Ferrexpo plc Annual Report & Accounts 2010

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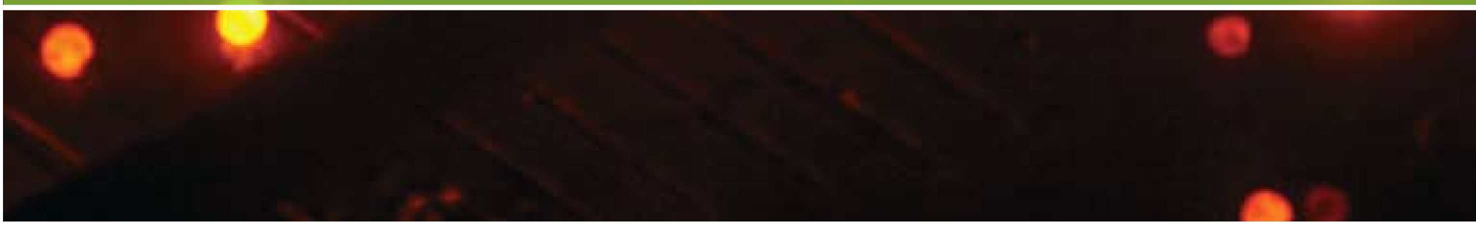
Annual Report and Accounts 2010

Producing iron ore pellets for over 30 years

FERREXPO

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



Highlights 2010

Production volumes
Up by 14%
record production volumes with the Group producing over 10.0 million tonnes of pellets, operating at full capacity.

Sales volumes
Up by 8%
record sales volumes of 9.7 million tonnes of pellets

Revenue
Up by 100%
to US$1.3 billion, driven by significantly higher sales prices and volumes

C1 cash cost of production
US$39.7/t
cost inflation mitigated through full absorption of fixed costs and Business Improvement Programme

EBITDA
Up by 324%
to US$585 million, driven by higher revenue and robust cost control

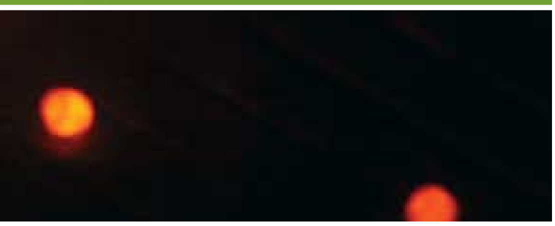
Diluted earnings per share
Up by 500%
to 72.24 US cents

Total dividend per share
6.6 US cents per share
final dividend of 3.3 US cents per share in line with 2009

Net cash flow from operating activities
Up by 394%
to US$380 million

Year end cash balance
Increased substantially
to US$320 million

Net debt
Down by 60%
to US$104 million



The Production Process

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

Mining operations

Iron mines

- Mining operations based 20 kilometres from Kremenchuk in central Ukraine, on banks of the river Dnieper
- 10 deposits of magnetite ore with average iron content of 30%
- Total JORC resource of 6.8bt with 14.2bt of additional GKZ resources

Mining

- Open cut, hard rock iron ore mining, using shovel, truck and train
- Mining currently carried out at Gorishne-Plavninskoe and Lavrikovskoe (Ferrexpo Poltava Mine) deposits
- First ore expected at Yeristovskoye (Ferrexpo Yeristovskoye Mine) deposit in 2013

Iron ore mined in 2010

28,930
thousand tonnes

Beneficiation

Processing

- Ore from the mine is crushed and ground to produce concentrate by magnetic separation and chemical flotation
- During processing, iron content increased to produce pellets of 62% and 65% iron content
- Design capacity of crushers is 34mtpa, and of concentrators is 11mtpa (wet)

Concentrate produced ("WMS") in 2010

11,226
thousand tonnes

Pelletizing

Pellets

- Four kiln grate units, with name plate capacity of 3mtpa each for 12mt of annual capacity
- Kilns heat and form material into pellets of around 8–20mm
- Pellets are robust
  - Preferred feed source for steelmakers (limited only by cost)
  - Steel operators' best way to rapidly improve productivity
  - Created in a 'fit for purpose' form
  - Provide environmental advantages to customers
  - Logistics of moving pellets are superior

Total pellet production in 2010 (incl purchased concentrate)

10,031
thousand tonnes

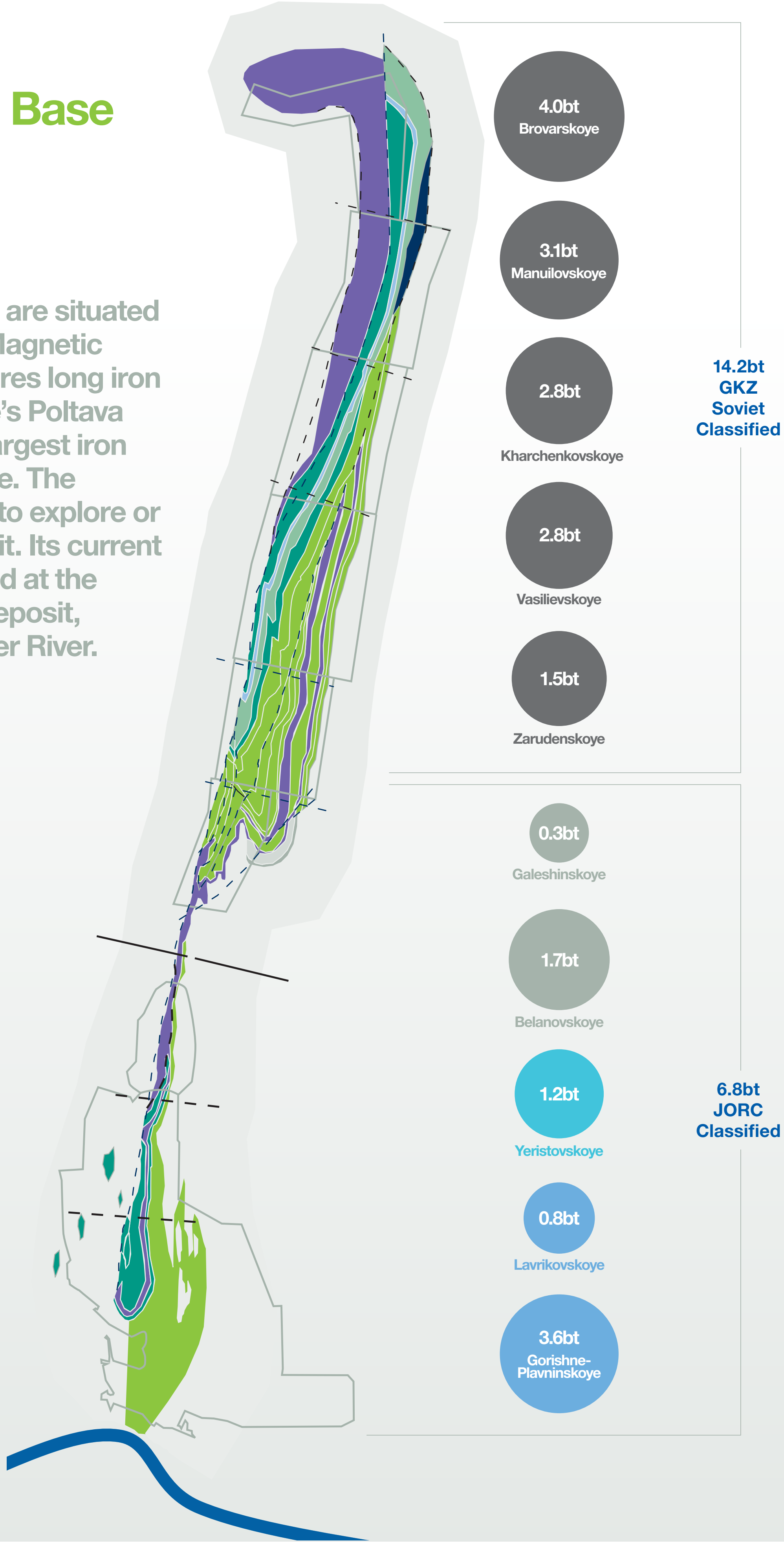
Transport and logistics

Transport

- Operations have rail links which allow transportation to Ukrainian border & Black Sea ports
- Direct access to Dnieper River also allows transportation of material to the Black Sea by barge
- 48.6% holding in TIS-Ruda provides access to captive loading capacity at Port Yuzhny of up to 5mtpa
- Own over 900 rail cars which reduce reliance on State owned rail cars
- Acquisition of Helogistics provides barge access to the Danube/Rhine river corridor in Western Europe

Our Resource Base

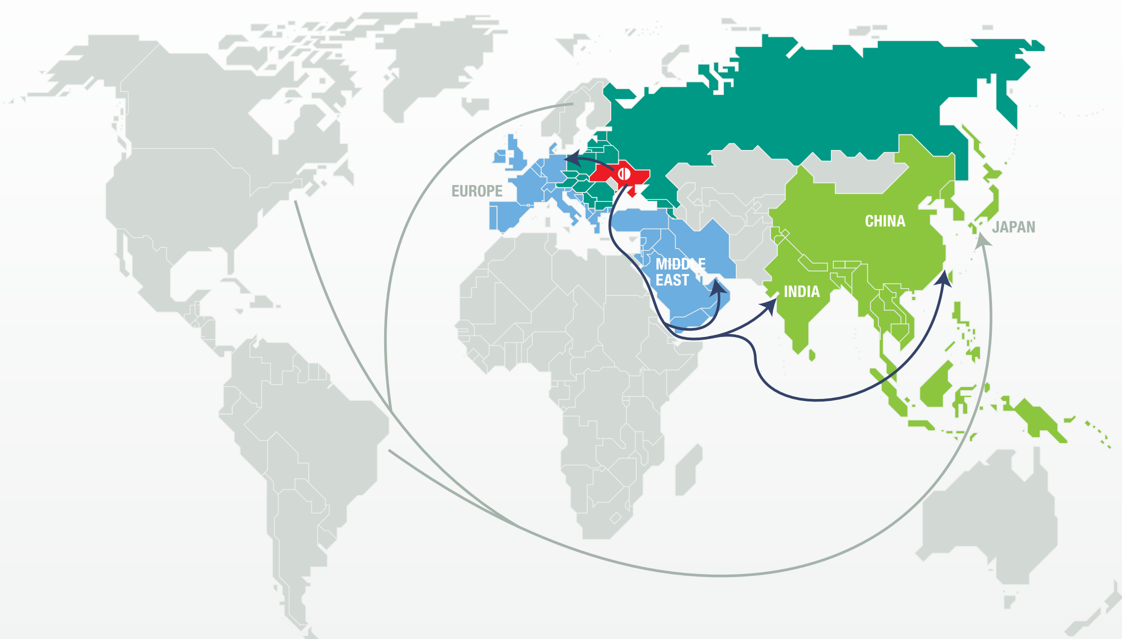
Ferrexpo's operations are situated on the Kremenchuk Magnetic Anomaly, a 50 kilometres long iron ore deposit in Ukraine's Poltava region making it the largest iron ore resource in Europe. The Group holds licences to explore or mine the entire deposit. Its current operations are situated at the southern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



Favourable location

Traditional
Natural
Growth
Ferexpo

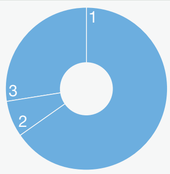
Ferrexpo Transportation Routes
Competitor Routes



Ferrexpo benefits from the location of its operations in Ukraine, because of a well-educated workforce and the efforts of the Government to ensure the survival of its large mining and metallurgical industry. Being primarily an exporter, Ferrexpo has minimal exposure to the Ukrainian steel industry, while approximately 70% of its operating costs are in local currency.

Ukraine is conveniently situated close to our principal customers in Europe while Ferrexpo is also the nearest pellet supplier to the Middle East and Asia.

2010 customer breakdown
% (by sales volume)



1. Traditional – 66%
2. Natural – 7%
3. Growth – 27%

Chairman's and Chief Executive Officer's Statement

Introduction

We are pleased to report that for the year ended 31 December 2010, Ferrexpo responded to increased iron ore demand and prices with record production, record sales volumes and robust cost control. These factors underpinned the highest EBITDA recorded in the Group's history of US$585 million compared to US$138 million in 2009.

In 2009, Ferrexpo's priority was to conserve cash and to protect margins by producing and selling at near full capacity levels throughout the period. As industry fundamentals recovered in 2010, Ferrexpo was well placed to benefit from higher prices as it continued to produce at full capacity. The Group's increased cash generation and profitability allowed it to recommence its capital investment programme to further develop growth opportunities.

The Board approved, in November 2010, US$647 million of capital expenditure as part of an investment programme to increase significantly the quantity and quality of its production. This initial phase is focused on achieving first ore at the Ferrexpo Yeristovskoye Mine ("FYM"), extending the life of the Ferrexpo Poltava Mine ("FPM") as well as on increasing the quality of the Group's pellet output.

Ferrexpo's Board believes the Group's resource base is one of the largest in the world with estimated iron ore resources of over 20 billion tonnes. This will support steady production growth while low cost mining facilities and integrated infrastructure from mine to rail, river and port means that the Group is well placed to deliver sustainable value to shareholders, employees and its country of operation throughout the commodities cycle.

Summary of results

The Company's sales volumes increased 8% to 9.7 million tonnes of pellets (2009: 9 million tonnes). The Group achieved significant price increases throughout the year compared with 2009. These higher sales volumes and prices saw Group revenues almost double to US$1.3 billion (2009: US$649 million). The Group produced at full capacity throughout the period which allowed for full absorption of the fixed cost base.

Together these factors resulted in an increase in EBITDA of over four fold to US$585 million (2009: US$138 million). Group profit after tax increased 500% to US$425 million (2009: US$71 million).

Operating cash flow for the year improved significantly and as a result net debt reduced by US$153 million to US$104 million (2009: US$258 million). As of 31 December 2010 the Group had cash balances of US$320 million compared with US$12 million as of 31 December 2009.

Pricing Environment and Strategy

In 2010, European steel mills recovered from the lows of the 2009 downturn while Chinese iron ore requirements continued to underpin world demand. The reduction of capacity by the major iron ore pellet suppliers during 2009 proved an ideal scenario for pellet price recovery in 2010.

The iron ore pricing methodology, however, adjusted throughout the year as the industry moved from an annual global benchmark pricing system, which covered the entire fragmented steel industry, to shorter-term individual pricing negotiations with steel mills.

Currently in the global iron ore market, there are a number of pricing methodologies being applied depending on geography and customer. In 2010, Ferrexpo agreed a mixture of pricing arrangements with its customers including quarterly and six monthly pricing agreements. As the new pricing mechanisms are increasingly based on shorter time periods, Ferrexpo believes there is likely to be increased pricing volatility.

Industry fundamentals recovered in 2010, and Ferrexpo was well placed to benefit from higher prices as it continued to produce at full capacity. The Group's increased cash generation and profitability allowed it to recommence its capital investment programme to further develop growth opportunities.

Ferrexpo will continue to focus on maximising prices relative to its competitors' based on 'value in use' to the customer. Ferrexpo believes that its geographic proximity to key steel markets represents an attractive alternative to the major seaborne suppliers due to the lower costs of transporting pellets over a shorter distance from Ukraine.

Marketing and logistics strategy

Ferrexpo's logistics strategy is to manage and control as much of the delivery chain as possible. This includes further developing the Group's port and barge facilities to allow for CFR delivery to customers in Asia and Western Europe.

Ferrexpo already has a significant logistics cost advantage for delivery of pellets via rail and barge direct to customers in Central and Eastern Europe. The port terminal on the Black Sea of TIS-Ruda, an associated company of the Group, provides independent access to the seaborne markets in Asia as well as to markets in Turkey and the Middle East.

The TIS-Ruda port enables Ferrexpo to diversify its customer mix, avoiding dependence on any one customer group for pricing and product demand. Ferrexpo is looking to further develop its ship loading capabilities ahead of the ramp up of the Yeristovskoye deposit, which will increase the Group's pellet production, allowing the Group to increase its exports to key Asian markets.

The Group made further investments in logistics during the year. It purchased 300 rail cars bringing the Company's total holding at 31 December 2010 to over 900. In February 2011 Ferrexpo signed contracts to acquire an additional 400 rail cars over the next year with an option to purchase a further 600. Purchase of these additional rail cars should ensure near self sufficiency and full rail car availability for pellet transportation to the Ukrainian border as well as a tariff discount from the railway authorities of over 8%.

In December 2010 Ferrexpo acquired Vienna-based Helogistics, one of the largest inland waterway transportation companies in Europe. It transports iron ore as well as other bulk cargos, mainly by barge, along the Danube and Rhine rivers from Ukraine and Rotterdam to various locations in Northern, Central and Eastern Europe. This includes transportation of Ferrexpo pellets to core customers in Central Europe. Helogistics will enable the Group to further secure the supply chain, improving service to existing customers as well as provide further access to markets throughout Europe, enhancing Ferrexpo's presence as the regional market leader in iron ore pellet supply.

In general, Ferrexpo believes that a developed logistics infrastructure is essential in high volume bulk commodity markets like iron ore. It is therefore further expanding its logistics infrastructure ahead of planned production growth.

In 2010, over 90% of the Group's sales volumes, from own ore, were based on long-term volume framework agreements compared with circa 70% in 2009. It is Ferrexpo's ongoing strategy to allocate approximately 10% of sales to potential new customers, especially first class Asian steel mills, through trial spot cargos ahead of its planned Yeristovskoye mine expansion.

Production

FPM has been producing iron ore pellets continuously for the last 30 years – through the Soviet administration, the fall of the Berlin wall, Ukrainian independence and several Ukrainian governments.

In 2010, the mine produced record levels of pellets operating at full capacity throughout the period. In September 2010, FPM achieved the highest monthly pellet production since 1987, while in October 2010 FPM produced the highest monthly output of 65% Fe pellets on record.

In total, production increased by 14% in 2010 to approximately 10 million tonnes of pellets compared with 8.8 million tonnes of pellets produced in 2009.

Chairman's and Chief Executive Officer's Statement continued

Our strategy explained

01 Develop our vast unexploited resources – starting with the Yeristovskoye deposit achieving first ore in 2013.

02 Expand our high quality customer base – Ferrexpo allocates approximately 10% of sales to potential new customers through trial spot cargos.

03 Maintain a low cost of production and a high operating efficiency – according to Metalytics Ferrexpo is the third lowest pellet producer on a global FOB basis.

04 Improve the quality of the product mix – by 2014 Ferrexpo intends to produce all pellets as 65% Fe from the current mix of half 62% Fe & half 65% Fe pellets.

05 Enhance the Group's logistics capability ahead of the planned increase in production output

06 Maintain a strong balance sheet with low levels of gearing and high liquidity

Production from own ore increased 5% to 9.0 million tonnes (2009: 8.6 million tonnes) while processing of third party concentrate increased substantially to meet higher demand.

The Group produces a mix of 62% and 65% Fe pellets. Of the total 10 million tonnes of pellets produced, 49% were higher grade 65% Fe pellets in line with the proportion of 65% Fe pellet production in 2009.

The higher production levels achieved illustrate the benefits of continuous improvements in production efficiencies as well as the sustainability of the Group's operations given the reduced levels of capital investment in 2009 and 2010.

Costs

The Board believes Ferrexpo is one of the lowest cost pellet producers in the world on a FOB basis. The Group aims to reduce costs within its control by at least 1% to 2% per annum principally through increased output and efficiency enhancements achieved through the Business Improvement Programme ('BIP'). Since the inception of the BIP in 2006, cumulative productivity gains have saved approximately US$5.3 per tonne of pellets produced, or US$48 million on a cumulative basis to 31 December 2010.

Not all costs are directly within Ferrexpo's control, such as gas and electricity tariffs. The Group is investigating managing these exposures, most likely through acquisitions and partnerships which can secure raw material supply.

The cost environment in 2010 was impacted by Ukrainian PPI inflation of 21% as well as cost increases associated with a stronger commodity price environment.

Approximately 70% of total operating costs, including freight, are denominated in Ukrainian Hryvnia while all revenues are received in US dollars. The Hryvnia has remained broadly stable on average in 2010 compared to 2009 at around UAH8 to the US dollar.

Overall the average C1 cash cost of production was below US$40 per tonne for 2010. This represented a circa 15% increase compared to the average 2009 C1 cash cost of US$34 per tonne but this was, however, lower than the local inflation rate of approximately 21% for the period.

Ukraine

Ukraine has recovered in many respects in 2010 compared to the hardships experienced in 2009. There has been a stable political environment since the presidential elections in February 2010. In terms of economic recovery, the steel industry (which is the largest contributor to the economy) increased production by an estimated 13%[1] in 2010 (2009: negative 20%[1]). Overall, GDP growth in 2010 was 4%[1] compared to a decline of 15%[1] in 2009.

1 Source: OECD.

In general, continued political stability, growing credibility of Government fiscal policies, improving macroeconomic fundamentals and renewed IMF support have led to a significant improvement of Ukraine's credit rating. During 2010, Fitch and Standard & Poor's raised Ukraine's sovereign rating to B (from B-) and B+ (from B) respectively with a stable outlook.

Ferrexpo continues to regard Ukraine as a good place for business. The Group is the largest employer in the town of Komsomolsk and benefits from a well educated workforce which is able to transfer its skills to the further development of the Group's resources.

Investing activities and funding

Ferrexpo's capital expenditure projects are aimed at the expansion and upgrade of the existing mine and processing facilities and to unlock the considerable value in the Group's under exploited reserves and resources, starting with FYM.

During the year, Ferrexpo spent US$167 million on capital expenditure. In November the Board approved US$647 million of capital investment as part of the first stage of the Group's investment programme.

Dividend

It is the Board's view that cash generated by the Group should principally finance future growth projects and that the Group should pay modest consistent dividends throughout the economic cycle. The Directors therefore recommend a final dividend in respect of profits generated for the Group in 2010 of 3.3 US cents per Ordinary Share (2009 final dividend: 3.3 US cents per Ordinary Share) for payment on 3 June 2011 to shareholders on the register at the close of business on 3 May 2011. The dividend will be paid in UK pounds sterling with an election to receive US dollars.

People

The Board would like to thank all the management and staff for their continued hard work and commitment which formed the foundation for another year of significant progress.

As previously announced, Simon Wandke the Group Marketing Officer resigned from the Company during 2010. Simon's experience was much valued by the Board and it would like to thank him for his contribution to the Group.

Ferrexpo is very pleased to welcome Jason Keys as the new Group Marketing Officer. Jason joins Ferrexpo from BHP Billiton where he is currently Global Marketing Manager for Iron Ore. He has significant industry experience in both the European and Asian iron ore markets, having led BHP Billiton's Iron Ore commercial marketing team over the last five years.

As part of the continuing development of the Group's capabilities, Ferrexpo appointed Brian Maynard as the Group Chief Operating Officer in January 2011. Brian has worked extensively in the mining industry for the last 30 years and is already making a considerable impact on our operations.

Corporate governance and social responsibility

Ferrexpo has a balanced and experienced Board which maintains the highest standards of corporate governance throughout the Group and complies with the UK Combined Code on Corporate Governance.

The Board's Corporate Safety and Social Responsibility ('CSR') Committee monitors the management of the Group's health, safety, environmental and community programmes on a regular basis in line with best practice for mining companies. Safety is fundamental to the success of Ferrexpo's future, and safety procedures are integral to the culture of the Group. Ferrexpo deeply regrets that Ivan Kharchenko, a machinery repairman, was fatally injured in the second half of the year in consequence of a failure to observe the Group's safety standards. Ferrexpo is implementing measures to ensure that the Group's safety controls are further improved going forward.

Outlook

Following a successful 2010, the new financial year has started well with strong demand for Ferrexpo's product. The Group is, however, aware that it operates in a cyclical environment and will always look to mitigate any softening in demand across the industry through its broad, high quality customer base and established infrastructure for serving seaborne and regional markets. This should allow Ferrexpo to continue to produce at full capacity underpinning a strong financial performance for the rest of the year.

Michael Abrahams CBE DL
Chairman

Kostyantin Zhevago
Chief Executive Officer

Our Year in Review

January

Long-term sales

Following signs of a recovery in the European steel markets and improved demand visibility, a positive trading update confirmed that 86% of sales in 4Q 2009 were on a long-term contract basis.

Increase in sales on a long term contract basis

March

Traded profitability through the downturn

Ferrexpo reports its 2009 full year results where the Group reveals that despite a sharp fall in iron ore prices and a collapse in the global economy, it maintained full production and traded profitably throughout the downturn. This was due to Ferrexpo's strategy of strict cost control, continued production at full capacity and established logistics infrastructure which enabled the Group to sell all its production by diverting sales away from its Traditional customer base to its Growth markets.

