

Producing for  
over 30 years



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

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

The Group is committed to realising the potential of one of the largest iron ore resources in the world, through the pursuit of best practice in operations and prudent financial and risk management. Its aim is to be recognised as a leading global supplier of iron ore pellets, providing outstanding service to its customers and strong returns to shareholders.

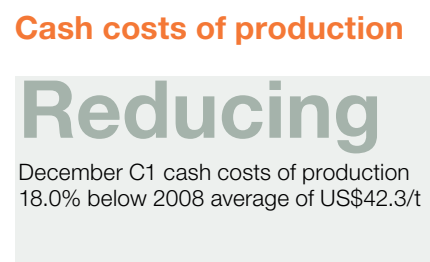
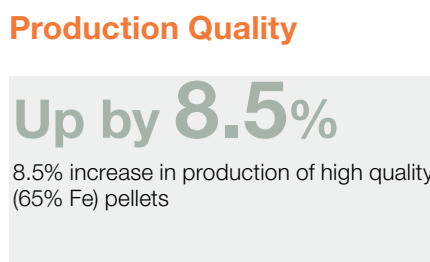
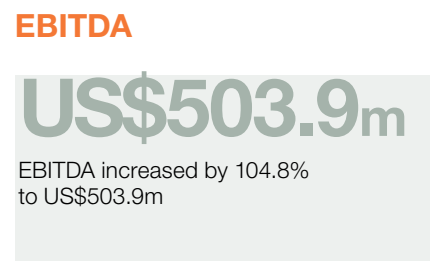
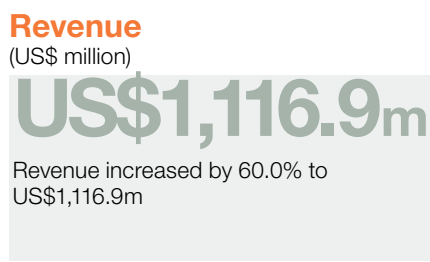
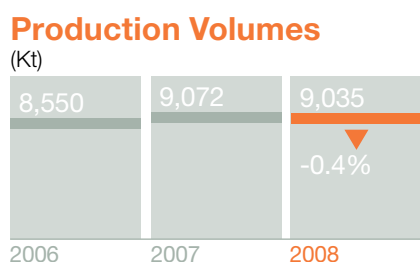
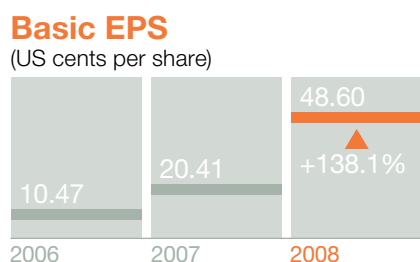
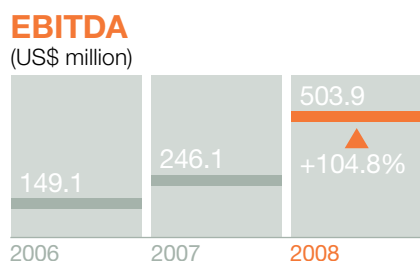
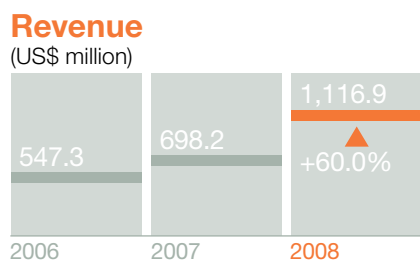
**Cautionary note regarding forward-looking statements**

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

By their nature, forward looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future and may be beyond our ability to control or predict. These factors may include, but are not limited to, general economic and business conditions, industry trends, changes in government and other regulation, changes in political and economic stability, currency fluctuations and other risks, including those described in the Business Review section of this Annual Report. Forward looking statements and past performance are therefore not guarantees of future performance.

The forward looking statements reflect knowledge and information available at the date of preparation of this Annual Report. Except as required by the Listing Rules, Disclosure and Transparency Rules and applicable law, Ferrexpo undertakes no obligation to update or change any forward looking statements to reflect events occurring after the date of this document. Nothing in this Annual Report should be construed as a profit forecast.

# Highlights 2008



# Our business at a glance

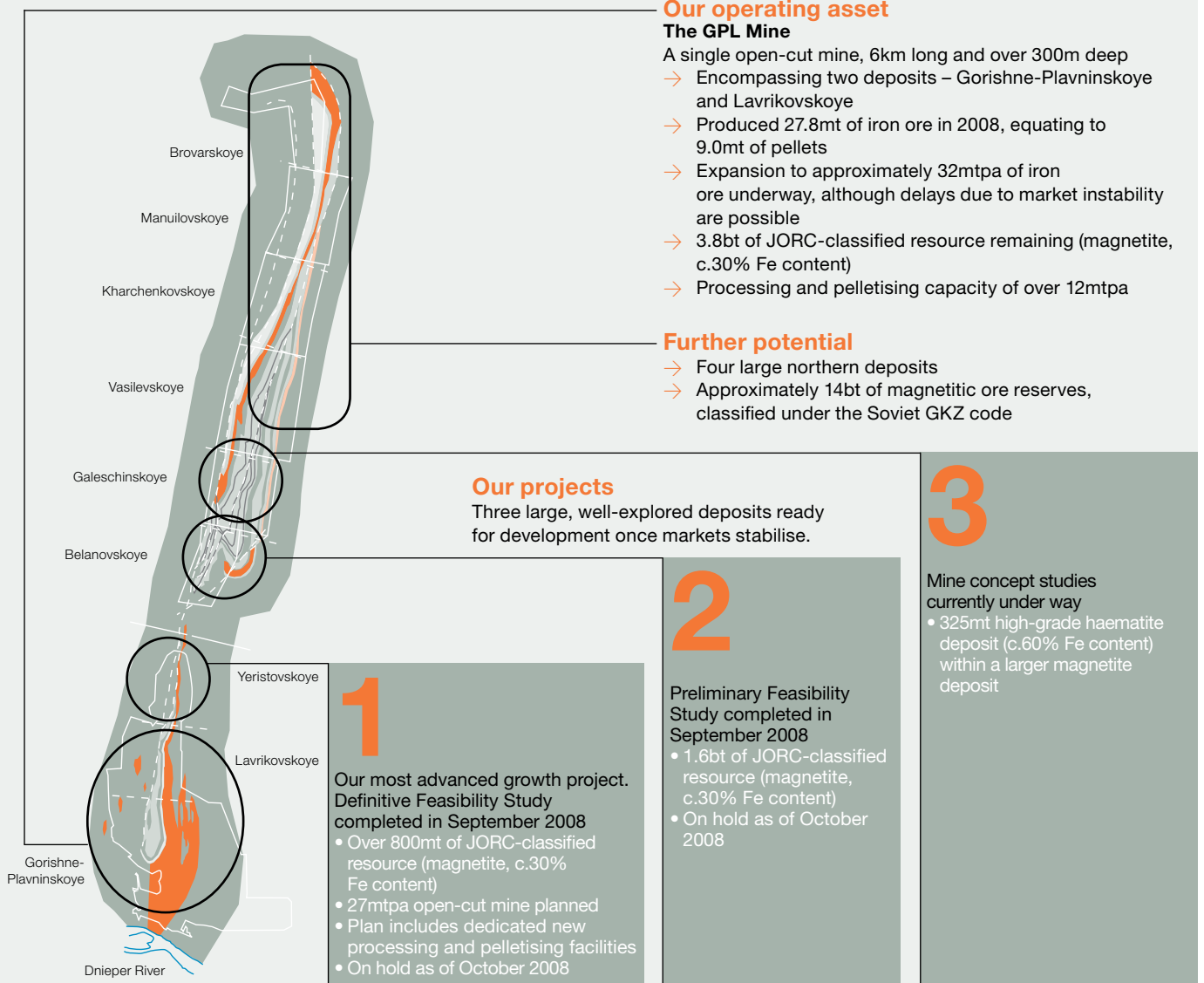
## Our locations

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



## Our operations

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



## Chairman's and Chief Executive Officer's Review



**Ferrexpo had a record year in 2008. Demand for iron ore was exceptionally strong in the first part of the year, resulting in unprecedented international benchmark price settlements in April. By leveraging our proximity to our major customers and the strong relationships we have with them, our marketing arm was able to achieve long-term contract prices for our products in excess of even these record benchmarks.**

Our mining operations also responded well to these high levels of iron ore demand, delivering a strong production performance both in terms of absolute output and in particular the proportion of higher-grade 65% Fe pellets produced. Our Business Improvement Programme achieved further success in reducing unit costs and increasing operational efficiency.

The fundamental elements of our business all outperformed during 2008, a year in which we were able to maintain high levels of production and use our established marketing strategy to good effect. This strong operational performance resulted in a record financial performance which enabled the Group to maintain its dividend and also to return further capital to shareholders via the substantial on-market share buyback conducted in September.

In the fourth quarter of the year, both the iron ore market and global economic conditions began to deteriorate. From the Group's perspective, iron ore demand weakness manifested itself first in the Ukrainian domestic market, followed by suddenly decreased demand in most of our export markets. This challenging operating environment required prompt action to find alternative markets, limit production and reduce overall costs. Having reacted flexibly and taken the appropriate measures, we were able to maintain our profitability through the final months of the year. While November sales were weaker, an outstanding performance by our marketing department and our established status as a reliable supplier enabled us to return to the market quickly and successfully in December. As a result, the Group delivered another strong operational and financial performance in this difficult period and for the year as a whole.

### **2008 Results**

The Group achieved contract price increases of more than 90% on average for the 2008/2009 contract year through strong customer relationships, 'value-in-use' marketing and our ability to provide small-lot 'just-in-time' deliveries. This generated a 72.3% increase for 2008 on the average price achieved in the previous calendar year. These higher prices together with the production of larger quantities of our premium 65% Fe grade pellets enabled us to grow both revenues and profits during 2008, despite weakening global demand in the fourth quarter.

## → Our strategy explained

As a result, revenues for 2008 increased by 60.0% compared to the prior year (2007: US\$698.2 million). Earnings before interest, tax, depreciation and amortisation for the period increased by 104.8% to US\$503.9 million (2007: US\$246.1 million), and pre-tax profit increased by 133.6% to US\$375.6 million (2007: US\$160.8 million).

Actions to scale back our production slightly in the final part of the year followed a 10 month period of record output. Production for the full year reached the same record levels achieved in 2007 but included a higher ratio of high grade 65% Fe pellets (an increase of 8.5% compared to 2007). Our mining operations again performed well, increasing production efficiency even during the period of reduced output in the fourth quarter.

The Group's C1 costs fell sharply to US\$34.7 per tonne in December 2008 compared to US\$42.3 per tonne for the full year. We faced significant cost pressures in the first six months of the year, as a result of high Ukrainian inflation and sharp increases in both cyclically priced and state-controlled inputs. In the fourth quarter this trend was reversed and our C1 costs have since experienced significant downward pressure due primarily to depreciation of the Ukrainian hryvnia, as well as lower oil and steel related costs and continued Business Improvement Programme results. Overall our cost of production ended 2008 at the same level as the end of 2007, providing a strong finish to 2008 and a beneficial starting point for 2009. Distribution costs also rose sharply during 2008, but the rate of increase slowed considerably in the final months of the year.

The Group's full year results exceeded all prior years.

### Marketing and market environment

Ferrexpo enjoys several unique logistical advantages, the most notable of which is our proximity to our key customers. Our operations in central Ukraine are several times closer to our principal European markets than most of our global competitors, and as a result we are in many cases the lowest cost supplier to our customers. The advantage of proximity is enhanced by our location next to a navigable river, established rail links between us and our customers, and our joint venture bulk seaborne port facility on the Black Sea.

1

Conserve cash and protect margins through aggressive cost and capital expenditure reduction, maintaining the cost competitiveness of our existing operations

2

Leverage our marketing platform using our strong customer relationships and beneficial location to maintain sales volumes and increase market share in our Traditional Markets

3

Retain flexibility to react quickly to changes in the iron ore market, to manage production and investment in growth

4

Pursue best practice in our mining operations, financial and risk management, and corporate governance

5

Resume the commercialisation of our extensive undeveloped ore deposits when prudent

In 2008 we continued our strategy of selling the majority of our production on long-term contract to our well-established customer base. The Group remains committed to building strong customer relationships, and we used our reliable and growing pellet supply to support these long-standing customers during the period of high demand. At the same time we continued to develop new global market opportunities. When reduced demand in the fourth quarter affected our Traditional and Natural Markets we were well placed to compensate with sales in seaborne markets where demand was more resilient and Ferrexpo had an established presence and reputation. In addition, by capitalising on our proximity to Traditional and Natural Market customers and our ability to provide them with continuous small lot iron ore deliveries, we are well placed to increase our share of those markets. The Group remains the largest exporter of iron ore pellets from Ukraine.

### Management and people

In late October the Board concluded that along with the rest of the industry, the Group was likely to face a more challenging market environment in the coming months, and as a result it resolved

to hold all strategic initiatives in abeyance in the medium term and refocus the Group's activities on ensuring the continuing strength of its existing operations. As a result of this change in the strategic direction of the Group, Mike Oppenheimer, at the time Chief Executive Officer, and Dennis McShane, then Executive Director Business Development, informed the Board that they believed their roles to have changed from the form envisaged previously, and resigned from the Board and left the Group. We would like to thank them both for their contributions to the Group and we wish them well for the future.

Following these developments, the Board approved Kostyantyn Zhevago to lead the Group, and unanimously appointed him as Chief Executive Officer. His role as Chief Executive Officer of Ferrexpo is now Mr Zhevago's principal activity.

The Group has achieved a great deal in 2008, despite the final months of the year proving to be a particularly challenging period in the industry and globally. We employ almost 9,000 management and staff, and the outstanding results achieved by the Group across its entire business are

## Chairman's and Chief Executive Officer's Review continued

a testament to the positive response to these challenges by every one of them. We and the Board would like to thank all the management and staff of Ferrexpo for their hard work and dedication. Ferrexpo is very conscious of its responsibilities as one of the major employers in Ukraine, and maintaining the employment of our people is a priority. While we will continue to actively manage the size of our workforce over time to maximise productivity, we are proud that we have been able to avoid any forced redundancies during this difficult period in the industry.

### Corporate governance and social responsibility

The Group has high standards of corporate governance, and the Board reaffirms its commitment to these.

The Board's Corporate Safety and Social Responsibility ('CSR') Committee continues to monitor the management of the Group's health, safety, environmental and community programmes in line with best practice for mining companies. CSR remains a priority and we are pursuing further initiatives to institutionalise safety conscious behaviour in particular.

### Growth projects and strategy

Significant progress was made with our growth projects in 2008, which concern primarily the increase of output and product quality from our existing operations and accessing more of the Group's substantial ore reserves at the Yeristovskoye and Belanovskoye deposits. In November the Board suspended capital expenditure on these projects, delaying them until the markets stabilise. These projects remain a priority for the Group, and we aim to resume their development as soon as economic conditions permit.

In the course of the year our discussions moved forward with a selection of potential strategic investors in regard to partnering with the Group in some of these growth projects to provide funding and additional project execution capability. Following the suspension of expansionary capital expenditure in November, this process was suspended but will be resumed when market conditions allow.

In 2009 we will focus primarily on cash conservation. We aim to increase our cost competitiveness through aggressive operating cost reduction, capital management and continuing efficiency improvements, while leveraging our

strategic location and strong customer relationships to maintain sales and production tonnages and to increase market share in our Traditional and Natural Markets. While focus in 2009 will be firmly on our existing operations, the Board and management retain the flexibility to resume investment in our growth projects when the markets recover, and we have now taken all the necessary steps to be able to react swiftly when that time comes. We have demonstrated in 2008 that we have the operational, financial and risk management capabilities required to manage this strategy effectively.

### Dividend

It is the view of the Board that Ferrexpo should pay modest consistent dividends based on continuing profitability and that the business has sufficient operational flexibility to respond to the demands it will face in 2009. The Group has operations which are cash generative and can both support returns to shareholders and form a platform to finance the development of its significant world class undeveloped reserves.

The Board believes it is appropriate to continue with a dividend in line with prior years, reflecting the flexibility of the business both to develop its world class undeveloped reserves in normal times and to slow its investment plans and maintain dividends when there is a more uncertain outlook. The Directors therefore recommend a dividend in respect of profits generated for the Group in 2008 of 3.3 US cents per Ordinary Share for payment on 22 May 2009 to shareholders on the register at the close of business on 17 April 2009. The dividend will be paid in UK pounds sterling with an election to receive US dollars.

### Outlook

The outlook for the iron ore market remains uncertain in the short-term, as the effects of the global economic crisis continue to be felt in 2009. Ferrexpo remained cash flow positive and profitable during the final quarter of 2008, despite weaker demand for iron ore and steel worldwide. Spot prices for iron ore stabilised to some extent in December, as production cuts throughout the world began to take effect and steel companies began to conclude their destocking exercises. The Group has been able to take advantage of this trend, using its strong marketing reputation to offset weaker Traditional and Natural Markets with increased seaborne sales. The Group is exposed to the outlook for





## → Our year in review

iron ore pricing, but because of its specific logistical advantages and customer relationships, the Board believes that it will be able to access the seaborne market to compensate for weakness in its Traditional Markets and continue to trade profitably. Pressure on the Group's margins resulting from decreasing iron ore prices is likely to be partially offset by a decline in production costs throughout the industry, and particularly in Ukraine, given the weakening local currency.

During the course of 2008, volatility in the global economy and changes in the industry's operating environment reduced growth expectations for our business in the near term. In response to these events and at a time of uncertain short-term demand the Board has taken care to ensure that the options to develop our substantial iron ore reserve base and to increase production and product quality at our existing operation are preserved, whilst minimising cash outflow. We expect these actions to underpin the business's sustainable performance and protect shareholder value now and in the longer-term. We remain focused on building our organisation, adding capability in project execution and consolidating our strengths in best practice mining and marketing in preparation for the resumption of growth.

Despite spot prices falling as much as 70% from their peaks earlier in 2008, iron ore was one of the better-performing commodities over the year. We remain of the view that notwithstanding the current instability in world markets, the fundamentals of steel demand remain strong in the medium and long-term, driven by growth from developing and industrialising nations.

Ferrexpo was able to maintain positive margins during the first two months of 2009, despite ongoing weakness in the global iron ore market. The substitution of additional seaborne spot sales for weaker contract volumes in our Traditional Markets enabled the Group to continue to trade profitably during the period, and we are well placed to increase market share in 2009.

**Michael Abrahams CBE DL**  
Chairman

**Kostyantyn Zhevago**  
Chief Executive Officer

### January 2008

Chris Mawe joins the Group as Chief Financial Officer.

### March 2008

The Group announces commitment of a further US\$55m of capital expenditure on equipment for the Yeristovskoye project and a long-term contract with a new Natural market customer.

### April 2008

The Group settles its contract prices for the 2008/2009 contract year at an average increase of over 90%, exceeding the increases to the international Benchmark iron ore pellet price.

### June 2008

JORC resources associated with the GPL mine in the measured, indicated and inferred categories are increased by 127% to 3.4 billion tonnes.

### August 2008

Proved and probable JORC reserves associated with the GPL mine are increased by 95% to 955 million tonnes.

### September 2008

The Group conducts an on-market share buyback, repurchasing 25.3 million of its own shares for US\$77.3 million.



### October 2008

The first signs of serious demand weakness in the Ukrainian steel market lead to deferred deliveries by our single Ukrainian contract customer early in the month.

Deferrals from contract customers in all markets in late October as global steel and iron ore demand continues to fall, and spot market activity in China slows markedly – de-stocking by steel mills globally commences.

RPG Industries SE purchases shares representing 20.8% of the voting rights in Ferrexpo plc from the Group's majority shareholder. RPG Industries SE then purchases shares representing a further 4.2% of the Group's voting rights on the market, leaving it with 25% less two shares.

Following a strategic review by the Group's Board, Mike Oppenheimer and Dennis McShane step down from the Board. Kostyantyn Zhevago is appointed CEO of the Group by a unanimous decision of the Board.

### November 2008

Weak demand from contract customers and the spot market continues. The Group cuts production rapidly in response.

### December 2008

Some resumption in demand is evident, particularly on the spot market, where prices begin to stabilise. Importantly, the Group's production costs decline markedly in December as lower oil and steel prices take effect and the Ukrainian Hryvnia declines in response to high Ukrainian inflation. This provides a lower initial cost base for 2009.

# Board of Directors

and Executive Committee

## The Board



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## The Executive Committee



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## The Board

### 1. Michael Abrahams, CBE DL (71) Non-executive Chairman

Michael Abrahams is chairman of the London Clinic, KCOM Group PLC, the Prudential Staff Pension Scheme and Amteus plc. He was deputy chairman of Prudential plc until May 2000, and has served as chairman and as a director of a number of quoted and unquoted companies.

### 2. Kostyantyn Zhevago (35) Chief Executive Officer

Kostyantyn Zhevago 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, Kostyantyn Zhevago has been a member of the permanent delegation of the Ukrainian Parliament in the Parliamentary Assembly of the European Council and a member of the Ukrainian faction of the Committee for Parliamentary Cooperation between Ukraine and the European Union. He has previously served as chairman of the management board and deputy chairman of the supervisory board of CJSC Commercial Bank Finance and Credit ('Finance and Credit Bank') and as a member of the supervisory board of JSC Ukrnafta. Between 1993 and 1996, he was financial director of Finance and Credit Bank. Kostyantyn Zhevago graduated from the Kyiv State Economic University in 1996, specialising in international economics.

### 3. Christopher Mawe, FCA (47) Chief Financial Officer

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 Chris was finance director of UK Coal plc.

### 4. Oliver Baring (64) Senior Independent Non-executive Director

Oliver Baring has been chairman of Mwana Africa plc since its reverse takeover of African Gold plc in September 2005. 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. Oliver Baring was a partner in Rowe and Pitman before its merger with SG Warburg. Oliver Baring is non-executive chairman of First Africa Holdings Limited, and is a non-executive director of Blackrock World Mining Trust plc, a member of the Advisory Council of Sentient Resources Fund and non-executive chairman of Ridge Mining plc.

**5. Raffaele (Lucio) Genovese (47)**  
Independent Non-executive Director

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

**6. Wolfram Kuoni (42)**

Independent Non-executive Director  
Wolfram Kuoni 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. Wolfram Kuoni graduated with a law degree from the University of Berne, and holds a doctorate in law from the University of Zurich and an MBA from INSEAD in France. He is a member of the Zurich Bar.

