities	**101**	**1,230**	**1,331**	52	6,167	6,219

The Group expects to contribute US$3,643,545 to its defined benefit plans in 2009.

The asset allocation of the plan assets of the Swiss scheme is as follows:

US$000	**As at 31.12.09 %**	**As at 31.12.09**	As at 31.12.08 %	As at 31.12.08
Plan assets at fair value				
Equities	**18.3**	**252**	15.3	231
Bonds	**49.7**	**683**	53.4	805
Properties	**18.1**	**248**	19.4	292
Other	**13.9**	**192**	11.9	179
Fair value of plan assets	**100**	**1,375**	100	1,507

The actual returns on the plan assets for the Swiss Scheme were US$114,008 (2008: US$156,402).

The overall expected rate of return on assets is determined based on the market value weighted expected return applicable to the underlying asset category.

	Year ended 31.12.09 Swiss Scheme	Year ended 31.12.08 Swiss Scheme
Expected rate of return on plan assets:		
Equities	**6.50%**	6.50%
Bonds	**2.50%**	2.50%
Properties	**4.50%**	4.50%
Other	**2.25–4.00%**	2.25–4.00%
Average expected rate of return on plan assets	**3.50%**	3.43%
Actual rate of return on plan assets:		
Equities	**28.53%**	(47.10%)
Bonds	**8.93%**	0.47%
Properties	**5.59–33.60%**	6.05%
Other	**(44.94)–24.63%**	2.9–55.71%
Average actual rate of return on plan assets	**11.60%**	(11.38%)

A change in the assumed discount rates would have the following effects:

	As at/year ended 31.12.09			
	Increase		**Decrease**	
US$000	**Swiss scheme (+0.25%)**	**Ukrainian scheme (+1.00%)**	**Swiss scheme (–0.25%)**	**Ukrainian scheme (–1.00%)**
Effect on the aggregated current service costs and interest costs	**(23)**	**(122)**	**25**	**139**
Effect on the defined benefit obligation	**(87)**	**(1,460)**	**93**	**1,650**

The history of experience adjustments (unrecognised losses) is as follows for the current and previous three periods:

		Year ended 31.12.09	Year ended 31.12.08	Year ended 31.12.07	Year ended 31.12.06
Opening balance		**(6,294)**	(3,292)	(945)	(286)
Experience adjustments on plan liabilities		**(1,331)**	(6,219)	(2,347)	(659)
Experience adjustments on plan assets		**(230)**	(84)	–	–
Gain on change in assumptions		**–**	–	–	–
Foreign exchange translation adjustment		**715**	3,376	–	–
Closing balance	**(7,140)**	(6,294)	(3,292)	(945)	

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 of decommissioning and restoring the mines at the dates when the deposits are expected to be depleted. The present value of the provision has been calculated using a nominal pre-tax discount rate of 10.25% per year (2008: 12.00%). The liability becomes payable at the end of the useful life of the mine, currently estimated to be 2035. Uncertainties in estimating these costs include potential changes in regulatory requirements, decommissioning and reclamation alternatives and the levels of discount and inflation rates. The increase as of 31 December 2009 is due to the unwinding of the discount.

$000	**Year ended 31.12.09**	Year ended 31.12.08
Opening balance	**1071**	1,746
Unwind of the discount	**159**	269
Arising during the year	**76**	(385)
Translation adjustment	**(38)**	(559)
Closing balance	**1,268**	1,071

Notes to the Consolidated Financial Information continued

Note 35: Accrued liabilities and deferred income

As at 31 December 2009 accrued liabilities and deferred income comprised:

US$000	As at 31.12.09	As at 31.12.08
Accrued expenses	**1,582**	3,413
Accrued employee costs	**10,398**	10,993
Advances from customers	**166**	64
Total accrued liabilities and deferred income	**12,146**	14,470

Note 36: Related party disclosure

During the periods presented the Group entered into arm's length transactions with entities under common control of the majority owner of the Group, Kostyantin Zhevago and with other related parties. Management considers that the Group has appropriate procedures in place to identify and properly disclose transactions with the related parties.

The related party transactions undertaken by the Group during the periods presented are summarised below:

Revenue, expenses, finance income and finance costs

	Year ended 31.12.09			Year ended 31.12.08		
US$000	Entities under common control	Associated companies	Other related parties	Entities under common control	Associated companies	Other related parties
Iron ore pellet sales	**–**	**–**	**–**	–	–	–
Other sales[1]	**506**	**–**	**1,480**	853	–	2,937
Total revenue	**506**	**–**	**1,480**	853	–	2,937
Purchase of materials	**4,458**	**–**	**11,930**	22,999	–	20,293
Purchase of services[2]	**444**	**–**	**23**	477	–	426
General and administration expenses	**3,315**	**–**	**–**	2,642	–	128
Selling and distribution	**–**	**11,849**	**11,736**	–	3,482	11,332
Other expenses	**91**	**–**	**8**	43	–	247
Total expenses	**8,308**	**11,849**	**23,697**	26,161	3,482	32,426
Finance income	**1,329**	**267**	**–**	239	394	–
Finance expense	**(816)**	**–**	**–**	(761)	–	–
Net finance income/(expense)	**513**	**267**	**–**	(522)	394	–

1 Following initial stripping operations at Yeristovo, the Company disposed of surplus ballast material on the 30 June 2008 for US$515,000. This was recorded in revenue as income and is disclosed in the table above showing revenue, expenses, finance income and finance costs.
2 Kuoni Attorneys-at-Law has provided services to the Group for fees of US$23k (2008: nil) during the year. Wolfram Kuoni who is a partner in the firm is also an independent Non-executive Director of Ferrexpo plc. The services were provided on an arm's length basis by other members of the firm.

Finance income and finance expense

The Group has transactional banking arrangements with Finance & Credit Bank in Ukraine which is under common control of the major shareholder of Ferrexpo plc. Finance income and finance expense are disclosed in the table above.

Sale and purchases of property, plant and equipment and investments

US$000	Year ended 31.12.09			Year ended 31.12.08		
	Entities under common control	**Associated companies**	**Other related parties**	Entities under common control	Associated companies	Other related parties
Sale of investments[6]	**–**	**–**	**–**	1,849	–	–
Purchase of investments[4]	**–**	**–**	**–**	270	–	–
Purchase of own Ordinary Shares[3]	**–**	**–**	**–**	58,249	–	–
Sale of property, plant and equipment	**–**	**–**	**–**	–	–	–
Purchase of property, plant and equipment[1,2,5]	**2,200**	**–**	**–**	192	–	16

1 On 31 March 2009, the Company acquired a trial filter press from Progress Plant Company, an entity under common control for US$2,200,000.
2 On 28 November 2008, the Group entered into a purchase agreement for property, plant and equipment (principally trucks and cranes) with Auto Kraz, an entity under common control. A first instalment amounting to US$138,000 of an approved order of totally US$1,067,000 has been made for part delivery. Subsequent to this delivery, it has been decided to postpone further deliveries.
3 On the 16 September 2008, Ferrexpo plc repurchased 19,398,814 of its own Ordinary Shares from Fevamotinico S.a.r.l., an entity under common control, at the market price of £1.673 per share for settlement on 19 September 2008. The gross consideration paid amounted to US$58,248,826.
4 On 16 July 2008, Ferrexpo Poltava GOK Corporation and DP Ferrotrans (Group subsidiaries) subscribed for additional share capital for consideration of US$244,000 and US$26,000 respectively in OJSC Stahanov, as part of the rights issue of that company. The total share holding of the Group as of 31 December 2009 is 3.14% (2008: 3.14%).
As at 31 December 2009 the market value of the total shares held by the Group through its subsidiaries amounted to US$812,000 (31 December 2008: US$435,000). The increase of the market value was treated as a reversal of a previously recorded impairment loss through other comprehensive income.
5 On 25 June 2008, the Group acquired a truck from Auto Kraz, an entity under common control, for US$54,000.
6 On 23 May 2008, the Group disposed of a 2.10% share holding in Vostock Ruda, an available-for-sale investment, to entities under common control for a consideration of US$1,849,000 resulting in a gain on disposal of US$1,571,000. The remaining share holding in Vostock Ruda of the Group is 1.10% as of 31 December 2009 (2008: 1.10%).

The outstanding investments/balances with related parties for the periods presented are as follows:

US$000	As at 31.12.09			As at 31.12.08		
	Entities under common control	**Associated companies**	**Other related parties**	Entities under common control	Associated companies	Other related parties
Investments available-for-sale	**2,917**	**–**	**–**	–	–	–
Loans	**–**	**2,550**	**–**	–	9,000	–
Total non-current assets	**2,917**	**2,550**	**–**	–	9,000	–
Investments available-for-sale	**626**	**–**	**–**	650	–	–
Trade and other receivables	**1,999**	**93**	**6**	1,890	–	8
Prepayments and other current assets	**995**	**–**	**1**	145	299	581
Short-term deposits with banks	**411**	**–**	**–**	5,000	–	–
Cash and cash equivalents	**1,712**	**–**	**–**	36,984	–	–
Total current assets	**5,742**	**93**	**7**	44,669	299	589
Trade and other payables	**514**	**–**	**1,146**	659	–	1,250
Total current liabilities	**514**	**–**	**1,146**	659	–	1,250

As of 31 December 2009 trade and other receivables included outstanding amounts relating to the disposal of shares in Vostock Ruda of US$1,169,000 (2008: US$1,212,000).

As of 31 December 2009 cash and cash equivalents with Finance & Credit Bank were US$1,709,000 (2008: US$36,984,000) and short-term deposits with the same institution US$411,000 (2008: US$5,000,000).

Other related party transaction

In August 2009, the Group paid Swiss Withholding Tax of US$984,106 on behalf of Kostyantin Zhevago on costs incurred for the Initial Public Offering completed in June 2007. This was settled in accordance with terms and conditions entered into at the time of the Initial Public Offering of the Company.

Notes to the Consolidated Financial Information continued

Note 37: Reconciliation of profit before tax to net cash flow from operating activities

US$000	Year ended 31.12.09	Year ended 31.12.08
Profit before tax	**80,850**	375,581
Adjustments for:		
Depreciation of property, plant and equipment and amortisation of intangible assets	**28,018**	34,125
Interest expense	**20,622**	18,496
Interest income	**(2,893)**	(2,467)
Share of income of associates	**(1,304)**	(1,003)
Movement in allowance for doubtful receivables	**(5,199)**	19,095
Write-off/reversal of payables	**–**	(1,043)
(Profit)/loss on disposal of property, plant and equipment	**(213)**	1,280
Assets received free of charge	**–**	(325)
Write-offs and impairment losses	**2,757**	27,325
Site restoration provision	**159**	269
Gains on disposal of available-for-sale financial assets	**–**	(1,571)
Employee benefits	**5,474**	7,715
IPO costs	**427**	4,120
Share-based payments	**3,423**	1,495
Negative goodwill generated on rights issue	**(503)**	(35,049)
Operating foreign exchange gains	**(2,534)**	(29,309)
Non-operating foreign exchange losses	**2,552**	72,788
Operating cash flow before working capital changes	**131,636**	491,522
Changes in working capital:		
Decrease/(increase) in trade and other receivables	**14,961**	(36,167)
Decrease/(increase) in inventories	**1,777**	(5,070)
(Decrease)/increase in trade and other accounts payable	**(6,474)**	8,094
(Increase)/decrease in other taxes recoverable and prepaid	**(24,038)**	(673)
Cash generated from operating activities	**117,862**	457,706
Interest paid	**(19,197)**	(15,443)
Income tax paid	**(18,899)**	(67,217)
Post-employment benefits paid	**(2,897)**	(4,103)
Net cash flows from operating activities	**76,869**	370,943

Note 38: Net financial indebtedness

US$000	Notes	Year ended 31.12.09	Year ended 31.12.08
Cash and cash equivalents	29	**11,991**	87,822
Current borrowings	31	**(251,379)**	(74,523)
Non-current borrowings	31	**(18,143)**	(231,373)
Current commodity loans	32	**(124)**	(1,446)
Non-current commodity loans	32	**–**	(570)
Net financial indebtedness		**(257,655)**	(220,090)

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$ and euro which are interest-bearing.

Note 39: Employee benefits expenses

Employee benefits expenses for the year ended 31 December 2009 consisted of the following:

US$000	Year ended 31.12.09	Year ended 31.12.08
Wages and salaries	**39,905**	65,738
Social security costs	**11,520**	20,598
Post-employment benefits	**2,653**	6,127
Other employee costs	**7,248**	12,756
Share-based payments	**3,850**	4,966
Total employee benefits expenses	**65,176**	110,185

Average number of employees

Number	Year ended 31.12.09	Year ended 31.12.08
Production	**6,319**	6,728
Marketing and distribution	**169**	159
Administration	**958**	1,002
Other	**907**	870
Total average number of employees	**8,353**	8,759

Compensation for key management was as follows:

US$000	Year ended 31.12.09	Year ended 31.12.08
Wages and salaries	**4,540**	22,836
Social security costs	**646**	1,015
Other employee costs	**287**	8,748
Total compensation for key management	**5,472**	32,599

Share-based payments of US$560,295 (2008: US$16,033,308) are included in wages and salaries.

The balances above include compensation for Non-executive and Executive Directors as well as for other key management personnel. Refer to the Remuneration Report for details of compensation relating to Non-executive and Executive Directors.

Note 40: Commitments and contingencies

Operating lease commitments – Group as lessee

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

US$000	As at 31.12.09	As at 31.12.08
Less than one year	**849**	1,137
Between one and five years	**2,374**	3,473
More than five years	**16,479**	21,895
Total minimum rentals payable	**19,702**	26,505

During the year ended 31 December 2009 US$1,665,000 was recognised as an expense in the income statement in respect of operating leases (2008: US$986,000).

The Group leases land and buildings under operating leases. The leases on land typically run for 49 years, with a lease period of 5 to 10 years on buildings.

Operating lease commitments – Group as lessor

The Group does not have any commitments from lease agreements acting as lessor.

Finance lease commitments

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	As at 31.12.09	
US$000	Minimum payments	Present value of payments (note 31)
Less than one year	**1,264**	**1,264**
Between one and five years	**9,023**	**6,049**
More than five years	**8,188**	**2,906**
Total minimum lease payments	**18,475**	**10,219**
Less: amounts representing finance charges	**(8,256)**	**–**
Present value of minimum lease payments	**10,219**	**10,219**

Notes to the Consolidated Financial Information continued

Note 40: Commitments and contingencies continued

Other

US$000	As at 31.12.09	As at 31.12.08
Capital commitments on purchase of property, plant and equipment	**41,404**	42,198
Guarantees provided	**208,000**	280,000

Legal

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.

Tax and other regulatory compliance

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 enterprises in Ukraine.

Note 41: Financial instruments

The accounting classification of each category of financial instruments, and their carrying amounts, are set out below:

		As at 31.12.09				
US$000	Notes	Loans and receivables	Available-for-sale financial assets	At fair value through profit or loss	Financial liabilities measured at amortised cost	Total
Financial assets						
Cash and cash equivalents	29	**11,991**	**–**	**–**	**–**	**11,991**
Available-for-sale investments	22		**3,543**	**–**	**–**	**3,543**
Trade and other receivables	26	**38,117**	**–**	**–**	**–**	**38,117**
Other financial assets		**3,719**	**–**	**–**	**–**	**3,719**
Total financial assets		**53,827**	**3,543**	**–**	**–**	**57,370**
Financial liabilities						
Trade and other payables	32	**–**	**–**	**–**	**24,780**	**24,780**
Accrued liabilities and deferred income	35	**–**	**–**	**–**	**12,146**	**12,146**
Interest bearing loans and borrowings	31	**–**	**–**	**–**	**269,522**	**269,522**
Other financial liabilities		**–**	**–**	**–**	**3,161**	**3,161**
Total financial liabilities		**–**	**–**	**–**	**309,609**	**309,609**

		As at 31.12.08				
US$000	Notes	Loans and receivables	Available-for-sale financial assets	At fair value through profit or loss	Financial liabilities measured at amortised cost	Total
Financial assets						
Cash and term deposits	29	87,822	–	–	–	87,822
Available-for-sale investments	22	–	5,085	–	–	5,085
Trade and other receivables	26	59,636	–	–	–	59,636
Other financial assets		10,169	–	–	–	10,169
Total financial assets		157,627	5,085	–	–	162,712
Financial liabilities						
Trade and other payables	32	–	–	–	31,106	31,106
Accrued liabilities and deferred income	35	–	–	–	14,470	14,470
Interest bearing loans and borrowings	31	–	–	–	305,896	305,896
Total financial liabilities		–	–	–	351,472	351,472

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 and the CFO.

The Group operates a centralised financial risk management structure under the management of the Executive Committee, accountable to the Board. The Executive Committee delegates certain responsibilities to the CFO. The CFO's responsibilities include authority for approving all new physical, commercial or financial transactions that create a financial risk for the Group. Additionally, the CFO controls the management of treasury risks within each of the business units in accordance with a Board approved Treasury Policy.

Financial instrument risk exposure and management
Natural hedges that can be identified and their 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 under the approved Treasury Policy – and are designed to have the 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 other hedging instruments, in this or prior periods.

Credit risk
Trade and other receivables
The Group through its trading operations enters into binding contracts which contain 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 reducing risks within acceptable parameters.

In order to react to the significant weakness in iron ore demand during the financial year 2009, certain sales arrangements with customers have been changed from long-term to spot.

Trade finance is used to balance risk and payment. 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 as, or better than, those which other organisations with similar credit worthiness would achieve, and compared with other 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 crystallises when a party to an agreement defaults. Where letters of credit are used to minimise this risk, 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. During the year the Group reduced its exposure to Ukraine trade receivables risk by increasing the level of production exported.

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

Notes to the Consolidated Financial Information continued

Note 41: Financial instruments continued

Investment securities

The Group limits its cash 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 by 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 are predominantly in Ukraine, special consideration is given to investments with Ukrainian counterparties. Exceptions may be made under the following conditions:

- the counterparty is resident in Ukraine, and
- the counterparty is included in the Top 15 financial institutions in Ukraine, and
- 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 Fitch, S&P or Moody's.

Cash and deposits are held with the Group's transactional bank in Ukraine, which is a related party financial institution. This bank is registered with the National Bank of Ukraine for receiving and disbursing payments under Group intercompany loans, and is an approved Ukrainian counterparty. The Group is therefore exposed to Ukraine country risk.

Guarantees

The Group's policy is to provide financial guarantees only to wholly-owned subsidiaries. At 31 December 2009 Ferrexpo AG and Ferrexpo UK Ltd were jointly and severally liable under a $335 million loan agreement having an outstanding balance of US$208 million (31 December 2008: US$280 million).

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 31.12.09**	As at 31.12.08
Cash and cash equivalents	**11,991**	87,822
Trade and other receivables	**38,117**	59,636
Other financial assets	**3,719**	10,169
Total maximum exposure to credit risk	**53,827**	157,627

The total receivables balance relating to the Group's top three customers was US$24,999,505 (2008: US$29,740,000) making up 68.5% of the total amounts receivable (2008: 51.1%).

Impairment profile

The Group's exposure to credit risk relating to trade and other receivables is disclosed in note 26.

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 is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation by holding surplus cash or undrawn credit facilities.

