Ferrexpo plc Annual Report & Accounts 2009

FERREXPO

Annual Report & Accounts 09

Producing for over 30 years

Ferrexpo plc is a Swiss-headquartered resources company with assets in Ukraine and is principally involved in the production and export of iron ore pellets which are used in the manufacture of steel.

Ferrexpo is committed to realising the potential of its principal asset, which is one of the largest iron ore resources in the world. The Group produces around 9 million tonnes of iron ore pellets per year and has several large-scale growth projects in advanced stages of planning which are currently on hold pending improvements in global market conditions. We remain committed to our aim to be a leading global supplier of iron ore pellets, providing outstanding service to our customers and strong returns to our shareholders.

As part of this commitment, Ferrexpo plc became the first Ukrainian company to be listed on the main market of the London Stock Exchange (ticker: FXPO) following its successful Initial Public Offering on Friday 15 June 2007.

Ferrexpo plc is a constituent of the FTSE UK Index Series. It is currently the only pure-play iron ore company listed on the LSE.

Cautionary note regarding forward-looking statements
This Annual Report has been prepared for the members of the Company, as a body, and for no other persons. The Company, its directors, employees, agents or advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come, and any such responsibility or liability is expressly disclaimed.

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.

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Highlights 2009

Company Overview

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Sales Volumes

Up by 3.5%

Production maintained at full capacity with sales volumes up by 3.5%

Production Quality

Up by 7.2%

7.2% increase in production of high quality (65% Fe) pellets

Revenue

US$648.7m

Reduction in revenues mitigated by increased production of 65% Fe grade pellets

Pre-tax Profit

US$80.9m

Despite difficult market conditions, Ferrexpo remained profitable throughout 2009

Renewal of Debt Facility

US$230m

New debt facility – the first successful refinancing completed by a mining group with assets in the CIS since September 2008

EBITDA

US$138.1m

EBITDA decreased by 72.6% to US$138.1m principally as a result of the substantial fall in iron ore pellet prices

Average Achieved Price

US$66.3/t

Lower settlement prices and a temporary exposure to high freight charges resulted in a decrease in the average achieved price

Cash Costs of Production

Reducing

C1 cash costs of production for the year decreased by 18.6% to US$34.4/t

Dividend

3.3 US cents

Final dividend maintained at US$19.3m (3.3 US cents per share)

Our Business at a Glance

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 licences to explore or mine the entire deposit; its current operations are situated at the southern end of the deposit, adjacent to the Dnieper River.

The GPL Mine

A single open-cut mine, 6km long and over 300m deep

> Encompassing two deposits in a single pit – Gorishne-Plavninskoye and Lavrikovskoye
> Produced 28.5mt of iron ore in 2009, equating to 8.6mt of pellets
> Expansion to approximately 32mtpa of iron ore is being rescheduled, but remains a priority for the Group
> 3.8bt of JORC-classified resource remaining (magnetite, c.30% Fe content)
> Potential pelletising capacity of 12mtpa

01

Our most advanced growth project. Definitive Feasibility Study completed in September 2008

> Over 800mt of JORC-classified resource (magnetite, c.30% Fe content)
> 27mtpa open-cut mine planned
> Plan includes dedicated new processing and pelletising facilities

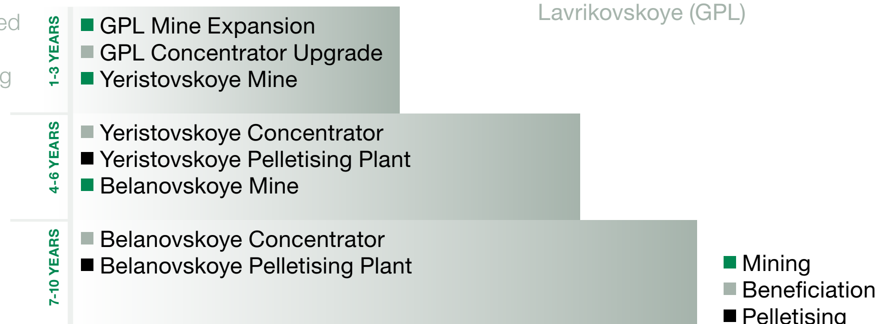
Meaningful progress has been achieved during 2009:

> Over 4m cubic metres of overburden removal
> Initial CAT 789 truck fleet delivered and commissioned
> Mining licence transferred from FPM
> Mining DFS study update completed

Advanced pipeline of growth projects Despite the Board's decision to put a hold on capital expenditure during the economic downturn, our growth projects remain a priority.

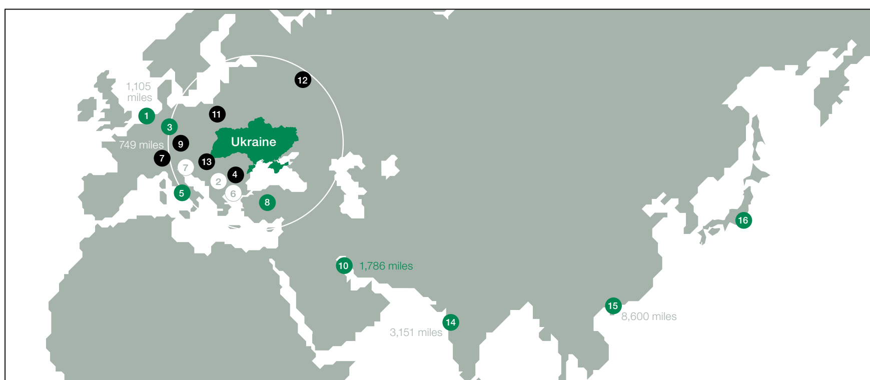
Progress was made at our most advanced development project – Yeristovskoye – with US$23 million expended on stripping works, construction and machinery.

Additional work is ongoing at the Belanovskoye and Galeschinskoye deposits where drilling is currently testing the geotechnical conditions and ore quality.



Our locations

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



- Markets served by rail
- Markets served by ocean vessel
- Markets part served by ocean vessel

1. Netherlands
2. Serbia
3. Germany
4. Romania
5. Italy
6. Bulgaria
7. Austria
8. Turkey
9. Czech Republic
10. Middle East
11. Poland
12. Russia
13. Slovakia
14. India
15. China
16. Japan

02

Preliminary Feasibility Study completed in September 2008

> 1.6bt of JORC-classified resource (magnetite, c.30% Fe content)

> Mining licence transferred from FPM to new entity Ferrexpo Belanovo Mining ('FBM')

03

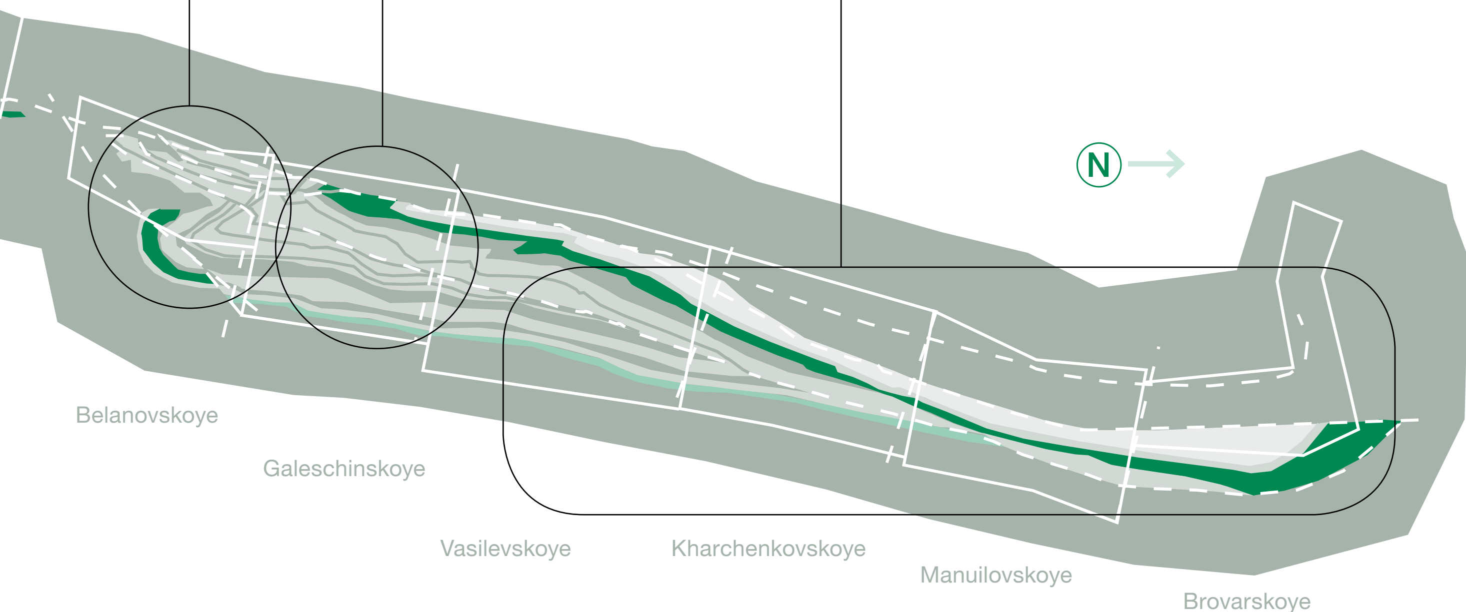
Mine concept studies completed

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

Further potential

> Four large northern deposits

> Approximately 14bt of magnetitic ore reserves, classified under the Soviet GKZ code



Company Overview

Chairman's and Chief Executive Officer's Review

"Ferrexpo's strong operational performance in 2009 is a testament to the Company's fundamental strength and our successful marketing strategy that has allowed us to maintain profitability at a time of a worldwide drop in iron ore demand.

In the second half of 2009, there were signs of recovery in our key Traditional Markets and we returned to long-term contract deliveries which increased margins and rebalanced our sales mix. In 2010, the outlook for iron ore is positive and we are well placed to capitalise on any growth opportunities.

In the coming year, the Board will focus on resuming development of our growth projects once a recovery has firmly taken hold, while continuing to add capability to project execution and consolidating our strengths in best practice mining and marketing."

Kostyantin Zhevago, CEO

We are pleased to report that Ferrexpo performed extremely well in 2009 in a challenging economic environment. Overall, demand visibility for iron ore remained poor until the final quarter of the year. This was exacerbated by a marked decoupling effect with demand from China and other developing regions remaining strong, while demand from developed regions only began a slow recovery in the latter half of the year. Consequently, no formal settlement of the international benchmark price materialised, exposing us to spot and provisional market prices for much of the year. Nonetheless, our flexible and responsive marketing strategy, strong customer relationships and access to the seaborne market enabled us to continue to produce and sell at full capacity and to remain profitable throughout the year.

In 2009 Ferrexpo demonstrated its fundamental strength and the resilience of its business model. Following the collapse in demand for iron ore in Europe in late 2008, a decision was taken to continue to produce at full capacity throughout 2009 to minimise the effect of our fixed cost base on unit costs and to offset this demand weakness in our Traditional Markets with increased sales to China. This strategy proved highly successful given our access to the seaborne market through our TIS-Ruda joint venture port terminal at Yuzhny Port on the Black Sea and our established marketing presence and good customer relationships in China. Our mining operations also responded well to our strategy for continued high levels of iron ore pellet output, delivering a strong production performance both in terms of absolute output and, in particular, the proportion of higher grade 65% Fe pellets produced. Costs were rigorously controlled by management and our Business Improvement Programme once again achieved notable success in helping to reduce unit costs and increase operating efficiency.

Re-stocking by European steel mills in the third quarter of 2009 and a slow recovery in steel demand in the fourth quarter allowed Ferrexpo to rebalance its geographic sales mix and to resume supply to its established portfolio of long-term contract customers. This marketing flexibility and strong operating performance during the year delivered a solid financial performance enabling the Group to become the only mining company with assets primarily in the CIS to refinance its principal debt facility.

2009 Results

Revenues for 2009 declined to US$648.7 million compared with the prior year (2008: US$1,116.9 million). Earnings before interest, tax, depreciation and amortisation ('EBITDA') for the period decreased to US$138.1 million (2008: US$503.9 million), and pre-tax profit was lower at US$80.9 million (2008: US$375.6 million).

The price settlement for iron ore pellets agreed during the summer of 2009 between Vale, the world's largest pellet producer, and its major customers outside China, reflected a 48.3% decrease in the price of pellets compared with the 2008/2009 contract settlement. This Vale settlement eventually gained worldwide acceptance, although it was not formally recognised by the China Iron and Steel Association as a 'benchmark' price. As a result of this and our strong customer relationships, 'value-in-use' marketing and our ability to provide small-lot 'just-in-time' deliveries to our Traditional Market customers, the Group was able to settle the majority of its contracts at around this level from the start of the fourth quarter. The lower settlement price and the temporary exposure to seaborne markets and high freight rates in the earlier part of the year resulted in Ferrexpo achieving an average Delivered at Frontier/Free on Board ('DAF/FOB') price for its pellets of US$66.3/t (2008: US$124.6/t). Importantly, Ferrexpo remained profitable throughout the 2009 downturn and minimised the reduction in revenues by continuing to increase production of its 65% Fe grade pellets.

Lower production in January and February, resulting from poor weather conditions impacting our logistics chain, was followed by a 10-month period of record output. Production of pellets from own ore was in line with the record levels achieved in 2007 and 2008 and, in line with our strategy, included a higher ratio of high grade 65% Fe pellets (an increase of 7.2% compared with 2008). Our mining operations gave another strong performance, increasing production efficiency and operating at full capacity despite a cash-constrained environment.

The Group's C1 costs fell by 18.6% to US$34.4 per tonne in 2009 compared with US$42.3 per tonne in the previous year. The significant cost pressures we faced for much of 2007 and 2008 were largely absent in 2009. We experienced more stable prices for state-controlled inputs and lower domestic inflation. A step change occurred in the Group's C1 costs at the end of 2008, primarily as a result of the depreciation of the Ukrainian hryvnia and falling oil prices, following which the December 2008 C1 cost was reduced to US$34.7 per tonne. We were able to maintain the Group's C1 costs at or below this level for the whole of 2009 as a result of efficiency improvements which offset cost increases. Overall, our 2009 production and distribution costs ended the year slightly below their 2008 level. This strict control of our unit costs enabled us to maintain positive margins throughout 2009 and has provided a strong starting point for 2010.

Cash flow was robust over the year despite the challenging industry conditions. Net cash flow from operating activities was US$76.9 million. This was after an increase in working capital of which US$24 million related to an increase in overdue VAT. This is being closely managed by the Group and it is expected that VAT refunds will be resumed in 2010, following the expected stabilisation of the Ukrainian economy.

As previously announced, the Group successfully secured a new pre-export finance facility of US$230 million. The new facility was drawn down to repay in full the amount outstanding on the existing loan.

Marketing and logistics

As we reported at the time of our interim results, in the first half of 2009, 54% of our sales were made to China, the majority of these being on a spot market basis. This high level of spot market activity was necessary to counteract the weakness in demand in our Traditional Markets, but we remain committed to our strategy of selling the majority of our production on long-term contracts to our well established customer base. In line with our strategy, the Group reverted to selling typical contract volumes to its portfolio of long-term contract customers when economic conditions permitted, which occurred in the third quarter. We shall retain the flexibility to compensate at short notice any further reduced demand in our Traditional and Natural Markets with sales in seaborne markets, where demand has remained more resilient and Ferrexpo has a well established presence and reputation.

The Group's strong customer relationships have stood it in good stead in the past 12 months and we remain committed to maintaining our relationships with our long-standing customers and supporting them during the forthcoming period of tentative economic recovery. At the same time, we have continued to develop new

Our strategy explained

1

Retain flexibility in the marketing and production aspects of our operations in order to respond swiftly to changes in the iron ore market

2

Conserve cash and protect margins through aggressive cost management and prudent investment in growth, maintaining the cost competitiveness of our existing operations

3

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

4

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

5

Resume modest expenditure on our extensive undeveloped iron ore deposits on a prudent basis to ensure future production growth

Chairman's and Chief Executive Officer's Review continued

Our year in review

January 2009

Pellet production reduced as a result of adverse weather conditions impacting the logistics chain

February 2009

Trading update announcing increased spot sales to China to compensate for weaker iron ore demand in Europe, as Chinese steel mills commence re-stocking

New World Resources NV abandons plan to purchase a stake in Ferrexpo from RPG Industries SE (its parent company) and appoints Kostyantin Zhevago to its Board as a Non-executive Director

March 2009

Pellet production increased to full capacity, where it remained for the rest of the year

Mike Salamon and Marek Jelinek appointed to the Ferrexpo Board as Non-executive Directors

April 2009

No Benchmark Price settlement agreed, owing to worldwide lack of visibility of demand for iron ore. No contract settlement is possible, so most producers (including Ferrexpo) continue to sell largely on a spot or provisional pricing basis

June 2009

Vale, the world's largest iron ore pellet producer, settles pellet prices with its contract customers outside China at a 48.3% reduction on the previous year's Benchmark Price. Although this settlement is not officially recognised as a Benchmark by China, it slowly gains universal acceptance during the following months

July 2009

Ferrexpo enters into talks with its Traditional Market customers for the purpose of settling prices for its 2009/2010 contracts

August 2009

Ferrexpo interim dividend deferred pending contract settlements

September 2009

Ferrexpo settles its long-term contracts at or about the Vale 'implied Benchmark', as adjusted for quality and freight for the fourth quarter of 2009 and first quarter of 2010 and returns to supplying its portfolio of long-term contract customers

October 2009

RPG Industries SE, a large shareholder of Ferrexpo, enters into a Total Return Swap transaction over 12% of the Company which effectively returns Ferrexpo's free float to above the 25% level

Deferred interim dividend of US$20.0 million declared following contract settlements

December 2009

Ferrexpo refinances its principal debt facility, replacing it with a new US$230 million pre-export finance facility through a syndicate of leading international financial institutions

The Ferrexpo share price rose 506% between 1 January 2009 and 31 December 2009

global market opportunities and in particular we were able to begin supplying the north-west Indian region on a spot basis in 2009. We believe that this could become an important new Growth Market for Ferrexpo in the future. The Group has good access to seaborne markets through the TIS-Ruda Terminal at Yuzhny, our joint venture Panamax port terminal on the Black Sea. Going forward we are exploring the possibility of expanding the TIS-Ruda Terminal to allow for the loading of larger vessels up to cape size 150,000 tonnes.

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 and established rail links to our customers. By capitalising on this proximity to Traditional and Natural Market customers and our ability to provide them with continuous small-lot iron ore deliveries, we believe we have increased our share of those markets in 2009 and are well placed to further consolidate those gains in 2010. The Group remains Ukraine's largest exporter of iron ore pellets.

Management and people

The Board is deeply grateful for the efforts of our management and staff over the past year. 2009 has proved to be a particularly difficult period in the industry and globally and our staff have risen to the challenge admirably. Ferrexpo has come together as a single entity of great strength and resilience and our excellent results in the face of adversity would not have been possible if it were not for the tireless efforts of our people.

As we have previously announced, Mike Salamon and Marek Jelinek of New World Resources ('NWR') joined the Board as Non-executive Directors in March and have been making an invaluable contribution. As part of the arrangement under which NWR directors sit on the Board, Marek will be retiring from the Board at this year's AGM. We are most grateful to him for his contribution to the Group's affairs.

Ferrexpo has once again been able to avoid any forced redundancies in 2009 despite the challenging economic climate. We shall continue actively to manage the size of our workforce over time to

maximise productivity, but as one of the major employers in Ukraine, maintaining the employment of our people is a priority.

Corporate governance and social responsibility
The Group continues to meet the high standards of corporate governance set by the Board and we remain committed to continuing compliance with the UK Combined Code.

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. Safety-conscious behaviour has become more entrenched in 2009 and we are pleased to be able to report that there were no production-related fatalities at our operations this year. While this represents good progress, CSR remains a priority and we are pursuing further initiatives to ensure a culture of continuing improvement in this regard.

Growth projects and strategy
While the Board placed all significant capital expenditure on hold in October 2008 in response to the global financial crisis, we are pleased to have progressed with critical path items, which have enabled the Group to maintain a significant level of control over the schedule of core growth projects. No material capital commitments were made in 2009 as the Group focused its efforts on cash conservation and the maximisation of production from its existing facilities. The Group nonetheless considers its major growth projects to be a priority and is working to continue their development in the short-term in order to leverage off strengthening iron ore prices going forward. These core development projects are focused primarily on the increase of output, enhancing product quality from our existing operations and accessing more of the Group's substantial ore reserves at the Yeristovskoye deposit with the aim of doubling production.

In 2009, we took the opportunity to review the scope and capital expenditure requirements of all these projects and we believe that we are in a position to reduce substantially the capital required for their development. We also spent US$4.6 million on overburden removal at the new Yeristovskoye mine, using both local contractors and equipment already purchased by the Group. Pre-stripping is a critical path item and this capital was expended in order to preserve the value of the project and maintain its schedule to the extent possible. It is notable that this stripping was achieved at a cost less than budgeted for in the Yersitovskoye feasibility study.

Uniquely among companies in the region, the Group was able to refinance its principal debt facility at the end of 2009. The new US$230 million pre-export finance facility was provided by a syndicate of leading global financial institutions and provides Ferrexpo with a facility which will enable the Group to invest a higher proportion of its cash flow from operations in its growth projects. We plan further pre-stripping works at Yeristovskoye and at the expansion of the existing open pit in 2010 and will accelerate the development of all projects as soon as market conditions permit.

The outlook for 2010 is considerably more positive than it was for 2009, marked by increased visibility and strengthening iron ore prices. In 2010, we aim to increase our cost competitiveness through continuing efficiency improvements, while exploiting our strategic location and strong customer relationships to maintain sales and production tonnages and to increase market share in our Traditional and Natural Markets. Throughout 2010, the Board and management will continually assess opportunities to accelerate investment into key development projects, in line with the economic climate. Our operating, financial and risk management capabilities have been proven during the past 12 months and we are confident that this strategy will optimise value for the Group while effectively protecting it from any further market downturn.

Dividend
The Board is of the view that Ferrexpo should pay modest consistent dividends based on continuing profitability through the economic cycle. 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 that the business has sufficient operational flexibility to respond to the demands it will face in 2010 and as a result, it is appropriate to continue with a dividend in line with prior years. The Directors therefore recommend a final dividend in respect of profits generated for the Group in 2009 of 3.3 US cents per Ordinary Share for payment on 4 June 2010 to shareholders on the register at the close of business on 30 April 2010. The dividend will be paid in UK pounds sterling with an election to receive US dollars.

Outlook
In 2009, Ferrexpo produced at full capacity and remained cash flow positive and profitable even in the face of dramatically weaker demand for iron ore and steel worldwide. As the iron ore market began to show signs of stabilising in the second half, visibility increased and Ferrexpo was able to return to long-term contract pricing. We believe that market conditions will continue to improve during 2010 with a slow but definite recovery in steel demand now evident in Europe. Encouragingly, Chinese spot prices for iron ore have stabilised above the current contract level and the cycle of de-stocking and re-stocking by steel mills is largely behind us.

The Group has resumed contract sales to its higher-margin Traditional Market customers, but retains the ability to access the seaborne market to compensate for any recurring weakness in these markets. The Group is exposed to the positive outlook for iron ore pricing. In view of higher pricing, we expect Ferrexpo to continue to trade profitably and to increase margins in the year ahead.

In 2010, the Board will be focused on increasing margins and resuming development of our growth projects at a modest level while continuing to add capability in project execution and consolidating our strengths in best practice mining and marketing. We believe that growth from developing and industrialising nations will continue to underpin the strong fundamentals of global steel demand as demand in developed nations continues slowly to recover. Ferrexpo is well placed to take advantage of improvements in the iron ore markets in both the developed and developing world.

Michael Abrahams CBE DL
Chairman

Kostyantin Zhevago
Chief Executive Officer

Board of Directors and Executive Committee

The Board

1. 2. 3. 4. 5.

6. 7. 8. 9.

The Board

1. Michael Abrahams, CBE DL (72)
Non-executive Chairman
Michael Abrahams joined the Board on 14 June 2007. He is chairman of the London Clinic, the Prudential Staff Pension Scheme and imJack plc. He was deputy chairman of Prudential plc until May 2000, and has served as chairman and as a director of a number of quoted and unquoted companies.

2. Kostyantin Zhevago (36)
Chief Executive Officer
Kostyantin Zhevago joined the Board as a Non-executive Director on 14 June 2007 and was appointed Chief Executive on 1 November 2008. He is ultimately the controlling shareholder of Ferrexpo. He has been a member of the Ukrainian Parliament since 1998. He is currently a member of the Parliamentary Committee on Law Policy and Chairman of the Parliamentary Group for Inter-Parliamentary Relations with Japan. Since 2002, he has been a member of the permanent delegation of the Ukrainian Parliament in the Parliamentary Assembly of the European Council and a member of the Ukrainian faction of the Committee for Parliamentary Cooperation between Ukraine and the European Union. He has previously served as chairman of the management board and deputy chairman of the supervisory board of 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. He is a non-executive director of New World Resources NV, a subsidiary of RPG Industries SE. Kostyantin Zhevago graduated from the Kyiv State Economic University in 1996, specialising in international economics.

3. Christopher Mawe, FCA (48)
Chief Financial Officer
Chris Mawe joined the Board on 7 January 2008. He qualified as a Chartered Accountant with Coopers and Lybrand in 1991, having gained a First Class Honours degree in Engineering. He has held senior financial positions for the past 16 years, firstly with IMI plc both in the UK and Europe, and then with Carclo plc as finance director. Most recently he was finance director of UK Coal plc.

4. Oliver Baring (65)
Senior Independent Non-executive Director
Oliver Baring joined the Board on 1 December 2007. He has been chairman of Mwana Africa plc since its reverse takeover of African Gold plc in September 2005. He retired from UBS Warburg in 2001, having led the International Mining Group with responsibility for Africa and Europe. Previously he had been head of the UBS Warburg mining equity sales team and was responsible for its respected coverage and sales capability. He was a partner in Rowe and Pitman before its merger with SG Warburg. He is non-executive chairman of First Africa Holdings Limited, and is a non-executive director of Blackrock World Mining Trust plc, and a member of the Advisory Council of Sentient Resources Fund.

5. Raffaele (Lucio) Genovese (48)
Independent Non-executive Director
Lucio Genovese joined the Board on 14 June 2007. He is the chief executive officer of Nage Capital Management, a Swiss-based advisory and proprietary company specialising in the metals and mining sector, and serves on a number of boards of directors. He has previously served as investment officer and a member of the board of Taj Investment Limited with responsibility for its Indian public and private investment portfolio. Prior to that, he held a number of positions with Glencore International, including senior member of the Copper Division, CEO of CIS Operations, manager of the Moscow office and trader in the Ferrous Division. He was an assistant manager in the Audit Division of PriceWaterhouseCoopers in South Africa. He is a Chartered Accountant (South Africa).

6. Wolfram Kuoni (43)
Independent Non-executive Director
Wolfram Kuoni joined the Board on 14 June 2007. He is the founder and senior partner of Kuoni Attorneys-at-Law, Zurich, Switzerland, and serves on a number of boards of directors. He has over 12 years of experience in investment banking. Prior to 2005, he held a number of positions within UBS Investment Banking (Zurich and New York), including head of the European Export and Project Finance Team. He also originated and structured cross-border acquisitions and equity capital markets transactions. He graduated with a law degree from the University of Berne, and holds a doctorate in law from the University of Zurich and an MBA from INSEAD in France. He is a member of the Zurich Bar.

7. Ihor Mitiukov (57)
Independent Non-executive Director
Ihor Mitiukov joined the Board on 14 June 2007. He is the managing director and head of country for Ukraine, Morgan Stanley. He was the general director of the Financial Policy Institute until March 2008. From 2002 to 2005 he served as Extraordinary and Plenipotentiary Ambassador of Ukraine in the United Kingdom. He also represented Ukraine in the International Maritime Organisation. From 1997 to 2001 he served as Minister of Finance of Ukraine and, from 1995 to 1997, as Ukraine's Special Representative (with Vice-Prime Ministerial status) to the European Union in Brussels. In 1994, he was deputy governor of the National Bank of Ukraine and then Vice-Prime Minister of Ukraine for Banking and Finance. Prior to that, he held various positions at Agrarian-Industrial Bank Ukraine, and was appointed as its deputy governor in 1992. Ihor Mitiukov graduated from the Cybernetics Department, Kyiv State University and has a PhD in Economics (1985) from the Institute of Economy, Academy of Sciences (Ukraine).

8. Miklos Salamon (55)
Non-executive Director
Mike Salamon joined the Board on 27 March 2009. He is executive chairman of New World Resources NV, a subsidiary of RPG Industries SE. He is also a non-executive member of the board of directors of OKD, Co-President of AMCI Capital and a non-executive director of Central Rand Gold and of Gem Diamonds. With a career spanning more than 30 years, recently with BHP Billiton, he has extensive knowledge of the international mining and extractive industries. Between 2003 and 2006, he served as an executive director of BHP Billiton with responsibilities for the aluminium, copper and nickel businesses. From 2001 to 2006, he also chaired BHP Billiton's Operating Committee, which was accountable for inter alia the BHP Billiton group's health, safety and environment, projects, purchasing and operating excellence. In 2001 Mr. Salamon oversaw the merger integration of Billiton plc and BHP Limited. He was a co-founding director of Billiton plc in 1997, and oversaw the company's listing on the London Stock Exchange in 1997. Before 1997 he held a number of positions, first at Anglo American and later in the coal divisions of Shell and Gencor Ltd. He graduated in 1975 from The University of the Witwatersrand, Johannesburg with a degree in Mining Engineering (Cum Laude) and obtained an MBA from the London Business School, University of London in 1981.

9. Marek Jelinek (37)
Non-executive Director
Marek Jelinek joined the Board on 27 March 2009. He is chief financial officer of New World Resources NV (NWR) (a subsidiary of RPG Industries SE) and he has also been a member of the board of directors of OKD since his appointment on 1 November 2007. Within NWR, he is responsible for the restructuring activities within the NWR Group and the build-up of NWR's headquarters team, including the group-wide finance and treasury functions. In 2007 and 2008 he led the group's bond issue and the successful Initial Public Offering in London, Prague and Warsaw. He was a director of Bakala Crossroads Partners a.s. (formerly RPG Advisors) from 2005 to 2006. Before joining the RPG Group in December 2004, he worked in the corporate finance department at Patria Finance, a Prague based investment banking boutique, from 1995 to 2004. He graduated from the Anglo-American College in Prague in 1995 with a Bachelor of Science degree in Business Administration.