**7. Ihor Mitiukov (56)**

Independent Non-executive Director  
Ihor Mitiukov is the managing director and head of country for Ukraine, Morgan Stanley and also an independent director of OJSK Nadra Bank, Ukraine. 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).

**The Executive Committee**

**2. Kostyantyn Zhevago**

Chief Executive Officer  
(See profile under The Board)

**3. Christopher Mawe, FCA**

Chief Financial Officer  
(See profile under The Board)

**8. John Dawe (52)**

Group Manager, Human Resources  
John Dawe joined the Group in February 2007. He previously spent 22 years at BHP Billiton specialising in human resource management in various corporate and mining businesses. He has a Bachelor of Business (Accounting) from Curtin University in Western Australia.

**9. Nikolay Goroshko (49)**

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

**10. Nikolay Kladiiev (36)**

Chief Financial Officer,  
Ferrexpo Poltava Mining  
Nikolay Kladiiev joined FPM in June 2005. Over the course of his career Nikolay Kladiiev has spent several years as an audit manager with Ernst & Young and CFO of a large Russian factory. Nikolay Kladiiev

holds a Masters in International Economic Relations from the Kyiv National University of Economics.

**11. Viktor Lotous (44)**  
Chief Operating Officer,  
Ferrexpo Poltava Mining

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

**12. Simon Wandke (49)**

Group Manager, Marketing and Logistics  
Simon Wandke joined the Group in 2006. He was vice president strategy for the Minerals Group and vice president coal, iron ore and HBI marketing at BHP Billiton until 2001. Between 2002 and 2006, he was a partner of Destra Consulting Group in Melbourne, specialising in Change Management. Simon Wandke is a graduate of the University of Melbourne in Psychology and Marketing, and completed post graduate studies in Corporate Finance at Swinburne University, Australia.

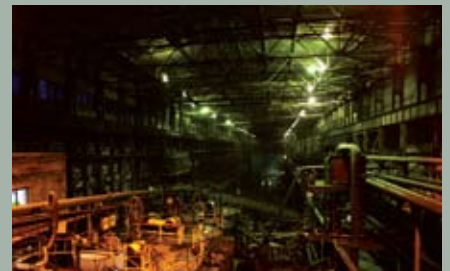
**13. David Webster (57)**

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

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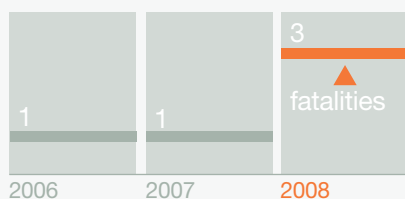
## Key Performance Indicators

The Board and Executive Committee of Ferrexpo monitor the Group's performance over time using a range of key performance indicators ('KPIs'). These KPIs are reported on monthly or quarterly by management and provide a useful measure of the Group's operational, financial and safety performance. They are reported in this Annual Report to enable all stakeholders to assess the Group's results on a clear and consistent basis.



## SAFETY

### Fatalities



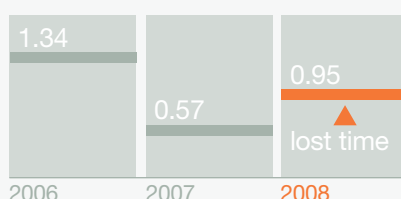
#### Definition

Work-related fatal accidents

#### Target

0 Fatalities

### LTIFR



#### Definition

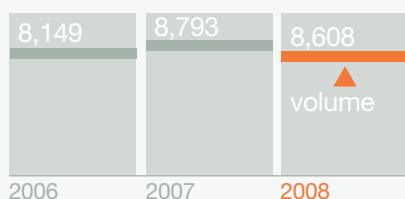
Lost time injury frequency rate<sup>1</sup>

#### Target

Below 0.75

## OPERATIONAL PERFORMANCE

### Pellet production



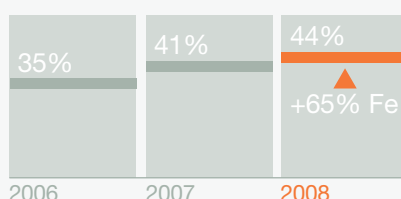
#### Definition

Pellet production from own produced concentrate

#### Target

Increase production

### Production quality



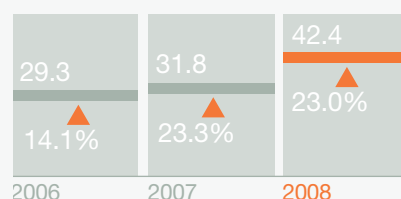
#### Definition

Percentage of 65% Fe pellets produced as a proportion of total production

#### Target

Continual improvement – 100% of pellets to be 65% Fe by 2013

### C1 Costs



#### Definition

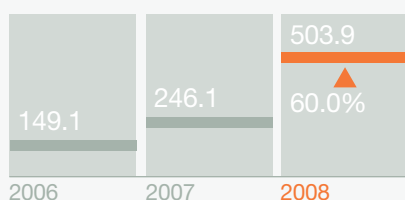
Total cash costs of production ex-works

#### Target

Maintain any increases in C1 costs below rate of Ukrainian PPI<sup>2</sup> inflation

## FINANCIAL PERFORMANCE

### EBITDA



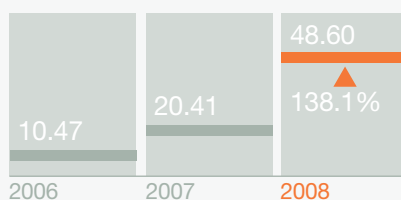
#### Definition

Earnings before interest, tax, depreciation and amortisation<sup>3</sup>

#### Target

Increase EBITDA

### EPS



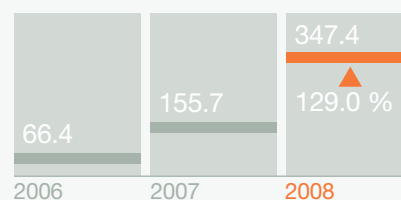
#### Definition

Earnings per share<sup>4</sup>

#### Target

Increase EPS

### Underlying earnings



#### Definition

Underlying earnings is net profit presented after minority interests and excludes adjusted items<sup>5</sup>

#### Target

Increase underlying earnings

<sup>1</sup> Lost Time Injury Frequency Rate: the rate per million hours worked of lost time injuries. Following the increased focus on safety and the review by DuPont, incidents that previously went unreported are now being reported. As a result the 2008 figure is not directly comparable with previous years.

<sup>2</sup> Producer Price Index.

<sup>3</sup> 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. See note 20 to the accounts.

<sup>4</sup> 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.

<sup>5</sup> Adjusted items that relate to the operating performance of the Group include impairment charges and reversals and other exceptional items. Non-operating adjusting items include profits and losses on disposal of investments and businesses, IPO costs, and non-operating foreign exchange gains and losses.

## Overview



The mining operation at FPM is well developed and has produced iron ore on an uninterrupted basis for over 30 years.



### Summary

The Group achieved a record financial performance in 2008 in the face of challenging economic conditions in the latter part of the year. Operational and managerial flexibility allowed us to both outperform our own targets in production, sales and price up to October and then to quickly adapt to the changing circumstances in the iron ore market in the final months of the year.

Operational goals set for the year were achieved, with marked improvements in efficiency and product quality. Production levels ran at record rates through most of the year and were ultimately comparable to 2007 following a decision to reduce production in November and December in response to declining iron ore demand, in order to both preserve cash and optimise unit production costs at a time of uncertainty.

Among the world's smaller iron ore producers, we are very favourably located. The Group's marketing activities in 2008 built on our status as the iron ore supplier of choice for our key Traditional and Growth Markets. We achieved contract price settlements ahead of the record benchmark prices set early in the year and were subsequently also able to react flexibly to reductions in off-take levels in the last two months of the year.

In 2008, 88.0% (by volume) of the Group's iron ore products were exported. Approximately 87.7% of our 2008 sales by volume were made under long-term supply agreements with iron and steel producers. It is our strategy to increase the number and duration of such contracts and build customer relationships and this continued through 2008. The Group's principal export markets are Central and Eastern Europe and China. At the end of 2008, 8.1 million tonnes of iron ore were committed under long-term framework contracts with major customers.

The Group holds the exclusive licences to a world class iron ore resource, uniquely positioned close to our core markets. Our expansion plans were advanced significantly in 2008 with the completion of the Definitive Feasibility Study ('DFS') for the new Yeristovskoye mine and the DFS for the project to upgrade the capacity and quality of product coming from our existing well-established operation. This progress has included the commencement of stripping activities and further capital investment to increase capacity in the

existing mine. Following the hiatus in the iron ore market in late 2008, these projects have been slowed to retain financial flexibility but are being advanced at a low level to preserve their value pending a clearer market outlook for 2009.

Our primary focus in 2009 will be on the Group's existing mining operations. The Group's operating subsidiary, Ferrexpo Poltava Mining ('FPM'), performed strongly in 2008, demonstrating an established trend of continuous improvement in operating efficiency, product quality and production output. These key drivers will remain a focus in 2009 combined with further cost reduction programmes targeting operating costs and optimising capital expenditure. These programmes will be helped by both a lower local currency and more available capacity at our key suppliers. We expect that this, together with significantly reduced energy prices, will help contain cash costs of production in 2009.

### Strategy

The Group holds the licences to a world class iron ore resource and is positioned close to core steel-producing markets. The operations have been producing continuously for several decades. The strategy remains to exploit these reserves whilst maximising the return on the current operations utilising our strategic location, customer relationships and low cost base.

Our long-term plans are to commercialise our extensive undeveloped ore deposits in a prudent and financially responsible manner, whilst ensuring continuous production growth and cost competitiveness in our existing operations. Our priorities are to maintain and improve operational, financial and risk management capabilities within our existing operations and our development projects in order to maintain flexibility throughout the economic cycle.

### Operations

The mining operation at FPM is well developed and has produced iron ore on an uninterrupted basis for over 30 years. The mining and processing operation is situated on a large iron ore deposit located in Ukraine which is substantially under-exploited.

Our principal business is the mining, processing and sale of iron ore in the form of pellets, used in the production of steel. The Group owns and operates an integrated mining and processing facility,



## Case Study →

### Local Procurement

One of the initiatives behind Ferrexpo's recent successes in cost and capital expenditure reduction has been a focus on local procurement. Ukraine is a good source of high quality, low cost industrial supplies and equipment. A good example is the NLMK draglines procured by the Group to undertake the stripping operation for the new Yeristovskoye mine, which were obtained at approximately a third of the price of equivalent machines produced outside the FSU, and with shorter lead times. Two of these draglines have already been assembled and commissioned by the Group. Ferrexpo aims to restate the capital expenditure estimates in its project feasibility studies using local procurement where possible, and move as much of its operating costs into local currency as possible.



# Dragline

Local procurement

## Overview

continued

comprising an open cut iron ore mine, concentrating facility and pelletising plant in the city of Komsomolsk. Our operations are fully integrated from the mining of ore through to the production of pellets. All production is converted into pellets in our own facilities. Third party iron ore concentrate is also converted into pellets to utilise surplus plant capacity where this provides adequate margins.

The FPM operations are located on the Dnieper River in Ukraine in close proximity to our major customers in Central and Eastern Europe. FPM has access to both the Black Sea for ocean borne shipments throughout the world and to extensive rail networks throughout Europe.

To access the large and growing market outside Ukraine, the marketing of iron ore pellets for export is managed by the Group's specialist sales and marketing arm, based in Switzerland with branches in Kiev and Shanghai.

### Operating environment – Ukraine

Ukraine remains a beneficial place to conduct business, despite well-publicised issues such as political instability, the natural gas dispute with Russia and speculation as to the wider effects of the Russia-Georgia war on the region. The Group has operated there continuously through Soviet rule, independence from Russia and the Orange Revolution in 2004. The Ukrainian political sphere tends not to interfere in Ukrainian business, and the workforce is for the most part well educated and cost competitive.

Ukraine is a parliamentary presidential republic and formerly part of the Soviet Union. The ruling coalition government broke up in September and a general election is likely to take place in 2009. It is noteworthy that Ukraine has continued to observe peaceful democratic political processes regardless of government instability. The country intends to join the European Union as soon as it is able to do so. Ukraine was granted a US\$16.4bn International Monetary Fund loan in late 2008 in response to the significant effects of the global financial crisis on its economy. This loan prescribes several conditions which are likely to result in increased fiscal and economic discipline in Ukraine, which is likely to benefit our business. Among others, these conditions include a prohibition on intervening in the market to support the Ukrainian currency, and more transparency around economic policy-setting.

Ukraine's economy is heavily reliant on the steel industry, and as a result the country saw strong growth and high inflation in the first half of 2008, followed by rapid contraction of the local metallurgical sector and the beginnings of a severe economic downturn in the second half. The Ukrainian steel industry is relatively high-cost and export-focused, and Ukraine has thus been more severely affected than many other steel-producing nations by the economic downturn. These developments are likely to have a positive effect on our cost base as Ukraine takes measures to ensure the survival of its mining and metallurgical industry.

The local currency (the hryvnia) was informally pegged to the US dollar at approximately UAH5.05 per US dollar until early 2008. It has since weakened to approximately UAH7.70 per US dollar, as a result of continuing high inflation. The average exchange rate during 2008 was UAH5.29 per US dollar.

The country has seen high inflation in 2008, with the official domestic Producer Price Index ('PPI') increasing by 23.0%, and the Consumer Price Index ('CPI') increasing by 22.3%. The rate of annual increase in inflation peaked in July, and has since begun to moderate.

### Market environment

The demand for iron ore pellets is directly linked to steel demand which is closely correlated to the global economic cycle. As a result the demand for steel initially grew strongly in 2008 and then sharply reduced, bringing world output in line with 2007. In the latter part of 2008 the global banking crisis combined with a wider economic slowdown impacted the construction and automotive industries, reducing steel demand at an unprecedented rate. This overall weakening in demand has had a direct consequential effect on demand for iron ore generally with the impact flowing through to the Group in November. In response the Group and many of our competitors reduced supply significantly in the final months of the year.



Ukraine remains a beneficial place to conduct business. The Group has operated there continuously through Soviet rule, independence from Russia and the Orange Revolution in 2004.



# Operating Review

## Highlights

- Iron ore pellet production from the Group's own ore only slightly lower at 8.6mt
- 8.5% increase in production of high quality (65% Fe) pellets
- Substantial reductions in use of raw materials and energy per unit of output
- Dewatering, infrastructure and power established at Yeristovskoye deposit
- Two draglines delivered and assembled

The Group's operations continued to focus on the improvement of product quality and operating efficiency in 2008. Record production was achieved for most of the year and following demand reductions in November and December the operations responded quickly, reducing unit costs and temporarily reducing production whilst pushing up pellet quality.

The managed reduction in output resulted in a slight decline in total pellet production of 0.4% for the full year after a record 10 month period to October.

As a result the mine produced 27.8mt of iron ore in 2008, 4.0% less than in the previous year. Selective mining techniques increased the proportion of rich (K22) ore mined by 3.0%. This increase in the overall quality of the ore increased the operational efficiency of the concentrating plant, thereby improving pellet quality as measured by the proportion of higher grade pellets produced.

As a result of the above actions, for the fifth year in a row we were able to substantially increase our production of higher quality 65% Fe pellets. Production of 65% Fe pellets from own ore increased by 8.5%

to 4.0mt, and now constitutes 44% of FPM's total production (42% in 2007), consistent with our commitment to quality enhancement and our 'value in use' marketing strategy.

427.6kt of pellets were produced from purchased ore and concentrate in 2008 to fill our surplus pelletising capacity. This occurred in the first nine months of the year when this generated sufficient margin but was scaled down due to the slowdown in demand and the consequent switch to the sale of the much higher margin pellets produced from our own ore.

## Business Improvement Programme ('BIP')

Following a three year period of skills transfer by GPR Dehler the managers and employees of FPM are now leading the successful BIP forward. We have completed a wide range of BIP workshops, building on the culture of continuous improvement. We have continued to see positive results from the BIP, which continues to be a priority for management in respect of both short and long-term objectives and KPIs. FPM continues to move towards global best practice across its operations.

## Production – operating statistics

('000t unless otherwise stated)		2008	2007	Change	
				+/-	%
Iron ore mined		<b>27,763</b>	28,934	(1,171)	(4.1)
Fe content	%	<b>30.2</b>	29.9	0.3	1.0
Iron ore processed		<b>27,582</b>	29,024	(1,442)	(5.0)
Concentrate produced ('WMS')		<b>10,459</b>	10,651	(192)	(1.8)
Fe content	%	<b>63.4</b>	63.5	(0.2)	(0.2)
Floated concentrate		<b>6,167</b>	5,620	547	9.7
Higher grade		<b>4,375</b>	4,032	343	8.5
Fe content	%	<b>67.1</b>	67.3	(0.2)	(0.3)
Purchased concentrate		<b>386</b>	266	110	45.0
Fe content	%	<b>65.2</b>	64.1	1.1	1.7
Purchased iron ore		<b>276</b>	172	104	60.6
Pellets produced from own ore		<b>8,608</b>	8,793	(185)	(2.1)
Higher grade		<b>4,014</b>	3,701	313	8.5
Fe content	%	<b>65.0</b>	65.1	(0.1)	(0.2)
Lower grade		<b>4,594</b>	5,092	(498)	(9.8)
Fe content	%	<b>62.2</b>	62.2	0.0	0.0
Pellets produced from purchased concentrate and ore		<b>427</b>	279	148	53.1
Lower grade		<b>427</b>	279	148	53.1
Fe content	%	<b>62.2</b>	62.2	0.0	0.0
Total pellet production		<b>9,035</b>	9,072	(37)	(0.4)
Pellet sales volume		<b>8,711</b>	9,261	(550)	(5.9)
Gravel output		<b>2,751</b>	3,162	(411)	(13.0)
Stripping volume	'000m <sup>3</sup>	<b>20,573</b>	18,664	1,909	10.2

## Operating Review continued



### Operating costs

Operating costs continued to benefit from efficiency gains in the production process and from reducing oil and steel prices along with local currency devaluation late in the year.

BIP-related and other efficiency gains enabled us to reduce the rates of consumption of energy and raw materials in 2008. Consumption per tonne of pellets produced from own ore for electricity, natural gas and diesel all improved by between 1% and 3%. Efficiency programmes also resulted in a reduction of the average number of employees at FPM by 10% in 2008, although as a result of management actions no forced redundancies were necessary during the year. Overall, 8,243 people were employed by FPM as of 31 December 2008.

Further detail on the Group's employment costs is available in note 41 to the accounts.

### Growth projects

As previously outlined, the Group has three major growth projects:

- The expansion of the current GPL open pit mine
- The GPL concentrator plant upgrade
- The new Yeristovskoye mine, processing plant and pelletising facility

We also have planned developments at the Belanovskoye and Galeshchina deposits which are less advanced.

Significant work has been completed in 2008 to allow access to the substantial undeveloped resources located adjacent to the existing operations. The DFS was completed for the Yeristovskoye project in September and initial low level stripping operations commenced in December along with the establishment of a small project team, and a legal and managerial infrastructure. The scope of the initial pre-stripping operation has been scaled down at the current time pending further reviews in 2009; however operational expenditure and small future commitments are being made at a limited level to enable the value of the project to be maintained and to minimise delays to the original development schedule.

The capital expenditure for these projects was estimated at the peak of the commodity cycle and consequently we believe that DFS capital costs will be significantly reduced when final

commitments to these projects are made. We intend to recommence our growth projects as soon as circumstances allow, and we expect full value to be realised for the expenditure to date.

DTP Terrassement S.A. (France) ('DTP') and the project management alliance with Worley Parsons Europe Limited ('WP') are being maintained at a low level of activity in order to retain growth options. We are also supporting a minimal corporate subsidiary presence in Ukraine for DTP and WP as a base from which to rebuild project momentum should the outlook improve during 2009.

Activity continues at the pushback of the current GPL open pit. This project was on schedule and within budget prior to it being scaled back in October and remains a priority once markets stabilise. The expansion enables us to take advantage of currently under-utilised processing capacity. It will increase production of 65% Fe pellets by approximately 15%. Of the original US\$158 million of capital expenditure committed to this project in 2007, US\$58 million remains to be invested, primarily on stripping works.

The DFS for the GPL concentrator plant upgrade was also completed in September. This project will enable all the Group's mined ore to be processed into 65% Fe pellets and will potentially allow the production of Direct Reduction ('DR') grade (68% Fe) pellets. 65% Fe pellets enjoy more robust demand, and DR pellets would constitute a new premium product for Ferrexpo which we could sell into world markets and in particular the Middle East, a growth market which can be easily supplied.

A Preliminary Feasibility Assessment for the Belanovskoye mine was completed in September, and work also continued on development options for Galeshchina, the next deposit to the north of Belanovskoye. The Yeristovskoye and Belanovskoye growth projects both remain a priority for the Group, as they continue to represent an attractive option for the expansion of the Group's existing business as they will enable access to our extensive uncommercialised resources. Because these developments will take place on the same ore body currently being exploited by the Group and their situation adjacent to our existing logistics infrastructure, these investments represent low risk additions of new iron ore capacity compared to many



of the iron ore projects that have been announced worldwide.

### Strategic Investor Programme

During 2008 we identified several potential strategic investors. This was done in order to share the risk of our development projects, which are substantial for a company of Ferrexpo's size, by providing some of the additional funding and execution capability required to progress our growth plans on an aggressive timetable. This reached an advanced stage but was placed on hold following severe falls in the valuations ascribed to commodity based companies in late 2008.

All of the potential Strategic Investors on the shortlist have reiterated their willingness to continue to participate in the process once market conditions improve.

### Marketing

#### Marketing performance in 2008

In 2008, 88.0% of our output by volume was exported (2007: 81.0%) The share of pellet sales to Ukrainian customers decreased from 19.0% in 2007 to 12.0% in 2008, primarily as a result of the collapse of the Ukrainian steel industry and the consequent drop in local demand for iron ore from late 2008. We increased export sales in response to this by actively selling into the spot market in Asia and increasing shipments to long-term export customers. Domestic Ukrainian sales are made on an ex-works basis while export sales are usually made on a Delivered at Frontier ('DAF') or Free on Board ('FOB') basis. Of the total exported by the Group in 2008 by value, 17.9% was sold into China, with

the remainder sold into Central and Western Europe and Turkey. An analysis of sales by market is contained in note 6 to the accounts.