The Group prepares detailed rolling cash flow 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 following are the contractual maturities of financial liabilities by interest type:

US$000	Less than 1 year	Between 1 to 2 years	Between 2 to 5 years	Total
	As at 31.12.09			
Interest bearing				
Ukrainian banks (fixed rate interest)	**25,738**	**738**	**106**	**26,582**
Other banks (floating rate interest)	**224,911**	**6,725**	**10,574**	**242,210**
Interest accrued	**730**	**–**	**–**	**730**
Future interest payable	**9,923**	**3,827**	**2,674**	**16,424**
Non-interest bearing				
Trade and other payables	**24,780**	**–**	**–**	**24,780**
Accrued liabilities and deferred income	**12,146**	**–**	**–**	**12,146**
Other financial liabilities	**3,161**	**–**	**–**	**3,161**
Total financial liabilities	**301,389**	**11,290**	**13,354**	**326,033**

US$000	Less than 1 year	Between 1 to 2 years	Between 2 to 5 years	Total
	As at 31.12.08			
Interest bearing				
Ukrainian banks (fixed rate interest)	738	23,557	1,102	25,397
Other banks (floating rate interest)	71,715	206,714	–	278,429
Interest accrued	2,070	–	–	2,070
Non-interest bearing				
Trade and other payables	35,531	72	–	35,603
Accrued liabilities and deferred income	14,470	–	–	14,470
Total financial liabilities	124,524	230,343	1,102	355,969

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 the Group. Operating currencies for the Group are primarily the Ukrainian hryvnia, 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 local Ukrainian production mainly in hryvnia. During the year the value of the hryvnia moved from being pegged to a managed float.

Further devaluation of the Ukrainian hryvnia will reduce the operating costs of the production unit in US dollars terms and the value of hryvnia payables recorded in the statement of financial position at the year end in US dollars. As the majority of sales and receivables are denominated in US dollars, a devaluation in the local currency will result in operating exchange gains recorded in the income statement.

With a devaluation of the local currency, US dollar denominated loans held by the Ukrainian subsidiary will result in non-operating exchange losses to the extent these are not matched by US dollar denominated assets. Fixed assets are similarly held in local currency amounts and a devaluation in the currency will result in reduced net asset vales which are recorded in reserves.

The National Bank of Ukraine (NBU) manages and determines the official exchange rates. An inter-bank market for exchange of currencies exists in Ukraine and is monitored by the NBU. The Group, through its financial institutions, exchanges currencies at bank offered market rates.

Trade receivables are predominately in US dollars and are not hedged. Trade payables denominated in a US dollars are also not hedged on the market, but are matched against US dollar currency receipts.This includes the interest expense which is principally payable in US dollars. Trade receivables and trade payables in other currencies are not hedged as a forward market for the currency is generally not available.

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.

Notes to the Consolidated Financial Information continued

Note 41: Financial instruments continued

The Group's exposure to foreign currency risk was as follows based on notional amounts:

US$000	Ukraine hryvnia	US dollar	euro	Swiss franc	Other currencies	Total
	As at 31.12.09					
Total financial assets	**249**	**816**	**2**	**76**	**44**	**1,187**
Financial liabilities						
Ukrainian banks	**–**	**(45,315)**	**–**	**–**	**–**	**(45,315)**
Interest accrued	**–**	**(188)**	**(5)**	**–**	**–**	**(193)**
Total borrowings	**–**	**(45,503)**	**(5)**	**–**	**–**	**(45,508)**
Commodity loans	**–**	**–**	**(124)**	**–**	**–**	**(124)**
Trade and other payables	**–**	**(2,246)**	**(811)**	**(763)**	**(139)**	**(3,959)**
Other financial liabilities	**–**	**(17)**	**(5)**	**(419)**	**(106)**	**(547)**
Total financial liabilities	**–**	**(47,766)**	**(945)**	**(1,182)**	**(245)**	**(50,138)**
Net financial assets/(liabilities)	**249**	**(46,950)**	**(943)**	**(1,106)**	**(201)**	**(48,951)**

US$000	Ukraine hryvnia	US dollar	euro	Swiss franc	Other currencies	Total
	As at 31.12.08					
Total financial assets	264	56,050	–	921	1,288	58,523
Financial liabilities						
Ukrainian banks	–	(25,396)	–	–	–	(25,396)
Interest accrued	–	(205)	(1)	–	–	(206)
Total borrowings	–	(25,601)	(1)	–	–	(25,602)
Commodity loans	–	–	(2,017)	–	–	(2,017)
Trade and other payables	–	(2,957)	(3,754)	(4,575)	(1,933)	(13,219)
Other financial liabilities	–	–	–	(14,334)	(1,506)	(15,840)
Total financial liabilities	–	(28,558)	(5,772)	(18,909)	(3,439)	(56,678)
Net financial assets/(liabilities)	264	27,492	(5,772)	(17,988)	(2,151)	1,845

Interest rate risk

The Group predominantly borrows funds that are at floating interest rates and is exposed to interest rate movements. 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.

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

US$000	Floating interest	Fixed interest	Other non-interest bearing	Total
	As at 31.12.09			
Financial assets				
Cash and cash equivalents	**10,227**	**1,465**	**299**	**11,991**
Available-for-sale investments	**–**	**–**	**3,543**	**3,543**
Trade and other receivables	**–**	**–**	**38,117**	**38,117**
Other financial assets	**2,550**	**–**	**1,169**	**3,719**
Total financial assets	**12,777**	**1,465**	**43,128**	**57,370**
Weighted av. interest rate (%)	**–**	**7.7**		
Financial liabilities				
Trade and other payables			**24,780**	**24,780**
Accrued liabilities and deferred income			**12,146**	**12,146**
Interest bearing loans and borrowings	**251,036**	**18,486**	**–**	**269,522**
Other financial liabilities	**–**	**–**	**3,161**	**3,161**
Total financial liabilities	**251,036**	**18,486**	**40,087**	**309,609**
Weighted av. interest rate (%)	**4.1**	**–**		

US$000	As at 31.12.08 Floating interest	Fixed interest	Other non-interest bearing	Total
Financial assets				
Cash and cash equivalents	30,157	54,769	2,896	87,822
Available-for-sale investments	–	–	5,085	5,085
Trade and other receivables	–	–	59,636	59,636
Other financial assets	–	–	10,169	10,169
Total financial assets	30,157	54,769	77,786	162,712
Weighted av. interest rate (%)	0.3	2.7		
Financial liabilities				
Trade and other payables	–	2,017	29,089	31,106
Accrued liabilities and deferred income	–	–	14,470	14,470
Interest bearing loans and borrowings	305,895	1	–	305,896
Other financial liabilities	–	–	–	–
Total financial liabilities	305,895	2,018	43,559	351,472
Weighted av. interest rate (%)	5.0	–		

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$2 million of the floating rate loan to associate which matures between two to five years as at 31 December 2009 (2008: US$3 million).

Commodity risk

The Group is exposed to longer-term movements in the price of iron ore, but does not have a commodity risk exposure to its financial assets and liabilities once the sale has been made. 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 tradable exchange in the product to ascertain its market value.

Sensitivity analysis

A 20% strengthening of the US dollar against the following currencies at 31 December would have increased/(decreased) income statement and equity by the amounts shown below. This assumes that all other variables, in particular interest rates, remain constant.

US$000	**Year ended 31.12.09 Income statement/ Equity**	Year ended 31.12.08 Income statement/ Equity
UAH	**(9,440)**	5,446
EUR	**189**	1,154
CHF	**221**	3,598
Total	**(9,030)**	10,198

A 20% 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 or loss, and the Group does not hold any derivatives (eg 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 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.

US$000	**Year ended 31.12.09**	Year ended 31.12.08
Net finance charge	**(2,080)**	(1,449)

A decrease in 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.

Notes to the Consolidated Financial Information continued

Note 41: Financial instruments continued

Set out below are the carrying amounts and fair values of the Group's financial instruments that are carried in the consolidated statement of financial position:

	Carrying amount		Fair value	
US$000	**As at 31.12.09**	As at 31.12.08	**As at 31.12.09**	As at 31.12.08
Financial assets				
Available-for-sale financial assets	**3,543**	5,085	**3,543**	5,085
Cash and cash equivalents	**11,991**	87,822	**11,991**	87,822
Total financial assets	**15,534**	92,907	**15,534**	92,907
Financial liabilities				
Interest bearing loans and borrowings	**269,522**	305,896	**276,295**	274,668
Total financial liabilities	**269,522**	305,896	**276,295**	274,668

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.

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	As at 31.12.09			
US$000	**Level 1**	**Level 2**	**Level 3**	**Total**
Available-for-sale financial assets	**1,449**	**–**	**2,104**	**3,553**
Total available-for-sale financial assets	**1,449**	**–**	**2,104**	**3,553**

There were no transfers between Level 1 and 2 in the period.

Reconciliation of Level 3 fair value measurements of financial assets

As at 31.12.2009	**Available-for-sale financial assets**
US$000	**Unquoted equities**
Opening balance	**4,000**
Total gains or losses:	
– in profit or loss	**(1,896)**
– in other comprehensive income	**–**
Purchases	**–**
Issues	**–**
Settlements	**–**
Transfer out of level 3	**–**
Closing balance	**2,104**

Capital management

The Board's policy is to maintain a strong capital base. 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. Please refer to the Statement of Changes in Equity for details of the capital position of the Group.

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. Access to securing borrowings in the context of the events affecting the global financial credit markets during the year has affected the elasticity at which the Board can maintain this balance. The Board continues to support maintaining a sound capital base balanced against these market constraints.

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.

During 2008 Ferrexpo plc undertook an on-market share buy-back of its shares, and off-market buy-back of shares held by the Group's principal shareholder. Further details are provided in notes 30 and 36.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements other than a bank covenant requirement to maintain consolidated equity in respect of the Ferrexpo AG group of US$300 million including minority interests. Compliance is ensured by balancing dividend payments against the earnings of the Ferrexpo AG group.

For more information about the Group's interest bearing loans and borrowings, see note 31.

Note 42: Share-based payments

Listing bonus share award

Share awards were granted in 2007 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 values 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 $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 2009 is US$427,000 (2008: US$3,471,000), all of which arose from equity-settled share-based payment transactions.

	Year ended 31.12.09 WAFV ($)	Year ended 31.12.08 WAFV ($)	**Year ended 31.12.09 No. ('000)**	Year ended 31.12.08 No. ('000)
Beginning of the year	**3.63**	3.63	**442**	2,403
Awards granted during the year	**–**	–	**–**	–
Vested during the year	**3.63**	3.63	**(349)**	(1,948)
Forfeited during the year	**3.63**	3.63	**(2)**	(13)
Outstanding at 31 December	**3.63**	3.63	**91**	442

Long-Term Incentive Plans (LTIPs)

320,000 share awards were granted on 15 September 2009. In 2008, 695,000 shares were awarded under the LTIP, which runs for three years and 415,000 shares were awarded under the Interim LTIP, which runs for two years.

The LTIP and Interim LTIP are subject to a performance condition based on the Total Shareholder Return ('TSR') compared to a comparator group, measured over the vesting period, as described in the Director's Remuneration Report.

The expense recognised during 2009 was in respect of the 2009 LTIP was US$80,000. In addition to the costs for the 2009 LTIP, US$1,863,000 (2008: US$809,000) in respect of the 2008 LTIP and US$1,480,000 (2008: US$686,000) in respect of the Interim LTIP have been recorded in 2009. The awards of the Interim LTIP were forfeited as they did not satisfy the market related performance conditions as of 31 December 2009.

The fair value of these awards was assessed at their grant date using a simulation or 'Monte Carlo' model consistent with the mathematics underlying the standard Black-Scholes options pricing model, extended to allow for the performance conditions. Each simulation of the model projects the Company's and comparator's share prices (with reinvested dividends) over the vesting period, allowing for the volatilities and correlations between the shares as estimated from historical data. From this projection the proportion of awards vesting, and the value to employees, is calculated. 100,000 simulations were run to calculate the fair values. The fair value is set as the average value over all the simulations.

Notes to the Consolidated Financial Information continued

Note 42: Share-based payments continued

	Year ended 31.12.09 WAFV ($)	Year ended 31.12.08 WAFV ($)	Year ended 31.12.09 No. ('000)	Year ended 31.12.08 No. ('000)
LTIP				
Beginning of the year	**5.52**	–	**695**	–
Awards granted during the year	**1.94**	5.52	**320**	695
Forfeited during the year	**5.52**	–	**(180)**	–
Lapsed during the year	**5.52**	–	**(25)**	–
Vested during the year	**–**	–	**–**	–
Outstanding at 31 December	**4.11**	5.52	**810**	695
Interim LTIP				
Beginning of the year	**5.22**	–	**415**	–
Awards granted during the year	**–**	5.22	**–**	415
Forfeited during the year	**5.22**	–	**(415)**	–
Vested during the year	**–**	–	**–**	–
Outstanding at 31 December	**–**	5.22	**–**	415

Note 43: Operating profit by function

US$000	Notes	Before adjusting items	Adjusted items	Year ended 31.12.09	Before adjusting items	Adjusted items	Year ended 31.12.08
Revenue	6	648,667	–	**648,667**	1,116,854	–	1,116,854
Cost of sales	7	(341,067)	–	**(341,067)**	(434,238)	–	(434,238)
Gross profit		307,600	–	**307,600**	682,616	–	682,616
Selling and distribution expenses	8	(162,266)	–	**(162,266)**	(152,528)	–	(152,528)
General and administrative expenses	9	(43,161)	–	**(43,161)**	(67,185)	–	(67,185)
Other income	10	4,102	–	**4,102**	6,387	–	6,387
Other expenses	11	(3,418)	(2,468)	**(5,886)**	(38,040)	3,603	(34,437)
Operating foreign exchange gain	12	2,534	–	**2,534**	29,309	–	29,309
Operating profit		105,391	(2,468)	**102,923**	460,559	3,603	464,162
Gain on disposal of available-for-sale investment		–	–	**–**	–	1,571	1,571
Share of gains of associates	14	1,304	–	**1,304**	1,003	–	1,003
Total profit from operations and associates		106,695	(2,468)	**104,227**	461,562	5,174	466,736

Summary of adjusted items

US$000	Notes	Year ended 31.12.09	Year ended 31.12.08
Operating adjusting items			
Write-offs and impairment losses	13	**(2,757)**	(27,326)
Negative goodwill	15	**503**	35,049
Initial public offering costs	42	**(427)**	(4,120)
Gain on disposal of property, plant and equipment		**213**	–
Total operating adjusting items		**(2,468)**	3,603
Non-operating adjusting items			
Gain on disposal of available-for-sale investment	36	–	1,571
Total non-operating adjusting items		–	1,571

Note 44: Subsequent events

No material adjusting or non-adjusting events have occurred subsequent to the year end other than the proposed dividend disclosed in note 18 and the refinancing of the Group described below.

The Company entered into a new three year bank debt term facility on 27 November 2009 in the amount of US$230 million. This pre-export finance facility was drawn in full on 8 January 2010 and was used for refinancing the existing pre-export finance facility.

Parent company statement of financial position

US$000	Notes	As at 31.12.09	As at 31.12.08
Assets			
Investments	2	**134,732**	134,732
Total non-current assets		**134,732**	134,732
Amounts due from subsidiaries		**181,026**	213,025
Deferred tax assets	3	**1,596**	1,725
Prepayments and other current assets		**1,121**	724
Other taxes recoverable and prepaid		**10**	12
Cash at bank and in hand		**25**	295
Total current assets		**183,778**	215,781
Total assets		**318,510**	350,513
Equity and liabilities			
Share capital	4	**121,628**	121,628
Share premium	4	**185,112**	185,112
Treasury share reserve	4	**(77,260)**	(77,260)
Employee benefit trust reserve	4	**(11,593)**	(15,443)
Retained earnings	4	**96,583**	134,508
Equity attributable to equity shareholders of the parent	4	**314,470**	348,545
Trade and other payables		**357**	109
Accrued liabilities and deferred income		**450**	1,494
Income taxes payable		**–**	–
Other taxes payable	5	**3,233**	365
Total liabilities		**4,040**	1,968
Total equity and liabilities		**318,510**	350,513

All liabilities held by the Company are current in nature.

The financial statements were approved by the Board of Directors on 22 March 2010.

Kostyantin Zhevago
Chief Executive Officer

Christopher Mawe
Chief Financial Officer

Notes to the Consolidated Financial Information continued

Note 1: Parent company accounting policies

Basis of preparation

The parent company financial statements of Ferrexpo plc are presented as required by the Companies Act 2006 and were approved for issue on 22 March 2010. The financial statements are prepared under the historical cost convention and are prepared in accordance with applicable UK accounting standards. No profit and loss account is presented by the Company as permitted by Section 408 of the Companies Act 2006.

The Company is exempt from the disclosure requirements of FRS 29 Financial Instruments, under its section 2D (a).

Disclosures and narratives have not included 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.

The Company has taken advantage of the exemption in paragraph 3C of FRS 8 Related Party Disclosure:

Related party transactions and balances of wholly owned subsidiaries are not disclosed. There are no related party transactions and balances for subsidiaries to be disclosed, which are not wholly owned.

Investments

Equity investments in subsidiaries are carried at cost less any provision for impairments.

Deferred income tax

Deferred income tax is recognised in respect of all timing differences that have originated but not reversed at the reporting 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 following exceptions:

- provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the reporting date, dividends have been accrued as receivable; and
- 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 reporting 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 reporting 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 instruments

Derivative financial instruments

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

Other

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

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 or 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 reporting date whether a financial asset or a group of financial assets is impaired. Investments in subsidiaries undertakings are held at cost. The Company assesses investments for impairment whenever events or changes in circumstances indicate that the carrying amount of an investment may not be recoverable. If any such indication of impairment exists, the Company makes an estimate of its recoverable amount (valuation). Where the carrying amount of an investment exceeds its recoverable amount, the investment is considered impaired and is written down to its recoverable amount.

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 (ie 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 grant date and is 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, except for market conditions. No expense is recognised for awards that do not ultimately vest.

At each reporting 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 reporting date is recognised in the income statement, with a corresponding entry in equity.

All costs related to the share-based payments of the Group are recorded in Ferrexpo plc. Note 42 provides further information on the valuation related to the share-based payments and the costs recorded.

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.

Note 2: Investments

US$000	Investment in subsidiary equity
At 31 December 2009 and 2008	134,732

The balance above relates to the Company's investment in Ferrexpo AG which is a 100% owned subsidiary based on Switzerland.

Note 3: Deferred tax assets
Deferred tax assets at 31 December 2009 relate to the following:

US$000	**As at 31.12.09**	As at 31.12.08
Deferred tax assets:		
Tax loss recognised	**370**	–
Timing difference on IPO costs	**1,226**	1,725
	1,596	1,725

Notes to the Consolidated Financial Information continued

Note 4: Capital and reserves

US$000	Issued capital	Share premium	Treasury share reserve	Employee benefit trust reserve	Retained earnings	Total equity
At 1 January 2008	121,628	188,566	–	(20,092)	(17,401)	272,701
Profit for the period	–	–	–	–	190,863	190,863
Total comprehensive income for the year	–	–	–	–	190,863	190,863
Deferred tax on transaction costs	–	1,725	–	–	–	1,725
Write off of deferred tax on IPO costs	–	(5,179)	–	–	–	(5,179)
Deferred tax on employee benefits	–	–	–	(317)	–	(317)
Share buyback in parent company	–	–	(77,260)	–	–	(77,260)
Equity dividends paid to shareholders	–	–	–	–	(38,954)	(38,954)
Share-based payments	–	–	–	4,966	–	4,966
At 31 December 2008	121,628	185,112	(77,260)	(15,443)	134,508	348,545
Profit for the period	–	–	–	–	1,625	1,625
Total comprehensive income for the year	–	–	–	–	1,625	1,625
Equity dividends paid to shareholders	–	–	–	–	(39,550)	(39,550)
Share-based payments	–	–	–	3,850	–	3,850
At 31 December 2009	**121,628**	**185,112**	**(77,260)**	**(11,593)**	**96,583**	**314,470**

Note 5: Other taxes payable

Other taxes payable at 31 December 2009 comprises the following taxes:

US$000	**As at 31.12.09**	As at 31.12.08
Other taxes payable:		
Withholding tax on dividend	**3,225**	–
Other taxes	**8**	365
	3,233	365

Note 6: Auditor remuneration

The audit fee in respect of the parent company was US$16,000 (2008: US$10,000).