September

Refinances principal debt facility

Ferrexpo refinances its principal debt facility, replacing the previous US$230 million pre-export finance facility with a new US$350 million loan through a syndicate of leading international financial institutions.

Record pellet production

Ferrexpo achieves the highest monthly pellet production on record since 1987

November

Capital investment programme

The Board approves US$647 million of capital expenditure following record production and significantly higher cash flow generation.

The capital investment programme is the first stage of the Group's plans to significantly increase the quality and quantity of its pellet output. This stage will increase the Group's pellet output from own ore by one third by 2013, extend the life of the existing mine by 12 years and increase the production of 65% Fe pellets to 100% of production by 2014.

Record pellet production

Ferrexpo produces the highest monthly production of 65% pellets on record

May

Strong production levels

Ferrexpo reports at it's AGM that due to strong production levels the Group is well positioned to capitalise on improved conditions in the iron ore market.

June

Recovering price environment

Ferrexpo reports that revenues in the 1Q of 2010 increased 34% compared to 2009 and that EBITDA increased 30% compared to 2009.

August

Increase in revenues and EBITDA

Interim results at 30 June show a 74% increase in revenues and a 257% increase in EBITDA.

1H 2010 Increase in EBITDA

257%

December

Acquisition of Helogistics

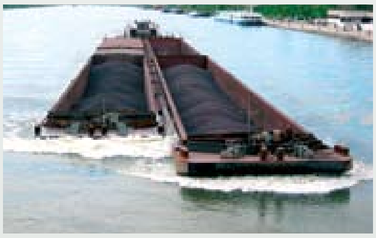
As part of the Company's strategy to further develop its logistics infrastructure, Ferrexpo announces the acquisition of Helogistics. Vienna-based Helogistics is a barging company operating on the Rhine/Danube river corridor. The acquisition allows the Group to access new markets and improve its service to existing customers in Western Europe.

New Chief Operating Officer

As part of the development of the Group's capabilities, Ferrexpo announces that Brian Maynard is to join the Company as Chief Operating Officer. Brian joins Ferrexpo from Vale and has over 30 years experience in the mining industry.

250 millionth tonne of pellets produced

On 1 December 2010 the 250 millionth tonne of pellets was produced. The first tonne of pellets was made at production line no 1 on 25 April 1977.



A large resource base underpins Ferrexpo's sustainable growth strategy

Ferrexpo's world class resource base is situated along a single ore body, which will allow the Group to efficiently expand production through brownfield ventures.

The FPM mine has consistent geology and allows for a longlife production profile while the development of FYM will utilise known and existing technology and infrastructure as well as Ferrexpo's current workforce.

As of 1 January 2011, Ferrexpo had estimated resources of over 6.8 billion tonnes classified according to the JORC code and further estimated resources of over 14.2 billion tonnes classified according to the Soviet GKZ code.

JORC reserves

6.8 bn

tonnes

Consistent production and strong cost control

FPM has been producing iron ore pellets continuously for the last 30 years – through the Soviet administration, the fall of the Berlin wall, Ukrainian independence and several Ukrainian governments. In 2010 record production levels were reached as the Group produced at full capacity throughout the period.

Ferrexpo is one of the lowest cost producers of pellets in the world on an FOB basis. The Group's cost reduction strategy is to maximise production outputs and continually implement efficiency enhancements through the Business Improvement Programme ('BIP').

The BIP has significantly decreased the consumption of key production inputs such as energy and raw materials, and reduced the cash costs of production by US$5.27 per tonne since 2005. For the year ended 31 December 2010, the cash cost of production of pellets from own ore was approximately US$39.70 per tonne of pellets. Relative to the peer group, Ferrexpo's low cost position enables it to sustain profitability in periods of downturn such as in 2009. This has allowed Ferrexpo to maintain a positive operating cash flow each quarter since 2006.

BIP reduction on C1 cash costs since 2005

$5.27

per tonne of pellets (from own ore)

Expand the high quality customer base

Ferrexpo remains committed to long-term framework agreements with customers who are focused on producing sophisticated steel products. FPM has supplied the vast majority of its customer portfolio for a number of decades. This allows Ferrexpo to produce at maximum capacity.

Production delivered under long-term volume framework agreements accounted for over 90% of sales in 2010, allowing for stable and reliable revenue.

The Group allocates approximately 10% of sales to potential new customers through trial spot cargos, and plans to conduct such trials with several significant producers in Asia ahead of the planned production growth from FYM.

% of production in 2010 allocated under long-term volume contracts

90%

Key performance indicators

The Board and the Executive Committee of Ferrexpo monitor the Group's performance using a range of key performance indicators ('KPIs'). These KPIs are regularly reported on and reviewed 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

2007	1
2008	3
2009	0
2010	**1**

Definition
Work-related fatal accidents

Target
No fatalities

LTIFR

2007	0.57
2008	0.95
2009	1.11
2010	**1.43**

Definition
Lost-time injury frequency rate[1]

Target
Below 0.75

1 Lost Time Injury Frequency Rate: The rate of lost time injuries per million man hours worked. Following the increased focus on safety and the review by DuPont, incidents that previously went unreported are now being reported.
2 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 5 to the accounts.
3 EPS (Earning per Share) (diluted) is calculated by dividing the profit for the year attributable to ordinary equity shareholders of Ferrexpo plc by the weighted average number of Ordinary Shares adjusted by any dilutive share awards that have not yet vested.

Operations

Production from own ore
000 tonnes

2007	8,793
2008	8,608
2009	8,609
2010	**9,033**

Definition
Pellet production from own produced concentrate

Target
Increase production

Production from third party concentrate
000 tonnes

2007	279
2008	427
2009	157
2010	**998**

Definition
Pellet production from bought-in concentrate

Target
To utilise spare processing capacity

Total production
000 tonnes

2007	9,072
2008	9,035
2009	8,766
2010	**10,031**

Definition
Total pellet production

Target
Increase production

Financials

Revenue
US$ million

2007	698
2008	1,117
2009	649
2010	**1,295**

Target
Increase revenue

EBITDA
US$ million

2007	246.1
2008	503.9
2009	138.1
2010	**585.3**

Definition
Earnings before interest, tax, depreciation and amortisation[2]

Target
Increase EBITDA

EPS (diluted)[3]
US cents per share

2007	20.33
2008	48.46
2009	12.05
2010	**72.24**

Definition
Earnings per share (diluted)

Target
Increase EPS

Operating Review

Ferrexpo holds exclusive licences to one of the largest iron ore resources in the world, consisting of a single 50 kilometre long strike divided into 10 adjacent deposits with an average iron ore grade of 30%. The resource is located near the town of Komsomolsk in north-eastern Ukraine. The Group currently has JORC classified resources of 7 billion tonnes and GKZ (Soviet classified) resources of 14 billion tonnes.

Operations

Ferrexpo holds exclusive licences to one of the largest iron ore resources in the world, consisting of a single 50 kilometre long strike divided into 10 adjacent deposits with an average iron ore grade of 30%. This resource is located near the town of Komsomolsk in central Ukraine. The Group currently has JORC classified resources of 6.8 billion tonnes and GKZ (Soviet classified) resources of 14.2 billion tonnes.

Ferrexpo is the largest exporter of pellets in the CIS and one of the top 10 pellet producers in the global seaborne iron ore market.

Ferrexpo Poltava Mine ('FPM')

The Group's current operating asset is the Ferrexpo Poltava Mine ('FPM'). The mine and processing facilities (crushing, concentrating and pelletising plant) exploits the Gorishne-Plavninskoye and Lavrikovskoye ("GPL") deposit which is immediately adjacent to rail as well as port facilities which are located on the Dnieper River.

The FPM mine is approximately 330 metres deep and 6 kilometres long. The Mine Life Extension programme (see Growth Projects below) will extend the life of the mine to 2038. In 2010, FPM mined approximately 28.9 million tonnes (2009: 28.5 million tonnes) of ore producing 11.2 million tonnes of concentrate (2009: 10.6 million tonnes) and 9.0 million tonnes of 62% Fe and 65% Fe pellets (2009: 8.6 million tonnes). FPM's nominal processing capacity is 12 million tonnes of pellets per annum. During 2010, FPM produced 998 thousand tonnes of pellets from purchased third party concentrate. FPM plans to continue to purchase third party concentrate, provided acceptable margins can be realised, in order to utilise its surplus pelletising capacity and to extend Ferrexpo's brand through increased sales. In total during 2010, the Group produced 10 million tonnes of pellets of which 5.2 million tonnes were 62% Fe pellets (2009: 4.5 million tonnes) and 4.9 million tonnes were 65% Fe pellets (2009: 4.3 million tonnes).

Ferrexpo JORC resources:

			Resources			
	Proved & probable (Mt)	Fe grade (total) %	Measured & indicated (Mt)	Fe grade (total) %	Fe grade Inferred (Mt)	(total) %
Gorishne-Plavninskoye & Lavrikovskoye	870	30	2,170	30	1,449	31
Yersitovskoye	632	34	828	34	364	30
Belanovskoye	–	–	1,485	31	217	30
Galeschinskoye	–	–	268	55	58	55
Total	**1,502**	**31**	**4,751**	**33**	**2,088**	**32**

Note: this is JORC resources only and excludes 14.2 billion tonnes of additional iron ore resources classified according to the Soviet GKZ Code.

Ferrexpo Yeristovskoye Mine ('FYM')

The Yeristovskoye deposit is the next deposit being exploited by the Group. It is located just to the north of FPM. The deposit has JORC iron ore reserves of 632 million tonnes below 70 metres of overburden. At an iron ore production rate of 27 million tonnes per annum (broadly similar to FPM's current production), it has the capacity to add 23 years to the Group's production profile. Overburden is currently being stripped by five draglines and 12 trucks. Initial ore is expected by the first half of 2013.

First ore from FYM is planned to be processed by FPM using spare capacity enabling the Group to produce 12 million tonnes of pellets per annum. Ferrexpo intends to build further processing facilities which would ultimately double the Group's output to 20 million tonnes of pellets or concentrate equivalent per annum if the associated capital investment programmes are approved (for further details see Growth Projects).

Belanovskoye and Galeschinskoye

Ferrexpo holds iron ore extraction licences for the Belanovskoye and Galeschinskoye deposits. Belanovskoye has total JORC resources of 1,702 million tonnes, while Galeschinskoye's are 326 million tonnes.

Ferrexpo holds exploration licences for five additional deposits, namely Vasilievskoye, Kharchenkovskoye, Manuilovskoye, Brovarskoye and Zarudenskoye all located to the north of Galeshinskoye. An initial assessment of these deposits has been undertaken and total in situ resources of 14 billion tonnes have been delineated.

All of the above deposits are on the same ore body that Ferrexpo is currently exploiting and are situated adjacent to the Group's existing logistics infrastructure. As a result, any development represents low risk additions of new iron ore capacity compared to many other greenfield iron ore projects worldwide.

Pricing and Marketing

For over 40 years, the iron ore industry determined prices with steel mills once a year based on the Japanese fiscal year, which began on 1 April. The initial price settlement by the first major iron ore producer with the first major steel mill typically set the "benchmark" price for the year and all other iron ore producers would typically follow that benchmark. During the financial crisis in late 2008 and 2009, iron ore spot prices fell well below the annual benchmark price. During this period steel mills increasingly opted to buy iron ore from the spot market. Since then, a variety of pricing mechanisms have been introduced which vary from six monthly agreements to quarterly agreements and increasingly shorter time periods based on quoted spot prices. Ferrexpo, as a price follower, will continue to focus on capturing the maximum price relative to its competitors' delivered cost through 'value in use' to the customer. Ferrexpo's geographic proximity to key steel customers in Europe and other markets represents a natural advantage due to the lower costs of transporting pellets over a shorter distance from Ukraine.

In 2011, Ferrexpo plans to further develop its logistics capabilities through the acquisition of rail cars and where appropriate other infrastructure. This will enable it to more competitively deliver to customers in Europe and Asia.

Ferrexpo supplies the key steel markets of the world, both in its Traditional markets and in its Natural and Growth markets. Descriptions of the key market segments are below:

Traditional Markets

Ferrexpo's Traditional markets lie within Central and Eastern Europe and include steel plants that were designed to use FPM iron ore pellets. FPM has been supplying some of these customers for more than 20 years. Ferrexpo has a well established logistics infrastructure to these markets by both river barge and rail. Traditional markets include Austria, Czech Republic, Russia, Slovakia, Serbia and Hungary.

66% of sales volumes in 2010 went to Traditional Markets, compared with 53% in 2009 as demand recovered from the 2009 downturn.

Natural Markets

'Natural Markets' are regions where the Group has a competitive advantage due to proximity, but which are not yet fully exploited. This segment includes Western Europe, Turkey and the Middle East. Ferrexpo's proximity across the Black Sea to Turkey and the Middle East provides a competitive advantage to both the Group and iron ore buyers in the region.

7% of sales volumes in 2010 went to Natural Markets, in line with 2009. Ferrexpo is building commercial and technical relationships in the Middle East as a base for future sales.

Operating Review continued

Production – operating statistics table

The table below highlights FPM's production statistics in 2010 and 2009. In 2010, Ferrexpo increased the amount of iron ore mined by 1.3% to 28.9 million tonnes while processing efficiencies allowed FPM to increase the production of pellets from own ore by 4.9%.

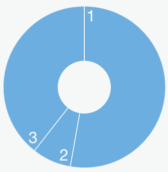
			Change	
('000t unless otherwise stated)	**2010**	2009	+/-	%
Iron ore mined	**28,929.77**	28,547.28	382.49	1.3%
Average Fe content	**30.25**	30.29	-0.04	-0.1%
Iron ore processed	**29,096.90**	27,720.20	1376.7	5.0%
Concentrate produced ('WMS')	**11,225.50**	10,564.60	660.90	6.3%
Average Fe content	**62.96**	63.33	-0.37	-0.6%
Floated concentrate	**6,195.20**	6,671.40	-476.2	-7.1%
Higher grade	**4,426.20**	4,674.80	-248.6	-5.3%
Average Fe content	**67.19**	67.05	0.14	0.2%
Purchased concentrate	**1,141.90**	180.10	961.80	534.0%
Average Fe content	**66.63**	65.39	1.24	1.9%
Purchased iron ore	**–**	0.00	–	0.0%
Pellets produced from own ore	**9,033.00**	8,609.20	423.8	4.9%
Higher grade	**4,060.70**	4,304.10	-243.4	-5.7%
Average Fe content	**64.97**	64.94	0.03	0.0%
Lower grade	**4,972.30**	4,305.10	667.2	15.5%
Average Fe content	**62.16**	62.17	-0.01	0.0%
Pellets produced from purchased concentrate and ore	**998.10**	157.40	840.7	534.1%
Higher grade	**817.90**	0.00	817.9	–
Average Fe content	**64.97**	0.00	64.97	–
Lower grade	**180.20**	157.40	22.8	14.5%
Average Fe content	**62.16**	62.20	-0.04	-0.1%
Total pellet production	**10,031.10**	8,766.60	1264.5	14.4%
Pellet sales volume	**9,720.67**	9,015.12	705.547	7.8%
Gravel output	**2,904.60**	2,846.10	58.5	2.1%
Stripping volume	**25,480.50**	23,558.90	1921.6	8.2%

Growth Markets

'Growth Markets' are those which offer to add new and significant tonnage to the Group, especially in Asia. Ferrexpo currently has four long-term contracts in place in Asia as part of its strategy to build a sustainable customer portfolio in these markets. The Group currently has trial cargoes with several other significant producers in the region.

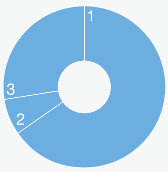
27% of sales volumes went to Growth Markets in 2010, compared with 39% in 2009. The 2009 figure reflects a higher proportion of spot sales to Asia given the impact of the economic recession on Traditional Markets customer demand. In 2010, the Group witnessed a return of demand in Traditional Markets, over 90% of sales from own ore were based on long-term volume agreements compared to only 70% in 2009.

2009 customer breakdown
% (by sales volume)



1. Traditional – 53%
2. Natural – 8%
3. Growth – 39%

2010 customer breakdown
% (by sales volume)



1. Traditional – 66%
2. Natural – 7%
3. Growth – 27%

Enhancing logistics capabilities ahead of increases in production output

Ferrexpo's current logistics platform includes over 900 rail cars, 5 million tonnes of port capacity for export to the seaborne market, and over 250 river vessels for transportation on the Rhine/Danube River corridor through the recent acquisition of Vienna-based Helogistics. Ahead of planned production growth from FYM, Ferrexpo's strategy is to further secure the logistics supply chain for delivery of increased product to customers. This includes acquiring up to 1,000 additional rail cars during 2011, as well as developing the Group's ship loading capabilities at its Black Sea port terminal. This will allow Ferrexpo to further capitalise on its geographic proximity to the Middle Eastern and Asian markets compared to other seaborne pellet producers in the Americas and Scandinavia.

Helogistics

In December 2010, Ferrexpo acquired Helogistics, paying $37.8 million cash to settle the company's existing bank debt. Helogistics is one of the largest inland waterway transportation companies operating on the Danube/Rhine river corridor. In 2009 and 2010, Helogistics transported approximately 504 thousand tonnes and 636 thousand tonnes of Ferrexpo pellets, respectively, to customers in Central Europe. Helogistics will enable the Group to further secure the supply chain, improving service to existing customers as well as provide further access to markets thorough out Europe, enhancing Ferrexpo's presence as the regional market leader in iron ore pellet supply.

Ferrexpo believes that a developed logistics infrastructure is essential in high volume bulk commodity markets such as iron ore.

Operating Review continued

Logistics

The Group's strategy is to manage the delivery chain to customers where possible. Approximately half of pellet sales volumes are railed about 700 kilometres to the Western Ukrainian border for delivery to customers in Central and Eastern Europe. The remaining pellets are railed about 550 kilometres to the Black Sea port terminal of TIS-Ruda, an associated company of the Group, for shipment to Natural and Growth Markets as well as to the Port of Izmail, also on the Black Sea, which then barges pellets to customers in Central Europe.

The Group currently owns over 900 rail cars, which ensures rail car availability for pellet transportation as well as an approximate rail tariff discount of over 8%. Ferrexpo has signed a contract for the supply of a further 400 rail cars which will be supplied over the next year commencing in May 2011. The Group has an option to purchase a further 600, allowing it to be broadly self sufficient in rail cars.

International freight costs relate mainly to sea transportation utilising Panamax vessels. These increased 66% to US$75 million (2009: US$45 million) as a growing portion of the Group's sales to customers in Asia were made on a CFR or similar basis rather than on a FOB basis.

In December 2010, Ferrexpo acquired Helogistics paying US$37.8 million cash to settle the company's existing bank debt.

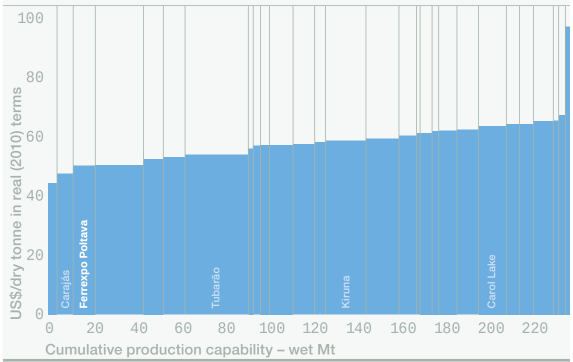
Helogistics is one of the largest inland waterway transportation companies operating on the Danube/Rhine river corridor. In 2009 and 2010, Helogistics transported approximately 504 thousand tonnes and 636 thousand tonnes of Ferrexpo pellets, respectively, to customers in Central Europe.

Helogistics will enable the Group to further control the supply chain securing existing customer relationships and provide new access to European markets, solidifying Ferrexpo's presence as the regional market leader in iron ore pellet supply.

Operating costs

Ferrexpo is the third lowest cost pellet producer in the world on a FOB basis. Its favourable geographic location and established logistics infrastructure helps to ensure that it is able to maintain output at full capacity throughout the commodities cycle.

FOB cash costs for 2011
Pellets only



The cost environment in 2010 included high Ukrainian PPI inflation of 21% and cost increases from a stronger commodity price environment. PPI inflation was driven by increases in electricity tariffs over the year, compared to December 2009, of 24%. Diesel costs increases were driven by higher oil price rises whilst the cost of steel grinding bodies were in line with increased world steel prices.

Approximately 70% of total operating costs, including freight, are in Ukrainian Hryvnia while all revenues received are in US dollars. The Hryvnia has remained broadly stable on average since the end of 2009 at around UAH8.0 to the US dollar.

The Group's strategy is to reduce operating costs by around 1% to 2% per annum principally through increased production and the BIP. Since 2006 the BIP programme has reduced the C1 cash cost per tonne by approximately US$5.3 on a cumulative basis, largely by reducing consumption of electricity, gas and grinding media per unit of output as well as increasing labour productivity on the same basis. During the period under review, FPM was able to reduce the consumption per tonne of electricity and grinding media by approximately 3% each compared to average consumption levels in 2009.

Overall, the average C1 cash cost of production was below US$40 per tonne for 2010, in line with the Company's expectations. This represented a 15% increase compared to the average 2009 C1 cash cost of US$34 per tonne. The increase was, however, lower than the local inflation rate of 21% for the period.

Ferrexpo is the third lowest cost pellet producer in the world on a FOB basis. Its favourable geographic location and established logistics infrastructure helps to ensure that it is able to maintain output at full capacity throughout the commodities cycle.

Growth projects

Ferrexpo's capital expenditure projects are aimed at the expansion and upgrade of the existing mine and processing facilities and to unlock the considerable value in the Group's under-exploited reserves and resources, starting with FYM.

As part of this strategy, in November 2010, the Board approved US$647 million of capital expenditure projects which are described below.

Ferrexpo Yeristovskoye Mine ('FYM')

The Board authorised expenditure of US$267 million to achieve first ore from the Yeristovskoye deposit which will deliver circa 5.5 million tonnes of primary crushed ore to the FPM processing facilities for conversion into approximately 1.9 million tonnes of pellets. This is expected to be completed by the first half of 2013 and will increase total Group pellet output to 12 million tonnes per annum of own ore.

The next phases of FYM's capital investment programme will involve the construction of concentrating and pelletising facilities in order to process the remaining circa 21.5 million tonnes of annual ore capacity at FYM. These stages are subject to the Group's continuing technical review and analysis, availability of funds and Board approval.

Quality upgrade project at FPM

The Board has approved expenditure of US$212 million for the upgrade of the existing concentrator facilities at the FPM processing facilities to increase the proportion of 65% Fe pellets to 100%. This will allow access to new markets and increase the average price that Ferrexpo receives for its pellets. Currently approximately half of the Group's production is 65% Fe pellets and the other half is 62% Fe pellets. The project is scheduled for completion by the end of 2014.

Mine life extension project at FPM

The Board has approved expenditure of US$168 million over a period of eight years to extend the life of the existing FPM mine to 2038. The project will involve additional stripping works in 2011 of around 15 million cubic metres to allow access to additional ore from 2014. As a result, the ore output from the existing mine will peak at 35 million tonnes per annum by 2014 compared to the current output of 28 million tonnes per annum.

Ferrexpo's capital expenditure projects are aimed at the expansion and upgrade of the existing mine and processing facilities and to unlock the considerable value in the Group's under-exploited reserves and resources, starting with FYM.

Financial Highlights

- > Revenue doubled to US$1.3 billion
- > EBITDA up over 300% to US$585.3 million
- > Diluted eps up 500% to 72.24 US cents
- > Cash flow from operations up over 350% to US$379.8 million
- > Cash at 31 December 2010 up significantly to US$319.5 million
- > Net debt reduced by 60% to US$104.4 million as at 31 December 2010

Revenue

For the year ended 31 December 2010, the Group's sales volumes increased 7.8% to 9.7 million tonnes (2009: 9.0 million tonnes) of pellets. Pricing for the first quarter of 2010 was largely based on the annual benchmark price to 31 March 2010 while for the remainder of the year quarterly and six monthly pricing was agreed with the customer base. Overall Ferrexpo achieved an 88.4% increase in its average DAF/FOB price in 2010. Higher sales volumes and prices resulted in Group revenues almost doubling to US$1.3 billion (2009: US$648.6 million).

In 2010, over 90% of sales volumes from own ore were based on long term volume agreements compared to 70% in 2009 as the Group witnessed a return in demand from its Traditional Markets customer base in 2010.

Cost of sales

The C1 cash cost of production per tonne is defined as the cash costs of production of own ore divided by production volume of own ore. This excludes non-cash costs and one-off items.