The Executive Committee

Kostyantin Zhevago
Chief Executive Officer
(See profile under The Board)

Christopher Mawe, FCA
Chief Financial Officer
(See profile under The Board)

Nikolay Goroshko (50)
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 was Acting Group Chief Financial Officer in April 2007 and Chief Commercial Officer in charge of the Group's Growth Projects in December 2007 prior to his current role.

Nikolay Kladiev (37)
Chief Financial Officer, Ferrexpo Poltava Mining
Nikolay Kladiev joined FPM in June 2005. Over the course of his career Nikolay Kladiev spent several years as an audit manager with Ernst & Young and CFO of a large Russian factory. He holds a Masters in International Economic Relations from the Kyiv National University of Economics.

Viktor Lotous (45)
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 Chief Operating Officer in April 2007.

Simon Wandke (50)
Chief Marketing Officer
Simon Wandke joined the Group in 2006. He was vice president strategy for the Minerals Group and vice president coal, iron ore and HBI marketing at BHP Billiton until 2001. Between 2002 and 2006, he was a partner of Destra Consulting Group in Melbourne, specialising in Change Management. Simon Wandke is a graduate of the University of Melbourne in Psychology and Marketing, and completed post graduate studies in Corporate Finance at Swinburne University, Australia.

David Webster (58)
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. Dave has overall responsibility for the Group's growth projects both at its existing GPL mine and its planned new mines. He has a Bachelor of Metallurgy degree from the University of Newcastle.

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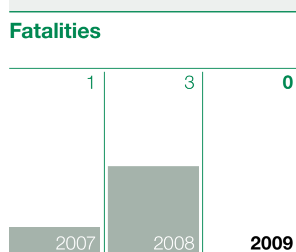
Key Performance Indicators

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

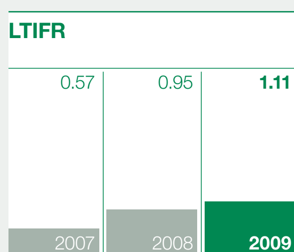
Fatalities



Definition
Work-related fatal accidents

Target
0 Fatalities

LTIFR

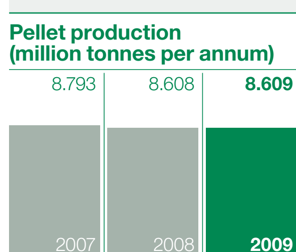


Definition
Lost time injury frequency rate[1]

Target
Below 0.75

Operations

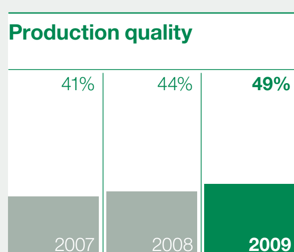
Pellet production (million tonnes per annum)



Definition
Pellet production from own produced concentrate

Target
Increase production

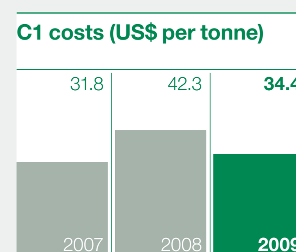
Production quality



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

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

C1 costs (US$ per tonne)

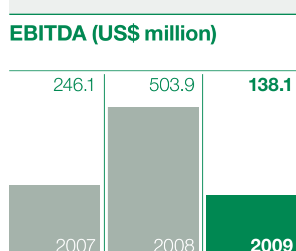


Definition
Total cash costs of production ex-works

Target
Limit any increases in C1 costs below rate of Ukrainian PPI[2] inflation

Financials

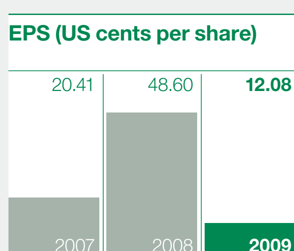
EBITDA (US$ million)



Definition
Earnings before interest, tax, depreciation and amortisation[3]

Target
Increase EBITDA

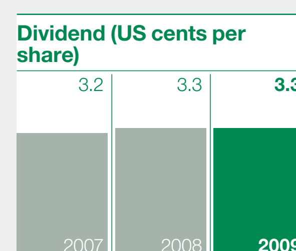
EPS (US cents per share)



Definition
Earnings per share[4]

Target
Increase EPS

Dividend (US cents per share)



Definition
Dividend per share

Target
To pay modest, consistent dividends based on continuing profitability through the economic cycle

1 Lost Time Injury Frequency Rate: The rate of lost time injuries per million hours worked. Following the increased focus on safety and the review by DuPont, incidents that previously went unreported are now being reported. As a result the 2009 and 2008 figures are not directly comparable with previous years.
2 Producer Price Index
3 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 19 to the accounts.
4 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.

Overview

Summary

Ferrexpo demonstrated a solid and reliable performance in 2009 in spite of the unprecedented weakness affecting all markets and industries particularly during the first months of the year. The Group outperformed operationally and was able to produce and sell at full capacity throughout the global economic crisis from March 2009. This enabled us to manage costs effectively and to remain profitable throughout the year. Our flexible marketing strategy, strong operations and fiscal discipline all contributed to a financial performance which, although down on the prior year, was nonetheless exceptional under the circumstances.

With the onset of the economic downturn in late 2008, we re-examined the operational goals of the Group for 2009 with a view to adapting the Company to an environment of lower iron ore demand and prices and the attendant constraints on the Company's cash position. The Group exceeded these new ambitious goals, maintaining production volume while increasing both cost efficiency and product quality. Despite lower production in January and February as a result of adverse weather conditions, Ferrexpo produced broadly the same volume of iron ore pellets in 2009 as in 2008, but at significantly lower cost.

The Group's favourable location, together with its good seaborne access through the TIS-Ruda Terminal at Yuzhny, our joint venture Panamax port terminal on the Black Sea, gave us the flexibility in our 2009 marketing activities to out-sell our competitors in the markets in which we operate. We cemented our status as the iron ore supplier of choice for our key Traditional and Growth Markets. We achieved this by managing to increase spot sales to our long-term contract customers in our Growth Markets during times of weak demand in our Traditional Markets and ultimately increased our market share in our Traditional Markets when demand there began to recover. As a result, our brand was successfully protected during a volatile and difficult market period.

General market uncertainty resulted, for the first time, in the absence of a formal global international iron ore benchmark price settlement in 2009, although the pellet price settled between Vale and its larger non-Chinese customers gained general acceptance by the start of the fourth quarter. At this point we were able to settle prices with our contract customers at approximately this implied benchmark level with prices applicable until the end of the first quarter of 2010. This settlement brought to a close a nine-month period of higher spot market sales and the associated exposure to seaborne freight rates and enabled Ferrexpo to resume supplying close to normal volumes to its portfolio of long-term contract customers.

In 2009, 93% (by volume) of the Group's iron ore products were exported. As a result of demand weakness in Europe in the first half of the year, approximately 70% of our 2009 sales by volume were made under long-term supply agreements with iron and steel producers, compared with 88% in 2008. The Group resumed normal long-term contract-based supply

arrangements during the third quarter of 2009 and it remains our strategy to increase the number and duration of such contracts and continually improve our customer portfolio and build strong customer relationships. Development of the customer profile continued through 2009, during which the Group began supplying the north-west coast of India, an important new potential Growth Market. The Group's principal export markets are Central and Eastern Europe and China. At the end of 2009, approximately 91% of iron ore pellets were committed under long-term framework contracts with major customers.

The Group remains focused on the development of its substantial iron ore resource. Significant capital commitments were placed on hold by the Board in late 2008 and during 2009 we continued to advance our growth projects at a low level, spending small amounts of capital to preserve their value while maintaining prudent cash management. Good progress was made on pre-stripping works at the new Yeristovskoye mine during the year and the Group has taken the opportunity afforded by the moratorium on significant capital expenditure to re-examine the scope and capital costs of all of its major projects. We are of the view that the capital estimates for the Yeristovskoye project and the plan to upgrade our product quality at Ferrexpo Poltava Mining ('FPM') can be reduced significantly. Meanwhile work has continued on product quality improvement and market development.

The outlook for 2010 is clearer and more positive than it was for 2009 and the Group was able to renew the majority of its banking facilities at the end of 2009 during a difficult period for the debt capital markets. The Company has ambitious development plans, but 2010 will also be a cash-constrained year. As a result, our primary focus next year will be on maintaining the strong performance of the Group's existing mining operations, while continuing to invest in our growth projects at a modest level. The key performance drivers in 2010 will be safety, operating efficiency, product quality and output volume. FPM, the Group's operating subsidiary, once again demonstrated continuous improvement in these areas in 2009. The Group will continue with its structured Business Improvement Programme ('BIP') designed to continue these positive trends by targeting operating costs and optimising capital expenditure and these, together with the likelihood of a lower local currency, should help to maintain 2010 cash costs of production at approximately 2009 levels.

World class standards

One of the features of Ferrexpo's drive to reduce costs and increase operating efficiencies is the application of innovative solutions to mining operations. A good example is the direct loading of CAT 789 haul trucks by dragline to avoid costly re-handling. The draglines manufactured locally by NKMZ, which appeared in the 2008 Procurement Case Study, are now in operation at the new Yeristovskoye mine.

Ferrexpo's expansion plans and growth projects are based on best international design and world class equipment as evidenced by the group's fleet of new CAT 789 haul trucks and support equipment being commissioned for use in the new Yeristovskoye mine. These 180 tonne-capacity trucks are the largest in Ukraine and together with the five draglines that have been commissioned, will contribute to world class standards of operating efficiency at the mine.

Overview
continued

Strategy
The Group holds exclusive licences to a world class iron ore resource which is uniquely positioned close to existing infrastructure and core steel-producing markets. FPM operations have been producing continuously for several decades and the Group has established a resilient and flexible marketing model over several years. Ferrexpo's strategy is to remain flexible, utilising our strategic location, low cost base and strong customer relationships to maximise the return on our existing operations whilst accelerating the exploitation of our extensive undeveloped iron ore reserves.

Our plans in the medium term are to strengthen our existing business through product quality upgrades and incremental production growth, while continuing to practise financial prudence and strict cost control. Our priority is the development of our resource base while maintaining flexibility throughout the economic cycle through continuous improvement of our operational, financial and risk management capabilities.

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, substantially under-exploited, iron ore deposit located in Ukraine.

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, 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 by rail and waterways to our major customers in Central and Eastern Europe. FPM has access to both the Black Sea for seaborne shipments throughout the world and to extensive rail networks throughout Europe.

To access further the large and growing market outside Ukraine, Ferrexpo is actively working to reduce ocean vessel shipping costs and volatility to Growth Markets via longer-term ocean vessel chartering, and loading of larger vessels up to cape size (150,000 tonnes). In addition, 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, Shanghai and (as of December 2009) Hong Kong.

Operating environment – Ukraine
The Ukrainian economy has been severely affected by the global economic recession, partly as a result of its reliance on industries such as the steel sector. The Ukrainian steel industry is relatively high-cost and the majority of its production is commodity-grade construction steel for export. Ukraine has thus been more severely affected by the economic downturn than many other steel-producing nations. The economy of Ukraine shrank by 15% in 2009. Ukraine was granted a US$16.4 billion International Monetary Fund loan in late 2008 in response to the significant effects of the global financial crisis on its economy, of which US$10.4 billion has already been advanced. This loan prescribes several conditions relating largely to economic policy-setting, some of which have not been met. As a result there has been a delay in advancing the final tranche of the loan. We expect this to be resolved in the first quarter of 2010. Following this, there has been some delay in the Company recovering its VAT payments on a timely basis and this has affected the cash flow of the business in December 2009 and in the early part of 2010. This is covered further in the Financial Review.

Ukraine is a socially stable parliamentary presidential republic which was formerly part of the Soviet Union. The recent elections passed off peacefully and democratically and it is hoped this will restore some stability to the country's political structure which in any event tends not to interfere in Ukrainian business.

The Group benefits from the location of its operations in Ukraine because of a well educated and cost-competitive workforce, a depreciating local currency and the efforts of government to take measures to ensure the survival of its large mining and metallurgical industry. Being primarily an exporter, Ferrexpo has minimal exposure to the Ukrainian steel industry. Ukraine is conveniently situated close to our principal customers in Europe.

The average exchange rate of the Ukrainian local currency (the hryvnia) was UAH7.7912 to the US dollar in 2009. Any weakening of the local currency is likely to have a positive effect on our US dollar cost base. Ukrainian official domestic Producer Price Index ('PPI') inflation fell to 14.3% and the Consumer Price Index ('CPI') fell to 12.3% in 2009. Both indices are likely to increase in 2010.

Market environment
The market environment for iron ore in 2009 was affected by substantially different demand dynamics between developed and developing regions of the world. The demand for iron ore pellets is directly linked to steel demand which fell sharply at the end of 2008 following the onset of the economic crisis. Steel demand is closely correlated to the global economic cycle as a result of its dependence on the automotive and construction industries, both of which are economic bellwethers. In early 2009, however, demand for iron ore and steel rapidly recovered in certain developing economies, most notably China, as a period of re-stocking commenced there. The re-stocking effect in regions such as Europe and North America was both later and more muted, commencing only late in the second quarter.

This decoupling has continued with consumption of iron ore in Asia back at record levels, while only a fragile recovery is evident in the steel industries of the developed world. As a result, the market environment in 2009 has varied for different iron ore producers, largely as a function of market access. Ferrexpo was able to sell to customers in both developed and developing countries, with the result that demand was sufficient for us to produce at 100% of capacity and place all our production volumes into the market. Many of our competitors were forced to reduce production owing to a lack of market access. The low levels of demand in much of the world outside China nonetheless resulted in low prices for iron ore relative to 2008 as well as a lack of price and demand visibility for much of the year. This visibility improved towards the end of 2009 and pricing is expected to improve in 2010 as the slow global economic recovery continues.

Operating Review

Highlights

FPM

> Iron ore pellet production from the Group's own ore in line with last year at 8.6mt

> 7.2% increase in production of high quality (65% Fe) pellets

> Business Improvement Programme – further reductions in the use of raw materials and energy per unit of output

Yeristovskoye

> Five draglines delivered, assembled and in operation

> 4.0 million cubic metres stripped from the new Yeristovskoye mine – second bench visible

Marketing

> Sales successfully re-balanced from Europe to China and back – full sales volumes maintained throughout the year

The Group's operations focused primarily on maximising production volumes in 2009, following a strategic decision early in the year to produce at maximum capacity to minimise unit fixed costs in the low iron ore price environment. At the same time FPM management continued to drive the improvement of product quality and operating efficiency which continued throughout the year. As a result of this decision and focused management effort, FPM produced at full capacity from March with overall output for the year declining only very slightly as a result of lower production volumes in January and February 2009, caused by unseasonably adverse weather conditions that affected the logistics chain.

Most months from March onward yielded record production levels, and pellet production from own ore was higher than in 2008 by 1,000 tonnes. Total pellet production fell by 3% as a result of a lack of available third party concentrate at acceptable prices. This incremental pellet production from purchased raw materials makes use of our surplus pelletising capacity, but has historically yielded low margins. 157kt of pellets were produced from purchased ore and concentrate in 2009 (2008: 427kt).

The Gorishne-Plavninskoye Lavrikovskoye ('GPL') mine produced 28,547mt of iron ore in 2009, 3% more than in the previous year. Our focus on quality improvement prompted the use of selective mining techniques which increased the proportion of rich (K22) ore mined by 10%. This increased the overall quality of the ore available to the GPL concentrating plant, thereby increasing its operational efficiency and ultimately improving pellet quality as measured by the proportion of higher grade (65% Fe) pellets produced.

For the sixth consecutive year FPM was able to increase substantially its production of higher quality (65% Fe) pellets. The production of 65% Fe pellets from our own ore increased by 7% to 4,304kt, and now constitutes 49% of FPM's total production (44% in 2008). This is consistent with our commitment to quality enhancement and our 'value in use' marketing strategy and we intend to continue to increase the proportion of higher quality pellets produced in future years.

Business Improvement Programme ('BIP')
2009 was another successful year for the ongoing BIP projects. The managers and employees of FPM have firmly taken leadership of the BIP and continue to build

Operating Review
continued

a culture of continuous improvement at our operations. In addition, FPM engaged Partners in Performance International ('PiP') to assist in the identification of areas for broader improvement in FPM's operational performance.

We conducted a wide range of workshops in 2009 designed to entrench the BIP culture. BIP initiatives were responsible for 2-3% of the reductions to operating costs during the year, resulting in total savings of US$8.7 million. BIP continues to be a priority for management in respect of both short and long-term objectives and KPIs, driving FPM continuously towards global best practice across its operations. For further information see the Financial Review.

Operating costs

Operating costs declined modestly but steadily throughout the year, benefiting from further depreciation in the local currency and lower local inflation than in past years. Producing at full capacity allowed the Group to recover its fixed costs efficiently.

Efficiency gains, driven largely by the various BIP projects, enabled us to reduce the rates of consumption of energy and raw materials in 2009. The average number of employees at FPM fell by 5% in 2009 through normal turnover driven by efficiency programmes. Management was able to avoid any forced redundancies during the year. As of 31 December 2009, 8,204 people were employed by FPM (31 December 2008: 8,243). This number includes 65 temporary workers employed for the development of Yeristovskoye until the transfer of mining licences from FPM to Ferrexpo Yeristovskoye Mining ('FYM') is completed.

Further detail on the Group's employment costs is available in note 39 to the accounts.

Growth Projects

Ferrexpo is committed to increasing production from its existing mine, improving its product quality and commercialising the substantial undeveloped resources located adjacent to its existing operations. Consequently, the Group's major growth projects remain a priority and modest progress was made in 2009 even though large capital commitments were on hold. The focus has been on re-examining the scope and capital expenditure estimates of all the projects and on the pre-stripping works at the new Yeristovskoye mine where progress has been made this year.

The capital expenditure for these projects was estimated at the peak of the commodity cycle in 2008 and consequently we expect that capital costs will be reduced when final commitments to these projects are made. The process of restating these costs is progressing and planned to be completed in the first half of 2010.

GPL Projects

Open pit mine expansion

Work on this project was suspended at the end of 2008 and has remained on hold in 2009 as the Group has focused on maintaining current production from the mine at minimal C1 costs and progressing stripping at Yeristovskoye. This project remains a priority for the Group as it enables us to take advantage of currently under-utilised processing capacity and will increase production of 65% Fe pellets by approximately 15%. We anticipate a decision on the phasing of this project in conjunction with the Yeristovskoye expansion to be made in 2010.

GPL Concentrator plant upgrade

A Definitive Feasibility Study ('DFS') for the GPL concentrator plant upgrade was completed in September 2008. The project was not presented to the Board for approval owing to the onset of the economic crisis. Significant additional work has been done this year on optimising the scope and cost of this project and the Group is currently considering an initial Stage 1 investment that would enable the production of all 65% Fe pellets. The market will be informed of the revised scope and cost of this project once the assessment is completed.

This Stage 1 upgrade remains a priority as it will enable all of the Group's mined ore to be processed into 65% Fe pellets in line with market preference. The project design will provide for a Stage 2 project for 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 nearby attractive Growth Market.

Yeristovskoye

The Yeristovskoye project remains the Group's primary and most advanced major growth project. The scope of the project includes the construction of the new Yeristovskoye mine, a dedicated concentrator plant and potentially also a

Production – Operating Statistics

('000t unless otherwise stated)		2009	2008	Change +/–	Change %
Iron ore mined		**28,547**	27,763	784	2.8
Fe content	%	**30.3**	30.2		
Iron ore processed		**27,720**	27,582	138	0.5
Concentrate produced ('WMS')		**10,565**	10,459	106	1.0
Fe content	%	**63.3**	63.4		
Floated concentrate		**6,671**	6,167	504	8.2
Higher grade		**4,675**	4,375	300	6.9
Fe content	%	**67.05**	67.1		
Purchased concentrate		**180**	386	(206)	(53.4)
Fe content	%	**65.4**	65.2		
Purchased iron ore		**0**	276	(276)	(100)
Pellets produced from own ore		**8,609**	8,608	1	0.0
Higher grade		**4,304**	4,014	290	7.2
Fe content	%	**64.9**	65.0		
Lower grade		**4,305**	4,594	(289)	(6.3)
Fe content	%	**62.2**	62.2		
Pellets produced from purchased concentrate and ore		**157**	427	(270)	(63.2)
Lower grade		**157**	427	(270)	(63.2)
Fe content	%	**62.2**	62.2		
Total pellet production		**8,767**	9,035	(268)	(3.0)
Pellet sales volume		**9,015**	8,711	304	3.5
Gravel output		**2,846**	2,751	95	3.5
Stripping volume	'000m^3	**23,559**	20,573	2,986	14.5

dedicated pelletising facility. Following completion of the Yeristovskoye DFS in September 2008, formal commitment to the project was not sought from the Board because of the economic climate. However, Board clearance was given to continue some operational expenditure and small future commitments at a limited level to enable the value of the project to be maintained and to minimise delays to the original development schedule. In addition to investing in the DFS, the Group had already purchased five dragline excavators and the initial mining fleet for the purposes of pre-stripping at the site of the new mine.

In 2009, the Group took delivery of and commissioned five draglines and four CAT 789 haul trucks, and commenced work on the pre-stripping of the Yeristovskoye mine. Construction of the Yeristovskoye mine requires a three-year pre-strip before first ore is reached. It was decided by the Board that scaled down stripping works should proceed at Yeristovskoye in 2009, as stripping is time-consuming and a major delay would impact the schedule of the entire project significantly. As a result, the Group spent US$23 million on stripping works, mining fleet and site facilities construction at Yeristovskoye in 2009 and removed 4.0 million cubic metres of overburden from the site. The Group also engaged the services of local small trucking contractors to supplement the CAT fleet for the first phase of overburden removal and this enabled us to remove overburden at minimal cost.

Significant progress was achieved with the Ukrainian Central Land Authority (DerzhComZem) approval process for the west and east Yeristovskoye area land acquisition programme which is required for ongoing development of the mine.

Stripping will continue at the Yeristovskoye mine in 2010 and first ore can be achieved in early 2013, subject to full project approval during 2010. Subject to further reviews in 2010, it is envisaged that a portion of Yeristovskoye ore will be processed using excess processing capacity at GPL for the first two years. This will enable the Group to defer commitment to the capital expenditure for the Yeristovskoye concentrator plant by up to 24 months.

In 2008, the Group established a separate company called Ferrexpo Yeristovskoye Mining ('FYM') to provide for a separate legal and management structure for the development of the Yeristovskoye project. FYM is 51% owned by FPM and 49% by Ferrexpo AG. In December 2009, the Yeristovskoye mining licence formerly held by FPM was re-issued to FYM.

Belanovskoye and Galeschinskoye
Developments are planned at the Belanovskoye and Galeschinskoye deposits which are less advanced. The Group continues to perform the work at these deposits required for licence maintenance as well as undertaking further drilling for the detailed testing of geotechnical conditions and ore quality. All of the Group's developments will take place on the same ore body that we are currently exploiting and are situated adjacent to our existing logistics infrastructure. As a result, these investments represent low risk additions to new iron ore capacity compared with many other iron ore projects globally.

Strategic Investor Programme
During 2008, we identified several potential strategic investors, but this programme remains on hold pending completion of the review of our capital expenditure requirements and improvements to market conditions and asset prices.

Operating Review

continued

Marketing

Marketing performance in 2009

The visible weakness in demand for iron ore in Europe in the final quarter of 2008 continued into the first half of 2009. As a result, while the Group was able to sell volumes comparable with other years in 2009, our geographic sales mix reflects a greater proportion of sales to seaborne markets such as China than has historically been the case. In addition, the Ukrainian steel industry was more severely affected than those in Western Europe, with the result that 95% of our output by volume was exported in 2009 (2008: 88%). The share of pellet sales to Ukrainian customers therefore decreased from 12% in 2008 to 8% in 2009. We increased seaborne export sales in response to this weakness in Europe and Ukraine by actively and carefully selling into the spot market in Asia to known customers in order to protect the Ferrexpo brand, whilst 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. The Group reports average achieved prices on a DAF/FOB basis. It is noteworthy that spot sales are generally made on a Cost and Freight ('CFR') basis. The higher proportion of spot sales in the first eight months of 2009 therefore exposed the Group to freight volatility. Freight rates from the Black Sea to Asia were high relative to other routes in the second and third quarters of 2009 and this put pressure on the Group's average achieved DAF/FOB price during that period.

Of the total iron ore exported by the Group in 2009 by value, 39% was sold into China (2008: 18%). Most of the remainder was sold into the Group's established markets in Central and Western Europe and Turkey. The Group actively continues to seek to open new markets and in 2009 we began supplying new customers on the north-west coast of India on a spot basis. We believe that India will prove to be an important new Growth Market for the Group. 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 2009 and 2008 (by volume):

('000t)	2009	2008	Change +/–	Change %
Traditional Markets	**4,083**	5,781	(1,698)	(29)
Natural Markets	**713**	323	390	121
Growth Markets	**3,545**	1,558	1,986	127
Total exports	**8,341**	7,662	678	9

Approximately 70% of our 2009 sales by volume were made pursuant to long-term supply contracts, a lower level of contract sales than the 88% seen in 2008. This was again the result of increased spot selling in the first seven months of the year in response to continuing demand weakness from European and Ukrainian contract customers. During the third quarter of 2009, re-stocking began in Europe and we began actively shifting back to supplying our portfolio of long-term contract customers there during this period. Throughout the year our solid customer relationships have demonstrated their value, first in assisting us to place additional spot volumes through our long-term contract customers in China and then later in returning to full contract volumes with our European customers ahead of competing suppliers. Despite demand weakness in Ukraine and our Traditional Markets (see market definitions on page 21), our seaborne access, marketing flexibility and customer relationships resulted in higher overall full year 2009 sales by volume. We continue

> **The Group holds exclusive licences to a world class iron ore resource, uniquely positioned close to existing infrastructure and core steel-producing markets.**

to build on our strong track record of close relationships with all our customers.

The global iron ore market environment in 2009 was affected by low visibility of both demand and price (see 'Pricing' below). This resulted in a higher proportion of sales on the spot market, and 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 2010 will be higher than in 2009, as markets have normalised to some extent and the Group is already selling at close to normal levels to its portfolio of long-term contract customers. We remain committed to the strategy of maintaining a high level of the Group's sales under long-term contract and to this end we have despatched trial cargoes to prospective new contract customers in the second half of 2009.

We believe that we have increased our market share in 2009 with our contract customers in our Traditional Markets as a result of our proximity to these customers and our long-standing relationships with them. This has been critical in enabling us to maintain output during the year. Our ability to provide small-parcel 'just-in-time' deliveries to these customers is an attractive service for those companies that are engaged in careful inventory management. We are well positioned to continue this trend of substituting our supply for that of our competitors in Europe in 2010 and we will continue to sell aggressively into these markets.

We shall 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.

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, Czech Republic, 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 slowly now that some stability is returning to the global economy, as most of them are effectively re-industrialising. Total sales to Traditional Markets in 2009 were 4.1mt, a decrease of 29% compared with 2008.

Natural Markets
'Natural Markets' are relatively new markets for us in regions where we believe we have a competitive advantage which has yet to be exploited. This segment includes Western Europe, Turkey and the Middle East. Turkey has plans to increase its steel-making capacity significantly and FPM's proximity across the Black Sea affords an important mutual advantage to both the Group and iron ore buyers in Turkey. Our long-term supply contract in Turkey is only a year old, but it was one of the best-performing contracts in 2009. 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, although as stated above we have now made progress in opening India as a new Growth Market. The Group has six long-term contracts in place with Chinese steel mills. These customers provide a solid base for future sales growth and were instrumental in the Group's success in placing excess volumes from Europe into the Chinese spot market in 2009. We have a shorter ocean shipping distance to these markets than competitor iron ores from Brazil, although ocean freight rates from the Black Sea have been unusually high in 2009 relative to other routes as a result of the severe and prolonged economic downturn in Europe. This resulted in a significant reduction in dry bulk ocean vessels open for trade in the Atlantic but we expect this situation to normalise. The Ferrexpo Growth Market region also provides the primary source of demand for spot market business which has been highly active throughout 2009.

Operating Review

continued

“Our priority is the development of our resource base while maintaining flexibility throughout the economic cycle.”

Logistics

Our logistics strategy is to manage as much of the delivery chain to our customers as possible in order to ensure punctual supply of the contracted quality of product at a competitive cost. The total scope of our delivery logistics chain includes rail, trans-shipment (loading and unloading), barge and ocean vessels.

In 2009, our focus was on maintaining production and ensuring the integrity of the logistics chain in order to maximise sales volumes in a capital-constrained environment. Our 49.9%-owned dry bulk minerals Panamax terminal on the Black Sea (the ‘TIS-Ruda Terminal-Yuzhny’) has proven an asset critical to our efforts to increase seaborne sales in the face of Traditional Market demand weakness. Our access to the TIS-Ruda Terminal-Yuzhny has been a vital differentiator between Ferrexpo and its competitors in the region which have had to rely on congested State ports for seaborne access.

During the downturn, the Group has followed a strategy of conservative cash management. In 2009, little expenditure was made on the development of our logistics capability. The expansion of our delivery chain logistics capability in order to meet current and future growing customer demands nevertheless remains a critical contributor to our long-term market shares and margins. We expect to resume some capital expenditure in this area in 2010. Specifically, Ferrexpo is working to reduce ocean vessel shipping costs and volatility to Growth Markets via longer-term ocean vessel chartering and loading of larger vessels up to cape size (150,000 tonnes).

Pricing

We achieved an average DAF/FOB price for the pellets we sold in 2009 of US$66.3 per tonne, a decrease of 47% over the average achieved price for 2008 (US$124.6 per tonne). The calculation of the average DAF/FOB price includes sales made on a CFR basis, adjusted for freight. As stated above, high freight rates caused pressure on the average DAF/FOB price in the third and fourth quarters. 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 a typical year, most of our export sales are based on annually negotiated prices contained in supplements to our long-term supply contracts. A proportion of this 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. However, owing to low demand visibility in 2009, a Benchmark Price settlement was not globally agreed as usual in April. As a result, in order to maintain volumes and margins, Ferrexpo was exposed to an unusually high proportion of spot or provisional prices, as were almost all iron ore producers during the year. This affected the 2009 average achieved price.

No formal global Benchmark Price was established at all in 2009 as a result of CISA’s (the China Iron and Steel Association) failure to recognise price settlements made between the major iron ore producers and their non-Chinese customers during the summer. Price settlements were nonetheless reached outside China and by early in the second half of the year, these had eventually gained universal acceptance even with Chinese steel mills. This was partly as a result of continuing iron ore spot price strength. Vale, the largest iron ore pellet producer in the world, settled its price for pellets with its customers ex-China at a level 48.3% below the 2008/2009 contract price. The improving economic outlook in the third quarter enabled Ferrexpo to agree prices with the majority of its long-term contract customers at substantially this Vale Benchmark Price after adjustments for the impact of freight, quality, proximity and logistics. This coincided with the return to supplying pellets largely in terms of our normal geographic market mix. These new contract prices apply from the start of the fourth quarter to the end of the first quarter of 2010, when we expect a new price to be agreed.