Note 7: Subsequent events

No material adjusting or non-adjusting events have occurred subsequent to the year end other than the proposed dividend disclosed in note 18 to the consolidated financial statements and the refinancing of the Group described below.

The Company entered into a new three year bank debt term facility on 27 November 2009 in the amount of US$230 million. This pre-export finance facility was drawn in full on 8 January 2010 and was used for refinancing the existing pre-export finance facility.

Glossary

Act
The Companies Act 2006

AGM
The Annual General Meeting of the Company to be held on Thursday 27 May 2010

Articles
Articles of Association of the Company

Audit Committee
The Audit Committee of the Company's Board

Benchmark Price
International seaborne traded iron ore benchmark price agreed between the major iron ore producers and specific West European or British steel producers for a given year

BIP
Business Improvement Programme

Board
The Board of Directors of the Company

bt
Billion tonnes

Cape size
Cape size vessels are typically above 150,000 tonnes deadweight. Ships in this class include oil tankers, supertankers and bulk carriers transporting coal, ore, and other commodity raw materials.

Capital Employed
The aggregate of equity attributable to shareholders, minority interests and borrowings

CFR
Delivery including cost and freight

C1 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 2008

Company
Ferrexpo plc, a public company incorporated in England and Wales with limited liability

CPI
Consumer Price Index

CSR
Corporate Safety And Social Responsibility

CSR Committee
The Corporate Safety and Social Responsibility Committee of the Board of the Company.

DAF
Delivery at frontier

DFS
Detailed Feasibility Study

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.

EBITDA
The Group calculates EBITDA as profit from continuing operations before tax and finance plus depreciation and amortisation (included in cost of sales, administrative expenses and selling and distribution costs) and non-recurring cash items included in other income and other expenses plus the net of gains and losses from disposal of investments and property, plant and equipment

EBT
Employee Benefit Trust

EPS
Earnings per share

Executive Committee
The Executive Committee of management appointed by the Company's Board

Executive Directors
The Executive Directors of the Company

Fe
Iron

Ferrexpo
Ferrexpo plc

Ferrexpo AG Group
Ferrexpo AG and its subsidiaries including FPM

Fevamotinico S.a.r.l.
A company incorporated with limited liability in Luxembourg

FOB
Delivered free on board

FPM
Ferrexpo Poltava Mining, also known as Ferrexpo Poltava GOK Corporation or PGOK, a company incorporated under the laws of Ukraine

FRMC
Financial Risk Management Committee, a sub-committee of the Executive Committee

FTSE 250
Financial Times Stock Exchange top 250 companies

Glossary continued

FYM
Ferrexpo Yeristovskoye Mining, also known as YGOK, a company incorporated under the laws of Ukraine to administer the three major growth projects

GPL
Gorishne, Plavninskoye and Lavrikovskoye Mine, the mine operated by FPM

Group
The Company and its subsidiaries

Growth Markets
Those markets that offer to add new and significant tonnage expansion potential

HSE
Health, safety and environment

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 enriched iron content

Iron ore sinter 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

JORC
Australasian Joint Ore Reserves Committee – the internationally accepted code for ore classification

K22
GPL ore has been classified as either K22 or K23 quality, of which K22 ore is of higher quality (richer)

KPI
Key Performance Indicator

kt
Thousand tonnes

LIBOR
The London Inter Bank Offered Rate

LLC
Limited Liability Company

LTIFR
Lost-Time Injury Frequency Rate

LTIP
Long-Term Incentive Plan

m^3
Cubic metre

Majority Shareholder
Fevamotinico S.a.r.l., The Minco Trust and Kostyantin Zhevago (together)

mm
Millimetre

mt
Million tonnes

mtpa
Million tonnes per annum

Natural Markets
Relative new markets in regions where the Group believes it has competitive advantage which is yet to be exploited

Nominations Committee
The Nominations Committee of the Company's Board

Non-executive Directors
Non-executive directors of the Company

NOPAT
Net operating profit after tax

OHSAS 18001
International safety standard 'Occupational Health & Safety Management System Specification'

Ordinary Shares
Ordinary Shares of 10 pence each in the Company

Ore
A mineral or mineral aggregate containing precious or useful minerals in such quantities, grade and chemical combination as to make extraction economic

Panamax
Modern Panamax ships typically carry a weight of between 65,000 to 75,000 tonnes of iron ore and can transit both Panama and Suez canals

PPI
Ukrainian 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., Kostyantin Zhevago, The Minco Trust and the Company

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

$/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

Spot price
The current price of a metal for immediate delivery

Sterling/£
Pound sterling, the currency of the United Kingdom

STIP
Short-Term Incentive Plan

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

Treasury Shares
A company's own issued shares that it has purchased but not cancelled

TSF
Tailings storage facility

Traditional Markets
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

TSR
Total shareholder return. The total return earned on a share over a period of time, measured as the dividend per share plus capital gain, divided by initial share price

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 and non-operating foreign exchange gains and losses

UAH
Ukrainian hryvnia, the currency of the Republic of the Ukraine

Ukr SEPRO
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

USS
United States Steel Corporation

VAT
Value Added Tax

Value-in-use
The implied value of a material to an end user to use one material relative to other options, eg 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

Yeristovo or Yeristovskoye
The mine being developed by FYM

Independent Auditor's Report to the Members of Ferrexpo plc

We have audited the Group and parent company financial statements (the 'financial statements') of Ferrexpo plc for the year ended 31 December 2008 which comprise the Consolidated income statement, the Consolidated and Parent Company balance sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity and the related notes 1 to 48. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the 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 auditors' 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 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 give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited 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 Business 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, if 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 financial statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's and Chief Executive Officers' Review, the Business 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 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 financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the 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 2008 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 2008;
- 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 financial statements.

Ernst & Young LLP
Registered auditor
London
23 March 2009

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.

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 31.12.08**	Year ended 31.12.07
Revenue	6	**1,116,854**	698,216
Cost of sales	7	**(434,238)**	(335,936)
Gross profit		**682,616**	362,280
Selling and distribution expenses	8	**(152,528)**	(100,614)
General and administrative expenses	9	**(67,185)**	(44,308)
Other income	10	**6,387**	4,844
Other expenses	11	**(38,040)**	(5,096)
Operating foreign exchange gain	12	**29,309**	–
Operating profit from continuing operations before adjusted items		**460,559**	217,106
Write-offs and impairment losses	13	**(27,326)**	(1,568)
Share of gains of associates	14	**1,003**	687
Negative goodwill	15	**35,049**	–
Initial public offering costs	16	**(4,120)**	(34,004)
Gain on disposal of available-for-sale investment		**1,571**	4,714
Profit before tax and finance		**466,736**	186,935
Finance income	17	**2,467**	3,242
Finance expense	17	**(20,834)**	(25,950)
Non-operating foreign exchange loss	12	**(72,788)**	(3,467)
Profit before tax		**375,581**	160,760
Tax	18	**(62,533)**	(26,725)
Profit for the year		**313,048**	134,035
Attributable to:			
Equity shareholders of Ferrexpo plc		**292,436**	124,076
Minority interest		**20,612**	9,959
		313,048	134,035
Earnings per share:			
Basic (US cents)	19	**48.60**	20.41
Diluted (US cents)	19	**48.46**	20.33
Dividends:			
Proposed ordinary dividend per share (US cents)	19	**3.3**	3.2
Proposed aggregate dividend (US$000)	19	**20,000**	19,449

Consolidated Balance Sheet

US$000	Notes	As at 31.12.08	As at 31.12.07
Assets			
Property, plant and equipment	21	**412,440**	364,545
Goodwill and other intangible assets	22	**103,755**	156,827
Investments in associates	14	**18,640**	17,637
Available-for-sale financial assets	23	**4,435**	47,134
Other non-current assets	24	**10,116**	15,179
Deferred tax asset	25	**14,043**	8,107
Total non-current assets		**563,429**	609,429
Inventories	26	**61,270**	56,545
Trade and other receivables	27	**58,157**	43,575
Prepayments and other current assets	28	**19,587**	10,773
Income taxes recoverable and prepaid	29	**5,835**	5,350
Other taxes recoverable and prepaid	29	**57,285**	52,362
Available-for-sale financial assets	23	**650**	2,941
Cash and cash equivalents	30	**87,822**	86,966
Total current assets		**290,606**	258,512
Total assets		**854,035**	867,941
Equity and liabilities			
Share capital	31	**121,628**	121,628
Share premium	31	**185,112**	188,566
Other reserves	31	**(330,714)**	14,258
Retained earnings		**470,098**	216,616
Equity attributable to equity shareholders of the parent		**446,124**	541,068
Minority interest		**11,769**	45,854
Total equity		**457,893**	586,922
Interest bearing loans and borrowings	32	**231,373**	146,008
Trade and other payables	33	**570**	2,666
Defined benefit pension liability	34	**12,940**	16,169
Provision for site restoration	35	**1,071**	1,746
Deferred tax liability	25	**5,298**	1,025
Total non-current liabilities		**251,252**	167,614
Interest bearing loans and borrowings	32	**74,523**	54,284
Trade and other payables	33	**35,033**	25,380
Accrued liabilities and deferred income	36	**14,470**	13,812
Shares redemption liability	37	**–**	10,036
Income taxes payable	29	**14,439**	7,717
Other taxes payable		**6,425**	2,176
Total current liabilities		**144,890**	113,405
Total liabilities		**396,142**	281,019
Total equity and liabilities		**854,035**	867,941

The financial statements were approved by the Board of Directors on 23 March 2009.

Kostyantin Zhevago
Chief Executive Officer

Christopher Mawe
Chief Financial Officer

Consolidated Cash Flow Statement

US$000	Notes	Year ended 31.12.08	Year ended 31.12.07
Net cash flows from operating activities	39	**370,943**	188,846
Cash flows from investing activities			
Purchase of property, plant and equipment		**(276,264)**	(104,352)
Proceeds from sale of property, plant and equipment		**2,016**	1,896
Purchase of intangible assets		**(1,597)**	(435)
Deposits lodged at banks		**–**	9,011
Purchases of available-for-sale securities		**(266)**	(12,126)
Proceeds from sale of financial assets		**–**	5,704
Interest received		**2,472**	4,805
Acquisition of minority interest in subsidiaries	37	**(11,048)**	–
Loans provided to associates		**(4,000)**	(5,000)
Net cash flows used in investing activities		**(288,687)**	(100,497)
Cash flows from financing activities			
Proceeds from borrowings and finance		**172,143**	175,244
Repayment of borrowings and finance		**(69,412)**	(276,084)
Dividends paid to equity shareholders of the parent		**(38,954)**	–
Dividends paid to minority interest		**(1,186)**	(786)
Distribution under 50/50 tax ruling		**–**	(5,000)
Proceeds from issue of share capital to minorities		**2,123**	–
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)
Share buy back	31	**(77,260)**	(64,055)
Net cash flows used in financing activities		**(12,546)**	(17,158)
Net increase/(decrease) in cash and cash equivalents		**69,710**	71,191
Cash and cash equivalents at the beginning of the year		**86,966**	16,236
Currency translation differences		**(68,854)**	(461)
Cash and cash equivalents at the end of the year	30	**87,822**	86,966

Consolidated Statement of Changes in Equity

	Attributable to equity shareholders of the parent										
US$000	Issued capital	Share premium	Uniting of interest reserve	Treasury share reserve	Employee Benefit Trust reserve	Net unrealised gains reserve	Translation reserve	Retained earnings	Total capital and reserves	Minority interests	Total equity
At 1 January 2007	**–**	**–**	**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
Net income and expense for the year recognised directly in equity	–	5,179	–	–	–	2,384	–	–	7,563	–	7,563
Profit for the period	–	–	–	–	–	–	–	124,076	124,076	9,959	134,035
Total income and expense for the year	–	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 16)	–	(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 31)	–	–	–	–	(29,216)	–	–	–	(29,216)	–	(29,216)
Share based payments (note 44)	–	–	–	–	9,124	–	–	–	9,124	–	9,124
At 31 December 2007	**121,628**	**188,566**	**31,780**	**–**	**(20,092)**	**2,384**	**186**	**216,616**	**541,068**	**45,854**	**586,922**
Realised gains on financial assets available for sale	–	–	–	–	–	(1,571)	–	–	(1,571)	–	(1,571)
Deferred tax on transaction costs	–	(3,454)	–	–	–	–	–	–	(3,454)		(3,454)
Tax effect on employee benefits	–	–	–	–	(317)	–	–	–	(317)	–	(317)
Foreign currency translation adjustments	–	–	–	–	–	–	(270,790)	–	(270,790)	(21,307)	(292,097)
Net income and expense for the year recognised directly in equity	–	(3,454)	–	–	(317)	(1,571)	(270,790)	–	(276,132)	(21,307)	(297,439)
Profit for the period	–	–	–	–	–	–	–	292,436	292,436	20,612	313,048
Total income and expense for the year	–	(3,454)	–	–	(317)	(1,571)	(270,790)	292,436	16,304	(695)	15,609
Items recognised directly in equity:											
Equity dividends paid to shareholders of Ferrexpo plc	–	–	–	–	–	–	–	(38,954)	(38,954)	–	(38,954)
Equity dividends paid by subsidiary undertakings to minority shareholders	–	–	–	–	–	–	–	–	–	(301)	(301)
Share based payments (note 44)	–	–	–	–	4,966	–	–	–	4,966	–	4,966
Participation of minority shareholders in subsidiary share issue	–	–	–	–	–	–	–	–	–	1,960	1,960
Adjustments relating to the decrease in minority interest	–	–	–	–	–	–	–	–	–	(35,049)	(35,049)
Share buy back (note 31)	–	–	–	(77,260)	–	–	–	–	(77,260)	–	(77,260)
At 31 December 2008	**121,628**	**185,112**	**31,780**	**(77,260)**	**(15,443)**	**813**	**(270,604)**	**470,098**	**446,124**	**11,769**	**457,893**

Notes to the Consolidated Financial Information

Note 1: Corporate information
.and operation
Ferrexpo plc (the 'Company') is incorporated in the United Kingdom with registered office at 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, an interest in a port in Odessa and a sales and marketing company in Switzerland and Kiev. 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 composed of Ferrexpo plc and its consolidated subsidiaries as set out below:

			Equity interest owned at 31 December	
Name	Country of incorporation	Principal activity	**2008 %**	2007 %
Ferrexpo Poltava GOK Corporation[1]	Ukraine	Iron ore mining	**97.1**	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
Ferrexpo Hong Kong Limited[1]	China	Marketing services	**100.0**	100.0
Ferrexpo Yeristova GOK LLC[4]	Ukraine	Iron ore mining	**100.0**	–
Nova Logistics Limited[3]	Ukraine	Holding company for car tippler	**51.0**	–

1 The Group's interest in these entities is held through Ferrexpo AG.
2 Ferrexpo 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.
4 The Group's interest in this entity is held through both Ferrexpo AG and Ferrexpo Poltava GOK Corporation.

The Group also holds an interest of 49.9% (2007: 49.9%) in TIS Ruda, a Ukrainian port located on the Black Sea. As this is an associate, it is accounted for using the equity method of accounting.

Note 2: Summary of significant accounting policies
Basis of preparation
The consolidated financial statements of Ferrexpo plc and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS) 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 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 thousands of US dollars and all values are rounded to the nearest thousand except where otherwise indicated.

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2007, except for those changes detailed in note 3. Risks in relation to the facilities and re-financing are contained in the Business Review.

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 intercompany 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. As there is currently no specific IFRS guidance relating to this issue the Group has developed a policy that is consistent with the pronouncements under UK GAAP. The Group's subsidiaries are accounted for using the pooling of interests method of accounting whereby net assets are pooled at their historic carrying value. This has been applied in the accounting for Ferrexpo plc's interest in Ferrexpo Poltava GOK Corporation, the principal subsidiary.

Changes in ownership interests in subsidiaries
The Group has 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.

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 associates and Ferrexpo plc are identical and the associates' accounting policies conform to those used by the Group.

Functional and presentational currencies
Based on the economic substance of the underlying business transactions 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 based on its own circumstances. The Group has chosen the US dollar as its presentation currency and Ferrexpo Poltava GOK Corporation (the principal subsidiary) has determined that its functional currency is Ukrainian hryvnia.

Foreign currency translation
For individual subsidiary company accounts, transactions in foreign currencies (i.e. other than the functional currency) 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.

For presentation of Group consolidated accounts, if the functional currency of a subsidiary is different to the presentation currency as at the reporting date, the assets and liabilities of this entity are translated into the presentation 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.

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. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods including pellet sales and other sales
Revenue 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, customs duties 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, the sale of parts, materials and crushed rocks and the repair and rental of railway wagons.

Rendering of services
Revenue from the rendering of services is recognised when services are complete. Sales of services primarily include repairs and spare parts, canteen revenue and recharges to local customers for electricity consumption and railway usage.

Notes to the Consolidated Financial Information
continued

Note 2: Summary of significant accounting policies continued

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

Foreign exchange gains and losses
Foreign exchange gains and losses are reported on a net basis. Operating foreign exchange gains and losses are those items that are directly related to the production and sale of pellets (e.g. trade receivables, trade payables on operating expenditure). Non-operating gains and losses are those associated with the Group's financing and treasury activities.

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

Finance expenses comprise the interest expense on borrowings and other financial liabilities.

Foreign currency gains and losses are reported after netting off such gains and losses.

Taxes
Current income tax
Current tax assets and liabilities for the current and prior periods are measured at the amount estimated 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 on the entering of its immediate owner, Ferrexpo plc, onto the London Stock Exchange on 16 June 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 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 29).

Equity
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 the 'employee benefit trust reserve' 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, 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.

Treasury shares
Own equity instruments which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognised in other capital reserves.

Financial assets
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 assets as 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 accounted for as 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, held-to-maturity investments or financial assets at fair value through profit or 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.

Notes to the Consolidated Financial Information
continued

Note 2: Summary of significant accounting policies continued

Other

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

Financial liabilities

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 is reduced either directly or through use of an allowance account. The amount of the loss is 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.

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

Available-for-sale assets are reviewed for evidence of impairment at each reporting date. Impairment is necessary where an asset is found to have a significant or prolonged decline in value below its cost. In such cases, 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.

Leases

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

Group as a lessee

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Group as a lessor

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

Borrowing costs

Borrowing costs are recognised as an expense in the financial period incurred, except to the extent they are related to the establishment of a loan facility. In such cases they are capitalised and amortised over the life of the facility.

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 expenditure results in future economic benefits, the expenditure is capitalised as an additional cost.

Property, plant and equipment is depreciated over its estimated useful life which is calculated with 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. Freehold land is not 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.

Assets in the course of construction are capitalised as a separate component of property, plant and equipment. On completion, the cost of construction is transferred to the appropriate category. Assets under construction are not depreciated.

On acquisition the cost of property, plant and equipment is capitalised on the balance sheet.

Mining assets
Mining assets comprise 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.

Stripping costs are depreciated using a unit of production method based on the estimated economically recoverable reserves to which they relate. The cost of removal of the waste material during a mine's production phase are expensed as incurred.

Intangible assets
Goodwill
Goodwill is not amortised but rather tested annually for impairment through a value-in-use calculation. An impairment loss in respect of goodwill is not reversed. Refer to note 4 for details of the approach taken and assumptions used in impairment testing.