For the year ended 31 December 2010, Ferrexpo maintained robust cost control in the face of rising commodity prices and local inflation. The average C1 cash cost increased 15.4% to US$39.70 per tonne. This compared with US$34.40 in 2009. The Group experienced cost increases from commodities used in the production and processing of iron ore such as oil and steel, as well as local PPI inflation of 20.9%. The C1 cash cost per tonne once more benefited from production at full capacity throughout the period under review. This allowed for efficient absorption of the fixed cost base which along with the Business Improvement Programme (BIP) helped mitigate inflationary cost pressures. As a result, the increase in C1 cash costs was lower than the local PPI inflation rate.

Just over half of the C1 cash costs are denominated in Ukrainian Hryvnia. The Hryvnia remained on average broadly stable in 2010 compared to 2009 at around UAH8.0 to the US Dollar.

Approximately half of Ferrexpo's C1 cash costs are energy related. Electricity tariffs increased by 21.5% in 2010, and diesel cost increases reflected higher oil prices. Costs for grinding media, which are 10.0% of the C1 cash cost, increased inline with higher steel prices. The increase in steel prices was more than reflected in higher sales prices for our iron ore pellets during the period under review. The breakdown of the Group's C1 cash cost is shown in the table on page 28.

Since the inception of the BIP in 2006, the cumulative productivity gains have reduced costs by approximately US$5.27 per tonne of pellets produced, or US$47.6 million

Summary of financial results

US$ 000	Year ended 31.12.2010	Year ended 31.12.2009	Change
Revenue	**1,294,900**	648,667	99%
EBITDA	**585,297**	138,136	324%
As % of revenue	**45%**	21%	
Profit before taxation	**498,126**	80,850	516%
Income tax	**73,002**	9,852	641%
Profit for the period	**425,124**	70,998	499%
Diluted earnings per share (US cents)	**72.24**	12.05	500%
Final dividend per share (US cents)	**3.3**	3.3	0%

to the 31 December 2010. This has been achieved through reduced consumption norms as highlighted in the table on page 29.

Purchased concentrate

The Group has nameplate pelletising capacity of 12.0 million tonnes of pellets per year. Ferrexpo is currently able to mine ore sufficient to produce around 9.0 million tonnes of pellets. To efficiently utilise the spare processing capacity, third party concentrate was purchased which increased sales in the high demand environment. The Group will continue to purchase third party concentrate provided adequate margins can be achieved. During the year, 998.1 thousand tonnes of pellet equivalent third party concentrate was acquired (2009: 157.4 thousand tonnes) which generated a positive contribution.

Overall, cost of sales for the year ended 31 December 2010 was US$481.9 million (2009: US$341.1 million) with total production volumes increasing by 14.4%.

Selling and distribution expenses

The main components of Ferrexpo's selling and distribution costs are railway freight costs to the Ukrainian border as well as port charges and international freight expenses for pellets shipped by sea and river to customers on a CFR basis.

The following table highlights the selling and distribution expenses for the periods indicated:

(US$ millions unless otherwise stated)	Year ended 31.12.2010	Year ended 31.12.2009
Railway transportation	**81.5**	69.5
Port charges	**32.3**	35.3
International freight	**74.9**	45.2
Other (commissions, insurances, personnel, depreciation, advertising)	**23.3**	12.3
Total selling and distribution expenses	**212.0**	162.3
Total sales volume, kt	**9,721**	9,015
Cost per tonne of pellets sold (incl international freight)	**21.8**	18.0
DAF/FOB per tonne of pellets sold	**13.1**	12.0

Selling and distribution expenses increased by 30.7% to US$212.0 million, compared to US$162.3 million in 2009. This increase reflected 7.8% higher sales volumes and higher international freight costs as a larger proportion of sales were made including freight.

The following table shows the geographic split of pellet sales by volume:

	Year ended 31 December 2010	Year ended 31 December 2009
Traditional[1]	**65.5%**	52.8%
Natural[2]	**7.2%**	7.9%
Growth[3]	**27.3%**	39.3%
Total	**100%**	100%

1 Traditional Markets include Austria, Czech Republic, Hungary, Russia, Serbia, Slovakia, Russia and Ukraine.
2 Natural Markets include Western Europe, Turkey and the Middle East.
3 Growth Markets include China, India, Japan and South Korea.

Of the volumes sold, 65.5% was sold to our Traditional Markets customers in Central and Eastern Europe compared with 52.8% in 2009. The increased volumes resulted in a 17.3% increase in railway transportation costs to US$81.5 million in 2010 (2009: US$69.5 million), as our Traditional Markets customers largely receive their product by rail.

Port charges reduced by 8.5% to US$32.3 million (2009: US$35.3 million), reflecting lower seaborne sales to our Growth Markets customers as their share of sales volume fell to 27.3% in 2010 compared with 39.3% in 2009.

International freight costs increased by 65.7% to US$74.9 million (2009: US$45.2 million) as a growing proportion of the Group's sales to customers in Asia were made on a CFR or similar basis rather than on a FOB basis.

General and administrative expenses

General and administrative expenses increased by 13.9% to US$49.2 million for the year ended 31 December 2010 (2009: US$43.2 million). The increase was primarily due to professional fees related to increased business development activities including fees for the Helogistics acquisition amounting to US$1.6 million.

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

Other income and expense

Other income was US$4.5 million for the year ended 31 December 2010 (2009: US$4.1 million). The higher amount in the 2010 reflected increased sales of spare parts.

Financial Highlights continued

The table below sets out the breakdown of the Group's C1 cost of sales.

	Year ended 31.12.2010		Year ended 31.12.2009	
	US$ 000	% of total	US$ 000	% of total
Electricity	**97,251**	**27.1%**	78,534	26.5%
Gas	**43,073**	**12.0%**	36,942	12.5%
Fuel	**31,169**	**8.7%**	27,297	9.2%
Grinding media	**35,918**	**10.0%**	29,020	9.8%
Explosives	**8,148**	**2.4%**	9,042	3.1%
Other materials	**31,351**	**8.7%**	22,475	7.6%
Spare parts, maintenance and consumables	**58,940**	**16.4%**	49,170	16.5%
Personnel costs	**45,432**	**12.7%**	37,717	12.7%
Royalties and levies	**7,237**	**2.0%**	6,285	2.1%
C1 Cost Of Sales	**358,519**		296,482	
C1 Cost per tonne	**39.7**	**–**	34.4	–

Other expenses increased by US$2.5 million to US$5.9 million compared with US$3.4 million in 2009. The increase primarily reflected a lower release of allowance for doubtful debts compared to the previous year and an increase in charitable donations.

EBITDA

Ferrexpo defines EBITDA as profit from continuing operations before:

> depreciation and amortisation (included in cost of sales, administrative expenses and selling and distribution costs)
> non-recurring cash items included in other income and other expenses
> net gains and losses from the disposal of investments and property, plant and equipment
> tax and finance

EBITDA increased by 324% to US$585.3 million for the year ended 31 December 2010 compared with US$138.1 million in 2009. The increase was due to 7.8% higher sales volumes and a significantly higher average DAF/FOB sales price. This was partially offset by a 15.4% increase in C1 cash costs per tonne. The EBITDA margin in 2010 was 45.2% compared with 21.3% in 2009.

Disposal of VAT bonds

During 2010, VAT bonds were issued to Ferrexpo by the Ukrainian Government with a face value of UAH658.6 million (US$81.3 million) in compensation for VAT outstanding as of 31 December 2009. These instruments were subsequently sold realising a loss of UAH86.5 million (US$10.9 million) reflecting prevailing conditions in the local bond market.

Finance income and expense

Finance income was US$2.6 million in 2010 compared to US$2.9 million in 2009. The decrease was due to lower US Libor rates on deposits in 2010 compared to 2009.

Finance expenses increased to US$42.8 million for the year ended 31 December 2010 (2009: US$23.7 million) due to higher interest margins charged on Group borrowings. The Group's average weighted interest rate increased in 2010 to 7.2% compared to 5.1% in 2009. In 2010, finance expense also included arrangement fees for debt financing of US$5.5 million carried forward from earlier periods.

Foreign exchange gain/(loss)

Operating foreign exchange gains and losses

Ferrexpo prepares its financial statements in US dollars and operating foreign exchange gains and losses reflect the revaluation of trade receivables and trade payables that are denominated in a currency other than the Group's reporting currency at the balance sheet date.

In 2010, the Ukrainian Hryvnia remained broadly stable against the US dollar, appreciating slightly from UAH 7.99 to UAH 7.96 compared with UAH 7.70 to UAH 7.99 in 2009. As a result in 2010, there were no significant operating foreign exchange gains and losses, with a loss of US$1.1 million recorded (2009: gain of US$2.5 million).

Non-operating foreign exchange gains and losses

Non-operating foreign exchange losses result from the re-translation of financial liabilities, loans and other similar items. Non-operating foreign exchange losses increased from US$2.6 million to US$3.9 million due to the depreciation of the US dollar compared with the Swiss Franc.

Income tax expense

The Group pays tax in various jurisdictions. The effective income tax rate for the period was 14.7% compared with 12.2% for the equivalent 2009 period. This is influenced by the Group's mix of profits between Switzerland and Ukraine.

The table below highlights the reduction in consumption norms of key inputs achieved since 2005:

Consumption norms	UOM	2005	2006	2007	2008	2009	**2010**	% change 2010 vs. 2005
Electricity	kWh per t of pellets	205.5	195.6	190.9	183.7	184.6	**179.5**	-13%
Gas	m^3 per t of pellets	22.0	19.2	18.4	17.4	16.3	**16.7**	-24%
Grinding media	kg per t of concentrate	5.5	5.0	4.8	4.7	4.7	**4.5**	-18%
	kg per t of pellets	6.4	6.0	5.8	5.7	5.8	**5.6**	-13%
Personnel	'000 tonnes per head	0.7	1.0	1.2	1.3	1.4	**1.5**	103%

Statement of financial position and cash flow

The Group's cash flow from operating activities increased by 394% to US$379.8 million (2009: US$76.9 million). This was after a working capital outflow of US$136.8 million (2009: US$13.8 million working capital outflow). The working capital outflow was largely due to a US$74.0 million increase in trade receivables reflecting higher prices, a US$20.4 million increase in VAT receivables and a US$42.9 million increase in inventory due to stocks of third party concentrate and pellets at the year end.

Total capital expenditure in 2010 was US$167.1 million (2009: US$86.2 million). Of the total, US$49.1 million was for sustaining capital expenditure at FPM. Total development capital expenditure amounted to US$118.0 million. This consisted of US$54.9 million for FPM which included capitalised stripping and mining equipment for the Mine Life Extension Project and the Quality Upgrade Project. US$42.6 million was for the development of FYM, which included US$27.4 million for mining equipment. US$2.4 million was spent on development of the northern deposits while US$18.1 million was spent on infrastructure including the purchase of over 300 rail cars during the year.

In November 2010, the Board approved a capital expenditure budget of US$647 million as part of the first stage of the Group's capital investment programme. This first stage of the programme will be funded from the Group's cash flow generation.

Borrowings

Net financial indebtedness ('NFI') reduced by US$153.2 million to US$104.4 million (2009: US$257.6 million). Ferrexpo secured a new Pre-Export Financing ("PXF") facility in September 2010 for US$350 million. The facility matures on 31 March 2014, amortising over 24 months following an 18 month grace period.

As of 31 December 2010, total credit lines amounted to US$596.9 million of which US$423.9 million had been drawn. This compares to credit lines of US$319.5 million at 31 December 2009 of which US$269.5 million had been drawn. The average life to maturity of Ferrexpo's debt as of 31 December 2010 was 2.3 years compared to one year as of 31 December 2009.

As of 31 December 2010 the Group had cash balances of US$319.5 million compared with US$12.0 million as of 31 December 2009. The balance at 31 December 2010 included restricted cash held in escrow of US$37.8 million for payment of the Helogistics acquisition.

As of 31 December 2010 net debt to EBITDA decreased significantly to 0.2 times (31 December 2009: 1.9 times).

The following table analyses the net financial indebtedness of the Group:

US$ 000	**As at 31.12.2010**	As at 31.12.2009
Cash and cash equivalents	**319,470**	11,991
Current borrowings	**(22,563)**	(251,379)
Non-current borrowings	**(401,290)**	(18,143)
Net financial indebtedness	**(104.384)**	(257,655)

Related party transactions

The overview of the Group's related party transactions undertaken during the financial year 2010 is disclosed in note 35 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% (2009: 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 54.5% (2009: 41.2%) 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 in March 2020 and with US Steel in March 2011.

Employees

Critical employees are the members of the Group's Executive Committee, details of whom can be found on pages 44 and 45 of this Annual Report.

Risks relating 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:
The Group's business is dependent on demand and price developments in the international iron ore market.

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

Mitigation:
The management of the Group closely monitor developments in the international iron ore market 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.

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 2010 the Group had one operational fatality, compared with none in 2009 and three in 2008. Throughout the Group's 40 year history of operation it has not experienced any significant shutdowns.

Risks relating to the Group's operations continued

Reliance on State monopolies

Description:
Changes in costs of the Group's mining and processing operations could occur and consequently result in changes in profitability or the feasibility in mining existing and future 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.

The Group is dependent on gas provided by the State which in turn receives its gas from Russia. In January 2009 Russia and Ukraine were in dispute with regards to gas prices which resulted in a two week gas supply disruption.

Impact:
Increased energy and railway tariffs as well as increased royalties will affect the Group's costs. Furthermore, 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.

Mitigation:
The factors having an impact on the Group's future cost structure are closely monitored by management and cost reduction initiatives are planned and reported to the Board. The Business Improvement Programme ('BIP') focuses on the reduction of consumption norms. Since 2005 it has reduced the C1 cash cost by US$5.27 per tonne of pellets. In addition the Group, where possible, seeks to mitigate supply disruption of key inputs by entering into contracts with independent suppliers and traders thus reducing its reliance on State monopolies. This was the case in January 2009 where the Group's production was not impacted by the gas dispute between Russia and Ukraine.

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.

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 rail cars. It also acquired, in January 2011, Helogistics a barging company operating on the Danube/Rhine river corridor reducing its reliance on 3rd party barging companies. The 49% investment in the port of TIS-Ruda provides the Group with independent access to the seaborne markets in Asia as well as to markets in Turkey and the Middle East.

Counterparty risk

Description:
During the year ended 31 December 2010, sales made to three customers accounted for approximately 63% of sales revenue (2009: 52%)

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

Mitigation:
Customers' financial strength is 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 has not experienced any significant bad debt losses.

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 our business continued

Risks relating to finance

Exchange rate risk

Description:
The Group receives the majority of its income in US dollars, however, a large proportion of the Group's costs are denominated in Ukrainian Hryvnia.

Impact:
An appreciation of the Ukrainian Hryvnia versus the US dollar would have a negative impact on the profitability of the Group.

Mitigation:
The exposure to foreign currency fluctuation is closely monitored by the Group in order to make appropriate decisions on a timely basis, if needed. The Group did not enter into any foreign currency hedging agreements during 2010.

Interest rate risk

Description:
The majority of the Group's borrowings are linked to floating US dollar LIBOR rates exposing the Group to interest rate changes.

Impact:
An increase in interest rates will have a negative impact on the financial costs of the Group's borrowing affecting profitability.

Mitigation:
The Group monitors its proportion of fixed and floating interest rate borrowings in order to maximise profitability. The Group did not enter into derivative financial instruments such as interest rate swaps in 2010.

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 its net financial leverage, defined as total debt less cash and cash equivalents as a ratio to Earnings Before Interest, Tax, Depreciation and Amortisation ('EBITDA').

Impact:
In the event of a severe market downturn the Group may not earn sufficient EBITDA to meet the required net financial leverage ratio.

Mitigation:
The Group's financial policies are designed to meet the covenant obligations, under its principal loan facility, in all stages of the commodities cycle. The Group expects to have sufficient liquidity to operate successfully throughout 2011 and sufficient long-term contracts in order to meet the requirements of all debt covenants.

Risks relating to the Group's strategy

Expansion capital expenditure

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

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 capital expenditure, and has also appointed a Chief Operating 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 all of its expansion projects. Although all approvals which have been applied for have been granted, there is no guarantee that others will be granted in the future.

For example, there are some small communities located on the proposed site of the Group's expansion projects at 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.

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 producer price inflation ('PPI')

Description:
Ukraine has experienced double digit inflation over a number of years. In 2010 PPI was over 20%.

Impact:
If not mitigated by devaluation of the Ukrainian currency and efficiency improvements, the inflationary environment poses a risk to the costs and profitability level of the Group's business.

Mitigation:
Ukrainian inflation is closely monitored to assess and address the implications for the Group in a timely manner. Since the inception of BIP programme in 2006, the cumulative productivity gains have saved Ferrexpo approximately US$47.6 million.

Ukrainian labour and social unrest

Description:
The failure of salaries and benefits generally to keep pace with the cost of living have led in the past, and could lead in the future, to labour and social unrest. Labour and social unrest could have political, social and economical consequences, such as increased renewal of centralised authority.

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

Mitigation:
The Board closely monitors any developments and changes in the political and social environment and maintains regular contact with regional and national government authorities.

Ukrainian VAT receivable

Description:
FPM and FYM do not have substantial amounts of VAT on revenues to offset against VAT incurred on purchases. The Ukrainian Government does not always repay VAT receivable on a timely basis.

Impact:
The late repayment of VAT results in increased working capital which is funded by the Group.

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

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 2011 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. A Group-wide Code of Corporate Responsibility and Business Ethics (the 'Code'), which has been translated into Ukrainian and Russian and communicated to employees, enshrines the Company's values in three main areas. These are:

Business principles

Ferrexpo must maintain high standards of behaviour with all those it deals with, both inside and outside the Group. Its conduct and business dealings should be associated with honesty and integrity, making it an attractive and reliable business partner.

Community relations

Ferrexpo's presence should benefit those around it, and its operations will benefit if local communities are thriving. Any member company of the Group should be considered an attractive local employer.

Stewardship

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

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 Brian Maynard (Group Chief Operating 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 2010. In addition, the whole 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:

> Overall review of safety in mining and processing operations, including analysis of industrial injuries and sickness, workplace conditions, and labour safety audits.
> Update on the work of DuPont Safety Resources ('DuPont') and their recommendations.
> 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 it is still much the largest asset within the Group, FPM provides the main focus for development and implementation of the Group's CSR procedures, based on established Group policies. Within FPM a single department has 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.

CSR at FYM

The number of staff at FYM grew steadily during the year, from under 70 to over 350, but is still only a small fraction of the total workforce. CSR matters form part of FYM's regular reporting procedures.

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. Policies and practices at all levels need to reflect this.
> Within Ferrexpo's 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 reflect 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

The objective set in 2009 of achieving the best mining safety record in Ukraine is supported by targets including a reduction of 20% in the lost-time injury frequency rate. In this respect 2010 was a disappointing year (see under "Health and safety performance" below), and comparisons with other mining companies in Ukraine on the basis of the limited information that they publish suggest that Ferrexpo still has some way to go to reach its objective. However, comparisons with past performance should take account of the likelihood that raising the profile of safety in the Company has made the under-reporting of accidents much more rare than in the past. The particularly severe winter weather of early 2010 was also a contributing factor, with least one injury caused by a fall on an icy road.

For 2011 management is determined to do everything possible to reinforce further the safety culture at Ferrexpo, through an increase In safety spending as a proportion of sales revenue, through the development of the safety training programme, and through a continuing link between safety performance and staff remuneration (safety KPIs now apply to all staff down to middle management level).

Corporate Social Responsibility Review continued

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

Health and safety performance

	2010	2009	2008
Lost Time Injury Frequency Rate (LTIFR – see note)	**1.43**	1.11	0.95
Fatal accidents	**1**	0	3
Total accidents	**20**	15	17
Lost days	**916**	530	591

Note
LTIFR – Number of work-related lost time injuries per million man hours.

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.

Following a restructuring of the Labour Safety Department in 2009, there is a centralised Directorate for Industrial Labour Safety and Environmental Protection taking the place of the previous more localised structure. 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 continue to be developed.

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 2010 this took the form of co-operation with the labour safety consultants DuPont in the area of labour safety training and auditing (see under 'Safety Initiatives' below).

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. 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, March 2009 and March 2010, and the accreditation was confirmed by external auditors on each occasion.

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 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 additionally investigated by the State authority. The Board, the CSR Committee and the 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.

Tragically, there was one fatal accident at FPM in 2010, to the machinery repair man Ivan Kharchenko. A full investigation was carried out by both the Company and, as is usual in such cases, the State authorities, which attributed the accident to the failure of an item of electrical equipment. All similar items of equipment were then checked and replaced if appropriate. Also, measures have been taken for the total replacement of electrical equipment on cranes in the crushing plant during 2011-2012.

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 2010 FPM continued to implement safety programmes to improve the health and safety of its workers. These included:

> Work with DuPont (under the contract entered into at the end of 2009) on behavioural audits, with training sessions for 150 line managers, carried out in conjunction with a DuPont consultant, on how to carry out these audits, whose purpose is to improve company safety culture and eliminate dangerous work practices.
> Now that most of middle management has been trained in safety matters, training is being provided for more junior staff (additional to what they receive by law at the state safety institutes).
> Periodic revision of Company safety standards which are promulgated throughout the organisation, both orally and in writing (via procedure manuals).

Evidence that these and previous initiatives are bearing fruit, and that a safety culture is taking root, has been seen in the increasing readiness of staff to raise safety problems with management and suggest solutions to them.

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 2010 to approximately UAH 41.5 million (US$5.2 million, or 0.7% of sales) (2009: US$3.3 million, or 0.6% of sales).

FYM is starting to implement a full-time safety programme at the pit, which includes ensuring that Health and Safety technicians have the constant use of a car in which to patrol all areas.

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 2010 was UAH 7.3 million (US$0.9 million), the majority of which was spent on maintaining the health centre and ambulance, and on medical check-ups for staff.

In the past three years, there have been eight recorded cases of industrial disease (three in 2008, two in 2009 and three in 2010); most cases are associated with prolonged exposure to high 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).

Employees

Ferrexpo's employment principles 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. No further staff were transferred in 2010.

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.

Ferrexpo is aware of the increasing demand for staff with mining expertise in the CIS countries and elsewhere, and is constantly looking for ways to motivate and retain its key employees. (For an example of this, see case study on the social loyalty housing programme on page 39.)

Further information on employee numbers is set out in note 36 to the accounts.

Corporate Social Responsibility Review continued

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 2010, 103 employees were sponsored by Ferrexpo at institutes of higher education. Total educational spending for employees in higher educational establishments was UAH0.4 million (US$0.1 million).

Trade unions and industrial relations

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'). FPM entered into a new collective bargaining agreement with the Poltava Trade Union in 2008. A protocol of intent with the Poltava Trade Union for the period from 2008 to 2010 states 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) up 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.

There has been no major industrial action or labour dispute at Poltava since its privatisation in 1995. In the summer of 2010, following the introduction of more modern, safe and comfortable dump trucks and excavators on the site and a consequent significant improvement in the working conditions of the staff operating them, there was a re-certification of workplaces. This meant that the retirement age of the staff concerned (who had previously been allowed to retire early without loss of benefit because of their hard working conditions) was changed from 50 to 55. Some of the staff objected to this and took unofficial industrial action in the form of a limited 'go-slow' in the first week of August, after which normal working was resumed. Most of the staff did not support the go-slow, and there was no impact on production. FPM then participated in a working group including representatives of the government authorities, which found that FPM had acted correctly in the re-certification of workplaces.

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.
- The mines 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

	2008	2009	**2010**
Total gas emissions	6,177	6,167	**6,294**
Of which:			
Nitrogen dioxide	*2,879*	*2,876*	**2,922**
Carbon monoxide	*2,312*	*2,306*	**2,336**
Sulphur dioxide	*888*	*886*	**937**
Total solid emissions	3,224	3,212	**3,575**
Total emissions	9,401	9,379	**9,869**

In 2010 FPM spent UAH46 million (US$5.8 million) on the implementation of environmental measures. Payments for emissions and waste placement amounted to UAH23 million (US$2.9 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.

Social loyalty housing programme

In view of the difficulties that individuals in Ukraine face when obtaining housing finance, FPM has recommenced its social housing programme (last operated in 2006 before the IPO).

This is an arrangement, fairly common in Ukraine, under which financial assistance in the form of a housing loan at a favourable rate is provided to employees at Komsomolsk. The loan is extended and administered by a commercial bank but guaranteed by FPM, with the aim of motivating and retaining selected employees in the face of increasing demand for their services by Ferrexpo's competitors in Ukraine and elsewhere.