Pellet premium

The iron ore pellet premium is the price paid by purchasers to producers of iron ore pellets (such as Ferrexpo) in excess of the price of iron ore sinter fines, to reflect the fact that pellets have undergone further processing which may create improved ‘value in use’ for the end users. The Group’s pellets are therefore an intermediate product between raw ore and metallic iron, providing productivity gains in blast furnaces. Usage of our pellets can lead to reduced coke consumption 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 in transportation and increased environmental concerns with sinter

production, particularly for blast furnace operators in the European Union.

Following the Vale price settlements in mid-2009, the iron ore pellet premium in Europe was 25 US cents per dry metric tonne unit (dmtu), after reaching a record high of 86 US cents per dmtu in April 2008. Pellets tend to trade at a very significant premium to iron ore fines only when the industry is in a state of under-supply 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 was the case in many markets through much of 2009. Nonetheless, the current level is below the long-term average of approximately 30 US cents per dmtu, and we believe this to be below the marginal cost of pelletising for some producers. As a result, we expect the premium for our pellets to increase in 2010. This is supported by the fact that good supply discipline practised by the larger pellet producers in 2009 has, in late 2009, resulted in a shortage of pellets in some key markets. An increase in the pellet premium is also likely to be underpinned by the transport and environmental benefits of using our pellets.

2010 Marketing strategy

Demand in 2010 will depend on the continued growth of steel output in China, a sustainable recovery by the steel industry in Ukraine and the continuation of the slow recovery in developed nations. We believe that the re-stocking by steel mills following the worst months of the crisis is now complete and a fragile recovery is under way, driving a slow return of global steel output to sustainable levels. We remain well placed to continue to produce at full 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, and our return to supplying our portfolio of long-term customers late in 2009 bodes well for sales in 2010.

Government stimulus packages and ‘quantitative easing’ are likely to result in some inflation in 2010, but for Ferrexpo this is likely to be offset to a large degree by further operational currency weakness. Economic conditions have reduced costs of production across the industry in 2009, as demand has fallen. This is 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 increase slightly in 2010.

Industry inventory control has been good given the pressures of the economic downturn and the recovery in demand in China was unexpectedly rapid. As a result, the build-up of inventories which have historically prevented the recovery of commodity prices once growth conditions resume, has been avoided. In 2010, continuing strong demand from China and the slow recovery elsewhere should give support to stronger iron ore prices.

Our sales strategy in 2010 will be an extension of the highly successful flexible strategy we practised in 2009. We believe the worst of the downturn in the global economy is behind us, but we remain prepared to switch sales volumes between our various markets at short notice to counteract any recurring demand weakness in any given region. We shall continue to cultivate relationships in our Growth Markets and to hold available our seaborne market access, seeking to maximise sales volumes where possible by taking advantage of potential opportunities for seaborne spot sales while maintaining our strong customer relationships in our Traditional and Natural Markets. Where possible, we will use these relationships to increase our market share position in the 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 and in many instances a bespoke logistics solution.

Corporate social responsibility

We are pleased that in 2009, we made good progress in our efforts to transform the culture at FPM into one of behavioural safety. There were no fatalities at our operations during the year. We continue to work with DuPont Safety Resources as we strive for further improvements across all areas of CSR and especially safety.

The Group’s CSR Review can be found on page 32 of this Annual Report.

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
Total (Producing Assets)	**955**	**30**	**2,255**	**30**	**1,449**	**31**
Yeristovskoye	632	34	765	27	96	17
Belanovskoye			1,627	31	37	30
Galeschinskoye			325	59	29	59
Total (Projects)	**632**	**34**	**2,717**	**33**	**162**	**27**
Total (All Assets)	**1,587**	**32**	**4,972**	**32**	**1,611**	**30**

Financial Review

Highlights

- Revenue of US$648.7 million (2008: US$1,116.9 million) decreased owing to lower iron ore prices
- EBITDA US$138.1 million (2008: US$503.9 million)
- Principal debt facility refinanced – new pre-export finance facility of US$230 million
- Production from own ore in line with 2008 at 8.6 million tonnes
- Production of premium 65% Fe pellets increased by 7.2%
- Higher priced 65% Fe pellets increased to 49.1% of total sales (2008: 44.6%)
- C1 cash costs of production improved by 18.7% reducing to US$34.4/t
- Net cash flow from operating activities of US$76.9 million (2008: US$370.9 million)
- Dividend maintained at 3.3 US cents per share

Revenue and sales

The revenue generated by the Group was 41.9% lower than in 2008, with sales volumes in line with the prior year. Overall revenue decreased by US$468.2 million to US$648.7 million as a result of lower pricing following a sharp contraction in demand for steel and iron ore in late 2008 and early 2009. The average DAF/FOB price achieved by the Group for iron ore in 2009 was US$66.3 per tonne compared with US$124.6 per tonne in the previous calendar year. The Group nonetheless remained profitable throughout the year, reflecting a strong operating result and good cost control.

The weaker iron ore demand in our Traditional European markets was offset by increased sales to China and India, enabling the Group to continue to sell all its production. Some of these additional sales were made on a spot market basis which exposed the Group to seaborne freight rate volatility. As a result, the cost of international freight increased in 2009 by US$22.9 million to US$45.2 million.

Production

The Group maintained production output at full capacity during the year and increased the proportion of higher priced 65% Fe pellets to 49.1% of total sales in 2009 compared with 44.6% in 2008. The Group produced 8,609 k/t in 2009 from own ore compared with 8,608 k/t in 2008.

Costs and margins

The majority of C1 costs (defined as the cash cost of pellet production per tonne from own ore, ex-works) are incurred in Ukrainian hryvnia. In 2009, the average C1 cost decreased from US$42.34 to US$34.44 per tonne, reflecting the effect of the weaker local currency in 2009 compared with 2008, lower oil prices and improved efficiency through our Business Improvement Programme ('BIP').

During 2009, Ferrexpo Poltava Mine ('FPM') was involved in 97 projects ranging from reducing the utilisation of key materials to improvements in IT, internal power infrastructure, rail operations and maintenance procedures. In total the BIP yielded savings amounting to US$8.7 million of which US$6.2 million related to direct mining and processing activities.

Selling and distribution costs

Selling and distribution costs represent the cost of freight to deliver the goods to agreed sales transfer points within Ukraine. For certain sales, the Group incurs additional costs to arrange transport and delivery to the customer's

plant which results in higher sales prices to these customers. Owing to the increased CFR sales to China and India in 2009, referred to above, increased freight costs for certain deliveries to these destinations were borne by the Group. This resulted in temporarily higher distribution costs in the middle part of the year. Domestic freight tariffs, comprised principally of Ukrainian rail tariffs, benefited from the devaluation of the Ukrainian hryvnia at the end of 2008. Overall, the selling and distribution costs increased by US$9.7 million given the higher sales made on a CFR basis compared with the prior year.

General and administrative expenses

Following a cost reduction programme during the year, general and administrative expenses were reduced by US$24.0 million. This reflected lower head office costs of US$18.9 million as a result of reorganisation and significantly lower legal and professional costs owing to reduced project activity.

Other income

Other income reduced from US$6.4 million in 2008 to US$4.1 million in 2009. This reflected a reduced level of sales of current assets.

Other expenses

Other expenses of a recurring nature reduced by US$4.7 million in 2009 following cost reduction measures. The total charge decreased by US$34.6 million as the prior period included doubtful debt expenses amounting to US$18.8 million. These doubtful debt expenses were not repeated in 2009 following a stabilisation in markets during the latter part of the year. The prior year also included foreign exchange differences of US$6.0 million which were not repeated as the Ukrainian hryvnia to US dollar exchange rate remained stable during the year.

Currency translation

The functional currency of FPM is the Ukrainian hryvnia. Gains and losses on foreign currency-denominated operating assets that result from exchange rate movements are recorded in the income statement.

The operating foreign exchange gains decreased from US$29.3 million to US$2.5 million owing to a more stable Ukrainian hryvnia throughout 2009 and non-operating foreign exchange losses declined from US$72.8 million to US$2.6 million.

Currency movements resulting from the translation of net assets of foreign operations into US dollars are shown in the consolidated statement of comprehensive income. In 2009 a loss of US$24.5 million was recorded (2008: US$332.7 million). This reduced loss reflected a more stable local currency in 2009 which depreciated from UAH7.700 to UAH7.985 to the US dollar (2008: UAH5.050 to UAH7.700)

Write-offs and impairment losses

The Group holds various investments that are classified as available-for-sale. The most significant of these is a 9.9% investment in a Ukrainian oil and gas exploration company, LLC Atol. IFRS requires the Group to value available-for-sale assets at fair value. This resulted in a total impairment charge of US$1.9 million for 2009 compared with US$26.4 million for 2008. The investment is valued at US$2.1 million as at 31 December 2009 (2008: US$4.0 million).

Negative goodwill

During the 2008 financial year, 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%

Financial Review

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and negative goodwill of US$35.0 million. These shares, which were originally held in treasury by FPM, were transferred to Ferrexpo AG (FPM's parent company) in August and November 2009. This resulted in an increase in the Group's ownership to 97.3% as at 31 December 2009 and negative goodwill of US$0.5 million.

Finance costs and borrowings

The interest expense on the financial liabilities increased in the year by US$1.8 million to $16.8 million owing to higher average debt as the Group drew on available facilities during Q4 2008.

In November 2009, the Group successfully secured a new pre-export finance facility of US$230 million. The new facility was available from 1 January 2010 and was drawn down to repay in full the amount outstanding on the existing loan. The new loan matures 36 months from 1 January 2010 and is to be repaid in 24 equal monthly instalments with the first instalment falling due in January 2011. This transaction is the first successful financing concluded by a metals and mining company with assets located primarily in the CIS since the beginning of the global financial crisis in September 2008.

The gross indebtedness of the Group decreased from US$307.9 million at the end of 2008 to US$269.6 million as of 31 December 2009. At the year-end, the Group had US$12.0 million of cash (2008: US$87.8 million). 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.

US$ millions	**Year ended 31.12.09**	Year ended 31.12.08
EBITDA	**138.1**	503.9
Working capital movements	**(12.5)**	(33.8)
Net financial payments	**(19.2)**	(15.4)
Income tax paid	**(18.9)**	(67.2)
Movement in provisions and other non-cash items	**(10.6)**	(16.6)
Net cash flow from operating activities	**76.9**	370.9
Sustaining capital expenditure	**(20.5)**	(70.6)
Free cash flow	**56.4**	300.3
(Paid for)/received from: expansionary projects	**(65.7)**	(205.8)
Purchase of available for sale investments	**–**	(0.3)
Loans to associates	**6.5**	(4.0)
Distributions including to minorities and share repurchases	**(36.6)**	(126.3)
Other receipts	**2.1**	2.5
Currency translation differences	**(0.3)**	(68.9)
Movement in net debt	**(37.6)**	(102.5)

Taxation

The Group generates taxable income mainly in Switzerland and Ukraine. The tax charge to profits in the year was 12.2% compared with 16.6% in 2008. This reduction was as a result of change in the mix of profits between the Company's countries of operation in 2009.

Earnings

As a result of the decline in iron ore prices on the international markets described above, underlying earnings decreased from US$347.4 million in 2008 to US$74.8 million in 2009. Fully diluted EPS was 12.05 US cents per share in 2009 (2008: 48.46 US cents per share). Fully diluted underlying EPS similarly decreased to 12.77 US cents per share in 2009 (2008: 57.58 US cents per share).

Repurchased shares in treasury

No share repurchase took place during the 2009 financial year. The shares repurchased in September 2008 are held in treasury at their acquisition cost of 170 pence per share, equating to US$77.3 million. For the purposes of comparison, the closing market price at 31 December 2009 was 198 pence per share.

Statement of financial position and cash flow

Key figures relating to the cash flow of the business and changes in the statement of financial position are summarised in the table below.

The Group achieved strong operating results in 2009, particularly in light of the challenging conditions in the international iron ore market. EBITDA decreased from US$503.9 million in the record 2008 financial year to US$138.1 million in 2009 as a result of lower prices for iron ore. This is reflected in a decline in the EBITDA margin to 21.3% in 2009 compared with 45.1% in 2008.

Net cash flow from operating activities amounted to US$76.9 million in 2009 (2008: US$370.9 million). Operating cash flow was invested in sustaining and development projects for the existing operations, as well as into the Yeristovskoye development project. Total capital expenditure in 2009 amounted to US$85.8 million (2008: US$276.3 million), of which US$20.5 million was sustaining capital. Major capital expenditure commitments remain largely on hold owing to the economic situation, but modest expenditure continued in order to maintain the value of previous investments and in preparation to accelerate the implementation of our development

projects when conditions improve. Net financial indebtedness ('NFI') increased from US$220.1 million to US$257.7 million as at 31 December 2009. At the year-end, the Group held cash balances of US$12.0 million (2008: US$87.8 million).

As disclosed in note 28 to the accounts, Ferrexpo has experienced delays in recovering VAT which it has paid on purchases in Ukraine. As an exporter, the Group's goods are not subject to VAT and the Group relies on the timely repayment of VAT to ensure sufficient cash flows.

During the year, the amount of VAT to be recovered from state authorities increased by US$24.0 million to US$81.3 million. This, offset by lower accounts receivable, accounted for the increase in working capital at the end of 2009 compared with 2008. No VAT amounts are in dispute.

The amount of VAT to be repaid to the Group not only relates to purchases made by FPM, but additionally to purchases made by FYM. Under Ukrainian law, newly established companies are unable to reclaim VAT during their first 12 months of operation. FYM was established in July 2008 and paid approximately US$2 million of VAT in the period to July 2009 (principally relating to imported equipment). This will apply to any new subsidiary company that may be established by the Group as its growth projects are realised.

Related party transactions

The overview of the Group's related party transactions undertaken during the financial year 2009 is disclosed in note 36 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 Fevamotinico S.a.r.l. ('Fevamotinico'), a company owned by The Minco Trust, one of the beneficiaries of which is Kostyantin Zhevago, the Group's Chief Executive Officer. At the time that this report was published, Fevamotinico held 51.0% (2008: 51.0%) of Ferrexpo plc's issued share capital. Ferrexpo plc entered into a Relationship Agreement with Fevamotinico, 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 41% (2008: 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 and with US Steel on 31 December 2010.

Lenders

The Group has entered into several loan agreements. The main facility is the US$335 million pre-export finance loan agreement entered into by the Group on 27 December 2006 and amended on 5 July 2007 and 4 August 2009. This was 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 31 to the accounts, and in the Group's Listing Prospectus. It was repaid in full on 8 January 2010 using the new pre-export finance facility (see below).

A new pre-export finance facility in an amount of US$230 million was entered into by the Group on 27 November 2009. Deutsche Bank AG acted as coordinator, mandated lead arranger and book runner for the loan and provided funding, together with 10 other financial institutions. The new loan matures 36 months from 1 January 2010 and is to be repaid in 24 equal monthly instalments with the first instalment falling due in January 2011. The new pre-export finance facility bears interest at a floating rate linked to the US$ LIBOR plus a margin and is also guaranteed and secured on the same basis as the bank debt existing at 31 December 2009 (see note 31).

Employees

Critical employees are the members of the Group's Executive Committee details of whom can be found on page 9 of this Annual Report.

Financial Review
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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

Description:
In the current economic environment, uncertainty remains regarding the iron ore price and iron ore demand in both the short and long-term. The Group's business is dependent on price developments in the international iron ore market. Sale prices and volumes in the worldwide iron ore market depend predominantly on the prevailing and expected level of demand for iron ore.

Impact:
Fluctuations in iron ore prices as well as demand may negatively impact the financial result of the Group.

Mitigation:
Developments in the market are closely monitored by management and by the Board in order for the Group to be in a position to react in a timely manner to changes to iron ore prices and demand.

The Group successfully reacted to adverse market conditions during the 2009 financial year by recognising the importance of cost reduction and marketing flexibility at an early stage.

Ukrainian VAT receivable

Description:
Ferrexpo Poltava Mining, as an exporter, and Ferrexpo Yeristovo Mining, as an investor, do not have substantial amounts of VAT on revenues to offset against VAT incurred on purchases. The Group relies on the timely repayment of VAT from the Ukrainian government to ensure sufficient cash flows.

Impact:
The late repayment of VAT will result in increased working capital which has to be funded by the Group. This will incur increased borrowing costs or result in temporary reduced levels of investment.

Mitigation:
The repayment of VAT is closely monitored by management. Funding plans, including the commitment to capital expenditure, are developed to manage temporary increases in VAT receivable.

Mining risks and hazards

Description:
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 local 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.

Impact:
The Group may experience material mine or plant shutdowns or periods of reduced production as a result of any of the before mentioned factors, and any such events could negatively affect the Group's results of operations.

Mitigation:
The Group is dedicated to a zero-harm objective and the mitigation of mining risk is one of the primary operational goals of the Group. However, given the nature of mining operations there is no guarantee that accidents and fatalities will not occur in the future, despite all the safety initiatives undertaken and processes put in place. In 2009 the Group had no operational fatalities, compared with three in 2008 and one in 2007.

Costs and reliance on State monopolies

Description:
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 such a dispute will not recur again in the future.

In addition to that, 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.

Impact:
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.

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.

Mitigation:
The factors having an impact on the Group's future cost structure are closely monitored and cost reduction initiatives are planned and reported to the Board.

The reduction of average C1 cash costs in the 2009 financial year emphasises the successful processes in place throughout the Group.

Logistics

Description:
The Group is dependent on logistics services provided by third parties and State-owned organisations. The dependency is primarily related to the rail freight network services, services from port facilities and barging companies and may result in logistics bottlenecks which could adversely impact the Group's ability to expand its operations.

Impact:
The identified potential logistics bottlenecks, if left unmanaged, could adversely impact the ability of the Group to distribute its products on time and may affect its future growth strategy.

Mitigation:
The Group has embarked upon a programme of investing in its own railcars and making further investments at its TIS-Ruda port facility for dredging in order to reduce the risk of these potential bottlenecks.

As an example, the investment in TIS-Ruda enabled the Group to meet delivery commitments requiring shipment from the port of Yuzhny at all times throughout 2009.

Licences

Description:
Licences are critical to the Group's operations, and there is no guarantee of their renewal or reconfirmation in the future, nor is there a guarantee that the Group will be able to obtain any additional licences. See also 'Risk relating to the Group's strategy – Government approvals of expansion'.

Impact:
The lapse of licences held by the Group as well as any failure to obtain any additional licences may adversely affect the Group's ability to meet future growth targets.

Mitigation:
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.

Risks relating to finance

Exchange rate risk

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

Impact:
Variations in the exchange rate can have a significant impact on the profitability of the Group.

Mitigation:
As the depreciation of the Ukrainian hryvnia compared with the US dollar resulted in lower costs and improvement of the operating results, there was no need to enter into foreign currency hedging agreements during the current year.

However, the exposure to foreign currency fluctuation is closely monitored by the Group in order to make appropriate decisions on a timely basis, if needed.

Financial Review

continued

Interest rate risk

Description:
The majority of the Group's borrowings are linked to US$ LIBOR rates so the Group is exposed to interest rate changes.

Impact:
An increase in interest rates will have a negative impact on the financial results of the Group.

Mitigation:
Conditions in the financial markets and financing facilities in place are regularly reviewed by management in order to maximise the profitability of the Group.

The Group did not enter into derivative financial instruments such as interest rate swaps in 2009.

Financing risk

Description:
Development projects require additional funding above the cash generation capabilities of the existing operations which need to be covered with specific finance arrangements.

The Group's principal loan facility contains covenants relating to Earnings Before Interest, Tax, Depreciation and Amortisation ('EBITDA') as well as the normal short and long-term cover ratio requirements.

Impact:
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 lenders' permission to assign additional contracts under this facility to meet certain ratios.

Mitigation:
The Group's financing risk has been mitigated by the new loan facility that was secured in November 2009. The draw-down of the new loan in January 2010 was used to repay the previous pre-export finance facility. The new loan matures 36 months from 1 January 2010 and is to be repaid in 24 equal monthly instalments with the first instalment falling due in January 2011.

The Group expects to have sufficient liquidity to operate successfully throughout 2010 and 2011 and sufficient long-term contracts in order to meet the requirements of all debt covenants.

Counterparty risk

Description:
In the current economic climate, there is an increased likelihood of unrecoverable debts and customer and supplier credit constraints and insolvency.

Impact:
Financial instability on the part of the Group's counterparties could adversely affect its financial results.

Mitigation:
The outstanding customer balances are subject to regular and thorough review. The results of these reviews are used to change sales terms with customers in order to mitigate the risk of uncollectible receivable balances.

As a result of the rigorous procedures put in place, the Group did not have any significant bad debt losses in 2009.

The profile of the Group's suppliers is regularly reviewed in order to assess and mitigate any dependence on major suppliers.

Risks relating to the Group's strategy

Delays to major growth projects

Description:
The Group has placed material capital expenditure on its major growth projects on hold owing to the depressed market conditions in late 2008 and the first half of the 2009 financial year.

Impact:
A further delay to any substantial future increase in production by more than 12 months may cause the Group to lose potential future revenues once iron ore markets recover.

Mitigation:
Rigorous project planning and capital expenditure approval processes are in place in order to ensure that growth projects can be immediately recommenced and/or started when market conditions are considered by the Board to have stabilised.

Expansion capital expenditure

Description:
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.

Impact:
As with all major capital projects of this kind, there is a risk of insufficient controls and cost overruns which could impact the time to completion of these projects and the return on the capital invested.

Mitigation:
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.

Government approvals of expansion

Description:
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.

Impact:
A failure to receive governmental approvals will have a negative impact on achieving the Group's growth plans for the future.

Mitigation:
The Group maintains an open and proactive relationship with the different governmental authorities and is aware of the importance of compliance with local legislation and standards.

Risks relating to operations in Ukraine

Ukrainian inflation

Description:
Ukraine experienced very high inflation in the years up to and including 2008 as a result of high government spending and rapid economic growth. Ukrainian inflation was lower in 2009 as a result of global economic conditions, but there are indications that it may rise again in 2010.

Impact:
If not mitigated by further 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.

Mitigation:
Ukrainian inflation is closely monitored and relevant conclusions are made by the Board, management of the Group or other committees of the Group in order to assess and address the implications for the Group in a timely manner.

Ukrainian economic and social risks

Description:
Ukraine has been adversely affected by the global financial crisis and by continuing government instability. The Ukrainian steel industry, the largest industry in the country, collapsed in late 2008. 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 decided to weaken the local currency to assist the country in recovering from the economic crisis and high Ukrainian inflation. This benefited the Group, as a large proportion of its costs are denominated in hryvnia. However, it may also result in business failures, repossessions and social unrest in Ukraine owing to extensive borrowing in foreign currencies by the Ukrainian private sector.

Impact:
The uncertainties in the Ukrainian economic and politicial environment could have an adverse effect on the Group's business and financial results.

Mitigation:
The Board is closely monitoring any developments and changes and maintains regular contact with regional and national government authorities.

Government activities were impacted by Ukraine's presidential elections in February 2010 but this situation is expected to normalise as stability is restored.

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 2010 investment in health, safety and the environment is maintained.

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 and has established a sound base from which to continue to develop its CSR programmes. A group wide Code of Corporate Responsibility and Business Ethics (the 'Code') 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 company 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.

The Code has been translated into the Ukrainian and Russian and communicated to employees. Management will continue to engage with employees to obtain their feedback to ensure the Code is developed and improved.

The Corporate Safety and Social Responsibility Committee

The Group has a Corporate Safety and Social Responsibility Committee (the 'CSR Committee') which monitors the implementation of CSR policies.

The CSR Committee is chaired by Viktor Lotous (Ferrexpo Poltava Mining ('FPM') Chief Operating Officer). The other members of the CSR Committee are Michael Abrahams (Chairman of the Board), Kostyantin Zhevago (Chief Executive Officer) and Dave Webster (Chief Projects 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 met once during 2009. In addition, the Board received a detailed presentation on safety when it visited the site during the year.

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

- Review of environmental KPIs against those of other London-listed mining companies.
- Update on the work of DuPont Safety Resources ('DuPont') and their recommendations.
- Code of Corporate Responsibility and Business Ethics: this was finalised, translated into Ukrainian and Russian, and published to the staff.
- CSR Reporting.

The CSR framework

Management recognises that reaching the highest standards will entail 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.

CSR at FPM

As the only currently 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

Ferrexpo's Health and Safety Policy

- 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.

Case Study 1 – DuPont

Ferrexpo continued its collaboration with the consultancy company DuPont Safety Resources ('DuPont') during 2009. The investigation of accidents to determine the cause and identify appropriate remedial action now also covers minor accidents not involving time spent off work ('microtraumas') and is carried out according to a methodology agreed with DuPont. Fatalities and other serious accidents continue to be investigated additionally by the State authority.

During 2009 Ferrexpo entered into a new contract with DuPont for the provision of leadership training to FPM management in the area of labour safety, providing methodological assistance to the administration of FPM on the introduction of the behavioural audits programme, and increasing employees' awareness in the field of labour safety.

Within the framework of this contract practical leadership training of company management has been carried out in the field of safety, and a 6-man working group has been set up by FPM for training operational managers in the theory and practice of behavioural audits and safety leadership. DuPont has conducted theoretical and practical training workshops on behavioural audits for this working group, whose members then started to carry out training programmes for operational managers at the middle level (i.e. those who are immediately involved in maintaining workplace safety).

Corporate Social Responsibility Review continued

> **In 2009 a new strategic objective was introduced with the aim of continuing to drive forward improvements in the area of health and safety: this objective is to have the best mining safety record in Ukraine.**

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

Health and Safety objectives for 2009
In 2009 a new strategic objective was introduced with the aim of continuing to drive forward improvements in the area of health and safety. This objective is to have the best mining safety record in Ukraine. To support this objective, targets were set in 2009 which included a reduction of 20% in the lost-time injury frequency rate, making organisational changes that would improve safety in the production process, improvements to the protective clothing and the tools used by staff, subjecting subcontractor staff to safety rules in the same way as the Group's own employees, and audits of labour safety behaviour. These are expanded on below.

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

	2009	2008	2007
Lost Time Injury Frequency Rate (LTIFR – see note)	**1.11**	0.95	0.57
Fatal accidents	**0**	3	1
Total accidents	**15**	17	9
Lost days	**530**	591	590

Note
LTIFR – Number of lost time injuries 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 2009 and 2008 figures are 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.

During 2009 the Labour Safety Department was restructured, with a centralised Directorate for Industrial Labour Safety and Environmental Protection taking the place of the previous more localised structure in which there was a smaller Labour Safety department, with labour safety engineers working in the various operating departments of FPM. Remuneration of safety engineers is no longer directly linked to operational output. The purpose of setting up the Directorate was to develop a uniform policy and achieve the maximum degree of co-ordination of progress towards achievement of the goals set in the field of labour safety. Procedural manuals on labour

safety and environmental protection at the operational level were developed during 2009.

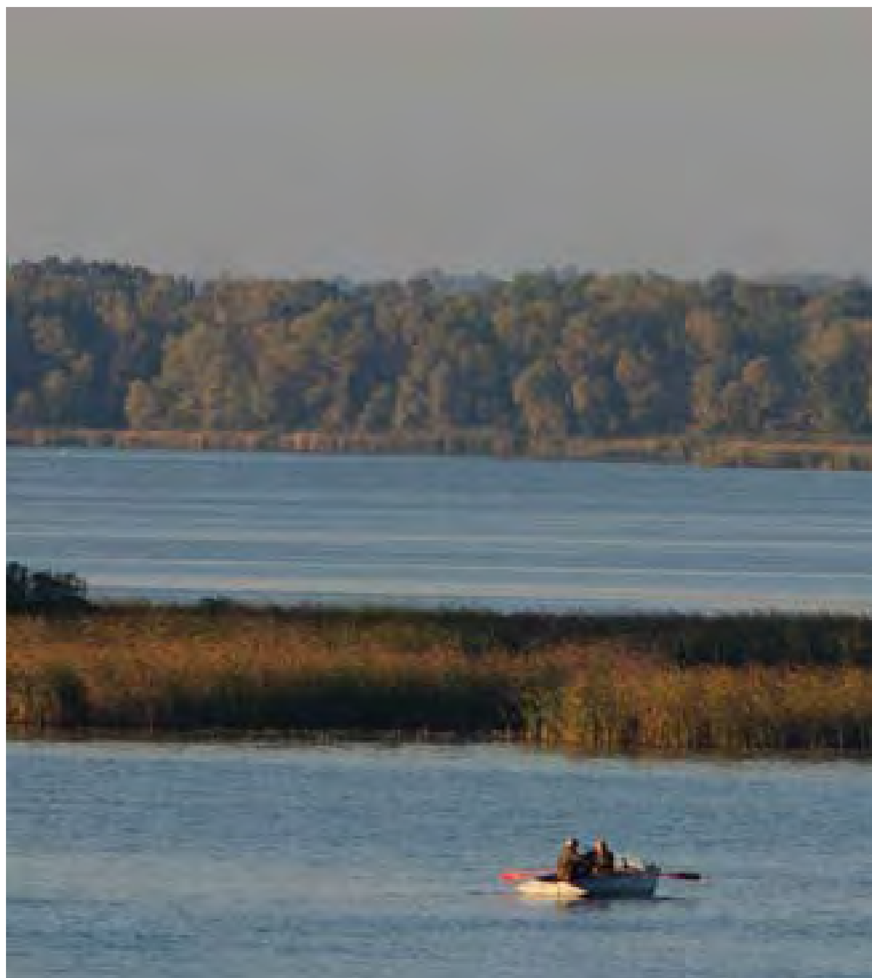
As it updates the current procedures of the labour safety management system, the FPM management continues to take into account best practice both in Ukraine and abroad. In 2009 this took the form of co-operation with labour safety experts at Ukrainian and Russian mining companies, as well as signing a six-month contract with DuPont labour safety consultants.

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 the Board and management who follow the principle that all accidents are avoidable.

In line with policy at FPM, all accidents are investigated to determine the cause and identify appropriate remedial action. This analysis, which now also covers minor accidents not involving time spent off work ('microtraumas') is carried out according to a methodology agreed with DuPont. 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.

There were no work-related fatalities at FPM in 2009. However, there were 15 accidents that were investigated by the State authorities. There were no work-related accidents at FYM.