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.

Amortisation
Intangible assets, other than goodwill, primarily comprise mineral licence acquisition costs, which are amortised on a unit of production basis. All other intangible assets are amortised on a straight-line basis over the estimated useful life of the asset, ranging between 1 and 20 years.

Notes to the Consolidated Financial Information
continued

Note 2: Summary of significant accounting policies continued

Impairment of 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 market-determined 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 manufacturing overheads based on normal operating capacity but excluding borrowing costs.

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

Provisions

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

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 of Ferrexpo AG.

Costs relating to these 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.

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/obligation 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.

The past service cost is recognised as an expense on a straight-line basis over the average period until the benefits become vested. 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.

Earnings per share
For the comparative period, 2007, 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 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. For 2008, the basic number of Ordinary Shares is calculated based on the number weighted average shares in issue, excluding shares held in treasury.

For the current and prior year periods, 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. The number of Ordinary Shares in issue excludes the shares held by the Appleby Employee Benefits Trust and the treasury shares held by the Group. 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.

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 is 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, except for market conditions.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is dependent upon a market condition. In these cases, the awards 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. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

Long term incentive plans (LTIPs)
The LTIPs are share based schemes whereby certain senior management and executives receive rewards based on the relative Total Shareholder Return performance of the Group compared with a group of companies which operate within a similar environment. The cost of equity-settled awards is measured as described above together with an estimate of future social security contributions payable in respect of this value. Where the granting of an LTIP is subject to the satisfaction of certain market conditions, a vesting charge is recognised irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied. Where an award terminates before the performance period is complete, any unamortised expense is recognised immediately.

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.

Note 3: New accounting policies
The Group has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2008.

International Financial Reporting Interpretations Committee (IFRIC)		Effective date
→ IFRIC 11	(IFRS 2) Group and treasury share transactions	1 January 2008
→ IFRIC 14	(IAS 19) The limit on a defined benefit asset, minimum funding requirements and their interaction	1 January 2008

Adoption of these standards did not have any effect on the financial performance or position of the Group.

Notes to the Consolidated Financial Information
continued

Note 3: New accounting policies continued

Changes occurring as a result of improvements to IFRSs

In May 2008 the IASB issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The Group has early adopted the following amendments to standards:

- IAS 1 'Presentation of financial statements'
- IAS 16 'Property, plant and equipment'
- IAS 23 'Borrowing costs'
- IAS 28 'Investment in associates'
- IAS 31 'Interest in joint ventures'
- IAS 36 'Impairment of assets'
- IAS 38 'Intangible assets'

The Group amended its accounting policies where applicable however the adoption of the above standards did not have an impact upon the financial position or performance of the Group.

New standards and interpretations not yet adopted

The following standards and interpretations have not yet been adopted by the Group but will be applicable for future reporting periods. Where relevant, comments as to the potential effect on the Group have been included:

Revised IAS 23 'Borrowing costs'

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.

IFRS 8 'Operating segments'

This standard will replace IAS 14 'Segment reporting' from 1 January 2009 onwards and will be applied prospectively. It may result in changes to the way the Group's operating segments are identified and the disclosures required.

Amendment to IFRS 2 'Share based payments' – Vesting conditions and cancellations

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.

Amendment to IAS 27 'Consolidated and separate financial statements'

The revision will be effective for financial years beginning on or after 1 January 2009. The revision to IAS 27 will have to be applied prospectively. The new requirements affect only the parent's separate financial statement and do not have an impact on the consolidated financial statements.

IFRS 3R 'Business combinations' and IAS 27R 'Consolidated and separate financial statements'

The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. The changes will affect future acquisitions or loss of control and transactions with minority interests. The standards may be early applied, however the Group does not intend to take advantage of this possibility.

Revised IAS 1 'Presentation of financial statements'

The revised standard was issued in September 2007 and becomes effective for financial years beginning on or after 1 January 2009. The standard separates owner and non-owner changes in equity and introduces the statement of comprehensive income. The Group is still evaluating the impact of these changes.

Improvements to IFRSs

The Group has early adopted some of the amendments to standards following the 2007 'Improvement to IFRSs' project where it was considered that these were appropriate to improve the quality of the financial information or disclosure. The Group has not yet adopted the following amendments and anticipates that these changes will have no material effect on the financial statements. These amendments are:

- IFRS 7 'Financial instruments: Disclosures'
- IAS 8 'Accounting policies, change in accounting estimates and errors'
- IAS 10 'Events after the reporting period'
- IAS 18 'Revenue'
- IAS 19 'Employee benefits'
- IAS 27 'Consolidated and separate financial statements'
- IAS 34 'Interim financial reporting'
- IAS 39 'Financial instruments: Recognition and measurement'

Note 4: 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:

Property, plant and equipment
The determination of fair value and value in use requires management to make estimates and assumptions about expected production and sales volumes, commodity prices (considering current and historical prices, price trends and related factors), reserves, operating costs, closure and rehabilitation costs and future capital expenditure. These estimates and assumptions are subject to risk and uncertainty; hence there is a possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances, some or all of the carrying value of the assets may be impaired and the impairment would be charged against the income statement.

Property, plant and equipment items of the Group were subject to a valuation as at 1 January 2003, the date of Group's transition to IFRS, performed by independent appraisers. The value of buildings and construction was determined with reference to the market value. Buildings and construction of a specialised nature were valued at their depreciated replacement cost. This fair value has been adopted by the Group as the deemed cost at the transition date to IFRS.

Goodwill and other intangibles
Formal impairment tests are carried out annually for goodwill. Formal impairment tests for all other assets are performed when there is an indication of impairment. At each reporting date, an assessment is made to determine whether there are any indications of impairment. The Group conducts annually an internal review of asset values which is used as a source of information to assess for any indications of impairment.

External factors, such as changes in expected future processes, costs and other market factors are also monitored to assess for indications of impairment. If any indication of impairment exists an estimate of the asset's recoverable amount is calculated. The recoverable amount is determined as the higher of fair value less direct costs to sell and the asset's value in use.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the income statement so as to reduce the carrying amount in the balance sheet to its recoverable amount.

Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Fair value for mining assets is generally determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset, including any expansion prospects, and its eventual disposal, using assumptions that an independent market participant may take into account. These cash flows are discounted by an appropriate discount rate to arrive at a net present value of the asset.

Value in use is determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form and its eventual disposal. Value in use is determined by applying assumptions specific to the Group's continued use and cannot take into account future development. These assumptions are different to those used in calculating fair value and consequently the value in use calculation is likely to give a different result (usually lower) to a fair value calculation.

In testing for indications of impairment and performing impairment calculations, assets are considered as collective groups and referred to as cash generating units. Cash generating units are the smallest identifiable group of assets, liabilities and associated goodwill that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Goodwill acquired through business combinations has been allocated for impairment testing purposes to one cash generating unit. This represents the lowest level within the Group at which goodwill is monitored for internal management purposes. For the year ended 31 December 2008 cash flows have been projected for a maximum of 20 years.

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

Estimates/assumptions:	Basis:
→ Future production	Proved and probable reserves, resource estimates and, in certain cases, expansion projects
→ Commodity prices	Contract prices, and longer-term price protocol estimates
→ Exchange rates	Current market exchange rates
→ Discount rates	Cost of capital risk adjusted for the resource concerned

Notes to the Consolidated Financial Information
continued

Note 4: Use of estimates continued

Fair value of financial instruments

Where the fair value of financial assets and liabilities recorded in the balance sheet cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Defined benefit pension liability

The valuation for defined benefit superannuation schemes requires management to make judgements as to the nature of benefits provided by each scheme and thereby determine the classification of each scheme. For defined benefit schemes, management is required to make annual estimates and assumptions about future returns on classes of scheme assets, future remuneration changes, employee attrition rates, administration costs, changes in benefits, inflation rates, exchange rates, life expectancy and expected remaining periods of service of employees. In making these estimates and assumptions, management considers advice provided by external advisers, such as actuaries.

Provision for site restoration

The Group's accounting policy for the recognition of site restoration provisions requires significant estimates and assumptions such as: requirements of the relevant legal and regulatory framework; the magnitude of possible contamination and the timing, extent and costs of required closure and rehabilitation activity. These uncertainties may result in future actual expenditure differing from the amounts currently provided.

The provision recognised is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs are recognised in the balance sheet by adjusting both the closure and rehabilitation asset and provision.

Deferred income tax

The Group's accounting policy for taxation requires management's judgement as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the balance sheet. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Deferred tax liabilities arising from temporary differences in investments, caused principally by retained earnings held in foreign tax jurisdictions, are recognised unless repatriation of retained earnings can be controlled and are not expected to occur in the foreseeable future.

Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, commodity prices, reserves, operating costs, closure and rehabilitation costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the balance sheet and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some, or all, of the carrying amount of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the income statement.

Note 5: 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 operational 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 2008.

The Group's principal mining operations are based in Ukraine and Ferrexpo plc being based in Switzerland.

US$000	Year ended 31.12.08	Year ended 31.12.07
Revenue		
Sales to external customers		
Ukraine	**185,339**	136,757
Switzerland	**931,515**	561,459
Total	**1,116,854**	698,216
Other segment information		
Segment assets		
Ukraine	**596,845**	593,134
Switzerland	**132,044**	106,018
Unallocated[1]	**125,146**	168,789
Total	**854,035**	867,941
Segment liabilities		
Ukraine	**(71,498)**	(64,946)
Switzerland	**(304,909)**	(207,274)
Unallocated[2]	**(19,736)**	(8,799)
Total	**(396,143)**	(281,019)
Capital expenditure		
Property, plant and equipment		
Ukraine	**241,364**	94,188
Switzerland	**43,659**	1,182
Total	**285,023**	95,370
Intangible fixed assets		
Ukraine	**1,431**	482
Switzerland	**166**	–
Total	**1,597**	482
Depreciation and amortisation		
Ukraine	**33,481**	27,832
Switzerland	**644**	433
Total	**34,125**	28,265

1 Segment assets do not include deferred tax of US$14,043,314 (2007: US$8,107,000), loans to associates of US$9,000,000 (2007: US$5,000,000) and goodwill of US$102,102,995 (2007: US$155,682,000) as these assets are managed on a group basis.
2 Segment liabilities do not include deferred tax of US$5,297,503 (2007: US$1,025,000) and current tax payable of US$14,438,454 (2007: US$7,774,000) as these assets are managed on a group basis.
3 All investments in associates were held in Ukraine for both the 2007 and 2008 financial years. Refer to note 14 for details.

Note 6: Revenue

Revenue for the year ended 31 December 2008 consisted of the following:

US$000	Year ended 31.12.08	Year ended 31.12.07
Revenue from sales of ore pellets:		
Export	**973,420**	560,805
Ukraine	**134,413**	128,731
	1,107,833	689,536
Revenue from services provided	**1,229**	3,005
Revenue from other sales	**7,792**	5,675
	1,116,854	698,216

Notes to the Consolidated Financial Information
continued

Note 6: Revenue continued
Export sales by geographical destination were as follows:

US$000	Year ended 31.12.08	Year ended 31.12.07
Austria	**298,209**	160,324
Serbia	**170,972**	83,708
China	**173,761**	103,223
Slovakia	**117,093**	81,516
Czech Republic	**80,746**	55,617
Russia	**42,606**	–
Poland	**31,708**	23,766
Turkey	**30,649**	9,777
Bulgaria	**12,189**	27,389
Italy	**10,340**	3,418
Japan	**34**	5,029
Romania	**–**	7,038
Other	**5,113**	–
	973,420	560,805

During the year ended 31 December 2008 sales made to three customers accounted for approximately 52.5% of the net sales revenue (2007: 53.9%).

Note 7: Cost of sales
Cost of sales for the year ended 31 December 2008 consisted of the following:

US$000	Year ended 31.12.08	Year ended 31.12.07
Materials	**98,020**	98,733
Purchased ore and concentrate	**47,491**	17,587
Electricity	**92,021**	74,621
Personnel costs	**68,781**	47,402
Spare parts and consumables	**32,034**	14,663
Depreciation and amortisation	**28,860**	25,635
Fuel	**41,517**	28,086
Gas	**34,106**	25,576
Royalties and levies	**6,764**	8,570
Stock movement	**(19,596)**	(6,284)
Other	**4,240**	1,347
	434,238	335,936

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

US$000	Year ended 31.12.08	Year ended 31.12.07
Cost of sales	**434,238**	335,936
Depreciation and amortisation	**(28,860)**	(25,635)
Purchased ore and concentrate	**(47,491)**	(17,587)
Processing costs for purchased ore and concentrate	**(5,418)**	–
Production cost of gravel	**(375)**	(2,101)
Stock movement in the period	**19,596**	(6,284)
Pension service costs	**(5,058)**	(1,877)
Other	**(2,214)**	(2,879)
C1 cost	**364,418**	279,573
Own ore produced (tonnes)	**8,607,500**	8,793,000
C1 cash cost per tonne US$	**42.34**	31.79

'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, costs of purchased ore, concentrate and production cost of gravel and excludes one-off items which are outside the definition of EBITDA.

Note 8: Selling and distribution expenses
Selling and distribution expenses for the year ended 31 December 2008 consisted of the following:

US$000	**Year ended 31.12.08**	Year ended 31.12.07
Railway transportation	**95,477**	58,358
Other transportation	**43,697**	34,914
Agent fees	**1,656**	2,025
Custom duties	**1,678**	1,101
Advertising	**2,395**	1,816
Personnel cost	**1,448**	827
Depreciation	**1,406**	575
Other	**4,771**	998
	152,528	100,614

Note 9: General and administrative expenses
General and administrative expenses for the year ended 31 December 2008 consisted of the following:

US$000	**Year ended 31.12.08**	Year ended 31.12.07
Personnel costs	**38,900**	20,428
Buildings and maintenance	**3,092**	1,900
Taxes other than income tax and other charges	**4,185**	3,674
Social responsibility costs	**–**	1,521
Consulting and other professional fees	**6,684**	6,363
Depreciation and amortisation	**3,137**	2,055
Communication	**826**	425
Vehicles maintenance and fuel	**1,096**	1,016
Repairs	**1,120**	422
Audit fees	**1,348**	1,089
Non audit	**1,469**	584
Security	**1,641**	769
Research	**352**	393
Other	**3,335**	3,669
	67,185	44,308

Auditor remuneration paid in respect of the audit of the financial statements of the Group and its subsidiary companies and for the provision of other services not in connection with the audit are disclosed below:

Auditor remuneration

US$000	**Year ended 31.12.08**	Year ended 31.12.07
Audit		
United Kingdom	**73**	78
Overseas	**1,275**	1,011
Other services provided by auditors		
United Kingdom	**20**	12
Overseas	**1,449**	12,080
Total auditor remuneration	**2,817**	13,181

Notes to the Consolidated Financial Information
continued

Note 9: General and administrative expenses continued

US$000	Year ended 31.12.08	Year ended 31.12.07
Statutory audit services		
Ferrexpo plc Annual Report	**1,058**	1,021
Subsidiary entities	**290**	68
	1,348	1,089
Non-audit services		
IPO related fees	**–**	11,508
Tax advisory	**742**	134
Assurance related services	**639**	450
Other	**88**	–
	1,469	12,092
Total auditor remuneration	**2,817**	13,181

Note 10: Other income
Other income for the year ended 31 December 2008 consisted of the following:

US$000	Year ended 31.12.08	Year ended 31.12.07
Sale of surplus maintenance spares	**3,434**	3,643
Lease income	**1,090**	598
Reversal of fines and penalties	**926**	–
Other income	**937**	603
	6,387	4,844

Note 11: Other expenses
Other expenses for the year ended 31 December 2008 consisted of the following:

US$000	Year ended 31.12.08	Year ended 31.12.07
Charitable donations	**6,081**	2,971
Doubtful debts expense	**18,755**	–
Loss on disposal of plant, property and equipment	**1,280**	–
Other personnel costs	**1,056**	–
Translation differences arising on consolidation	**5,992**	–
Other	**4,876**	2,125
	38,040	5,096

The doubtful debts expense relates to receivables from certain customers in Russia and other former CIS countries that are experiencing difficulties in clearing their debt as a result of worsening economic conditions.

Note 12: Foreign exchange gains and losses

US$000	Year ended 31.12.08	Year ended 31.12.07
Operating foreign exchange gains		
Revaluation of trade receivables	**31,200**	–
Revaluation of trade payables	**(1,891)**	–
	29,309	–
Non–operating foreign exchange losses		
Revaluation of interest–bearing loans	**(85,907)**	–
Revaluation of cash equivalents	**13,422**	–
Other	**(303)**	(3,467)
	(72,788)	(3,467)

Note 13: 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 2008 consisted of the following:

US$000	Notes	**Year ended 31.12.08**	Year ended 31.12.07
Write-off/(write-up) of inventories		**941**	(544)
Write-off of property, plant and equipment		**21**	2,112
Impairment of available-for-sale assets	23	**26,364**	–
		27,326	1,568

Note 14: Investments in associates
As at 31 December 2008 investments in associates comprised:

	Principal activity	Country of incorporation	Ownership %	**As at 31.12.08 US$000**	As at 31.12.07 US$000
TIS Ruda	Port development	Ukraine	49.9	**18,640**	17,637
				18,640	17,637

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

	Total assets		Total liabilities		Revenue		Net profit	
US$000	**As at 31.12.08**	As at 31.12.07	**As at 31.12.08**	As at 31.12.07	**Year ended 31.12.08**	Year ended 31.12.07	**Year ended 31.12.08**	Year ended 31.12.07
TIS Ruda	**29,672**	34,823	**9,048**	5,422	**18,865**	5,778	**2,010**	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$1,003,000 in TIS Ruda (2007: US$687,000).

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

Note 15: Negative goodwill
Negative goodwill arose as a result of several equity transactions in Ferrexpo Poltava GOK Corporation during the period:

Rights issues
On 30 June 2008 Ferrexpo AG purchased additional shares in the company to which certain minorities did not participate, thus increasing its shareholding from 85.9% to 87.8%. As a result Ferrexpo AG held a larger proportion of previously generated retained profit. The resulting negative goodwill of $5,077,018 was recognised in the income statement in accordance with the Group's accounting policy on accounting for changes in ownership interests in subsidiaries.

A second rights issue occurred on 16 December 2008, increasing Ferrexpo AG's shareholding to 90.9%. This resulted in an additional negative goodwill charge of $5,027,479.

Repurchase of shares from DCM
On 22 December 2008, Ferrexpo Poltava GOK Corporation repurchased its own shares from DCM Decometal International Trading GmbH ('DCM'). These shares were placed in treasury for cancellation or subsequent sale to its principal shareholder, Ferrexpo AG. Ferrexpo AG's shareholding increased to 97.1%, which resulted in a further negative goodwill charge of US$24,944,267 recognised through the income statement.

Notes to the Consolidated Financial Information
continued

Note 16: Initial public offering costs
Initial public offering costs for the year ended 31 December 2008 consisted of the following:

US$000	Year ended 31.12.08	Year ended 31.12.07
Consultants and other professional fees	**–**	45,496
Management listing bonus cash	**–**	11,332
Management listing bonus share award	**4,257**	9,064
Other	**(137)**	–
	4,120	65,892
Charged to:		
Income statement	**4,120**	34,004
Share premium reserve	**–**	31,888
	4,120	65,892

In addition to the management listing bonus charge during the year a further 441,850 shares remain unvested at 31 December 2008 (2007: 2,403,000) (note 44).