FPM will act as guarantor for the housing loans provided to key members of staff with high potential and a good performance record. The total amount of the loans is expected to be around US$3.5 million; this will allow assistance to be given to up to 100 employees to buy flats in and around Komsomolsk. The programme is expected to run for 10 to 15 years.

Corporate Social Responsibility Review continued

The system was audited again in May 2010, and the accreditation was confirmed by external auditors.

Project evaluation

The Group has 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. During 2010 FYM completed a study that sets out guidelines for monitoring the environmental and social impact of the project as it develops.

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. Progress during 2010 is set out below.

Water management

FPM uses some 491 million cubic metres of water each year, much of which is recycled through the tailings facility, although approximately 3.5 million cubic metres is extracted from a combination of the local river and the municipal drinking water supply.

The Tailings Storage Facility ('TSF') also receives the treated effluent from Komsomolsk's sewage treatment plant. Excess water from the TSF is passed through an extensive bio-engineered treatment system commissioned in May 2002.

Storm water from the site is treated in a new cascade treatment plant with a filtering dam commissioned in late 2005. The plant is designed to remove suspended solids and organic pollutants. Other rain and melt water is pumped to the slurry pit for clarification; in the case of excess water it is directed to the 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.

Progress in 2010

> Protection of the local river system (including advanced water treatment of clarified water at the sludge depository in the biological purification plant so as to prevent excessive discharge of pollutants into the local river system) – spending of US$0.2 million in 2010.
  Modernisation of the bulldozer washing station in the Mining Transport department will prevent fuel and lubricants from escaping and polluting groundwater.
  The TSF was inspected In October 2010 by experts from the Ministry of Emergencies, who found that the tailing ponds and the refuse pumping system were in a safe condition.
> Reduction of air pollution (stabilising banks of dry waste material by sowing grass on them, and intensively watering the work face in the pit after blasting and in dry weather) – spending of US$1.3 million in 2010.
> Waste management (including management of the depositing sites and tailings dam to allow for use of slurry (tailings) and stripping material in production, as well as securing continuous operation of water recycling system of water supply to the company departments) – spending of US$4.2 million in 2010.

Waste rock management

The currently operating Gorischne-Plavninskoye Lavrikovskoye ('GPL') open pit has generated some 517 million cubic metres of waste rock that is deposited in two dumps. Annual monitoring of the western and eastern dumps indicates that run-off from the waste rock dumps has no negative effect on air quality or water basins, and vegetation has been successfully cultivated on the inaccessible and abandoned areas of the rock dumps. Waste rock from future operations, including the 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.

Local communities

FPM believes that supporting local communities is one of its key social obligations. In 2010 it allocated UAH35.0 million (2009: UAH30.3 million) to the town of Komsomolsk, surrounding communities and various local organisations.

The main areas of spending were the local Centre of Culture and the Arts (UAH4.3 million) and a number of funds for municipal development and social activity for young people. The Company also subsidised medical treatment for some local residents and provided financial assistance to the medical establishments in the town (UAH2.1 million). Considerable assistance was also given to the local authority in improving the living environment in and around Komsomolsk (UAH2.6 million).

Corporate Social Responsibility Review continued

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 55,000 people, with approximately 24.3% 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.

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 (including providing financial sponsorship to Individual students whom FPM may subsequently employ) 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 2010 the objects of such support included railcar repair operations, lift repair and some cleaning services.

See also case studies on pages 41 and 43.

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. As a young and expanding company, FYM has been able to provide significant employment opportunities for local people. FYM aims to have good relationships with the communities adjacent to its operations, and 2010 saw the start of its involvement in a programme to upgrade the medical equipment at the local hospital.

Supporting educational establishments

Ferrexpo recognises the importance of earning the support of the local communities and encouraging the growth of the skilled workforce of the district. It therefore pays close attention to the local schools and colleges.

In 2010 FPM allocated more than UAH1.1 million for the needs of local secondary and technical schools, as well as providing financial help to pre-school institutions in the town and region. Managers from both FPM and FYM took part in the key school events throughout the year. Managers and employees also participated in meetings with the students and contributed to the training process at the technical schools.

Ferrexpo devotes much effort to providing information about its activities to the students and making them aware of the career possibilities that it offers.

Board of Directors and Executive Committee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The Board

1. Michael Abrahams, CBE DL (73)
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 (37)
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 ('Bank F&C') and as a member of the supervisory board of JSC Ukrnafta. Between 1993 and 1996, he was financial director of Bank F&C. He is a non-executive director of New World Resources NV, a subsidiary of BXR Group Limited. Kostyantin Zhevago graduated from the Kyiv State Economic University in 1996, specialising in international economics.

3. Christopher Mawe, FCA (49)
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, first with IMI plc in both 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 (66)
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 (49)
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 (44)
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 (58)
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 (56)
Non-executive Director

Mike Salamon joined the Board on 27 March 2009. He is executive chairman of New World Resources NV, a subsidiary of BXR Group Limited. 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.

The Executive Committee

Kostyantin Zhevago
Chief Executive Officer

(See profile under The Board)

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

Yaroslavna Blonska (37)
Acting Chief Marketing Officer

Yaroslavna Blonska has worked in the Ferrexpo Poltava Marketing Group since 2002, and in 2007 she was appointed the Marketing Manager of the Ferrexpo Group, where she was responsible for CIS and Eastern European sales. She has also been a Member of the TIS-Ruda Supervisory Board since 2007. On 1 January 2011 she was appointed Acting Chief Marketing Officer of Ferrexpo plc. Yaroslavna Blonska graduated from Kyiv State Economic University in 1996, with a degree of MSc in International management, and completed post graduate studies in Law at Kyiv State University.

Nikolay Goroshko (51)
Chief Financial Officer, Yeristovo Project

Nikolay Goroshko has worked for Ferrexpo Poltava Mining since 1984. 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. He is a graduate of the Kyiv Institute of National Economics, specialising in Industrial Planning.

Nikolay Kladiev (38)
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 (46)
Chief Operating Officer, Ferrexpo Poltava Mining

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

Brian Maynard (51)
Group Chief Operating Officer

Brian Maynard joined the Group in January 2011. He spent 30 years with Vale Inco & Vale Australia in their nickel and coal operations respectively, working in technical, operations management, and executive roles. In 2007 he was appointed Vice President, Mining in the Vale Inco Ontario, Canada operations. He moved to the President's role in the Manitoba, Canada operations in 2008 and was accountable for the fully integrated mining, milling, smelting and refining complex. Most recently he was the Global Coal Director – Technical & Administrative Support (including Finance, Sustainability, Logistics, Technical Services) in the Brisbane head office of the Vale Australia operations. He graduated in 1981 from the University of Manitoba, Canada with a BSc in Geological Engineering.

Corporate Governance Report

Introduction
The past year has seen the continued review by the regulatory authorities of governance standards and practices set in train by the financial crises of 2008; a number of key themes have come out of these reviews including the continued focus on risk and executive remuneration. The Ferrexpo Board remains committed to good corporate governance practices, in its management of the affairs of the Group and in its accountability to shareholders, and keeps under review the Group's own policies and procedures in these areas. As detailed in this report, the Directors' Report and the reports of the Audit, Nominations and Remuneration Committees, the Group has implemented an effective corporate governance framework and has established Board committees, internal procedures and Group policies which are considered vital for the proper management of the Group and good governance of Ferrexpo as an international business. As an English incorporated company with a primary listing on the London Stock Exchange the Company, in respect of the 2010 financial year, 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. The Board and management of the Group have a policy of conducting all business affairs in a fair and transparent manner and in maintaining high ethical standards in dealings with all relevant parties.

The Company has also reviewed the requirements of the 2010 UK Corporate Governance Code (the '2010 Code'), which applies to the Company with effect from the 2011 financial year, and will report on compliance in the annual report for 2011. The Board has decided that all of the Directors should stand for re-election at the AGM in 2011 and in future years, as recommended by the 2010 Code.

Information pursuant to the EU Takeover Directive
The company has provided the additional information required by the Disclosure and Transparency Rule 7.2.7 of the UK Listing Authority (Directors' interests in shares; appointment and replacement of Directors; powers of the Directors; restrictions on voting rights and rights regarding control of the company) in the Directors' Report and the Remuneration Report.

Statement of compliance
During the year to 31 December 2010 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 which are included in the Remuneration Report on pages 52 to 58.

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 Christopher Mawe, Chief Financial Officer; and five Non-executive Directors. Oliver Baring is the Senior Independent Director. The other Non-executive Directors are Lucio Genovese, Wolfram Kuoni, Ihor Mitiukov and Mike Salamon. Marek Jelinek retired from the Board on 27 May 2010.

Biographical details of the Directors at the date of this report are set out on pages 44 and 45 together with details of their membership of Board committees. A summary of the roles of the Chairman, the Chief Executive Officer and the Senior Independent Director is set out below.

The structure and business of the Board are designed to ensure that the Board focuses its attention on strategy, management, governance and control issues. The Board has a formal schedule of matters which sets out those matters requiring Board approval and specifically reserved to it for decision. 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. It also monitors financial performance and critical business issues. Major project approvals, contract awards and key policies and procedures also require the approval of the Board.

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.

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. The Company Secretary is also responsible for advising the Board on governance issues.

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 on page 48. 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 44 and 45. 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 44 and 45.

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 considers that its membership of two Executive Directors, a Non-executive Chairman and five Non-executive Directors, four of whom are deemed by the Board to be independent, is of an appropriate size and structure to manage the 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 Mr Salamon who represents 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.

In 2009, as part of the annual process of performance evaluation (see below), the Board reviewed the amount of time needed by the Non-executive Directors to perform their duties, and recognised that Lucio Genovese and Wolfram Kuoni were required 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 increased their remuneration with effect from 1 January 2009 (as set out in the Remuneration Report on pages 52 to 58). 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 remained 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').

Conflicts of interest

A procedure is in place to deal with Directors' conflicts of interest and the recording, reporting and, where appropriate, approval of related party transactions and review of relevant 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, the Executive Related Party Matters Committee (ERPMC) and the Committee of Independent Directors (CID). Any changes to the schedules are noted at the beginning of the next Board meeting. The Committee of Independent Directors has delegated authority to carefully consider and (if deemed appropriate in the circumstances) approve conflicts of interest on behalf of the Board. This procedure operates effectively, and the Group undertakes to follow emerging best practice in this area.

The Board has established a Committee of Independent Directors to consider and, if appropriate, approve related party transactions and conflicts of interests to the extent foreseen within Chapter 11 of the Listing Rules (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 and ensure that decisions are taken objectively in the Company's interest.

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 59 to 62.

Information and professional development

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 are up to date 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.

Professional development and training are provided in a number of ways including updates given to the Board on changes and proposed changes in laws and regulations affecting the Group. Site visits to ensure Directors are familiar with the Group's operations are held at least annually, and Directors may visit the operations of the Group independently to the extent that they feel this is necessary. During the year, as in previous years, the Board spent two days visiting the site in Ukraine.

Corporate Governance Report continued

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. In addition an appropriate induction programme 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. This is done by the chairman of the relevant body interviewing his colleagues and then discussing his findings with the body as a whole. 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. The terms of reference of the Audit, Remuneration, Nomination and CSR Committees 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 are set out below.

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	3/3
Mike Salamon	Non-executive Director	5/5

1 Left the Board on 27 May 2010.

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		4/4

Under its terms of reference the Audit Committee is required to meet at least three times a year at the most appropriate times in the reporting and audit process. The Committee monitors the integrity of the financial statements of the Group, including its annual and interim reports, interim management statements, preliminary results announcements and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain. The Audit Committee is also responsible for reviewing internal controls and risk management systems, whistleblowing procedures and internal audit processes, and oversees the relationship with the external auditors.

Remuneration Committee

Five Remuneration Committee meetings were held during the year.

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

The Remuneration Committee meets as required and is responsible for reviewing and approving all aspects of remuneration for the Executive Directors and members of the Executive Committee. Further details concerning the Remuneration Committee are set out in the Remuneration Report on pages 52 to 58.

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, for the approval of the Board, candidates to fill Board vacancies, having due regard to the need for appropriate balance and diversity on the Board. The Committee consults regularly with the Board while filling vacancies. The Executive Directors and Chairman also assist in identifying the scope and required skills for the vacant role. The Committee also gives consideration to succession planning at the Board and senior executive levels, including the Chief Executive and the Chief Financial Officer. Following a review of succession planning in 2010, a Group Chief Operating Officer was appointed in January 2011.

Corporate Safety and Social Responsibility Committee

One Corporate Safety and Social Responsibility ('CSR') Committee meeting was held during the year.

Committee members		Attendance record
Viktor Lotous	Chairman	1/1
Michael Abrahams		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 34 to 43.

Committee of Independent Directors

The Committee of Independent Directors ('CID') is composed of the Senior Independent Director (Oliver Baring), the Chairman of the Board, and the three other Independent Directors. The Committee considers and, if appropriate, authorises on behalf of the Board related party transactions within the terms of Chapter 11 of the Listing Rules of the Financial Services Authority and otherwise ensures compliance with Chapter 11 and with 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 is the main decision making body of the Group. Its members are detailed on page 45. It is responsible for managing and 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, annual and long term capital expenditure plans and budget. It meets regularly during the year. 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 execution of Board approved strategies for the Group, ensuring appropriate levels of authority are 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 aware 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 page 63.

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 48.

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 2010 and audit fees.
> Reviewed the risk matrix at each meeting, and discussed with the Head of Internal Audit the internal audit plan for 2010–12 and the findings of the internal audit reviews conducted during the year.
> Reviewed the effectiveness of the external auditors, their independence and the non-audit services they provided.

A statement on the Board's position regarding the Group as a going concern is contained in the Directors' Report on page 62.

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. This process was followed throughout 2010 and up to the date of approval of this Annual Report. 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.

Corporate Governance Report continued

Full details of the Group's policy on risk and uncertainties are set out in note 38 of the 'Notes to the Consolidated Financial Information' on pages 107 to 115. See also the Risks section of the Financial Review on pages 30 to 33.

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 FPM and FYM, the key Ukrainian subsidiaries, and Helogistics Holdings GmbH, the Austrian subsidiary acquired at the end of 2010.
> Clearly defined information and financial reporting systems, including regular forecasts and a rigorous annual budgeting process with reporting against key financial and operational milestones.
> Rigorous investment appraisal underpinned by the budgetary process where capital expenditure limits are applied to delegated authority limits.
> Clearly defined treasury policy monitored and applied in accordance with pre-set limits for investment and management of the Group's liquid resources including a separate treasury function.
> Internal audit by an 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.
> A whistleblowing policy is in place under which staff may in confidence raise concerns about financial or other impropriety.

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.
> An Investment Committee (a sub-committee of the Executive Committee) meets which twice a month to approve capital expenditures within limits delegated by the Executive Committee and the Board.
> A programme of internal audit reviews has been performed by the internal auditor.
> The Financial Risk Management Committee ('FRMC') reviews monthly financial information and management accounts, and meets monthly.
> A standard accounting manual is used by the finance teams throughout the Group, which ensures that information is gathered and presented in a consistent way that facilitates the production of the consolidated financial statements.

Treasury
Details of the Group Treasury policy are referred to in the Financial Highlights section on pages 30 to 33 and in the financial statements on pages 107 to 115.

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 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 2010–12 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. The policy on the provision of non-audit services prohibits 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 are also 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.

Fees for audit-related and non-audit-related services performed by the external auditors are shown in note 9 to the Financial Statements on page 84.

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 2011.

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 2010.

This Report will be subject to an advisory shareholder vote at the Company's 2011 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 48.

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 of Executive Directors and members of the Executive Committee
> Long-Term Incentive Plan performance and the Company's performance compared to its peers
> General market considerations surrounding executive remuneration packages and structure
> 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 industry segment, 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 and incentive plan policy during the forthcoming year. The Remuneration Committee will continue to give full consideration to the principles set out in the UK Corporate Governance Code 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' remuneration
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. At target level performance, performance-related pay makes up the majority of the remuneration of the Chief Financial Officer. In making this determination, the Committee makes reference to pay levels of international mining companies and other FTSE-listed companies of similar size and to pay and conditions, including average salary increases, elsewhere in the Ferrexpo Group.

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 2011 while keeping under review their motivational effectiveness.

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 and 2010 to broadly the same participants, on a similar basis. None of the awards granted in 2009 or 2010 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 total shareholder return (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 and 2010 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	

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

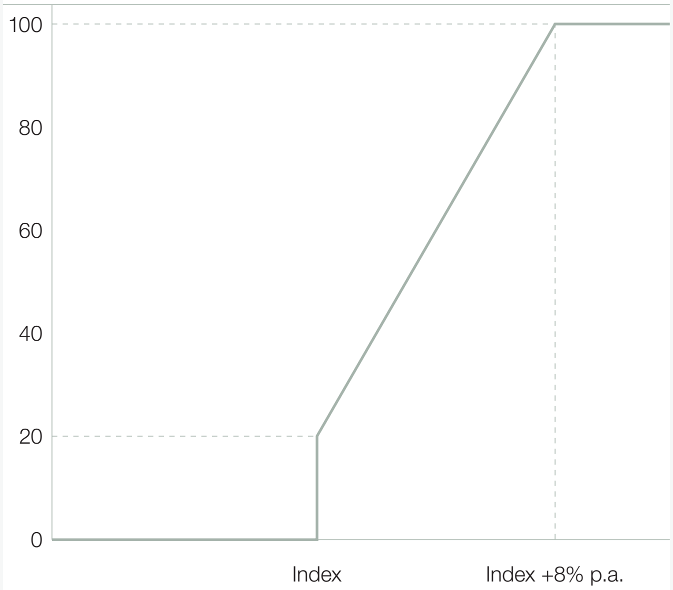
The Remuneration Committee has discretion to review the comparator index if any of the constituent companies are affected by corporate events such as mergers and acquisitions.

The Remuneration Committee also reviews the constituents and their weightings prior to the start of each LTIP cycle to ensure they remain appropriate. The Committee anticipates increasing the number of focused iron ore miners in the comparator index for 2011 LTIP awards.

Remuneration Report continued

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

Ferrexpo 3-year TSR
% of vesting award



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.

2008 LTIP award vesting

From 1 January 2008 to 31 December 2010, Ferrexpo's TSR performance was 23.9% and Index TSR was 0.5%. This outperformance of 7.2% p.a. of Index TSR resulted in 92% of 2008 LTIP awards vesting for TSR. The Remuneration Committee has considered the Company's overall performance and determined that the recorded TSR outperformance was a fair reflection of Ferrexpo's underlying performance over the performance period and therefore determined, in accordance with the rules of the plan that 92% of the 2008 LTIP awards vested.

Proposed 2011 LTIP awards

The Remuneration Committee intends to operate the LTIP framework in 2011 in the same manner as in 2010. However, as intimated in the 2009 Remuneration Report, the Committee has looked at ways to improve the comparison of the management long-term incentive in relation to potential short-term share price movements in Ferrexpo's share price or the share price of comparator companies. After consulting the principal shareholders of Ferrexpo in the summer of 2010, the Remuneration Committee determined that it would extend the TSR share-price averaging period from three to six months to help eliminate this potential short-erm variability.

This change will be implemented for LTIP awards to be made in 2011. The TSR performance requirements for threshold and full vesting will remain unchanged. Existing 2009 and 2010 LTIP cycles will continue to employ three-month share price averaging.

LTIP: share ownership guidelines

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

Short-Term Incentive Plan

A Short-Term Incentive Plan (STIP) is in place which applies to the members of the Executive Committee, excluding Mr Zhevago. This STIP is a discretionary annual bonus scheme. For 2010 the maximum STIP opportunity for members of the Executive Committee ranged from 75% to 150% of salary.

Key Performance Indicators ('KPIs') for 2010 were set for each member of the Executive Committee and were weighted to reflect the contribution of each executive to the achievement of that KPI. In relation to the Chief Financial Officer the Committee retained a broad discretion, taking into account both corporate and personal performance against objectives.

Financial and Operational KPIs during the year related to financial performance, production output, corporate social responsibility (CSR), project performance and governance.

Taking into account these results and also his individual performance, the Remuneration Committee awarded the Chief Financial Officer an STIP award of 150% of salary. The actual outcome for the other members of the Executive Committee ranged from 57% to 97% of salary.

For 2011, financial KPIs have been set and will be adjusted throughout the period to take account of market and input cost price developments as appropriate to the extent that these are not under the direct control of management. Adjustments are at the full discretion of the Remuneration Committee. CSR, projects and personal KPIs will continue to be set as in previous years. Weightings for the Chief Financial Officer in 2011 will be 20% for financial (EBITDA and net operating profit after tax (NOPAT)), 5% for CSR, 25% for production and sales volumes, and 50% for personal, projects and governance.

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 (which have no fixed term) 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	CHF613,880

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

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 his 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$93,000 in 2010, 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 CHF168,000 of accommodation rental assistance per annum, an increase from 2009 reflecting the increase in Swiss rental costs.

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 and to which the Company contributes an average of 10% of their annual base salaries.

Pension benefits earned by the Directors in the year ended 31 December 2010 were:

US$000	Age	Accrued benefit at 1 Jan 2010	Increase in period (net of indexation)	Transfer value of increase in period	Forex effect	Accrued benefit at 31 Dec 2010	Transfer value at 1 Jan 2010	Transfer value at 31 Dec 2010	Movement in transfer value during the period less Directors' contributions	Forex effect
Chris Mawe	49	259	83	56	54	452	122	214	67	25
Kostyantin Zhevago	37	10	7	4	3	24	5	13	6	2

Chairman and Non-executive Directors' remuneration

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 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 are each appointed for an initial period of three years, and their appointments (with the exception of that of Mike Salamon) 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.

Remuneration Report continued

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 initial appointment	Duration of term	Fees p.a.
Michael Abrahams	Chairman	14 June 2007	3 years[5]	US$400,000
Oliver Baring[1]	Non-executive Director	1 December 2007	3 years[5]	US$140,000
Lucio Genovese[2,4]	Non-executive Director	14 June 2007	3 years[5]	US$180,000
Wolfram Kuoni[3,4]	Non-executive Director	14 June 2007	3 years[5]	US$215,000
Ihor Mitiukov	Non-executive Director	14 June 2007	3 years[5]	US$120,000
Mike Salamon	Non-executive Director	27 March 2009	3 years	US$120,000

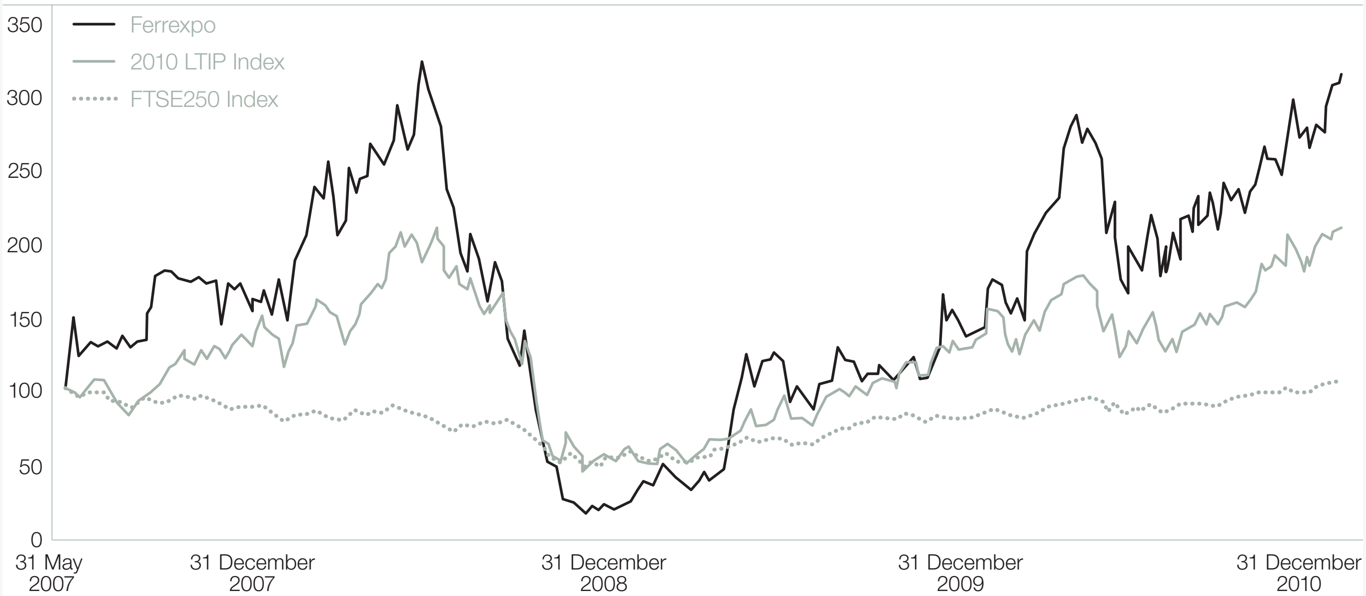
1 Oliver Baring receives a fee of US$120,000 p.a. as a Non-executive Director and an additional fee of US$20,000 p.a. in total for his roles as Senior Independent Director and Chairman of the Nominations Committee and Committee of Independent Directors.
2 Lucio Genovese receives a fee of US$120,000 p.a. 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 47.
5 Initial term was for three years from the date of the 2008 AGM. Appointments were renewed by the Board for a further term of three years (until the date of the 2014 AGM) in March 2011, subject to the requirement for periodic re-election at the Annual General Meeting.