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 2009 FPM continued to implement safety programmes to improve the health and safety of its workers. These included:

> Further improvement to the quality of working clothes, personal protective equipment and tools, based on workplace risk assessments and on analysis of accidents.
> Organisational changes to improve workplace conditions and minimise accident risks.
> Subjecting the increasing number of subcontractor staff to the same safety norms as FPM staff, by means of a company standard on Subcontractors' Work and Services Safety.
> Conducting labour safety behavioural audits.

During 2009 Ferrexpo entered into a new contract with the DuPont Safety Resources consultancy: see case study 1 on page 33.

In order to improve company safety culture and eliminate dangerous work practices, we carry out training workshops and practical behavioural audits for the specialists from various departments of FPM.

FPM is required by Ukrainian labour protection laws to dedicate at least 0.5% of sales revenue to labour protection and safety. This statutory payment amounted in 2009 to approximately UAH 25,303,000 (US $3.25 million, or 0.63% of sales) (2008: US $5.72 million, 0.62% of sales).

Corporate Social Responsibility Review continued

Case Study 2 – Air Quality

The work on dust pollution reported in the 2008 report continued in 2009, with initiatives for the protection of air quality including stabilising dry sand banks for waste storage by chemical and biological methods (grass sowing) (cost UAH 768,000); intensive watering of the work face in the pit after blasting and in dry weather (cost UAH 7,033,000); and repairs to the gas and dust filter unit in the pellet production area (cost UAH 281,000).

During 2009 there were 14 cases of a build-up of gas in some parts of the pit. In 6 cases employees complained of sickness and were evacuated from the pit. The type of gas was not characteristic of FPM's activities. Emergency procedures were followed on each occasion, including the issue of suitable protective equipment and evacuation of the affected areas of the pit. Meanwhile, investigations have shown that the gas does not come from Ferrexpo's operations. At the initiative of FPM, Komsomolsk City Council has commissioned the Scientific and Research Institute of the Ministry of Health to identify the source of the gas.

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 upon 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.

As an integral part of the Directorate of Industrial and Labour Safety and Environmental Protection, FPM owns an on-site health centre. The health centre carries out medical examinations of staff on joining the company, as well as annual medical examination of the employees aimed at preventing and treating occupational diseases, according to the requirements of the current labour legislation of Ukraine. Additionally, on a contract basis, the health centre provides services for subcontractors' employees. The cost of providing medical services in 2009 was UAH 4,253k (US$546k).

In the past three years, there have been 7 recorded cases of industrial disease (2 in 2007, 3 in 2008 and 2 in 2009); 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 directly 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).

During 2009 there have on several occasions been a build up of gas within parts of the pit. This caused a variety of symptoms including nausea to some employees. Emergency procedures were followed on each occasion, including the issue of suitable protective equipment and evacuation of the affected parts of the pit. It has been confirmed that the source of the gas is outside Ferrexpo's operations, and a thorough investigation is being carried out under the supervision of the local authority.

Employees

The employment principles adopted in 2008 include 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.

As part of the restructuring process involving an outsourcing of non-core mining activities, during 2009 25 security staff previously employed directly were transferred to the local security company that provides services to FPM. Additionally, the Specialised Electric Equipment and Networks Repairs Department (212 staff) was moved outside the company structure.

FPM continues to recruit 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.

Further information on employee numbers is set out in note 39 to the accounts.

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 2009, 29 employees were sponsored by Ferrexpo at institutes of higher education. The total educational spending for employees in higher educational establishments was US$64,175.

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, having conducted market research 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.

Environment

Ferrexpo's Environmental policy

> 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.

Emissions in tonnes

	2007	2008	**2009**
Total gas emissions	6,161	6,177	**6,167**
Of which:			
> Nitrogen dioxide	*2,876*	*2,879*	***2,876***
> Carbon monoxide	*2,299*	*2,312*	***2,306***
> Sulphur dioxide	*888*	*888*	***886***
Total solid emissions	3,235	3,224	**3,212**
Total emissions	9,396	9,401	**9,379**

In 2009 FPM spent UAH 45 million (US $5.78 million) on the implementation of environmental measures. Payments for emissions and waste placement amounted to UAH 18 million (US $2.31 million).

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. During 2009 Ferrexpo completed an independent review of the Ukrainian EIA (OVOS), which covers our regulatory environmental requirements, for the Yeristovo mine pre-strip and the actual environmental performance of the current Yeristovo operations against the requirements of the International Finance Corporation's ('IFC') Environmental and Social Performance Standards. Ferrexpo remains committed to applying the IFC requirements as it prepares plans for further development of the Yeristovo project.

Corporate Social Responsibility Review continued

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. Those undertaken in 2009 are set out below.

Water management

FPM uses some 458 million m^3 of water each year, much of which is recycled through the tailings facility, although approximately 3.4 million m^3 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 bio-engineered 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.

Initiatives undertaken in 2009

According to the requirements of the Ukraine Law on Environment Protection, FPM specialists developed the following measures aimed at improving the ecological situation. They mainly concerned water and air protection, sound management of underground resources, waste treatment, and planting greenery on the production site.

- Initiatives for the protection of the local river system included advanced water treatment of clarified water at the sludge depository in the biological purification plant; this ensured that the concentration of pollutants in the water discharged into the local river system lay within the standard accepted range.
- Initiatives for the reduction of air pollution included stabilising banks of dry waste material by sowing grass on them, and intensive watering of the work face in the pit after blasting and in dry weather.
- Planting seedlings and more mature deciduous and coniferous trees and shrubs, and sowing and maintaining grassland.
- Investment in waste management included management of the depositing sites and tailings dam. This allowed for use of slurry (tailings) and stripping material in production, as well as securing of continuous operation of water recycling system of water supply to the company departments.

Waste rock management

The currently operating Gorischne-Plavninskoye Lavrikovskoye ('GPL') open pit has generated some 500 million m^3 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 Yeristovskoye pit now being excavated, is being deposited on these two dumps or 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 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.

Communities

Ferrexpo's Community policy

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

Community context

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

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 2009 was UAH 30.3m (2008: UAH 30.5m). 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 2009 the objects of such support included railcar repair operations, lift repair and some cleaning services. In 2009, 237 employees were transferred into stand-alone businesses. During 2009, FPM donated UAH 7,900k to support and develop social infrastructure and enhance welfare of the local communities (see Case Study 3 opposite).

FYM

FYM strives to contribute to all spheres of the life of the local community, believing that a healthy and flourishing community is of crucial importance for sustainable growth in our operations (see Case Study 3 opposite).

Case Study 3 – Community Investment

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. During 2009, FPM paid UAH 7,900k to support and develop social infrastructure and enhance welfare of the local communities. Included in this was support for Dmitrovka village council of UAH 1,500 k for school maintenance and repair, UAH 260k for outpatient clinic upgrading, and UAH 104k for village gas pipeline construction. Prishyb village, in a similar way, received contributions of UAH 300 k for school repairs, and UAH 298 k for outpatient clinic upgrading. Additionally, UAH 640k was invested in water supply improvement (installation of a water tower and pipeline, drilling of wells).

In addition to the work done by FPM, FYM strives to contribute to the life of the local community. As a newly-launched growth project, FYM conducts an open dialogue with the local communities in order to develop positive relationships built on mutual understanding and trust. In relation to land acquisition activity this has meant that, as well as paying the mandatory compensation required under the law, FYM has concluded special agreements with the Councils of Komsomolsk City and neighbouring villages regarding support for the local community in addressing vital issues in social services and infrastructure development sectors such as environment, healthcare, education, sports and charities.

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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. As an English incorporated company with a primary listing on the London Stock Exchange the Company is subject to the Combined Code on Corporate Governance issued in June 2008 (the 'Combined Code'). The Combined Code is available from the Financial Reporting Council's website, www.frc.org.uk. This report outlines the steps taken to achieve compliance with 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.

During the year the Board was strengthened by the appointment of two additional Non-executive Directors, Marek Jelinek and Mike Salamon, following the acquisition of shares representing just under 25% of the voting rights of Ferrexpo plc by a wholly-owned subsidiary of RPG Industries SE.

Statement of compliance
During the year to 31 December 2009 the Company complied with the provisions of section 1 of the Combined Code.

The Combined Code establishes principles of good governance in four areas: 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 on pages 48 to 55).

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
The Board is composed of a Non-executive Chairman: Michael Abrahams; two Executive Directors: Kostyantin Zhevago, Chief Executive Officer, and Chris Mawe, Chief Financial Officer; and six Non-executive Directors. Oliver Baring continues as the Senior Independent Director. The other Non-executive Directors are Lucio Genovese, Wolfram Kuoni, Ihor Mitiukov, Marek Jelinek and Mike Salamon. Messrs Jelinek and Salamon joined the Board on 27 March 2009.

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, contract awards and key policies and procedures require the approval of the Board.

The Board is supported by the Executive Committee which meets approximately 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), 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 Company for the benefit of its members as a whole.

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. This 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 five 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 pages 8 and 9. There has been no increase in 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 to oversee and implement Board-approved actions. Details of Mr Zhevago's other appointments are set out in the biographical notes on pages 8 and 9.

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 six Non-executive Directors, four of whom are deemed by the Board to be independent, 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 decision making. The Relationship Agreement with Kostyantin 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, with the exception of Messrs Jelinek and Salamon who represent a significant shareholder, all of the Non-executive Directors as at the date of this report are independent of the Group within the terms of provision A.3.1 of the Combined Code.

As part of the annual process of performance evaluation (see below) the Board has reviewed the amount of time needed by the Non-executive Directors to perform their duties, and has recognised that Lucio Genovese and Wolfram Kuoni have needed, and will continue to need, to devote more time to their duties as Non-executive Directors of Ferrexpo AG than had been expected at the time of their appointment. The Board therefore decided to increase their remuneration with effect from 1 January 2009 (as set out in the Remuneration Report on pages 48 to 55). In reaching this decision the Board also concluded, in the light of the supervisory and non-executive nature of their duties as directors of Ferrexpo AG, that both Mr Genovese and Mr Kuoni remain independent in character and judgement, as defined by provision A.3.1 of the Combined Code.

Mr Zhevago is a beneficiary of The Minco Trust which owns 100% of Fevamotinico S.a.r.l., the major shareholder in the Group. Consequently he and Fevamotinico 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, Fevamotinico 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 Fevamotinico 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.

Appointments to the Board and re-election

Under its terms of reference the Nominations Committee is responsible for leading the process for appointments to the Board. The process for election and re-election of Directors under the Company's Articles of Association is set out in the Directors' Report on pages 56 to 59.

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 Board received a briefing on the implications of the Companies (Shareholders' Rights) Regulations 2009 and, as in previous years, spent two days visiting the site in Ukraine.

Appropriate induction is provided to a Director on appointment taking into consideration the individual qualifications and experience of the Director.

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 conclusion of the evaluation process was that the Board as a whole and its committees had functioned effectively during the year. The mix of skills and experience on the Board was felt to be appropriate. 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. 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.

The table of attendance of members of the Board and its principal committees at meetings during the financial period together with a summary of the terms of reference is set on page 44.

Corporate Governance Report continued

Board
Five Board meetings were held during the year.

Board members		Attendance record
Michael Abrahams	Non-executive Chairman	5/5
Kostyantin Zhevago	Chief Executive Officer	5/5
Chris Mawe	Chief Financial Officer	5/5
Oliver Baring	Senior Independent Non-executive Director	5/5
Lucio Genovese	Independent Non-executive Director	5/5
Wolfram Kuoni	Independent Non-executive Director	5/5
Ihor Mitiukov	Independent Non-executive Director	5/5
Marek Jelinek[1]	Non-executive Director	2/3
Mike Salamon[1]	Non-executive Director	3/3

1 Joined the Board on 27 March 2009.

The structure and business of the 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 Companies Act 2006, FSA Listing Rules and the Combined 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 approximately 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		4/5
Oliver Baring		4/5

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 48 to 55.

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
Kostyantin 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 a review of the Non-executive Directors' time commitments was carried out by the Board, with results that are described above under 'Board balance and independence'. Succession planning was reviewed by the Nominations Committee in March 2010.

Corporate Safety and Social Responsibility Committee
One Corporate Safety and Social Responsibility Committee meeting was held during the year.

Committee members		Attendance record
Viktor Lotous	Chairman	1/1
Michael Abrahams		1/1
Dave Webster		1/1
Kostyantin Zhevago		1/1

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 in conjunction with the Executive Committee for reviewing management's investigation of incidents or accidents that occur in order to assess whether policy improvements are required. Further details concerning the activities of the CSR Committee are set out in the Corporate Social Responsibility Review on pages 32 to 39.

Committee of Independent Directors
The Committee of Independent Directors ('CID') (which consists of all five Independent Directors) considers and, if appropriate, authorises on behalf of the Board related party transactions and otherwise ensures compliance with Chapter 11 of the Listing Rules of the Financial Services Authority and the Relationship Agreement entered into between Fevamotinico S.a.r.l., Mr Zhevago, The Minco Trust and the Company. The CID holds delegated authority to consider and, if appropriate, authorise conflicts of interest of any member of the Board under the relevant section of the Companies Act 2006. The CID met five times during the year.

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
Financial Reporting
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 60 and 61.

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. The terms of reference of the Audit Committee and attendance by members at its meetings are outlined on page 44.

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 2009 and audit fees.
- Reviewed the risk matrix and the internal audit plan, and discussed with BDO Visura International as internal auditors the findings of the internal auditors, and oversaw the transition from BDO Visura to an in-house internal auditor at the end of the year.
- Reviewed the whistleblowing policy whereby staff may, in confidence, raise concerns about financial improprieties or other matters.
- Reviewed the effectiveness of the external auditors and the non-audit services they provided.

In view of the current economic climate, the Audit Committee has paid particular attention throughout the year to the Company's position as a going concern. The Committee reviewed Group budgets, cash flow forecasts and liquidity, and concluded that the Company can continue to adopt the going concern basis in preparing the financial statements. A statement on the Board's position

Corporate Governance Report continued

regarding the Group as a going concern is contained in the Directors' Report on page 58.

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 41 of the 'Notes to the Consolidated Financial Information' on pages 102 to 109. See also the Risks section of the Financial Review on pages 28 to 31.

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 by 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, previously by an external firm of auditors and since December 2009 by an in-house internal auditor based in Ukraine (see below) who monitors, tests and improves internal controls operating within the Group at all levels and reports directly to the CFO and 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 and will be pursued by the new internal auditor.
- The Financial Risk Management Committee ("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 26 and in the financial statements on pages 102 to 109.

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. In December 2009, for reasons of effectiveness and economy, the Audit Committee agreed to recruit an experienced internal auditor who is based in Ukraine and is independent of operational management, reporting directly to the CFO and the Audit Committee.

An internal audit programme for 2009 and 2010 has been approved by the Audit Committee and focuses on the areas of risk identified by the risk reviews carried out on an ongoing basis 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 external 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. These policies ensure that the external auditors are restricted to providing only those services which do not compromise their independence, and for instance prohibit the use of the auditors for the provision of transaction or payroll accounting, outsourcing of internal audit and valuation of material financial statement amounts. Any assignment that is proposed to be given to the auditors above a value of US$500,000 must first be approved by the Audit Committee or its Chairman. 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.

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.

JPMorgan Cazenove, 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 CFO and the Head of Investor Relations.

The Board uses the Annual General Meeting (AGM) 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 AGMs to answer questions from shareholders. Notice of the AGM and related papers are sent to shareholders at least 20 working days before the meeting. The voting results of the AGM are available on the Company's website following the meeting.

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

The Board approved this report on 22 March 2010.

Remuneration Report

Introduction
This Report has been prepared by the Remuneration Committee on behalf of the Board and complies with the requirements of the Listing Rules of the UK Listing Authority, Schedule 8 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 and the Combined Code on Corporate Governance. Part A of the report, which is not subject to audit, sets out the Company's remuneration policy and Part B, which has been audited, provides details of remuneration and share incentives of the Directors for the year ended 31 December 2009.

This Report will be subject to an advisory shareholder vote at the Company's 2010 Annual General Meeting.

PART A: UNAUDITED INFORMATION
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 44.

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

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

The Chief Executive Officer usually attends 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 retains Kepler Associates as its advisers 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.

The Chief Executive Officer provides guidance to the Remuneration Committee on remuneration packages of senior executives employed by the Group (but not in respect of his own remuneration).

Activities of the Remuneration Committee
During the year the Remuneration Committee considered the following items of business:
> remuneration packages for Executive Directors and members of the Executive Committee
> Long-Term Incentive Plan implementation
> general market issues around remuneration packages
> 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 the policy as a result of the review.

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 Long-Term and Short-Term Incentive Plans described below.

> Long-Term Incentive Plan ('LTIP') – aims to motivate participants to deliver appropriate longer-term returns to shareholders.
> 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.

The Board intends to continue to operate the LTIP and STIP for the Executive Directors and senior executives in 2010.

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. Further awards were made in 2009 to the same participants, on a similar basis. None of the awards granted in 2009 exceeded 100% of salary. These awards are in the form of performance shares which vest according to the extent to which Ferrexpo's three year TSR matches or outperforms that of 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. The Remuneration Committee reviewed the constituents of the comparator index and their weightings prior to the grant of 2009 LTIP awards and increased the weighting on the focused iron ore miners from 30% to 40% and reduced the weighting on the single commodity/emerging market miners commensurately. The resulting comparator index for 2009 awards is based 50% on the median TSR of global diversified mining companies, 40% on the median TSR of smaller focused iron ore miners and 10% 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)			50%
	Vale	Rio Tinto	
	BHP Billiton	Xstrata	
	Anglo American		
Focused iron ore miners (10% each)			40%
	Cliffs Natural Resources	Kumba Iron Ore	
	Fortescue Metals Group	Mount Gibson Iron	
Single commodity/emerging market miners			10%
(0.5% each)	African Rainbow Minerals	Industrias Penoles	
	Alcoa	Katanga Mining	
	Alumina	Kazakhmys	
	Aluminum Corp of China	KGHM Polska Miedz	
	Antofagasta	Lundin Mining	
	Boliden	Norilsk	
	ENRC	OZ Minerals	
	Eramet	Peabody Energy	
	First Quantum Minerals	Teck Cominco	
	Freeport McMoRan	Vedanta Resources	

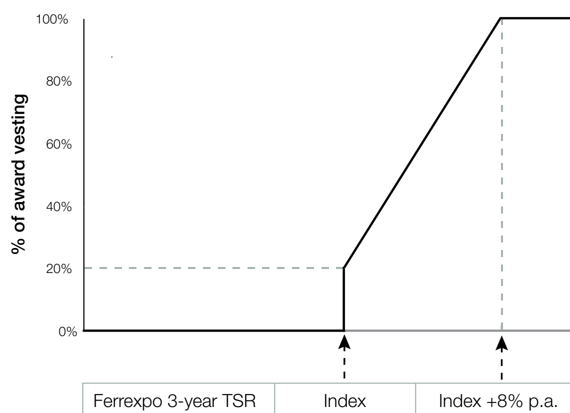
Remuneration Report continued

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.

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 2010 LTIP awards.

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 two-year TSR performance period of these awards ended on 31 December 2009. The Remuneration Committee concluded that the performance condition had not been satisfied and that the awards should therefore not vest.

Proposed 2010 LTIP awards
The Remuneration Committee intends to operate the LTIP framework in 2010 in the same manner as in 2009. For 2011 the Committee is considering measures to help improve the performance comparison to short-term share price movements at Ferrexpo or at comparator companies.

LTIP: share ownership guidelines
The Committee has agreed that, with effect from 2010, Executive Directors and members of the Executive Committee should, in line with the growing practice among FTSE 250 companies, be encouraged to build up a holding of shares of equivalent value to a year's salary (in the case of Executive Directors) or six months' salary (for other members of the Executive Committee). Executives will be encouraged to retain their vested LTIP shares on an after-tax basis until the applicable guideline is achieved.

Short-Term Incentive Plan
A Short-Term Incentive Plan is in place which applies to the members of the Executive Committee, excluding Mr Zhevago.

For 2009 the maximum STIP opportunity for Executive Directors was 150% of salary. The maximum actual outcome was 90% of salary, due to the exceptionally difficult trading conditions. The Key Performance Indicators ('KPIs') for 2009 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 relevant Executive Director during the year were as follows:

KPI	Chris Mawe
EBITDA	25%
Net operating profit after tax ('NOPAT')	25%
CSR	10%
Personal, projects and governance	40%

In view of the exceptional trading conditions in 2009 and the challenge involved in setting robust performance targets, the Committee retained a broad discretion when deciding on the amounts to be paid out under the STIP. In 2009 overall financial performance was rated between 20% and 50%. CSR (including health and safety-related performance), projects and governance were rated as between 50% and 80%. Taking into account these results the Remuneration Committee awarded the Chief Financial Officer a STIP award of 90% of salary.

For 2010, the Remuneration Committee is reviewing the KPI weightings in the light of current market conditions.

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 basic fee (p.a.)
Kostyantin Zhevago	Chief Executive Officer	1 November 2008	Six months from the employee; six months from the employer	US$240,000[1]
Chris Mawe	Chief Financial Officer	7 January 2008	Six months from the employee; 12 months from the employer	CHF596,000

1 Kostyantin Zhevago's basic fee of US$240,000 is donated at his request to Ukrainian charities.

Remuneration Report continued

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, Kostyantin 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) which cost US$38,000 in 2009, 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 CHF63,000 of accommodation rental assistance per annum.

Pensions

The Group does not operate a separate pension scheme for Executive Directors. Chris Mawe and Kostyantin 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. During the year, the operation of the pension plan was reviewed and changes were made as to limit Ferrexpo AG's potential exposure and also require the employees' contributions to be made on a more uniform basis.

Pension benefits earned by the Directors in the year ended 31 December 2009 were:

US$000	Age	Accrued benefit at 1 Jan 2009	Increase in period (net of indexation)	Transfer value of increase in period	Accrued benefit at 31 Dec 2009	Transfer value at 1 Jan 2009	Transfer value at 31 Dec 2009	Movement in transfer value during the period less Directors' contributions
Chris Mawe	48	16	208	34	259	8	122	114
Kostyantin Zhevago	36	0	9	2	10	0	5	5

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 (with the exception of those of Mike Salamon and Marek Jelinek) may then be 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.

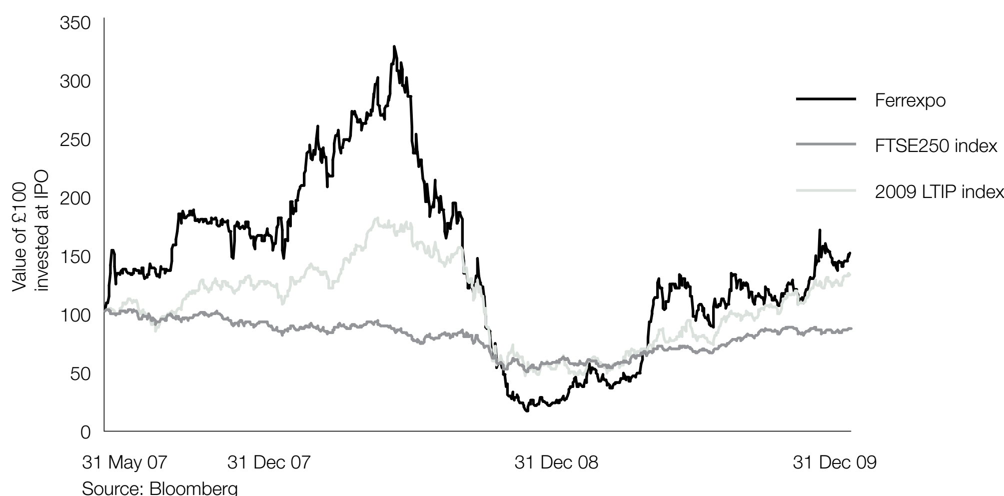
The Non-executive Directors' fees are reviewed each year. The Non-executive Directors' fees have been set at a level to reflect the time commitment and level of involvement that they are required to devote to the activities of the Board and its committees. The key appointment terms of the Non-executive 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[1]	Non-executive Director	1 December 2007	3 years	US$140,000
Lucio Genovese[2,4]	Non-executive Director	14 June 2007	3 years	US$180,000
Marek Jelinek	Non-executive Director	27 March 2009	3 years[5]	US$120,000
Wolfram Kuoni[3,4]	Non-executive Director	14 June 2007	3 years	US$215,000
Ihor Mitiukov	Non-executive Director	14 June 2007	3 years	US$120,000
Mike Salamon	Non-executive Director	27 March 2009	3 years	US$120,000

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 additional fees of US$20,000 p.a. for his role as Chairman of the Remuneration Committee and US$40,000 for his role as a Non-executive Director of Ferrexpo AG.
3 Wolfram Kuoni receives a fee of US$120,000 p.a. as a Non-executive Director and additional fees of US$20,000 p.a. for his role as Chairman of the Audit Committee and US$75,000 for his role as a Non-executive Director and as Chairman of Ferrexpo AG.
4 See note on Board balance and independence in Corporate Governance Report on page 43.
5 Marek Jelinek retires from the Board at the 2010 AGM.

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 2009, 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.

Remuneration Report continued

PART B: AUDITED INFORMATION

Directors' remuneration

Directors' remuneration for the period from 1 January 2009 or their appointment date (if later) to 31 December 2009.

Salary, annual bonus and other benefits

	Salary or fees US$000	Pension US$000	Benefits US$000	Bonus US$000	**Total 2009 US$000**	Total 2008 US$000
Chairman						
Michael Abrahams	575[1]	–	331[2]	–	**906**	718
Executive Directors						
Kostyantin Zhevago	280[3]	4	38	–	**322**	64
Chris Mawe	574	117	62	484	**1,237**	1,005
Non-executive Directors						
Oliver Baring	140	–	–	–	**140**	173
Lucio Genovese	180	–	–	–	**180**	184
Marek Jelinek	90	–		–	**90**	–
Wolfram Kuoni	215	–	–	–	**215**	184
Ihor Mitiukov	120	–		–	**120**	154
Mike Salamon	90	–		–	**90**	–
Former Executive Directors						
Mike Oppenheimer	–	–	18[4]	–	**18**	4,143
Dennis McShane	–	–	–	–	**–**	566[5]
Total	2,264	121	449	484	**3,318**	7,191

1 Includes US$175,000 in respect of significant additional work performed in 2008 and disclosed in the 2008 Remuneration Report, but paid in 2009.
2 Relates solely to share-based valuation of listing bonus awards.
3 Includes US$40,000 in respect of 2008 salary, paid in 2009.
4 In respect of obligations under his employment contract.
5 Employment contract terminated on 2 January 2009.

Directors' interests in shares of the Company

Interests of the Directors in office as at 31 December 2009

	At 31 December 2009	At 1 January 2009 or date of appointment if later
Michael Abrahams[1]	**242,229**	258,634
Kostyantin Zhevago[2]	**300,198,313**	300,198,313
Christopher Mawe	**0**	0
Oliver Baring	**20,130**	20,130
Lucio Genovese	**168,719**	168,280
Marek Jelinek	**0**	0
Wolfram Kuoni	**28,004**	27,566
Ihor Mitiukov	**31,011**	30,527
Mike Salamon	**100,000**	5,000

1 90,657 Ordinary Shares included in the table above are held on behalf of Michael Abrahams by Appleby Trust (Jersey) Limited as part of his listing bonus award (see below) and will vest in his favour on 15 June 2010.
2 Kostyantin 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.

There have been no changes in the interests of the Directors from the end of the period under review to 14 March 2010, 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 vested on award date	Shares vested on first anniversary of award date	Shares vested on second anniversary of award date	Shares due to vest 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, a deduction of shares was made during the year in respect of Michael Abrahams.

Long-Term Incentive Plan awards

In 2009 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 pages 49 and 50.

		During year							
	At 1 January 2009	Granted (2009 LTIP Award)	Exercised	Lapsed	Total at 31 December 2009	Market price on date of award (pence)	Market price at date of exercise	Date from which exercisable	Expiry date
Chris Mawe	100,000		–	–	**100,000**	411	–	01.01.2011	16.05.2018
	65,000		–	65,000	**0**	411			
		100,000	–	–	**100,000**	143	–	01.01.2012	14.09.2019
TOTAL					**200,000**				

Former Executive Directors vesting of LTIP awards

In accordance with the provisions of the LTIP rules and applicable employment contracts, LTIP awards totalling 360,000 shares made to Mike Oppenheimer in 2008 with a vesting period that ended on 31 October 2009, did not vest as the performance condition had not been met. The LTIP award made to 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
Dennis McShane	2008 LTIP award[1]	100,000	31 Dec 2010	61%	61,111	Yes

1 A Transitional award of 75,000 shares made in 2008 did not vest and lapsed at the end of 2009.

Other transactions involving Directors are set out in note 36 (related parties) to the Financial Statements.

This Report was approved by the Board on 22 March 2010.

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 2009.

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 likely future developments can be found in the sections listed below which are incorporated into this Directors' Report by reference. The pages referred to incorporate all requirements of section 417 Companies Act 2006 ('the Act'), including details of the principal risks and uncertainties facing the Group and analysis using Key Performance Indicators (as set out in the Business Review).

> Chairman's and Chief Executive Officer's Review on pages 4 to 7.
> the Business Review on pages 12 to 39 including the Corporate Social Responsibility Review on pages 32 to 39.

Directors' duties
The duties of Directors are set out in sections 170 to 177 of the Act. The duties that are specifically referred to in the Corporate Governance Report on pages 42 to 47 include the duties under 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 64.

The Directors recommend a final 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 4 June 2010 to shareholders on the register at the close of business on 30 April 2010. Shareholders may receive UK pounds sterling dividends by direct bank transfer, provided that they have notified the Company's registrars in advance. Shareholders may also elect to receive dividends in US dollars (the procedure for this is set out in the Notice of the AGM).

Directors
The Directors of the Company who served during the year were:
Michael Abrahams
Oliver Baring
Lucio Genovese
Marek Jelinek (appointed 27 March 2009)
Wolfram Kuoni
Chris Mawe
Ihor Mitiukov
Mike Salamon (appointed 27 March 2009)
Kostyantin Zhevago

In accordance with the Articles of Association of the Company (the 'Articles'), Messrs Jelinek, Mawe and Mitiukov will retire by rotation at the forthcoming AGM. Mr Jelinek does not seek re-election at the AGM. Messrs Mawe and Mitiukov, being eligible, will offer themselves for re-election.

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 48 to 55.

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 AGM and is then eligible for election by the shareholders.

In accordance with the Articles, at each AGM 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 AGM 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 Act 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 a qualifying third-party 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 Act.