Note 17: Finance income/expense
Finance income and expenses for the year ended 31 December 2008 consisted of the following:

US$000	Year ended 31.12.08	Year ended 31.12.07
Finance income		
Interest income on bank deposits	**1,448**	2,457
Other finance revenue	**1,019**	785
	2,467	3,242
Finance expense		
Interest expense on financial liabilities measured at amortised cost	**(15,002)**	(21,493)
Interest on defined benefit plans	**(1,776)**	(1,490)
Bank charges	**(336)**	(1,642)
Other finance costs	**(3,720)**	(1,325)
	(20,834)	(25,950)
Net finance expense	**(18,367)**	(22,708)

Other finance costs includes the unwinding of the discount on the site restoration provision, discounting of the share redemption liability and other costs.

Note 18: Income tax expense
The income tax expense for the year ended 31 December 2008 consisted of the following:

US$000	Year ended 31.12.08	Year ended 31.12.07
Current income tax	**79,016**	31,163
Deferred income tax	**(16,483)**	(4,438)
	62,533	26,725

Refer to note 25 for a breakdown of the deferred tax balances.

The effective income tax rate differs from the corporate income tax rates. The weighted average statutory rate was 18.2% for 2008 (2007: 17.6%). 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 financial information. The effective tax rate is 16.6% (2007: 16.6%).

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

A reconciliation between the income tax charged in the accompanying financial information and income before taxes multiplied by the weighted average statutory tax rate for the year ended 31 December 2008 is as follows:

US$000	**Year ended 31.12.08**	Year ended 31.12.07
Profit before tax	**375,581**	160,760
Notional tax computed at the weighted average statutory tax rate of 18.2% (2007: 17.6%)	**68,496**	28,234
50/50 Swiss tax ruling	**–**	(472)
Derecognition of deferred tax asset	**4,359**	–
Inflation related indexation of fixed assets for tax	**(12,456)**	(6,084)
Expenses not deductible for tax purposes	**9,669**	4,675
Tax effect on asset impairment and negative goodwill	**(7,849)**	–
Tax related to prior years	**(286)**	32
Other	**600**	340
Income tax expense	**62,533**	26,725

Note 19: Earnings per share and dividends paid and proposed

Basic EPS is calculated by dividing the net profit for the year attributable to ordinary equity shareholders of Ferrexpo plc by the weighted average number of Ordinary Shares. The number of shares was assumed to be constant throughout 2007, the year of the Group's Initial Public Offering.

	Year ended 31.12.08	Year ended 31.12.07
Profit for the year attributable to equity shareholders:		
Basic earnings per share (US cents)	**48.60**	20.41
Diluted earnings per share (US cents)	**48.46**	20.33
Underlying earnings for the year:		
Basic earnings per share (US cents)	**57.74**	24.96
Diluted earnings per share (US cents)	**57.58**	24.86

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

Thousands	**Year ended 31.12.08**	Year ended 31.12.07
Weighted average number of shares		
Basic number of Ordinary Shares outstanding	**601,697**	607,796
Effect of dilutive potential Ordinary Shares	**1,717**	2,403
Diluted number of Ordinary Shares outstanding	**603,414**	610,199

The basic number of Ordinary Shares is calculated by reducing the total number or Ordinary Shares in issue by the shares held in treasury (refer to note 31).

Diluted earnings per share is calculated by adjusting the weighted average 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.

Notes to the Consolidated Financial Information
continued

Note 19: Earnings per share and dividends paid and proposed continued

'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 31.12.08	Year ended 31.12.07
Profit attributable to equity holders		**292,436**	124,076
Write offs/impairments	13	**27,326**	1,568
IPO costs	16	**4,120**	34,004
Negative goodwill generated on rights issue	15	**(35,049)**	–
Gain on disposal of available-for–sale investment		**(1,571)**	(4,714)
Non-operating foreign exchange losses	12	**72,788**	–
Tax on adjusted items		**(12,619)**	(3,217)
Underlying earnings		**347,431**	151,717

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 adjusted items include gains and losses on disposal of investments and businesses and non-operating foreign exchange gains and losses.

Dividends paid and proposed

US$000	Year ended 31.12.08
Dividends proposed	
Final dividend for 2008: 3.3 US cents per Ordinary Share	**20,000**
Total	**20,000**
Dividends paid during the period	
Interim dividend for 2008: 3.2 US cents per Ordinary Share	**19,505**
Final dividend for 2007: 3.2 US cents per Ordinary Share	**19,449**
Total	**38,954**

Note 20: EBITDA

The Group calculates EBITDA as profit from continuing operations before tax and finance plus depreciation and amortisation (included in cost of sales, administrative expenses and selling and distribution costs) and non-recurring cash items included in other income, non-recurring cash items included in other costs plus the net gain/(loss) from disposal of subsidiaries and associates. The Group presents EBITDA because it believes that EBITDA is a useful measure for evaluating its ability to generate cash and its operating performance.

US$000	Notes	Year ended 31.12.08	Year ended 31.12.07
Profit before tax and finance		**466,736**	186,935
Write-offs and impairment losses	13	**27,326**	1,568
Gain on disposal of available-for-sale investment		**(1,571)**	(4,714)
Initial public offering costs	16	**4,120**	34,004
Share based payments	44	**1,495**	–
Negative goodwill generated on rights issue	15	**(35,049)**	–
Severance payments		**6,764**	–
Depreciation and amortisation		**34,125**	28,264
EBITDA		**503,946**	246,057

The severance payments disclosed above relate to the amounts paid to the former CEO and the Director of Business Development upon their resignation.

Note 21: Property, plant and equipment
As at 31 December 2008 property, plant and equipment comprised:

US$000	Land	Mining assets[1]	Buildings	Plant and equipment	Vehicles	Fixtures and fittings	Assets under construction	Total
Cost:								
At 1 January 2007	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)
At 31 December 2007	4,884	11,371	137,849	179,910	92,704	3,655	74,882	505,255
Additions	–	–	–	50	64	239	284,670	285,023
Transfers	35	13,396	35,005	40,464	80,593	1,323	(170,779)	37
Disposals	–	(420)	(507)	(3,347)	(4,045)	(25)	(836)	(9,180)
Translation differences	(1,694)	(8,598)	(59,816)	(75,335)	(59,564)	(991)	(50,917)	(256,915)
At 31 December 2008	3,225	15,749	112,531	141,742	109,752	4,201	137,020	524,220
Depreciation:								
At 1 January 2007	–	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)
At 31 December 2007	–	633	24,324	87,717	26,340	1,655	41	140,710
Depreciation charge	–	199	6,425	18,478	9,465	962	–	35,529
Disposals	–	–	(273)	(2,600)	(2,991)	(20)	–	(5,884)
Transfers	–	–	73	(72)	–	(106)	105	–
Impairment	–	–	168	–	–	–	–	168
Reversals	–	–	–	–	–	–	(147)	(147)
Translation differences	–	(289)	(10,626)	(35,895)	(11,403)	(384)	1	(58,596)
At 31 December 2008	–	543	20,091	67,628	21,411	2,107	–	111,780
Net book value at:								
31 December 2007	4,884	10,738	113,525	92,193	66,364	2,000	74,841	364,545
31 December 2008	3,225	15,206	92,440	74,114	88,341	2,094	137,020	412,440

1 Mining assets constitute mine stripping costs which are accounted for under the Group's accounting policy outlined in note 2.

US$61,966,218 (2007: US$114,388,000) of property, plant and equipment have been pledged as security for liabilities. The gross value of fully depreciated property, plant and equipment that is still in use is US$26,745,388 (2007: US$32,782,165).

Notes to the Consolidated Financial Information
continued

Note 22: Goodwill and other intangible assets
As at 31 December 2008 goodwill and other intangible assets comprised:

US$000	Goodwill	Other intangible assets	Total
At 1 January 2007	155,682	1,346	157,028
Additions	–	482	482
Disposals	–	(47)	(47)
At 31 December 2007	155,682	1,781	157,463
Additions	–	1,597	1,597
Disposals	–	(13)	(13)
Translation differences	(53,578)	(1,125)	(54,703)
At 31 December 2008	102,104	2,240	104,344
Accumulated amortisation and impairment:			
At 1 January 2007	–	494	494
Amortisation charge	–	189	189
Disposals	–	(47)	(47)
At 31 December 2007	–	636	636
Amortisation charge	–	279	279
Disposals	–	(13)	(13)
Translation differences	–	(313)	(313)
At 31 December 2008	–	589	589
Net carrying amount at :			
31 December 2007	155,682	1,145	156,827
31 December 2008	102,104	1,651	103,755

The major component of other intangible assets as at 31 December 2008 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.

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

Impairment testing was performed at 31 December 2008 based on a value-in-use calculation using cash flow projections over a 20-year period, a common practice in the industry. The cash flow projection was based on the financial budget approved by senior management.

Key assumptions
The key assumptions used in the value-in-use calculations were the iron ore price (US$79-$96 per tonne), production volume, raw materials and other production inputs cost evolution, the year-end USD-UAH spot rate and the discount rate.

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

These future cash flows were discounted using the real pre-tax discount rate of 15% per annum. This rate was fixed by management, and is in line with the rates used by competitors with a similar background.

Sensitivity to changes in assumptions
Management believes that no reasonable change in the above key assumptions would cause the carrying value of the unit to materially exceed its value in use.

Note 23: Available-for-sale financial assets
As at 31 December 2008 available-for-sale financial assets comprised:

	Ownership %		Carrying value	
US$000	**As at 31.12.08**	As at 31.12.07	**As at 31.12.08**	As at 31.12.07
Current				
Marketable Securities	**–**	–	**–**	102
Investments available for sale – equity instruments:				
Vostock Ruda	**1.10%**	3.20%	**650**	2,839
			650	2,941
Non-current				
Promissory notes available for sale	**–**	–	**–**	14
Investments available-for-sale – equity instruments:				
OJSC Stahanov	**3.14%**	9.91%	**435**	12,493
LLC Atol	**9.95%**	9.95%	**4,000**	26,720
CJSC AMA	**9.00%**	9.00%	**–**	3,560
CJSC Amtek	**9.00%**	9.00%	**–**	4,250
First Investment Bank	**–**	0.32%	**–**	94
Slavutich-Ruda Ukrania Ltd	**–**	1.00%	**–**	2
Dopomoga Ltd	**–**	19.00%	**–**	1
			4,435	47,134

All investments relate to companies incorporated in Ukraine.

Impairment testing
Ferrexpo Petroleum
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 key assumptions used in this calculation were gas/condensate prices, gas/oil/condensate conversion rates, production volumes, production costs, tax rates, projected capital expenditure, the USD-UAH exchange rate and the discount rate. The calculation took into account the projected future cash flows attributable to the Lubachevsko-Sherbakivska licence (projected to make up 75–85% of the total value of the investment) over a period of 14 years (the length of the licence) with an applied real discount rate of 14.5% per annum.

As a result of the above review, management recognised impairment charges against carrying value of investment in LLC Atol, CJSC AMA and CJSC Amtek. The total fair value of the investment was determined as $4m, being entirely attributable to LLC Atol.

OJSC Stahanov
The value of OJSC Stahanov was impaired based on the quoted market price for the company's shares on the Ukrainian stock exchange (PFTS) as of 31 December 2008.

Further details regarding available-for-sale investments can be found in note 38 – related party transactions.

Note 24: Other non-current assets
As at 31 December 2008 other non-current assets comprised:

US$000	**Year ended 31.12.08**	Year ended 31.12.07
Prepayments for property, plant and equipment	**6,922**	10,869
Loan provided to associate	**3,000**	4,000
Other non-current assets	**194**	310
	10,116	15,179

Notes to the Consolidated Financial Information
continued

Note 25: Deferred income tax
Deferred income tax assets and liabilities at 31 December 2008 relate to the following:

US$000	**Year ended 31.12.08**	Year ended 31.12.07
Trade and other receivables	**4,138**	587
Trade and other payables and advance receivables	**44**	57
Property, plant and equipment	**8,843**	1,819
IPO costs netted against share premium	**1,725**	5,179
Tax losses recognised	**–**	1,564
Accrued expenses	**3,235**	1,557
Defined benefit liability	**1,370**	552
Provision for site restoration	**269**	436
Other provisions and accruals	**146**	72
Other items	**99**	35
Deferred tax asset	**19,869**	11,858
Thereof netted against deferred tax liabilities	**(5,826)**	(3,751)
Deferred tax asset per the balance sheet	**14,043**	8,107
Inventories	**(4,164)**	(1,232)
Property, plant and equipment	**(170)**	(295)
Exploration rights	**–**	(154)
Advances and other current assets	**(1,593)**	(1,803)
Loans and borrowings	**(332)**	(507)
Employee benefit trust	**(4,442)**	–
Trade and other payables and advance receivables	**(423)**	(785)
Deferred tax liability	**(11,124)**	(4,776)
Thereof netted against deferred tax assets	**5,826**	3,751
Deferred tax liability per the balance sheet	**(5,298)**	(1,025)
Net deferred tax asset	**8,745**	7,082

The movement in the deferred income tax liabilities (and assets) is as follows:

US$000	**Year ended 31.12.08**	Year ended 31.12.07
Beginning of the year	**(7,082)**	2,535
Income statement credit	**(16,483)**	(4,438)
Changes booked through equity	**7,896**	(5,179)
Foreign currency exchange rate adjustment	**6,924**	–
End of the year	**(8,745)**	(7,082)

As at 31 December 2008, the Group had deductible temporary differences on current financial receivables in the amount of US$7,180,000 for which no deferred tax assets have been recognised. As at 31 December 2007, the Group had deductible temporary differences on defined benefit liabilities in the amount of US$13,912,000 for which no deferred tax assets have been recognised.

Temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised amount to US$181,204,000 (2007: US$126,582,000).

Note 26: Inventories
As at 31 December 2008 inventories comprised:

US$000	Year ended 31.12.08	Year ended 31.12.07
Raw materials and consumables	**41,889**	50,678
Finished ore pellets	**15,456**	3,251
Work in progress	**4,294**	2,848
Other	**76**	–
Provision for slow moving and obsolete stock	**(445)**	(232)
	61,270	56,545

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

Note 27: Trade and other receivables
At 31 December 2008 trade and other receivables comprised:

US$000	Year ended 31.12.08	Year ended 31.12.07
Trade receivables	**70,113**	43,976
Allowance for uncollectability	**(11,956)**	(401)
	58,157	43,575

Trade receivables at 31 December 2008 includes US$1,898,000 (2007: US$1,374,000) owed by related parties.

The Group's exposure to credit and currency risks and impairment losses are disclosed in note 43.

The movement in the allowance for uncollectability in the year was:

US$000	Year ended 31.12.08	Year ended 31.12.07
Opening balance	**401**	65
Arising in the year	**18,629**	336
Reversal	**(320)**	–
Foreign currency translation	**(6,754)**	–
Closing balance	**11,956**	401

Note 28: Prepayments and other current assets
As at 31 December 2008 prepayments and other current assets comprised:

US$000	Year ended 31.12.08	Year ended 31.12.07
Prepayments to suppliers		
Electricity and gas	**1,830**	3,419
Materials and spare parts	**2,954**	1,587
Services	**2,059**	2,574
Loan provided to associate	**6,000**	1,000
Accounts receivable and prepaid expenses	**663**	811
Accrued income	**4,639**	–
Other	**1,442**	1,382
	19,587	10,773

Notes to the Consolidated Financial Information
continued

Note 29: Taxes payable, recoverable and prepaid
The income tax payable balance as of 31 December 2008 is shown below:

US$000	**Year ended 31.12.08**	Year ended 31.12.07
Opening balance	**(2,367)**	(3,223)
Income statement charge	**(79,016)**	(31,521)
Tax paid	**67,217**	32,507
Changes booked through equity	**4,125**	–
Foreign exchange adjustment	**1,437**	(130)
Income tax payable at the year end	**(8,604)**	(2,367)

Split by:

US$000	**Year ended 31.12.08**	Year ended 31.12.07
Income tax receivable balance	**5,835**	5,350
Income tax payable balance	**(14,439)**	(7,717)
Income tax payable at the year end	**(8,604)**	(2,367)

As at 31 December 2008 taxes recoverable and prepaid comprised:

US$000	**Year ended 31.12.08**	Year ended 31.12.07
VAT receivable	**57,244**	52,037
Other taxes prepaid	**41**	325
Other taxes recoverable and prepaid	**57,285**	52,362

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

Note 30: Cash and cash equivalents
As at 31 December 2008 cash and cash equivalents comprised:

US$000	**Year ended 31.12.08**	Year ended 31.12.07
Cash at bank	**87,819**	86,963
Petty cash	**3**	3
	87,822	86,966

Cash at bank includes an amount of US$1,046,000 held in an escrow account at 31 December 2008 (2007: nil) which is unavailable to the Group. This amount was released subsequent to year end.

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 43.

Note 31: Share capital and reserves

	US$000	Number of shares
Balance at 1 January 2007	–	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	7,897,106
Balance at 31 December 2007 and 2008	121,628	613,967,956

The closing balance includes 25,343,814 shares which are held in treasury.

Share capital represents the nominal value on issue of the Company's equity share capital, comprising £0.10 Ordinary Shares.

On 21 May 2007 Ferrexpo plc allotted and issued 49,998 Ordinary Shares in the Company at par value of £1 each ($98,620). Following the allotment, Ferrexpo plc's total issued and authorised share capital was subdivided into 500,000 Ordinary Shares of £0.10 each. The Company's authorised share capital was subsequently increased to £60,050,000 divided into 600,500,000 shares of £0.10 each.

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 (US$105,515,959) to Fevamotinico S.a.r.l. 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 2008, 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 of £0.10 each at a price of £1.40, of which 72,527,361 new Ordinary Shares of £0.10 each were issued by the Company (US$14,433,743) and 79,570,571 were Ordinary Shares of £0.10 each 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 2008 was 613,967,956 (2007: 613,967,956) Ordinary Shares at a par value of £0.10 paid for in cash, resulting in share capital of US$121,627,585 (2007: 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.

Treasury share reserve
During September 2008, Ferrexpo plc completed a buyback of 25,343,814 shares for a total cost US$77,260,476. These shares are currently held as treasury shares by the Group. The Companies Act 2006 forbids the exercise of any rights (including voting rights) and the payment of dividends in respect of treasury shares.

Employee benefit trust shares
During June 2007, Ferrexpo AG completed a buyback of 7,897,016 shares which were then held in treasury. On the 25 June 2007 Ferrexpo plc allotted and issued 7,897,016 Ordinary Shares of £0.10 in the Company (US$1,579,263) fully paid at a premium of £1.75 to the Ferrexpo AG Listing Bonus Trust (the employee benefit trust) in exchange for 2,000,000 shares of CHF 1 in the capital of Ferrexpo AG, representing the treasury shares held by Ferrexpo AG, setting up a 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.

Subsequent increases in the stake have been accounted for using the parent extension concept method of accounting as described in the accounting policy section.

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

Translation reserve
The translation reserve represents exchange differences arising on the translation of non-US dollar (i.e. hryvnia) functional currency operations within the Group into US dollars.

Notes to the Consolidated Financial Information
continued

Note 32: 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. All loans are in US dollars. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 43.

US$000	**Year ended 31.12.08**	Year ended 31.12.07
Current		
Ukrainian banks	**738**	738
Other banks	**71,715**	53,532
Interest accrued	**2,070**	14
Total current borrowings	**74,523**	54,284
Non-current		
Ukrainian banks	**24,659**	2,578
Other banks	**206,714**	143,430
Total non-current borrowings	**231,373**	146,008
Total interest bearing borrowings	**305,896**	200,292

As at 31 December 2008 the Ukrainian bank loans are secured by property, plant and equipment with a carrying amount of US$61,966,218 (2007: US$114,388,000). 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$775,173,008 (2007: US$584,218,303).