The following table shows our principal export markets for iron ore pellets for the years ended 31 December 2008 and 2007 (by volume):

('000t)	2008	2007
Traditional Markets	<b>5,780.8</b>	5,900.7
Natural Markets	<b>323.2</b>	187.9
Growth Markets	<b>1,558.4</b>	1,576.0
<b>Total</b>	<b>7,662.4</b>	7,664.6

Approximately 87.7% of our 2008 sales by volume were made pursuant to long-term supply contracts, a lower level of contract sales to that seen in 2007 due to increased spot selling in the fourth quarter in response to deferrals from contract customers. We commenced our first long-term contract with a Turkish steel mill in 2008, and have continued to supply our major customers in Eastern and Central Europe and China, building on our track record of solid customer relationships.

We announced in late October that we had received requests to defer deliveries from several of our contract customers from the fourth quarter of 2008 to the first quarter of 2009, as a result of rapidly falling demand for steel. These deferrals came from customers in all of our market segments, and particularly in Ukraine, Traditional Markets and Growth Markets (see definitions below), and resulted in lower overall full year 2008 sales.

As a result, we sold some iron ore pellets in Q4 on shorter-term contracts consistent with the terms of trade in these markets, or on the spot market. In the fourth quarter we therefore increased spot sales to mitigate the effect of the deferrals from contract customers, although these sales were made at lower prices than those under contract. We expect that the proportion of sales that will be made under long-term contracts in 2009 may be lower than in 2008, as a result of weaker steel demand in the first quarter. We nevertheless remain committed to the strategy of maintaining a high level of the Group's sales under long-term contract.

We are well positioned to increase market share in 2009 particularly with our contract customers in our Traditional Markets, as a result of our proximity to these customers. Our ability to provide small-packet 'just-in-time' deliveries to these customers is an attractive quality to those companies that are engaged in careful inventory management. Ferrexpo will continue to sell aggressively into these markets and as a small supplier aims to maintain output by improving market share in these key regions.

We will also continue to focus on achieving higher prices through enhanced pellet quality and a better understanding of our customers' requirements of our products. This is necessary in order to capture the maximum price relative to our competitors' delivered cost to the customer on a 'value to the customer' basis.

### Ferrexpo plc – Reserves and Resources

The following table sets out the Group's JORC-classified reserves and resources:

	Reserves		Resources (incl. Reserves)			
	Proved and probable		Measured and indicated		Inferred	
	Million tonnes	Fe grade (%)	Million tonnes	Fe grade (%)	Million tonnes	Fe grade (%)
Gorishne-Plavninskoye	798	29	1,443	30	1,275	31
Lavrikovskoye	157	32	812	30	174	29
<b>Total (Producing Assets)</b>	<b>955</b>	<b>30</b>	<b>2,255</b>	<b>30</b>	<b>1,449</b>	<b>31</b>
Yeristovskoye	632	34	765	27	96	17
Belanovskoye			1,627	31	37	30
Galeschinskoye			325	59	29	59
<b>Total (Projects)</b>	<b>632</b>	<b>34</b>	<b>2,717</b>	<b>33</b>	<b>162</b>	<b>27</b>
<b>Total (All Assets)</b>	<b>1,587</b>	<b>32</b>	<b>4,972</b>	<b>32</b>	<b>1,611</b>	<b>30</b>

It should be noted that this table lists only JORC-classified reserves and resources. The Group also holds the licences to further deposits containing approximately 14 billion tonnes of additional iron ore resources classified according to the Soviet GKZ Code.

## Operating Review continued



### Traditional Markets

Our 'Traditional Markets' are those markets that we have supplied historically, and in which we enjoy a competitive advantage based on our location. These include Austria, Ukraine, Poland, Slovakia, Romania, Bulgaria and Russia. The former CIS countries within the Traditional Markets have been particularly affected by the adverse conditions in global commodities markets, with Ukraine the worst affected, given its steel export focus and relatively high steel production costs. We believe that continued growth in per capita steel consumption in many of these markets is likely to resume once stability returns to the global economy, as most of them are effectively re-industrialising. Total sales to Traditional Markets in 2008 were 5,780.8kt, a decrease of 2.0% compared to 2007.

### Natural Markets

'Natural Markets' are relatively new markets for us in regions where we believe we have a competitive advantage which is yet to be exploited. This segment includes Western Europe, Turkey and the Middle East. Turkey has plans to significantly increase its steel making capacity, and FPM's proximity across the Black Sea affords a significant mutual advantage to both the Group and iron ore buyers in Turkey. We agreed our first long-term supply contract with a steel mill in Turkey in 2008, and this segment represents a major target for future sales growth. We are building commercial and technical relationships in the Middle East as a base for our future planned sales as we continue to improve product quality.

### Growth Markets

'Growth Markets' are those which offer to add new and significant tonnage expansion potential to our customer portfolio. Currently China is the major target, where five long-term contracts are in place providing a solid base for future sales growth. We have a shorter shipping distance to these markets than competitor iron ores from Brazil. The region also provides the primary source of demand for spot market business, which began to see activity again in December 2008 following a period of de-stocking by Chinese steel mills.

### Logistics

In 2008, we made significant progress in expanding our delivery chain logistics

capability in order to meet current and future growing customer demands. This is a critical contributor to our long-term market shares and margins. Our 49.9%-owned dry bulk minerals Panamax terminal on the Black Sea (the 'TIS-Ruda Terminal-Yuzhny') is functioning well, and has proven an asset critical to our efforts to increase seaborne sales in the face of Traditional Market demand weakness. We will also continue our programme of railcar purchases once development capital expenditure is resumed.

Our logistics strategy is to manage as much of the delivery chain to our customers as possible in order to ensure on-time supply of the contracted quality of product at the lowest cost. The total scope of our delivery logistics chain includes rail, trans-shipment (loading and unloading), barge and ocean vessels. We expect that little material capital will be expended in this area until general economic conditions improve.

### Pricing

We achieved an average DAF/FOB price for the pellets we sold in 2008 of US\$124.6 per tonne, an increase of 72% over the average achieved price for 2007 (US\$72.3 per tonne). Most of our export sales are based on annually negotiated prices contained in supplements to our long-term supply contracts. A proportion of sales tonnage is linked to the international seaborne traded iron ore benchmark price ('Benchmark Price') movement agreed between the major iron ore producers and specific Western European or Asian steel producers for a given year. In 2008 we realised a premium to the Benchmark Price, after adjustments for the impact of freight, quality, proximity and logistics. The Benchmark Price settlement in April 2008 reflected an 86.7% increase on the prices for iron ore pellets in the previous year. Variations in our achieved price stem from price variations of pellets sold into different geographical segments, as well as the mix between our 62% Fe pellets and our 65% Fe pellets (which attract a premium). In the fourth quarter of 2008, in order to maintain production and margins, we made a higher proportion of spot market sales than previously planned. These sales were at prices below the contract price level, which also affected the 2008 average achieved price.



### Pellet premium

The iron ore pellet premium is the price paid by purchasers to producers of iron ore pellets such as the Group in excess of the price of iron ore sinter fines, to reflect the fact that pellets have undergone some processing. The Group's pellets are therefore an intermediate product between raw ore and iron, providing productivity gains in blast furnaces. Our pellets require less coke in the steelmaking production process, beneficial when this is in tight supply or relatively highly priced. The pellet premium also reflects other benefits of using pellets, most notably their advantages for transporting and increased environmental concerns with sinter production, particularly for blast furnace operators in the European Union.

The iron ore pellet premium reached a record high in Europe of US\$0.86 per dry metric tonne unit (dmtu) following the price settlements in April 2008. We expect the premium for our pellets to decline in 2009, as pellets tend to trade at a very significant premium to iron ore fines only when the industry is in a state of undersupply as was the case in the first part of 2008. The efficiency gained through the use of pellets becomes less of a factor when blast furnaces are not running at full capacity, as is the case currently. Nonetheless, any decline in the pellet premium is likely to be moderated by the transport and environmental benefits of using our pellets.

### 2009 Marketing strategy

Demand in 2009 will depend on the continued growth of steel output in China, the resumption of steel production in Ukraine, and the end to the de-stocking of iron ore inventories by steel mills and a return of global steel output to sustainable levels. We remain well placed to continue to produce close to capacity and to supply our key customers because of our proximity to them. We have made significant progress already in increasing our market share to these customers.

Economic conditions are also likely to result in decreased costs in the industry, as inflationary pressures ease. This will be a partial reversal of the changes to the cost structure of the iron ore industry witnessed over the past five years as a result of declining availability of direct-charge lump ore and the fact that incremental iron ore can only be supplied by increasingly

distant and relatively lower-quality ore bodies. The cost of the marginal tonne is therefore expected to fall in 2009, providing some relief to the industry. In keeping with this trend, the Group's cash costs in December were 18.0% lower than the average for the year.

In contrast to past economic slowdowns and mining industry contractions, the supply response to the current crisis has been swift and decisive. This bodes well for an equally swift recovery, as it avoids the build up of inventories which have historically prevented the recovery of commodity prices once growth conditions resume. In the final quarter of 2008, steel producers reduced the amount of iron ore that they purchased in an effort to de-stock their inventories. Once this process is complete, reduced supply and low inventories should give support to stronger iron ore prices.

Our sales strategy in 2009 will differ from that in 2008, as we react to deal with the downturn in the global economy. We will maintain our strong customer relationships and, where possible, use them to increase our market share position in our Traditional and Natural Markets to capitalise on smaller lot deliveries to customers. We believe that, for customers throughout Central Europe, our products represent an attractive alternative to those of major seaborne suppliers due to the lower costs of transporting pellets over a shorter distance from Ukraine, together with an ability to provide many customers with a continuous small-parcel delivery chain. We will also seek to maximise sales volumes where possible by taking advantage of potential opportunities for seaborne spot sales.

### Corporate social responsibility

In 2008, we set out to entrench a behavioural safety culture at FPM. Notwithstanding three tragic deaths during the year, considerable progress has been made in this regard. Our goal in 2009 is to continue to strive for improvements across all areas of CSR and especially safety. We continue to work with DuPont Safety Resources to achieve these priority objectives.

The Group's CSR Review can be found on page 26 of this Annual Report.

# Financial Review

## Highlights

- Revenue up by 60.0% to US\$1,116.9 million
- EBITDA up by 104.8% to US\$503.9 million
- Underlying earnings<sup>1</sup> up by 129.0% to US\$347.4 million
- December C1 cash costs of production US\$34.7/t – 18.0% below 2008 average of US\$42.3/t
- Free cash flow of US\$300.3 million
- US\$87.8 million of cash available at year end
- Dividend of 3.3 US cents per share

### Revenues

The Group's revenue for 2008 increased by US\$418.7 million to US\$1,116.9 million, reflecting growth of 60.0% compared with 2007. This strong performance was due to increased production of 65% pellets (up 241kt) and better average pellet prices which rose by 72.3% to US\$124.6 per tonne on a DAF/FOB basis compared with US\$72.3 per tonne in 2007. Sales demand reduced in the fourth quarter of 2008 and sales volumes for the year were 8,711kt (2007: 9,261kt). The proportion of sales of our higher priced 65% Fe pellets increased to 44.6% for 2008 from 40.7% in 2007.

### Costs and margins

C1 cost per tonne of pellets produced is the principal measure of operating performance of the business. C1 cost is defined as the cash production cost from own ore divided by the total volume of production. The majority of our C1 costs are incurred in Ukrainian hryvnia. C1 costs are expressed in dollars using the weighted average exchange rate which applied in the year. In 2008 we achieved an average C1 cash cost of production from own ore of US\$42.34 per tonne compared with US\$31.79 per tonne in 2007.

During 2008, C1 costs increased for the first 10 months of the year, principally as a result of domestic inflation, rising oil costs and increasing commodity prices, particularly steel which is used in grinding media. In the later part of the year, costs fell significantly as lower oil and commodity prices fed through from our suppliers from September onwards.

The Ukrainian hryvnia depreciated during 2008 from 5.05 to the US dollar at the beginning of 2008 to 7.70 at the year end. The majority of this decrease occurred in November and December 2008. As a result our C1 costs of production fell significantly in December to US\$34.7 per tonne from the peak of US\$51.0 per tonne reached in October 2008.

### Selling and Distribution and Administration Costs

Selling and Distribution costs represent principally the cost of freight in bringing the goods to the domestic Ukraine border. For certain sales, the Group incurs additional costs to bring the product to the customer. Selling and Distribution costs increased in 2008 on broadly flat volumes as a result of an increased proportion of sales made on CFR terms and increases in domestic freight tariffs, principally rail tariffs in

Ukraine. Rail tariffs increased by 76% during 2008 in local currency terms and by 16% in US dollar terms.

General and Administration costs include one off charges as a result of the IPO in 2007 and reorganisation costs incurred in the later part of 2008. Excluding these one off items, these costs now reflect the new sustainable level post the Initial Public Offering.

### Other income and expenses

Additional provisions for uncollectable debts or slow moving receivables have been made at the end of 2008, principally from customers in the CIS resulting from the downturn in the steel market increasing costs in this area.

### Currency translation

The functional currency of FPM is the Ukrainian hryvnia. It is required that the gains and losses on foreign currency denominated operating assets that result from exchange rate movements are recorded as a separate item in the profit and loss account. As a result of the weakening hryvnia FPM made gains of US\$29.3 million on foreign currency denominated net assets.

FPM has incurred foreign currency denominated financial liabilities to finance its expansion. The assets acquired are valued in local currency at historical costs and have not been revalued as a result of the weakening currency. The associated revaluation of financial liabilities at the year end resulted in pre-tax losses of US\$72.8 million.

### Write offs and impairment losses

Investments by the Group in ATOL, an oil and gas exploration company, and Stahanov, a rail car manufacturer have been reflected in the books at current market value at 31 December 2008. Due to the low level of the markets generally and the low values currently attaching to oil and gas companies in Ukraine, this resulted in combined impairments on these assets of US\$27.3 million.

### Negative goodwill

During November and December 2008 FPM exercised its call option to repurchase 6.2% of its issued share capital at a cost of US\$11.0 million from DCM Decometal International Trading GmbH ('DCM'). This resulted in an increase in the Group's ownership of FPM from 90.9% to 97.1%. As a result the value of the net assets



previously owned by minorities was credited to the profit and loss account of the Group in accordance with IFRS and resulted in US\$35.0 million of negative goodwill.

### Finance costs and borrowings

Net finance costs reflect lower average debt during 2008 and lower average LIBOR rates which attach to the majority of the Group's borrowing facilities. In October, the Group drew down all but US\$5.0 million of its available financing in order to ensure availability of funding. This resulted in gross indebtedness of US\$307.9 million, leaving the Group holding US\$87.8 million in cash and on deposit as at the year end. Under the terms of the Group's principal loan facility (a US\$335 million pre-export finance facility), it is required to repay US\$6.1 million per month in 2009. At the 2009 year end this facility will have partly amortised and it will continue to amortise through to December 2010 when it expires.

In line with its treasury policy, the Group currently places up to a maximum of 50% of its surplus cash on deposit within Ukraine in US dollars depending on market conditions.

### Taxation

The Group generates taxable income mainly in Switzerland and Ukraine. The tax charge to profits in the year was 16.6%, the same level as in 2007. Full details of the deferred tax movements are contained in note 18 to the accounts.

### Earnings

As a result of the strong operational performance described above, underlying earnings increased by 129.0% to US\$347.4 million (2007: US\$151.7 million). Along with the lower number of shares in issue following the share buyback, this improved EPS significantly. Fully diluted EPS rose to 48.46 US cents per share in 2008 (2007: 20.33 US cents per share). Fully diluted underlying EPS was similarly higher at 57.58 US cents per share in 2008 (2007: 24.86 US cents per share).

### Share repurchase

In September 2008, the Company repurchased 25.3 million 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. These shares are held in treasury.

### Balance sheet and cash flow

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

The strong operating results increased EBITDA by 104.8% to US\$503.9 million, reflecting an increase in EBITDA margin to 45.1% in 2008 from 35.2% in 2007.

Net cash flow from operating activities amounted to US\$370.9 million in 2008 (2007: US\$188.8m). Net Financial Indebtedness has increased to US\$220.1 million at 31 December 2008 from the low levels of indebtedness in 2007 (31 December 2007: US\$117.9 million). Operating cash flow was invested in new mining equipment for the existing operations amounting to US\$70.6 million, and in the Yeristovskoye development project and stripping operations for the GPL mine which together amounted to US\$205.8 million.

The Group's share buyback referred to above, together with distributions to shareholders of the Group, the payment of US\$11.0 million for the repurchase of FPM shares from DCM and distributions to FPM minorities of US\$1.2 million amounted to \$126.3 million in total.

At the year end the Group held cash balances of US\$87.8 million and had undrawn credit facilities of US\$5.0 million.

The Group entered into related party transactions of a non revenue nature in the year and these are discussed in note 38 to the accounts.

### Key relationships and significant contracts

The Group has several key relationships and significant contracts which are critical to its business. These include, but are not limited to, the Group's relationships with its majority shareholder, customers, lenders and employees.

### Majority shareholder

The majority shareholder of the Group is Fevamotinicco S.a.r.l. ('Fevamotinicco'), a company owned by The Minco Trust, one of the beneficiaries of which is Kostyantyn Zhevago, the Group's Chief Executive Officer. At the time that this report was published, Fevamotinicco held 51.0% of Ferrexpo plc's issued share capital. Ferrexpo plc entered into a Relationship Agreement with Fevamotinicco, The Minco Trust and Mr Zhevago in June 2007.

Further detail and material terms relating to the Relationship Agreement are available in the Group's Listing Prospectus dated 15 June 2007.

### Principal customers

The Group sells approximately 50% of its production on the basis of long-term supply contracts to its two largest customers, Voestalpine AG ('Voestalpine') in Austria and the Slovakian and Serbian operations of United States Steel Corporation ('USS'). The long-term supply contract with Voestalpine expires on 31 March 2015, while it has been agreed with USS to extend that contract to 31 March 2013.

US\$ millions	Year ended 31.12.08	Year ended 31.12.07
EBITDA	<b>503.9</b>	246.1
Working capital movements	<b>(33.8)</b>	(1.8)
Net financial payments	<b>(15.4)</b>	(24.0)
Income tax paid	<b>(67.2)</b>	(32.0)
Movement in provisions and other non-cash items	<b>(16.6)</b>	0.5
Net cash flow from operating activities	<b>370.9</b>	188.8
Sustaining capital expenditure	<b>(70.6)</b>	(49.8)
Free cash flow	<b>300.3</b>	139.0
(Paid for)/received from: expansionary projects	<b>(205.8)</b>	(54.6)
Purchase of available for sale investments	<b>(0.3)</b>	(12.1)
Loans to associates	<b>(4.0)</b>	(5.0)
Distributions including to minorities and share repurchases	<b>(126.3)</b>	(69.8)
Net IPO proceeds	-	153.4
Other receipts	<b>2.5</b>	10.2
Currency Translation Differences	<b>(68.9)</b>	(0.5)
Movement in Debt	<b>(102.5)</b>	160.6

# Financial Review continued

## Lenders

The Group has entered into several loan agreements, but the facility that is critical to the Group's business is the US\$335m pre-export financing facility entered into by the Group on 27 December 2006 as amended on 5 July 2007 with ABN AMRO Bank N.V., BNP Paribas (Suisse) S.A. and Société Générale as arrangers, BNP Paribas (Suisse) S.A. as agent and security trustee and certain other financial institutions as lenders. Further details of this facility can be found in note 32 to the accounts, and in the Group's Listing Prospectus.

## Employees

The employees critical to the business of the Group are the members of the Group's Executive Committee, details of whom can be found on page 9 of this Annual Report.

## Risks to our business

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

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

## Risks relating to the Group's operations

### Iron ore prices and market

The Group's business is dependent on the market price of iron ore. Sale prices and volumes in the worldwide iron ore market depend predominantly on the prevailing and expected level of demand for iron ore, mainly from steel manufacturers, and the world steel industry is cyclical. In the current economic environment, there is uncertainty regarding the iron ore price in both the short and long-term.

## Mining risks and hazards

The Group's operations are subject to risks and hazards, including industrial accidents, equipment failure, unusual or unexpected geological conditions, environmental hazards, labour disputes, changes in the regulatory environment, extreme weather conditions (especially in winter) and other natural phenomena. Hazards associated with open-pit mining include accidents involving the operation of open-pit mining and rock transportation equipment and the preparation and ignition of large scale open-pit blasting operations, collapses of the open pit wall and flooding of the open pit. In 2008 the Group had three fatalities, compared with one in 2007 and one in 2006. While the Group is dedicated to the zero harm objective, there is no guarantee, given the nature of mining operations, that other fatalities will not occur in the future. The Group may experience material mine or plant shutdowns or periods of reduced production as a result of any of the above factors, and any such events could negatively affect the Group's results of operations.

## Costs and reliance on State monopolies

Changes in costs of the Group's mining and processing operations could occur as a result of unforeseen events and consequently result in changes in profitability or the feasibility and cost expectations in mining existing reserves. Many of these changes may be beyond the Group's control, such as those input costs controlled by Ukrainian state regulation, including railway tariffs, energy costs and royalties. In particular, the Group currently relies substantially on the rail freight network operated by Ukrzaliznytsya, the Ukrainian State-owned southern railway authority, for transportation of its raw materials and finished products. Railway tariffs for freight increase periodically, and there can be no assurance that additional increases will not occur in the future.

Ukraine and Russia entered into a dispute relating to natural gas in January 2009. The issues in dispute included the price to be paid by Ukraine for the use of Russian gas and the distribution of Russian gas across Ukraine to Western Europe. The dispute resulted in a two-week period in which the gas supply to Ukraine and Western Europe was disrupted. The dispute was settled on 20 January 2009, and resulted in Ukraine being required to pay significantly more for natural gas than was the case previously.



There can be no assurance that this dispute will not recur. As a result, increased gas prices will affect the Group's costs and, if gas supplies are disrupted in future for any substantial period of time, this may have a detrimental effect on the Group's ability to conduct its operations.

In general, the Ukrainian government has in 2008 shown itself to be willing to raise the prices charged by its State monopolies above the level of inflation, although this has been addressed to a certain extent in the fourth quarter. Together with high levels of inflation in the Ukrainian economy, these factors could have an impact on the Group's costs in the future.

#### **Logistics**

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

#### **Licences**

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

#### **Risks relating to finance**

##### **Exchange rate risk**

The Group receives the majority of its income in US dollars. A large proportion of the Group's costs are denominated in Ukrainian hryvnia. The variation in the exchange rate between the US dollar and the Ukrainian hryvnia can affect the profitability of the Group.

##### **Refinancing risk**

The Group's principal debt facility 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.