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. Mr Zhevago's external directorship is mentioned in the biographical section of the Company Overview on page 44. He does not retain any fees for this directorship.

Performance review

Source: Bloomberg



The above graph shows the value, at 31 December 2010, 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. The FTSE 250 index is chosen because Ferrexpo is a constituent member of this group.

Part B: Audited Information

Directors' remuneration for the period from 1 January 2010 to 31 December 2010

Salary, annual bonus and other benefits

	Salary or fees US$000	Pension US$000	Benefits US$000	Bonus US$000	**Total 2010 US$000**	Total 2009 US$000
Chairman						
Michael Abrahams	400	–	331[1]	–	**731**	906
Executive Directors						
Kostyantin Zhevago	240	8	93[3]	–	**341**	322[4]
Chris Mawe	590	78	91[3]	885	1,644	1,237[5]
Non-executive Directors						
Oliver Baring	140	–	–	-	**140**	140
Lucio Genovese	180	–	–	-	**180**	180
Marek Jelinek	50[2]	–	-	-	**50**	90
Wolfram Kuoni	215	–	–	-	**215**	215
Ihor Mitiukov	120	–	-	-	**120**	120
Mike Salamon	120	–	-	-	**120**	90
Former Executive Director						
Mike Oppenheimer	–	–	–	–	–	18
Total	2,055	86	515	885	**3,541**	3,318

1 Relates solely to share-based valuation of listing bonus awards.
2 Retired from the Board on 27 May 2010.
3 Relates to accommodation costs.
4 Total for 2009 includes pension related benefits amounting to US$4 thousand.
5 Total for 2009 includes pension related benefits amounting to US$117 thousand.

Directors' interests in shares of the Company

Interests of the Directors in office as at 31 December 2010

	At 31 December 2010	At 31 December 2009
Michael Abrahams	**167,646**	242,229
Kostyantin Zhevago[1]	**300,198,313**	300,198,313
Christopher Mawe	**0**	0
Oliver Baring	**20,130**	20,130
Lucio Genovese	**169,005**	168,719
Wolfram Kuoni	**28,290**	28,004
Ihor Mitiukov	**31,327**	31,011
Mike Salamon	**100,000**	100,000

1 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 2011, 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 vested 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.

Remuneration Report continued

Long-Term Incentive Plan awards

In 2010 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 53 and 54.

	At 1 January 2010	Granted (2010 LTIP Award)	During year Exercised	During year Lapsed	**Total at 31 December 2010**	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**[2]	411	–	01.01.2011	16.05.2018
	100,000	–	–	–	**100,000**	143	–	01.01.2012	14.09.2019
	–	100,000[1]	–	–	**100,000**	275	–	01.01.2013	17.06.2020
Total					**300,000**				

1 Date of grant 18 June 2010.
2 This award has vested as to 92% under the TSR performance condition described above. At the date of vesting the market price per share was 415.9p.

Former Executive Directors vesting of LTIP awards

In accordance with the provisions of the LTIP rules and applicable employment contracts, the LTIP award made to Dennis McShane in 2008 vested as follows:

	Grant of shares	Number of shares	Vesting date	Pro rated for time	Adjusted number of shares	Proportion of shares vesting under TSR test	Number of shares vesting
Dennis McShane	2008 LTIP award[1]	100,000[2]	31 Dec 2010	61%	61,111	92%	56,222

1 A Transitional award of 75,000 shares made in 2008 did not vest and lapsed at the end of 2009.
2 At the date of vesting the market price per share was 415.9p.

Other transactions involving Directors are set out in note 35 (related party disclosure) to the Financial Statements.

This Report was approved by the Board on 22 March 2011.

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 2010.

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).

> The Chairman's and Chief Executive Officer's Statement on pages 6 to 9
> The Operating Review on pages 20 to 25
> The Financial Highlights on pages 26 to 29
> The statement of risks on pages 30 to 33
> The Corporate Social Responsibility Review on pages 34 to 43.

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 46 to 51 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 65.

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 3 June 2011 to shareholders on the register at the close of business on 3 May 2011. 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 (retired 27 May 2010)
> Wolfram Kuoni
> Chris Mawe
> Ihor Mitiukov
> Mike Salamon
> Kostyantin Zhevago

In compliance with the 2010 UK Corporate Governance Code all of the Directors will retire at the forthcoming AGM and, 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 44 and 45. 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 52 to 58.

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.

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

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 29 of the financial statements.

Directors' Report continued

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 27 May 2010. This authority will expire at the conclusion of the Company's 2011 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 2010.

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.

Substantial shareholdings

As at 15 March 2011, the Company had been advised in accordance with the Disclosure and Transparency Rules, of the following notifiable interests in its voting rights:

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]	76,656,035	76,656,035	13.02%

1 Fevamotinico S.a.r.l. is a wholly owned subsidiary of The Minco Trust of which Kostyantin Zhevago is a beneficiary.
2 BXR Group Ltd is the ultimate parent undertaking and indirect controller of Wigmore Street Investments No. 3 Ltd, which holds 76,656,035 shares through its nominee Lynchwood Nominees ltd. In addition, Wigmore Street Investments No. 3 Ltd Is Interested In Total Return Swaps covering 70,500,000 shares.

Significant agreements – change of control

The Company does not have any agreements with Directors or employees that would provide for compensation for loss of office or employment resulting from a takeover.

There are no circumstances connected with any other 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$350 million pre-export finance facility with Deutsche Bank AG and other banks, entered into in September 2010, 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 Financial Highlights (page 29) and in the Corporate Governance Report (page 47). 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 42 to the financial statements on page 119.

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 38 to the Consolidated Financial Information on pages 107 to 115.

Directors' Report continued

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 2010 for the Company was 20 days (2009: 27 days).

Charitable and political donations
The Group made no political donations during the year. Group donations to charities worldwide were US$4,418,000 (2009: US$4,043,000), with UK charities receiving US$nil (2009: 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 38 of the 'Notes to the Consolidated Financial Information' on pages 107 to 115. Further references to risk are made on pages 30 to 33 and in the Internal Control section of the Corporate Governance Report on page 49 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 Group's business activities, together with the risk factors likely to affect its future development, performance and position are set out on pages 26 to 33. The financial position of the company, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 26 to 29. In addition, note 38 of the 'Notes to the Consolidated Financial Information' on pages 107 to 115 sets out the Group's objectives, policies and processes for managing its capital; its financial risk management objectives and details of its financial instruments; and its exposures to credit risk, liquidity risk, currency risk and interest rate risk.

The Group's forecasts and projections, taking into account possible changes in the iron ore market and general economic environment, show that the Group generates sufficient operating cash flows to comply with the amortisation schedule for the existing major debt facility and to finance the anticipated development projects.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate financial resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis of accounting in preparing the financial statements of the Group.

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 46 to 51 (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 63.

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 26 May 2011 at the Intercontinental Hotel, 1 Hamilton Place, Park Lane, London W1J 7QY. 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 2011 Annual General Meeting.

This report was approved by the Board on 22 March 2011.

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 2010 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, Consolidated, Statements of Financial Position, the Consolidated Statement of Cash Flows, Consolidated Statement of Changes in Equity, Parent Company Balance Sheet and the related notes 1 to 41 for the Group financial statement and notes 1 to 10 for the Parent Company financial statements. The financial reporting framework that has been applied in the preparation of the Group financial statement is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 63, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

> The financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2010 and of the group's profit for the year then ended
> The group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union
> The parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Account Practice; and
> The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

> The part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006
> The information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

> Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
> The parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and return, or
> Certain disclosures of directors' remuneration specified by law are not made, or
> We have not received all the information and explanations we require for our audit

Under the Listing Rules we are required to review:

> The directors' statement, set out on page 62, in relation to going concern
> The part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review
> Certain elements of the report to shareholders by the Board on directors' remuneration

Ernst & Young LLP
Bob Forsyth (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
22 March 2011

Consolidated Income Statement

US$000	Notes	Year ended 31.12.10	Year ended 31.12.09
Revenue	6	**1,294,900**	648,667
Cost of sales	7	**(481,857)**	(341,067)
Gross profit		**813,043**	307,600
Selling and distribution expenses	8	**(212,006)**	(162,266)
General and administrative expenses	9	**(49,175)**	(43,161)
Other income	10	**4,515**	4,102
Other expenses	11	**(5,938)**	(3,418)
Operating foreign exchange (losses)/gains	12	**(1,078)**	2,534
Operating profit from continuing operations before adjusted items		**549,361**	105,391
Under recovery of VAT receivable	27	**(10,936)**	–
Write-offs and impairment losses	13	**(1,618)**	(2,757)
Share of profit of associates	14	**4,155**	1,304
Gain on bargain purchase	15/41	**2,623**	503
Initial public offering costs	39	**(55)**	(427)
(Losses)/gains on disposal of property, plant and equipment		**(1,305)**	213
Profit before tax and finance from continuing operations		**542,225**	104,227
Finance income	16	**2,632**	2,893
Finance expense	16	**(42,843)**	(23,718)
Non-operating foreign exchange losses	12	**(3,888)**	(2,552)
Profit before tax		**498,126**	80,850
Income tax expense	17	**(73,002)**	(9,852)
Profit for the year from continuing operations		**425,124**	70,998
Attributable to:			
Equity shareholders of Ferrexpo plc		**422,906**	70,627
Non-controlling interests		**2,218**	371
		425,124	70,998
Earnings per share:			
Basic (US cents)	18	**72.34**	12.08
Diluted (US cents)	18	**72.24**	12.05

Consolidated Statement of Comprehensive Income

US$000	Year ended 31.12.10	Year ended 31.12.09
Profit for the period	**425,124**	70,998
Exchange differences on translating foreign operations		
Exchange differences arising during the year	**533**	(20,842)
Exchange differences arising on hedging of foreign operations	**110**	(3,697)
Available-for-sale investments		
Gain arising on revaluation during the year	**1,915**	400
Income tax effect	**(492)**	2,895
Other comprehensive income for the period, net of tax	**2,066**	(21,244)
Total comprehensive income for the period, net of tax	**427,190**	49,754
Total comprehensive income attributable to:		
Equity shareholders of Ferrexpo plc	**424,923**	49,633
Non-controlling interests	**2,267**	121
	427,190	49,754

Consolidated Statement of Financial Position

US$000	Notes	As at 31.12.10	As at 31.12.09
Assets			
Property, plant and equipment	19	**647,137**	452,100
Goodwill and other intangible assets	20	**102,715**	100,354
Investments in associates	14	**21,132**	19,915
Available-for-sale financial assets	21	**3,356**	2,917
Other non-current assets	22	**24,767**	9,824
Deferred tax assets	23	**16,596**	13,673
Total non-current assets		**815,703**	598,783
Inventories	24	**104,827**	59,636
Trade and other receivables	25	**111,890**	38,117
Prepayments and other current assets	26	**18,922**	19,394
Income taxes recoverable and prepaid	27	**35**	9,741
Other taxes recoverable and prepaid	27	**103,647**	81,284
Available-for-sale financial assets	21	**–**	626
Cash and cash equivalents	28	**319,470**	11,991
		658,791	220,789
Assets classified as held for sale		**3,149**	–
Total current assets		**661,940**	220,789
Total assets		**1,477,643**	819,572
Equity and liabilities			
Issued capital	29	**121,628**	121,628
Share premium	29	**185,112**	185,112
Other reserves	29	**(344,420)**	(347,858)
Retained earnings		**885,353**	501,175
Equity attributable to equity shareholders of Ferrexpo plc		**847,673**	460,057
Non-controlling interests		**13,801**	11,387
Total equity		**861,474**	471,444
Interest bearing loans and borrowings	30	**401,290**	18,143
Defined benefit pension liability	32	**17,819**	14,529
Provision for site restoration	33	**2,746**	1,268
Deferred tax liabilities	23	**2,432**	3,739
Total non-current liabilities		**424,287**	37,679
Interest bearing loans and borrowings	30	**22,563**	251,503
Trade and other payables	31	**88,089**	27,802
Accrued liabilities and deferred income	34	**25,496**	12,146
Income taxes payable	27	**41,811**	11,105
Other taxes payable	27	**13,923**	7,893
Total current liabilities		**191,882**	310,449
Total liabilities		**616,169**	348,128
Total equity and liabilities		**1,477,643**	819,572

The financial statements were approved by the Board of Directors on 22 March 2011.

Kostyantin Zhevago
Chief Executive Officer

Christopher Mawe
Chief Financial Officer

Consolidated Statement of Cash Flows

US$000	Notes	Year ended 31.12.10	Year ended 31.12.09
Profit before tax		**498,126**	80,850
Adjustments for:			
Depreciation of property, plant and equipment and amortisation of intangible assets		**30,415**	28,018
Interest expense	16	**42,843**	20,622
Under recovery of VAT receivable	27	**10,936**	–
Interest income	16	**(2,632)**	(2,893)
Share of income of associates	14	**(4,155)**	(1,304)
Movement in allowance for doubtful receivables	25	**(3,685)**	(5,199)
Losses/(gains) on disposal of property, plant and equipment		**1,305**	(213)
Write-offs and impairment losses	13	**1,618**	2,757
Site restoration provision	33	**1,478**	159
Employee benefits		**3,281**	5,474
IPO costs	39	**55**	427
Share-based payments		**1,366**	3,423
Gain recognised on rights issue at subsidiary	15	**–**	(503)
Gain on bargain purchase from business combination	41	**(2,623)**	–
Operating foreign exchange (losses)/gains	12	**1,078**	(2,534)
Non-operating foreign exchange losses	12	**3,888**	2,552
Operating cash flow before working capital changes		**583,295**	131,636
Changes in working capital:			
(Increase)/decrease in trade and other receivables		**(74,020)**	14,961
(Increase)/decrease in inventories		**(42,938)**	1,777
Increase/(decrease) in trade and other accounts payable		**11,215**	(6,474)
(Increase) in VAT recoverable and other taxes prepaid[1]	27	**(31,062)**	(24,038)
Cash generated from operating activities		**446,490**	117,862
Interest paid		**(25,437)**	(19,197)
Income tax paid	27	**(37,827)**	(18,899)
Post-employment benefits paid		**(3,468)**	(2,897)
Net cash flows from operating activities		**379,758**	76,869
Cash flows from investing activities			
Purchase of property, plant and equipment	19	**(166,775)**	(85,823)
Proceeds from sale of property, plant and equipment		**–**	213
Purchases of intangible assets	20	**(633)**	(598)
Interest received		**1,270**	2,104
Proceeds from loans to associates	22/26	**1,550**	6,450
Pre-acquistion loans provided	41	**(10,881)**	–
Acquisition of subsidiaries, net of cash acquired	41	**582**	–
Net cash flows used in investing activities		**(174,887)**	(77,654)
Cash flows from financing activities			
Proceeds from borrowings and finance		**668,802**	35,637
Repayment of borrowings and finance		**(505,359)**	(73,168)
Arrangement fees paid		**(21,074)**	–
Dividends paid to equity shareholders of Ferrexpo plc[2]		**(41,744)**	(36,325)
Dividends from associates		**2,931**	–
Dividends paid to non-controlling shareholders		**(47)**	(234)
Net cash flows from/(used) in financing activities		**103,509**	(74,090)
Net increase/(decrease) in cash and cash equivalents		**308,380**	(74,875)
Cash and cash equivalents at the beginning of the year		**11,991**	87,822
Currency translation differences		**(901)**	(956)
Cash and cash equivalents at the end of the year[3]	28	**319,470**	11,991

1 The movement includes effect of VAT receivable amounting to US$72,318 thousand, which was recovered through VAT bonds. See note 27 for further details
2 Difference to statement of change in equity represents unpaid withholding tax amounting to US$3,163 thousand on dividend paid in the prior year.
3 The balance of cash and cash equivalents includes restricted cash of US$37,768 thousand (2009: US$ nil).

Consolidated Statement of Changes in Equity

	Attributable to equity shareholders of Ferrexpo plc										
US$000	Issued capital (Note 29)	Share premium (Note 29)	Uniting of interest reserve (Note 29)	Treasury share reserve (Note 29)	Employee benefit trust reserve (Note 29 and 40)	Net unrealised gains reserve (Note 29)	Translation reserve (Note 29)	Retained earnings	Total capital and reserves	Non-controlling interests (Note 1)	Total equity
At 1 January 2009	121,628	185,112	31,780	(77,260)	(15,443)	813	(270,604)	470,098	446,124	11,769	457,893
Profit for the period	–	–	–	–	–	–	–	70,627	70,627	371	70,998
Other comprehensive income	–	–	–	–	–	301	(21,295)	–	(20,994)	(250)	(21,244)
Total comprehensive income for the period	–	–	–	–	–	301	(21,295)	70,627	49,633	121	49,754
Equity dividends paid to shareholders of Ferrexpo plc	–	–	–	–		–	–	(39,550)	(39,550)	–	(39,550)
Share-based payments (note 39)	–	–	–	–	3,850	–	–	–	3,850	–	3,850
Adjustments relating to the decrease in non-controlling interests	–	–	–	–	–	–	–	–	–	(503)	(503)
At 31 December 2009	**121,628**	**185,112**	**31,780**	**(77,260)**	**(11,593)**	**1,114**	**(291,899)**	**501,175**	**460,057**	**11,387**	**471,444**
Profit for the period	–	–	–	–	–	–	–	422,906	422,906	2,218	425,124
Other comprehensive income	–	–	–	–	–	1,401	616	–	2,017	49	2,066
Total comprehensive income for the period	–	–	–	–	–	1,401	616	422,906	424,923	2,267	427,190
Equity dividends paid to shareholders of Ferrexpo plc	–	–	–	–	–	–	–	(38,581)	(38,581)	–	(38,581)
Share-based payments (note 39)	–	–	–	–	1,421	–	–	–	1,421	–	1,421
Adjustments relating to the decrease in non-controlling interests[1]	–	–	–	–	–	–	–	(147)	(147)	147	–
At 31 December 2010	**121,628**	**185,112**	**31,780**	**(77,260)**	**(10,172)**	**2,515**	**(291,283)**	**885,353**	**847,673**	**13,801**	**861,474**

1 Transfer of shareholdings in subsidiaries resulted in change of non-controlling interests. See note 2 for further details.

Notes to the Consolidated Financial Information

Note 1: Corporate information

Organisation and operation

Ferrexpo plc (the 'Company') is incorporated in the United Kingdom with registered office at 2–4 King Street, London, SW1Y 6QL, UK. Ferrexpo plc and its subsidiaries (the 'Group') operate a mine and processing plant near Kremenchuk in Ukraine, an interest in a port in Odessa and a sales and marketing company in Switzerland and Kiev. The Group also owns a logistic group located in Austria which operates a fleet of vessels operating on the Rhine and Danube waterways. The Group's operations are vertically integrated from iron ore mining through to iron ore concentrate and pellet production and subsequent logistics. The Group's mineral properties lie within the Kremenchuk Magnetic Anomaly and are currently being exploited at the Gorishne-Plavninsky and Lavrikovsky deposits. These deposits are being jointly mined as one mining complex.

The majority shareholder of the Group is Fevamotinico S.a.r.l. ('Fevamotinico'), a company owned The Minco Trust, of the beneficiaries of which is Kostyantin Zhevago, the Group's Chief Executive Officer. At the time this report was published, Fevamotinico held 51.0% (2009: 51.0%) of Ferrexpo plc's issued share capital.

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

Name	Country of incorporation	Principal activity	Equity interest owned at 31 December 2010 %	2009 %
Ferrexpo Poltava GOK Corporation[1]	Ukraine	Iron ore mining	**97.3**	97.3
Ferrexpo AG[2]	Switzerland	Sale of iron ore pellets	**100.0**	100.0
DP Ferrotrans[3]	Ukraine	Trade, transportation services	**97.3**	97.3
United Energy Company LLC[3]	Ukraine	Holding company	**97.3**	97.3
Ferrexpo Finance plc (formerly Ferrexpo UK Limited[1])	England	Finance	**100.0**	100.0
Ferrexpo Services Limited[1]	Ukraine	Management services and procurement	**100.0**	100.0
Ferrexpo Hong Kong Limited[1]	China	Marketing services	**100.0**	100.0
Ferrexpo Yeristovo GOK LLC[4]	Ukraine	Iron ore mining	**100.0**	98.6
Ferrexpo Belanovo GOK LLC[4]	Ukraine	Iron ore mining	**100.0**	98.6
Nova Logistics Limited[3]	Ukraine	Service company (dormant)	**51.0**	51.0
Helogistics Holding GmbH[5]	Austria	Holding company	**100.0**	–
EDDSG GmbH[5]	Austria	Logistic company	**100.0**	–
DDSG Tankschiffahrt GmbH[5]	Austria	Logistic company	**100.0**	–
Helogistics Transport GmbH[5]	Austria	Logistic company	**100.0**	–
Mahart Duna Cargo Kft.[5]	Hungary	Logistic company	**100.0**	–
Pancar Kft.[5]	Hungary	Logistic company	**100.0**	–

1 The Group's interest in these entities is held through Ferrexpo AG. For details in respect to the change in equity interest we refer to note 15.
2 Ferrexpo AG was the holding company of the Group until, as a result of the pre-IPO restructuring; Ferrexpo plc became the holding company on 24 May 2007.
3 The Group's interest in these entities is held through Ferrexpo Poltava GOK Corporation.
4 The Group's interest in this entity is held through both Ferrexpo AG and Ferrexpo Service Limited. The shares initially held by Ferrexpo Poltava GOK Corporation have been transferred as of 31 August 2010 to Ferrexpo AG and Ferrexpo Services Ltd.
5 The Group's interest in these entities are held through Ferrexpo AG. Helogistics Holding GmbH and its subsidiaries were acquired on 14 December 2010 and have been consolidated for the first time as of 31 December 2010. Legal completion of the acquisition occurred on 19 January 2011. The details of the business combination are disclosed in note 41.

The Group also holds an interest of 48.6% (2009: 48.6%) in TIS Ruda, a Ukrainian port located on the Black Sea. As this is an associate, it is accounted for using the equity method of accounting and further disclosed in note 14.

Note 2: Summary of significant accounting policies

Basis of preparation

The consolidated financial statements of Ferrexpo plc and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). IFRS as adopted by the EU differs in certain respects from IFRS as issued by the International Accounting Standards Board (IASB). However, the consolidated financial statements would be no different had the Group applied IFRS as issued by the IASB, as it applies to accounting periods ended 31 December 2010.

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

Note 2: Summary of significant accounting policies continued
The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2009, except for those changes detailed in note 3. Risks in relation to the facilities and re-financing are contained in the Business Review of this report.

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

Subsidiaries acquired are fully consolidated from the date of effective control, when Group obtains effective control. Similarly, subsidiaries disposed of are deconsolidated from the date on which the Group ceases to hold effective control.

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

Business combination and goodwill
Business combinations from 1 January 2010
On the acquisition of a subsidiary, the business combination is accounted for using the acquisition method. The cost of an acquisition is measured as the aggregated amount of the consideration transferred, measured at the date of acquisition. The consideration paid is allocated to the assets acquired and liabilities assumed on the basis of fair values at the date of acquisition. Acquisition costs are expensed when incurred and included in general and administrative expenses.

If the cost of acquisition exceeds the identifiable net assets attributable to the Group, the difference is considered as purchased goodwill, which is not amortised but annually reviewed for impairment or in case of an indication of impairment. In the case that the identifiable net assets attributable to the Group exceed the cost of acquisition, the difference is recognised in profit and loss as a gain on bargain purchase. For each business combination, the Group measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. If the initial accounting for a business combination cannot be completed by the end of the reporting period in which the combination occurs, only provisional amounts are reported, which can be adjusted during the measurement period of 12 months after acquisition date.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Details to the impairment testing are given in section Impairment testing of assets on page 90.