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. At each AGM, the Board proposes to put in place annual shareholder authority for the Company's Directors to allot new shares in accordance with the guidelines of the Investor Protection Committee.

Details of the issued share capital of the Company are shown in note 30 of the financial statements. On 1 October 2009 changes to the Articles took effect in line with the Act's abolition of the requirement for companies to have an authorised share capital.

Variation of rights
Subject to the provisions of the Act, 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 shares of that class held as treasury shares) or with the sanction of a special 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 of a certificated share 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% or greater interest if such a person has been served with a notice and has failed within 14 days to provide the Company with information concerning interests in those shares required to be provided under the Act, 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 Act. 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 19 May 2009. This authority will expire at the conclusion of the Company's 2010 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.

The Company did not make use of the authority mentioned above during 2009.

Dividends and distributions
Subject to the provisions of the Act, 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% or greater 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 within 14 days 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 Act, 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, subject to the Articles 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 Act.

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. The Directors will also specify in the notice of any general meeting a time, being not more that 48 hours before the meeting, by which a person must be entered in the register of members in order to have the right to attend and vote at the meeting The Directors may decide, at their discretion, that no account should be taken of any day that is not a working day when calculating the 48 hour period.

Directors' Report continued

Substantial shareholdings

As at 14 March 2010, the following major interests in the Ordinary Shares of the Company had been notified to the Company:

Name of shareholder	Ordinary Shares	Number of voting rights	% of the Company's total voting rights at date of notification
Fevamotinico S.a.r.l.[1]	300,198,313	300,198,313	51.00%
Wigmore Street Investments No. 3 Ltd[2]	147,156,035	147,156,035	24.99%

1 Fevamotinico S.a.r.l. is a wholly owned subsidiary of The Minco Trust of which Kostyantin Zhevago is a beneficiary.
2 Wigmore Street Investments No. 3 Ltd is a wholly owned subsidiary of RPG Industries SE.

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 set 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$230 million pre-export finance facility with Deutsche Bank AG and other banks, entered into in November 2009, if Kostyantin Zhevago ceases to own directly or indirectly at least 50% plus one share of the Company, any of the lenders is entitled to demand repayment of its commitment.

Relationship Agreement

Details of the Relationship Agreement entered into between Fevamotinico S.a.r.l., Kostyantin Zhevago, The Minco Trust and the Company can be found in the Business Review (page 27) and in the Corporate Governance Report (page 43). The Relationship Agreement ceases to apply if the holding of Fevamotinico 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 44 to the financial statements on page 110.

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 practicable to estimate the market value of land and mineral reserves and resources at each balance sheet date.

Policy on derivatives and financial instruments

The Group does not hold any derivative financial instruments. Group policy on financial instruments is set out in note 2 to the Consolidated Financial Information on pages 72 to 73.

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 2009 for the Company was 27 days (2008: 28 days).

Charitable and political donations

The Group made no political donations during the year. Group donations to charities worldwide were US$4,043,000 (2008: US$6,081,000), with UK charities receiving US$nil (2008: 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 41 of the 'Notes to the Consolidated Financial Information' on pages 102 to 109. Further references to risk are made in the Business Review on pages 28 to 31 and the Internal Control section of the Corporate Governance Report on page 46 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.

Corporate governance statement
The Disclosure and Transparency Rules (DTR 7.2) require certain information to be included in a corporate governance statement set out in a company's Directors' Report. In common with many companies, Ferrexpo has an existing practice of issuing, within its annual report, a Corporate Governance Report that is separate from its Directors' Report. The information that fulfils the requirements of DTR 7.2 is located in Ferrexpo's Corporate Governance Report on pages 42 to 47 (and is incorporated into this Directors' Report by reference), with the exception of the information referred to in DTR 7.2.6, which is located in this Directors' Report.

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 60.

Amendments to Articles of Association
The Articles may be amended by special resolution in accordance with the Act.

Annual General Meeting
The Annual General Meeting of the Company will be held at 11.00am on Thursday 27 May 2010 at Grosvenor House, Park Lane, London W1K 7TN. 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 2010 Annual General Meeting.

This report was approved by the Board on 22 March 2010.

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 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 prepared the financial statements in accordance with International Financial Reporting Standards as adopted by the EU. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group 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 International Financial Reporting 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.

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). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss 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.

In relation to the Group and parent company financial statements
The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the Group and Company financial statements comply with the Companies Act 2006 and, with respect to the Group financial statements, Article 4 of the IAS Regulation. 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.

Under applicable UK law and requirements of the Financial Services Authority, the Directors are responsible for the preparation of a Directors' report, Directors' remuneration report and corporate governance report that comply with these laws and requirements. In addition the Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. Under the requirements of Chapter 4 of the Disclosure and Transparency Rules the Directors are responsible for including a fair review of the development and performance of the business and the position of the Group taken as a whole, together with a description of the principal risks and uncertainties that they face.

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 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

Christopher Mawe
Chief Financial Officer

Independent Auditor's Report to the Members of Ferrexpo plc

We have audited the financial statements of the Group and parent company for the year ended 31 December 2009 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated statement of financial position, the Consolidated statement of cash flows, the Consolidated statement of changes in equity and the parent company statement of financial position and the related notes 1 to 44 for the Group financial statements and notes 1 to 7 for the parent company financial statements. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors
As explained more fully in the Directors' Responsibilities Statement set out on page 60, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group and parent financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements
In our opinion:
> the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2009 and of the Group's profit for the year then ended;
> the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
> the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
> the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion:
> the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
> the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:
> adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
> the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
> certain disclosures of Directors' remuneration specified by law are not made; or
> we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:
> the Directors' statement, set out on page 58. in relation to going concern; and
> the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Ernst & Young LLP
Bob Forsyth (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
22 March 2010

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Financial Statements

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Consolidated Income Statement

US$000	Notes	Year ended 31.12.09	Year ended 31.12.08
Revenue	6	**648,667**	1,116,854
Cost of sales	7	**(341,067)**	(434,238)
Gross profit		**307,600**	682,616
Selling and distribution expenses	8	**(162,266)**	(152,528)
General and administrative expenses	9	**(43,161)**	(67,185)
Other income	10	**4,102**	6,387
Other expenses	11	**(3,418)**	(38,040)
Operating foreign exchange gains	12	**2,534**	29,309
Operating profit from continuing operations before adjusted items		**105,391**	460,559
Write-offs and impairment losses	13	**(2,757)**	(27,326)
Share of profit of associates	14	**1,304**	1,003
Negative goodwill	15	**503**	35,049
Initial public offering costs	42	**(427)**	(4,120)
Gain on disposal of property, plant and equipment		**213**	–
Gain on disposal of available-for-sale investment		**–**	1,571
Profit before tax and finance from continuing operations		**104,227**	466,736
Finance income	16	**2,893**	2,467
Finance expense	16	**(23,718)**	(20,834)
Non-operating foreign exchange loss	12	**(2,552)**	(72,788)
Profit before tax		**80,850**	375,581
Income tax expense	17	**(9,852)**	(62,533)
Profit for the year from continuing operations		**70,998**	313,048
Attributable to:			
Equity shareholders of Ferrexpo plc		**70,627**	292,436
Minority interests		**371**	20,612
		70,998	313,048
Earnings per share:			
Basic (US cents)	18	**12.08**	48.60
Diluted (US cents)	18	**12.05**	48.46

Consolidated Statement of Comprehensive Income

US$000	Year ended 31.12.09	Year ended 31.12.08
Profit for the period	**70,998**	313,048
Exchange differences on translating foreign operations		
Exchange differences arising during the year	**(20,842)**	(210,616)
Exchange differences arising on hedging of foreign operations	**(3,697)**	(122,068)
Available-for-sale investments		
Gain arising on revaluation during the year	**400**	–
Net loss on disposal of available-for-sale financial assets	**–**	(1,789)
Change in deferred taxes on transaction costs	**–**	(3,454)
Tax impact on employee benefits	**–**	(317)
Income tax effect	**2,895**	40,805
Other comprehensive income for the period, net of tax	**(21,244)**	(297,439)
Total comprehensive income for the period, net of tax	**49,754**	15,609
Total comprehensive income attributable to:		
Equity shareholders of Ferrexpo plc	**49,633**	16,304
Minority interests	**121**	(695)
	49,754	15,609

Consolidated Statement of Financial Position

US$000	Notes	As at 31.12.09	As at 31.12.08
Assets			
Property, plant and equipment	20	**452,100**	412,440
Goodwill and other intangible assets	21	**100,354**	103,755
Investments in associates	14	**19,915**	18,640
Available-for-sale financial assets	22	**2,917**	4,435
Other non-current assets	23	**9,824**	10,116
Deferred tax assets	24	**13,673**	14,043
Total non-current assets		**598,783**	**563,429**
Inventories	25	**59,636**	61,270
Trade and other receivables	26	**38,117**	59,636
Prepayments and other current assets	27	**19,394**	18,108
Income taxes recoverable and prepaid	28	**9,741**	5,835
Other taxes recoverable and prepaid	28	**81,284**	57,285
Available-for-sale financial assets	22	**626**	650
Cash and cash equivalents	29	**11,991**	87,822
Total current assets		**220,789**	**290,606**
Total assets		**819,572**	**854,035**
Equity and liabilities			
Issued capital	30	**121,628**	121,628
Share premium	30	**185,112**	185,112
Other reserves	30	**(347,858)**	(330,714)
Retained earnings		**501,175**	470,098
Equity attributable to equity shareholders of Ferrexpo plc		**460,057**	446,124
Minority interests		**11,387**	11,769
Total equity		**471,444**	457,893
Interest bearing loans and borrowings	31	**18,143**	231,373
Trade and other payables	32	**–**	570
Defined benefit pension liability	33	**14,529**	12,940
Provision for site restoration	34	**1,268**	1,071
Deferred tax liabilities	24	**3,739**	5,298
Total non-current liabilities		**37,679**	251,252
Interest bearing loans and borrowings	31	**251,379**	74,523
Trade and other payables	32	**27,926**	35,033
Accrued liabilities and deferred income	35	**12,146**	14,470
Income taxes payable	28	**11,105**	14,439
Other taxes payable	28	**7,893**	6,425
Total current liabilities		**310,449**	144,890
Total liabilities		**348,128**	396,142
Total equity and liabilities		**819,572**	854,035

The financial statements were approved by the Board of Directors on 22 March 2010.

Kostyantin Zhevago
Chief Executive Officer

Christopher Mawe
Chief Financial Officer

Consolidated Statement of Cash Flows

US$000	Notes	**Year ended 31.12.09**	Year ended 31.12.08
Net cash flows from operating activities	37	**76,869**	370,943
Cash flows from investing activities			
Purchase of property, plant and equipment		**(85,823)**	(276,264)
Proceeds from sale of property, plant and equipment		**213**	2,016
Purchase of intangible assets		**(598)**	(1,597)
Purchases of available-for-sale financial assets		**–**	(266)
Interest received		**2,104**	2,472
Proceeds from loans to associates/(provided)		**6,450**	(4,000)
Net cash flows used in investing activities		**(77,654)**	(277,639)
Cash flows from financing activities			
Proceeds from borrowings and finance		**35,637**	172,143
Repayment of borrowings and finance		**(73,168)**	(69,412)
Dividends paid to equity shareholders of Ferrexpo plc		**(36,325)**	(38,954)
Dividends paid to non-controlling shareholders		**(234)**	(1,186)
Proceeds from issue of share capital to minority interests		**–**	2,123
Acquisition of non-controlling interest in subsidiaries	15	**–**	(11,048)
Share buy back	30	**–**	(77,260)
Net cash flows used in financing activities		**(74,090)**	(23,594)
Net increase/(decrease) in cash and cash equivalents		**(74,875)**	69,710
Cash and cash equivalents at the beginning of the year		**87,822**	86,966
Currency translation differences		**(956)**	(68,854)
Cash and cash equivalents at the end of the year	29	**11,991**	87,822

Consolidated Statement of Changes in Equity

US$000	Issued capital (note 30)	Share premium (note 30)	Uniting of interest reserve (note 30)	Treasury share reserve (note 30)	Employee benefit trust reserve (note 30 and 42)	Net unrealised gains reserve (note 30)	Translation reserve (note 30)	Retained earnings	Total capital and reserves	Minority interests (note 1)	Total equity
	Attributable to equity shareholders of Ferrexpo plc										
At 1 January 2008	121,628	188,566	31,780	–	(20,092)	2,384	186	216,616	541,068	45,854	586,922
Profit for the period	–	–	–	–	–	–	–	292,436	292,436	20,612	313,048
Other comprehensive income	–	(3,454)	–	–	(317)	(1,571)	(270,790)	–	(276,132)	(21,307)	(297,439)
Total comprehensive income for the period	–	(3,454)	–	–	(317)	(1,571)	(270,790)	292,436	16,304	(695)	15,609
Equity dividends paid to shareholders of Ferrexpo plc	–	–	–	–	–	–	–	(38,954)	(38,954)	–	(38,954)
Equity dividends paid by subsidiary undertakings to non-controlling shareholders	–	–	–	–	–	–	–	–	–	(301)	(301)
Share-based payments (note 42)	–	–	–	–	4,966	–	–	–	4,966	–	4,966
Participation of non-controlling shareholders in subsidiary share issue	–	–	–	–	–	–	–	–	–	1,960	1,960
Adjustments relating to the decrease in minority interests	–	–	–	–	–	–	–	–	–	(35,049)	(35,049)
Share buy back (note 30)	–	–	–	(77,260)	–	–	–	–	(77,260)	–	(77,260)
At 31 December 2008	**121,628**	**185,112**	**31,780**	**(77,260)**	**(15,443)**	**813**	**(270,604)**	**470,098**	**446,124**	**11,769**	**457,893**
Profit for the period	–	–	–	–	–	–	–	70,627	70,627	371	70,998
Other comprehensive income	–	–	–	–	–	301	(21,295)	–	(20,994)	(250)	(21,244)
Total comprehensive income for the period	–	–	–	–	–	301	(21,295)	70,627	49,633	121	49,754
Equity dividends paid to shareholders of Ferrexpo plc	–	–	–	–		–	–	(39,550)	(39,550)	–	(39,550)
Share-based payments (note 42)	–	–	–	–	3,850	–	–	–	3,850	–	3,850
Adjustments relating to the decrease in minority interests (note 15)	–	–	–	–	–	–	–	–	–	(503)	(503)
At 31 December 2009	**121,628**	**185,112**	**31,780**	**(77,260)**	**(11,593)**	**1,114**	**(291,899)**	**501,175**	**460,057**	**11,387**	**471,444**

Notes to the Consolidated Financial Information

Note 1: Corporate information
Organisation and operation
Ferrexpo plc (the 'Company') is incorporated in the United Kingdom with registered office at 2–4 King Street, London, SW1Y 6QL, UK. Ferrexpo plc and its subsidiaries (the 'Group') operate a mine and processing plant near Kremenchuk in Ukraine, an interest in a port in Odessa and a sales and marketing company in Switzerland and Kiev. The Group's operations are vertically integrated from iron ore mining through to iron ore concentrate and pellet production. The Group's mineral properties lie within the Kremenchuk Magnetic Anomaly and are currently being exploited at the Gorishne-Plavninsky and Lavrikovsky deposits. These deposits are being jointly mined as one mining complex.

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

			Equity interest owned at 31 December	
Name	Country of incorporation	Principal activity	**2009 %**	2008 %
Ferrexpo Poltava GOK Corporation[1]	Ukraine	Iron ore mining	**97.3**	97.1
Ferrexpo AG[2]	Switzerland	Sale of iron ore pellets	**100.0**	100.0
DP Ferrotrans[3]	Ukraine	Trade, transportation services	**97.3**	97.1
United Energy Company LLC[3]	Ukraine	Holding company	**97.3**	97.1
Ferrexpo UK Limited[1]	England	Finance	**100.0**	100.0
Ferrexpo Services Limited[1]	Ukraine	Management services and procurement	**100.0**	100.0
Ferrexpo Hong Kong Limited[1]	China	Marketing services	**100.0**	100.0
Ferrexpo Yeristovo GOK LLC[4]	Ukraine	Iron ore mining	**98.6**	98.5
Ferrexpo Belanovo GOK LLC[4]	Ukraine	Iron ore mining	**98.6**	–

1 The Group's interest in these entities is held through Ferrexpo AG. For details in respect to the change in equity interest we refer to note 15.
2 Ferrexpo AG was the holding company of the Group until, as a result of the pre-IPO restructuring; Ferrexpo plc became the holding company on 24 May 2007.
3 The Group's interest in these entities is held through Ferrexpo Poltava GOK Corporation.
4 The Group's interest in this entity is held through both Ferrexpo AG and Ferrexpo Poltava GOK Corporation.

The Group also holds an interest of 49.9% (2008: 49.9%) in TIS Ruda, a Ukrainian port located on the Black Sea. As this is an associate, it is accounted for using the equity method of accounting and further disclosed in note 14.

Note 2: Summary of significant accounting policies
Basis of preparation
The consolidated financial statements of Ferrexpo plc and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). IFRS as adopted by the EU differs in certain respects from IFRS as issued by the International Accounting Standards Board (IASB). However, the consolidated financial statements for the years presented would be no different had the Group applied IFRS as issued by the IASB.

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

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2008, except for those changes detailed in note 3. Risks in relation to the facilities and re-financing are contained in the Business Review of this report.

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

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

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

Notes to the Consolidated Financial Information continued

Note 2: Summary of significant accounting policies continued
Subsidiaries acquired from entities under common control, such that the ultimate controlling party has not changed as a result of the transaction, are fully consolidated from the earliest period presented, but not before the date that they came under common control. As there is currently no specific IFRS guidance relating to this issue the Group has developed a policy that is consistent with the pronouncements under UK GAAP. The Group's subsidiaries are accounted for using the pooling of interests method of accounting whereby net assets are pooled at their historic carrying value. This has been applied in the accounting for Ferrexpo plc's interest in Ferrexpo Poltava GOK Corporation, the principal subsidiary.

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

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

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

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

Functional and presentational currencies
Based on the economic substance of the underlying business transactions and circumstances relevant to the parent, the functional currency of the parent has been determined to be the US dollar, with each subsidiary determining its own functional currency based on its own circumstances. The Group has chosen the US dollar as its presentation currency and Ferrexpo Poltava GOK Corporation (the principal subsidiary) has determined that its functional currency is Ukrainian hryvnia.

Foreign currency translation
For individual subsidiary Company accounts, transactions in foreign currencies (ie other than the functional currency) are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the rate of exchange ruling at the reporting date and non-monetary assets and liabilities at the historic rate. Foreign exchange differences arising on translation are recognised in the income statement.

For presentation of Group consolidated accounts, if the functional currency of a subsidiary is different to the presentation currency as at the reporting date, the assets and liabilities of this entity are translated into the presentation currency at the rate ruling at the reporting date and the income statement is translated using the average exchange rate for the period. The foreign exchange differences arising are taken directly to a separate component of equity. On disposal of a foreign entity the deferred cumulative amount recognised in equity relating to the particular foreign operation is recognised in the income statement.

Revenue recognition
Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods including pellet sales and other sales
Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be reliably measured.

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

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

Rendering of services
Revenue from the rendering of services is recognised when services are complete. Sales of services primarily include repairs and spare parts, canteen revenue and recharges to local customers for electricity consumption and railway usage.

Rental income
Rental income arising from operating leases is accounted for on a straight-line basis over the lease terms.

Foreign exchange gains and losses
Foreign exchange gains and losses are reported on a net basis. Operating foreign exchange gains and losses are those items that are directly related to the production and sale of pellets (eg trade receivables, trade payables on operating expenditure). Non-operating gains and losses are those associated with the Group's financing and treasury activities.

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

Finance expenses comprise the interest expense on borrowings and other financial liabilities.

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

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

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

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

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

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

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

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

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

The net amount of VAT recoverable from, or payable to, the taxation authority is disclosed in the note 28 to the financial statements.

Overdue VAT receivable balances are not discounted.

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

Notes to the Consolidated Financial Information continued

Note 2: Summary of significant accounting policies continued

Employee benefit trust reserve

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

Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognised in other capital reserves.

Financial assets

Derivative financial instruments

The Group does not hold any derivative financial instruments.

Non-derivative financial instruments

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

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

The Group has not designated any financial assets as at fair value through profit or loss (FVTPL).

Loans and receivables

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

Available-for-sale financial assets

All investments, except for investments in associates are accounted for as available-for-sale. Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as either loans or receivables, held-to-maturity investments or financial assets at fair value through profit or loss (FVTPL).

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised. At this time the cumulative gain or loss is recognised in other operating income, or determined to be impaired, at which time the cumulative loss is recognised in the income statement in finance costs and removed from the available-for-sale reserve.

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

Other

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

Financial liabilities

Trade and other payables

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

Interest bearing loans and borrowings

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

Impairment of financial assets

The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired.

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

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

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

Available-for-sale financial assets
For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement) is removed from other comprehensive income and recognised in the income statement.

Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in other comprehensive income.

Leases
The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, i.e. whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Group as a lessee
Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the income statement.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Group as a lessor
Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income.

Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

The Group capitalises borrowing costs for all eligible assets where construction was commenced on or after 1 January 2009. The Group continues to expense borrowing costs relating to construction projects that commenced prior to 1 January 2009.

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

Notes to the Consolidated Financial Information continued

Note 2: Summary of significant accounting policies continued
Upon recognition, items of property, plant and equipment are divided into components, which represent items with a significant value that can be allocated to a separate depreciation period. Overhaul costs also represent a component of an asset. Assets are initially recognised in assets under construction and then transferred to the appropriate categories on completion.

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

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

Property, plant and equipment is depreciated over its estimated useful life which is calculated with due regard to both its own physical life limitations and the present assessment of economically recoverable reserves of the mine property at which the item is located. Estimates of remaining useful lives are made on a regular basis for all mine buildings, machinery and equipment, with annual reassessments for major items. Changes in estimates, which affect unit of production calculations, are accounted for prospectively. Depreciation commences when the item is available for use. Freehold land is not depreciated.

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

- Buildings: 20–50 years
- Plant and equipment: 5–15 years
- Vehicles: 7–15 years
- Fixtures and fittings: 2.5–10 years

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

Assets in the course of construction are capitalised as a separate component of property, plant and equipment. On completion, the cost of construction is transferred to the appropriate category. Assets under construction are not depreciated.

On acquisition the cost of property, plant and equipment is capitalised on the statement of financial position.

Stripping costs included in mining assets and assets under construction
Stripping costs in relation to mine exploration, evaluation and development costs incurred up to the commencement of the production are included in assets under construction. Stripping work comprises overburden removed at the pre-production, mine extension and production stages.

After the commencement of production, the respective pre-production stripping costs are transferred to mining assets and depreciated using a unit of production method based on the estimated economically recoverable reserves to which they relate.

The production stripping costs are generally charged to the income statement as variable production costs. The production stripping costs are only capitalised if the stripping activities are related to a betterment of the mining property and the duration of the future benefits is ascertained without a high degree of judgement. If capitalised, the production stripping costs are included in mining assets and depreciated using the same methodology as for the capitalised pre-production stripping costs (see above).

The cost of removal of the waste material during a mine's production phase is expensed as incurred.

Intangible assets
Goodwill
Goodwill is not amortised but rather tested annually for impairment through a value-in-use calculation. An impairment loss in respect of goodwill is not reversed. Refer to note 4 for details of the approach taken and assumptions used in impairment testing.

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

Other intangible assets
Other intangible assets, including mineral licences, which are acquired by the Group and which have finite useful lives, are stated at cost less accumulated amortisation and impairment losses.

Amortisation
Intangible assets, other than goodwill, primarily comprise mineral licence acquisition costs, which are amortised on a unit of production basis. All other intangible assets are amortised on a straight-line basis over the estimated useful life of the asset, ranging between one and 20 years.

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

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

Impairment losses relating to goodwill cannot be reversed in future periods.

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

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

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

Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

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

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

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

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

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

Costs relating to these plans are accrued in the consolidated financial statements using the projected unit credit method in respect of those employees entitled to such payments. Management uses actuarial techniques in calculating the liability related to this retirement obligation at each reporting date.

Notes to the Consolidated Financial Information continued

Note 2: Summary of significant accounting policies continued
Gains and losses resulting from the use of external actuarial valuation methodologies are recognised when the cumulative unrecognised actuarial gains or losses for the scheme exceed 10% of the defined benefit obligation for unfunded plans and the higher of planned assets/obligation for funded schemes. These gains or losses are recognised as income or expense over the expected average remaining working lives of the employees participating in the plan.

The past service cost is recognised as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, the past service cost is recognised immediately.

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

Earnings per share
The basic number of Ordinary Shares is calculated based on the weighted average number of shares in issue, excluding shares held in treasury.

For the current and prior year periods, basic EPS is calculated by dividing the net profit for the year attributable to ordinary equity shareholders of Ferrexpo plc by the number of Ordinary Shares as defined above. The number of Ordinary Shares in issue excludes the shares held by the Employee Benefit Trust and the treasury shares held by the Group. Diluted earnings per share is calculated by adjusting the number of Ordinary Shares in issue on the assumption of conversion of all potentially dilutive Ordinary Shares. All share awards are potentially dilutive and have been included in the calculation of diluted earnings per share.

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

In valuing equity-settled transactions, no account is taken of any vesting conditions, except for market conditions.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is dependent upon a market condition. In these cases, the awards are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

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

Long-Term Incentive Plans (LTIPs)
The LTIPs are share-based schemes whereby certain senior management and executives receive rewards based on the relative Total Shareholder Return (TSR) performance of the Group compared with a group of companies which operate within a similar environment. The cost of equity-settled awards is measured as described above together with an estimate of future social security contributions payable in respect of this value. Where the granting of an LTIP is subject to the satisfaction of certain market conditions, a vesting charge is recognised irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where an award terminates before the performance period is complete, any unamortised expense is recognised immediately.

Events after the reporting date
Events after the reporting date that provide additional information on the Group's position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Events after the reporting date that are not adjusting events are disclosed in the notes when material.

Note 3: New accounting policies
The Group adopted the following new and amended standards as at 1 January 2009:

Standards affecting presentation and disclosures
IFRS 7 Financial instruments: Disclosures (amendments)
The amendments to the standard outline additional disclosure requirements for fair value measurements and in respect of the liquidity risk. The Group adopted the amendments resulting in the disclosure of fair value hierarchy table in the notes to the financial statements. The Group has elected not to provide comparative information for these expanded disclosures in the current year in accordance with the transitional reliefs offered in these amendments.

IFRS 8 Operating Segments (new)
This standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. Adoption of this standard did not have any effect on the financial position or performance of the Group. The Group determined that it only has one operating segment under the new standard. Additional description of the operating segment under IFRS 8 and the segments under IAS 14 Segment Reporting are shown in note 5.

IAS 1 Presentation of Financial Statements (revised)
The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements which are contained on pages 64 and 65 of the financial statements.

IAS 23 Borrowing Costs (revised)
The standard has been revised to require capitalisation of borrowing costs on qualifying assets and the Group has amended its accounting policy accordingly. In accordance with the transitional requirements of the standard this has been adopted as a prospective change. Therefore, borrowing costs have been capitalised on qualifying assets with a commencement date on or after 1 January 2009. No changes have been made for borrowing costs incurred prior to this date that have been expensed.

None of the above stated standards affected the reported result or financial position.

Standards and interpretations adopted with no effect on presentation and disclosure
IFRS 2 Share-based Payment – Vesting Conditions and Cancellations (amendments)
The standard has been amended to clarify the definition of vesting conditions and to prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

IAS 32 Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation (amendments)
The standards have been amended to allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfil a number of specified criteria. The adoption of these amendments did not have any impact on the financial position or performance of the Group.

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (amendments)
The amendments address the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The Group has concluded that the amendment had no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

New standards and interpretations not yet adopted
The Group has elected not to early adopt the following revised and amended standards:

IFRS 3 Business combinations (revised) and IAS 27 Consolidated and separate financial statements (revised)
The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. The changes will affect future acquisitions or loss of control and transactions with minority interests. The standards may be early-adopted however the Group does not intend to take advantage of this possibility.

IAS 7 Statement of cash flows (amendments)
The revision to IAS 27 principally affects the accounting for transactions or events that result in change in the Group's interest in subsidiaries. The amendments will be adopted for the Group's financial statements for the period beginning 1 January 2010.

IAS 28 Investments in associates (revised)
The principle adopted under IAS 27 (2008) that a loss of control is recognised as a disposal and re-acquisition any retained interests at fair value is extended by consequential amendment to IAS 28. The Group does not intend to take advantage of the possibility of an early adoption. The revised standard will be adopted for the Group's financial period beginning 1 January 2010.

IFRIC 17 Distributions of Non-cash Assets to Owners
This interpretation is effective for annual periods beginning on or after 1 July 2009 with early application permitted. It provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognise a liability, how to measure it and the associated assets, and when to derecognise the asset and liability. The Group does not expect IFRIC 17 to have an impact on the consolidated financial statements as the Group has not made non-cash distributions to shareholders in the past.

Notes to the Consolidated Financial Information continued

Note 4: Use of estimates
The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates are based on information available as at the date of authorising the consolidated financial statements for issue. Actual results, therefore, could differ from those estimates.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 5: Segment information
The Group is managed as a single entity which produces, develops and markets its principal product – iron ore pellets – for sale to the metallurgical industry. In accordance with IFRS 8 *Operating Segments*, the Group presents its results in a single segment which are disclosed in the income statement for the Group.

In the prior period, in accordance with the requirements of IAS 14 *Segment Reporting*, the Group disclosed geographical segments split between Ukraine and Switzerland. This is no longer required.

The Group does not generate significant revenues from external customers attributable to the country of domicile. The information on the revenues from external customers attributed to the individual foreign countries is given in note 6.

The Group does not have any significant non-current assets that are located in the country of domicile of the Group. The vast majority of the non-current assets are located in Ukraine.

Notes to the Consolidated Financial Information continued

Note 6: Revenue

Revenue for the year ended 31 December 2009 consisted of the following:

US$000	**Year ended 31.12.09**	Year ended 31.12.08
Revenue from sales of ore pellets:		
Export	**612,829**	973,420
Ukraine	**34,483**	134,413
	647,312	1,107,833
Revenue from services provided	**790**	1,229
Revenue from other sales	**565**	7,792
Total revenue	**648,667**	1,116,854

Export sales by geographical destination were as follows:

US$000	**Year ended 31.12.09**	Year ended 31.12.08
China	**241,882**	173,761
Austria	**105,690**	298,209
Serbia	**84,193**	170,972
Slovakia	**77,537**	117,093
Turkey	**39,272**	30,649
Czech Republic	**21,293**	80,746
India	**21,225**	–
Hungary	**6,539**	–
Germany	**5,573**	–
Japan	**5,027**	34
Russia	**–**	42,606
Poland	**–**	31,708
Bulgaria	**–**	12,189
Italy	**–**	10,340
Other	**4,598**	5,113
Total exports	**612,829**	973,420

During the year ended 31 December 2009 sales made to three customers accounted for approximately 51.9% of the sales revenue (2008: 52.5%).