##### **Counterparty risk**

In the current economic climate, there is an increased likelihood of unrecoverable debts and customer and supplier credit constraints and insolvency. Financial instability on the part of the Group's counterparties could adversely affect its business.

##### **Risks relating to the Group's strategy Delays to major growth projects**

The Group has placed its major growth projects on hold. This will delay any substantial future increase in production by at least 12 months, and may cause the Group to lose potential future revenues once iron ore markets recover.

##### **Expansion capital expenditure**

Although not a risk in the short-term, the Group is planning major expansion projects once the iron ore market and global economy stabilises, which will require the investment of significant capital. The Group has established procedures to control, monitor and manage this expenditure, and has appointed a Chief Projects Officer. Monthly asset reviews occur on site, and investment risks are periodically reviewed by the Board. Notwithstanding these procedures, as with all major capital projects of this kind, there is a risk of insufficient controls and cost overrun which could impact the time

to completion of these projects and the return on the capital invested.

##### **Government approvals of expansion**

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

##### **Risks relating to operating in Ukraine Ukrainian inflation**

Ukraine has experienced very high inflation in 2008 as a result of high government spending and rapid economic growth. There are indications that Ukrainian inflation will be high again in 2009. If not mitigated by devaluation of the Ukrainian currency and efficiency improvements this inflationary environment poses a risk to the costs and profitability level of the Group's business.

##### **Ukrainian economic and social risks**

Ukraine has been severely adversely affected by the global financial crisis and by continuing government instability. The Ukrainian steel industry, the largest industry in the country, has collapsed. The Ukrainian national currency, the hryvnia, was informally tied to the US dollar and artificially strengthened during the first half of 2008, to the detriment of the Group. The Ukrainian government can now no longer afford to maintain the strength of the hryvnia because of the economic crisis and high Ukrainian inflation, which has resulted in a significant weakening of the currency. This will benefit the Group in that a large proportion of its costs are denominated in hryvnia, but it may result in business failures, repossessions and social unrest in Ukraine due to extensive borrowing in foreign currencies by the Ukrainian private sector. This eventuality could have an adverse effect on the Group's business.

Ukraine remains politically unstable, and populist government and the absence of strong leadership and policy-setting in the country could have an adverse effect on the Group's business.

# Corporate Social Responsibility Review

## Ferrexpo's commitment to corporate social responsibility

The Ferrexpo Board's commitment to corporate social responsibility ('CSR') derives from a shared belief that the Group's licence to operate will be underpinned by the Group's CSR performance. For many operations within former CIS countries, the traditional response has been to use legal requirements as the sole benchmark for CSR compliance. By contrast, we view legal standards for CSR as a minimum level and we are committed to striving to achieve the highest international standards of performance in CSR matters. We will ensure that during 2009 investment in health, safety, the environment and communities will be unaffected by the current downturn and cost savings made in other areas.

### The Board's approach to CSR

The Board demonstrates its commitment to CSR through:

- group policies;
- board and management focus;
- asset level management systems; and
- performance management at all levels.

The Board believes that Ferrexpo has made good progress during the year to establish a sound base from which to continue to develop its CSR programmes. A group wide Code of Corporate Responsibility and Business Ethics (the 'Code') has been adopted by the Board which enshrines the Company's values in three main areas. These are:

### Business principles

We must maintain high standards of behaviour with all those we deal with, both inside and outside the Group. Our conduct and business dealings should be associated with honesty and integrity, making us an attractive and reliable business partner.

### Community relations

Our presence should benefit those around us and our operations will benefit if local communities are thriving. Any member of the Group should be considered an attractive local employer.

### Stewardship

We must develop and manage our resources and facilities in a sensible manner, having regard for the natural and social environment in which we operate. Companies within the Group should be associated with a commitment to achieving the highest environmental and safety standards.

Communication of the Code to stakeholders including employees, customers and suppliers is key to its success and will include engaging with employees to obtain their feedback to ensure the Code is developed and improved.

### The Corporate Safety and Social Responsibility Committee

The Group has 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 (Ferrexpo Poltava Mining ('FPM') Chief Operating Officer). The other



Management recognises that reaching the highest standards will involve a continuous process of evaluation and improvement founded on a sound CSR framework.



members of the CSR Committee are Michael Abrahams (Chairman of the Board), John Dawe (Group Manager, Human Resources), Dave Webster (Chief Projects Officer) and Kostyantyn 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. The CSR Committee meets at least twice a year.

During the year the business reviewed by the CSR Committee included the following items:

- Update on work conducted during recent fatalities investigations.
- Update on the work of DuPont Safety Resources ('DuPont') and their recommendations.
- Review of activity of Worley Parsons and identification of key non-financial risks in connection with the development of growth projects.
- The CSR framework (see below).
- Code of Corporate Responsibility and Business Ethics.
- CSR Reporting.

The CSR Committee will identify key objectives for health, safety, the environment and community and set targets for 2009 arising from those objectives. The CSR Committee will also review arrangements to monitor, measure and audit objectives and targets. Attention will be given to formulating a communications policy to improve the communication of Ferrexpo's values, strategy, policies and objectives to management, employees and stakeholders.

#### The CSR framework

Management recognises that reaching the highest standards will involve a continuous process of evaluation and improvement founded on a sound CSR framework. Ferrexpo has adopted a seven point CSR framework covering values, strategy, policies, objectives, targets, monitoring and auditing and communication. The CSR framework will underpin a strategic action plan that will help drive progress during 2009.

#### CSR at FPM

As the only operating asset within the Group, FPM provides the focus for development and implementation of the Group's CSR procedures, based on established Group policies. Within FPM a single department has been created with responsibility for all aspects of health and safety, security and environmental

protection. This department is responsible for air and water testing laboratories, the medical centre, fire prevention service, gas service, civil defence and emergency response headquarters and workshops. This department reports directly to the FPM Chief Operating Officer.

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

#### Health and safety

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

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



# Corporate Social Responsibility Review

continued



Monitoring the effectiveness of health and safety policies includes the review of health and safety performance as measured by key KPIs as shown below:

## Health and safety performance

	2008	2007	2006
Lost Time Injury Frequency Rate (LTIFR – see note)	<b>0.95</b>	0.57	1.34
Fatal accidents	<b>3</b>	1	1
Total accidents	<b>17</b>	9	14
Lost days	<b>591</b>	590	557

Note  
LTIFR – Number of recorded accidents per million man hours.

Following the increased focus on safety and the review by DuPont, incidents that previously went unreported are now being reported. As a result the 2008 figure is not directly comparable with previous years.

## Health and safety management systems

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

In 2006 FPM initiated the development of a health and safety management system consistent with the requirements of OHSAS 18001, the internationally recognised standard for health and safety management. During 2006 FPM revised a number of procedures to adapt the management system to the requirements of OHSAS 18001. This system was externally audited under the Ukrainian UkrSEPRO system in March 2007 and accreditation was obtained in April 2007. The system was audited again in March 2008, and the accreditation was confirmed by external auditors.

## Fatalities and reportable accidents

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

In line with policy at FPM, all accidents are investigated to determine the cause and

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

Regrettably, we suffered three fatalities in 2008. These events were tragic and also totally unacceptable, and have caused us to redouble our efforts in continuing to introduce best practice in health and safety management. As a result of these incidents DuPont Safety Resources were appointed to review safety systems and procedures at FPM (see Case Study 1).

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

## Safety initiatives

In 2008 FPM continued to implement safety programmes to improve the health and safety of its workers. These included :

- Introduction of improved working clothes and personal protective equipment based on workplace risk assessments.
- Provision of high quality tools for safe equipment maintenance and repair operations.
- Annual medical examinations.
- Appropriate training at the time of hiring and continuously during employment.
- Improved communication to employees on safety matters using training sessions, posters, safety signs and information stands on shop floors and production sites.

FPM is required by Ukrainian labour protection laws to dedicate 0.5% of sales revenue to labour protection and safety.



## Case Study 1 →

### DuPont

DuPont Safety Resources ('DuPont') has an outstanding record of success in assisting companies to achieve a 'zero harm' objective and were engaged as a result of the fatal accidents that occurred in the early part of 2008, reflecting management's determination to improve Ferrexpo's safety record. DuPont carried out their initial assessment by reviewing safety documentation, carrying out interviews with employees at all levels and making observations on field tours. In their report, DuPont recognised FPM's strengths in areas such as the commitment of the management board, the provision of a first class training centre and the professionalism of employees. DuPont made a number of recommendations following the review and have been working with local management and employees on implementing a structured action plan. This has focused on the areas of leadership, training and behavioural practices and improving risk evaluation processes. Ferrexpo continues to work on its short, medium and longer-term safety goals.



# Corporate Social Responsibility Review

continued

The statutory payment amounted to approximately US\$5.72m in 2008 – 0.62% of sales. (2007: US\$2.9m – 0.51% of sales).

### Occupational health initiatives

In accordance with the requirements of the Ministry of Health in Ukraine and to prevent or detect occupational diseases at an early stage, FPM employees, particularly those engaged in potentially hazardous work, are given medical examinations both on recruitment and at regular intervals during their employment. The health of employees who have worked for 10 years or more under potentially hazardous working conditions is assessed more rigorously.

FPM owns medical facilities on site and these facilities are made available at no cost or at subsidised rates to employees and their dependants. The cost for the provision of these services was US\$791,000 in 2008 (2007: US\$480,200).

In the past three years, there have been 11 recorded cases of industrial disease (six in 2006, two in 2007 and three in 2008); most cases are associated with prolonged exposure to elevated dust concentrations. Other diseases included auditory impairment due to excessive noise and two cases of cancer (which whilst classified as industrial disease in accordance with Ukrainian legislation and therefore recorded, are not believed to have been attributable to the Group's operations).

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

### Employees

During the year a set of over-arching employment principles was adopted by the Board. These include principles, policies and practices on company standards, security, recruitment, remuneration, equal opportunities and training and development.

These are backed up by subsidiary company employment manuals to cover local legal and regulatory requirements.

### Average number of employees during the year

	2008	2007	2006
Production	7,136	7,796	8,518
Sales, marketing, distribution	164	185	197
Administration and other	1,708	2,131	2,635
<b>Total</b>	<b>9,008</b>	<b>10,112</b>	<b>11,350</b>

FPM recruits young specialist graduates from Dnepropetrovsky Mining Academy, Kyiv University, Krivoy-Rog Institute and Komsomolsk Polytechnical School among other places to fill available technical and financial positions.

### Training and development

The Group is committed to developing its employees. The Group provides technical training for all employees consistent with their duties and responsibilities. In particular, investment has been made in facilities for health and safety training. In 2008, 54 employees were sponsored by Ferrexpo at institutes of higher education. The total educational spending for employees in higher educational establishments was US\$94,200.

### Trade unions

The Group does not have individual contracts with its employees in Ukraine other than with its senior managers. Most of FPM's workers are members of a trade union (the 'Poltava Trade Union'). There has been no significant industrial action or labour dispute at Poltava since its privatisation in 1995. FPM entered into a new collective bargaining agreement with the Poltava Trade Union on 18 January 2008. Management has also signed a protocol of intent with the Poltava Trade Union for the period from 2008 to 2010 in which it has agreed to ensure that individual salaries will be increased at least in line with inflation and that an annual reduction in headcount will occur, subject (except for any jobs that are outsourced) to an agreed maximum.

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







Our operating practices and growth plans will be implemented in a manner consistent with the principles underlying long-term sustainable resource development.



### Environment

#### Environmental policy

The Group's policy on the environment is as follows:

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

Monitoring the effectiveness of environmental policy includes the review of key KPIs for emissions which are shown below.

In 2008 FPM spent US\$12,148,000 on the implementation of environmental measures. Payments for emissions and waste placement amounted to US\$2,045,000.

#### Environmental management systems

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

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

#### Project evaluation

In 2007 the Group endorsed the Equator Principles as a benchmark when evaluating new projects. As part of any new project proposal, the Group will undertake an environmental impact assessment and this will be reviewed alongside other project evaluation documents presented to the Board for approval.

#### Environmental initiatives

##### Air quality

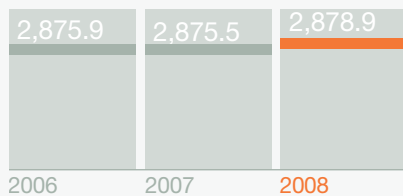
Dust and gas emissions are two major issues that FPM carefully monitors and controls to ensure that air quality is not adversely impacted by its operations. In recent years, there have been a substantial number of initiatives taken to meet this need.

The major environmental protection measures implemented in 2008 were:

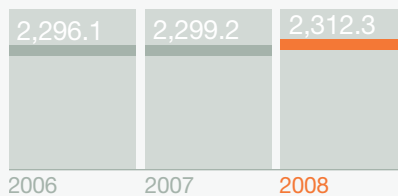
- Replacement of filter parts for the electric steel furnace in the foundry.
- Replacement of the fog suppressor in the wet gas treatment units serving pellet production firing areas 1 and 2.

### Emissions in tonnes →

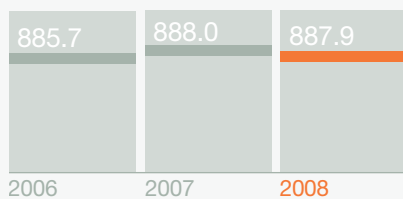
#### Nitric oxide (NOx)



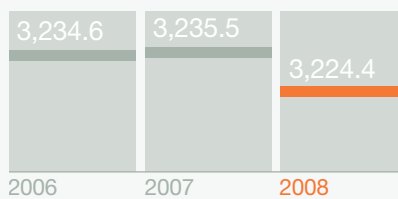
#### Carbon monoxide



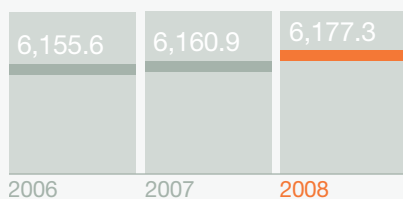
#### Sulphur dioxide



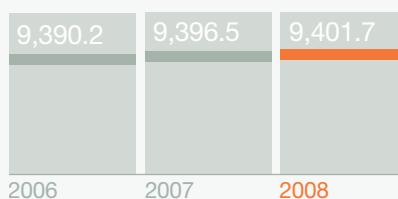
#### Solid emissions



#### Air emissions



#### Total emissions



# Corporate Social Responsibility Review

continued



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.



- Major overhaul of the air ducts and droplet separators in the fine-medium crushing unit.
- Intensive road watering in the open pit after blasting and in dry weather.
- Watering of other areas in order to limit dust contamination of the environment.

All other areas in which dust may affect the environment are fitted with gas and dust filters.

## Water management

FPM uses some 435 million m<sup>3</sup> of water each year, much of which is recycled through the tailings facility, although approximately 3.3 million m<sup>3</sup> 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 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. This had previously occurred due to damage of the washing area and dirt collector.

## Waste rock management

The currently operating Gorischne-Plavninskoye Lavrikovskoye ('GPL') open pit has generated some 500 million m<sup>3</sup> 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 proposed Yeristovskoye pit will also be deposited on these two dumps or will be used to back-fill part of the GPL pit. The annual tree and bush planting project assists in the absorption of gases that would otherwise pollute the air, whilst also reducing noise.

## Mine closure and rehabilitation

FPM recognises that its activities have an impact on the environment and communities in which it operates. 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.

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



## Case Study 2 →

### Air quality

FPM is constantly working on minimising the impact of its activities on air and water quality. In 2008 FPM personnel monitored and tested the effects of moistening exposed and potentially dusty surfaces in reducing dust pollution. They concluded that this moistening cut air pollution but had no negative effect on subsoil or surface water pollution. As a result of these experiments FPM now carries out extensive watering of work faces after blasting and in the dry season. This also enabled the company to decrease expenditure on disposal costs of stripping material.



# Corporate Social Responsibility Review

continued



## Communities

### Community policy

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

The effectiveness of community policies is reviewed on a regular basis by the CSR Committee.

### Community context

The Poltava region is located in an area of predominantly flat agricultural land close to the Dnieper River, one of the largest European river systems and an important transport artery for Ukraine, Belarus and Russia. Iron ore mining in the area dates from the 19th century, although the major expansion of mining activity occurred in the early 20th century. The town of Komsomolsk was established adjacent to the mine to support the mining operation and ancillary industries (transport, power etc.). FPM is still by far the largest employer in the town, which has a population of around 51,500 people, with approximately 16% of the working population of Komsomolsk being employed by the mine in one capacity or another.

### Community initiatives

FPM has been a significant investor in local community initiatives from the outset, 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 2008 was UAH30.5m (2007: UAH15m). 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 FPM 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 could 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. To encourage this process, FPM 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 2008 the objects of such support included railcar repair operations, lift repair and some cleaning services. In 2008, 208 employees were transferred into stand-alone businesses.

### Case Study 3 →

#### Cultural investment in the local community

The cultural centre of Komsomolsk has traditionally been the Palace of Culture and Technology. Until recently, the Palace of Culture was run by the local City Council and the facilities had become out of date. In 2005, FPM management and the City Council agreed to cooperate on the reconstruction and re-equipping of the Palace of Culture and FPM contributed over US\$800,000 to the cost of its repair and upgrading. FPM continues to support the Palace of Culture as a unique centre for the local population and invested in the region of US\$690,000 in the centre in 2008. It supports 17 distinct groups of performers and its creative groups took part in more than 120 concerts and competitions.



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# 3

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# Corporate Governance Report

## Introduction

The Board continues to be committed to good corporate governance practices, in its management of the affairs of the Group and in its accountability to shareholders. As detailed in this report, the Directors' Report and the reports of the Audit, Nominations and Remuneration Committees, the Group has taken action to institute an effective corporate governance framework by establishing Board committees, internal procedures and Group policies which are critical for the proper management of the Group and good governance of an international business. The 2008 reporting period is the first full year that the Group has been subject to the rules of the UK Listing Authority. During the recent changes to its composition, the Board has sought to comply with corporate governance best practice. This report details the steps that have been taken to achieve compliance with the Principles of Good Governance and the Code of Best Practice contained in the Combined Code on Corporate Governance issued in June 2006 (the 'Combined Code'). The Board and management of the Group believe in conducting their affairs in a fair and transparent manner and in maintaining high ethical standards in their dealings with all relevant parties.

In October 2008 the Board announced its intention to re-focus the Group's strategic plans following the downturn in the economic environment. As a result of these changes to strategy Mike Oppenheimer (then Chief Executive Officer) and Dennis McShane (then Executive Director, Business Development) considered their roles to have changed materially from those previously envisaged and both of them tendered their resignations. The Board has since appointed Kostyantyn Zhevago as Chief Executive Officer and is further strengthening the Board by the appointment of two additional Non-executive Directors, Marek Jelinek and Miklos Salamon, as a consequence of the acquisition of shares representing just under 25% of the voting rights of Ferrexpo plc by RPG Industries SE.

## Statement of compliance

During the year to 31 December 2008 the Company complied with the provisions of section 1 of the Combined Code.

The Combined Code establishes 17 main principles of good governance in four areas: Directors, Directors' Remuneration, Accountability and Audit, and Relations with Shareholders. The following three sections explain how these principles were applied, with the exception of those relating to directors' remuneration (a detailed report on Directors' remuneration can be found in the Remuneration Report pages 44 to 51).

The Group's auditor has reviewed those parts of this statement which it is required to review under the Listing Rules of the Financial Services Authority.

## Directors

### The Board

From 1 January 2008 to 1 November 2008 the Board was composed of a Non-executive Chairman: Michael Abrahams, three Executive Directors: Mike Oppenheimer, Dennis McShane and Chris Mawe and five Non-executive Directors. Since 1 November 2008 the Board comprises a Non-executive Chairman: Michael Abrahams, two Executive Directors: Kostyantyn Zhevago, Chief Executive Officer, and Chris Mawe, Chief Financial Officer and four Non-executive Directors. Oliver Baring continues as the Senior Independent Director. The other

Non-executive Directors are Lucio Genovese, Wolfram Kuoni and Ihor Mitiukov. With effect from 27 March 2009 two further Non-executive Directors, Marek Jelinek and Miklos Salamon, will be appointed to the Board.

Biographical details of the Directors at the date of this report are set out on pages 8 and 9 together with details of their membership of Board committees. Brief details of the roles of the Chairman, the Chief Executive Officer and the Senior Independent Director are set out below.

The Board is responsible for setting the Group's objectives and policies, providing effective leadership and control required for a public company and for approving the Group strategy, budgets, business plans and major capital expenditure. The Board has a formal schedule of matters which sets out those matters requiring Board approval and specifically reserved to it for decision. It also monitors financial performance and critical business issues. Major project approvals and contract awards require the approval of the Board as well as key policies and procedures.

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

Directors receive briefing notes and reports for their consideration in advance of each Board meeting, including reports on the Group's operations to ensure that they remain briefed on the latest developments and are able to make fully informed decisions. These notes and reports take into account the factors set out in section 172 of the Companies Act 2006 (directors' duty to promote the success of the company for members' benefit), which are considered by the Executive Committee when making any proposals and recommendations to the Board. Decisions made by the Board are set within the framework of the Directors' statutory duty to promote the success of the Group for the benefit of its members.

A procedure is in place to deal with Directors' conflicts of interest and related party disclosures. This procedure is in line with published guidance, the Company's Articles of Association and the provisions in section 175 of the Companies Act 2006 on conflicts of interest. Schedules of a Director's actual or potential conflicts and related party transactions have been compiled based on disclosures made by the Director. These are updated and reviewed on a regular basis by the Executive Committee. Any changes to the schedules are noted and minuted at the beginning of each Board meeting. The Committee of Independent Directors has delegated authority to authorise conflicts of interest on behalf of the Board. The procedure operates effectively, and the Group undertakes to follow emerging best practice in this area.

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



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

The Board met eight times during the reporting period. Attendance by Directors at Board meetings and Board committee meetings is shown below. All Board meetings are held in Switzerland.

#### **Chairman, Chief Executive Officer ('CEO') and Senior Independent Director**

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

The Chairman is responsible for leadership of the Board, ensuring its effectiveness, setting its agenda and ensuring effective communication with shareholders. The Chairman also ensures that there is a constructive relationship between the Executive and Non-executive Directors. From time to time the Chairman holds meetings with the Non-executive Directors without the Executive Directors present.

The Chairman's other current responsibilities are set out in the biographical notes on page 8. There have been no changes to those commitments during the reporting period.