Business combinations prior to 1 January 2010
The following accounting treatment was applied for business combination prior to 1 January in comparison to the above-mentioned policy:

Transaction costs directly attributable to the acquisition were considered as acquisition costs and had an impact on the goodwill calculation. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps and any additional acquired share of interest did affect either previously recognised goodwill or profit and loss in case of a bargain purchase.

Similar procedures are applied in accounting for the purchase of interests in associates.

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

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised nor individually tested for impairment. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's investment in the associate.

The share of profit of an associate is shown on the face of the income statement. This is the profit attributable to the Group and therefore is profit after tax and non-controlling interests in the subsidiaries of the associate.

The reporting dates of the associates and Ferrexpo plc are identical and the associates' accounting policies are generally in conformity of those applied by the Group.

Notes to the Consolidated Financial Information continued

Note 2: Summary of significant accounting policies continued

Functional and presentational currencies

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

Foreign currency translation

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

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

Revenue recognition

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

Sale of goods including pellet sales

Revenue is recognised when the risks and rewards of ownership of the goods have passed to the buyer and can be reliably measured.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business, net of discounts, customs duties and sales taxes. Risks and rewards of the ownership of goods passes when title for the goods passes to the customer as determined by the terms of the sales agreement. The sales are typically made under the following terms:

> CIF (Cargo Insurance and Freight);
> CFR (Cargo and Freight);
> DAF (Delivery At Frontier);
> DES (Delivered Ex Ship); or
> FOB (Free on Board).

Under the CFR and FOB terms the title passes on the bill of lading date whereas under the other terms revenue is recognised when goods arrive at agreed destination or at boarder crossing.

If the sales agreement allows for adjustment of the sales prices based on survey of the goods by the customer (e.g. ore content) the revenue is recognised based on the most recent determined product specification.

Other sales

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

Logistic services

Revenue from logistic services rendered is recognised as the services are completed. Where services are invoiced in advance of discharge, amounts attributable to the time between the end of the reporting period and the discharge date are deferred.

Rendering of services

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

Rental income

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

Foreign exchange gains and losses

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

Note 2: Summary of significant accounting policies continued

Finance income and expense

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

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

Taxes

Current income tax

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

Deferred income tax

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

Deferred tax liabilities are recognised for all taxable temporary differences, if it is probable that they become taxable, except:

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

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised, except:

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

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

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

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

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

Value added tax

Revenues, expenses and assets are recognised net of the amount of value added tax ('VAT'), except:

- where VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case VAT is recognised as part of the cost of acquisition of the asset or as part of expense item as applicable; and
- receivables and payables are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is disclosed in the note 27 to the financial statements.

VAT receivable balances are not discounted unless the overdue balances are expected to be received after more than 12 months following the period end. Where intentions have been communicated officially that VAT repayments which are due are to be converted into bonds or other financial instruments, these are valued at the estimated market value of such instruments with any adjustment charged to the income statement.

Notes to the Consolidated Financial Information continued

Note 2: Summary of significant accounting policies continued

Equity

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

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

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

Financial assets

Derivative financial instruments
The Group does not hold any derivative financial instruments.

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

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

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

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

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

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

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

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

Financial liabilities

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

Note 2: Summary of significant accounting policies continued

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

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

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

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

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

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

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

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

Leases
The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, i.e. whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even it that right is not specified in an arrangement.

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

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

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

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

Notes to the Consolidated Financial Information continued

Note 2: Summary of significant accounting policies continued

Borrowing costs

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

The Group capitalises borrowing costs for all qualifying assets where construction was commenced on or after 1 January 2009. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

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

Major spare parts and stand-by equipment qualify as property, plant and equipment when they are expected to be used during more than one period. Expenditure incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to the income statement in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditure results in future economic benefits, the expenditure is capitalised as an additional cost.

Property, plant and equipment is depreciated over its estimated useful life which is calculated with due regard to both its own physical life limitations and the present assessment of economically recoverable reserves of the mine property at which the item is located. Estimates of remaining useful lives are made on a regular basis for all mine buildings, machinery and equipment, with annual reassessments for major items. Changes in estimates, which affect unit of production calculations, are accounted for prospectively.

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

- Buildings: 20–50 years
- Vessels: 30–40 years
- Plant and equipment: 3–15 years
- Vehicles: 7–15 years
- Fixtures and fittings: 2.5–10 years

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

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

On acquisition the cost of property, plant and equipment is capitalised on the statement of financial position. Depreciation commences when the item is available for use. Freehold land is not depreciated.

Stripping costs included in mining assets and assets under construction

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

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

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

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

Note 2: Summary of significant accounting policies continued

Intangible assets

Goodwill

The policies applied for the initial recognition and subsequent measurement of goodwill is described under Goodwill and other intangible assets and Business combination on page 90 and page 117 respectively.

Other intangible assets

Other intangible assets acquired separately are measured on initial recognition at cost. The cost of other intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, if any.

The useful lives of other intangible assets are assessed as either finite or indefinite.

Amortisation

Other intangible assets, other than goodwill, primarily comprise capitalised software costs, which are amortised on a straight-line basis over the estimated useful life of the asset, ranging between one and three years.

Capitalised mineral licences are amortised on a unit of production basis.

Impairment of assets (excluding financial assets)

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. If the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a market-determined pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the income statement. Refer to note 20 for details on the impairment testing of goodwill.

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

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Inventories

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

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

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

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Notes to the Consolidated Financial Information continued

Note 2: Summary of significant accounting policies continued

Site restoration costs

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

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

Pension obligations and other employee benefits

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

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

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

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

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

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

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

Earnings per share

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

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

Share-based payments

Equity-settled transactions

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

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

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

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

Note 2: Summary of significant accounting policies continued

Long-Term Incentive Plans (LTIPs)

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

Where awards terminate before the performance period is complete, any unamortised expense is recognised immediately.

Note 3: New accounting policies

The Group adopted the following new and amended standards as at 1 January 2010:

Standards affecting the reported results and financial positions

IFRS 3 Business combinations

The revised standard was issued in January 2008 and became effective for financial years beginning on or after 1 July 2009. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial and subsequent measurement of a contingent consideration and business combinations achieved in stages. Its adoption has affected the accounting for the business combination in the current period and the acquisition costs incurred have been expensed and included in administrative expenses.

In the current period, the changes contained in IFRS 3 have affected the accounting for the acquisition of Helogistics Group and its subsidiaries. Acquisition related costs amounting to US$1,624 thousand have been expensed when incurred this reduced the amount of goodwill resulting from this transaction by this amount.

IAS 27 – Consolidated and separate financial statements

The revised standard was issued in January 2008 and became effective for financial years beginning on or after 1 July 2009. The changes of the revised standard affect the Group's accounting policies regarding changes in ownership interests in its subsidiaries that do not result in a change in control. Under the revised standard, all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.

The transfer of the shareholdings in Ferrexpo Yeristovo GOK LLC and Ferrexpo Belanovo GOK LLC from Ferrexpo Poltava GOK Corporation to Ferrexpo AG resulted in a decrease of the non-controlling interests in these subsidiaries. Due to the change of IAS 27, the effect of US$147 thousand from the decrease of the non-controlling interests has been recognised directly in equity.

Standards and interpretations adopted with no effect on reported results, financial position and disclosure

IFRS 2 – Share-based payment – group cash-settled share-based payment transactions

The amendment to the standard was issued in June 2009 and became effective for financial years beginning on or after 1 January 2010. The amendment clarifies the accounting for group cash-settled share-based payment transactions and supersedes IFRIC 8 and IFRIC 11. The adoption of this amendment did not have any impact on the reported results, financial position and disclosures.

IAS 28 – Investments in associates

The revised standard was issued in May 2008 and became effective for financial years beginning on or after 1 July 2009. The principle adopted under IAS 27 – *Consolidated and separate financial statements* that a loss of control is recognised as a disposal and reacquisition of any retained interest at fair value is extended by consequential amendment to IAS 28. Therefore, when significant influence is lost, the investor measures any investment retained in the former associate at fair value, with any consequential gain or loss recognised in profit or loss. The adoption of the revised standard did not have any impact on the reported results, financial position and disclosures.

IFRIC 17 Distribution of non-cash assets to owners

This interpretation is effective for annual periods beginning on or after 1 July 2009 and provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognise a liability, how to measure it and the associated assets, and when to derecognise the asset and liability. The adoption of the interpretation did not have any impact on the reported results, financial position and disclosures.

IFRIC 18 Transfers of assets from customers

The new interpretation is effective for annual periods beginning on or after 1 July 2009 and clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant, and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services. The adoption of the interpretation did not have any impact on the reported results, financial position and disclosures.

Notes to the Consolidated Financial Information continued

Note 3: New accounting policies continued

New standards and interpretations not yet adopted

The Group has elected not to early adopt the following revised and amended standards:

IAS 24 Related party disclosures

The amended standard was issued in November 2009 and becomes effective for financial years beginning on or after 1 January 2011. The revised standard introduces a partial exemption of disclosure requirements for government-related parties and clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in the application. The Group does not expect any impact on its financial position or performance and does not intend to take advantage of the possibility of an early adoption.

IAS 32 Financial instruments: presentation – classification of rights issues

The amendment to IAS 32 on the classification of rights issues has been issued in October 2009 and is effective for annual periods beginning on or after 1 February 2011. For rights issues offered for a fixed amount of foreign currency current practice appears to require such issues to be accounted for as derivative liabilities. The amendment states that if such rights are issued pro rata to an entity's all existing shareholders in the same class for a fixed amount of currency, they should be classified as equity regardless of the currency in which the exercise price is denominated. This amendment will have no impact on the Group after initial application and will be adopted by Group for the Group's reporting financial statements for the period beginning 1 January 2012.

IFRS 9 Financial instruments: classification and measurement

The IASB has issued the first phase of IFRS 9 that will replace IAS 39. The new standard applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. The adoption of the first phase of IFRS 9 might have an effect on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture. The IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition in separate phases and the completion of the new standard is expected to be in early 2011.

IFRIC 14 Prepayment of a minimum funding requirement

The amendment to IFRIC 14 is effective for financial years beginning on or after 1 January 2011 and will have to respectively applied. The amendment provides guidance on assessing the recoverable amount of net pension assets and permits an entity to treat the prepayment of a minimum funding requirement as asset. The future application of this amendment is deemed to have no impact on the financial statements of the Group.

IFRIC 19 Extinguishing financial liabilities with equity instruments

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The new interpretation addresses the accounting by the entity that issues equity instruments in order to settle, in full or in part, a financial liability. The adoption of this interpretation will have no effect on the financial statements of the Group.

Note 4: Use of estimates

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

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

Property, plant and equipment

The determination of fair value and value-in-use requires management to make estimates and assumptions about expected production and sales volumes, commodity prices (considering current and historical prices, price trends and related factors), reserves, operating costs, closure and rehabilitation costs and future capital expenditure. These estimates and assumptions are subject to risk and uncertainty; hence there is a possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances, some or all of the carrying value of the assets may be impaired and the impairment would be charged against the income statement. The total of property, plant and equipment amounted to US$647,137 thousand as of 31 December 2010 (2009: US$452,100 thousand).

Pre-production stripping costs

Overburden and other mine waste materials have to be removed prior to the production of the mine in order to become access to the iron ore body. These activities are referred to as pre-production stripping costs and are capitalised under assets under construction. The pre-production stripping costs are capitalised based on calculations which require the use of judgement and estimates in terms of estimated tonnage of overburden and waste material to be removed during the life time of the mine and the expected recoverable reserves that can be extracted. The change of the mine plan (life and design) in the future may result in changes to the expected stripping ratio (waste to mineral reserves ratio) and require adjustment of the capitalised pre-production stripping costs. At 31 December 2010, the carrying amount of capitalised pre-production stripping costs was US$61,243 thousand (2009: US$23,337 thousand).

Note 4: Use of estimates continued

Impairment testing of goodwill and intangible assets

As outlined in note 20 the impairment testing of goodwill is based on significant judgements and assumptions made by the management when performing the annual impairment testing of these non-current assets. Changes to be made to these assumptions may alter the results of the impairment testing, the impairment charges recorded in profit or loss and the resulting carrying values of the non-current assets tested. The carrying amount of the goodwill amounted to US$98,747 thousand as of 31 December 2010 (2009: US$94,459 thousand).

Fair value of financial instruments

Where the fair value of financial assets and liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. Detailed information on the carrying amounts of financial assets and liabilities are given in note 38.

Defined benefit pension liability

The valuation for defined benefit superannuation schemes requires management to make judgements as to the nature of benefits provided by each scheme and thereby determine the classification of each scheme. For defined benefit schemes, management is required to make annual estimates and assumptions about future returns on classes of scheme assets, future remuneration changes, employee attrition rates, administration costs, changes in benefits, inflation rates, exchange rates, life expectancy and expected remaining periods of service of employees. In making these estimates and assumptions, management considers advice provided by external advisers, such as actuaries. At 31 December 2010, the carrying amount of defined benefit pension liability was US$17,819 thousand (2009: US$14,529 thousand).

Provision for site restoration

The Group's accounting policy for the recognition of site restoration provisions requires significant estimates and assumptions such as: requirements of the relevant legal and regulatory framework; the magnitude of possible contamination and the timing, extent and estimated future costs of required closure and rehabilitation activity. These uncertainties may result in future actual expenditure differing from the amounts currently provided. At 31 December 2010, the carrying amount of the provision for site restoration amounted to US$2,746 thousand (2009: US$1,268 thousand).

Deferred income tax

The Group's accounting policy for taxation requires management's judgement in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the statement of financial position. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the expected generation of sufficient future taxable profits.. A deviation between expected and effective future taxable profits in the different local jurisdictions may have an adverse impact on the recognised deferred tax balances in the consolidated financial statements of the Group.

Assumptions about the generation of expected future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, commodity prices, reserves, operating costs, closure and rehabilitation costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of recognised deferred tax balances in the consolidated financial statement of the Group and the amounts of other tax losses and temporary differences not yet recognised. In such circumstances, some, or all, of the carrying amount of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the income statement. At 31 December 2010, the Group's consolidated financial statements showed deferred tax assets of US$16,596 thousand (2009: US$13,673 thousand) and deferred tax liabilities of US$2,432 thousand (2009: US$3,739 thousand).

Note 5: Segment information

The Group is managed as a single entity which produces, develops and markets its principal product – iron ore pellets – for sale to the metallurgical industry. In December 2010, the Group acquired a logistics company engaged in the transport of bulk commodities and liquids through the Rhine Danube corridor in Europe and the provision of bunkering fuel services on the same routes. The management of the Group monitors the operating results of the pellet and logistics business separately for the purpose of making decisions about resource allocation and performance assessment. In accordance with IFRS 8 Operating Segments, the Group presents its results in a single segment which are disclosed in the income statement for the Group. The acquired logistics business is below the quantitative thresholds requiring separate disclosure as set by the standard and its revenue and result for the year is immaterial.

The management monitors the operating result of the Group based on a number of measures including EBITDA, 'C1' costs and the net financial indebtedness.

Notes to the Consolidated Financial Information continued

Note 5: Segment information continued

EBITDA

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

US$000	Notes	**Year ended 31.12.10**	Year ended 31.12.09
Profit before tax and finance		**542,225**	104,227
Under recovery of VAT receivable	27	**10,936**	–
Write-offs and impairment losses	13	**1,618**	2,757
Losses/(gains) on disposal of property, plant and equipment		**1,305**	(213)
Initial public offering costs	39	**55**	427
Share-based payments	39	**1,366**	3,423
Gain on bargain purchase	15/41	**(2,623)**	(503)
Depreciation and amortisation		**30,415**	28,018
EBITDA		**585,297**	138,136

'C1' costs

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

US$000	**Year ended 31.12.10**	Year ended 31.12.09
Cost of sales – pellets production	**481,857**	341,067
Depreciation and amortisation	**(24,662)**	(23,370)
Purchased ore and concentrate	**(101,351)**	(8,914)
Processing costs for purchased ore and concentrate	**(11,042)**	(1,206)
Production cost of gravel	**(88)**	(357)
Inventory movements	**18,608**	(10,543)
Pension service costs	**(2,049)**	(1,857)
Other	**(2,754)**	1,662
C1 cost	**358,519**	296,482
Own ore produced (tonnes)	**9,033,000**	8,609,200
C1 cash cost per tonne (US$)	**39.69**	34.44

Net financial indebtedness

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

US$000	Notes	**Year ended 31.12.10**	Year ended 31.12.09
Cash and cash equivalents	28	**319,470**	11,991
Current borrowings	30	**(22,563)**	(251,503)
Non-current borrowings	30	**(401,290)**	(18,143)
Net financial indebtedness		**(104,384)**	(257,655)

Disclosure of revenue and non-current assets

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

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

Note 6: Revenue

Revenue for the year ended 31 December 2010 consisted of the following:

US$000	Year ended 31.12.10	Year ended 31.12.09
Revenue from sales of iron ore pellets and concentrate:		
Export	**1,288,665**	612,829
Ukraine	**453**	34,483
Total revenue from sale of iron ore pellets and concentrate	**1,289,118**	647,312
Revenue from services provided	**674**	790
Revenue from other sales	**5,108**	565
Total revenue	**1,294,900**	648,667

Export sales of iron ore pellets and concentrate by geographical destination were as follows:

US$000	Year ended 31.12.10	Year ended 31.12.09
Austria	**405,511**	105,690
China	**320,572**	241,882
Serbia	**156,806**	84,193
Slovakia	**143,478**	77,537
Czech Republic	**99,235**	21,293
Turkey	**62,166**	39,272
Japan	**45,318**	5,027
Germany	**24,833**	5,573
Hungary	**16,575**	6,539
India	**14,153**	21,225
Other	**18**	4,598
Total exports	**1,288,665**	612,829

During the year ended 31 December 2010 sales made to three customers accounted for approximately 62.5% of the sales revenue (2009: 51.9%).

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

US$000	Year ended 31.12.10	Year ended 31.12.09
Customer A	**405,511**	105,690
Customer B	**300,284**	161,730

Note 7: Cost of sales

Cost of sales for the year ended 31 December 2010 consisted of the following:

US$000	Year ended 31.12.10	Year ended 31.12.09
Materials	**67,661**	60,607
Purchased ore and concentrate	**101,351**	8,914
Electricity	**101,528**	81,438
Personnel costs	**47,930**	41,670
Spare parts and consumables	**16,616**	13,007
Depreciation and amortisation	**24,662**	23,370
Fuel	**31,299**	23,969
Gas	**48,236**	28,744
Repairs and maintenance	**45,230**	38,503
Royalties and levies	**8,489**	6,484
Inventory movements	**(18,608)**	10,543
Other	**7,463**	3,818
Total cost of sales	**481,857**	341,067

Notes to the Consolidated Financial Information continued

Note 8: Selling and distribution expenses

Selling and distribution expenses for the year ended 31 December 2010 consisted of the following:

US$000	Year ended 31.12.10	Year ended 31.12.09
Railway transportation	**81,451**	69,477
Other transportation and port charges	**115,640**	80,998
Agent fees	**2,490**	799
Custom duties	**2,562**	1,423
Advertising	**3,472**	2,757
Personnel cost	**1,329**	1,055
Depreciation	**1,757**	1,581
Other	**3,305**	4,176
Total selling and distribution expenses	**212,006**	162,266

Note 9: General and administrative expenses

General and administrative expenses for the year ended 31 December 2010 consisted of the following:

US$000	Year ended 31.12.10	Year ended 31.12.09
Personnel costs	**26,362**	23,933
Buildings and maintenance	**2,475**	2,391
Taxes other than income tax and other charges	**1,581**	3,930
Consulting and other professional fees	**4,840**	2,731
Depreciation and amortisation	**3,867**	2,534
Communication	**899**	529
Vehicles maintenance and fuel	**1,222**	854
Repairs	**815**	1,041
Audit fees	**1,094**	1,112
Non-audit fees	**1,395**	184
Security	**1,613**	1,659
Other	**3,012**	2,263
Total general and administrative expenses	**49,175**	43,161

Auditor remuneration

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

US$000	Year ended 31.12.10	Year ended 31.12.09
Audit services		
Ferrexpo plc Annual Report	**680**	628
Subsidiary entities[1]	**414**	484
Total audit services	**1,094**	1,112
Non-audit services		
Tax advisory	**80**	154
Assurance related services	**102**	–
Other services[2]	**1,213**	30
Total non-audit services	**1,395**	184
Total auditor remuneration	**2,489**	1,296

1 The agreed fees for audit servicices in relation to Helogistics are not included due to the first consolidation as of 31 December 2010. The agreed fees of US$246 thousand is however included in the amount of the liabilities assumed for the acquired group. See note 41 for further details.

2 Other services include fees paid for due diligence services and assurance services related to raising new debts for the Group.

Note 10: Other income

Other income for the year ended 31 December 2010 consisted of the following:

US$000	Year ended 31.12.10	Year ended 31.12.09
Sale of surplus maintenance spares	**2,909**	867
Lease income	**762**	670
Reversal of fines and penalties	**–**	4
Refunds from social security institutions	**–**	1,735
Other income	**844**	826
Total other income	**4,515**	4,102

Note 11: Other expenses

Other expenses for the year ended 31 December 2010 consisted of the following:

US$000	Year ended 31.12.10	Year ended 31.12.09
Charitable donations	**4,418**	4,043
Movements in allowance for doubtful receivables	**(3,685)**	(5,199)
Research	**658**	1
Other personnel costs	**1,551**	830
Other	**2,996**	3,743
Total other expenses	**5,938**	3,418

The allowance for doubtful receivables relates to receivables from certain customers in Russia and other former CIS countries recorded in the financial year 2008. Following a stabilisation in the markets during the latter part of the financial year 2009 as well as as during the financial year 2010 the recorded allowance has been partially released in both reporting periods.

Note 12: Foreign exchange gains and losses

US$000	Year ended 31.12.10	Year ended 31.12.09
Operating foreign exchange (losses)/gains		
Revaluation of trade receivables	**222**	1,818
Revaluation of trade payables	**(1,300)**	716
Total operating foreign exchange (losses)/gains	**(1,078)**	2,534
Non-operating foreign exchange losses		
Revaluation of interest-bearing loans	**258**	(1,639)
Revaluation of cash and cash equivalents	**(767)**	84
Other	**(3,379)**	(997)
Total non-operating foreign exchange losses	**(3,888)**	(2,552)

Other non-operating foreign exchange losses in 2010 were principally related to the revaluation of income tax payables in Swiss francs.

Note 13: Write-offs and impairment losses

Impairment losses relate to adjustments made against the carrying value of assets where this is higher than the recoverable amount. Write-offs and impairment losses for the year ended 31 December 2010 consisted of the following:

US$000	Notes	Year ended 31.12.10	Year ended 31.12.09
(Reversals)/write-off of inventories		**(254)**	144
(Reversals)/write-off of property, plant and equipment		**(251)**	717
Impairment of available-for-sale assets	21	**2,123**	1,896
Total write-offs and impairment losses		**1,618**	2,757

Notes to the Consolidated Financial Information continued

Note 14: Investments in associates

As at 31 December 2010 investments in associates comprised:

	Principal activity	Country of incorporation	Ownership %	**As at 31.12.10 US$000**	As at 31.12.09 US$000
TIS Ruda	Port development	Ukraine	48.6	**21,132**	19,915

For the year ended 31 December 2010 the summarised financial information for the associate was as follows:

	Total assets		Total liabilities		Revenue		Net profit	
US$000	**As at 31.12.10**	As at 31.12.09	**As at 31.12.10**	As at 31.12.09	**Year ended 31.12.10**	Year ended 31.12.09	**Year ended 31.12.10**	Year ended 31.12.09
TIS Ruda	**26,648**	27,187	**1,840**	4,837	**18,486**	20,147	**8,326**	2,614

The information above is for 100% of the associate named and not as a percentage based on Group's ownership. The movement in the investment in the year represents the Group's share of profit of US$4,155 thousand in TIS Ruda (2009: US$1,304 thousand). TIS Ruda paid a dividend amounting to US$2,931 thousand during the financial year 2010 (2009: nil).

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

Note 15: Bargain purchase

A bargain purchase arose from the acquisition of Helogistics in 2010 and as a result of equity transactions in Ferrexpo Poltava GOK Corporation during the prior period.

Acquisition of Helogistics

As outlined in detail in note 41, the acquisition of Helogistics resulted in a bargain purchase of US$2,623 thousand in 2010 representing the difference between the fair value of the net assets acquired and the purchase consideration, not including the costs of acquisition which are expensed in the income statement.