Sales made to two customers individually amounted to more than 10% of the total sales. These are disclosed below:

US$000	**Year ended 31.12.09**	Year ended 31.12.08
Customer A	**161,730**	288,065
Customer B	**105,690**	298,209

Note 7: Cost of sales
Cost of sales for the year ended 31 December 2009 consisted of the following:

US$000	Year ended 31.12.09	Year ended 31.12.08
Materials	**60,607**	79,321
Purchased ore and concentrate	**8,914**	47,491
Electricity	**81,438**	92,021
Personnel costs	**41,670**	68,781
Spare parts and consumables	**13,007**	17,613
Depreciation and amortisation	**23,370**	28,860
Fuel	**23,969**	41,517
Gas	**28,744**	34,106
Repairs and maintenance	**38,503**	33,120
Royalties and levies	**6,484**	6,764
Stock movement	**10,543**	(19,596)
Other	**3,818**	4,240
Total cost of sales	**341,067**	434,238

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

US$000	Year ended 31.12.09	Year ended 31.12.08
Cost of sales	**341,067**	434,238
Depreciation and amortisation	**(23,370)**	(28,860)
Purchased ore and concentrate	**(8,914)**	(47,491)
Processing costs for purchased ore and concentrate	**(1,206)**	(5,418)
Production cost of gravel	**(357)**	(375)
Stock movement in the period	**(10,543)**	19,596
Pension service costs	**(1,857)**	(5,058)
Other	**1,662**	(2,214)
C1 cost	**296,482**	364,418
Own ore produced (tonnes)	**8,609,200**	8,607,500
C1 cash cost per tonne (US$)	**34.44**	42.34

'C1' costs represent the cash costs of production of iron pellets from own ore divided by production volume of own ore, and excludes non-cash costs such as depreciation, pension costs and stock movements, costs of purchased ore, concentrate and production cost of gravel and excludes one-off items which are outside the definition of EBITDA.

Note 8: Selling and distribution expenses
Selling and distribution expenses for the year ended 31 December 2009 consisted of the following:

US$000	Year ended 31.12.09	Year ended 31.12.08
Railway transportation	**69,477**	95,477
Other transportation and port charges	**80,998**	43,697
Agent fees	**799**	1,656
Custom duties	**1,423**	1,678
Advertising	**2,757**	2,395
Personnel cost	**1,055**	1,448
Depreciation	**1,581**	1,406
Other	**4,176**	4,771
Total selling and distribution expenses	**162,266**	152,528

Notes to the Consolidated Financial Information continued

Note 9: General and administrative expenses

General and administrative expenses for the year ended 31 December 2009 consisted of the following:

US$000	**Year ended 31.12.09**	Year ended 31.12.08
Personnel costs	**23,933**	38,900
Buildings and maintenance	**2,391**	3,092
Taxes other than income tax and other charges	**3,930**	4,185
Consulting and other professional fees	**2,731**	7,000
Depreciation and amortisation	**2,534**	3,137
Communication	**529**	826
Vehicles maintenance and fuel	**854**	1,096
Repairs	**1,041**	1,120
Audit fees	**1,112**	1,348
Non-audit fees	**184**	1,153
Security	**1,659**	1,641
Research	**1**	352
Other	**2,262**	3,335
Total general and administrative expenses	**43,161**	67,185

Auditor remuneration

Auditor remuneration paid in respect of the audit of the financial statements of the Group and its subsidiary companies and for the provision of other services not in connection with the audit is disclosed below:

US$000	**Year ended 31.12.09**	Year ended 31.12.08
Audit services		
Ferrexpo plc Annual Report	**628**	1,058
Subsidiary entities	**484**	290
Total audit services	**1,112**	1,348
Non-audit services		
Tax advisory	**154**	742
Assurance related services	**–**	323
Other	**30**	88
Total non-audit services	**184**	1,153
Total auditor remuneration	**1,296**	2,501

Note 10: Other income

Other income for the year ended 31 December 2009 consisted of the following:

US$000	**Year ended 31.12.09**	Year ended 31.12.08
Sale of surplus maintenance spares	**867**	3,434
Lease income	**670**	1,090
Reversal of fines and penalties	**4**	926
Refunds from social security institutions	**1,735**	–
Other income	**826**	937
Total other income	**4,102**	6,387

Note 11: Other expenses

Other expenses for the year ended 31 December 2009 consisted of the following:

US$000	**Year ended 31.12.09**	Year ended 31.12.08
Charitable donations	**4,043**	6,081
Doubtful debts expense	**(5,199)**	18,755
Loss on disposal of plant, property and equipment	**1,121**	1,280
Other personnel costs	**830**	1,056
Foreign exchange difference arising on consolidation	**–**	5,992
Other	**2,623**	4,876
Total other expenses	**3,418**	38,040

The allowance for doubtful debts relates to receivables from certain customers in Russia and other former CIS countries. Following a stabilisation in the markets during the latter part of the financial year the recorded allowance has been partially released.

Note 12: Foreign exchange gains and losses

US$000	**Year ended 31.12.09**	Year ended 31.12.08
Operating foreign exchange gains		
Revaluation of trade receivables	**1,818**	31,200
Revaluation of trade payables	**716**	(1,891)
Total operating foreign exchange gains	**2,534**	29,309
Non-operating foreign exchange losses		
Revaluation of interest-bearing loans	**(1,639)**	(85,907)
Revaluation of cash equivalents	**84**	13,422
Other	**(997)**	(303)
Total non-operating foreign exchange losses	**(2,552)**	(72,788)

Note 13: Write-offs and impairment losses

Impairment losses relate to adjustments made against the carrying value of assets where this is higher than the recoverable amount. Write-offs and impairment losses for the year ended 31 December 2009 consisted of the following:

US$000	Notes	**Year ended 31.12.09**	Year ended 31.12.08
Write-off of inventories		**144**	941
Write-off of property, plant and equipment		**717**	21
Impairment of available-for-sale assets	22	**1,896**	26,364
Total write-offs and impairment losses		**2,757**	27,326

Note 14: Investments in associates

As at 31 December 2009 investments in associates comprised:

	Principal activity	Country of incorporation	Ownership %	**As at 31.12.09 US$000**	As at 31.12.08 US$000
TIS Ruda	Port development	Ukraine	49.9	**19,915**	18,640

For the year ended 31 December 2009 the summarised financial information for the associate was as follows:

	Total assets		Total liabilities		Revenue		Net profit	
US$000	**As at 31.12.09**	As at 31.12.08	**As at 31.12.09**	As at 31.12.08	**Year ended 31.12.09**	Year ended 31.12.08	**Year ended 31.12.09**	Year ended 31.12.08
TIS Ruda	**27,187**	29,672	**4,837**	9,048	**20,147**	18,865	**2,614**	2,010

The information above is for 100% of the associate named and not as a percentage based on Group ownership. The movement in the investment in the year represents the Group's share of profit of US$1,304,000 in TIS Ruda (2008: US$1,003,000).

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

Notes to the Consolidated Financial Information continued

Note 15: Negative goodwill

Negative goodwill arose as a result of several equity transactions in Ferrexpo Poltava GOK Corporation during the prior period:

Rights issues

On 30 June 2008 Ferrexpo AG purchased additional shares in the Ferrexpo Poltava GOK Corporation in to which certain minorities did not participate, thus increasing its shareholding from 85.9% to 87.8%. As a result Ferrexpo AG held a larger proportion of previously generated retained profit. The resulting negative goodwill of US$5,077,018 was recognised in the income statement in accordance with the Group's accounting policy on accounting for changes in ownership interests in subsidiaries.

A second rights issue occurred on 16 December 2008, increasing Ferrexpo AG's shareholding to 90.9%. This resulted in an additional negative goodwill charge of US$5,027,479.

Treasury shares in Ferrexpo Poltava GOK Corporation

On 22 December 2008, Ferrexpo Poltava GOK Corporation repurchased own shares from DCM Decometal International Trading GmbH ('DCM'). These shares were placed in treasury for cancellation or subsequent sale to its principal shareholder, Ferrexpo AG. Ferrexpo AG. As a result of this transaction Ferrexpo AG's shareholding increased to 97.1%, which resulted in a further negative goodwill charge of US$24,944,267 recognised through the income statement.

In 2009, the remaining treasury shares of Ferrexpo Poltava GOK Corporation have been transferred to Ferrexpo AG resulting in an increase of the shareholding from 97.1% to 97.3%. This transaction resulted in a negative goodwill of US$503,000 which is included in the income statement.

Note 16: Finance income and expense

Finance income and expenses for the year ended 31 December 2009 consisted of the following:

US$000	**Year ended 31.12.09**	Year ended 31.12.08
Finance income		
Interest income	**1,894**	1,448
Other finance revenue	**999**	1,019
Total finance income	**2,893**	2,467
Finance expense		
Interest expense on financial liabilities measured at amortised cost	**(16,805)**	(15,002)
Interest on defined benefit plans	**(2,967)**	(1,776)
Bank charges	**(535)**	(336)
Other finance costs	**(3,411)**	(3,720)
Total finance expense	**(23,718)**	(20,834)
Net finance expense	**(20,825)**	(18,367)

Other finance costs include the unwinding of the discount on the site restoration provision, discounting of the share redemption liability and other costs.

Note 17: Income tax expense

The income tax expense for the year ended 31 December 2009 consisted of the following:

US$000	**Year ended 31.12.09**	Year ended 31.12.08
Current income tax	**10,162**	79,016
Deferred income tax	**(310)**	(16,483)
Total income tax expense	**9,852**	62,533

Refer to note 24 for a breakdown of the deferred tax balances.

The effective income tax rate differs from the corporate income tax rates. The weighted average statutory rate was 13.0% for 2009 (2008: 18.2%). This is calculated as the average of the statutory tax rates applicable in the countries in which the Group operates, weighted by the profit/(loss) before tax of the subsidiaries in the respective countries, as included in the consolidated financial information. The effective tax rate is 12.2% (2008: 16.6%).

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

A reconciliation between the income tax charged in the accompanying financial information and income before taxes multiplied by the weighted average statutory tax rate for the year ended 31 December 2009 is as follows:

US$000	**Year ended 31.12.09**	Year ended 31.12.08
Profit before tax	**80,850**	375,581
Notional tax computed at the weighted average statutory tax rate of 13.0% (2008: 18.2%)	**10,526**	68,496
Derecognition of deferred tax assets	**135**	4,359
Inflation related indexation of fixed assets for tax	**(1,792)**	(12,456)
Expenses not deductible for tax purposes	**3,359**	9,669
Tax exempted income	**(942)**	–
Tax effect on asset impairment and negative goodwill	**–**	(7,849)
Non-recognition of deferred taxes on current year losses	**780**	–
Tax related to prior years	**(2,497)**	(286)
Other	**283**	600
Total income tax expense	**9,852**	62,533

Note 18: Earnings per share and dividends paid and proposed

Basic earnings per share (EPS) is calculated by dividing the net profit for the year attributable to ordinary equity shareholders of Ferrexpo plc by the weighted average number of Ordinary Shares.

	Year ended 31.12.09	Year ended 31.12.08
Profit for the year attributable to equity shareholders:		
Basic earnings per share (US cents)	**12.08**	48.60
Diluted earnings per share (US cents)	**12.05**	48.46
Underlying earnings for the year:		
Basic earnings per share (US cents)	**12.80**	57.74
Diluted earnings per share (US cents)	**12.77**	57.58

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

Thousands	**Year ended 31.12.09**	Year ended 31.12.08
Weighted average number of shares		
Basic number of Ordinary Shares outstanding	**584,652**	601,697
Effect of dilutive potential Ordinary Shares	**1,361**	1,717
Diluted number of Ordinary Shares outstanding	**586,013**	603,414

The basic number of Ordinary Shares is calculated by reducing the total number or Ordinary Shares in issue by the shares held in treasury (refer to note 30).

Diluted earnings per share is calculated by adjusting the weighted average number of Ordinary Shares in issue on the assumption of conversion of all potentially dilutive Ordinary Shares. All share awards are potentially dilutive and have been included in the calculation of diluted earnings per share.

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

US$000	Notes	**Year ended 31.12.09**	Year ended 31.12.08
Profit attributable to equity holders		**70,627**	292,436
Write offs/impairments	13	**2,757**	27,326
IPO costs	42	**427**	4,120
Negative goodwill generated on rights issue	15	**(503)**	(35,049)
Gain on disposal of available-for-sale investment		**–**	(1,571)
Gain on disposal of property, plant and equipment		**(213)**	–
Non-operating foreign exchange losses	12	**2,551**	72,788
Tax on adjusted items		**(823)**	(12,619)
Underlying earnings		**74,823**	347,431

Notes to the Consolidated Financial Information continued

Note 18: Earnings per share and dividends paid and proposed continued
Adjusted items are those items of financial performance that the Group believes should be separately disclosed on the face of the income statement to assist in the understanding of the underlying financial performance achieved by the Group. Adjusted items that relate to the operating performance of the Group include impairment charges and reversals and other exceptional items. Non-operating adjusted items include gains and losses on disposal of investments and businesses and non-operating foreign exchange gains and losses.

Dividends paid and proposed

US$000	**Year ended 31.12.09**
Dividends proposed	
Final dividend for 2009: 3.3 US cents per Ordinary Share	**19,289**
Total dividends proposed	**19,289**
Dividends paid during the period	
Interim dividend for 2009: 3.3 US cents per Ordinary Share	**19,289**
Final dividend for 2008: 3.3 US cents per Ordinary Share	**20,261**
Total dividends paid during the period	**39,550**

US$000	Year ended 31.12.08
Dividends proposed	
Final dividend for 2008: 3.3 US cents per Ordinary Share	20,000
Total dividends proposed	20,000
Dividends paid during the period	
Interim dividend for 2008: 3.2 US cents per Ordinary Share	19,505
Final dividend for 2007: 3.2 US cents per Ordinary Share	19,449
Total dividends paid during the period	38,954

Note 19: EBITDA
The Group calculates EBITDA as profit from continuing operations before tax and finance plus depreciation and amortisation (included in cost of sales, administrative expenses and selling and distribution costs) and non-recurring cash items included in other income and other expenses plus the net of gains and losses from disposal of investments and property, plant and equipment. The Group presents EBITDA because it believes that EBITDA is a useful measure for evaluating its ability to generate cash and its operating performance.

US$000	Notes	**Year ended 31.12.09**	Year ended 31.12.08
Profit before tax and finance		**104,227**	466,736
Write-offs and impairment losses	13	**2,757**	27,326
Gain on disposal of property, plant and equipment		**(213)**	–
Gain on disposal of available-for-sale investment		**–**	(1,571)
Initial public offering costs	42	**427**	4,120
Share-based payments	42	**3,423**	1,495
Negative goodwill generated on rights issue	15	**(503)**	(35,049)
Severance payments		**–**	6,764
Depreciation and amortisation		**28,018**	34,125
EBITDA		**138,136**	503,946

The severance payments disclosed above relate to the amounts paid to the former CEO and the Director of Business Development upon their resignation in the prior year.

Note 20: Property, plant and equipment
As at 31 December 2009 property, plant and equipment comprised:

US$000	Land	Mining assets[1]	Buildings	Plant and equipment	Vehicles	Fixtures and fittings	Assets under construction[1]	Total
Cost:								
At 1 January 2008	4,884	11,371	137,849	179,910	92,704	3,655	74,882	505,255
Additions	–	–	–	50	64	239	284,670	285,023
Transfers	35	13,396	35,005	40,464	80,593	1,323	(170,779)	37
Disposals	–	(420)	(507)	(3,347)	(4,045)	(25)	(836)	(9,180)
Translation differences	(1,694)	(8,598)	(59,816)	(75,335)	(59,564)	(991)	(50,917)	(256,915)
At 31 December 2008	3,225	15,749	112,531	141,742	109,752	4,201	137,020	524,220
Additions	–	–	535	5	–	21	85,445	86,006
Transfers	–	–	24,289	57,524	5,719	575	(88,107)	–
Disposals	–	–	(3,409)	(3,033)	(1,154)	(53)	(530)	(8,179)
Translation differences	(115)	(562)	(4,008)	(5,059)	(3,917)	(66)	(3,342)	(17,069)
At 31 December 2009	3,110	15,187	129,938	191,179	110,400	4,678	130,486	584,978
Accumulated depreciation:								
At 1 January 2008	–	633	24,324	87,717	26,340	1,655	41	140,710
Depreciation charge	–	199	6,425	18,478	9,465	962	–	35,529
Disposals	–	–	(273)	(2,600)	(2,991)	(20)	–	(5,884)
Transfers	–	–	73	(72)	–	(106)	105	–
Impairment	–	–	168	–	–	–	–	168
Reversals	–	–	–	–	–	–	(147)	(147)
Translation differences	–	(289)	(10,626)	(35,895)	(11,403)	(384)	1	(58,596)
At 31 December 2008	–	543	20,091	67,628	21,411	2,107	–	111,780
Depreciation charge	–	278	5,366	15,124	7,924	829	–	29,521
Disposals	–	–	(1,657)	(2,413)	(908)	(37)	–	(5,015)
Transfers	–	–	–	–	–	–	–	–
Impairment	–	–	450	14	233	(1)	21	717
Translation differences	–	(20)	(874)	(2,441)	(764)	(26)	–	(4,125)
At 31 December 2009	–	801	23,376	77,912	27,896	2,872	21	132,878
Net book value at:								
31 December 2008	3,225	15,206	92,440	74,114	88,341	2,094	137,020	412,440
31 December 2009	3,110	14,386	106,562	113,267	82,504	1,806	130,465	452,100

1 Mining assets and assets under construction constitute mine stripping costs which are accounted for under the Group's accounting policy outlined in note 2. Capitalised pre-production stripping costs are included in assets under construction whereas the production stripping costs are shown under mining assets.

The carrying value of plant and equipment held under finance leases and hire purchase contracts at 31 December 2009 was US$20,204,282 (2008: $nil). During the year, a sale and lease back transaction for assets of plant and equipment was completed and is considered to be a finance lease. No gain or loss was realised on the sale of the assets subject to this finance lease. Leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

US$82,505,184 (2008: US$61,966,218) of property, plant and equipment have been pledged as security for liabilities.

The gross value of fully depreciated property, plant and equipment that is still in use is US$30,148,597 (2008: US$26,745,388).

Notes to the Consolidated Financial Information continued

Note 21: Goodwill and other intangible assets
As at 31 December 2009 goodwill and other intangible assets comprised:

US$000	Goodwill	Other intangible assets	Total
Cost:			
At 1 January 2008	155,682	1,781	157,463
Additions	–	1,597	1,597
Disposals	–	(13)	(13)
Translation differences	(53,578)	(1,125)	(54,703)
At 31 December 2008	102,104	2,240	104,344
Additions	–	598	598
Disposals	–	(53)	(53)
Translation differences	(3,646)	(74)	(3,720)
At 31 December 2009	98,458	2,711	101,169
Accumulated amortisation and impairment:			
At 1 January 2008	–	636	636
Amortisation charge	–	279	279
Disposals	–	(13)	(13)
Translation differences	–	(313)	(313)
At 31 December 2008	–	589	589
Amortisation charge	–	301	301
Disposals	–	(53)	(53)
Translation differences	–	(22)	(22)
At 31 December 2009	–	815	815
Net book value at:			
31 December 2008	102,104	1,651	103,755
31 December 2009	98,458	1,896	100,354

The major component of other intangible assets as at 31 December 2009 comprises licences in respect of the Group's mining operations. The amortisation charge for the year is allocated to production expenses and administrative expenses as appropriate.

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

Impairment testing was performed at 31 December 2009 based on a value-in-use calculation using cash flow projections over a 20-year period, a common practice in the industry. The cash flow projection was based on the financial budget approved by senior management.

Key assumptions
The key assumptions used in the value-in-use calculations were:
> production volume from own ore; and
> evolution of iron ore prices, costs of raw materials and other production and distribution costs.

The cash flows were projected based on management expectations regarding the development of the iron ore and steel market and the cost of producing and distributing the pellets.

The Company takes into account two principal key assumptions, selling price and total production costs. Within this both macro and local factors which influence these are considered.

In determining the future long-term selling price, the Company takes into account external and internal analysis of the long-term and shorter-term supply and demand dynamics in the local region and throughout the world along with costs of production of competitors and the marginal cost of incremental production in a particular market. The Company considers local supply demand balances affecting its major customers and the effects this could have on the longer-term price.

Cost of production and shipping is considered taking into account local inflationary pressures, major exchange rate developments between local currency and the US dollar and the longer-term and shorter-term trends in energy supply and demand and the effect on costs along with the expected movements in steel related commodity prices which affect the cost of certain production inputs.

For the purpose of the goodwill impairment test, the future cash flows were discounted using the real pre-tax discount rate of 15% (2008: 15%) per annum. This rate reflects the time value of money and risk associated with the asset, and is in line with the rates used by competitors with a similar background.

Sensitivity to changes in assumptions
Management believes that due to the high value of the projects and resulting reserve base no reasonable change in the above key assumptions would cause the carrying value of the unit to materially exceed its value-in-use.

Note 22: Available-for-sale financial assets
As at 31 December 2009 available-for-sale financial assets comprised:

	Ownership %		Carrying value	
US$000	**As at 31.12.09**	As at 31.12.08	**As at 31.12.09**	As at 31.12.08
Current				
Investments available for sale – equity instruments:				
Vostock Ruda	**1.10%**	1.10%	**626**	650
Total current available-for-sale financial assets			**626**	650
Non-current				
Investments available for sale – equity instruments:				
OJSC Stahanov	**3.14%**	3.14%	**813**	435
LLC Atol	**9.95%**	9.95%	**2,104**	4,000
CJSC AMA	**9.00%**	9.00%	**–**	–
CJSC Amtek	**9.00%**	9.00%	**–**	–
Total non-current available-for-sale financial assets			**2,917**	4,435

All investments relate to companies incorporated in Ukraine.

Impairment testing
Ferrexpo Petroleum
The fair value of the unquoted equity investment in LLC Atol, CJSC AMA and CJSC Amtek, companies engaged in the exploration and development of oil and gas fields in the Poltava Region of Ukraine, is determined by management using a discounted cash flow projection, having taken into account the estimated value of reserves provided by an expert third party valuer.

The key assumptions used in this calculation were gas/condensate prices, gas/oil/condensate conversion rates, production volumes, production costs, tax rates, projected capital expenditure, the Ukrainian hryvnia to US dollar exchange rate and the discount rate. The calculation took into account the projected future cash flows attributable to the Lubachevsko-Sherbakivska licence (projected to make up 90% of the total value of the investment) over a period of 19 years (the length of the licence) with an applied real discount rate of 15.0% (2008: 14.5%) per annum.

As a result of the above review, management recognised impairment charges against carrying value of investment in LLC Atol, CJSC AMA and CJSC Amtek. The total fair value of the investment as of 31 December 2009 was determined as US$2,104,000 (2008: US$4,000,000), being entirely attributable to LLC Atol. The decrease of the carrying value of the investment is related to the impairment testing performed for the interim report as of 30 June 2009, when an additional impairment loss was recorded through profit or loss.

The impairment testing performed at year-end supported the carrying value so that no additional impairment or reversal of impairment had to be booked.

OJSC Stahanov
The value of OJSC Stahanov was increased due to a positive change in the quoted market price for the Company's shares on the Ukrainian stock exchange (PFTS) as of 31 December 2009. As of 30 June 2009, an additional impairment loss of US$63,884 has been recorded through profit or loss. The increase of the fair value in the amount of US$440,661 has been recorded against the net unrealised gains reserve as a reversal of previously recorded impairment losses.

Further details regarding available-for-sale investments can be found in note 13 – write-offs and impairment losses as well as note 36 – related party transactions.

Notes to the Consolidated Financial Information continued

Note 23: Other non-current assets

As at 31 December 2009 other non-current assets comprised:

US$000	As at 31.12.09	As at 31.12.08
Prepayments for property, plant and equipment	**7,320**	6,922
Loan provided to associate	**2,000**	3,000
Other non-current assets	**504**	194
Total other non-current assets	**9,824**	10,116

Note 24: Deferred income tax

Deferred income tax assets and liabilities at 31 December 2009 relate to the following:

	Consolidated statement of financial position		Consolidated income statement	
US$000	As at 31.12.09	As at 31.12.08	Year ended 31.12.09	Year ended 31.12.08
Trade and other receivables	**2,466**	4,160	**(1,584)**	5,888
Trade and other payables and advance receivables	**144**	16	**132**	(1)
Property, plant and equipment	**9,122**	9,063	**393**	11,972
IPO costs netted against share premium	**1,226**	1,725	**(499)**	–
Tax losses recognised	**743**	–	**743**	(1,564)
Other financial assets	**187**	204	**(10)**	–
Trade and other payables	**77**	29	**47**	–
Accrued expenses	**1,602**	1,485	**169**	3,508
Defined benefit pension liability	**3,596**	3,219	**504**	1,554
Provision for site restoration	**298**	269	**41**	180
Other financial liabilities	**134**	–	**136**	119
Total deferred tax assets	**19,595**	20,170	**72**	21,656
Thereof netted against deferred tax liabilities	**(5,922)**	(6,127)	**–**	–
Total deferred tax assets as per the statement of financial position	**13,673**	14,043	**–**	–
Trade and other receivable	**(498)**	–	**(498)**	–
Inventories	**(2,522)**	(4,052)	**1,424**	(5,170)
Accrued income/prepaid expenses	**(2,477)**	(1,915)	**(638)**	–
Property, plant and equipment	**(554)**	(210)	**(398)**	34
Intangible assets	**(277)**	(218)	**(69)**	–
Exploration rights	**–**	–	**–**	154
Advances and other current assets	**–**	–	**–**	(189)
Other non-current assets	**(171)**	(166)	**(11)**	–
Loans and borrowings	**–**	–	**–**	(520)
Employee benefit trust	**(3,025)**	(4,442)	**204**	–
Trade and other payables and advance receivables	**–**	(420)	**422**	518
Lease obligations	**(4)**	–	**(4)**	–
Other items	**(133)**	(2)	**(132)**	–
Total deferred tax liabilities	**(9,661)**	(11,425)	**300**	(5,173)
Thereof netted against deferred tax assets	**5,922**	6,127	**–**	–
Total deferred tax liabilities as per the statement of financial position	**(3,739)**	(5,298)	**–**	–
Net deferred tax asset/net change	**9,934**	8,745	**372**	16,483

The movement in the deferred income tax balance is as follows:

US$000	Year ended 31.12.09	Year ended 31.12.08
Opening balance	**(8,745)**	(7,082)
Income statement credit	**(372)**	(16,483)
Changes booked through equity	**(1,251)**	7,896
Foreign currency exchange rate adjustment	**434**	6,924
Closing balance	**(9,934)**	(8,745)

As at 31 December 2009, the Group had deductible temporary differences on current financial receivables in the amount of US$2,182,216 (2008: US$7,180,000) for which no deferred tax assets have been recognised.

Temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised amount to US$147,080,471 (2008: US$181,204,000).

Note 25: Inventories
As at 31 December 2009 inventories comprised:

US$000	As at 31.12.09	As at 31.12.08
Raw materials and consumables	**47,405**	41,889
Finished ore pellets	**5,135**	15,456
Work in progress	**7,565**	4,294
Other	**104**	76
Provision for slow moving and obsolete stock	**(573)**	(445)
Total inventories	**59,636**	61,270

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

Note 26: Trade and other receivables
At 31 December 2009 trade and other receivables comprised:

US$000	As at 31.12.09	As at 31.12.08
Trade receivables	**42,956**	70,113
Other receivables	**1,616**	1,479
Allowance for uncollectability	**(6,455)**	(11,956)
Total trade and other receivables	**38,117**	59,636

Trade receivables at 31 December 2009 includes US$2,098,000 (2008: US$1,898,000) owed by related parties.

The movement in the allowance for uncollectability during the year was:

US$000	Year ended 31.12.09	Year ended 31.12.08
Opening balance	**11,956**	401
Recognition	**187**	18,629
Reversal	**(5,386)**	(320)
Foreign currency translation	**(302)**	(6,754)
Closing balance	**6,455**	11,956

The following table shows the Group's receivables at the reporting date that are subject to credit risk and the ageing and impairment profile thereon:

	As at 31.12.09					
				Receivables past due but not impaired		
US$000	**Gross amount**	**Receivables past due and impaired**	**Receivables neither past due nor impaired**	**Less than 45 days**	**45 to 90 days**	**Over 90 days**
Trade receivables	**42,956**	**6,322**	**33,932**	**2,160**	**173**	**369**
Other receivables	**1,616**	**133**	**1,263**	**7**	**12**	**201**

	As at 31.12.08					
				Receivables past due but not impaired		
US$000	Gross amount	Receivables past due and impaired	Receivables neither past due nor impaired	Less than 45 days	45 to 90 days	Over 90 days
Trade receivables	70,113	11,521	34,883	14,065	2,781	6,863
Other receivables	1,479	435	1,028	–	–	16

The Group's exposures to credit and currency risks are disclosed in note 41.

Notes to the Consolidated Financial Information continued

Note 27: Prepayments and other current assets

As at 31 December 2009 prepayments and other current assets comprised:

US$000	As at 31.12.09	As at 31.12.08
Prepayments to suppliers		
Electricity and gas	**4,036**	1,830
Materials and spare parts	**1,879**	2,954
Services	**1,922**	2,059
Other prepayments	**3,110**	663
Loan provided to associate	**550**	6,000
Accrued income	**6,062**	3,869
Other	**1,835**	733
Total prepayments and other current assets	**19,394**	18,108

Note 28: Taxes payable, recoverable and prepaid

The income tax payable balance as of 31 December 2009 is shown below:

US$000	As at 31.12.09	As at 31.12.08
Opening balance	**(8,604)**	(2,367)
Income statement charge	**(9,852)**	(79,016)
Tax paid	**18,899**	67,217
Changes booked through equity	**(99)**	4,125
Foreign exchange adjustment	**(1,708)**	1,437
Closing balance	**(1,364)**	(8,604)

Split by:

US$000	As at 31.12.09	As at 31.12.08
Income tax receivable balance	**9,741**	5,835
Income tax payable balance	**(11,105)**	(14,439)
Total income tax payable at the year end	**(1,364)**	(8,604)

As at 31 December 2009 taxes recoverable and prepaid comprised:

US$000	As at 31.12.09	As at 31.12.08
VAT receivable	**81,269**	57,244
Other taxes prepaid	**15**	41
Total taxes recoverable and prepaid	**81,284**	57,285

During the year the VAT receivable increased from US$57,243,752 to US$81,268,909 mainly relating to Ferrexpo Poltava Mining. As an exporter, Ferrexpo Poltava Mining, the Group's principal subsidiary, does not have substantial amounts of VAT received on sales which can be offset against VAT paid for purchases of goods and services. It therefore relies heavily on the government for refunds. VAT on trading items is due to be repaid three months after it is incurred. However, due to slow repayments VAT amounting to nine months of trading was outstanding at the end of the year with none of the amounts being in dispute. It is expected that VAT refunds will resume in 2010.