The role of the CEO is to provide leadership of the executive team, to develop proposals for the Board to consider and oversee and implement Board-approved actions. Kostyantyn Zhevago was appointed as CEO on 1 November 2008. As CEO of the Group, he is focusing on managing the business through the current deterioration in the world economic situation as well as on strict cash conservation. The Board believes that Mr Zhevago is best placed to lead the Group during the challenging time ahead in view of his knowledge of the Group's Ukrainian operations and his record of success in conducting business in Ukraine and the CIS countries. Details of Mr Zhevago's appointments are set out in the biographical notes on page 8.

The Senior Independent Director, Oliver Baring, in conjunction with the other independent Non-executive Directors, assists in communications with shareholders concerning corporate governance matters if that is required. He also chairs the Nominations Committee and the Committee of Independent Directors. At least once a year, the Senior Independent Director meets the Non-executive Directors, without the Chairman present, to evaluate the Chairman's performance.

#### **Board balance and independence**

The Board believes that its current membership of two Executive Directors, with a Non-executive Chairman and four Non-executive Directors who are all deemed by the Board to be independent (with two further Non-executive Directors in the course of appointment), is of an appropriate size and structure to manage the Group in an effective and successful manner. It also considers that no single Director can influence or dominate the decision making. The Relationship Agreement with Kostyantyn Zhevago specifically deals with decision making. More details are given below.

The Board has carefully considered the guidance criteria on independence of Non-executive Directors under the Combined

Code. In the opinion of the Board, all the continuing Non-executive Directors bring independence of judgement and character to the Board and to the Board committees on which they sit. The Board considers that all of the Non-executive Directors as at the date of this report are independent of the Group as defined by provision A.3.1 of the Combined Code.

Mr Zhevago is a beneficiary of The Minco Trust which owns 100% of Fevamotinic S.a.r.l., the major shareholder in the Group. Consequently he and Fevamotinic S.a.r.l. have entered into a relationship agreement with the Company to ensure that the Group is capable of carrying on its business independently, that transactions and relationships between the Group, Fevamotinic S.a.r.l. and Mr Zhevago are at arm's length and on normal commercial terms, and that there shall be at all times a majority of Directors independent of Fevamotinic S.a.r.l. and Mr Zhevago on the Board (the 'Relationship Agreement').

The Board has established a Committee of Independent Directors to consider and, if appropriate, approve related party transactions and conflicts of interests (whether in relation to Mr Zhevago or any other Director), and to consider any matters referred to it concerning the operation of the Relationship Agreement.

#### **Information and professional development**

Professional development and training are provided in a number of ways including updates on changes and proposed changes in laws and regulations affecting the Group, and site visits to ensure Directors are familiar with the Group's operations. During the year, the members of the Audit Committee received a briefing on their roles and responsibilities.

In the period, Board members received a briefing on the new duties of Directors as prescribed by the Companies Act 2006 including those that have come into force during the year, in particular sections 175 and 176 of the Companies Act 2006 and Chapter 11 of the Financial Services Authority Listing Rules.

#### **Performance evaluation**

A process of evaluation of the Board and its Audit and Remuneration Committees has been conducted by the chairmen of these bodies. All Directors and committee members completed a questionnaire and the results have been analysed and discussed by those concerned. The Senior Independent Director and the other Non-executive Directors have evaluated, and will continue to monitor, the performance of the Chairman.

#### **Board committees**

The Board has a number of committees consisting of certain Directors, and in the case of the Executive Committee and Corporate Safety and Social Responsibility ('CSR') Committee, certain senior managers, to which specific responsibilities have been delegated and for which written terms of reference have been agreed. These terms of reference are available for inspection on the Group's website at [www.ferrexpo.com](http://www.ferrexpo.com). Membership of the various committees, including the Chairman of each committee, is shown below.

The Board periodically reviews the membership of its committees to ensure that committee membership is refreshed. The Group provides the committees with sufficient resources to undertake their duties, including access to the Company Secretary.

# Corporate Governance Report continued

The table of attendance of members of the Ferrexpo Board and its principal committees at meetings during the financial period together with a summary of the terms of reference is set out below.

## Board

Eight Board meetings were held during the year.

Board members		Attendance record
Michael Abrahams	Non-executive Chairman	8/8
Kostyantyn Zhevago <sup>1</sup>	Chief Executive Officer	7/8
Chris Mawe	Chief Financial Officer	8/8
Oliver Baring	Senior Independent Non-executive Director	7/8
Lucio Genovese	Independent Non-executive Director	8/8
Wolfram Kuoni	Independent Non-executive Director	8/8
Ihor Mitiukov	Independent Non-executive Director	8/8
Mike Oppenheimer <sup>1</sup>	Former Chief Executive Officer	5/5
Dennis McShane <sup>1</sup>	Former Executive Director, Business Development	5/5

<sup>1</sup> Mike Oppenheimer and Dennis McShane resigned as Executive Directors with effect from 1 November 2008 prior to the sixth meeting of the Board. Kostyantyn Zhevago was appointed Chief Executive Officer with effect from 1 November 2008.

The structure and business of the Ferrexpo Board is designed to ensure that the Board focuses on strategy, management, governance and control issues. Certain aspects of the Board's responsibilities have been delegated to appropriate committees to ensure compliance with the UK Companies Act, FSA Listing Rules and the Code. It is the responsibility of the Chief Executive Officer and the Executive Committee to manage the day-to-day running of the Group. The Board is supported by the Executive Committee which meets monthly. All of the information that is submitted to the Board by management is reviewed and approved by the Executive Committee.

## Audit Committee

Four Audit Committee meetings were held during the year.

Committee members		Attendance record
Wolfram Kuoni	Chairman	4/4
Lucio Genovese		4/4
Ihor Mitiukov		3/4

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 the financial statements of the Group, 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

Five Remuneration Committee meetings were held during the year.

Committee members		Attendance record
Lucio Genovese	Chairman	5/5
Michael Abrahams		5/5
Ihor Mitiukov		5/5
Oliver Baring		5/5

The Remuneration Committee meets as required and is responsible for reviewing and approving all aspects of remuneration for the Executive Directors and members of the Executive Committee. Further details concerning the Remuneration Committee are set out in the Remuneration Report on pages 44 to 51.

## Nominations Committee

One Nominations Committee meeting was held during the year.

Committee members		Attendance record
Oliver Baring	Chairman	1/1
Michael Abrahams		1/1
Wolfram Kuoni		1/1
Ihor Mitiukov		1/1
Kostyantyn Zhevago		1/1

## Nominations Committee Report

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. 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.

During the year the Nominations Committee considered and recommended to the Board the appointment of two new Non-executive Directors, whose appointments are to take effect in 2009. As these appointments were made as a consequence of the acquisition of just under 25% of the Group's voting rights by RPG Industries, it was not appropriate to use external search agents or open advertising. In recommending the appointments, the Committee took the view that both individuals will enhance the Board with their considerable experience in the mining sector. In addition, the requirement to maintain a majority of independent Non-executive Directors on the Board, stipulated in the Relationship Agreement and reflected in the Nominations Committee appointment process, will not be affected by these two new appointments.

The Committee also considered the appointment of a new Chief Executive Officer upon the resignation of Mr Oppenheimer, taking into account the change in strategic direction of the Group necessitated by the market downturn. In coming to its decision to recommend to the Board the appointment of Kostyantyn Zhevago, the Committee noted Mr Zhevago's proven ability to conduct business in Ukraine and elsewhere, and in particular to manage the Group's Ukrainian operations.

It is intended that succession planning be reviewed by the Nominations Committee during 2009.

## Corporate Safety and Social Responsibility Committee

Two Corporate Safety and Social Responsibility Committee meetings were held during the year.

Committee members		Attendance record
Viktor Lotous	Chairman	2/2
Michael Abrahams		2/2
John Dawe		1/1 <sup>1</sup>
Dave Webster		2/2
Kostyantyn Zhevago		1/1 <sup>1</sup>
Mike Oppenheimer		1/1 <sup>2</sup>

<sup>1</sup> One meeting has been held since appointment to the Committee.

<sup>2</sup> Resigned on 1 November 2008 prior to second meeting.

The CSR Committee's role is to formulate and recommend to the Board the Group's policy on corporate safety and social responsibility issues as they affect the Group's operations. In particular it focuses on ensuring that effective systems and standards, procedures and practices are in place in the Group. The CSR Committee is responsible for reviewing management's investigation of incidents or accidents that occur in order to assess whether policy improvements are required. The Committee meets not less than twice a year and at such other times as the Chairman of the CSR Committee shall require. Further details concerning the activities of the CSR Committee are set out in the Corporate Social Responsibility Review on pages 26 to 35.

## Committee of Independent Directors

The formation of the Committee of Independent Directors ('CID') was approved by the Board on 13 May 2008 in order to consider and if appropriate authorise, on behalf of the Board, related party transactions and otherwise ensure compliance with Chapter 11 of the Listing Rules of the Financial Services Authority and the Relationship Agreement entered into between Fevaminico S.a.r.l., Mr Zhevago, The Minco Trust and the Company. The CID has 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 CID met formally twice during the year and approved matters by written resolution on four occasions.

# Corporate Governance Report continued

## The Executive Committee

The Executive Committee acts as the main decision making body of the Group. Its members are detailed on page 9. It is responsible for taking all material decisions relating to the Group apart from those that are reserved for the entire Board, such as approving the Group's strategy, capital expenditure and budget. It meets regularly during the year, and no meetings are held in the United Kingdom. It is the responsibility of the Executive Committee to ensure its duties are at all times set in the context of the requirements of the Schedule of Matters Reserved for the Board. The Board has delegated to the Executive Committee the responsibility for the successful execution of Board-approved strategies for the Group, the ensuring of appropriate levels of authority delegated to senior management, the review of organisational structures and the development and implementation of Group policies.

## Accountability and audit

The Board is mindful of its responsibility to present a balanced and clear assessment of the Group's financial position and prospects. This assessment is primarily provided in the Chairman's and Chief Executive's Statement and the Financial Review contained in this Annual Report. Statements of the respective responsibilities of the Directors and auditors are set out on pages 56 and 57.

## Audit Committee Report

The Combined Code recommends that all members of the Audit Committee are independent Non-executive Directors, and that at least one member should have recent and relevant financial experience. All members of the Audit Committee are considered to possess appropriate knowledge and skills. Wolfram Kuoni, an independent Non-executive Director, is Chairman of the Audit Committee.

During the reporting period the Audit Committee met four times and carried out the following activities:

- Reviewed with Ernst & Young LLP, the external auditors, the annual and interim financial statements and associated documents and the preliminary results statement, ensuring that all material information was properly and clearly disclosed.
- Reviewed with Ernst & Young LLP the scope of the audit work proposed for 2008 and audit fees.
- Reviewed periodically the risk matrix and the internal audit plan, and discussed with BDO Visura International as internal auditors the findings of the internal auditors.
- Monitored the continuing implementation of the financial procedures plan proposed by management post IPO.
- Reviewed and approved the whistleblowing policy whereby staff may, in confidence, raise concerns about financial improprieties or other matters.
- Reviewed effectiveness of external auditors.

## Internal control

The Board has overall responsibility for the Group's system of internal control which includes risk management and reviewing its effectiveness. The system of internal control is designed to identify, evaluate and manage significant risks associated with the achievement of the Group's objectives. Because of the limitations inherent in any system of internal control, this system is designed to meet the Group's particular needs and the risks to which it is

exposed rather than eliminate risk altogether. Consequently it can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has delegated its responsibility for reviewing the effectiveness of these controls to the Audit Committee. The Audit Committee reviews these systems on an annual basis. The day-to-day responsibility for managing risk and the maintenance of the Group's system of internal control is collectively assumed by the Executive Committee. Key risk and control issues are reviewed regularly by the Executive Committee.

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

Full details of the Group's policy on risk and uncertainties are set out in note 43 of the 'Notes to the Consolidated Financial Information' on pages 99 to 105.

The Board has, through the Executive Committee and the Audit Committee, reviewed the effectiveness of the Group's system of internal controls.

As a result of the continual review of internal control procedures several key elements have been established within the Group to ensure a sound system of internal control which is described in detail below.

These include:

- Regular review of risk and identification of key risks at the Executive Committee which are reviewed at the Audit Committee.
- Clearly defined organisational and reporting structure and limits of authority applied to subsidiary companies including monitoring and reporting on the regular board meetings held at FPM, the key Ukrainian subsidiary.
- Clearly defined information and financial reporting systems including regular forecasts and a rigorous annual budgeting process with reporting against key financial and operational milestones.
- Rigorous investment appraisal underpinned by the budgetary process where capital expenditure limits are applied to delegated authority limits.
- Clearly defined treasury policy monitored and applied in accordance with pre-set limits for investment and management of the Group's liquid resources including a separate treasury function.
- Internal audit by an external independent firm of auditors who monitor, test and prove internal controls operating within the Group at all levels and report directly to the Audit Committee.
- Fraud management through an independent department operating in the Group's key operating subsidiary FPM.

There are a number of components to the system of internal controls within the Group which facilitate the control procedures and these are detailed as follows:

- A risk matrix has been developed and is monitored and reviewed by the Executive Committee and the Audit Committee.
- A framework of transaction and entity level controls to prevent and detect material error and loss.
- A budgetary and periodic reporting review process performed by the Executive Committee.
- A documented structure of delegated authorities and approvals for transaction and investment decisions, including any with related parties.
- A programme of internal audit reviews has been performed by BDO Visura International.
- FRMC reviews monthly financial information and management accounts and meets fortnightly.

#### **Treasury**

Details of the Group Treasury policy are referred to in the Business Review on page 23 and in the financial statements on pages 99 to 105.

#### **Investment proposals**

A budgetary process and authorisation levels regulate capital expenditure. For expenditure beyond specified levels, detailed written proposals are submitted to the Executive Committee and then to the Board for approval.

#### **Internal audit**

A Group-wide internal audit function has been established using BDO Visura International as an outsourced service provider which reports to the Chairman of the Audit Committee.

An internal audit programme for 2008 and 2009 has been approved by the Audit Committee and has been targeted to focus on the areas of risk identified by the risk review carried out by the Executive Committee and the Board.

#### **Auditor independence**

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

The overall performance, independence and objectivity of the auditors is reviewed annually by the Audit Committee, taking into account the views of management, and the outcome of this review is relayed to the relevant partners of Ernst & Young. The Audit Committee has regular discussions with the external auditors, without management being present.

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

#### **Going concern**

A statement on the Directors' position regarding the Group as a going concern is contained in the Directors' Report on page 55.

#### **Relations with shareholders**

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

JPMorganCazenove, the Group's brokers, also provide regular reports to the Board on changes to the shareholdings of the Group's major investors. Information about the views of major investors is provided to the Board on a regular basis by the Chief Executive Officer and Head of Investor Relations.

The Board uses the Annual General Meeting each year to communicate with shareholders and welcomes their participation. The Chairmen of the Audit, Remuneration and Nominations Committees endeavour to be present at the Annual General Meetings to answer questions from shareholders.

Information on matters of interest to investors can be found on the Group's website at [www.ferrexpo.com](http://www.ferrexpo.com).

The Board approved this report on 23 March 2009.

# Remuneration Report

## Introduction

This Report has been prepared in accordance with Schedule 7A of the Companies Act 1985 – The Directors' Remuneration Report Regulations (the 'Regulations') and sets out information about the remuneration of the Directors and senior management of the Company for the year ended 31 December 2008. This report has been audited by Ernst & Young LLP to the extent required by the Regulations.

As required by the Regulations, this Report will be subject to an advisory shareholder vote at the Company's forthcoming Annual General Meeting.

## Remuneration Committee

The Remuneration Committee is composed of four independent Non-executive Directors. Lucio Genovese is the Chairman of the Remuneration Committee and its other members are Michael Abrahams, Oliver Baring and Ihor Mitiukov. The Remuneration Committee met five times during the year. Attendance at meetings of the Remuneration Committee by individual members is detailed in the Corporate Governance Report on page 40.

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

The composition of the Remuneration Committee and its terms of reference comply with the provisions of the Combined Code and are available for inspection on the Company's website at [www.ferrexpo.com](http://www.ferrexpo.com).

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

## Advisers

The Remuneration Committee appointed Kepler Associates as its advisers in November 2007 to provide advice on remuneration policy, with particular emphasis on the structure of long-term incentives for senior management. Other than advice to the Remuneration Committee no other services were provided by Kepler Associates to the Company.

Baker & McKenzie LLP and Linklaters LLP advised on legal aspects of proposed incentive plans during the year. Both firms also provide legal services to the Company.

The Chief Executive Officer and the Group Manager, Human Resources provide guidance to the Remuneration Committee on remuneration packages of senior executives employed by the Group (but not in respect of their own remuneration).

## Activities of the Remuneration Committee

During the year the Remuneration Committee considered the following items of business:

- Senior management remuneration packages.
- Long term incentive plan design and implementation.
- General market issues around remuneration packages.
- Added value incentive plan design.
- Performance evaluation of the Remuneration Committee.

## Remuneration policy

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

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

In determining the Company's remuneration policy, the Remuneration Committee takes into account the particular business context of the Ferrexpo Group, the geography of its operations, the relevant talent market for each executive and best practice guidelines set by institutional shareholder bodies. During the year, the structure and competitiveness of performance-related and fixed elements of the remuneration packages of the Executive Directors were reviewed against mining comparators and FTSE-listed companies of similar size. No major changes were made to policy as a result of the review.

Of necessity, the design of remuneration policy will evolve from year to year in line with the Company's strategic needs. Given the current unprecedented economic situation the Remuneration Committee will be keeping under review remuneration policy and incentive plans during the forthcoming year. The Remuneration Committee will continue to give full consideration to the principles set out in the Combined Code on Corporate Governance in relation to Directors' remuneration and to the guidance of investor relation bodies. It will continue to implement policy so as to align executive remuneration with shareholders' interests and also to engage and retain the talented individuals that the business needs in order to succeed.

## Executive Directors

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

## Incentive Plans

A substantial proportion of Executive Directors' remuneration is based on performance via the Short Term Incentive and Long Term Incentive Plans described below.

- Short-Term Incentive Plan ('STIP') – aims to focus management efforts on delivery of annual business priorities, based on a scorecard of key performance indicators relating to both Company and individual performance.
- Long-Term Incentive Plan ('LTIP') – aims to motivate participants to deliver appropriate longer-term returns to shareholders.

The Board intends to continue to operate the STIP and LTIP for the Executive Directors and senior executives in 2009.

During the year the Remuneration Committee also worked on the design of an Added Value Incentive Plan ('AVIP'), a one-off plan designed to incentivise selected senior executives. Extensive consultations were held with shareholders on both the LTIP and AVIP, and changes were made to the design of both plans as a result. However, due to the changes in business strategy and postponement of the Company's strategic initiative programme announced in the autumn, implementation of the AVIP was also postponed. This position will be kept under review, and the Remuneration Committee will only implement such a plan with the approval of shareholders at a general meeting.

## Long Term Incentive Plan

The LTIP framework was approved by shareholders at the 2008 Annual General Meeting. The LTIP provides for annual awards of performance shares and options up to an aggregate limit of 200% of salary in normal circumstances. Initial awards were made in 2008 on the basis of the same number of shares to participants at the same level in the organisation. None of the awards exceeded 100% of salary. The awards are a conditional award of performance shares which vest according to the degree to which Ferrexpo's three year TSR matches or outperforms a comparator index (see 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 Company's success. For 2008 awards, the comparator index was based 50% on the median TSR of global diversified mining companies, 30% on the median TSR of smaller focused iron ore miners and 20% on the median TSR of selected other single commodity/emerging market miners, as illustrated below.

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

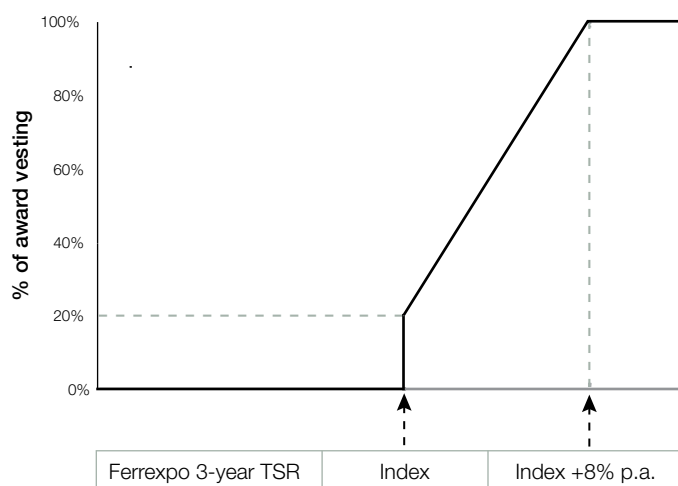
TSR is calculated on a common currency basis to ensure that comparisons with international comparators listed overseas are fair.

The Remuneration Committee has discretion to review the comparator index if any of the constituent companies are affected by mergers and acquisitions. During the year, the focused iron ore miners have been amended to take account of the acquisition of Portman by Cleveland-Cliffs and the single commodity/emerging market miners have been amended to take account of the merger of Oxiana and Zinifex to form OZ Minerals.

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 2009 LTIP awards. Aricom has been dropped as it is no longer deemed to be a relevant comparator. ENRC has been added to the single commodity/emerging markets miners.

# Remuneration Report continued

No performance shares will vest if Ferrexpo's TSR underperforms the comparator index. 20% will vest if Ferrexpo's TSR is equal to Index TSR; full vesting will occur only if Ferrexpo's TSR exceeds the Index by at least 8% p.a.; there will be straight-line pro rata vesting in between 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 2008 LTIP awards will not vest before Spring 2011. In recognition of this, and to enable a smooth transition to annual rolling three-year LTIP cycles, the Committee supplemented the 2008 LTIP awards of up to 100% of salary in performance shares with transitional awards of performance shares of up to 100% of salary for the CEO, up to 75% of salary for the Executive Director Business Development and up to 67% of salary for the Chief Financial Officer. These awards will vest on two-year TSR performance and be based on the same calibration.

### Proposed 2009 LTIP awards

The Remuneration Committee is intending to continue to operate the LTIP framework in 2009 in the same manner as described above.

### Short Term Incentive Plan

A Short Term Incentive Plan is in place which applies to the members of the Executive Committee, including the Executive Directors. For 2008 the maximum STIP opportunity for Executive Directors was 150% of salary. The Key Performance Indicators ('KPIs') for 2008 were agreed for each member of the Executive Committee and were weighted to reflect the contribution of each executive to the achievement of that KPI.

KPIs during the year included Financial KPIs and KPIs relating to corporate social responsibility, projects and governance. Their respective weightings for the Executive Directors during the year were as follows:

KPI	Mike Oppenheimer <sup>1</sup>	Dennis McShane <sup>1</sup>	Chris Mawe
EBITDA	20%	20%	20%
Net operating profit after tax ('NOPAT')	25%	25%	25%
Major capital projects	15%	15%	15%
CSR	10%	10%	10%
Personal, projects and governance	30%	30%	30%

<sup>1</sup> Mike Oppenheimer and Dennis McShane resigned from the Board on 1 November 2008.