As at 31 December 2008 the Group's major bank debt facility was a US$335,000,000 (2007: US$335,000,000) pre-export finance facility with an unutilised amount of US$nil (2007: 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 pellets 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 AG has pledged all its rights under certain contacts for the sale of iron ore pellets and its rights under certain related credit support documents. It should also be noted that Ferrexpo AG is subject to minimum capital requirements which restrict the amount of profit that can be distributed to the parent.

Note 33: Trade and other payables
As at 31 December 2008 trade and other payables comprised:

US$000	**Year ended 31.12.08**	Year ended 31.12.07
Current trade and other payables		
Due for equipment	**3,821**	–
Commodity loans	**1,446**	1,664
Materials and services	**23,114**	21,108
Letter of credit exercised by the bank	**–**	218
Promissory notes	**797**	253
Dividends payable	**312**	1,197
Liability for severance payments	**1,046**	–
Other	**4,497**	940
Trade and other payables, current	**35,033**	25,380
Non-current trade and other payables		
Commodity loans	**570**	2,569
Promissory notes	**–**	83
Other	**–**	14
Trade and other payables, non-current	**570**	2,666

Trade and other payables at 31 December 2008 includes $1,909,000 (2007: $3,285,000) due to related parties. See note 38.
The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 43.

Note 34: Defined benefit pension liability

Ukrainian defined benefit plan

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 are unfunded. Costs relating to this plan are accrued using the projected unit credit method in respect of those employees entitled to such payments. Actuarial techniques have been used in calculating the liability related to this retirement obligation at the balance sheet date.

Gains and losses resulting from the use of internal actuarial valuation methodologies are recognised when the cumulative unrecognised actuarial gains or losses for the scheme exceed 10% of defined benefit obligation. These gains or losses are recognised as income or expense over the expected average remaining working lives of the employees participating in the plan.

The past service cost is recognised as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, 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 past service cost not yet recognised

At 31 December 2008 this defined benefit plan covered 4,673 current employees. (2007: 4,098 people). There are 1,213 former employees currently in receipt of pensions.

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 which have also been included in the provision.

Swiss defined benefit plan

The Group's employees participate in the second pillar of the Swiss State regulated pension scheme. On retirement employees are entitled to either receive a lump sum or an annual proportion of their final salary as a pension based on the value of the assets held at that time underpinned by certain guarantees. The Company and in certain cases the employees make a contribution to the scheme of up to 6% of salary.

At 31 December 2008 this defined benefit plan covered 23 people (2007: 18 people).

Notes to the Consolidated Financial Information
continued

Note 34: Defined benefit pension liability continued
Changes in the net present value of the defined benefit obligation are as follows:

	As at 31.12.08			As at 31.12.07		
US$000	**Swiss scheme**	**Ukrainian scheme**	**Total**	Swiss scheme	Ukrainian scheme	Total
Opening defined benefit obligation	**1,647**	**18,853**	**20,500**	–	15,446	15,446
Recognition of plan liability	**–**	**–**	**–**	1,096	–	1,096
Current Service cost	**310**	**1,607**	**1,917**	459	1,994	2,453
Interest cost	**46**	**1,730**	**1,776**	45	1,445	1,490
Contribution by plan participants	**697**	**–**	**697**	302	–	302
Benefits paid	**(766)**	**(4,103)**	**(4,869)**	(311)	(1,972)	(2,283)
Actuarial loss	**52**	**6,167**	**6,219**	56	1,940	1,996
Past service cost	**–**	**9,972**	**9,972**	–	–	–
Foreign exchange translation adjustment	**110**	**(12,039)**	**(11,929)**	–	–	–
Closing defined benefit obligation	**2,096**	**22,187**	**24,283**	1,647	18,853	20,500
Opening assets	**1,039**	**–**	**1,039**	–	–	–
Recognition of plan assets	**–**	**–**	**–**	832	–	832
Expected return on plan assets	**33**	**–**	**33**	27	–	27
Employer contribution	**274**	**–**	**274**	291	–	291
Contribution by plan participants	**942**	**–**	**942**	302	–	302
Benefits paid	**(766)**	**–**	**(766)**	(311)	–	(311)
Actuarial loss	**(84)**	**–**	**(84)**	(102)	–	(102)
Foreign exchange translation adjustment	**69**	**–**	**69**	–	–	–
Closing assets	**1,507**	**–**	**1,507**	1,039	–	1,039
Net funded status	**589**	**22,187**	**22,776**	608	18,853	19,461
Unrecognised actuarial losses	**(527)**	**(5,767)**	**(6,294)**	(417)	(2,875)	(3,292)
Unrecognised past service cost	**–**	**(5,543)**	**(5,543)**	–	–	–
Foreign exchange translation adjustment	**–**	**2,001**	**2,001**	–	–	–
Defined benefit liability at the end of the year	**62**	**12,878**	**12,940**	191	15,978	16,169
Benefit expense						
Current service cost	**310**	**1,607**	**1,917**	459	1,994	2,453
Interest cost	**46**	**1,730**	**1,776**	45	1,445	1,490
Amortisation of actuarial loss	**(30)**	**92**	**62**	17	–	17
Expected return on plan assets	**(33)**	**–**	**(33)**	(27)	–	(27)
Recognised past service cost	**–**	**4,429**	**4,429**	–	–	–
Curtailment gain	**(162)**	**–**	**(162)**	–	–	–
	131	**7,858**	**7,989**	494	3,439	3,933
Net movement on defined benefit liability						
Balance at beginning of the year	**191**	**15,978**	**16,169**	–	14,501	14,501
Recognition of liability	**–**	**–**	**–**	(11)	–	(11)
Benefits expense	**131**	**7,858**	**7,989**	494	3,439	3,933
Benefits paid	**–**	**(4,103)**	**(4,103)**	–	(1,972)	(1,972)
Employer contribution	**(274)**	**–**	**(274)**	(291)	–	(291)
Foreign exchange translation adjustment	**14**	**(6,855)**	**(6,841)**	(1)	10	9
Balance at the end of the year	**62**	**12,878**	**12,940**	191	15,978	16,169
Experience adjustments arising on plan liabilities	**52**	**6,167**	**6,219**	417	1,930	2,347

The asset allocation of the plan assets of the Swiss scheme is as follows:

US$000	**Year ended 31.12.08**	**Year ended 31.12.08**	Year ended 31.12.07	Year ended 31.12.07
Scheme assets at fair value	**%**		%	
Equities	**15.3**	**231**	17.6	183
Bonds	**53.4**	**805**	53.7	558
Properties	**19.4**	**292**	13.8	143
Other	**11.9**	**179**	14.9	155
Fair value of scheme assets	**100**	**1,507**	100	1,039

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

	Year ended 31.12.08 Swiss Scheme	Year ended 31.12.07 Swiss Scheme
	%	%
Expected rate of return on plan assets:		
Equities	**6.50**	6.50
Bonds	**2.50**	2.50
Properties	**4.50**	4.50
Total	**3.43**	3.36
Actual rate of return on plan assets:		
Equities	**(47.10)**	1.02
Bonds	**0.47**	(0.77)
Properties	**6.05**	6.87
Total	**(11.38)**	0.24

	Year ended 31.12.08		Year ended 31.12.07	
	Swiss Scheme	**Ukrainian Scheme**	Swiss Scheme	Ukrainian Scheme
Discount rate	**3.25%**	**10%**	3.25%	10%
Retail price inflation	**2.40%**	**6%**	0.7%	6.5%
Future benefit increase	**3.00%**	**7.61%**	1.5%	7.6%
Female mortality rate (years)	**86.9**	**74.74**	85.5	74.74
Male mortality rate (years)	**83.5**	**63.46**	82.90	63.46

The overall expected rate of return on assets is determined based on the market value weighted expected return applicable to the underlying asset category.

The experience gains and losses for the year ended 31 December 2008 were:

	Year ended 31.12.08	Year ended 31.12.07	Year ended 31.12.06	Year ended 31.12.05
Unrecognised loss at start of year	**(3,292)**	(945)	(286)	(5)
Loss on experience on the liability	**(6,185)**	(2,347)	(659)	(855)
Gain on change in assumptions	**–**	–	–	572
Foreign exchange translation adjustment	**3,183**	–	–	2
Unrecognised loss at the end of year	**(6,294)**	(3,292)	(945)	(286)

Note 35: 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 nominal pre-tax discount rate of 12% per year (2007: 15%). The liability becomes payable at the end of the useful life of the mine, currently estimated to be 2035. 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 2008.

Notes to the Consolidated Financial Information
continued

Note 35: Provision for site restoration continued

	US$000
Balance as at 1 January 2007	402
Unwind of the discount	75
Arising during the year	1,269
Balance as at 31 December 2007	1,746
Unwind of the discount	269
Arising during the year	(385)
Translation adjustment	(559)
Balance as at 31 December 2008	1,071

Note 36: Accrued liabilities and deferred income
As at 31 December 2008 accrued liabilities and deferred income comprised:

US$000	**Year ended 31.12.08**	Year ended 31.12.07
Accrued expenses	**3,413**	2,162
Accrued interest payable	**–**	15
Accrued employee costs	**10,993**	11,386
Advances from customers	**64**	249
	14,470	13,812

Note 37: 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 amount was payable in US dollars with the resulting foreign exchange loss being recorded in the books of Ferrexpo Poltava GOK Corporation.

The share redemption liability represents the present value in respect of this contractual obligation. On 22 December 2008 Ferrexpo Poltava GOK repurchased the shares owned by DCM (refer to note 15). As a result, the share redemption liability was extinguished.

The movement in the shares redemption liability comprised:

	US$000
Balance as at 1 January 2007	9,062
Interest expense	974
Balance as at 31 December 2007	10,036
Interest expense	1,012
Repurchase of DCM shares	(15,423)
Foreign exchange loss	4,375
Balance as at 31 December 2008	–

Note 38: Related party disclosure
During the periods presented the Group entered into arm's length transactions with entities under common control of the majority owner of the Group, Kostyantin Zhevago and with other related parties. Management considers that the Group has appropriate procedures in place to identify and properly disclose transactions with the related parties.

The related party transactions undertaken by the Group during the periods presented are summarised below:

US$000	Year ended 31.12.08 Entities under common control	Associated companies	Other related parties	Year ended 31.12.07 Entities under common control	Associated companies	Other related parties
Iron ore pellet sales	**–**	**–**	**–**	–	–	–
Other sales	**853**	**–**	**2,937**	3,013	65	4,336
Total revenue	**853**	**–**	**2,937**	3,013	65	4,336
Purchase of materials	**22,999**	**–**	**20,293**	18,417	–	13,731
Purchase of services	**477**	**–**	**426**	2,460	–	767
General and administration expenses	**2,642**	**–**	**128**	361	–	19
Selling and distribution	**–**	**3,482**	**11,332**	1,801	1,554	1,797
Other expenses	**43**	**–**	**247**	202	–	76
Total expenses	**26,161**	**3,482**	**32,426**	23,241	1,554	16,390
Finance income	**239**	**394**	**–**	415	304	212
Finance costs	**(761)**	**–**	**–**	(141)	–	–
Net finance income/(costs)	**(522)**	**394**	**–**	274	304	212

During 2008 the Group made sales to the entities under common control amounting to US$1,368,000 of which US$515,000 were for ballast material (2007: US$3,013,000).

Finance income and finance costs

The Group has transactional banking arrangements with Finance & Credit Bank in Ukraine which is under common control of the major shareholder of Ferrexpo PLC. Finance income and finance costs are disclosed in the table above.

Sale and purchases of property, plant and equipment and investments

US$000	Year ended 31.12.08 Entities under common control	Associated companies	Other related parties	Year ended 31.12.07 Entities under common control	Associated companies	Other related parties
Sale of investments[1]	**1,849**	**–**	**–**	5,613	–	–
Purchase of investments[2]	**270**	**–**	**–**	–	–	–
Sale of property, plant and equipment[3]	**–**	**–**	–	690	–	–
Purchase of property, plant and equipment[4]	**192**	**–**	**16**	5,450	–	61

1 In May 2008 the Group disposed of 2.054% of its share in Vostock Ruda, an available-for-sale investment, to entities under common control for a consideration of $1,849,000 resulting in a gain on disposal of $1,571,000 (2007: the Group sold a 6.2% interest in Vostock Ruda, for consideration of $5,613,000, resulting in a gain on disposal of $4,714,000).

2 During 2007 the Group acquired 9.91%, ex-rights, of the share capital in OJSC Stahanov, a quoted rail car manufacturing business located in the Luhansk region of Ukraine for consideration of $11,994,000 from an entity under common control. Following completion of the capital reorganisation in May 2008, the holding was reduced to 3.3%.
On 15 July 2008 PGOK and Ferrotrans (group subsidiaries) subscribed for additional share capital for consideration of $244,000 and $25,000 respectively in OJSC Stahanov, as part of the rights issue of that company. As at 31 December 2008 the market value of the shares purchased in 2008 was $231,000, the difference was recognised in income statement as an impairment loss.

3 During 2007 land and buildings not used by the Group were disposed to an entity under common control for $690,000 (2008: nil).

4 During 2008 the Group purchased property, plant and equipment (principally trucks and cranes) from the entity under common control, Auto Kraz, for a consideration of $192,000 (2007: $5,450,000 of which $4,965,000 was for the purchase of 110 railcars from OJSC Stahanov).

5 On 16 September 2008, Ferrexpo plc repurchased 19,398,814 of its own Ordinary Shares from Kostyantin Zhevago a related party at the market price of £1.673 per share for settlement on 19 September 2008. The gross consideration paid amounted to $58,248,826.

Notes to the Consolidated Financial Information
continued

Note 38: Related party disclosure continued
The outstanding investments/balances with related parties for the periods presented are as follows:

US$000	Year ended 31.12.08			Year ended 31.12.07		
	Entities under common control	**Associated companies**	**Other related parties**	Entities under common control	Associated companies	Other related parties
Investments available-for-sale	**–**	**–**	**–**	47,023	–	97
Loans to associates	**–**	**9,000**	**–**	–	5,000	–
Total non-current assets	**–**	**9,000**	**–**	47,023	5,000	97
Investments available-for-sale	**880**	**–**	**–**	2,839	–	–
Promissory notes issued	**–**	**–**	**–**	218	–	12
Trade and other receivables	**1,890**	**–**	**8**	793	7	581
Prepayments and other current assets	**145**	**299**	**581**	–	–	–
Short-term deposits with banks	**5,000**	**–**	**–**	–	–	–
Cash and cash equivalents	**36,984**	**–**	**–**	8,727	–	–
Total current assets	**44,899**	**299**	**589**	12,577	7	593
Trade and other payables	**659**	**–**	**1,250**	2,185	–	1,099
Accrued liabilities and deferred income	**–**	**–**	**–**	–	–	–
Current liabilities	**659**	**–**	**1,250**	2,185	–	1,099

As of 31 December 2008 trade and other receivables included outstanding amounts relating to the disposal of shares in Vostock Ruda of US$1,212,000 (2007: nil).

As of 31 December 2008 cash and cash equivalents with Finance & Credit Bank were US$36,984,000 (2007: US$8,727,000).

Note 39: Reconciliation of profit before income tax to net cash flow from operating activities

US$000	Year ended 31.12.08	Year ended 31.12.07
Profit before income tax	**375,581**	160,760
Adjustments for:		
Depreciation of property, plant and equipment and amortisation of intangible assets	**34,125**	28,265
Interest expense	**18,496**	24,488
Interest income	**(2,467)**	(3,242)
Share of income of associates	**(1,003)**	(687)
Movement in allowance for doubtful receivables	**19,095**	336
Write-off/reversal of payables	**(1,043)**	–
Loss on disposal of property, plant and equipment	**1,280**	–
Assets received free of charge	**(325)**	–
Write-offs and impairment losses	**27,325**	1,568
Site restoration provision	**269**	1,269
Gains on disposal of investments available for sale	**(1,571)**	(4,714)
Employee benefits	**7,715**	3,915
IPO costs	**4,120**	34,004
Share based payments	**1,495**	–
Negative goodwill generated on rights issue	**(35,049)**	–
Operating foreign exchange gain	**(29,309)**	–
Non-operating foreign exchange loss	**72,788**	3,467
Operating cash flow before working capital changes	**491,522**	249,429
Changes in working capital:		
(Increase)/decrease in trade accounts receivable and other receivables	**(36,167)**	13,951
(Increase)/decrease in inventories	**(5,070)**	(7,840)
Increase/(decrease) in trade and other accounts payable	**8,094**	6,534
(Increase)/decrease in other taxes receivable	**(673)**	(14,411)
Cash generated from operating activities	**457,706**	247,663
Interest paid	**(15,443)**	(24,525)
Income tax paid	**(67,217)**	(32,018)
Post-employment benefits paid	**(4,103)**	(2,274)
Net cash flows from operating activities	**370,943**	188,846

Note 40: Net financial indebtedness

US$000	Notes	Year ended 31.12.08	Year ended 31.12.07
Cash and cash equivalents	30	**87,822**	86,966
Current borrowings	32	**(74,523)**	(54,284)
Non-current borrowings	32	**(231,373)**	(146,008)
Current commodity loans	33	**(1,446)**	(1,664)
Non-current commodity loans	33	**(570)**	(2,569)
Net financial indebtedness		**(220,090)**	(117,559)

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 dollars and euros which are interest-bearing.

Notes to the Consolidated Financial Information
continued

Note 41: Employee benefits expenses
Employee benefits expenses for the year ended 31 December 2008 consisted of the following:

US$000	Year ended 31.12.08	Year ended 31.12.07
Wages and salaries	**65,738**	65,885
Social security costs	**20,598**	17,369
Post-employment benefits	**6,127**	2,417
Other employee costs	**17,722**	5,175
Total	**110,185**	90,846

Average number of employees

Number	Year ended 31.12.08	Year ended 31.12.07
Production	**6,728**	7,796
Marketing and distribution	**159**	185
Administration	**1,002**	2,131
Other	**870**	–
Total	**8,759**	10,112

Compensation for key management was as follows:

US$000	Year ended 31.12.08	Year ended 31.12.07
Wages and salaries	**6,803**	15,589
Social security costs	**1,015**	2,236
Other employee costs	**8,748**	8,721
Total	**16,566**	26,546

The balances above include compensation for Executive Directors and other key management personnel. Refer to the Remuneration Report for details of compensation relating to Non-executive Directors.

Note 42: Commitments and contingencies
Commitments

US$000	Notes	As at 31.12.08	As at 31.12.07
Operating lease commitments	45	**26,505**	13,744
Capital commitments on purchase of property, plant and equipment		**42,198**	60,904
Guarantees provided		**335,000**	335,000

Legal
In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.

Tax and other regulatory compliance
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 enterprises in Ukraine.

Note 43: Financial instruments

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. The Executive Committee delegates certain responsibilities to the 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 controls the management of treasury risks within each of the business units in accordance with a Board-approved Treasury Policy.

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 under the approved Treasury Policy – and are designed to have the effect of reducing risk on underlying market or credit exposures. Appropriate operational controls ensure operational risks are not increased disproportionably to the reduction in market or credit risk.

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

Credit risk

Trade and other receivables

The Group through its trading operations enters into binding contracts which contain 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 reducing risks within acceptable parameters.

Trade finance is used to balance risk and payment. 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 crystallises when a party to an agreement defaults. Where letters of credit are used to minimise this risk, 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. During the year the Group reduced its exposure to Ukraine trade receivables risk by increasing the level of production exported.

Notes to the Consolidated Financial Information
continued

Note 43: Financial instruments continued
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 cash 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, and
- The counterparty is included in the Top 15 financial institutions in Ukraine, and
- The counterparty either is:–
  - 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 Fitch, S&P or Moody's.