Further information is given in the Financial Review of this report.

As at 31 December 2009 other taxes payable comprised:

US$000	As at 31.12.09	As at 31.12.08
Withholding tax	**3,233**	2,420
Environmental tax	**2,267**	1,698
Source tax	**317**	236
Other taxes	**2,076**	2,071
Total other taxes payable	**7,893**	6,425

Note 29: Cash and cash equivalents
As at 31 December 2009 cash and cash equivalents comprised:

US$000	**As at 31.12.09**	As at 31.12.08
Cash at bank	**11,987**	87,819
Petty cash	**4**	3
Total cash and cash equivalents	**11,991**	87,822

The cash at bank balance as of 31 December 2008 includes an amount of US$1,046,000 held in an escrow account which was unavailable to the Group. This amount was released subsequent to year end. No such balances existed as of 31 December 2009.

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 41.

Note 30: Share capital and reserves

	US$000	Number of shares
Balance at 31 December 2009 and 2008	121,628	613,967,956

Share capital represents the nominal value on issue of the Company's equity share capital, comprising £0.10 Ordinary Shares.

The fully paid share capital of Ferrexpo plc at 31 December 2009 was 613,967,956 (2008: 613,967,956) Ordinary Shares at a par value of £0.10 paid for in cash, resulting in share capital of US$121,627,585 (2008: US$121,627,585) per the statement of financial position.

The closing balance includes 25,343,814 shares which are held in treasury.

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

Treasury share reserve
During September 2008, Ferrexpo plc completed a buyback of 25,343,814 shares for a total cost of US$77,260,476. These shares are currently held as treasury shares by the Group. The Companies Act 2006 forbids the exercise of any rights (including voting rights) and the payment of dividends in respect of treasury shares.

Employee benefit trust reserve
This reserve represents the treasury shares held by Ferrexpo AG setting up an employee benefit trust reserve. The reserve is used to satisfy future grants of shares in connection with the listing bonus, as well as future senior management incentive schemes.

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

Subsequent increases in the stake have been accounted for using the parent extension concept method of accounting as described in the accounting policy section.

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

Translation reserve
The translation reserve represents exchange differences arising on the translation of non-US dollar (ie hryvnia) functional currency operations within the Group into US dollars.

Notes to the Consolidated Financial Information continued

Note 31: Interest bearing loans and borrowings
This note provides information about the contractual terms of the Group's interest bearing loans and borrowings, which are measured at amortised cost. All loans are in US dollars. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 41.

US$000	Notes	**As at 31.12.09**	As at 31.12.08
Current			
Ukrainian banks		**25,738**	738
Other banks		**223,647**	71,715
Obligations under finance leases	40	**1,264**	–
Interest accrued		**730**	2,070
Total current interest bearing loans and borrowings		**251,379**	74,523
Non-current			
Ukrainian banks		**844**	24,659
Other banks		**89**	206,714
Obligations under finance leases	40	**17,210**	–
Total non-current interest bearing loans and borrowings		**18,143**	231,373
Total interest bearing loans and borrowings		**269,522**	305,896

As at 31 December 2009 the Ukrainian bank facilities are secured by property, plant and equipment with a carrying amount of US$82,505,184 (2008: US$61,966,218) and rights to a purchase contract in respect of equipment to be delivered of US$20,890,000 (2008: US$nil). Secured Ukrainian property, plant and equipment includes crushing and locomotive buildings, excavators, and mine transport, flotation and crushing equipment. Non-Ukraine bank loans of US$207,723,000 are secured by rights to proceeds from future export sales of US$370,444,800 (2008: US$775,173,008), and US$15,919,000 secured by Ukrainian mine transport equipment with a carrying value of US$22,074,460.

As at 31 December 2009 the Group's major bank debt facility was a US$335,000,000 (2008: US$335,000,000) pre-export finance facility with no unutilised amount (2008: nil). On 8 January 2010 the remaining outstanding balance of US$207,727,272 was repaid in full.

The Group entered into a new three year bank debt term facility on 27 November 2009 in the amount of US$230,000,000. This pre-export finance facility was drawn in full on 8 January 2010 and was used for refinancing the existing pre-export finance facility.

The term loan and revolving credit facilities as at 31 December 2009 were guaranteed and secured as follows:
- Ferrexpo AG assigned the rights to revenue from certain sales contracts;
- Ferrexpo Poltava GOK Corporation assigned all of its rights for 10 export contracts for the pellets sales to Ferrexpo AG;
- the Group pledged its bank account into which all proceeds from the sale of certain iron ore pellet contracts are received; and
- Ferrexpo AG pledged all its rights under certain contracts for the sale of iron ore pellets and its rights under certain related credit support documents.

It should also be noted that Ferrexpo AG is subject to minimum capital requirements which restrict the amount of profit that can be distributed to the parent.

The new major bank debt facility drawn on 8 January 2010 is also guaranteed and secured on the same basis as the bank debt existing at 31 December 2009.

Note 32: Trade and other payables
As at 31 December 2009 trade and other payables comprised:

US$000	**As at 31.12.09**	As at 31.12.08
Current trade and other payables		
Payables for equipment	**4,323**	3,821
Commodity loans	**124**	1,446
Materials and services	**20,255**	23,114
Promissory notes	**–**	797
Dividends payable	**78**	312
Liability for severance payments	**–**	1,046
Other	**3,146**	4,497
Total current trade and other payables	**27,926**	35,033
Non-current trade and other payables		
Commodity loans	**–**	570
Total non-current trade and other payables	**–**	570

Trade and other payables at 31 December 2009 includes US$1,662,000 (2008: US$1,909,000) due to related parties. See note 36.

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 41.

Note 33: Defined benefit pension liability
Ukrainian defined benefit plan
The Group makes defined contributions to the Ukrainian state pension scheme at the statutory rates in effect during the year, based on gross salary payments. Such expense is charged to the income statement in the period the related salaries are earned.

In addition, the Group has a legal obligation to compensate the Ukrainian State Pension Fund for additional pensions paid to certain categories of the current and former employees of the Group. These obligations are unfunded. Costs relating to this plan are accrued using the projected unit credit method in respect of those employees entitled to such payments. Actuarial techniques have been used in calculating the liability related to this retirement obligation at the reporting date.

Gains and losses resulting from the use of internal actuarial valuation methodologies are recognised when the cumulative unrecognised actuarial gains or losses for the scheme exceed 10% of defined benefit obligation. These gains or losses are recognised as income or expense over the expected average remaining working lives of the employees participating in the plan.

The past service cost is recognised as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognised immediately.

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

At 31 December 2009 this defined benefit plan covered 4,669 current employees (2008: 4,673 people). There are 1,246 former employees currently in receipt of pensions (2008: 1,226 people).

In addition, the Group has a legal obligation to its employees (in the form of a collective agreement) to make a one off payment on retirement to employees with a long term of service; this has also been included in the provision.

Swiss defined benefit plan
The employees of the Group's Swiss operation are covered under a multi-employer pension plan, which is governed in accordance with the requirements of Swiss law. The assets of the pension scheme are held separately from those of the Group and are invested with an insurance company. The annual pension costs and the defined benefit obligation as well as the fair value of the plan assets are assessed annually by an independent professionally qualified actuary.

The accumulated capital of the employees is subject to interests determined by the local legislation and defined in the regulatory of the pension scheme.

On retirement employees are entitled to receive either a lump sum or an annual proportion of their accumulated capital as a pension underpinned by certain guarantees. The Group and in certain cases the employees make contributions to the pension scheme as a percentage of the insured salaries and depending on the age of the employees.

At 31 December 2009 this defined benefit plan covered 21 people (2008: 23 people).

The principal assumptions used in determining the defined benefit obligation are shown below:

	Year ended 31.12.09		Year ended 31.12.08	
	Swiss Scheme	**Ukrainian Scheme**	Swiss Scheme	Ukrainian Scheme
Discount rate	**3.25%**	**15.00%**	3.25%	10.00%
Retail price inflation	**1.50%**	**7.00%**	2.40%	6.00%
Expected future salary increase	**3.00%**	**7.00%**	3.00%	7.61%
Expected future benefit increase	**0.00%**	**0.00%**	0.00%	0.00%
Female life expectancy (years)	**86.0**	**74.5**	86.9	74.7
Male life expectancy (years)	**82.9**	**63.5**	83.5	63.5

Notes to the Consolidated Financial Information continued

Note 33: Defined benefit pension liability continued

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

US$000	Year ended 31.12.09 Swiss scheme	Year ended 31.12.09 Ukrainian scheme	Year ended 31.12.09 Total	Year ended 31.12.08 Swiss scheme	Year ended 31.12.08 Ukrainian scheme	Year ended 31.12.08 Total
Opening defined benefit obligation	**2,096**	**22,187**	**24,283**	1,647	18,853	20,500
Current service cost	**375**	**1,142**	**1,517**	310	1,607	1,917
Employee contribution	**14**	**–**	**14**	–	–	–
Interest cost	**66**	**3,074**	**3,140**	46	1,730	1,776
Contribution by plan participants	**469**	**–**	**469**	697	–	697
Benefits paid	**(926)**	**(2,987)**	**(3,913)**	(766)	(4,103)	(4,869)
Actuarial loss	**101**	**1,230**	**1,331**	52	6,167	6,219
Past service cost	**–**	**3,502**	**3,502**	–	9,972	9,972
Foreign exchange translation adjustment	**39**	**(4,268)**	**(4,229)**	110	(12,039)	(11,929)
Closing defined benefit obligation	**2,234**	**23,880**	**26,114**	2,096	22,187	24,283
Opening plan assets	**1,507**	**–**	**1,507**	1,039	–	1,039
Expected return on plan assets	**48**	**–**	**48**	33	–	33
Employer contribution	**474**	**–**	**474**	274	–	274
Employee contribution	**14**	**–**	**14**	–	–	–
Contribution by plan participants	**469**	**–**	**469**	942	–	942
Benefits paid	**(926)**	**–**	**(926)**	(766)	–	(766)
Actuarial loss	**(230)**	**–**	**(230)**	(84)	–	(84)
Foreign exchange translation adjustment	**19**	**–**	**19**	69	–	69
Closing plan assets	**1,375**	**–**	**1,375**	1,507	–	1,507
Net funded status	**859**	**23,880**	**24,739**	589	22,187	22,776
Unrecognised actuarial losses	**(807)**	**(6,333)**	**(7,140)**	(527)	(5,767)	(6,294)
Unrecognised past service cost	**–**	**(3,113)**	**(3,113)**	–	(5,543)	(5,543)
Foreign exchange translation adjustment	**(34)**	**77**	**43**	–	2,001	2,001
Defined benefit liability at the end of the year	**18**	**14,511**	**14,529**	62	12,878	12,940
Benefit expense						
Current service cost	**389**	**1,142**	**1,531**	310	1,607	1,917
Interest cost	**66**	**3,074**	**3,140**	46	1,730	1,776
Amortisation of actuarial loss/(gain)	**37**	**439**	**476**	(30)	92	62
Expected return on plan assets	**(48)**	**–**	**(48)**	(33)	–	(33)
Recognised past service cost	**–**	**389**	**389**	–	4,429	4,429
Employee contribution	**(14)**	**–**	**(14)**	–	–	–
Curtailment gain	**–**	**–**	**–**	(162)	–	(162)
	430	**5,044**	**5,474**	131	7,858	7,989
Net movement on defined benefit liability						
Opening balance	**62**	**12,878**	**12,940**	191	15,978	16,169
Recognition of liability	**–**	**–**		–	–	–
Benefits expense	**430**	**5,044**	**5,474**	131	7,858	7,989
Benefits paid	**–**	**(2,897)**	**(2,897)**	–	(4,103)	(4,103)
Employer contribution	**(474)**	**–**	**(474)**	(274)	–	(274)
Foreign exchange translation adjustment	**–**	**(514)**	**(514)**	14	(6,855)	(6,841)
Closing balance	**18**	**14,511**	**14,529**	62	12,878	12,940
Experience adjustments arising on plan liabilities	**101**	**1,230**	**1,331**	52	6,167	6,219

The Group expects to contribute US$3,643,545 to its defined benefit plans in 2009.

The asset allocation of the plan assets of the Swiss scheme is as follows:

US$000	As at 31.12.09 %	As at 31.12.09	As at 31.12.08 %	As at 31.12.08
Plan assets at fair value				
Equities	**18.3**	**252**	15.3	231
Bonds	**49.7**	**683**	53.4	805
Properties	**18.1**	**248**	19.4	292
Other	**13.9**	**192**	11.9	179
Fair value of plan assets	**100**	**1,375**	100	1,507

The actual returns on the plan assets for the Swiss Scheme were US$114,008 (2008: US$156,402).

The overall expected rate of return on assets is determined based on the market value weighted expected return applicable to the underlying asset category.

	Year ended 31.12.09 Swiss Scheme	Year ended 31.12.08 Swiss Scheme
Expected rate of return on plan assets:		
Equities	**6.50%**	6.50%
Bonds	**2.50%**	2.50%
Properties	**4.50%**	4.50%
Other	**2.25–4.00%**	2.25–4.00%
Average expected rate of return on plan assets	**3.50%**	3.43%
Actual rate of return on plan assets:		
Equities	**28.53%**	(47.10%)
Bonds	**8.93%**	0.47%
Properties	**5.59–33.60%**	6.05%
Other	**(44.94)–24.63%**	2.9–55.71%
Average actual rate of return on plan assets	**11.60%**	(11.38%)

A change in the assumed discount rates would have the following effects:

	As at/year ended 31.12.09			
	Increase		**Decrease**	
US$000	**Swiss scheme (+0.25%)**	**Ukrainian scheme (+1.00%)**	**Swiss scheme (–0.25%)**	**Ukrainian scheme (–1.00%)**
Effect on the aggregated current service costs and interest costs	**(23)**	**(122)**	**25**	**139**
Effect on the defined benefit obligation	**(87)**	**(1,460)**	**93**	**1,650**

The history of experience adjustments (unrecognised losses) is as follows for the current and previous three periods:

		Year ended 31.12.09	Year ended 31.12.08	Year ended 31.12.07	Year ended 31.12.06
Opening balance		**(6,294)**	(3,292)	(945)	(286)
Experience adjustments on plan liabilities		**(1,331)**	(6,219)	(2,347)	(659)
Experience adjustments on plan assets		**(230)**	(84)	–	–
Gain on change in assumptions		**–**	–	–	–
Foreign exchange translation adjustment		**715**	3,376	–	–
Closing balance	**(7,140)**	(6,294)	(3,292)	(945)	

Note 34: Provision for site restoration

The costs of decommissioning open pit mines are based on the amounts determined by third party experts on the basis of Ukrainian legislation. The provision represents the discounted value of the estimated costs of decommissioning and restoring the mines at the dates when the deposits are expected to be depleted. The present value of the provision has been calculated using a nominal pre-tax discount rate of 10.25% per year (2008: 12.00%). The liability becomes payable at the end of the useful life of the mine, currently estimated to be 2035. Uncertainties in estimating these costs include potential changes in regulatory requirements, decommissioning and reclamation alternatives and the levels of discount and inflation rates. The increase as of 31 December 2009 is due to the unwinding of the discount.

$000	**Year ended 31.12.09**	Year ended 31.12.08
Opening balance	**1071**	1,746
Unwind of the discount	**159**	269
Arising during the year	**76**	(385)
Translation adjustment	**(38)**	(559)
Closing balance	**1,268**	1,071

Notes to the Consolidated Financial Information continued

Note 35: Accrued liabilities and deferred income

As at 31 December 2009 accrued liabilities and deferred income comprised:

US$000	**As at 31.12.09**	As at 31.12.08
Accrued expenses	**1,582**	3,413
Accrued employee costs	**10,398**	10,993
Advances from customers	**166**	64
Total accrued liabilities and deferred income	**12,146**	14,470

Note 36: Related party disclosure

During the periods presented the Group entered into arm's length transactions with entities under common control of the majority owner of the Group, Kostyantin Zhevago and with other related parties. Management considers that the Group has appropriate procedures in place to identify and properly disclose transactions with the related parties.

The related party transactions undertaken by the Group during the periods presented are summarised below:

Revenue, expenses, finance income and finance costs

	Year ended 31.12.09			Year ended 31.12.08		
US$000	**Entities under common control**	**Associated companies**	**Other related parties**	Entities under common control	Associated companies	Other related parties
Iron ore pellet sales	**–**	**–**	**–**	–	–	–
Other sales[1]	**506**	**–**	**1,480**	853	–	2,937
Total revenue	**506**	**–**	**1,480**	853	–	2,937
Purchase of materials	**4,458**	**–**	**11,930**	22,999	–	20,293
Purchase of services[2]	**444**	**–**	**23**	477	–	426
General and administration expenses	**3,315**	**–**	**–**	2,642	–	128
Selling and distribution	**–**	**11,849**	**11,736**	–	3,482	11,332
Other expenses	**91**	**–**	**8**	43	–	247
Total expenses	**8,308**	**11,849**	**23,697**	26,161	3,482	32,426
Finance income	**1,329**	**267**	**–**	239	394	–
Finance expense	**(816)**	**–**	**–**	(761)	–	–
Net finance income/(expense)	**513**	**267**	**–**	(522)	394	–

1 Following initial stripping operations at Yeristovo, the Company disposed of surplus ballast material on the 30 June 2008 for US$515,000. This was recorded in revenue as income and is disclosed in the table above showing revenue, expenses, finance income and finance costs.
2 Kuoni Attorneys-at-Law has provided services to the Group for fees of US$23k (2008: nil) during the year. Wolfram Kuoni who is a partner in the firm is also an independent Non-executive Director of Ferrexpo plc. The services were provided on an arm's length basis by other members of the firm.

Finance income and finance expense

The Group has transactional banking arrangements with Finance & Credit Bank in Ukraine which is under common control of the major shareholder of Ferrexpo plc. Finance income and finance expense are disclosed in the table above.

Sale and purchases of property, plant and equipment and investments

	Year ended 31.12.09			Year ended 31.12.08		
US$000	Entities under common control	Associated companies	Other related parties	Entities under common control	Associated companies	Other related parties
Sale of investments[6]	–	–	–	1,849	–	–
Purchase of investments[4]	–	–	–	270	–	–
Purchase of own Ordinary Shares[3]	–	–	–	58,249	–	–
Sale of property, plant and equipment	–	–	–	–	–	–
Purchase of property, plant and equipment[1,2,5]	2,200	–	–	192	–	16

1 On 31 March 2009, the Company acquired a trial filter press from Progress Plant Company, an entity under common control for US$2,200,000.
2 On 28 November 2008, the Group entered into a purchase agreement for property, plant and equipment (principally trucks and cranes) with Auto Kraz, an entity under common control. A first instalment amounting to US$138,000 of an approved order of totally US$1,067,000 has been made for part delivery. Subsequent to this delivery, it has been decided to postpone further deliveries.
3 On the 16 September 2008, Ferrexpo plc repurchased 19,398,814 of its own Ordinary Shares from Fevamotinico S.a.r.l., an entity under common control, at the market price of £1.673 per share for settlement on 19 September 2008. The gross consideration paid amounted to US$58,248,826.
4 On 16 July 2008, Ferrexpo Poltava GOK Corporation and DP Ferrotrans (Group subsidiaries) subscribed for additional share capital for consideration of US$244,000 and US$26,000 respectively in OJSC Stahanov, as part of the rights issue of that company. The total share holding of the Group as of 31 December 2009 is 3.14% (2008: 3.14%).
As at 31 December 2009 the market value of the total shares held by the Group through its subsidiaries amounted to US$812,000 (31 December 2008: US$435,000). The increase of the market value was treated as a reversal of a previously recorded impairment loss through other comprehensive income.
5 On 25 June 2008, the Group acquired a truck from Auto Kraz, an entity under common control, for US$54,000.
6 On 23 May 2008, the Group disposed of a 2.10% share holding in Vostock Ruda, an available-for-sale investment, to entities under common control for a consideration of US$1,849,000 resulting in a gain on disposal of US$1,571,000. The remaining share holding in Vostock Ruda of the Group is 1.10% as of 31 December 2009 (2008: 1.10%).

The outstanding investments/balances with related parties for the periods presented are as follows:

	As at 31.12.09			As at 31.12.08		
US$000	Entities under common control	Associated companies	Other related parties	Entities under common control	Associated companies	Other related parties
Investments available-for-sale	2,917	–	–	–	–	–
Loans	–	2,550	–	–	9,000	–
Total non-current assets	2,917	2,550	–	–	9,000	–
Investments available-for-sale	626	–	–	650	–	–
Trade and other receivables	1,999	93	6	1,890	–	8
Prepayments and other current assets	995	–	1	145	299	581
Short-term deposits with banks	411	–	–	5,000	–	–
Cash and cash equivalents	1,712	–	–	36,984	–	–
Total current assets	5,742	93	7	44,669	299	589
Trade and other payables	514	–	1,146	659	–	1,250
Total current liabilities	514	–	1,146	659	–	1,250

As of 31 December 2009 trade and other receivables included outstanding amounts relating to the disposal of shares in Vostock Ruda of US$1,169,000 (2008: US$1,212,000).

As of 31 December 2009 cash and cash equivalents with Finance & Credit Bank were US$1,709,000 (2008: US$36,984,000) and short-term deposits with the same institution US$411,000 (2008: US$5,000,000).

Other related party transaction
In August 2009, the Group paid Swiss Withholding Tax of US$984,106 on behalf of Kostyantin Zhevago on costs incurred for the Initial Public Offering completed in June 2007. This was settled in accordance with terms and conditions entered into at the time of the Initial Public Offering of the Company.

Notes to the Consolidated Financial Information continued

Note 37: Reconciliation of profit before tax to net cash flow from operating activities

US$000	Year ended 31.12.09	Year ended 31.12.08
Profit before tax	**80,850**	375,581
Adjustments for:		
Depreciation of property, plant and equipment and amortisation of intangible assets	**28,018**	34,125
Interest expense	**20,622**	18,496
Interest income	**(2,893)**	(2,467)
Share of income of associates	**(1,304)**	(1,003)
Movement in allowance for doubtful receivables	**(5,199)**	19,095
Write-off/reversal of payables	**–**	(1,043)
(Profit)/loss on disposal of property, plant and equipment	**(213)**	1,280
Assets received free of charge	**–**	(325)
Write-offs and impairment losses	**2,757**	27,325
Site restoration provision	**159**	269
Gains on disposal of available-for-sale financial assets	**–**	(1,571)
Employee benefits	**5,474**	7,715
IPO costs	**427**	4,120
Share-based payments	**3,423**	1,495
Negative goodwill generated on rights issue	**(503)**	(35,049)
Operating foreign exchange gains	**(2,534)**	(29,309)
Non-operating foreign exchange losses	**2,552**	72,788
Operating cash flow before working capital changes	**131,636**	491,522
Changes in working capital:		
Decrease/(increase) in trade and other receivables	**14,961**	(36,167)
Decrease/(increase) in inventories	**1,777**	(5,070)
(Decrease)/increase in trade and other accounts payable	**(6,474)**	8,094
(Increase)/decrease in other taxes recoverable and prepaid	**(24,038)**	(673)
Cash generated from operating activities	**117,862**	457,706
Interest paid	**(19,197)**	(15,443)
Income tax paid	**(18,899)**	(67,217)
Post-employment benefits paid	**(2,897)**	(4,103)
Net cash flows from operating activities	**76,869**	370,943

Note 38: Net financial indebtedness

US$000	Notes	Year ended 31.12.09	Year ended 31.12.08
Cash and cash equivalents	29	**11,991**	87,822
Current borrowings	31	**(251,379)**	(74,523)
Non-current borrowings	31	**(18,143)**	(231,373)
Current commodity loans	32	**(124)**	(1,446)
Non-current commodity loans	32	**–**	(570)
Net financial indebtedness		**(257,655)**	(220,090)

Net financial indebtedness as defined by the Group comprises cash and cash equivalents, term deposits, interest bearing loans and borrowings and amounts payable for equipment.

Payables for equipment comprised balances due to foreign suppliers for mining equipment denominated in US$ and euro which are interest-bearing.

Note 39: Employee benefits expenses

Employee benefits expenses for the year ended 31 December 2009 consisted of the following:

US$000	Year ended 31.12.09	Year ended 31.12.08
Wages and salaries	**39,905**	65,738
Social security costs	**11,520**	20,598
Post-employment benefits	**2,653**	6,127
Other employee costs	**7,248**	12,756
Share-based payments	**3,850**	4,966
Total employee benefits expenses	**65,176**	110,185

Average number of employees

Number	Year ended 31.12.09	Year ended 31.12.08
Production	**6,319**	6,728
Marketing and distribution	**169**	159
Administration	**958**	1,002
Other	**907**	870
Total average number of employees	**8,353**	8,759

Compensation for key management was as follows:

US$000	Year ended 31.12.09	Year ended 31.12.08
Wages and salaries	**4,540**	22,836
Social security costs	**646**	1,015
Other employee costs	**287**	8,748
Total compensation for key management	**5,472**	32,599

Share-based payments of US$560,295 (2008: US$16,033,308) are included in wages and salaries.

The balances above include compensation for Non-executive and Executive Directors as well as for other key management personnel. Refer to the Remuneration Report for details of compensation relating to Non-executive and Executive Directors.

Note 40: Commitments and contingencies

Operating lease commitments – Group as lessee

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

US$000	As at 31.12.09	As at 31.12.08
Less than one year	**849**	1,137
Between one and five years	**2,374**	3,473
More than five years	**16,479**	21,895
Total minimum rentals payable	**19,702**	26,505

During the year ended 31 December 2009 US$1,665,000 was recognised as an expense in the income statement in respect of operating leases (2008: US$986,000).

The Group leases land and buildings under operating leases. The leases on land typically run for 49 years, with a lease period of 5 to 10 years on buildings.

Operating lease commitments – Group as lessor

The Group does not have any commitments from lease agreements acting as lessor.

Finance lease commitments

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	As at 31.12.09	
US$000	Minimum payments	Present value of payments (note 31)
Less than one year	**1,264**	**1,264**
Between one and five years	**9,023**	**6,049**
More than five years	**8,188**	**2,906**
Total minimum lease payments	**18,475**	**10,219**
Less: amounts representing finance charges	**(8,256)**	**–**
Present value of minimum lease payments	**10,219**	**10,219**

Notes to the Consolidated Financial Information continued

Note 40: Commitments and contingencies continued

Other

US$000	As at 31.12.09	As at 31.12.08
Capital commitments on purchase of property, plant and equipment	**41,404**	42,198
Guarantees provided	**208,000**	280,000

Legal

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.

Tax and other regulatory compliance

Ukrainian legislation and regulations regarding taxation and custom regulations continue to evolve. Legislation and regulations are not always clearly written and are subject to varying interpretations and inconsistent enforcement by local, regional and national authorities, and other Governmental bodies. Instances of inconsistent interpretations are not unusual.

The uncertainty of application and the evolution of Ukrainian tax laws, including those affecting cross border transactions, create a risk of additional tax payments having to be made by the Group, which could have a material effect on the Group's financial position and results of operations. The Group does not believe that these risks are any more significant than those of similar enterprises in Ukraine.

Note 41: Financial instruments

The accounting classification of each category of financial instruments, and their carrying amounts, are set out below:

		As at 31.12.09				
US$000	Notes	Loans and receivables	Available-for-sale financial assets	At fair value through profit or loss	Financial liabilities measured at amortised cost	Total
Financial assets						
Cash and cash equivalents	29	**11,991**	**–**	**–**	**–**	**11,991**
Available-for-sale investments	22		**3,543**	**–**	**–**	**3,543**
Trade and other receivables	26	**38,117**	**–**	**–**	**–**	**38,117**
Other financial assets		**3,719**	**–**	**–**	**–**	**3,719**
Total financial assets		**53,827**	**3,543**	**–**	**–**	**57,370**
Financial liabilities						
Trade and other payables	32	**–**	**–**	**–**	**24,780**	**24,780**
Accrued liabilities and deferred income	35	**–**	**–**	**–**	**12,146**	**12,146**
Interest bearing loans and borrowings	31	**–**	**–**	**–**	**269,522**	**269,522**
Other financial liabilities		**–**	**–**	**–**	**3,161**	**3,161**
Total financial liabilities		**–**	**–**	**–**	**309,609**	**309,609**

		As at 31.12.08				
US$000	Notes	Loans and receivables	Available-for-sale financial assets	At fair value through profit or loss	Financial liabilities measured at amortised cost	Total
Financial assets						
Cash and term deposits	29	87,822	–	–	–	87,822
Available-for-sale investments	22	–	5,085	–	–	5,085
Trade and other receivables	26	59,636	–	–	–	59,636
Other financial assets		10,169	–	–	–	10,169
Total financial assets		157,627	5,085	–	–	162,712
Financial liabilities						
Trade and other payables	32	–	–	–	31,106	31,106
Accrued liabilities and deferred income	35	–	–	–	14,470	14,470
Interest bearing loans and borrowings	31	–	–	–	305,896	305,896
Total financial liabilities		–	–	–	351,472	351,472

Financial risk management
Overview
The Group has exposure to the following risks from its use of financial instruments:
> credit risk
> liquidity risk
> market risk

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

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

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

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

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

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

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

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

In order to react to the significant weakness in iron ore demand during the financial year 2009, certain sales arrangements with customers have been changed from long-term to spot.

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

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

Counterparty risk crystallises when a party to an agreement defaults. Where letters of credit are used to minimise this risk, the Group uses a confirming bank with a similar or higher credit rating to mitigate country and/or credit risk of the issuing bank.

Country risk is the potential volatility of foreign assets, whether receivables or investments, that is due to political and/or financial events in a given country. During the year the Group reduced its exposure to Ukraine trade receivables risk by increasing the level of production exported.