<sup>2</sup> Kostyantyn Zhevago did not become an Executive Director until 1 November 2008 and was not a member of the STIP during 2008.

In 2008 overall financial performance was rated between 50% and 100%. CSR, projects and governance were rated as between 0% and 100%. Taking into account these results the Remuneration Committee awarded the Finance Director a STIP award of 59% of salary.



For 2009, the Remuneration Committee intends to maintain the KPI weightings for each of the Executive Directors as follows:

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

### Service agreements, notice periods and termination payments

The Executive Directors are employed under contracts of employment with Ferrexpo AG, a Group company.

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

Name	Position	Date of contract	Notice period	Current salary (p.a.)
Kostyantyn Zhevago	Chief Executive Officer	1 November 2008	Six months from the employee; six months from the employer	US\$240,000
Chris Mawe	Chief Financial Officer	7 January 2008	Six months from the employee; 12 months from the employer	CHF596,000

Former Executive Directors:

Name	Position	Date of contract	Notice period	Salary (p.a.)
Mike Oppenheimer (resigned 1 November 2008)	Chief Executive Officer	1 June 2007	Three months from the employee; 12 months from the employer	US\$892,500 <sup>2</sup>
Dennis McShane (resigned 1 November 2008) <sup>1</sup>	Director of Business Development	1 June 2007	Three months from the employee; 12 months from the employer	£236,250 <sup>2</sup>

<sup>1</sup> Dennis McShane was required to make at least 70% of his work capacity, as well as all of his experience and knowledge, available to the Company. He could make up to 30% of his work capacity available to Kostyantyn Zhevago's other investments.

<sup>2</sup> As at date of resignation.

The Remuneration Committee sets notice periods for the Executive Directors at 12 months or less, which reduces the likelihood of having to pay excessive compensation in the event of poor performance. The policy on termination payments is to pay no more than what may be stipulated in an individual's service agreement. The Executive Directors' service contracts contain a provision exercisable at the option of the employer to pay an amount on early termination of employment equal to the respective notice period. If the Company elects to make a payment in lieu of notice, the Executive Director will also be entitled to receive all components of remuneration, allowances and expenses for the extent of the notice period. The payment in lieu of notice clauses will be invoked when the speed and certainty afforded by such clauses are thought to be in the best interests of the shareholders.

### Benefits-in-kind

Under his service agreement, Kostyantyn Zhevago is entitled to 25 working days' paid holiday per year. He is also entitled to furnished accommodation in Switzerland (and elsewhere in Europe if necessary for the performance of his duties) at no cost, and up to US\$5,000 per annum for professional tax advice.

Under his service agreement, Chris Mawe is entitled to 25 working days' paid holiday per year. Ferrexpo AG also provides him with CHF43,000 of accommodation rental assistance per annum. Chris Mawe received CHF58,500 relocation allowance on joining the Group.

### Pensions

The Group does not operate a separate pension scheme for Executive Directors. Chris Mawe and Kostyantyn Zhevago are members of the Ferrexpo AG pension plan which is a mandatory insurance scheme under Swiss law provided for all employees of Ferrexpo AG to which the Company contributes an average of 10% of their annual base salaries.

# Remuneration Report continued

## Pensions – former directors

Mike Oppenheimer was a member of the Ferrexpo AG pension plan. Dennis McShane was a member of the Ferrexpo UK Ltd pension plan operated by a Group company to which the Company contributed a minimum of 10% of his annual base salary.

## Chairman and Non-executive Directors

The remuneration of the Chairman of the Board and the Non-executive Directors consists of fees that are paid monthly. The Chairman and Non-executive Directors do not ordinarily participate in any of the Company's long-term incentive or short-term incentive schemes, nor do they accumulate any pension entitlement.

Neither the Chairman nor any of the Non-executive Directors has a service contract with the Company; however each has entered into a letter of appointment with the Company.

## Non-executive Directors' letters of appointment

Each of the Non-executive Directors has signed a letter of appointment with the Company. The Non-executive Directors have each been appointed for an initial period of three years and their appointments are renewed on a three-yearly basis, subject to re-election when appropriate by the Company in general meeting. Unless otherwise determined neither the Company nor the Director concerned may give less than three months' notice of termination of the appointment.

The Non-executive Directors' fees are reviewed as at 1 July each year. The Non-executive Directors' fees have been set at a level to reflect the time commitment and level of involvement that they are required to devote to the activities of the Board and its committees. The key appointment terms of the Non-executive Directors are as follows:

Director	Position	Date of appointment	Duration of term	Fees p.a.
Michael Abrahams	Chairman	14 June 2007	3 years	US\$400,000
Oliver Baring <sup>1</sup>	Non-executive Director	1 December 2007	3 years	US\$140,000
Lucio Genovese <sup>2</sup>	Non-executive Director	14 June 2007	3 years	US\$140,000
Wolfram Kuoni <sup>3</sup>	Non-executive Director	14 June 2007	3 years	US\$140,000
Ihor Mitiukov	Non-executive Director	14 June 2007	3 years	US\$120,000
Kostyantyn Zhevago <sup>4</sup>	Non-executive Director	14 June 2007	31 October 2008	Nil

1 Oliver Baring receives a fee of US\$120,000 p.a. as a Non-executive Director and an additional fee of US\$20,000 p.a. in total for his roles as Senior Independent Director and Chairman of the Nominations Committee and Committee of Independent Directors.

2 Lucio Genovese receives a fee of US\$120,000 p.a. as a Non-executive Director and an additional fee of US\$20,000 p.a. for his role as Chairman of the Remuneration Committee.

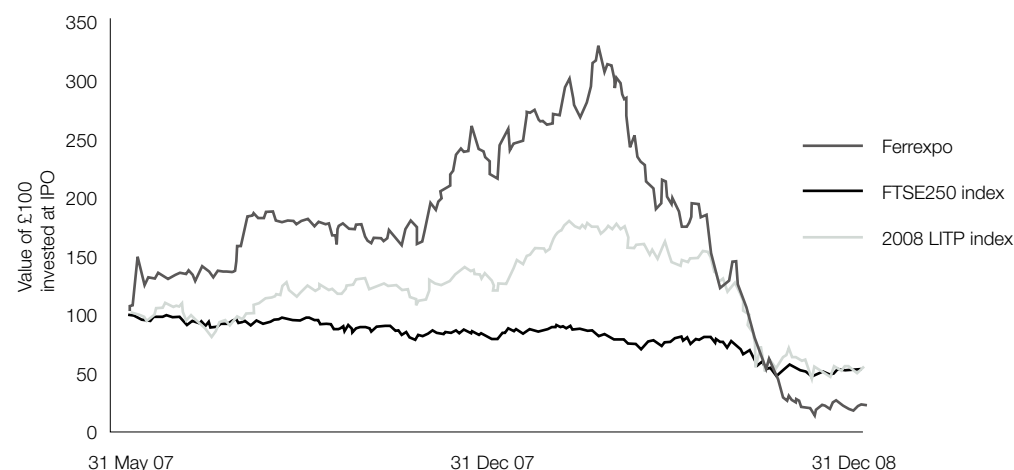
3 Wolfram Kuoni receives a fee of US\$120,000 p.a. as a Non-executive Director and an additional fee of US\$20,000 p.a. for his role as Chairman of the Audit Committee.

4 Kostyantyn Zhevago was appointed as Chief Executive Officer on 1 November 2008.

## External appointments

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

## Performance review



Source: Bloomberg

The above graph shows the value, at 31 December 2008, of £100 invested in Ferrexpo's shares at the time of the IPO compared with the current value of the same amount invested in the FTSE 250 index or in the shares of the LTIP comparator group.

## Directors' remuneration – Audited Information

Directors' remuneration for the period from 1 January 2008 or their appointment date (if later) to 31 December 2008.

### Salary, Annual Bonus and other benefits

	Salary or fees US\$000	Pension US\$000	Benefits US\$000	Bonus US\$000	Total 2008 US\$000	Total 2007 US\$000
<b>Chairman</b>						
Michael Abrahams <sup>1</sup>	387	–	331 <sup>2</sup>	–	<b>718</b>	368
<b>Executive Directors</b>						
Kostyantyn Zhevago <sup>3</sup>	40	2	22	–	<b>64</b>	–
Chris Mawe	643	10	20	332	<b>1,005</b>	–
<b>Non-executive Directors</b>						
Oliver Baring	144 <sup>4</sup>	–	29 <sup>2</sup>	–	<b>173</b>	98
Lucio Genovese	154 <sup>4</sup>	–	30 <sup>2</sup>	–	<b>184</b>	170
Wolfram Kuoni	154 <sup>4</sup>	–	30 <sup>2</sup>	–	<b>184</b>	170
Ihor Mitiukov	124	–	30 <sup>2</sup>	–	<b>154</b>	160
<b>Former Executive Directors</b>						
Mike Oppenheimer <sup>5,6</sup>	1,338	10	2,795	–	<b>4,143</b>	9,924
Dennis McShane <sup>5,6</sup>	523	33	10	–	<b>566</b>	9,277
<b>Total</b>	<b>3,507</b>	<b>55</b>	<b>3,297</b>	<b>332</b>	<b>7,191</b>	<b>20,167</b>

1 Michael Abrahams is additionally entitled to a payment of US\$175,000 in respect of significant additional work performed during the period.

2 The amount shown for Non-executive Directors relates solely to share-based valuation of listing bonus awards.

3 Kostyantyn Zhevago was appointed as Chief Executive Officer on 1 November 2008. No fees were received by him for his role as a Non-executive Director prior to that date.

4 Includes a sum in respect of an increase in fees for 2007 paid in 2008.

5 Mike Oppenheimer and Dennis McShane resigned from the Board on 1 November 2008.

6 Figures for Mike Oppenheimer and Dennis McShane do not include the amounts detailed below following their resignation as Directors.

### Former Directors

Mike Oppenheimer and Dennis McShane resigned as Directors on 1 November 2008 but remained as employees until 30 November 2008 and 2 January 2009 respectively (in each case the 'Termination Date'). During this period of their employment Mr Oppenheimer and Mr McShane were entitled to receive their base salary and housing allowance totalling US\$100,792 and £39,375 respectively. They were also entitled to receive other contractual benefits (including medical cover, tax expenses and employer pension contributions) up to the Termination Date. Additional payments made to Mr Oppenheimer were US\$3,244,211 and to Mr McShane £1,002,767. These sums included payments in lieu of contractual notice period, accrued holiday, housing allowance, pro-rata entitlement to a STIP award in respect of 2008 and 2009 in accordance with their employment contracts, and a payment to settle all claims arising in connection with the termination of employment.

### Directors' interests in shares of the Company

Interests of the Directors in office as at 31 December 2008

	At 31 December 2008	At 1 January 2008 or date of appointment if later
Michael Abrahams <sup>1</sup>	<b>258,634</b>	271,971
Kostyantyn Zhevago <sup>2</sup>	<b>300,198,313</b>	443,905,924
Christopher Mawe	<b>0</b>	0
Oliver Baring	<b>20,130</b>	19,176
Lucio Genovese	<b>168,280</b>	313,659
Wolfram Kuoni	<b>27,566</b>	27,945
Ihor Mitiukov	<b>30,527</b>	32,636

1 181,314 Ordinary Shares included in the table above are held on behalf of Michael Abrahams by Appleby Trust (Jersey) Limited and will vest in his favour as to one half each on 15 June 2009 and 15 June 2010.

2 Kostyantyn Zhevago is interested in these shares by reason of being a beneficiary of The Minco Trust, which is the sole shareholder of Fevamotinico S.a.r.l., which owns 300,198,313 Ordinary Shares in the Company.

# Remuneration Report continued

There have been no changes in the interests of the Directors from the end of the period under review to 9 March 2009, being a date not more than one month prior to the date of notice of the Annual General Meeting.

## Listing bonus awards

The Chairman and the Non-executive Directors were all awarded shares in the Company following their appointment to the Board as follows:

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

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

## Former Executive Director – Listing bonus

At the time of the IPO, Mike Oppenheimer was entitled to an award of cash and/or shares in the Company. 50% of this award was due on Listing and 50% was due on the first anniversary of the Listing. The first 50% of the Listing bonus due to Mr Oppenheimer was paid in cash; the balance was paid in Ordinary Shares. As a result, Mr Oppenheimer was awarded 1,515,177 Ordinary Shares which vested on 14 June 2008.

## Long Term Incentive Plan awards

In 2008 the following performance shares were awarded to Executive Directors as nil cost options under the LTIP. Further details of the LTIP and the applicable performance conditions are shown on page 45.

	During year					Total at 31 December 2008	Market price on date of award (p)	Market price at date of exercise	Date from which exercisable	Expiry date
	At 1 January 2008	Granted (2008 LTIP Award)	Granted (Transitional Award) <sup>1</sup>	Exercised	Lapsed					
Chris Mawe	0	100,000	65,000	–	–		410.5	–	01.01.2011	16.05.2018
						165,000	410.5	–	01.01.2010	16.05.2018

<sup>1</sup> Transitional award of performance shares:

The 2008 LTIP awards will not vest before Spring 2011. In recognition of this, and to enable a smooth transition to annual rolling three-year LTIP cycles, the Committee supplemented the 2008 LTIP awards of up to 100% of salary in performance shares with transitional awards of performance shares of 180,000 shares for the CEO, 75,000 shares for the Executive Director Business Development and 65,000 shares for the Chief Financial Officer. These awards will vest on two-year TSR performance and be based on the same calibration.

**Former Executive Directors vesting of LTIP awards**

In accordance with the provisions of the LTIP plan rules and applicable employment contracts LTIP awards made to Mike Oppenheimer and Dennis McShane in 2008 will vest as follows:

	Grant	Number of shares	Vesting date	Pro rated for time	Adjusted number of shares	Apply TSR test
Mike Oppenheimer	Transitional award	180,000	31 Oct 2009	No	n/a	Yes
	2008 LTIP award	180,000	31 Oct 2009	No	n/a	Yes
Dennis McShane	Transitional award	75,000	31 Dec 2009	92%	68,750	Yes
	2008 LTIP award	100,000	31 Dec 2010	61%	61,111	Yes

This Report was approved by the Board on 23 March 2009.

Signed on behalf of the Board.

**Lucio Genovese**

Chairman of the Remuneration Committee

# Directors' Report

The Directors present their report to shareholders for the financial year ending 31 December 2008.

The Company was incorporated under the name Ferrexpo plc as a public company limited by shares on 22 April 2005. Ferrexpo plc listed on the London Stock Exchange in June 2007 and is a member of the FTSE 250 index.

## Business Review

A review of the business, its principal activities and future developments can be found in the pages listed below and are incorporated into this Directors' Report by reference. The pages referred to incorporate details of the principal risks and uncertainties facing the Group, analysis using Key Performance Indicators as set out in the Business Review, and the key relationship agreement.

- Chairman's and Chief Executive Officer's Review on pages 4 to 7.
- the Business Review on pages 12 to 35 including the Corporate Social Responsibility Review on pages 26 to 35.

## Directors' duties

The duties set out in sections 175 to 177 of the 2006 Companies Act came into force on 1 October 2008. The duties that are specifically referred to in the Corporate Governance Report on pages 38 to 43 include section 172 (to promote the success of the Company), section 175; (to avoid conflicts of interest), section 176 (not to accept benefits from third parties) and section 177 (to declare any interests in existing or proposed transactions or arrangements with the Company).

## Results and dividends

Results for the year are set out in the Consolidated Income Statement on page 60.

The Directors recommend a dividend of 3.3 US cents per Ordinary Share. Subject to shareholders approving this recommendation at the Annual General Meeting (the 'AGM'), the dividend will be paid in UK pounds sterling on 22 May 2009 to shareholders on the register at the close of business on 17 April 2009. Shareholders may receive UK pounds sterling dividends by direct bank transfer, provided that they have notified the Group's registrars in advance. Shareholders may elect to receive dividends in US dollars.

## Directors

The Directors of the Company who served during the year were:

Michael Abrahams  
Oliver Baring  
Lucio Genovese  
Wolfram Kuoni  
Chris Mawe (appointed 7 January 2008)  
Dennis McShane (resigned 1 November 2008)  
Ihor Mitiukov  
Mike Oppenheimer (resigned 1 November 2008)  
Kostyantyn Zhevago

Marek Jelinek and Miklos Salamon will be appointed to the Board on 27 March 2009 following the announcement made in October 2008 of the acquisition of a substantial interest in the Company by RPG Industries SE.

In accordance with the Articles of Association of the Company (the 'Articles'), Messrs. Jelinek and Salamon will offer themselves for election at the forthcoming AGM. In addition, Messrs. Zhevago, Baring and Genovese will retire by rotation at the forthcoming AGM and, being eligible, will offer themselves for re-election.

Michael Oppenheimer and Dennis McShane resigned as Directors during the second half of the year. Kostyantyn Zhevago was appointed Chief Executive Director with effect from 1 November 2008.

Further details about the Directors and their roles within the Group are given in the Directors' biographies on pages 8 and 9. Details of the remuneration of the Directors, their interests in shares of the Company and service contracts are contained in the Remuneration Report on pages 44 to 51.

## Appointment and replacement of Directors

Directors may be elected by the shareholders (by ordinary resolution) or appointed by the Board. A Director appointed by the Board holds office only until the next following annual general meeting and is then eligible for election by the shareholders.

At each annual general meeting one-third of the Directors who are subject to retirement by rotation, or if this number is not three or a multiple of three, the number nearest to but not less than one-third, will retire from office and stand for re-election. New Directors appointed since the last annual general meeting are not taken into account in determining the number of Directors who are to retire by rotation. If any Director has served more than three years since his last appointment, or if he has served more than eight years as a Non-executive Director, he must also stand for re-election.

## Powers of the Directors

Subject to the Company's Articles, the Companies Act 1985 and 2006 (the 'Acts') and any directions given by special resolution, the business of the Company will be managed by the Board who may exercise all the powers of the Company.

## Directors' and Officers' insurance

The Company maintains Directors' and Officers' Liability Insurance in respect of legal action that may be brought against its Directors and Officers.

## Directors' indemnity provision

During the period under review, the Group had in force an indemnity provision in favour of one or more of the Directors of Ferrexpo plc against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006.

## Share capital and rights attaching to the Company's shares

The Company has a single class of Ordinary Shares of 10p each.

Subject to applicable statutes and other shareholders' rights, shares may be issued with such rights and restrictions as the Company may by ordinary resolution decide, or (if there is no such resolution or so far as it does not make specific provision) as the Board may decide. Unissued shares are at the disposal of the Board. At each annual general meeting, the Board proposes to put in place annual shareholder authority authorising the

Company's Directors to allot unissued shares in accordance with the guidelines of the Investor Protection Committee.

Details of the authorised and issued share capital of the Company are shown in note 31 of the financial statements.

#### **Variation of rights**

Subject to the provisions of the Acts, the rights attached to a class of shares may be varied or abrogated either with the consent in writing of the holders of at least three-quarters of the nominal amount of the issued shares of that class (excluding any share of that class held as treasury shares) or with the sanction of an extraordinary resolution passed at a separate meeting of the holders of the issued shares of that class validly held in accordance with the Articles.

#### **Transfer of shares**

Any share in the Company may be held in uncertificated form and, subject to the Articles, title to uncertificated shares may be transferred by means of a relevant system. Registration of a transfer of an uncertificated share may be refused in the circumstances set out in the Uncertificated Securities Regulations 2001 and where, in the case of a transfer to joint holders, the number of joint holders to whom the uncertificated share is to be transferred exceeds four.

Subject to the Articles, any member may transfer all or any of his certificated shares by an instrument of transfer in any usual form or in any other form which the Board may approve. The Board may decline to register a transfer if it is not in the approved form. The Board may also decline to register any transfer of any share which is not a fully paid share. The Board may decline to register a transfer of any of the Company's certificated shares by a person with a 0.25% interest if such a person has been served with a notice after failure to provide the Company with information concerning interests in those shares required to be provided under the Acts, unless the transfer is shown to the Board to be pursuant to an arm's length sale.

#### **Repurchase of shares**

Subject to authorisation by shareholder resolution, the Company may purchase its own shares in accordance with the Acts. Any shares which have been bought back may be held as treasury shares or cancelled immediately upon completion of the purchase.

The Company was given authority to make market purchases of up to approximately 10% of its existing Ordinary Share capital by a resolution passed on 15 May 2008. This authority will expire at the conclusion of the Company's 2009 AGM. A special resolution to renew the authority will be proposed at the forthcoming AGM. Details of the resolution renewing the authority to purchase Ordinary Shares are set out in the notice of Annual General Meeting enclosed with this report.

Using the authority mentioned above, between 5 and 30 September 2008 the Company purchased on the market 5,945,000 Ordinary Shares of £0.10 at an average price of £1.71. On 16 September 2008 the Company purchased on the market 19,398,814 Ordinary Shares from Fevaminico S.a.r.l., (a connected person of Kostyantín Zhevago) at a price of £1.67 per share. All of the 25,343,814 Ordinary Shares repurchased in this way, representing 4.1% of the called-up Ordinary Shares of the Company, were

placed into treasury. These repurchases were made in the light of cash generated in excess of current needs.

#### **Dividends and distributions**

Subject to the provisions of the Acts, the shareholders may by ordinary resolution, from time to time, declare dividends not exceeding the amount recommended by the Board. The Board may pay interim dividends and also any fixed rate dividends whenever the financial position of the Group, in the opinion of the Board, justifies their payment.

Under the Company's Articles, the Board may withhold payment of all or any part of any dividends or other monies payable in respect of the Company's shares from a person with a 0.25% interest (as defined in the Articles) if such person has been served with a notice under section 793 of the Companies Act 2006 and has failed to provide the Company with information concerning interests in those shares required to be provided under the Acts.

#### **Voting**

At a general meeting of the Company, every member has one vote on a show of hands and on a poll, one vote for each share held. Under the Acts, members are entitled to appoint a proxy or proxies to exercise all or any of their rights to attend, speak and vote at a general meeting. A member that is a corporation may appoint one or more individuals to act on its behalf at a general meeting as a corporate representative.

#### **Restrictions on voting**

No member is entitled to vote at any general meeting in respect of any shares held by him if any call or other sum outstanding in respect of that share remains unpaid. Currently, all issued shares are fully paid. In addition, no member shall be entitled to vote if he has failed to provide the Company with information concerning interests in those shares required to be provided under the Acts.