Cash and deposits held with the Group's transactional bank in Ukraine, a related party financial institution, and registered with the National Bank of Ukraine for receiving and disbursing payments under Group intercompany loans, is an approved Ukrainian counterparty. The Group is therefore exposed to Ukraine country risk.

Guarantees
The Group's policy is to provide financial guarantees only to wholly-owned subsidiaries. At 31 December 2008 Ferrexpo AG and Ferrexpo UK Ltd were joint and severally liable under a US$335m loan agreement having an outstanding balance of US$280m (31 December 2007: US$200m).

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	**Year ended 31.12.08**	Year ended 31.12.07
Cash and term deposits	**87,822**	86,966
Trade receivables	**58,157**	43,575
Other financial assets	**20,616**	10,650
Total maximum exposure to credit risk	**166,595**	141,191

The total receivables balance relating to the Group's top three customers was US$29,740,000 (2007: US$21,380,000) making up 54.3% of the total amounts receivable (2007: 49.1%).

Impairment losses
The following table shows the Group's receivables at the reporting date that are exposed to credit risk and the ageing and impairment profile thereon:

2008				**Receivables past due but not impaired**		
US$000	**Gross amount**	**Receivables past due and impaired**	**Receivables neither past due nor impaired**	**Less than 45 days**	**45 to 90 days**	**Over 90 days**
Trade receivables	70,113	11,956	34,448	14,065	2,781	6,863
Other receivables	15,976	435	15,525	–	–	16

2007				Receivables past due but not impaired		
US$000	Gross amount	Receivables past due and impaired	Receivables neither past due nor impaired	Less than 45 days	45 to 90 days	Over 90 days
Trade receivables	43,976	401	33,694	8,453	675	753

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 is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation by holding surplus cash or undrawn credit facilities.

The Group prepares detailed rolling cash flow 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 following are the contractual maturities of financial liabilities by interest type:

	Year ended 31 December 2008			
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	23,557	1,102	25,397
Other banks (floating rate interest)	72,727	207,727	–	280,454
Commodity loans	1,446	570	–	2,016
Interest accrued	2,070	–	–	2,070
Non-interest bearing				
Trade and other payables	32,708	72	–	32,780
Promissory notes	797	–	–	797
Other financial liabilities	35,234	–	–	35,234
Total cash flow maturity	145,720	231,926	1,102	378,748

	Year ended 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
Commodity loans	1,664	2,569	–	4,233
Interest accrued	14	–	–	14
Non-interest bearing				
Trade and other payables	23,463	14	–	23,477
Promissory notes (fixed rate interest)	253	83	–	336
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

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. Operating currencies for the Group are primarily the Ukrainian hryvnia, 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 local Ukrainian production mainly in hryvnia. During the year the value of the hryvnia moved from being pegged to the US dollars to a managed float which has resulted in a hryvnia devaluation against the US dollar.

The devaluation of the Ukrainian hryvnia will reduce the operating costs of the production unit in dollar terms and the value of hryvnia payables recorded in the balance sheet at the year end in US dollars. As the majority of sales and receivables are denominated in US dollars, a devaluation in the local currency will result in operating exchange gains recorded in the income statement.

With a devaluation of the local currency, US dollar denominated loans held by the Ukrainian subsidiary will result in non-operating exchange losses to the extent these are not matched by dollar denominated assets. Fixed assets are similarly held in local currency amounts and a devaluation in the currency will result in reduced net asset vales which are recorded in reserves.

Notes to the Consolidated Financial Information
continued

Note 43: Financial instruments continued

The National Bank of Ukraine (NBU) manages and determines the official exchange rates. An inter-bank market for exchange of currencies exists in Ukraine and is monitored by the NBU. The Group, through its financial institutions, exchanges currencies at bank offered market rates.

Trade receivables are predominately in US dollars which are not hedged. Trade payables denominated in a US dollars are also not hedged on the market, but are matched against US dollar currency receipts this includes the interest expense which is principally payable in US dollars. Trade receivables and trade payables in other currencies are not hedged as a forward market for the currency is generally not available.

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.

The Group's exposure to foreign currency risk was as follows based on notional amounts:

	Year ended 31 December 2008					
US$000	**Ukraine hryvnia**	**US dollar**	**Euro**	**Swiss franc**	**Other currencies**	**Total**
Financial assets	264	56,050	–	921	1,288	58,523
Financial liabilities						
Ukrainian banks	–	(25,396)	–	–	–	(25,396)
Interest accrued	–	(205)	(1)	–	–	(206)
Borrowings	–	(25,601)	(1)	–	–	(25,602)
Commodity loans	–	–	(2,017)	–	–	(2,017)
Trade and other payables	–	(2,957)	(3,754)	(4,575)	(1,933)	(13,219)
Other financial liabilities	–	–	–	(14,334)	(1,506)	(15,840)
Total financial liabilities	–	(28,558)	(5,772)	(18,909)	(3,439)	(56,678)
Net financial assets/(liabilities)	264	27,492	(5,772)	(17,988)	(2,151)	1,845

	Year ended 31 December 2007					
US$000	Ukraine hryvnia	US dollar	Euro	Swiss franc	Other currencies	Total
Financial assets	–	770	–	308	556	1,634
Financial liabilities						
Ukrainian banks	–	(3,316)	–	–	–	(3,316)
Interest accrued	–	(14)	–	–	–	(14)
Borrowings	–	(3,330)	–	–	–	(3,330)
Commodity loans	–	(690)	(3,543)	–	–	(4,233)
Trade and other payables	–	(886)	(3,383)	(589)	(846)	(5,704)
Share redemption liability	–	(10,036)	–	–	–	(10,036)
Other financial liabilities	–	–	–	(2,008)	–	(2,008)
Total financial liabilities	–	(14,942)	(6,926)	(2,597)	(846)	(25,311)
Net financial assets/(liabilities)	–	(14,172)	(6,926)	(2,289)	(290)	(23,677)

Interest rate risk

The Group predominantly borrows funds that are at floating interest rates and is exposed to interest rate movements. 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.

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

US$000	Year ended 31 December 2008 Floating interest	Fixed interest	Equity	Other non-interest bearing	Total
Financial assets					
Cash and term deposits	30,157	54,769	–	2,896	87,822
Available-for-sale investments	–	–	–	5,085	5,085
Trade receivables	–	–	–	58,157	58,157
Other financial assets	–	–	–	20,616	20,616
Total financial assets	**30,157**	**54,769**	**–**	**86,754**	**171,680**
Weighted av. interest rate (%)	0.3	2.7			
Financial liabilities					
Borrowings	305,895	1	–	–	305,896
Trade and other financial liabilities	–	2,017	–	68,810	70,827
Total financial liability exposure	**305,895**	**2,018**	**–**	**68,810**	**376,723**
Weighted av. interest rate (%)	5.0	–			

US$000	Year ended 31 December 2007 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
Other financial assets	5,304	–	–	5,346	10,650
Total financial assets	**83,653**	**8,702**	**49,973**	**48,938**	**191,266**
Weighted av. 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 av. interest rate (%)	7.6	8.2			

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$3m of the floating rate loan to associate which matures between two to five years as at 31 December 2008 (2007: US$4m).

Commodity risk

The Group is exposed to longer-term movements in the price of iron ore, but does not have a commodity risk exposure to its financial assets and liabilities once the sale has been made. 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 tradable exchange in the product to ascertain its market value.

Notes to the Consolidated Financial Information
continued

Note 43: Financial instruments continued

Sensitivity analysis

A 20% strengthening of the US dollar against the following currencies at 31 December 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.

	Year ended 31.12.08		Year ended 31.12.07	
US$000	**Income statement**	**Equity**	Income statement	Equity
UAH	**5,446**	**–**	(2,835)	–
EUR	**1,154**	**–**	1,385	–
CHF	**3,598**	**–**	458	–
	10,198	**–**	(992)	–

A 20% 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

A change of 100 basis points 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.

US$000	**Year ended 31.12.08**	Year ended 31.12.07
Net finance charge	**(1,449)**	(3,182)

A decrease in 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 of the Group's financial instruments, that are carried in the consolidated balance sheet:

	Carrying amount		Fair value	
US$000	**As at 31.12.08**	As at 31.12.07	**As at 31.12.08**	As at 31.12.07
Financial assets				
Available-for-sale investments	**5,085**	50,075	**5,085**	50,075
Cash and cash equivalents	**87,822**	86,966	**87,822**	86,966
Financial liabilities				
Interest bearing loans and borrowings	**305,896**	200,628	**274,668**	200,628

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.

Capital management

The Board's policy is to maintain a strong capital base. 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. Please refer to the Statement of Changes in Equity for details of the capital position of the Group.

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. Access to securing borrowings in the context of the events affecting the global financial credit markets during the year has affected the elasticity at which the Board can maintain this balance. The Board continues to support maintaining a sound capital base balanced against these market constraints.

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.

During the year Ferrexpo plc undertook an on-market share buy-back of its shares, and off-market buy-back of shares held by the Group's principal shareholder. Further details are provided in notes 31 and 38.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements other than a bank covenant requirement to maintain consolidated equity in respect of the Ferrexpo AG group of $300m including minority interests. Compliance is ensured by balancing dividend payments against the earnings of the Ferrexpo AG group.

Note 44: Share-based payments

Listing bonus share award

Share awards were granted in 2007 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 was 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 $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 2008 is US$4,257,000 (2007: US$9,124,000), all of which arose from equity-settled share-based payment transactions.

	Year ended 31.12.08 WAFV (US$)	Year ended 31.12.07 WAFV (US$)	**Year ended 31.12.08 No. ('000)**	Year ended 31.12.07 No. ('000)
Beginning of the year	**3.63**	–	**2,403**	–
Award granted during the year	**–**	3.33	**–**	4,166
Vested during the year	**3.63**	2.92	**(1,948)**	(1,763)
Forfeited during the year	**3.63**	–	**(13)**	–
Outstanding at 31 December	**3.63**	3.63	**442**	2,403

Long term incentive plans (LTIPs)

Share awards were granted on 14 May 2008. 695,000 shares were awarded under the LTIP, which runs for three years. 415,000 shares were awarded under the Interim LTIP (referred to as 'Transitional awards' in the Remuneration Report), which runs for two years.

The LTIP and Interim LTIP are subject to a performance condition based on the Total Shareholder Return ('TSR') compared to a comparator group, measured over the vesting period, as described in the Remuneration Report.

The expense recognised during 2008 was US$809,000 in respect of the LTIP (2007: nil) and $686,000 in respect of the interim LTIP (2007: nil).

The fair value of these awards was assessed at this grant date using a simulation or 'Monte Carlo' model consistent with the mathematics underlying the standard Black-Scholes options pricing model, extended to allow for the performance conditions. Each simulation of the model projects the Company's and comparator's share prices (with reinvested dividends) over the vesting period, allowing for the volatilities and correlations between the shares as estimated from historical data. From this projection the proportion of awards vesting, and the value to employees, is calculated. 100,000 simulations were run to calculate the fair values. The fair value is set as the average value over all the simulations.

	Year ended 31.12.08 WAFV (US$)	Year ended 31.12.07 WAFV (US$)	**Year ended 31.12.08 No. ('000)**	Year ended 31.12.07 No. ('000)
LTIP				
Beginning of the year	**–**	–	**–**	–
Award granted during the year	**5.52**	–	**695**	–
Vested during the year	**–**	–	**–**	–
Outstanding at 31 December	**5.52**	–	**695**	–
Interim LTIP				
Beginning of the year	**–**	–	**–**	–
Award granted during the year	**5.22**	–	**415**	–
Vested during the year	**–**	–	**–**	–
Outstanding at 31 December	**5.22**	–	**415**	–

Notes to the Consolidated Financial Information
continued

Note 45: Operating leases
Non-cancellable operating lease rentals are payable as follows:

US$000	Year ended 31.12.08	Year ended 31.12.07
Less than one year	**1,137**	1,035
Between one and five years	**3,473**	3,617
More than five years	**21,895**	9,092
	26,505	13,744

During the year ended 31 December 2008 US$986,000 was recognised as an expense in the income statement in respect of operating leases (2007: $610,000).

The Group leases land and buildings under operating leases. The leases on land typically run for 49 years, with a lease period of 5 to 10 years on buildings.

Note 46: Operating profit by function

US$000	Notes	Before adjusting items	Adjusted items	Year ended 31.12.08	Before adjusting items	Adjusted items	Year ended 31.12.07
Revenue	6	1,116,854	–	1,116,854	698,216	–	698,216
Cost of sales	7	(434,238)	–	(434,238)	(335,936)	–	(335,936)
Gross profit		**682,616**	**–**	**682,616**	**362,280**	**–**	**362,280**
Selling and distribution expenses	8	(152,528)	–	(152,528)	(100,614)	–	(100,614)
General and administrative expenses	9	(67,185)	–	(67,185)	(44,308)	–	(44,308)
Other income	10	6,387	–	6,387	4,844	–	4,844
Other expenses	11	(38,040)	3,603	(34,437)	(5,096)	(35,572)	(40,668)
Operating foreign exchange gain	12	29,309	–	29,309	–	–	–
Operating profit		**460,559**	**3,603**	**464,162**	**217,106**	**(35,572)**	**181,534**
Gain on disposal of available-for-sale investment		–	1,571	1,571	–	4,714	4,714
Share of gains of associates	14	1,003	–	1,003	687	–	687
Total profit from operations and associates		**461,562**	**5,174**	**466,736**	**217,793**	**(30,858)**	**186,935**

Summary of adjusted items

US$000	Notes	Year ended 31.12.08	Year ended 31.12.07
Operating adjusting items			
Write-offs and impairment losses	13	**(27,326)**	(1,568)
Negative goodwill	15	**35,049**	–
Initial public offering costs	16	**(4,120)**	(34,004)
		3,603	(35,572)
Non-operating adjusting items			
Gain on disposal of available-for-sale investment	38	**1,571**	4,714
		1,571	4,714

Note 47: Subsequent events
No material adjusting or non-adjusting events have occurred subsequent to the year end other than the proposed dividend disclosed in note 19.

Note 48: Financial statements of the parent company
a) Balance sheet of the company, Ferrexpo plc

US$000	Notes	As at 31.12.08	As at 31.12.07
Assets			
Fixed asset investments	48c	**134,732**	134,732
Total non-current assets		**134,732**	134,732
Amounts due from subsidiaries		**213,025**	131,817
Debtors	48d	**1,725**	6,743
Prepayments and other current assets		**724**	80
Other taxes recoverable and prepaid		**12**	8
Marketable securities		**–**	102
Cash and cash equivalents		**295**	233
Total current assets		**215,781**	138,983
Total assets		**350,513**	273,715
Equity and liabilities			
Share capital	48b	**121,628**	121,628
Share premium	48b	**185,112**	188,566
Treasury share reserve	48b	**(77,260)**	–
Employee benefit trust reserve	48b	**(15,443)**	(20,092)
Retained earnings/(losses)	48b	**134,508**	(17,401)
Equity attributable to equity shareholders of the parent	48b	**348,545**	272,701
Trade and other payables		**109**	141
Accrued liabilities and deferred income		**1,494**	749
Income taxes payable		**–**	124
Other taxes payable		**365**	–
Total liabilities		**1,968**	1,014
Total equity and liabilities		**350,513**	273,715

All liabilities held by the Company are current in nature.

The financial statements were approved by the Board of Directors on 23 March 2009.

Kostyantin Zhevago
Chief Executive Officer

Christopher Mawe
Chief Financial Officer

Notes to the Consolidated Financial Information
continued

Note 48: Financial statements of the parent company continued
b) Reconciliation of movement in shareholders' funds

U$ 000	Issued capital	Share Premium	Treasury share reserve	Employee benefit trust reserve	Retained earnings	Total equity
At 1 January 2007	**–**	**–**	**–**	**–**	**–**	**–**
Deferred tax on transaction costs	–	5,179	–	–	–	5,179
Net income and expense for the period recognised directly in equity	–	5,179	–	–	–	5,179
Profit for the period	–	–	–	–	(17,401)	(17,401)
Total income and expense for the year	–	5,179	–	–	(17,401)	(12,222)
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)
Treasury shares issued to employee benefit trust[1]	–	–	–	(29,216)	–	(29,216)
Employee benefit trust award	–	–	–	9,124	–	9,124
At 31 December 2007	121,628	188,566	–	(20,092)	(17,401)	272,701
Deferred tax on transaction costs	–	1,725	–	–	–	1,725
Write off of deferred tax on IPO costs	–	(5,179)	–	–	–	(5,179)
Deferred tax on employee benefits	–	–	–	(317)	–	(317)
Net income and expense for the period recognised directly in equity	–	(3,454)	–	(317)	–	(3,771)
Profit for the period	–	–	–	–	190,863	190,863
Total income and expense for the year	–	(3,454)	–	–	190,863	187,092
Items recognised directly in equity:						
Share buyback in parent company	–	–	(77,260)	–	–	(77,260)
Equity dividends paid to shareholders	–	–	–	–	(38,954)	(38,954)
Share-based payments	–	–	–	4,966	–	4,966
At 31 December 2008	121,628	185,112	(77,260)	(15,443)	134,508	348,545

1 Refer to note 31 for details of this transaction.

The audit fee in respect of the parent company was US$10,000 (2007: US$7,000).

c) Fixed asset investments

US$000	Investment in subsidiary equity
At 1 January 2007	–
Additions	134,732
At 31 December 2007 and 2008	**134,732**

The balance above relates to the Company's investment in Ferrexpo AG which is a 100% owned subsidiary based on Switzerland.

d) Debtors
Debtors at 31 December 2008 relate to the following:

US$000	**Year ended 31.12.08**	Year ended 31.12.07
Deferred income tax assets:		
Tax loss recognised	**1,725**	1,564
IPO costs	**–**	5,179
	1,725	6,743

e) Subsequent events
No material adjusting or non-adjusting events have occurred subsequent to the year end.

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 23 March 2009. The financial statements are prepared under the historical cost convention and are prepared in accordance with applicable UK 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.

Fixed asset investments
Equity investments in subsidiaries are carried at cost less any provision for impairments.

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 following exceptions:

- Provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable.
- 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
Derivative financial instruments
The Company 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 Company 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.

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

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 or 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

Accounting policies continued

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 grant date and is 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, except for market 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.