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

Notes to the Consolidated Financial Information continued

Note 41: Financial instruments continued

Investment securities

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

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

- the counterparty is resident in Ukraine, and
- the counterparty is included in the Top 15 financial institutions in Ukraine, and
- the counterparty is either:
  - owned and controlled by the State with its obligations guaranteed by the State, or
  - majority owned and controlled by an international financial institution capable of covering the counterparty exposure which in itself meets the criteria of an eligible counterparty, or
  - a local financial institution that has achieved a minimum investment grade rating from Fitch, S&P or Moody's.

Cash and deposits are held with the Group's transactional bank in Ukraine, which is a related party financial institution. This bank is registered with the National Bank of Ukraine for receiving and disbursing payments under Group intercompany loans, and is an approved Ukrainian counterparty. The Group is therefore exposed to Ukraine country risk.

Guarantees

The Group's policy is to provide financial guarantees only to wholly-owned subsidiaries. At 31 December 2009 Ferrexpo AG and Ferrexpo UK Ltd were jointly and severally liable under a $335 million loan agreement having an outstanding balance of US$208 million (31 December 2008: US$280 million).

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

US$000	**As at 31.12.09**	As at 31.12.08
Cash and cash equivalents	**11,991**	87,822
Trade and other receivables	**38,117**	59,636
Other financial assets	**3,719**	10,169
Total maximum exposure to credit risk	**53,827**	157,627

The total receivables balance relating to the Group's top three customers was US$24,999,505 (2008: US$29,740,000) making up 68.5% of the total amounts receivable (2008: 51.1%).

Impairment profile

The Group's exposure to credit risk relating to trade and other receivables is disclosed in note 26.

Liquidity risk

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

The Group prepares detailed rolling cash flow forecasts, which assist it in monitoring cash flow requirements and optimising its cash return on investments. Typically the Group ensures that it has sufficient cash on demand and/or lines of credit to meet expected operational expenses for a period of 30 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

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

	As at 31.12.09			
US$000	Less than 1 year	Between 1 to 2 years	Between 2 to 5 years	Total
Interest bearing				
Ukrainian banks (fixed rate interest)	**25,738**	**738**	**106**	**26,582**
Other banks (floating rate interest)	**224,911**	**6,725**	**10,574**	**242,210**
Interest accrued	**730**	**–**	**–**	**730**
Future interest payable	**9,923**	**3,827**	**2,674**	**16,424**
Non-interest bearing				
Trade and other payables	**24,780**	**–**	**–**	**24,780**
Accrued liabilities and deferred income	**12,146**	**–**	**–**	**12,146**
Other financial liabilities	**3,161**	**–**	**–**	**3,161**
Total financial liabilities	**301,389**	**11,290**	**13,354**	**326,033**

	As at 31.12.08			
US$000	Less than 1 year	Between 1 to 2 years	Between 2 to 5 years	Total
Interest bearing				
Ukrainian banks (fixed rate interest)	738	23,557	1,102	25,397
Other banks (floating rate interest)	71,715	206,714	–	278,429
Interest accrued	2,070	–	–	2,070
Non-interest bearing				
Trade and other payables	35,531	72	–	35,603
Accrued liabilities and deferred income	14,470	–	–	14,470
Total financial liabilities	124,524	230,343	1,102	355,969

Currency risk

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

The Group's major lines of borrowings and the majority of its sales are denominated in US dollars, with costs of local Ukrainian production mainly in hryvnia. During the year the value of the hryvnia moved from being pegged to a managed float.

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

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

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

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

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

Notes to the Consolidated Financial Information continued

Note 41: Financial instruments continued
The Group's exposure to foreign currency risk was as follows based on notional amounts:

	As at 31.12.09					
US$000	Ukraine hryvnia	US dollar	euro	Swiss franc	Other currencies	Total
Total financial assets	249	816	2	76	44	1,187
Financial liabilities						
Ukrainian banks	–	(45,315)	–	–	–	(45,315)
Interest accrued	–	(188)	(5)	–	–	(193)
Total borrowings	–	(45,503)	(5)	–	–	(45,508)
Commodity loans	–	–	(124)	–	–	(124)
Trade and other payables	–	(2,246)	(811)	(763)	(139)	(3,959)
Other financial liabilities	–	(17)	(5)	(419)	(106)	(547)
Total financial liabilities	–	(47,766)	(945)	(1,182)	(245)	(50,138)
Net financial assets/(liabilities)	249	(46,950)	(943)	(1,106)	(201)	(48,951)

	As at 31.12.08					
US$000	Ukraine hryvnia	US dollar	euro	Swiss franc	Other currencies	Total
Total financial assets	264	56,050	–	921	1,288	58,523
Financial liabilities						
Ukrainian banks	–	(25,396)	–	–	–	(25,396)
Interest accrued	–	(205)	(1)	–	–	(206)
Total borrowings	–	(25,601)	(1)	–	–	(25,602)
Commodity loans	–	–	(2,017)	–	–	(2,017)
Trade and other payables	–	(2,957)	(3,754)	(4,575)	(1,933)	(13,219)
Other financial liabilities	–	–	–	(14,334)	(1,506)	(15,840)
Total financial liabilities	–	(28,558)	(5,772)	(18,909)	(3,439)	(56,678)
Net financial assets/(liabilities)	264	27,492	(5,772)	(17,988)	(2,151)	1,845

Interest rate risk
The Group predominantly borrows funds that are at floating interest rates and is exposed to interest rate movements. The interest rate exposure to US dollars remained relatively low during the period, and no interest rate swaps have been entered into in this or prior periods.

Profile
At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	As at 31.12.09			
US$000	Floating interest	Fixed interest	Other non-interest bearing	Total
Financial assets				
Cash and cash equivalents	10,227	1,465	299	11,991
Available-for-sale investments	–	–	3,543	3,543
Trade and other receivables	–	–	38,117	38,117
Other financial assets	2,550	–	1,169	3,719
Total financial assets	12,777	1,465	43,128	57,370
Weighted av. interest rate (%)	–	7.7		
Financial liabilities				
Trade and other payables			24,780	24,780
Accrued liabilities and deferred income			12,146	12,146
Interest bearing loans and borrowings	251,036	18,486	–	269,522
Other financial liabilities	–	–	3,161	3,161
Total financial liabilities	251,036	18,486	40,087	309,609
Weighted av. interest rate (%)	4.1	–		

US$000	As at 31.12.08 Floating interest	Fixed interest	Other non-interest bearing	Total
Financial assets				
Cash and cash equivalents	30,157	54,769	2,896	87,822
Available-for-sale investments	–	–	5,085	5,085
Trade and other receivables	–	–	59,636	59,636
Other financial assets	–	–	10,169	10,169
Total financial assets	30,157	54,769	77,786	162,712
Weighted av. interest rate (%)	0.3	2.7		
Financial liabilities				
Trade and other payables	–	2,017	29,089	31,106
Accrued liabilities and deferred income	–	–	14,470	14,470
Interest bearing loans and borrowings	305,895	1	–	305,896
Other financial liabilities	–	–	–	–
Total financial liabilities	305,895	2,018	43,559	351,472
Weighted av. interest rate (%)	5.0	–		

The interest rate maturity profile for financial liabilities is shown under the liquidity risk section. The interest rate maturity profile for financial assets is all current for both years, except for US$2 million of the floating rate loan to associate which matures between two to five years as at 31 December 2009 (2008: US$3 million).

Commodity risk

The Group is exposed to longer-term movements in the price of iron ore, but does not have a commodity risk exposure to its financial assets and liabilities once the sale has been made. Trade receivables are based on a fixed contract price, and so do not fluctuate with iron ore market prices. Similarly finished goods are held at cost, with revaluation to a spot price not applicable for iron ore pellets, there being no tradable exchange in the product to ascertain its market value.

Sensitivity analysis

A 20% strengthening of the US dollar against the following currencies at 31 December would have increased/(decreased) income statement and equity by the amounts shown below. This assumes that all other variables, in particular interest rates, remain constant.

US$000	**Year ended 31.12.09 Income statement/ Equity**	Year ended 31.12.08 Income statement/ Equity
UAH	**(9,440)**	5,446
EUR	**189**	1,154
CHF	**221**	3,598
Total	**(9,030)**	10,198

A 20% weakening of the US dollar against the above currencies would have an equal but opposite effect to the amounts shown above, on the basis that all the other variables remain constant.

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not hold any derivatives (eg interest rate swaps). Therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity for fixed and variable rate instruments

An increase of 100 basis points in interest rates would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

US$000	**Year ended 31.12.09**	Year ended 31.12.08
Net finance charge	**(2,080)**	(1,449)

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

Notes to the Consolidated Financial Information continued

Note 41: Financial instruments continued

Set out below are the carrying amounts and fair values of the Group's financial instruments that are carried in the consolidated statement of financial position:

	Carrying amount		Fair value	
US$000	**As at 31.12.09**	As at 31.12.08	**As at 31.12.09**	As at 31.12.08
Financial assets				
Available-for-sale financial assets	**3,543**	5,085	**3,543**	5,085
Cash and cash equivalents	**11,991**	87,822	**11,991**	87,822
Total financial assets	**15,534**	92,907	**15,534**	92,907
Financial liabilities				
Interest bearing loans and borrowings	**269,522**	305,896	**276,295**	274,668
Total financial liabilities	**269,522**	305,896	**276,295**	274,668

The fair values of interest bearing loans and borrowings are based on the cash flows discounted using market interest rates.

The fair values of cash and cash equivalents, trade and other receivables and payables are approximately equal to their carrying amounts due to their short maturity.

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	As at 31.12.09			
US$000	**Level 1**	**Level 2**	**Level 3**	**Total**
Available-for-sale financial assets	**1,449**	**–**	**2,104**	**3,553**
Total available-for-sale financial assets	**1,449**	**–**	**2,104**	**3,553**

There were no transfers between Level 1 and 2 in the period.

Reconciliation of Level 3 fair value measurements of financial assets

As at 31.12.2009 US$000	**Available-for-sale financial assets** **Unquoted equities**
Opening balance	**4,000**
Total gains or losses:	
– in profit or loss	**(1,896)**
– in other comprehensive income	**–**
Purchases	**–**
Issues	**–**
Settlements	**–**
Transfer out of level 3	**–**
Closing balance	**2,104**

Capital management

The Board's policy is to maintain a strong capital base. The Board of Directors monitors both the demographic spread of shareholders, as well as the return on capital, which the Group defines as total shareholders' equity, excluding minority interests, and the level of dividends to Ordinary Shareholders. Please refer to the Statement of Changes in Equity for details of the capital position of the Group.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and advantages and security afforded by a sound capital position. Access to securing borrowings in the context of the events affecting the global financial credit markets during the year has affected the elasticity at which the Board can maintain this balance. The Board continues to support maintaining a sound capital base balanced against these market constraints.

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

During 2008 Ferrexpo plc undertook an on-market share buy-back of its shares, and off-market buy-back of shares held by the Group's principal shareholder. Further details are provided in notes 30 and 36.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements other than a bank covenant requirement to maintain consolidated equity in respect of the Ferrexpo AG group of US$300 million including minority interests. Compliance is ensured by balancing dividend payments against the earnings of the Ferrexpo AG group.

For more information about the Group's interest bearing loans and borrowings, see note 31.

Note 42: Share-based payments

Listing bonus share award

Share awards were granted in 2007 to certain senior management following the successful listing of the Company on the London Stock Exchange in June 2007. A proportion of the award vests immediately with the remainder vesting over a period of up to four years, provided that the individual is still in the employment of the Group on the date of vesting. It has been assumed that all awards will vest.

The fair values of the awards were determined to be the closing share price on the date of award. The weighted average fair value (WAFV) of awards granted was determined at the date of grant to be $3.33 per share.

The unvested portion of the award does not accrue dividends. There are no cash settlement alternatives.

The expense recognised under the scheme during the year to 31 December 2009 is US$427,000 (2008: US$3,471,000), all of which arose from equity-settled share-based payment transactions.

	Year ended 31.12.09 WAFV ($)	Year ended 31.12.08 WAFV ($)	**Year ended 31.12.09 No. ('000)**	Year ended 31.12.08 No. ('000)
Beginning of the year	**3.63**	3.63	**442**	2,403
Awards granted during the year	**–**	–	**–**	–
Vested during the year	**3.63**	3.63	**(349)**	(1,948)
Forfeited during the year	**3.63**	3.63	**(2)**	(13)
Outstanding at 31 December	**3.63**	3.63	**91**	442

Long-Term Incentive Plans (LTIPs)

320,000 share awards were granted on 15 September 2009. In 2008, 695,000 shares were awarded under the LTIP, which runs for three years and 415,000 shares were awarded under the Interim LTIP, which runs for two years.

The LTIP and Interim LTIP are subject to a performance condition based on the Total Shareholder Return ('TSR') compared to a comparator group, measured over the vesting period, as described in the Director's Remuneration Report.

The expense recognised during 2009 was in respect of the 2009 LTIP was US$80,000. In addition to the costs for the 2009 LTIP, US$1,863,000 (2008: US$809,000) in respect of the 2008 LTIP and US$1,480,000 (2008: US$686,000) in respect of the Interim LTIP have been recorded in 2009. The awards of the Interim LTIP were forfeited as they did not satisfy the market related performance conditions as of 31 December 2009.

The fair value of these awards was assessed at their grant date using a simulation or 'Monte Carlo' model consistent with the mathematics underlying the standard Black-Scholes options pricing model, extended to allow for the performance conditions. Each simulation of the model projects the Company's and comparator's share prices (with reinvested dividends) over the vesting period, allowing for the volatilities and correlations between the shares as estimated from historical data. From this projection the proportion of awards vesting, and the value to employees, is calculated. 100,000 simulations were run to calculate the fair values. The fair value is set as the average value over all the simulations.

Notes to the Consolidated Financial Information continued

Note 42: Share-based payments continued

	Year ended 31.12.09 WAFV ($)	Year ended 31.12.08 WAFV ($)	Year ended 31.12.09 No. ('000)	Year ended 31.12.08 No. ('000)
LTIP				
Beginning of the year	**5.52**	–	**695**	–
Awards granted during the year	**1.94**	5.52	**320**	695
Forfeited during the year	**5.52**	–	**(180)**	–
Lapsed during the year	**5.52**	–	**(25)**	–
Vested during the year	**–**	–	**–**	–
Outstanding at 31 December	**4.11**	5.52	**810**	695
Interim LTIP				
Beginning of the year	**5.22**	–	**415**	–
Awards granted during the year	**–**	5.22	**–**	415
Forfeited during the year	**5.22**	–	**(415)**	–
Vested during the year	**–**	–	**–**	–
Outstanding at 31 December	**–**	5.22	**–**	415

Note 43: Operating profit by function

US$000	Notes	Before adjusting items	Adjusted items	Year ended 31.12.09	Before adjusting items	Adjusted items	Year ended 31.12.08
Revenue	6	648,667	–	**648,667**	1,116,854	–	1,116,854
Cost of sales	7	(341,067)	–	**(341,067)**	(434,238)	–	(434,238)
Gross profit		307,600	–	**307,600**	682,616	–	682,616
Selling and distribution expenses	8	(162,266)	–	**(162,266)**	(152,528)	–	(152,528)
General and administrative expenses	9	(43,161)	–	**(43,161)**	(67,185)	–	(67,185)
Other income	10	4,102	–	**4,102**	6,387	–	6,387
Other expenses	11	(3,418)	(2,468)	**(5,886)**	(38,040)	3,603	(34,437)
Operating foreign exchange gain	12	2,534	–	**2,534**	29,309	–	29,309
Operating profit		105,391	(2,468)	**102,923**	460,559	3,603	464,162
Gain on disposal of available-for-sale investment		–	–	**–**	–	1,571	1,571
Share of gains of associates	14	1,304	–	**1,304**	1,003	–	1,003
Total profit from operations and associates		106,695	(2,468)	**104,227**	461,562	5,174	466,736

Summary of adjusted items

US$000	Notes	Year ended 31.12.09	Year ended 31.12.08
Operating adjusting items			
Write-offs and impairment losses	13	**(2,757)**	(27,326)
Negative goodwill	15	**503**	35,049
Initial public offering costs	42	**(427)**	(4,120)
Gain on disposal of property, plant and equipment		**213**	–
Total operating adjusting items		**(2,468)**	3,603
Non-operating adjusting items			
Gain on disposal of available-for-sale investment	36	–	1,571
Total non-operating adjusting items		–	1,571

Note 44: Subsequent events

No material adjusting or non-adjusting events have occurred subsequent to the year end other than the proposed dividend disclosed in note 18 and the refinancing of the Group described below.

The Company entered into a new three year bank debt term facility on 27 November 2009 in the amount of US$230 million. This pre-export finance facility was drawn in full on 8 January 2010 and was used for refinancing the existing pre-export finance facility.

Parent company statement of financial position

US$000	Notes	As at 31.12.09	As at 31.12.08
Assets			
Investments	2	**134,732**	134,732
Total non-current assets		**134,732**	134,732
Amounts due from subsidiaries		**181,026**	213,025
Deferred tax assets	3	**1,596**	1,725
Prepayments and other current assets		**1,121**	724
Other taxes recoverable and prepaid		**10**	12
Cash at bank and in hand		**25**	295
Total current assets		**183,778**	215,781
Total assets		**318,510**	350,513
Equity and liabilities			
Share capital	4	**121,628**	121,628
Share premium	4	**185,112**	185,112
Treasury share reserve	4	**(77,260)**	(77,260)
Employee benefit trust reserve	4	**(11,593)**	(15,443)
Retained earnings	4	**96,583**	134,508
Equity attributable to equity shareholders of the parent	4	**314,470**	348,545
Trade and other payables		**357**	109
Accrued liabilities and deferred income		**450**	1,494
Income taxes payable		**–**	–
Other taxes payable	5	**3,233**	365
Total liabilities		**4,040**	1,968
Total equity and liabilities		**318,510**	350,513

All liabilities held by the Company are current in nature.

The financial statements were approved by the Board of Directors on 22 March 2010.

Kostyantin Zhevago
Chief Executive Officer

Christopher Mawe
Chief Financial Officer

Notes to the Consolidated Financial Information continued

Note 1: Parent company accounting policies

Basis of preparation

The parent company financial statements of Ferrexpo plc are presented as required by the Companies Act 2006 and were approved for issue on 22 March 2010. The financial statements are prepared under the historical cost convention and are prepared in accordance with applicable UK accounting standards. No profit and loss account is presented by the Company as permitted by Section 408 of the Companies Act 2006.

The Company is exempt from the disclosure requirements of FRS 29 Financial Instruments, under its section 2D (a).

Disclosures and narratives have not included information required by that standard, as the Group's consolidated financial statements, in which the Company is included, provide equivalent disclosures for the Group under IFRS 7 Financial Instruments: Disclosures.

The Company has taken advantage of the exemption in paragraph 3C of FRS 8 Related Party Disclosure:

Related party transactions and balances of wholly owned subsidiaries are not disclosed. There are no related party transactions and balances for subsidiaries to be disclosed, which are not wholly owned.

Investments

Equity investments in subsidiaries are carried at cost less any provision for impairments.

Deferred income tax

Deferred income tax is recognised in respect of all timing differences that have originated but not reversed at the reporting date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

- provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the reporting date, dividends have been accrued as receivable; and
- deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the reporting date.

Foreign currencies

The Company's functional currency and presentation currency is US dollars. Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Financial instruments

Derivative financial instruments

The Company does not hold any derivative financial instruments.

Non-derivative financial instruments

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

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

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

Other

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit or loss or available-for-sale. Such assets are carried at amortised cost using the effective interest method if the time value of money is significant. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Impairment of financial assets
The Company assesses at each reporting date whether a financial asset or a group of financial assets is impaired. Investments in subsidiaries undertakings are held at cost. The Company assesses investments for impairment whenever events or changes in circumstances indicate that the carrying amount of an investment may not be recoverable. If any such indication of impairment exists, the Company makes an estimate of its recoverable amount (valuation). Where the carrying amount of an investment exceeds its recoverable amount, the investment is considered impaired and is written down to its recoverable amount.

Assets carried at amortised cost
If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (ie the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced, with the amount of the loss recognised in administration costs. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the profit and loss account, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Derecognition of financial assets and liabilities
A financial asset or liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

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

In valuing equity-settled transactions, no account is taken of any vesting conditions, except for market conditions. No expense is recognised for awards that do not ultimately vest.

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

All costs related to the share-based payments of the Group are recorded in Ferrexpo plc. Note 42 provides further information on the valuation related to the share-based payments and the costs recorded.

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

Note 2: Investments

US$000	Investment in subsidiary equity
At 31 December 2009 and 2008	134,732

The balance above relates to the Company's investment in Ferrexpo AG which is a 100% owned subsidiary based on Switzerland.

Note 3: Deferred tax assets
Deferred tax assets at 31 December 2009 relate to the following:

US$000	**As at 31.12.09**	As at 31.12.08
Deferred tax assets:		
Tax loss recognised	**370**	–
Timing difference on IPO costs	**1,226**	1,725
	1,596	1,725

Notes to the Consolidated Financial Information continued

Note 4: Capital and reserves

US$000	Issued capital	Share premium	Treasury share reserve	Employee benefit trust reserve	Retained earnings	Total equity
At 1 January 2008	121,628	188,566	–	(20,092)	(17,401)	272,701
Profit for the period	–	–	–	–	190,863	190,863
Total comprehensive income for the year	–	–	–	–	190,863	190,863
Deferred tax on transaction costs	–	1,725	–	–	–	1,725
Write off of deferred tax on IPO costs	–	(5,179)	–	–	–	(5,179)
Deferred tax on employee benefits	–	–	–	(317)	–	(317)
Share buyback in parent company	–	–	(77,260)	–	–	(77,260)
Equity dividends paid to shareholders	–	–	–	–	(38,954)	(38,954)
Share-based payments	–	–	–	4,966	–	4,966
At 31 December 2008	121,628	185,112	(77,260)	(15,443)	134,508	348,545
Profit for the period	–	–	–	–	1,625	1,625
Total comprehensive income for the year	–	–	–	–	1,625	1,625
Equity dividends paid to shareholders	–	–	–	–	(39,550)	(39,550)
Share-based payments	–	–	–	3,850	–	3,850
At 31 December 2009	**121,628**	**185,112**	**(77,260)**	**(11,593)**	**96,583**	**314,470**

Note 5: Other taxes payable

Other taxes payable at 31 December 2009 comprises the following taxes:

US$000	**As at 31.12.09**	As at 31.12.08
Other taxes payable:		
Withholding tax on dividend	**3,225**	–
Other taxes	**8**	365
	3,233	365

Note 6: Auditor remuneration

The audit fee in respect of the parent company was US$16,000 (2008: US$10,000).

Note 7: Subsequent events

No material adjusting or non-adjusting events have occurred subsequent to the year end other than the proposed dividend disclosed in note 18 to the consolidated financial statements and the refinancing of the Group described below.

The Company entered into a new three year bank debt term facility on 27 November 2009 in the amount of US$230 million. This pre-export finance facility was drawn in full on 8 January 2010 and was used for refinancing the existing pre-export finance facility.

Glossary

Act
The Companies Act 2006

AGM
The Annual General Meeting of the Company to be held on Thursday 27 May 2010

Articles
Articles of Association of the Company

Audit Committee
The Audit Committee of the Company's Board

Benchmark Price
International seaborne traded iron ore benchmark price agreed between the major iron ore producers and specific West European or British steel producers for a given year

BIP
Business Improvement Programme

Board
The Board of Directors of the Company

bt
Billion tonnes

Cape size
Cape size vessels are typically above 150,000 tonnes deadweight. Ships in this class include oil tankers, supertankers and bulk carriers transporting coal, ore, and other commodity raw materials.

Capital Employed
The aggregate of equity attributable to shareholders, minority interests and borrowings

CFR
Delivery including cost and freight

C1 Costs
Cash costs per tonne of pellets, ex-works, excluding administrative and distribution costs

CIF
Delivery including cost, insurance and freight

CIS
The Commonwealth of Independent States

Combined Code
The Combined Code on Corporate Governance published by the Financial Reporting Council in June 2008

Company
Ferrexpo plc, a public company incorporated in England and Wales with limited liability

CPI
Consumer Price Index

CSR
Corporate Safety And Social Responsibility

CSR Committee
The Corporate Safety and Social Responsibility Committee of the Board of the Company.

DAF
Delivery at frontier

DFS
Detailed Feasibility Study

Directors
The Directors of the Company

Dragline excavators
Heavy excavators used to excavate material. A dragline consists of a large bucket which is suspended from a boom.

EBITDA
The Group calculates EBITDA as profit from continuing operations before tax and finance plus depreciation and amortisation (included in cost of sales, administrative expenses and selling and distribution costs) and non-recurring cash items included in other income and other expenses plus the net of gains and losses from disposal of investments and property, plant and equipment

EBT
Employee Benefit Trust

EPS
Earnings per share

Executive Committee
The Executive Committee of management appointed by the Company's Board

Executive Directors
The Executive Directors of the Company

Fe
Iron

Ferrexpo
Ferrexpo plc

Ferrexpo AG Group
Ferrexpo AG and its subsidiaries including FPM

Fevamotinico S.a.r.l.
A company incorporated with limited liability in Luxembourg

FOB
Delivered free on board

FPM
Ferrexpo Poltava Mining, also known as Ferrexpo Poltava GOK Corporation or PGOK, a company incorporated under the laws of Ukraine

FRMC
Financial Risk Management Committee, a sub-committee of the Executive Committee

FTSE 250
Financial Times Stock Exchange top 250 companies

Glossary continued

FYM
Ferrexpo Yeristovskoye Mining, also known as YGOK, a company incorporated under the laws of Ukraine to administer the three major growth projects

GPL
Gorishne, Plavninskoye and Lavrikovskoye Mine, the mine operated by FPM

Group
The Company and its subsidiaries

Growth Markets
Those markets that offer to add new and significant tonnage expansion potential

HSE
Health, safety and environment

IAS
International Accounting Standards

IASB
International Accounting Standards Board

IFRS
International Financial Reporting Standards, as adopted by the EU

IPO
Initial public offering

Iron ore concentrate
Product of the flotation process with enriched iron content

Iron ore sinter fines
Fine ground iron ore

Iron ore pellets
Dried and hardened agglomerate of iron ore concentrate, whose physical properties are well suited for transportation and downstream processing in a blast furnace

JORC
Australasian Joint Ore Reserves Committee – the internationally accepted code for ore classification

K22
GPL ore has been classified as either K22 or K23 quality, of which K22 ore is of higher quality (richer)

KPI
Key Performance Indicator

kt
Thousand tonnes

LIBOR
The London Inter Bank Offered Rate

LLC
Limited Liability Company

LTIFR
Lost-Time Injury Frequency Rate

LTIP
Long-Term Incentive Plan

m^3
Cubic metre

Majority Shareholder
Fevamotinico S.a.r.l., The Minco Trust and Kostyantin Zhevago (together)

mm
Millimetre

mt
Million tonnes

mtpa
Million tonnes per annum

Natural Markets
Relative new markets in regions where the Group believes it has competitive advantage which is yet to be exploited

Nominations Committee
The Nominations Committee of the Company's Board

Non-executive Directors
Non-executive directors of the Company

NOPAT
Net operating profit after tax

OHSAS 18001
International safety standard 'Occupational Health & Safety Management System Specification'

Ordinary Shares
Ordinary Shares of 10 pence each in the Company

Ore
A mineral or mineral aggregate containing precious or useful minerals in such quantities, grade and chemical combination as to make extraction economic

Panamax
Modern Panamax ships typically carry a weight of between 65,000 to 75,000 tonnes of iron ore and can transit both Panama and Suez canals

PPI
Ukrainian producer price index

Probable reserves
Those measured and/or indicated mineral resources which are not yet 'proved', but of which detailed technical and economic studies have demonstrated that extraction can be justified at the time of the determination and under specific economic conditions

Proved reserves
Measured mineral resources of which detailed technical and economic studies have demonstrated that extraction can be justified at the time of determination and under specific economic conditions

Relationship Agreement
The relationship agreement entered into among Fevamotinico S.a.r.l., Kostyantin Zhevago, The Minco Trust and the Company

Remuneration Committee
The Remuneration Committee of the Company's Board

Reserves
Those parts of mineral resources for which sufficient information is available to enable detailed or conceptual mine planning and for which such planning has been undertaken. Reserves are classified as either proved or probable

$/t
US dollars per tonne

Sinter
A porous aggregate charged directly to the blast furnace which is normally produced by firing relatively courser fine iron ore, other materials, and coke breeze as the heat source

Spot price
The current price of a metal for immediate delivery

Sterling/£
Pound sterling, the currency of the United Kingdom

STIP
Short-Term Incentive Plan

Tailings
The waste material produced from ore after economically recoverable metals or minerals have been extracted. Changes in metal prices and improvements in technology can sometimes make the tailings economic to process at a later date

TIS-Ruda
Ukrainian port facility on the Black Sea

Tolling
The process by which a customer supplies concentrate to a smelter and the smelter invoices the customer the smelting charge, and possibly a refining charge, and then returns the metal to the customer

Ton
A US short ton, equal to 0.9072 metric tonnes

tonne or t
Metric tonne

Treasury Shares
A company's own issued shares that it has purchased but not cancelled

TSF
Tailings storage facility

Traditional Markets
Markets that the Group has supplied historically and in which it enjoys a competitive advantage based on its location. These include Austria, Ukraine, Poland, Slovakia, Romania, Bulgaria and Russia

TSR
Total shareholder return. The total return earned on a share over a period of time, measured as the dividend per share plus capital gain, divided by initial share price

Ukraine
The Republic of the Ukraine

Underlying earnings
An alternative measure which the Directors believe provided a clearer picture of the underlying financial performance of the Group's operations. Underlying earnings is presented as profit attributable to equity shareholders before adjusted items. Adjusted items are those items of financial performance that the Group believes should be separately disclosed on the face of the income statement to assist in the understanding of the underlying financial performance achieved by the Group. Adjusted items that relate to the operating performance of the Group include impairment charges and reversals and other exceptional items. Non-operating adjusting items include profits and losses of investments and businesses as well as IPO costs and non-operating foreign exchange gains and losses

UAH
Ukrainian hryvnia, the currency of the Republic of the Ukraine

Ukr SEPRO
The quality certification system in Ukraine, regulated by law to ensure conformity with safety and environmental standards

US$ or Dollars
United States dollars, the currency of the United States of America

USS
United States Steel Corporation

VAT
Value Added Tax

Value-in-use
The implied value of a material to an end user to use one material relative to other options, eg comparing performance of several types of iron ore pellets into a blast furnace; taking into account the delivered cost of a material and rates relative to other competition materials on a quality and landed cost adjusted basis

WMS
Wet magnetic separation

Yeristovo or Yeristovskoye
The mine being developed by FYM

Shareholder information

Registered Office
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