Treasury shares in Ferrexpo Poltava GOK Corporation

In 2009, treasury shares of Ferrexpo Poltava GOK Corporation were transferred to Ferrexpo AG resulting in an increase of the shareholding from 97.1% to 97.3%. This transaction resulted in a bargain purchase of US$503 thousand which is included in profit or loss. The Group did not early adopt IAS 27 *Consolidated and separate financial statements* for the financial year 2009 so that the effect from change in ownership was reflected in profit and loss and not in equity as it would be required with under the revised standard.

Note 16: Finance income and expense

Finance income and expenses for the year ended 31 December 2010 consisted of the following:

US$000	**Year ended 31.12.10**	Year ended 31.12.09
Finance income		
Interest income	**1,357**	1,894
Other finance revenue	**1,275**	999
Total finance income	**2,632**	2,893
Finance expense		
Interest expense on financial liabilities measured at amortised cost	**(24,509)**	(16,805)
Interest on defined benefit plans	**(3,344)**	(2,967)
Bank charges	**(12,694)**	(535)
Other finance costs	**(2,296)**	(3,411)
Total finance expenses	**(42,843)**	(23,718)
Net finance expense	**(40,211)**	(20,825)

Bank charges include arrangement fees charged in relation to the Group's major bank debt facility.

Note 17: Income tax expense

The income tax expense for the year ended 31 December 2010 consisted of the following:

US$000	Year ended 31.12.10	Year ended 31.12.09
Current income tax		
Current income tax charge	**73,700**	12,659
Amounts under/(over) provided in previous years	**270**	(2,497)
Total current income tax	**73,970**	10,162
Deferred income tax		
Origination and reversal of temporary differences	**(4,494)**	(310)
Effect from changes in tax laws and rates	**3,526**	–
Total deferred income tax	**(968)**	(310)
Total income tax expense	**73,002**	9,852

A breakdown of the deferred tax balances is contained in note 23.

The effective income tax rate differs from the corporate income tax rates. The weighted average statutory rate was 13.1% for 2010 (2009: 13.0%). This is calculated as the average of the statutory tax rates applicable in the countries in which the Group operates, weighted by the profits/(losses) before tax of the subsidiaries in the respective countries, as included in the consolidated financial information. The effective tax rate is 14.7% (2009: 12.2%).

A reconciliation between the income tax charged in the accompanying financial information and income before taxes multiplied by the weighted average statutory tax rate for the year ended 31 December 2010 is as follows:

US$000	Year ended 31.12.10	Year ended 31.12.09
Profit before tax	**498,126**	80,850
Notional tax computed at the weighted average statutory tax rate of 13.1% (2009: 13.0%)	**65,254**	10,526
Derecognition of deferred tax asset	**(902)**	135
Effect from difference in local tax rates	**3,526**	–
Effect from utilisation of non-recognised deferred tax assets	**(274)**	–
Effect from capitalised tax loss carry forwards	**(293)**	–
Inflation related indexation of fixed assets for tax	**–**	(1,792)
Expenses not deductible for tax purposes	**7,338**	3,359
Tax exempted income	**(623)**	(942)
Non recognition of deferred taxes on current year losses	**555**	780
Effect from change in permanent differences	**(2,079)**	–
Tax related to prior years	**270**	(2,497)
Other	**230**	283
Total income tax expense	**73,002**	9,852

Note 18: Earnings per share and dividends paid and proposed

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

	Year ended 31.12.10	Year ended 31.12.09
Profit for the year attributable to equity shareholders:		
Basic earnings per share (US cents)	**72.34**	12.08
Diluted earnings per share (US cents)	**72.24**	12.05
Underlying earnings for the year:		
Basic earnings per share (US cents)	**72.98**	12.80
Diluted earnings per share (US cents)	**72.91**	12.77

Notes to the Consolidated Financial Information continued

Note 18: Earnings per share and dividends paid and proposed continued

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

Thousand	Year ended 31.12.10	Year ended 31.12.09
Weighted average number of shares		
Basic number of Ordinary Shares outstanding	**584,568**	584,652
Effect of dilutive potential Ordinary Shares	**854**	1,361
Diluted number of Ordinary Shares outstanding	**585,422**	586,013

The basic number of Ordinary Shares is calculated by reducing the total number of Ordinary Shares in issue by the shares held in treasury (refer to note 29).

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

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

US$000	Notes	Year ended 31.12.10	Year ended 31.12.09
Profit attributable to equity holders		**422,906**	70,627
Write offs and impairment losses	13	**1,618**	2,757
IPO costs	39	**55**	427
Gain on bargain purchase	15/41	**(2,623)**	(503)
Losses/(gains) on disposal of property, plant and equipment		**1,305**	(213)
Non-operating foreign exchange losses	12	**3,888**	2,551
Tax on adjusted items		**(346)**	(823)
Underlying earnings		**426,803**	74,823

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

Dividends paid and proposed

US$000	Year ended 31.12.10
Dividends proposed	
Final dividend for 2010: 3.3 US cents per Ordinary Share	**19,289**
Total dividends proposed	**19,289**
Dividends paid during the period	
Interim dividend for 2010: 3.3 US cents per Ordinary Share	**19,292**
Final dividend for 2009: 3.3 US cents per Ordinary Share	**19,289**
Total dividends paid	**38,581**

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

Note 19: Property, plant and equipment

As at 31 December 2010 property, plant and equipment comprised:

US$000	Land	Mining assets[1]	Buildings	Vessels	Plant & equipment	Vehicles	Fixtures and fittings	Assets under construction[1]	Total
Cost:									
At 1 January 2009	3,225	15,749	112,531	–	141,742	109,752	4,201	137,020	524,220
Additions			535	–	5		21	85,445	86,006
Transfers			24,289	–	57,524	5,719	575	(88,107)	–
Disposals			(3,409)	–	(3,033)	(1,154)	(53)	(530)	(8,179)
Translation differences	(115)	(562)	(4,008)	–	(5,059)	(3,917)	(66)	(3,342)	(17,069)
At 31 December 2009	3,110	15,187	129,938	–	191,179	110,400	4,678	130,486	584,978
Additions	–	1,248	5,308	–	1,691	709	318	156,501	166,775
Acquisition of subsidiaries	14	–	162	61,863	163	5	79	3,062	65,348
Transfers	–	3,189	17,153	–	29,888	62,059	561	(112,850)	–
Disposals	–	–	(1,498)	–	(1,797)	(3,009)	(1,897)	(468)	(8,669)
Translation differences	10	44	381	–	560	323	7	252	1,577
At 31 December 2010	**3,134**	**19,668**	**151,444**	**61,863**	**221,684**	**170,487**	**3,746**	**176,983**	**809,009**
Depreciation:									
At 1 January 2009	–	543	20,091	–	67,628	21,411	2,107	–	111,780
Depreciation charge	–	278	5,366	–	15,124	7,924	829	–	29,521
Disposals	–	–	(1,657)	–	(2,413)	(908)	(37)	–	(5,015)
Transfers	–	–	–	–	–	–	–	–	–
Impairment	–	–	450	–	14	233	(1)	21	717
Translation differences	–	(20)	(874)	–	(2,441)	(764)	(26)	–	(4,125)
At 31 December 2009	–	801	23,376	–	77,912	27,896	2,872	21	132,878
Depreciation charge	–	334	7,531	–	18,069	8,875	861	–	35,670
Disposals	–	–	(772)	–	(1,556)	(2,593)	(1,892)	–	(6,813)
Transfers	–	–	–	–	–	–	–	–	–
Impairment	–	–	(271)	–	–	–	–	20	(251)
Translation differences	–	2	73	–	228	82	3	–	388
At 31 December 2010	**–**	**1,137**	**29,937**	**–**	**94,653**	**34,260**	**1,844**	**41**	**161,872**
Net book value at:									
31 December 2009	3,110	14,386	106,562	–	113,267	82,504	1,806	130,465	452,100
31 December 2010	**3,134**	**18,531**	**121,507**	**61,863**	**127,031**	**136,227**	**1,902**	**176,942**	**647,137**

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

The carrying value of plant and equipment held under finance leases and hire purchase contracts at 31 December 2010 was US$27,457 thousand (2009: US$20,204 thousand). During the year, a sale and lease back transaction for assets of plant and equipment was completed and is considered to be a finance lease. No gain or loss was realised on the sale of the assets subject to this finance lease. Leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

US$88,498 thousand (2009: US$82,505 thousand) of property, plant and equipment have been pledged as security for liabilities.

The gross value of fully depreciated property, plant and equipment that is still in use is US$38,847 thousand (2009: US$30,149 thousand).

Notes to the Consolidated Financial Information continued

Note 20: Goodwill and other intangible assets

As at 31 December 2010 goodwill and other intangible assets comprised:

US$000	Goodwill	Other intangible assets	Total
At 1 January 2009	102,104	2,240	104,344
Cost:			
Additions	–	598	598
Disposals	–	(53)	(53)
Translation differences	(3,646)	(74)	(3,720)
At 31 December 2009	98,458	2,711	101,169
Additions	–	633	633
Acquisition of subsidiaries	–	1,637	1,637
Disposals	–	(63)	(63)
Translation differences	289	7	296
At 31 December 2010	**98,747**	**4,925**	**103,672**
Accumulated amortisation and impairment:			
At 1 January 2009	–	589	589
Amortisation charge	–	301	301
Disposals	–	(53)	(53)
Translation differences	–	(22)	(22)
At 31 December 2009	–	815	815
Amortisation charge	–	203	203
Disposals	–	(63)	(63)
Translation differences	–	2	2
At 31 December 2010	**–**	**957**	**957**
Net book value at:			
31 December 2009	98,458	1,896	100,354
31 December 2010	**98,747**	**3,968**	**102,715**

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

During the financial year 2010, the Group acquired the Helogistics Holding GmbH and its subsidiaries. This resulted in a gain on bargain purchase of US$2,623 thousand recognised in profit or loss and not affecting the balance of capitalised goodwill as of 31 December 2010. Further details on the business combination are given in note 41.

Goodwill from business combinations are not amortised, but reviewed for impairment losses at every balance sheet date and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Impairment testing was performed at 31 December 2010 based on a value-in-use calculation using cash flow projections over the remaining estimated life of the mine (27 years), a common practice in the mining industry. The cash flow projection was based on the financial budget covering the next four years and approved by senior management.

The major component of other intangible assets as at 31 December 2010 comprises purchased software.

Note 20: Goodwill and other intangible assets continued

Key assumptions

The principal key assumptions are:

Estimates/assumptions	Basis
Future production:	Proved and probable reserves and resource estimates
Commodity prices:	Contract prices and longer-term price estimates
Cost of raw materials and other production/distribution costs:	Expected future costs
Exchange rates:	Current market exchange rates
Discount rates:	Cost of capital risk adjusted for the resource concerned

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

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

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

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

For the purpose of the goodwill impairment test, the future cash flows were discounted using the real pre-tax discount rate of 10% (2009: 15%) per annum. These rates reflect the time value of money and risk associated with the asset, and is in line with the rates used by competitors with a similar background.

Sensitivity to changes in assumptions

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

Note 21: Available-for-sale financial assets

As at 31 December 2010 available-for-sale financial assets comprised:

	Ownership %		Carrying value	
US$000	**As at 31.12.10**	As at 31.12.09	**As at 31.12.10**	As at 31.12.09
Current				
Investments available for sale – equity instruments:				
Vostock Ruda	**–**	1.10%	**–**	626
Total current			**–**	626
Non-current				
Investments available-for-sale – equity instruments:				
OJSC Stahanov	**3.14%**	3.14%	**2,728**	813
Vostock Ruda	**1.10%**	–	**628**	–
LLC Atol	**9.95%**	9.95%	**–**	2,104
CJSC AMA	**9.00%**	9.00%	**–**	–
CJSC Amtek	**9.00%**	9.00%	**–**	–
Total non-current			**3,356**	2,917

All investments relate to companies incorporated in Ukraine.

Notes to the Consolidated Financial Information continued

Note 21: Available-for-sale financial assets continued

Impairment testing

Ferrexpo Petroleum

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

The key assumptions used in this calculation were gas/condensate prices, gas/oil/condensate conversion rates, production volumes, production costs, tax rates, projected capital expenditure, the Ukrainian hryvnia to US dollar exchange rate and the discount rate. The calculation took into account the projected future cash flows attributable to the Lubachevsko-Sherbakivska licence (projected to make up 90% of the total value of the investment) over a period of 19 years (the length of the licence) with an applied pre-tax discount rate of 15.0% (2009: 15.0%) per annum.

As a result of the above review, management recognised an additional impairment charge against the carrying value of the investments in LLC Atol in 2010 resulting in fully impaired investments as of 31 December 2010 (2009: US$2,104 thousand). The decrease of the carrying value of the investment is related to the impairment testing performed for the interim report as of 30 June 2010, when an additional impairment loss was recorded through the income statement.

There are no indications at the year-end that require a reversal of any impairment losses booked in previous periods.

OJSC Stahanov

The value of OJSC Stahanov was increased due to a higher quoted market price for its shares on the Ukrainian stock exchange (PFTS) as of 31 December 2010. The increase of the fair value in the amount of US$1,915 thousand (2009: US$441 thousand) has been recorded against the net unrealised gains reserve as a reversal of previously recorded impairment losses.

Further details regarding available-for-sale investments can be found in note 13 – write-offs and impairment losses as well as note 35 – related party transactions.

Note 22: Other non-current assets

As at 31 December 2010 other non-current assets comprised:

US$000	**As at 31.12.10**	As at 31.12.09
Prepayments for property, plant and equipment	**23,173**	7,320
Loan provided to associate	**1,000**	2,000
Other non-current assets	**593**	504
Total other non-current assets	**24,767**	9,824

Note 23: Deferred income tax

Deferred income tax assets and liabilities at 31 December 2010 relate to the following:

US$000	Consolidated statement of financial position As at 31.12.10	As at 31.12.09	Consolidated income statement Year ended 31.12.10	Year ended 31.12.09
Trade and other receivables	**4,106**	2,466	**1,480**	(1,584)
Inventories	**–**	144	**(96)**	132
Accrued income and prepaid expenses	**294**	–	**–**	–
Property, plant and equipment	**9,789**	9,122	**640**	393
IPO costs netted against share premium	**726**	1,226	**(499)**	(499)
Tax losses recognised	**5,322**	743	**293**	743
Other financial assets	**2**	187	**(104)**	(10)
Trade and other payables	**29**	77	**(48)**	47
Accrued expenses	**2,004**	1,602	**45**	169
Defined benefit pension liability	**2,666**	3,596	**(944)**	504
Provision for site restoration	**411**	298	**112**	41
Other financial liabilities	**81**	134	**(55)**	136
Other items	**7**	–	**–**	–
Total deferred tax assets	**25,438**	19,595	**824**	72
Thereof netted against deferred tax liabilities	**(8,842)**	(5,922)		
Total deferred tax assets as per the statement of financial position	**16,596**	13,673		
Trade and other receivable	**(1,490)**	(498)	**(992)**	(498)
Inventories	**(3,952)**	(2,522)	**(1,424)**	1,424
Accrued income/prepaid expenses	**(3,111)**	(2,477)	**(628)**	(638)
Property, plant and equipment	**(2,479)**	(554)	**(224)**	(398)
Intangible assets	**(112)**	(277)	**266**	(69)
Other non-current assets	**(49)**	(171)	**101**	(11)
Employee benefit trust	**(49)**	(3,025)	**3,045**	204
Trade and other payables and advance receivables	**(29)**	–	**–**	360
Lease obligations	**(4)**	(4)	**–**	(4)
Other items	**–**	(133)	**–**	(132)
Total deferred tax liabilities	**(11,274)**	(9,661)	**144**	238
Thereof netted against deferred tax assets	**8,842**	5,922		
Total deferred tax liabilities as per the statement of financial position	**(2,432)**	(3,739)		
Net deferred tax assets/net change	**14,164**	9,934	**968**	310

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

US$000	Year ended 31.12.10	Year ended 31.12.09
Opening balance	**9,934**	8,745
Income statement credit	**968**	310
Charges booked outside of profit or loss	**(492)**	1,251
Acquisition of subsidiaries	**3,383**	–
Foreign currency exchange rate adjustment	**371**	(372)
Closing balance	**14,164**	9,934

As at 31 December 2010, the Group had deductible temporary differences on available tax loss carry forwards in the amount of US$100,699 thousand (2009: US$2,182 thousand) for which no deferred tax assets were recognised. The vast majority of the available tax loss carry forwards relates to the acquired logistics business in Austria and Hungary. Tax loss carry forwards in both tax jurisdictions do not expire. The balance of available tax loss carry forwards is after the offset of temporary differences on property, plant and equipment in Austria of US$16,780 thousand. Temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised amount to US$522,876 thousand (2009: US$147,080 thousand).

Notes to the Consolidated Financial Information continued

Note 24: Inventories

As at 31 December 2010 inventories comprised:

US$000	As at 31.12.10	As at 31.12.09
Raw materials and consumables	**70,440**	47,405
Finished ore pellets	**23,668**	5,135
Work in progress	**8,461**	7,565
Other	**2,580**	104
Provision for slow-moving and obsolete inventory	**(322)**	(573)
Total inventories	**104,827**	59,636

Inventory is held at the lower of cost or net recoverable amount.

Note 25: Trade and other receivables

At 31 December 2010 trade and other receivables comprised:

US$000	As at 31.12.10	As at 31.12.09
Trade receivables	**114,923**	42,956
Other receivables	**848**	1,616
Allowance for doubtful receivables	**(3,881)**	(6,455)
Total trade and other receivables	**111,890**	38,117

Trade receivables at 31 December 2010 includes US$1,057 thousand (2009: US$2,098 thousand) owed by related parties. The detailed related party disclosures are made in note 35.

The movement in the provision for doubtful receivables during the period under review was:

US$000	Year ended 31.12.10	Year ended 31.12.09
Opening balance	**6,455**	11,956
Recognition	**146**	187
Reversal	**(3,831)**	(5,386)
Acquisition of subsidiaries	**1,046**	–
Foreign currency translation	**65**	(302)
Closing balance	**3,881**	6,455

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

As at 31.12.10				Receivables past due but not impaired		
US$000	**Gross amount**	**Receivables past due and impaired**	**Receivables neither past due nor impaired**	**Less than 45 days**	**45 to 90 days**	**Over 90 days**
Trade receivables	**114,923**	**3,560**	**105,302**	**5,074**	**529**	**458**
Other receivables	**848**	**321**	**234**	**104**	**4**	**185**

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

The Group's exposures to credit and currency risks are disclosed in note 38.

Note 26: Prepayments and other current assets

As at 31 December 2010 prepayments and other current assets comprised:

US$000	As at 31.12.10	As at 31.12.09
Prepayments to suppliers		
Electricity and gas	**5,348**	4,036
Materials and spare parts	**2,606**	1,879
Services	**1,569**	1,922
Other prepayments	**946**	3,110
Loan provided to associate	**–**	550
Accrued income	**8,337**	6,062
Other	**116**	1,835
Total prepayments and other current assets	**18,922**	19,394

Note 27: Taxes payable, recoverable and prepaid

The income tax payable balance as of 31 December 2010 is shown below:

US$000	As at 31.12.10	As at 31.12.09
Opening balance	**(1,364)**	(8,604)
Income statement charge	**(73,970)**	(10,162)
Tax paid	**37,827**	18,899
Changes booked through equity	**–**	(99)
Acquisition of subsidiaries	**(81)**	–
Foreign exchange adjustment	**(4,188)**	(1,398)
Closing balance	**(41,776)**	(1,364)

Split by:

US$000	As at 31.12.10	As at 31.12.09
Income tax receivable balance	**35**	9,741
Income tax payable balance	**(41,811)**	(11,105)
Income tax payable at the year end	**(41,776)**	(1,364)

As at 31 December 2010 taxes recoverable and prepaid comprised:

US$000	As at 31.12.10	As at 31.12.09
VAT receivable	**101,683**	81,269
Other taxes prepaid	**1,964**	15
Total taxes recoverable and prepaid	**103,647**	81,284

The VAT receivable results from VAT paid on domestic purchases of goods and services and on the imports of equipment and where relevant services into Ukraine to the extent that this can not be offset on VAT paid on the sale of goods and services.

The Ukrainian government has not been making timely repayments of VAT in 2009 and the first half of the financial year 2010 due to the economic downturn and general financial crisis in 2009 allied with the presidential elections in early 2010 and the ongoing negotiations for financial aid from the IMF. The increase of the VAT receivable balance is related to higher imports of equipment in the period under review. During the financial year 2010, the Group received VAT bonds from the Ukrainian government relating to the outstanding VAT receivable balance as of the end of December 2009. All VAT bonds were sold in the latter half of the financial year 2010 with a discount of US$10,936 thousand. Subsequent to the issuance of the VAT bonds in August 2010, the Ukrainian government has started repayments of the outstanding VAT.

Further information on the Ukrainian VAT situation is provided in the risk section on page 33.

Notes to the Consolidated Financial Information continued

Note 27: Taxes payable, recoverable and prepaid continued

As at 31 December 2010 other taxes payable comprised:

US$000	As at 31.12.10	As at 31.12.09
Withholding tax	**415**	3,233
Environmental tax	**1,045**	2,267
Source tax	**–**	317
VAT payable	**4,250**	–
Other taxes	**8,213**	2,076
Total taxes payable	**13,923**	7,893

Note 28: Cash and cash equivalents

As at 31 December 2010 cash and cash equivalents comprised:

US$000	Year ended 31.12.10	Year ended 31.12.09
Cash at bank and on hand	**251,572**	11,991
Restricted cash	**37,768**	–
Short-term deposits	**30,123**	–
Marketable securities	**7**	–
Total cash and cash equivalents	**319,470**	11,991

The balance of restricted cash of US$37,768 thousand, which is related to an acquisition made in December 2010, is held in an escrow account at 31 December 2010 (2009: US$nil) and unavailable to the Group. This amount was released subsequent to the year end.

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 38.

Note 29: Share capital and reserves

	US$000	Number of shares
Balance at 31 December 2010 and 2009	121,628	613,967,956

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

The fully paid share capital of Ferrexpo plc at 31 December 2010 was 613,967,956 (2009: 613,967,956) Ordinary Shares at a par value of £0.10 paid for in cash, resulting in share capital of US$121,628 thousand (2009: US$121,628 thousand) per the statement of financial position.

The closing balance as of 31 December 2010 and 2009 includes 25,343,814 shares which are held in treasury and 4,019,759 shares held in the employee benefit trust reserve (2009: 4,092,285) .

Share premium

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

Treasury share reserve

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

Employee benefit trust reserve

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

Note 29: Share capital and reserves continued

Uniting of interest reserve

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

Subsequent increases in the stake have been accounted for using the parent extension concept method of accounting as described in the accounting policy section of the financial statements (note 2).

Net unrealised gains reserve

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

Translation reserve

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

Note 30: Interest bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest bearing loans and borrowings, which are measured at amortised cost. All loans are in US dollars. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 38.

US$000	Notes	**As at 31.12.10**	As at 31.12.09
Current			
Syndicated bank loans – secured	38	**–**	207,723
Other bank loans – secured	38	**18,818**	41,662
Commodity loans	38	**495**	124
Obligations under finance leases	38	**2,832**	1,264
Interest accrued	38	**418**	730
Total current interest bearing loans and borrowings		**22,563**	251,503
Non-current			
Syndicated bank loans – secured	38	**341,938**	–
Other bank loans – secured	38	**36,128**	933
Commodity loans	38	**1,898**	–
Obligations under finance leases	38	**21,326**	17,210
Total non-current interest bearing loans and borrowings		**401,290**	18,143
Total interest bearing loans and borrowings		**423,853**	269,646

As at 31 December 2010 the other bank loans are secured by property, plant and equipment with a carrying amount of US$68,695 thousand (2009: US$104,579 thousand) and finished goods inventory of US$6,600 thousand (2009: nil) and rights to a purchase contract in respect of equipment to be delivered of US$20,890 thousand as of the end of the prior year. Secured Ukrainian property, plant and equipment includes crushing, excavators and mine transport equipment. The syndicated bank loans of US$350,000 thousand (2009: US$207,723 thousand) are secured by rights to proceeds from future export sales of US$378,310 thousand (2009: US$370,444 thousand).

As at 31 December 2010 the Group's major bank debt facility was a US$350,000 thousand (2009: US$335,000 thousand) pre-export finance facility, which was fully drawn down as of 31 December 2010. The remaining outstanding balance of the major bank facility as of 31 December 2009 amounting to US$207,727 thousand was repaid in full on 8 January 2011.

The Group entered into a new bank debt term facility on 23 September 2010 in the amount of US$350,000 thousand, which matures on 31 March 2014, amortising over 24 months following an 18 month grace period. This pre-export finance facility was drawn in full on 7 October 2010 and was used for refinancing of the pre-export finance facility of US$230,000 thousand that was drawn down on 8 January 2011.