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

Acts
The Companies Acts 1985 and 2006

AGM
The Annual General Meeting of the Company to be held on Tuesday 19 May 2009

Articles
The Articles of Association of the Company

Audit Committee
The Audit Committee of the Company's Board

Benchmark price
International seaborne traded iron ore benchmark price agreed between the major iron or producers and specific Western European or British steel producers for a given year

BIP
Business Improvement Programme

Board
The Board of Directors of the Company

bt
Billion tonnes

Capital employed
The aggregate of equity attributable to shareholders, minority interests and borrowings

CFR
Delivery including cost and freight

C1 costs
Cash costs per ton 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

CPI
Consumer Price Index

CSR
Corporate Safety and Social Responsibility

CSR Committee
The Corporate Safety and Social Responsibility Committee of the Board of the Company

DAF
Delivery at frontier

DFS
Definitive Feasibility Study

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

EBITDA
Earnings before interest, tax, depreciation and amortisation

EBT
Employee Benefit Trust

EMP
Environmental Management Programme

EPS
Earnings per share

Executive Committee
The executive committee of the Company's Board

Executive Directors
The executive directors of the Company

Fe
Iron

Ferrexpo
Ferrexpo plc

Ferrexpo AG Group
Ferrexpo AG and its subsidiaries including FPM

Fevamotinico S.a.r.l.
A company incorporated with limited liability in Luxembourg

FOB
Delivered free on board

FPM
Ferrexpo Poltava Mine, formally Ferrexpo Poltava GOK Corporation, a company incorporated under the laws of Ukraine

FTSE 250
Financial Times Stock Exchange top 250 companies

GPL
Gorishne, Plavninskoye and Lavrikovskoye mine

Group
The Company and its subsidiaries including Ferrexpo AG

Growth markets
Those markets that offer to add new and significant tonnage expansion potential

Glossary continued

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 sinter 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

JORC
Australasian Joint Ore Reserves Committee – the internationally accepted code for ore classification

KPI
Key Performance Indicator

kt
Thousand tonnes

LIBOR
The London Inter Bank Offered Rate

LLC
Limited Liability Company

LTIFR
Lost-Time Injury Frequency Rate

LTIP
Long term incentive plan

m^3
Cubic metre

Majority shareholder
Fevamotinico S.a.r.l., The Minco Trust and Kostyantin Zhevago (together)

mm
Millimetre

mt
Million tonnes

mtpa
Million tonnes per annum

Natural markets
Relatively new markets in regions where the Group believes it has a competitive advantage which is yet to be exploited

Nominations Committee
The Nominations Committee of the Company's Board

Non-executive Directors
Non-executive directors of the Company

NOPAT
Net operating profit after tax

OHSAS 18001
International Safety Standard 'Occupational Health & Safety Management System Specification'

Ordinary Shares
Ordinary shares of 10 pence each in the Company

Ore
A mineral or mineral aggregate containing precious or useful minerals in such quantities, grade and chemical combination as to make extraction economic

PPI
Ukrainian 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

Regulations
The Directors' Remuneration Report Regulations

Relationship Agreement
The relationship agreement entered into among Fevamotinico S.a.r.l., Kostyantin Zhevago, The Minco Trust and the Company

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

$/t
US dollars per tonne

Sinter
A porous aggregate charged directly to the blast furnace which is normally produced by firing relatively coarser fine iron ore, other materials, and coke breeze as the heat source

Spot price
The current price of a metal for immediate delivery

Sterling/£
Pound sterling, the currency of the United Kingdom

STIP
Short term incentive plan

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

TSF
Tailings Storage Facility

Traditional markets
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, Bulgaria and Russia

TSR
Total Shareholder Return. The total return earned on a share over a period of time, measured as the dividend per share plus capital gain, divided by initial share price

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, IPO costs, and non-operating foreign exchange gains and losses

UAH
Ukrainian hryvnia, the currency of Ukraine

Ukr SEPRO
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

USS
United States Steel Corporation

VAT
Value Added Tax

Value in use
The implied value of a material to an end user to use one material relative to other options, e.g. comparing the performance of several types of iron ore pellets in a blast furnace; or taking into account the delivered cost of a material and rates relative to other competitive materials on a quality and landed cost adjusted basis

WMS
Wet magnetic separation

YGOK
The name of a separate management company formed temporarily to administer the three major growth projects

Appendix 1:
Gorishne-Plavninskoe and Lavrikovksoe Deposits Resource Estimate Review

SRK Consulting
Engineers and Scientists

SRK Consulting (UK) Ltd
Floor 5
Churchill House
Churchill Way
Cardiff
United Kingdom
CF10 2HH

e-mail: enquiries@srk.co.uk
URL: www.srk.co.uk

Tel: + 44 (0)29 20 34 81 50
Fax: + 44 (0)29 20 34 81 99

Our ref: *P:\U3456 Ferrexpo GPL review\Project\Reps\003FOXN_GPL Review.doc*

03 March 2008

Dave Webster
Ferrexpo plc
2-4 King Street
St James'
London
SW1Y 6QL

Dear Dave,

Ref: Gorishne-Plavninskoe and Lavrikovksoe Deposit Resource Estimate Review

BACKGROUND

SRK Consulting (UK) Ltd reviewed the GKZ approved resource estimates for the Gorishne-Plavninskoe and Lavrikovksoe iron ore deposits (GPL) as part of its role as Independent Engineer (IE) in the production of the Mineral Expert Report (MER) contained in the prospectus of Ferrexpo plc (the Prospectus) in June 2007. Table 1 and Table 2 below present the audited Mineral Resource Statement for Gorishne-Plavninskoe and Lavrikovksoe respectively as at 1 January 2007 as contained in the Prospectus.

Table 1: SRK Audited Mineral Resource Statement for Gorishne-Plavninskoe: 1 January 2007

Gorishne-Plavninskoe	Tonnage (Mt)	Grade Fe tot (%)	Grade Fe Mag (%)
Measured			
K22	101	35%	28%
K233	139	27%	18%
Sub-total	**239**	**30%**	**22%**
Indicated			
K22	586	35%	29%
K233	259	27%	18%
Sub-total	**845**	**33%**	**25%**
Total Measured + Indicated	**1,085**	**32%**	**25%**
Inferred			
K22	51	34%	28%
K233	-	-	-
Sub-total	**51**	**34%**	**28%**

Table 2:SRK audited Mineral Resource Statement for Lavrikovksoe: 1 January 2007

Lavrikovskoe	Tonnage (Mt)	Grade Fe tot (%)	Grade Fe Mag (%)
Measured			
K22	68	35%	27%
K233	18	29%	19%
Sub-total	**86**	**34%**	**25%**
Indicated			
K22	239	35%	27%
K233	156	29%	19%
Sub-total	**394**	**33%**	**24%**
Total Measured + Indicated	**480**	**33%**	**24%**
Inferred			
K22	-	-	-
K233	13	27%	17%
Sub-total	**13**	**27%**	**17%**

As you are aware Ferrexpo has now produced a digital block model for GPL and has requested SRK to review this model and re-state an audited Mineral Resource Statement for these deposits.

WORK UNDERTAKEN

SRK received a digital block model from Ferrexpo which was imported into Datamine for review. This included the drillhole database, orebody and classification wireframes and a block model recording the block grades of Fetot (%) and Femag (%) which had been interpolated using Ordinary Kriging. SRK has undertaken check calculations and is confident the new digital block model is reasonable, unbiased and free from material error. SRK has however re-classified the deposit by creating wireframes for areas of Measured, Indicated and Inferred Resources. These have been determined primarily from drill spacing but take appropriate consideration of the continuity of the orebody and variation in the mineralisation.

SRK's updated audited Mineral Resource statement for the Gorishne-Plavninskoe and Lavrikovksoe deposits is presented below in Table 3 and Table 4. SRK is confident that the data is of sufficient quantity and quality to enable the resources to be reported in accordance with The JORC Code.

Table 3: SRK audited Mineral Resource Statement for Gorishne-Plavninskoe: 1 January 2008

Gorishne-Plavninskoe	Tonnage (Mt)	Grade Fe tot (%)	Grade Fe Mag (%)
Measured			
K22	77	34%	27%
K233	271	27%	18%
Sub-total	**348**	**29%**	**20%**
Indicated			
K22	535	35%	28%
K233	560	27%	18%
Sub-total	**1,095**	**31%**	**23%**
Total Measured + Indicated	**1,443**	**30%**	**22%**
Inferred			
K22	611	35%	29%
K233	664	27%	17%
Sub-total	**1,275**	**31%**	**23%**

Table 4: SRK audited Mineral Resource Statement for Lavrikovksoe: 1 January 2008

Lavrikovskoe	Tonnage (Mt)	Grade Fe tot (%)	Grade Fe Mag (%)
Measured			
K22	58	35%	27%
K233	46	27%	16%
Sub-total	**104**	**31%**	**22%**
Indicated			
K22	292	35%	28%
K233	416	27%	17%
Sub-total	**708**	**30%**	**22%**
Total Measured + Indicated	**812**	**30%**	**22%**
Inferred			
K22	50	35%	28%
K233	124	27%	17%
Sub-total	**174**	**29%**	**20%**

A comparison between the updated Resource Statements in Table 3 and Table 4 for Gorishne-Plavninskoe (GP deposit) and Lavrikovksoe (L deposit) respectively with the Resource Statements presented in the CPR and shown in Table 1 and Table 2, shows all categories have increased with the most significant increases being in the Inferred Resource at the GP deposit and the Indicated Resource at the L deposit.

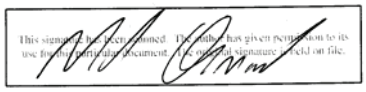
The reason for these increases is not because the updated electronic model produces different results to the standard Soviet approach previously used (in fact both approaches produce reasonably similar results for similar areas) but rather because SRK has smoothed the classification to make the classified areas more continuous and also extended the depth limit to which resources are reported to match the limit of the available data rather than having to restrict this to what was originally interpolated into by Ferrexpo itself.

The resources presented above in Table 3 and Table 4 have been reported from the current surface (surveyed in November 2007) to the -700mRL for the GP deposit and to the -400mRL for the L deposit and restricted to the classified blocks. The resources above these levels have been demonstrated to be potentially economic by the pit optimisation work completed by Turgis which has indicated that the pits have the potential to extend up to or beyond these depths.

Importantly this classification by SRK also results in the majority of the material falling within Turgis's optimised pit shell being classified as Measured, Indicated or Inferred with only minor amounts of unclassified material at depth below the -700mRL for the GP deposit and below the -400mRL for the L deposit.

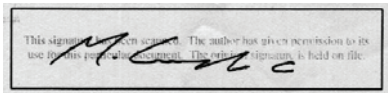
The observations, comments and conclusions presented in this letter represent SRK's opinion as of March 2008 and are based in part on SRK's analysis of information provided by Ferrexpo and discussions with Ferrexpo management. SRK cannot accept any liability, either direct or consequential for the validity of information that has been accepted in good faith.

For and on behalf of SRK Consulting (UK) Ltd



Dr Mike Armitage
Managing Director, SRK Consulting (UK) Ltd

Mr Nick Fox
Resource Geologist, SRK Consulting (UK) Ltd.



Mr Mark Campodonic
Senior Resource Geologist, SRK Consulting (UK) Ltd.

Appendix 2: Mineral Reserve Update for the Gorishne-Plavninskoe and Lavrikovskoe Open Cast Mining Operation

Building 1
299 Pendoring Rd
Blackheath
2195
South Africa

P O Box 1995
Northcliff
2115
South Africa

e-mail: turgis@turgis.co.za
Tel: +27 11 476 2279
Fax: +27 11 476 2579
Reg No: 2001.002083.07

25th July 2008

Chief Operating Officer
Ferrexpo AG
Bahnhofstrasse 13
Ch-6340
Baar
Switzerland

Attention: Mr David Webster

Dear Mr Webster

MINERAL RESERVE UPDATE FOR THE GORISHNE-PLAVNINSKOE LAVRIKOVKSOE ('GPL') OPEN CAST MINING OPERATION

BACKGROUND

At the time of the Ferrexpo AG (Ferrexpo) listing on the London Stock Exchange (LSE) main board, the mineral resources and mineral reserves were based on information contained in hard copy paper reports, geological plans and sections. Subsequent to the listing, this information was transferred into an electronic format by Ferrexpo AG and an electronic block (grade) model made available in Datamine format.

With the geological information in electronic format, Ferrexpo considered it appropriate to have this model audited. The audit was carried out by SRK Consulting (UK) Ltd ('SRK') In undertaking the audit SRK declared a revised mineral resource statement for the GPL operation according to the JORC Code. The revised mineral resource was motivated in a letter dated 3rd March 2008 from SRK and is summarised in the tables below.

A G du Plessis - Chairman • V Johannessen (Norwegian) - CFO • A Mastenbroek (Dutch) • A D Pooley (British) - COO
S F van der Linde • R B Wilson - CEO

TURGIS
MINING CONSULTANTS • A DHV COMPANY

SRK AUDITED MINERAL RESOURCE STATEMENT FOR GORISHNE-PLAVNINSKOE			
Resource Class and Ore Type	**Tonnage (Mt)**	**Grade Fe total (%)**	**Grade Fe Mag (%)**
Measured			
K22	77	34	27
K233	271	27	18
Sub-total	**348**	**29**	**20**
Indicated			
K22	535	35	28
K233	560	27	18
Sub-total	**1,095**	**31**	**23**
Total Measured and Indicated	**1,443**	**30**	**22**
Inferred			
K22	611	35	29
K233	664	27	17
Sub-total	**1,275**	**31**	**23**

SRK AUDITED MINERAL RESOURCE STATEMENT FOR LAVRIKOVKSOE			
Resource Class and Ore Type	**Tonnage (Mt)**	**Grade Fe total (%)**	**Grade Fe Mag (%)**
Measured			
K22	58	35	27
K233	46	27	16
Sub-total	**104**	**31**	**22**
Indicated			
K22	292	35	28
K233	416	27	17
Sub-total	**708**	**30**	**22**
Total Measured and Indicated	**812**	**30**	**22**
Inferred			
K22	50	35	28
K233	124	27	17
Sub-total	**174**	**29**	**20**

TURGIS
MINING CONSULTANTS • A DHV COMPANY

RESERVE GENERATION

Ferrexpo subsequently commissioned Turgis Consulting (Pty) Ltd ('Turgis') to undertake the work required to enable the declaration of a revised mineral reserve for the GPL operation based on the revised resource statement and in accordance with the JORC Code.

The work performed by Turgis to generate a mineral reserve estimate was undertaken to pre-feasibility levels of accuracy and included the following work elements

- Optimisation of the open pit operation using WHITTLE pit optimisation software. Inputs for the optimisation were obtained from actual GPL operating results in the case of slope angles, plant recoveries, operating costs and capital costs. Revenues for products were provided by Ferrexpo Poltava Mining, and were not reviewed by Turgis.
- Design of a practical mining pit using GEMCOM software. Open pit design criteria were provided by the GPL operation. The criteria included slope angles, bench heights and haul road widths. The re-designed pit was presented to and agreed upon with senior mine management on site.
- Scheduling of the designed pit using GEMCOM software to produce overburden stripping, waste mining and ore mining schedules. The scheduling of the re-designed pit was based on the current GPL business plan and production requirements. The generation of the mining schedule included application of an allowance of 2 per cent dilution at a zero Fe grade. The revised schedule was presented to and agreed upon with senior mine management.
- Substitution of the revised production schedule into the GPL economic evaluation model to ensure that the revised production schedule was economically viable. Turgis did not re-generate cost estimates, but simply substituted the revised schedule into the existing model. This is considered valid as production rates are similar and no change in the GPL business plan is expected.

The substitution of the revised production schedule into the GPL business plan produced a positive financial outcome and as such, was considered acceptable for the declaration of a revised mineral reserve.

The revised mineral reserve is shown in the tables below.

TURGIS
MINING CONSULTANTS • A DHV COMPANY

REVISED MINERAL RESERVE STATEMENT FOR GORISHNE-PLAVNINSKOE			
Resource Class and Ore Type	**Tonnage (Mt)**	**Grade Fe total (%)**	**Grade Fe Mag (%)**
Proved			
K22	43.81	32.89	25.49
K233	206.70	25.92	16.67
Sub-total	**250.51**	**27.14**	**18.21**
Probable			
K22	267.64	34.01	27.45
K233	279.78	26.02	16.67
Sub-total	**547.42**	**29.94**	**21.94**
Total Proved and Probable	**797.93**	**29.06**	**20.77**

REVISED MINERAL RESERVE STATEMENT FOR LAVRIKOVKSOE			
Resource Class and Ore Type	**Tonnage (Mt)**	**Grade Fe total (%)**	**Grade Fe Mag (%)**
Proved			
K22	26.00	35.06	27.45
K233	17.37	26.83	15.69
Sub-total	**43.37**	**31.76**	**22.74**
Probable			
K22	67.18	34.73	27.45
K233	46.16	26.54	15.69
Sub-total	**113.34**	**31.40**	**22.66**
Total Proved and Probable	**156.71**	**31.50**	**22.68**

A comparison with the previous mineral reserve statement estimated for the CPR listing document dated January 2007 shows that there is an approximately 94 per cent increase in the total reserve stated. The reason for this increase is the concomitant increase in mineral resources declared by SRK in the most recent revision of the mineral resource estimate.

The work undertaken in generating this revised mineral reserve statement has been undertaken using information provided by SRK, the GPL operations management and Ferrexpo management. Turgis cannot accept any liability for the validity of the underlying information that has been accepted in good faith. However, Turgis have no reason to believe that there has been any lack of disclosure in respect of any material information provided to us.

TURGIS
MINING CONSULTANTS • A DHV COMPANY

The competent person for the signoff of this revised mineral reserve estimate is Mr R B Wilson. Mr Wilson is a registered Professional Engineer with the Engineering Council of South Africa (ECSA) and a Fellow in good standing of the South African Institute of Mining and Metallurgy (SAIMM). He has over 30 years experience in the mining industry and has been involved in consulting and project work in the Ukranian iron ore industry for the past 5 years. Mr Wilson is considered to be a competent person in accordance with the guidelines of the JORC code.

For and on behalf of Turgis Consulting (Pty) Ltd.

R B Wilson
Chief Executive Officer
Pr Eng, BSc (Eng), FSAIMM

A D Pooley
Chief Operating Officer
Pr Eng, BSc (Eng), FSAIMM

REGISTERED/HEAD OFFICE OF THE ISSUER

Ferrexpo Finance plc
2-4 King Street
London SW1Y 6QL
United Kingdom

REGISTERED/HEAD OFFICE OF THE GUARANTORS

Ferrexpo Poltava GOK Corporation
18 Stroiteley Street
Komsomolsk 39802
Poltava Region
Ukraine

Ferrexpo AG
Bahnhofstrasse 13
CH-6340 Baar
Switzerland

Ferrexpo plc
2-4 King Street
London SW1Y 6QL
United Kingdom

AUDITORS OF THE ISSUER

Ernst & Young LLP
1 More London Place
London SE1 2AF
United Kingdom

AUDITORS OF THE GUARANTORS

Ernst & Young Audit Services LLC
Khreschatyk Street 19A
01001 Kyiv
Ukraine

Ernst & Young Ltd
Brandschenkestasse 100
P.O. Box
CH-8022 Zurich
Switzerland

Ernst & Young LLP
1 More London Place
London SE1 2AF
United Kingdom

TRUSTEE

BNY Mellon Corporate Trustee Services Limited
One Canada Square
London E14 5AL
United Kingdom

REGISTRAR

The Bank of New York Mellon
(Luxembourg) S.A.
Vertigo Building–Polaris
2-4 rue Eugène Ruppert
L-2453
Luxembourg

PRINCIPAL PAYING AGENT AND TRANSFER AGENT

The Bank of New York Mellon
One Canada Square
London E14 5AL
United Kingdom

U.S. PAYING AGENT AND TRANSFER AGENT

The Bank of New York Mellon
New York Branch
101 Barclay Street
New York, NY 10286
United States

Legal Advisers

To the Issuer/Guarantors as to English and United States law

Allen & Overy LLP
One Bishops Square
London E1 6AD
United Kingdom

To the Issuer/Guarantors as to Ukrainian law

Sayenko Kharenko
10 Muzeyny Provulok
Kyiv 01001
Ukraine

To the Issuer/Guarantors as to Swiss law

Homburger AG
Weinberg Strasse 56/58
CH-8006
Zurich
Switzerland

To the Joint Bookrunners and the Trustee as to English and United States law

Linklaters LLP
One Silk Street
London EC2Y 8HQ
United Kingdom

To the Joint Bookrunners and the Trustee as to Ukrainian law

Magisters
38 Volodymyrska Street
Kyiv 01034
Ukraine

To the Joint Bookrunners and the Trustee as to Swiss law

Baer & Karrer AG
Brandschenkestrasse 90
CH-8027
Zurich
Switzerland