#### **Shares held in the EBT**

The trustees of the Company employee benefit trust ('EBT') may vote or abstain from voting on shares held in the EBT as they think fit and in doing so may take into account both financial and non financial interests of the beneficiaries of the EBT or their dependants.

#### **Deadline for voting rights**

The Articles provide a deadline for submission of proxy forms of not less than 48 hours before the meeting (not excluding non-working days).

# Directors' Report continued

## Substantial shareholdings

As at 9 March 2009, the following major interests in the Ordinary Shares of the Company had been notified to the Company:

Name of shareholder	Number of Ordinary Shares	Number of voting rights	% of the Company's total voting rights at date of notification
Fevamotinic S.a.r.l. <sup>1</sup>	300,198,313	300,198,313	51.00%
Wigmore Street Investments No. 3 Ltd <sup>2</sup>	147,156,035	147,156,035	24.99%
Ralkon Commercial Limited <sup>3,5</sup>	40,551,710	40,551,710	6.90%
Fayver Properties, Inc. <sup>4,5</sup>	17,675,762	17,675,762	3.00%

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

2 Wigmore Street Investments No.3 Ltd is a wholly owned subsidiary of RPG Investments SE.

3 Ralkon Commercial Limited is wholly beneficially owned by Ihor Kolomoisky.

4 Fayver Properties, Inc., is wholly beneficially owned by Genady Bogoliubov.

5 On 20 March 2009 the Company was notified that Fayver Properties, Inc's holding had increased to 18,691,205 Ordinary Shares (3.18%) and that Fayver Properties, Inc and Ralkon Commercial Limited had executed an agreement under which they are bound to exercise their Ferrexpo voting rights jointly.

## Significant agreements

There are no circumstances connected with significant agreements to which the Company is a party that would take effect, alter or terminate upon a change of control following a takeover bid, except those referred to below:

### Long Term Incentive Plan

The rules of the Company's Long Term Incentive Plan sets out the consequences of a change of control of the Company on employee rights under the plan. Generally, such rights will vest on a change of control to the extent that the performance conditions have been satisfied and on a time pro-rated basis, subject to the discretion of the Remuneration Committee. Participants will become entitled to acquire shares in the Company, or in some cases, to the payment of a cash sum of equivalent basis.

### Bank loan facility

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 Kostyantyn Zhevago ceases to own more than 51% of the Company, the lenders are entitled to demand repayment of this facility.

### Relationship Agreement

Details of the Relationship Agreement entered into between Fevamotinic S.a.r.l., Kostyantyn Zhevago, The Minco Trust and the Company can be found in the Business Review (page 23) and in the Corporate Governance Report (page 39). The Relationship Agreement ceases to apply if the holding of Fevamotinic S.a.r.l., The Minco Trust or Mr Zhevago individually or collectively falls below 25% of the issued share capital of the Company.

### Events since the balance sheet date

Information on events since the balance sheet date is provided in note 2 to the financial statements on page 71.

### Market value of land and buildings

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

### Policy on derivatives and financial instruments

The Group does not hold any derivative financial instruments. Group policy on financial instruments is set out in note 43 to the Consolidated Financial Information on pages 99 to 105.

### Creditor payment policy and practice

It is the Group's policy that payments to suppliers are made in accordance with the terms and conditions agreed between the Company and its suppliers, provided that all relevant trading terms and conditions have been complied with. The average creditor payment period for the period ended 31 December 2008 for the Company was 29 days (2007: 27 days).

### Charitable and political donations

The Group made no political donations during the year. Group donations to charities worldwide were US\$6,081,000 (2007: US\$2,971,000), with UK charities receiving US\$nil (2007: US\$nil).



### **Risk management policies**

Full details of the Group's policy on risk and uncertainty and an overview of the Group's exposure to credit, liquidity and market risks are set out in note 43 of the 'Notes to the Consolidated Financial Information' on pages 99 to 105. Further references to risk are made in the Business Review on pages 24 to 25 and the Internal Control section of the Corporate Governance Report on page 42 which provides a summary of the internal control procedures put in place by the Board to identify key risks and review risk management and its effectiveness.

### **Going concern**

The Directors consider that the Group has adequate financial resources to continue operating for the foreseeable future and that it is therefore appropriate to adopt the going concern basis in preparing the financial statements. The Directors have satisfied themselves that the Group is in a sound financial position and that it has access to sufficient borrowing facilities and can reasonably expect those facilities to be available to meet the Group's foreseeable cash requirements.

### **Statement on disclosure of information to auditors**

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

A Statement of the Responsibilities of the Directors for preparing the Group and Company financial statements is set out on page 56.

### **Amendments to the Articles of Association ('Articles')**

Any amendments to the Articles may be made in accordance with the provisions of the Companies Acts by special resolution. A resolution will be put to the 2009 AGM to amend the Articles. This is to incorporate changes made under the Companies Act 2006 which was enacted on 8 November 2006 and is being implemented in stages.

### **Annual General Meeting**

The second Annual General Meeting of the Company will be held at 11.00am on Tuesday 19 May 2009 at The Dorchester, Park Lane, London W1K 1QA. A separate letter from the Chairman summarising the business of the meeting and the Notice convening the AGM have been sent to shareholders with this Annual Report.

### **Auditors**

Having reviewed the independence and effectiveness of the auditors, the Audit Committee has recommended to the Board that the existing auditors, Ernst & Young LLP, be reappointed. Ernst & Young LLP have indicated their willingness to continue in office and an ordinary resolution reappointing them as auditors and authorising the Directors to set their remuneration will be proposed at the 2009 Annual General Meeting.

This report was approved by the Board on 23 March 2009.

### **David Leonard**

Company Secretary

### **Ferrexpo plc**

#### **Registered Office:**

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

#### **Headquarters:**

Bahnhofstrasse 13  
CH-6340 Baar  
Switzerland

# Statement of Directors' Responsibilities

## In relation to the Group financial statements

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

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

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

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## In relation to the parent company financial statements

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view

of the state of affairs of the Company and of the profit or loss for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK 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 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. They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Responsibility Statement of the Directors in respect of the Annual Report and Accounts

We confirm on behalf of the Board that to the best of our knowledge:

- (a) the financial statements give a true and fair view of the assets, liabilities, financial position and profit and loss of the Company and the undertakings included in the consolidation taken as a whole; and
- (b) the management report (entitled 'Business Review') includes a fair review of the development and performance of the business, and the principal risks and uncertainties that they face.

For and on behalf of the Board

**Michael Abrahams**  
Chairman

**Chris Mawe**  
Chief Financial Officer

# 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.

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# Consolidated Income Statement

US\$000	Notes	Year ended 31.12.08	Year ended 31.12.07
<b>Revenue</b>	6	<b>1,116,854</b>	698,216
Cost of sales	7	<b>(434,238)</b>	(335,936)
<b>Gross profit</b>		<b>682,616</b>	362,280
Selling and distribution expenses	8	<b>(152,528)</b>	(100,614)
General and administrative expenses	9	<b>(67,185)</b>	(44,308)
Other income	10	<b>6,387</b>	4,844
Other expenses	11	<b>(38,040)</b>	(5,096)
Operating foreign exchange gain	12	<b>29,309</b>	–
<b>Operating profit from continuing operations before adjusted items</b>		<b>460,559</b>	217,106
Write-offs and impairment losses	13	<b>(27,326)</b>	(1,568)
Share of gains of associates	14	<b>1,003</b>	687
Negative goodwill	15	<b>35,049</b>	–
Initial public offering costs	16	<b>(4,120)</b>	(34,004)
Gain on disposal of available-for-sale investment		<b>1,571</b>	4,714
<b>Profit before tax and finance</b>		<b>466,736</b>	186,935
Finance income	17	<b>2,467</b>	3,242
Finance expense	17	<b>(20,834)</b>	(25,950)
Non-operating foreign exchange loss	12	<b>(72,788)</b>	(3,467)
<b>Profit before tax</b>		<b>375,581</b>	160,760
Tax	18	<b>(62,533)</b>	(26,725)
<b>Profit for the year</b>		<b>313,048</b>	134,035
Attributable to:			
Equity shareholders of Ferrexpo plc		<b>292,436</b>	124,076
Minority interest		<b>20,612</b>	9,959
		<b>313,048</b>	134,035
Earnings per share:			
Basic (US cents)	19	<b>48.60</b>	20.41
Diluted (US cents)	19	<b>48.46</b>	20.33
Dividends:			
Proposed ordinary dividend per share (US cents)	19	<b>3.3</b>	3.2
Proposed aggregate dividend (US\$000)	19	<b>20,000</b>	19,449

# Consolidated Balance Sheet

US\$000	Notes	As at 31.12.08	As at 31.12.07
<b>Assets</b>			
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
<b>Total non-current assets</b>		<b>563,429</b>	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
<b>Total current assets</b>		<b>290,606</b>	258,512
<b>Total assets</b>		<b>854,035</b>	867,941
<b>Equity and liabilities</b>			
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
<b>Equity attributable to equity shareholders of the parent</b>		<b>446,124</b>	541,068
<b>Minority interest</b>		<b>11,769</b>	45,854
<b>Total equity</b>		<b>457,893</b>	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
<b>Total non-current liabilities</b>		<b>251,252</b>	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
<b>Total current liabilities</b>		<b>144,890</b>	113,405
<b>Total liabilities</b>		<b>396,142</b>	281,019
<b>Total equity and liabilities</b>		<b>854,035</b>	867,941

The financial statements were approved by the Board of Directors on 23 March 2009.

**Kostyantyn 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
<b>Net cash flows from operating activities</b>	39	<b>370,943</b>	188,846
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		<b>(276,264)</b>	(104,352)
Proceeds from sale of property, plant and equipment		<b>2,016</b>	1,896
Purchase of intangible assets		<b>(1,597)</b>	(435)
Deposits lodged at banks		–	9,011
Purchases of available-for-sale securities		<b>(266)</b>	(12,126)
Proceeds from sale of financial assets		–	5,704
Interest received		<b>2,472</b>	4,805
Acquisition of minority interest in subsidiaries	37	<b>(11,048)</b>	–
Loans provided to associates		<b>(4,000)</b>	(5,000)
<b>Net cash flows used in investing activities</b>		<b>(288,687)</b>	(100,497)
<b>Cash flows from financing activities</b>			
Proceeds from borrowings and finance		<b>172,143</b>	175,244
Repayment of borrowings and finance		<b>(69,412)</b>	(276,084)
Dividends paid to equity shareholders of the parent		<b>(38,954)</b>	–
Dividends paid to minority interest		<b>(1,186)</b>	(786)
Distribution under 50/50 tax ruling		–	(5,000)
Proceeds from issue of share capital to minorities		<b>2,123</b>	–
<b>Proceeds from issue of share capital in Ferrexpo plc:</b>			
Initial public offering proceeds		–	202,072
Non-initial public offering proceeds		–	99
Initial public offering costs		–	(48,648)
Share buy back	31	<b>(77,260)</b>	(64,055)
<b>Net cash flows used in financing activities</b>		<b>(12,546)</b>	(17,158)
Net increase/(decrease) in cash and cash equivalents		<b>69,710</b>	71,191
Cash and cash equivalents at the beginning of the year		<b>86,966</b>	16,236
Currency translation differences		<b>(68,854)</b>	(461)
<b>Cash and cash equivalents at the end of the year</b>	30	<b>87,822</b>	86,966



# Consolidated Statement of Changes in Equity

US\$000	Attributable to equity shareholders of the parent										
	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
<b>At 1 January 2007</b>	-	-	<b>137,296</b>	-	-	-	<b>186</b>	<b>163,164</b>	<b>300,646</b>	<b>36,146</b>	<b>336,792</b>
Deferred tax on transaction costs	-	5,179	-	-	-	-	-	-	5,179	-	5,179
Revaluation of available-for-sale assets	-	-	-	-	-	2,384	-	-	2,384	-	2,384
<b>Net income and expense for the year recognised directly in equity</b>	-	5,179	-	-	-	2,384	-	-	7,563	-	7,563
Profit for the period	-	-	-	-	-	-	-	124,076	124,076	9,959	134,035
<b>Total income and expense for the year</b>	-	5,179	-	-	-	2,384	-	124,076	131,639	9,959	141,598
<b>Items recognised directly in equity:</b>											
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
<b>At 31 December 2007</b>	<b>121,628</b>	<b>188,566</b>	<b>31,780</b>	-	<b>(20,092)</b>	<b>2,384</b>	<b>186</b>	<b>216,616</b>	<b>541,068</b>	<b>45,854</b>	<b>586,922</b>
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)
<b>Net income and expense for the year recognised directly in equity</b>	-	(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
<b>Total income and expense for the year</b>	-	(3,454)	-	-	(317)	(1,571)	(270,790)	292,436	16,304	(695)	15,609
<b>Items recognised directly in equity:</b>											
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)
<b>At 31 December 2008</b>	<b>121,628</b>	<b>185,112</b>	<b>31,780</b>	<b>(77,260)</b>	<b>(15,443)</b>	<b>813</b>	<b>(270,604)</b>	<b>470,098</b>	<b>446,124</b>	<b>11,769</b>	<b>457,893</b>

# 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:

Name	Country of incorporation	Principal activity	Equity interest owned at 31 December	
			2008 %	2007 %
Ferrexpo Poltava GOK Corporation <sup>1</sup>	Ukraine	Iron ore mining	97.1	85.9
Ferrexpo AG <sup>2</sup>	Switzerland	Sale of iron ore pellets	100.0	100.0
DP Ferrotrans <sup>3</sup>	Ukraine	Trade, transportation services	100.0	100.0
United Energy Company LLC <sup>3</sup>	Ukraine	Holding company	100.0	100.0
Ferrexpo UK Limited <sup>1</sup>	England	Finance	100.0	100.0
Ferrexpo Services Limited <sup>1</sup>	Ukraine	Management services and procurement	100.0	100.0
Ferrexpo Hong Kong Limited <sup>1</sup>	China	Marketing services	100.0	100.0
Ferrexpo Yeristova GOK LLC <sup>4</sup>	Ukraine	Iron ore mining	100.0	–
Nova Logistics Limited <sup>3</sup>	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
<b>Revenue</b>		
<b>Sales to external customers</b>		
Ukraine	<b>185,339</b>	136,757
Switzerland	<b>931,515</b>	561,459
<b>Total</b>	<b>1,116,854</b>	698,216
<b>Other segment information</b>		
<b>Segment assets</b>		
Ukraine	<b>596,845</b>	593,134
Switzerland	<b>132,044</b>	106,018
Unallocated <sup>1</sup>	<b>125,146</b>	168,789
<b>Total</b>	<b>854,035</b>	867,941
<b>Segment liabilities</b>		
Ukraine	<b>(71,498)</b>	(64,946)
Switzerland	<b>(304,909)</b>	(207,274)
Unallocated <sup>2</sup>	<b>(19,736)</b>	(8,799)
<b>Total</b>	<b>(396,143)</b>	(281,019)
<b>Capital expenditure</b>		
<b>Property, plant and equipment</b>		
Ukraine	<b>241,364</b>	94,188
Switzerland	<b>43,659</b>	1,182
<b>Total</b>	<b>285,023</b>	95,370
<b>Intangible fixed assets</b>		
Ukraine	<b>1,431</b>	482
Switzerland	<b>166</b>	–
<b>Total</b>	<b>1,597</b>	482
<b>Depreciation and amortisation</b>		
Ukraine	<b>33,481</b>	27,832
Switzerland	<b>644</b>	433
<b>Total</b>	<b>34,125</b>	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	<b>973,420</b>	560,805
Ukraine	<b>134,413</b>	128,731
	<b>1,107,833</b>	689,536
Revenue from services provided	<b>1,229</b>	3,005
Revenue from other sales	<b>7,792</b>	5,675
	<b>1,116,854</b>	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	–
	<b>973,420</b>	<b>560,805</b>

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
	<b>434,238</b>	<b>335,936</b>

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	<b>364,418</b>	<b>279,573</b>
Own ore produced (tonnes)	<b>8,607,500</b>	8,793,000
C1 cash cost per tonne US\$	<b>42.34</b>	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
	<b>152,528</b>	<b>100,614</b>

**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
	<b>67,185</b>	<b>44,308</b>

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
<b>Audit</b>		
United Kingdom	73	78
Overseas	1,275	1,011
<b>Other services provided by auditors</b>		
United Kingdom	20	12
Overseas	1,449	12,080
<b>Total auditor remuneration</b>	<b>2,817</b>	<b>13,181</b>

# 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
<b>Statutory audit services</b>		
Ferrexpo plc Annual Report	1,058	1,021
Subsidiary entities	290	68
	<b>1,348</b>	1,089
<b>Non-audit services</b>		
IPO related fees	–	11,508
Tax advisory	742	134
Assurance related services	639	450
Other	88	–
	<b>1,469</b>	12,092
<b>Total auditor remuneration</b>	<b>2,817</b>	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
	<b>6,387</b>	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
	<b>38,040</b>	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
<b>Operating foreign exchange gains</b>		
Revaluation of trade receivables	31,200	–
Revaluation of trade payables	(1,891)	–
	<b>29,309</b>	–
<b>Non-operating foreign exchange losses</b>		
Revaluation of interest-bearing loans	(85,907)	–
Revaluation of cash equivalents	13,422	–
Other	(303)	(3,467)
	<b>(72,788)</b>	(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	–
		<b>27,326</b>	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
				<b>18,640</b>	17,637

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

US\$000	Total assets		Total liabilities		Revenue		Net profit	
	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	<b>4,257</b>	9,064
Other	<b>(137)</b>	–
	<b>4,120</b>	65,892
Charged to:		
Income statement	<b>4,120</b>	34,004
Share premium reserve	–	31,888
	<b>4,120</b>	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
<b>Finance income</b>		
Interest income on bank deposits	<b>1,448</b>	2,457
Other finance revenue	<b>1,019</b>	785
	<b>2,467</b>	3,242
<b>Finance expense</b>		
Interest expense on financial liabilities measured at amortised cost	<b>(15,002)</b>	(21,493)
Interest on defined benefit plans	<b>(1,776)</b>	(1,490)
Bank charges	<b>(336)</b>	(1,642)
Other finance costs	<b>(3,720)</b>	(1,325)
	<b>(20,834)</b>	(25,950)
Net finance expense	<b>(18,367)</b>	(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	<b>79,016</b>	31,163
Deferred income tax	<b>(16,483)</b>	(4,438)
	<b>62,533</b>	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
<b>Income tax expense</b>	<b>62,533</b>	<b>26,725</b>

#### 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
<b>Profit for the year attributable to equity shareholders:</b>		
Basic earnings per share (US cents)	48.60	20.41
Diluted earnings per share (US cents)	48.46	20.33
<b>Underlying earnings for the year:</b>		
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
<b>Weighted average number of shares</b>		
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 of 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		<b>292,436</b>	124,076
Write offs/impairments	13	<b>27,326</b>	1,568
IPO costs	16	<b>4,120</b>	34,004
Negative goodwill generated on rights issue	15	<b>(35,049)</b>	–
Gain on disposal of available-for-sale investment		<b>(1,571)</b>	(4,714)
Non-operating foreign exchange losses	12	<b>72,788</b>	–
Tax on adjusted items		<b>(12,619)</b>	(3,217)
<b>Underlying earnings</b>		<b>347,431</b>	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
<b>Dividends proposed</b>	
Final dividend for 2008: 3.3 US cents per Ordinary Share	<b>20,000</b>
<b>Total</b>	<b>20,000</b>
<b>Dividends paid during the period</b>	
Interim dividend for 2008: 3.2 US cents per Ordinary Share	<b>19,505</b>
Final dividend for 2007: 3.2 US cents per Ordinary Share	<b>19,449</b>
<b>Total</b>	<b>38,954</b>

**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		<b>466,736</b>	186,935
Write-offs and impairment losses	13	<b>27,326</b>	1,568
Gain on disposal of available-for-sale investment		<b>(1,571)</b>	(4,714)
Initial public offering costs	16	<b>4,120</b>	34,004
Share based payments	44	<b>1,495</b>	–
Negative goodwill generated on rights issue	15	<b>(35,049)</b>	–
Severance payments		<b>6,764</b>	–
Depreciation and amortisation		<b>34,125</b>	28,264
<b>EBITDA</b>		<b>503,946</b>	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 <sup>1</sup>	Buildings	Plant and equipment	Vehicles	Fixtures and fittings	Assets under construction	Total
<b>Cost:</b>								
<b>At 1 January 2007</b>	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)
<b>At 31 December 2007</b>	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)
<b>At 31 December 2008</b>	3,225	15,749	112,531	141,742	109,752	4,201	137,020	524,220
<b>Depreciation:</b>								
<b>At 1 January 2007</b>	–	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)
<b>At 31 December 2007</b>	–	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)
<b>At 31 December 2008</b>	–	543	20,091	67,628	21,411	2,107	–	111,780
<b>Net book value at:</b>								
<b>31 December 2007</b>	4,884	10,738	113,525	92,193	66,364	2,000	74,841	364,545
<b>31 December 2008</b>	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
<b>At 1 January 2007</b>	155,682	1,346	157,028
Additions	–	482	482
Disposals	–	(47)	(47)
<b>At 31 December 2007</b>	155,682	1,781	157,463
Additions	–	1,597	1,597
Disposals	–	(13)	(13)
Translation differences	(53,578)	(1,125)	(54,703)
<b>At 31 December 2008</b>	102,104	2,240	104,344
<b>Accumulated amortisation and impairment:</b>			
<b>At 1 January 2007</b>	–	494	494
Amortisation charge	–	189	189
Disposals	–	(47)	(47)
<b>At 31 December 2007</b>	–	636	636
Amortisation charge	–	279	279
Disposals	–	(13)	(13)
Translation differences	–	(313)	(313)
<b>At 31 December 2008</b>	–	589	589
<b>Net carrying amount at :</b>			
<b>31 December 2007</b>	155,682	1,145	156,827
<b>31 December 2008</b>	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:

US\$000	Ownership %		Carrying value	
	As at 31.12.08	As at 31.12.07	As at 31.12.08	As at 31.12.07
<b>Current</b>				
Marketable Securities	-	-	-	102
Investments available for sale – equity instruments:				
Vostock Ruda	1.10%	3.20%	650	2,839
			<b>650</b>	2,941
<b>Non-current</b>				
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 Ukraina Ltd	-	1.00%	-	2
Dopomoga Ltd	-	19.00%	-	1
			<b>4,435</b>	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
	<b>10,116</b>	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
<b>Deferred tax asset</b>	<b>19,869</b>	<b>11,858</b>
Thereof netted against deferred tax liabilities	<b>(5,826)</b>	<b>(3,751)</b>
<b>Deferred tax asset per the balance sheet</b>	<b>14,043</b>	<b>8,107</b>
Inventories	<b>(4,164)</b>	<b>(1,232)</b>
Property, plant and equipment	<b>(170)</b>	<b>(295)</b>
Exploration rights	–	<b>(154)</b>
Advances and other current assets	<b>(1,593)</b>	<b>(1,803)</b>
Loans and borrowings	<b>(332)</b>	<b>(507)</b>
Employee benefit trust	<b>(4,442)</b>	–
Trade and other payables and advance receivables	<b>(423)</b>	<b>(785)</b>
<b>Deferred tax liability</b>	<b>(11,124)</b>	<b>(4,776)</b>
Thereof netted against deferred tax assets	<b>5,826</b>	<b>3,751</b>
<b>Deferred tax liability per the balance sheet</b>	<b>(5,298)</b>	<b>(1,025)</b>
<b>Net deferred tax asset</b>	<b>8,745</b>	<b>7,082</b>

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	<b>(7,082)</b>	2,535
Income statement credit	<b>(16,483)</b>	(4,438)
Changes booked through equity	<b>7,896</b>	(5,179)
Foreign currency exchange rate adjustment	<b>6,924</b>	–
<b>End of the year</b>	<b>(8,745)</b>	<b>(7,082)</b>

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)
	<b>61,270</b>	<b>56,545</b>

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)
	<b>58,157</b>	<b>43,575</b>

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	<b>11,956</b>	<b>401</b>

**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
<b>Prepayments to suppliers</b>		
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
	<b>19,587</b>	<b>10,773</b>

# 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)
<b>Income tax payable at the year end</b>	<b>(8,604)</b>	<b>(2,367)</b>

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)
<b>Income tax payable at the year end</b>	<b>(8,604)</b>	<b>(2,367)</b>

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
<b>Other taxes recoverable and prepaid</b>	<b>57,285</b>	<b>52,362</b>

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
	<b>87,822</b>	<b>86,966</b>

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
<b>Balance at 1 January 2007</b>	–	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
<b>Balance at 31 December 2007 and 2008</b>	<b>121,628</b>	<b>613,967,956</b>

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 Fevamotoinico 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
<b>Current</b>		
Ukrainian banks	738	738
Other banks	71,715	53,532
Interest accrued	2,070	14
<b>Total current borrowings</b>	<b>74,523</b>	<b>54,284</b>
<b>Non-current</b>		
Ukrainian banks	24,659	2,578
Other banks	206,714	143,430
<b>Total non-current borrowings</b>	<b>231,373</b>	<b>146,008</b>
<b>Total interest bearing borrowings</b>	<b>305,896</b>	<b>200,292</b>

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 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.

## 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
<b>Current trade and other payables</b>		
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
<b>Trade and other payables, current</b>	<b>35,033</b>	<b>25,380</b>
<b>Non-current trade and other payables</b>		
Commodity loans	570	2,569
Promissory notes	–	83
Other	–	14
<b>Trade and other payables, non-current</b>	<b>570</b>	<b>2,666</b>

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:

US\$000	As at 31.12.08			As at 31.12.07		
	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)	–	–	–
<b>Closing defined benefit obligation</b>	<b>2,096</b>	<b>22,187</b>	<b>24,283</b>	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	–	–	–
<b>Closing assets</b>	<b>1,507</b>	<b>–</b>	<b>1,507</b>	1,039	–	1,039
<b>Net funded status</b>	<b>589</b>	<b>22,187</b>	<b>22,776</b>	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	–	–	–
<b>Defined benefit liability at the end of the year</b>	<b>62</b>	<b>12,878</b>	<b>12,940</b>	191	15,978	16,169
<b>Benefit expense</b>						
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)	–	–	–
	<b>131</b>	<b>7,858</b>	<b>7,989</b>	494	3,439	3,933
<b>Net movement on defined benefit liability</b>						
<b>Balance at beginning of the year</b>	<b>191</b>	<b>15,978</b>	<b>16,169</b>	–	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
<b>Balance at the end of the year</b>	<b>62</b>	<b>12,878</b>	<b>12,940</b>	191	15,978	16,169
<b>Experience adjustments arising on plan liabilities</b>	<b>52</b>	<b>6,167</b>	<b>6,219</b>	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
<b>Fair value of scheme assets</b>	<b>100</b>	<b>1,507</b>	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
<b>Expected rate of return on plan assets:</b>	%	%
Equities	6.50	6.50
Bonds	2.50	2.50
Properties	4.50	4.50
<b>Total</b>	<b>3.43</b>	3.36

**Actual rate of return on plan assets:**

Equities	(47.10)	1.02
Bonds	0.47	(0.77)
Properties	6.05	6.87
<b>Total</b>	<b>(11.38)</b>	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
<b>Unrecognised loss at the end of year</b>	<b>(6,294)</b>	(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
<b>Balance as at 31 December 2007</b>	<b>1,746</b>
Unwind of the discount	269
Arising during the year	(385)
Translation adjustment	(559)
<b>Balance as at 31 December 2008</b>	<b>1,071</b>

## 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	<b>3,413</b>	2,162
Accrued interest payable	–	15
Accrued employee costs	<b>10,993</b>	11,386
Advances from customers	<b>64</b>	249
	<b>14,470</b>	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
<b>Balance as at 1 January 2007</b>	9,062
Interest expense	974
<b>Balance as at 31 December 2007</b>	10,036
Interest expense	1,012
Repurchase of DCM shares	(15,423)
Foreign exchange loss	4,375
<b>Balance as at 31 December 2008</b>	–

## 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, Kostyantyn 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			Year ended 31.12.07		
	Entities under common control	Associated companies	Other related parties	Entities under common control	Associated companies	Other related parties
Iron ore pellet sales	-	-	-	-	-	-
Other sales	853	-	2,937	3,013	65	4,336
<b>Total revenue</b>	<b>853</b>	<b>-</b>	<b>2,937</b>	<b>3,013</b>	<b>65</b>	<b>4,336</b>
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
<b>Total expenses</b>	<b>26,161</b>	<b>3,482</b>	<b>32,426</b>	<b>23,241</b>	<b>1,554</b>	<b>16,390</b>
Finance income	239	394	-	415	304	212
Finance costs	(761)	-	-	(141)	-	-
<b>Net finance income/(costs)</b>	<b>(522)</b>	<b>394</b>	<b>-</b>	<b>274</b>	<b>304</b>	<b>212</b>

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			Year ended 31.12.07		
	Entities under common control	Associated companies	Other related parties	Entities under common control	Associated companies	Other related parties
Sale of investments <sup>1</sup>	1,849	-	-	5,613	-	-
Purchase of investments <sup>2</sup>	270	-	-	-	-	-
Sale of property, plant and equipment <sup>3</sup>	-	-	-	690	-	-
Purchase of property, plant and equipment <sup>4</sup>	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 Kostyantyn 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	-
<b>Total non-current assets</b>	<b>-</b>	<b>9,000</b>	<b>-</b>	<b>47,023</b>	<b>5,000</b>	<b>97</b>
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	-	-
<b>Total current assets</b>	<b>44,899</b>	<b>299</b>	<b>589</b>	<b>12,577</b>	<b>7</b>	<b>593</b>
Trade and other payables	659	-	1,250	2,185	-	1,099
Accrued liabilities and deferred income	-	-	-	-	-	-
<b>Current liabilities</b>	<b>659</b>	<b>-</b>	<b>1,250</b>	<b>2,185</b>	<b>-</b>	<b>1,099</b>

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	<b>375,581</b>	160,760
Adjustments for:		
Depreciation of property, plant and equipment and amortisation of intangible assets	<b>34,125</b>	28,265
Interest expense	<b>18,496</b>	24,488
Interest income	<b>(2,467)</b>	(3,242)
Share of income of associates	<b>(1,003)</b>	(687)
Movement in allowance for doubtful receivables	<b>19,095</b>	336
Write-off/reversal of payables	<b>(1,043)</b>	–
Loss on disposal of property, plant and equipment	<b>1,280</b>	–
Assets received free of charge	<b>(325)</b>	–
Write-offs and impairment losses	<b>27,325</b>	1,568
Site restoration provision	<b>269</b>	1,269
Gains on disposal of investments available for sale	<b>(1,571)</b>	(4,714)
Employee benefits	<b>7,715</b>	3,915
IPO costs	<b>4,120</b>	34,004
Share based payments	<b>1,495</b>	–
Negative goodwill generated on rights issue	<b>(35,049)</b>	–
Operating foreign exchange gain	<b>(29,309)</b>	–
Non-operating foreign exchange loss	<b>72,788</b>	3,467
<b>Operating cash flow before working capital changes</b>	<b>491,522</b>	249,429
Changes in working capital:		
(Increase)/decrease in trade accounts receivable and other receivables	<b>(36,167)</b>	13,951
(Increase)/decrease in inventories	<b>(5,070)</b>	(7,840)
Increase/(decrease) in trade and other accounts payable	<b>8,094</b>	6,534
(Increase)/decrease in other taxes receivable	<b>(673)</b>	(14,411)
<b>Cash generated from operating activities</b>	<b>457,706</b>	247,663
Interest paid	<b>(15,443)</b>	(24,525)
Income tax paid	<b>(67,217)</b>	(32,018)
Post-employment benefits paid	<b>(4,103)</b>	(2,274)
<b>Net cash flows from operating activities</b>	<b>370,943</b>	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	<b>87,822</b>	86,966
Current borrowings	32	<b>(74,523)</b>	(54,284)
Non-current borrowings	32	<b>(231,373)</b>	(146,008)
Current commodity loans	33	<b>(1,446)</b>	(1,664)
Non-current commodity loans	33	<b>(570)</b>	(2,569)
<b>Net financial indebtedness</b>		<b>(220,090)</b>	(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
<b>Total</b>	<b>110,185</b>	<b>90,846</b>

## 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	–
<b>Total</b>	<b>8,759</b>	<b>10,112</b>

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
<b>Total</b>	<b>16,566</b>	<b>26,546</b>

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 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.

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
<b>Total maximum exposure to credit risk</b>	<b>166,595</b>	<b>141,191</b>

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 US\$000	Gross amount	Receivables past due and impaired	Receivables neither past due nor impaired	Receivables past due but not 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 US\$000	Gross amount	Receivables past due and impaired	Receivables neither past due nor impaired	Receivables past due but not 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:

US\$000	Year ended 31 December 2008			
	Less than 1 year	Between 1 to 2 years	Between 2 to 5 years	Total
<b>Interest bearing</b>				
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
<b>Non-interest bearing</b>				
Trade and other payables	32,708	72	–	32,780
Promissory notes	797	–	–	797
Other financial liabilities	35,234	–	–	35,234
<b>Total cash flow maturity</b>	<b>145,720</b>	<b>231,926</b>	<b>1,102</b>	<b>378,748</b>

US\$000	Year ended 31 December 2007			
	Less than 1 year	Between 1 to 2 years	Between 2 to 5 years	Total
<b>Interest bearing</b>				
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
<b>Non-interest bearing</b>				
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
<b>Total cash flow maturity</b>	<b>96,929</b>	<b>75,119</b>	<b>73,555</b>	<b>245,603</b>

### 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 values 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:

US\$000	Year ended 31 December 2008					
	Ukraine hryvnia	US dollar	Euro	Swiss franc	Other currencies	Total
<b>Financial assets</b>	264	56,050	–	921	1,288	58,523
<b>Financial liabilities</b>						
Ukrainian banks	–	(25,396)	–	–	–	(25,396)
Interest accrued	–	(205)	(1)	–	–	(206)
<b>Borrowings</b>	–	(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)
<b>Total financial liabilities</b>	–	(28,558)	(5,772)	(18,909)	(3,439)	(56,678)
<b>Net financial assets/(liabilities)</b>	264	27,492	(5,772)	(17,988)	(2,151)	1,845

US\$000	Year ended 31 December 2007					
	Ukraine hryvnia	US dollar	Euro	Swiss franc	Other currencies	Total
<b>Financial assets</b>	–	770	–	308	556	1,634
<b>Financial liabilities</b>						
Ukrainian banks	–	(3,316)	–	–	–	(3,316)
Interest accrued	–	(14)	–	–	–	(14)
<b>Borrowings</b>	–	(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)
<b>Total financial liabilities</b>	–	(14,942)	(6,926)	(2,597)	(846)	(25,311)
<b>Net financial assets/(liabilities)</b>	–	(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
<b>Financial assets</b>					
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
<b>Total financial assets</b>	<b>30,157</b>	<b>54,769</b>	<b>–</b>	<b>86,754</b>	<b>171,680</b>
<b>Weighted av. interest rate (%)</b>	0.3	2.7			
<b>Financial liabilities</b>					
Borrowings	305,895	1	–	–	305,896
Trade and other financial liabilities	–	2,017	–	68,810	70,827
<b>Total financial liability exposure</b>	<b>305,895</b>	<b>2,018</b>	<b>–</b>	<b>68,810</b>	<b>376,723</b>
<b>Weighted av. interest rate (%)</b>	5.0	–			

US\$000	Year ended 31 December 2007				
	Floating interest	Fixed interest	Equity	Other non-interest bearing	Total
<b>Financial assets</b>					
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
<b>Total financial assets</b>	<b>83,653</b>	<b>8,702</b>	<b>49,973</b>	<b>48,938</b>	<b>191,266</b>
<b>Weighted av. interest rate (%)</b>	5.0	1.5			
<b>Financial liabilities</b>					
Borrowings	196,045	4,247	–	336	200,628
Trade and other financial liabilities	4,233	–	–	40,742	44,975
<b>Total financial liability exposure</b>	<b>200,278</b>	<b>4,247</b>	<b>–</b>	<b>41,078</b>	<b>245,603</b>
<b>Weighted av. interest rate (%)</b>	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.

US\$000	Year ended 31.12.08		Year ended 31.12.07	
	Income statement	Equity	Income statement	Equity
UAH	5,446	–	(2,835)	–
EUR	1,154	–	1,385	–
CHF	3,598	–	458	–
	<b>10,198</b>	<b>–</b>	<b>(992)</b>	<b>–</b>

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	<b>(1,449)</b>	(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:

US\$000	Carrying amount		Fair value	
	As at 31.12.08	As at 31.12.07	As at 31.12.08	As at 31.12.07
<b>Financial assets</b>				
Available-for-sale investments	5,085	50,075	5,085	50,075
Cash and cash equivalents	87,822	86,966	87,822	86,966
<b>Financial liabilities</b>				
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.

	<b>Year ended 31.12.08 WAFV (US\$)</b>	Year ended 31.12.07 WAFV (US\$)	<b>Year ended 31.12.08 No. ('000)</b>	Year ended 31.12.07 No. ('000)
Beginning of the year	<b>3.63</b>	–	<b>2,403</b>	–
Award granted during the year	–	3.33	–	4,166
Vested during the year	<b>3.63</b>	2.92	<b>(1,948)</b>	(1,763)
Forfeited during the year	<b>3.63</b>	–	<b>(13)</b>	–
<b>Outstanding at 31 December</b>	<b>3.63</b>	3.63	<b>442</b>	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.

	<b>Year ended 31.12.08 WAFV (US\$)</b>	Year ended 31.12.07 WAFV (US\$)	<b>Year ended 31.12.08 No. ('000)</b>	Year ended 31.12.07 No. ('000)
<b>LTIP</b>				
Beginning of the year	–	–	–	–
Award granted during the year	<b>5.52</b>	–	<b>695</b>	–
Vested during the year	–	–	–	–
<b>Outstanding at 31 December</b>	<b>5.52</b>	–	<b>695</b>	–
<b>Interim LTIP</b>				
Beginning of the year	–	–	–	–
Award granted during the year	<b>5.22</b>	–	<b>415</b>	–
Vested during the year	–	–	–	–
<b>Outstanding at 31 December</b>	<b>5.22</b>	–	<b>415</b>	–

# 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
	<b>26,505</b>	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
<b>Revenue</b>	6	1,116,854	–	1,116,854	698,216	–	698,216
Cost of sales	7	(434,238)	–	(434,238)	(335,936)	–	(335,936)
<b>Gross profit</b>		<b>682,616</b>	<b>–</b>	<b>682,616</b>	<b>362,280</b>	<b>–</b>	<b>362,280</b>
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	–	–	–
<b>Operating profit</b>		<b>460,559</b>	<b>3,603</b>	<b>464,162</b>	<b>217,106</b>	<b>(35,572)</b>	<b>181,534</b>
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
<b>Total profit from operations and associates</b>		<b>461,562</b>	<b>5,174</b>	<b>466,736</b>	<b>217,793</b>	<b>(30,858)</b>	<b>186,935</b>

## Summary of adjusted items

US\$000	Notes	Year ended 31.12.08	Year ended 31.12.07
<b>Operating adjusting items</b>			
Write-offs and impairment losses	13	(27,326)	(1,568)
Negative goodwill	15	35,049	–
Initial public offering costs	16	(4,120)	(34,004)
		<b>3,603</b>	(35,572)
<b>Non-operating adjusting items</b>			
Gain on disposal of available-for-sale investment	38	1,571	4,714
		<b>1,571</b>	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
<b>Assets</b>			
Fixed asset investments	48c	<b>134,732</b>	134,732
<b>Total non-current assets</b>		<b>134,732</b>	134,732
Amounts due from subsidiaries		<b>213,025</b>	131,817
Debtors	48d	<b>1,725</b>	6,743
Prepayments and other current assets		<b>724</b>	80
Other taxes recoverable and prepaid		<b>12</b>	8
Marketable securities		<b>–</b>	102
Cash and cash equivalents		<b>295</b>	233
<b>Total current assets</b>		<b>215,781</b>	138,983
<b>Total assets</b>		<b>350,513</b>	273,715
<b>Equity and liabilities</b>			
Share capital	48b	<b>121,628</b>	121,628
Share premium	48b	<b>185,112</b>	188,566
Treasury share reserve	48b	<b>(77,260)</b>	–
Employee benefit trust reserve	48b	<b>(15,443)</b>	(20,092)
Retained earnings/(losses)	48b	<b>134,508</b>	(17,401)
<b>Equity attributable to equity shareholders of the parent</b>	48b	<b>348,545</b>	272,701
Trade and other payables		<b>109</b>	141
Accrued liabilities and deferred income		<b>1,494</b>	749
Income taxes payable		<b>–</b>	124
Other taxes payable		<b>365</b>	–
<b>Total liabilities</b>		<b>1,968</b>	1,014
<b>Total equity and liabilities</b>		<b>350,513</b>	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.

**Kostyantyn 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**

US\$ 000	Issued capital	Share Premium	Treasury share reserve	Employee benefit trust reserve	Retained earnings	Total equity
<b>At 1 January 2007</b>	-	-	-	-	-	-
Deferred tax on transaction costs	-	5,179	-	-	-	5,179
<b>Net income and expense for the period recognised directly in equity</b>	-	5,179	-	-	-	5,179
Profit for the period	-	-	-	-	(17,401)	(17,401)
<b>Total income and expense for the year</b>	-	5,179	-	-	(17,401)	(12,222)
<b>Items recognised directly in equity:</b>						
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 <sup>1</sup>	-	-	-	(29,216)	-	(29,216)
Employee benefit trust award	-	-	-	9,124	-	9,124
<b>At 31 December 2007</b>	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)
<b>Deferred tax on employee benefits</b>	-	-	-	(317)	-	(317)
<b>Net income and expense for the period recognised directly in equity</b>	-	(3,454)	-	(317)	-	(3,771)
Profit for the period	-	-	-	-	190,863	190,863
<b>Total income and expense for the year</b>	-	(3,454)	-	-	190,863	187,092
<b>Items recognised directly in equity:</b>						
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
<b>At 31 December 2008</b>	121,628	185,112	(77,260)	(15,443)	134,508	348,545

<sup>1</sup> 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
<b>At 31 December 2007 and 2008</b>	<b>134,732</b>

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
	<b>1,725</b>	<b>6,743</b>

**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 ore 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

**Fevamotinic 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

<b>HSE</b> Health, safety and environmental	<b>Natural markets</b> Relatively new markets in regions where the Group believes it has a competitive advantage which is yet to be exploited
<b>IAS</b> International Accounting Standards	<b>Nominations Committee</b> The Nominations Committee of the Company's Board
<b>IASB</b> International Accounting Standards Board	<b>Non-executive Directors</b> Non-executive directors of the Company
<b>IFRS</b> International Financial Reporting Standards, as adopted by the EU	<b>NOPAT</b> Net operating profit after tax
<b>IPO</b> Initial Public Offering	<b>OHSAS 18001</b> International Safety Standard 'Occupational Health & Safety Management System Specification'
<b>Iron ore concentrate</b> Product of the flotation process with an enriched iron content	<b>Ordinary Shares</b> Ordinary shares of 10 pence each in the Company
<b>Iron ore sinter fines</b> Fine ground iron ore	<b>Ore</b> A mineral or mineral aggregate containing precious or useful minerals in such quantities, grade and chemical combination as to make extraction economic
<b>Iron ore pellets</b> Dried and hardened agglomerate of iron ore concentrate, whose physical properties are well suited for transportation and downstream processing in a blast furnace	<b>PPI</b> Ukrainian Producer Price Index
<b>JORC</b> Australasian Joint Ore Reserves Committee – the internationally accepted code for ore classification	<b>Probable reserves</b> 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
<b>KPI</b> Key Performance Indicator	<b>Proved reserves</b> 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
<b>kt</b> Thousand tonnes	<b>Regulations</b> The Directors' Remuneration Report Regulations
<b>LIBOR</b> The London Inter Bank Offered Rate	<b>Relationship Agreement</b> The relationship agreement entered into among Fevamotinicco S.a.r.l., Kostyantyn Zhevago, The Minco Trust and the Company
<b>LLC</b> Limited Liability Company	<b>Remuneration Committee</b> The Remuneration Committee of the Company's Board
<b>LTIFR</b> Lost-Time Injury Frequency Rate	<b>Reserves</b> 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
<b>LTIP</b> Long term incentive plan	<b>\$/t</b> US dollars per tonne
<b>m<sup>3</sup></b> Cubic metre	
<b>Majority shareholder</b> Fevamotinicco S.a.r.l., The Minco Trust and Kostyantyn Zhevago (together)	
<b>mm</b> Millimetre	
<b>mt</b> Million tonnes	
<b>mtpa</b> Million tonnes per annum	

**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

# Shareholder information

## Registered Office

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# Notes

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