Notes to the Consolidated Financial Information continued

Note 30: Interest bearing loans and borrowings continued

The major bank debt facility as at 31 December 2010 was guaranteed and secured as follows:

> Ferrexpo AG assigned the rights to revenue from certain sales contracts;
> Ferrexpo Poltava GOK Corporation assigned all of its rights of certain export contracts for the pellets sales to Ferrexpo AG;
> the Group pledged its bank account into which all proceeds from the sale of certain iron ore pellet contracts are received; and
> Ferrexpo AG pledged all its rights under certain contracts for the sale of iron ore pellets and its rights under certain related credit support documents.

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

As at 31 December 2010, the Group has two committed facilities amounting to US$65,000 thousand (2009: US$nil) available that are not drawn down.

Note 31: Trade and other payables

As at 31 December 2010 trade and other payables comprised:

US$000	Note	**As at 31.12.10**	As at 31.12.09
Payables for equipment		**4,307**	4,323
Materials and services		**41,616**	20,255
Dividends payable		**31**	78
Other	41	**42,135**	3,146
Total current trade and other payables		**88,089**	27,802

Trade and other payables at 31 December 2010 includes US$3,263 thousand (2009: US$1,660 thousand) due to related parties. See note 35. Included in the balance of other payables stated above is a liability of US$37,768 thousand in relation to an acquisition made in December 2010.

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 38.

Note 32: Defined benefit pension liability

Ukrainian defined benefit plan

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

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

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

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

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

Note 32: Defined benefit pension liability continued

At 31 December 2010 this defined benefit plan covered 4,612 current employees (2009: 4,669 people). There are 1,193 former employees currently in receipt of pensions (2009: 1,246 people).

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

Swiss defined benefit plan

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

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

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

At 31 December 2010 this defined benefit plan covered 20 people (2009: 21 people).

Austrian defined benefit plan

The Group has an unfunded retirement benefit obligation covering the Austrian employees of Helogistics. At 31 December 2010, 37 current employees (2009: 42 employees) are covered by this plan. All payments under the scheme are made by the employer as a lump sum in cases of retirement, occupational disability, death in service or redundancy. The amount payable is dependant on the years of service up to a maximum of a full annual salary.

The annual costs relating to this plan are accrued using the projected unit credit method. The annual costs and the defined benefit obligation are assessed annually by an independent professionally qualified actuary.

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

	Year ended 31.12.10			Year ended 31.12.09	
	Swiss scheme	**Austrian scheme**	**Ukrainian scheme**	Swiss scheme	Ukrainian scheme
Discount rate	**2.40%**	**5.00%**	**11.00%**	3.25%	15.00%
Retail price inflation	**1.50%**	**2.80%**	**7.00%**	1.50%	7.00%
Expected future salary increase	**3.00%**	**2.50%**	**7.00%**	3.00%	7.00%
Expected future benefit increase	**0.00%**	**0.00%**	**0.00%**	0.00%	0.00%
Female life expectancy (years)	**86.0**	**n/a**	**74.5**	86.0	74.5
Male life expectancy (years)	**82.9**	**n/a**	**63.5**	82.9	63.5

Notes to the Consolidated Financial Information continued

Note 32: Defined benefit pension liability continued

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

	Year ended 31.12.10				Year ended 31.12.09		
US$000	**Swiss scheme**	**Austrian scheme**	**Ukrainian scheme**	**Total**	Swiss scheme	Ukrainian scheme	Total
Opening defined benefit obligation	**2,234**	**–**	**23,880**	**26,114**	2,096	22,187	24,283
Current service cost	**565**	**–**	**1,291**	**1,856**	375	1,142	1,517
Employee contribution	**102**	**–**	**–**	**102**	14	–	14
Interest cost	**73**	**–**	**3,344**	**3,417**	66	3,074	3,140
Contribution by plan participants	**14**	**–**	**–**	**14**	469	–	469
Benefits paid	**(220)**	**–**	**(3,468)**	**(3,688)**	(926)	(2,987)	(3,913)
Actuarial loss	**(383)**	**–**	**28,282**	**27,899**	101	1,230	1,331
Past service cost	**–**	**–**	**–**	**–**			
Acquisition of subsidiaries	**–**	**819**	**–**	**819**	–	3,502	3,502
Foreign exchange translation adjustment	**249**	**-**	**(27)**	**222**	39	(4,268)	(4,229)
Closing defined benefit obligation	**2,634**	**819**	**53,302**	**56,755**	2,234	23,880	26,114
Opening plan assets	**1,375**	**–**	**–**	**1,375**	1,507	–	1,507
Expected return on plan assets	**45**	**–**	**–**	**45**	48	–	48
Employer contribution	**309**	**–**	**–**	**309**	474	–	474
Employee contribution	**102**	**–**	**–**	**102**	14		14
Contribution by plan participants	**14**	**–**	**–**	**14**	469	–	469
Benefits paid	**(220)**	**–**	**–**	**(220)**	(926)	–	(926)
Actuarial loss	**(194)**	**–**	**–**	**(194)**	(230)	–	(230)
Foreign exchange translation adjustment	**148**	**–**	**–**	**148**	19	–	19
Closing plan assets	**1,579**	**–**	**–**	**1,579**	1,375	–	1,375
Net funded status	**1,055**	**819**	**53,202**	**55,176**	859	23,880	24,739
Unrecognised actuarial losses	**(584)**	**–**	**(34,046)**	**(34,630)**	(807)	(6,333)	(7,140)
Unrecognised past service cost	**–**	**–**	**(2,664)**	**(2,664)**	–	(3,113)	(3,113)
Foreign exchange translation adjustment	**(63)**	**–**	**–**	**(63)**	(34)	77	43
Closing balance defined benefit pension liability	**408**	**819**	**16,592**	**17,819**	18	14,511	14,529
Benefit expense							
Current service cost	**667**	**–**	**1,291**	**1,958**	389	1,142	1,531
Interest cost	**72**	**–**	**3,344**	**3,416**	66	3,074	3,140
Amortisation of actuarial loss	**68**	**–**	**496**	**564**	37	439	476
Expected return on plan assets	**(45)**	**–**	**–**	**(45)**	(48)	–	(48)
Recognised past service cost	**–**	**–**	**382**	**382**	–	389	389
Employee contribution	**(102)**	**–**	**–**	**(102)**	(14)	–	(14)
Curtailment gain	**–**	**–**	**–**	**–**	–	–	–
Current year expense	**660**	**–**	**5,513**	**6,173**	430	5,044	5,474
Net movement on defined benefit pension liability:							
Opening balance	**18**	**–**	**14,511**	**14,529**	62	12,878	12,940
Recognition of liability	**–**	**–**	**–**	**–**	–	–	
Benefits expense	**660**	**–**	**5,514**	**6,174**	430	5,044	5,474
Benefits paid	**–**	**–**	**(3,468)**	**(3,468)**	–	(2,897)	(2,897)
Employer contribution	**(309)**	**–**	**–**	**(309)**	(474)	–	(474)
Foreign exchange translation adjustment	**40**	**–**	**36**	**76**	–	(514)	(514)
Closing balance	**409**	**819**	**16,593**	**17,820**	18	14,511	14,529
Experience adjustments arising on plan liabilities	**(383)**	**–**	**28,282**	**27,796**	101	1,230	1,331

Contributions to the defined benefit plans in 2011 are expected to be US$4,065 thousand.

Note 32: Defined benefit pension liability continued

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

US$000	As at 31.12.10 %	As at 31.12.10	As at 31.12.09 %	As at 31.12.09
Scheme assets at fair value				
Equities	**21.5**	**339**	18.3	252
Bonds	**45.8**	**723**	49.7	683
Properties	**18.1**	**286**	18.1	248
Other	**14.6**	**231**	13.9	192
Fair value of scheme assets	**100.0**	**1,579**	100	1,375

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

	Year ended 31.12.10 Swiss scheme	Year ended 31.12.09 Swiss scheme
Expected rate of return on plan assets:		
Equities	**4.31%**	6.50%
Bonds	**2.50%**	2.50%
Properties	**2.35%**	4.50%
Other	**4.92%**	2.25–4.00%
Total	**3.06%**	3.50%
Actual rate of return on plan assets:		
Equities	**0.91%**	28.53%
Bonds	**2.77%**	8.93%
Properties	**6.11%**	5.59–33.60%
Other	**4.72%**	(44.94)–24.63%
Total	**4.52%**	11.60%

The actual returns on the plan assets for the Swiss scheme were US$63 thousand (2009: US$114 thousand).

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

	Year ended 31.12.10					
	Increase			Decrease		
US$000	Swiss scheme (+0.25%)	Austrian scheme (+0.25%)	Ukrainian scheme (+1.00%)	Swiss scheme (-0.25%)	Austrian scheme (-0.25%)	Ukrainian scheme (-1.00%)
Effect on the aggregated current service costs and interest costs	**(13)**	**–**	**(128)**	**14**	**–**	**144**
Effect on the defined benefit obligation	**(74)**	**(16)**	**(4,243)**	**78**	**17**	**4,931**

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

Notes to the Consolidated Financial Information continued

Note 32: Defined benefit pension liability continued

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

	Year ended 31.12.10	Year ended 31.12.09	Year ended 31.12.08	Year ended 31.12.07
Opening balance	**(7,140)**	(6,294)	(3,292)	(945)
Experience adjustments on plan liabilities	**(27,899)**	(1,331)	(6,219)	(2,347)
Experience adjustments on plan assets	**(194)**	(230)	(84)	–
Gain on change in assumptions	**–**	–	–	–
Foreign exchange translation adjustment	**603**	715	3,301	–
Closing balance	**(34,630)**	(7,140)	(6,294)	(3,292)

Note 33: Provision for site restoration

The costs of decommissioning open pit mines are based on the amounts determined by third party experts based on various codes of practice and laws applicable in Ukraine. The provision represents the discounted value of the estimated costs of decommissioning and restoring the mines at the dates when the deposits are expected to be depleted. The present value of the provision has been calculated using a nominal pre-tax discount rate of 9.22% per year (2009: 10.25%). The liability becomes payable at the end of the useful life of the mine, currently estimated to be 2055. Uncertainties in estimating these costs include potential changes in regulatory requirements, decommissioning and reclamation alternatives and the levels of discount and inflation rates. The increase as of 31 December 2010 is due to the extension of the expected useful lives of the mines.

US$000	As at 31.12.10	As at 31.12.09
Opening balance	**1,268**	1,071
Unwind of the discount	**133**	159
Arising during the year	**1,328**	76
Translation adjustment	**17**	(38)
Closing balance	**2,746**	1,268

Note 34: Accrued liabilities and deferred income

As at 31 December 2010 accrued liabilities and deferred income comprised:

US$000	As at 31.12.10	As at 31.12.09
Accrued expenses	**12,563**	1,582
Accrued employee costs	**10,830**	10,398
Advances from customers	**801**	166
Deferred income	**1,302**	–
Total accrued liabilities and deferred income	**25,496**	12,146

Note 35: Related party disclosure

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

Entities under common control are those under control of Kostyantin Zhevago. TIS Ruda, in which the Group holds an interest of 48.6%, is the only associated company of the Group. The other related parties are principally those entities controlled by Olexander Moroz (who was a supervisory board member of Ferrexpo Poltava GOK Corporation until 14 May 2010).

Note 35: Related party disclosure continued

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

Revenue, expenses, finance income and finance costs

	Year ended 31.12.10			Year ended 31.12.09		
US$000	**Entities under common control**	**Associated companies**	**Other related parties**	Entities under common control	Associated companies	Other related parties
Other sales[1]	**1,398**	**951**	**2,263**	506	–	1,480
Total revenue	**1,398**	**951**	**2,263**	506	–	1,480
Purchase of materials[2]	**125,093**	**–**	**15,105**	4,458	–	11,930
Purchase of services[3]	**732**	**–**	**119**	444	–	23
General and administration expenses[4]	**4,612**	**–**	**1**	3,315	–	–
Selling and distribution[5]	**–**	**8,362**	**18,496**	–	11,849	11,736
Other expenses[6]	**201**	**–**	**21**	91	–	8
Total expenses	**130,638**	**8,362**	**33,742**	8,308	11,849	23,697
Finance income[7]	**964**	**96**	**–**	1,329	267	–
Finance costs[7]	**(443)**	**–**	**–**	(816)	–	–
Net finance income/(expenses)	**521**	**96**	**–**	513	267	–

1 Other sales to other related parties consist of scrap metal sales made to Ferrolit, a company under control of a former supervisory board member of Ferrexpo Poltava (see above). Other sales to entities under common control are mainly related to sales of power, steam and water and the lease of premises to Kislorod and Vorskla-Steel.
2 Purchase of materials from entities under common control consists of purchased concentrate in the amount of US$104,367 thousand from Vostock Ruda (31 December 2009: US$1,386 thousand) of which US$92,667 thousand are related to third party merchant concentrate purchased by the Group through this company. The Group currently has surplus pelletising capacity which it utilises where possible by purchasing concentrate produced by third parties on the open market. Concentrate itself is a tradable end product and as such prices paid reflect the market for that product. As a result, the Group is able to earn a margin by converting this product into pellets albeit of a lower level than from its own produced ore. It is the Group's strategy to produce pellets from purchased third party concentrate in order to make full use of the available pelletising capacity where adequate margin can be earned. The Group earned a margin on the third party concentrate business of US$16,174 thousand. Vostock Ruda earned fees of US$140 thousand which covered only costs incurred which were associated with procuring and delivering of the purchased third party concentrate. During the financial year 2010, the Group purchased through Ferrexpo Poltava pellets from SIA Wellmark Latvia, which is controlled by Kostyatin Zhevago. The related party acted on behalf of the Group and earned a handling commission of US$0.10 per ton amounting in total to US$69 thousand (2009: US$nil). The Group purchased compressed air and oxygen of US$3,667 thousand (31 December 2009: US$1,414 thousand) from Kislorod, company controlled by Kostyantin Zhevago . Purchase of materials from other related parties includes purchased cast iron balls from Ferrolit of US$14,946 thousand (31 December 2009: US$11,286 thousand), which are used in the production process. Purchase of materials also comprise the purchase of gas amounting to US$14,432 thousand (2009: nil) OJSC Ukrzakordongeologia, which is a related party to Group, at rates which are competitive to those for supply from Naftogaz.
3 Kuoni Attorneys at law Ltd. provided an employee secondment to the Group between December 2009 and June 2010. The recharge was made at cost and amounted to US$106 thousand. Other services provided were US$13 thousand (US$23 thousand). Wolfram Kuoni who is a partner in the law firm is also an independent non-executive Director of Ferrexpo plc. The services were provided on an arm length basis by other members of Kuoni Attorneys at law Ltd.
4 The Group paid US$3,313 thousand to FC Vorskla under a contract entered into on 1 April 2009 and renewed on 10 December 2009 for advertisement, marketing and general PR related services (31 December 2009: US$2,631 thousand).
5 Selling and distribution services are purchased from TIS Ruda, an associated company as the Group holds an interest of 48.6%. These services relate to port services including port charges, handling costs, agent commissions and storage costs. Services from other related parties are mainly provided by Slavutich Ruda which is under control of Olexander Moroz, a supervisory board member of Ferrexpo Poltava until 14 May 2010. Slavutich Ruda provided logistic management services mainly related to custom clearance services and coordination of rail transit. The total billings amounted to US$18,294 thousand (31 December 2009: US$11,507 thousand) and Slavutich Ruda earned commission income of US$755 thousand on these services (31 December 2009: US$793 thousand). These purchases were at prevailing market rates.
6 Other operating expenses mainly relate to communication services provided by TV & Radio Co amounting to US$108 thousand (31 December 2009: US$60 thousand).
7 The Group has transactional banking arrangements with Bank Finance & Credit (Bank FC), which is under common control of Kostyantin Zhevago. Finance income and expenses relate to these transactional banking arrangements. Further information is provided under transactional banking arrangements in this note.

Sale and purchases of property, plant and equipment and investments

	Year ended 31.12.10			Year ended 31.12.09		
US$000	**Entities under common control**	**Associated companies**	**Other related parties**	Entities under common control	Associated companies	Other related parties
Purchase of property, plant and equipment[1]	**22,459**	**–**	**–**	2,200	–	–

1 Between October and December 2010, the Group purchased 300 rail cars from a related party named Trading house Wagonplant LLC in the amount of US$17,500 thousand (31 December 2009: nil). In 2010, drilling programmes have been conducted by OJSC Donbasgeology at the Northern deposit of Ferrexpo Poltava and at Ferrexpo Belanovo amounting to US$4,959 thousand (31 December 2009: nil). On 31 March 2009, the Group acquired a trial filter press from Progress Plant Company, an entity under common control, for US$2,200 thousand. All transactions were on arm's length basis and supplied after a competitive tender process.

Notes to the Consolidated Financial Information continued

Note 35: Related party disclosure continued

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

US$000	Year ended 31.12.10 Entities under common control	Year ended 31.12.10 Associated companies	Year ended 31.12.10 Other related parties	Year ended 31.12.09 Entities under common control	Year ended 31.12.09 Associated companies	Year ended 31.12.09 Other related parties
Investments available-for-sale[1]	**3,353**	**–**	**–**	2,917	–	–
Prepayments for PPE[2]	**182**	**–**	**–**			
Loans[3]	**–**	**–**	**–**	–	2,550	–
Total non-current assets	**3,535**	**–**	**–**	2,917	2,550	–
Investments available-for-sale[1]	**–**	**–**	**–**	626	–	–
Loans[3]	**–**	**1,000**	**–**			
Trade and other receivables[4]	**514**	**203**	**15**	1,999	93	6
Prepayments and other current assets[2]	**95**	**27**	**1**	995	–	1
Cash and cash equivalents[5]	**156,807**	**–**	**–**	2,123	–	–
Total current assets	**157,416**	**1,230**	**16**	5,742	93	7
Trade and other payables[6]	**1,563**	**12**	**1,668**	514	–	1,146
Total current liabilities	**1,563**	**12**	**1,668**	514	–	1,146

1 The investments available-for-sale comprised of shareholdings in LLC Atol (9.95%), OJSC Stahanov (3.14%) and Vostock Ruda (1.10%). The majority ownership of these companies is held by the principal shareholder of Ferrexpo plc and OJSC Stahanov is also listed at the Ukrainian stock exchange. The changes of the values in the table above are related to fair value adjustments recorded during the financial year 2010. The shareholdings for all investments remained unchanged during the periods disclosed above. The investment in LLC Atol was subject of an additional impairment of US$2,124 thousand recorded as of 30 June 2010 (31 December 2009: US$nil) resulting in a full impairment of this investment. Further information is provided in note 21 of the Annual Report & Accounts 2010.

2 Prepayments for drilling programmes on the Northern Deposits in the amount of US$182 thousand have been made to OJSC Donbasgeology in period ended 31 December 2010 (31 December 2009: US$nil). The company is controlled by Kostyantin Zhevago.

3 Loans were granted to TIS Ruda in 2007 and 2008, which have been partially repaid during the financial year 2009 and 2010. The Group holds an interest of 48.6% in this Ukrainian company operating a port located on the Black Sea and is an associated company of the Group. The company provides port services to the Group (see above).

4 As of 31 December 2010 trade and other receivables included outstanding amounts from Kislorod amounting to US$311 thousand, which are mainly related to sales of power, steam and water (31 December 2009: US$368 thousand). The outstanding balances as of the end of the prior year included US$1,169 thousand relating to the disposal of shares in Vostock Ruda to Progress Plant Company during the financial year 2008. Both companies are under common control of Kostyantin Zhevago.

5 As of 31 December 2010 cash and cash equivalents with Bank F&C were US$156,807 thousand (31 December 2009: US$2,123 thousand). Further information is provided under transactional banking arrangements below.

6 Trade and other payables due to entities under common control amounting to US$1,013 thousand as of 31 December 2010 related to concentrate purchased from Vostock Ruda (31 December 2009: US$ il) and to compressed air and US$416 thousand (31 December 2009: US$ 368 thousand) to oxygen purchased from Kislorod. Trade and other payables due to other related parties amounting to US$1,291 thousand as of 31 December 2010 related to purchased material from Ferrolit (31 December 2009: US$989 thousand).

Transactional banking arrangements

The Group has transactional banking arrangements with Bank Finance & Credit (Bank F&C) in Ukraine which is under common control of the majority shareholder of Ferrexpo plc. Finance income and finance costs are disclosed in the table above.

The Group entered into a multi-currency revolving loan facility agreement in April 2007 with Bank F&C which expired on 16 April 2010 and has been extended to 16 April 2013 upon the same terms and conditions except for two changes. The maximum facility limit has been increased from UAH50,500 thousand to UAH80,000 thousand (US$10,048 thousand at the exchange rate as of 31 December 2010) and the interest rates increased for UAH advances from 16% to 18% per annum. The total value of pledges for this loan facility is US$13,300 thousand.

Other related party transaction

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

Note 36: Employee benefits expenses

Employee benefits expenses for the year ended 31 December 2010 consisted of the following:

US$000	Year ended 31.12.10	Year ended 31.12.09
Wages and salaries	**53,774**	39,905
Social security costs	**17,037**	11,520
Post-employment benefits	**2,172**	2,653
Other employee costs	**2,186**	7,248
Share-based payments	**923**	3,850
Total employee benefits expenses	**76,092**	65,176

Average number of employees

US$000	Year ended 31.12.10	Year ended 31.12.09
Production	**6,897**	6,319
Marketing and distribution	**174**	169
Administration	**1,119**	958
Other	**724**	907
Total average number of employees	**8,914**	8,353

Compensation for key management was as follows:

US$000	Year ended 31.12.10	Year ended 31.12.09
Wages and salaries	**4,927**	4,540
Social security costs	**277**	646
Other employee costs	**361**	287
Total compensation for key management	**5,565**	5,472

Share-based payments, calculated under the Black-Scholes option pricing model, amounting to US$1,409 thousand (2009: US$560 thousand) are included in wages and salaries. Under this model, the expected future costs of the award grants made to employees is spread over the period of vesting.

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

Note 37: Commitments and contingencies

Operating lease commitments – Group as lessee

Future minimum rentals payable under non-cancellable operating leases as at 31 December 2010 are as follows:

US$000	As at 31.12.10	As at 31.12.09
Less than one year	**2,128**	849
Between one and five years	**5,587**	2,374
More than five years	**45,813**	16,479
Total minimum rentals payable	**53,528**	19,702

During the year ended 31 December 2010 US$1,076 thousand was recognised as an expense in the income statement in respect of operating leases (2009: US$1,665 thousand).

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

Notes to the Consolidated Financial Information continued

Note 37: Commitments and contingencies continued

Operating lease commitments – Group as lessor

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

Finance lease commitments

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

	As at 31.12.10	
US$000	Minimum payments	Present value of payments (note 30)
Less than one year	**5,389**	**2,832**
Between one and five years	**20,142**	**13,162**
More than five years	**8,245**	**8,164**
Total minimum lease payments	**33,776**	**24,158**
Less: amounts representing finance charges	**(9,618)**	–
Present value of minimum lease payments	**24,158**	**24,158**

	As at 31.12.09	
US$000	Minimum payments	Present value of payments (note 30)
Less than one year	1,264	1,264
Between one and five years	9,023	6,049
More than five years	8,188	2,906
Total minimum lease payments	18,475	10,219
Less: amounts representing finance charges	(8,256)	–
Present value of minimum lease payments	10,219	10,219

Other

US$000	As at 31.12.10	As at 31.12.09
Capital commitments on purchase of property, plant and equipment	**70,618**	41,404

Legal

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

Tax and other regulatory compliance

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

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

Note 38: Financial instruments

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

		As at 31.12.10				
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 at 31.12.10
Financial assets						
Cash and cash equivalents	28	**319,470**	**–**	**–**	–	**319,470**
Available-for-sale investments	21	**–**	**3,356**	**–**	**–**	**3,356**
Trade and other receivables	25	**111,890**	**–**	**–**	**–**	**111,890**
Other financial assets		**1,164**	**–**	**–**	**–**	**1,164**
Total financial assets		**432,524**	**3,356**	**–**	**–**	**435,880**
Financial liabilities						
Trade and other payables	31	**–**	**–**	**–**	**88,089**	**88,089**
Accrued liabilities and deferred income	34	**–**	**–**	**–**	**23,393**	**23,393**
Interest bearing loans and borrowings	30	**–**	**–**	**–**	**423,853**	**423,853**
Other financial liabilities		**–**	**–**	**–**	**–**	**–**
Total financial liabilities		**–**	**–**	**–**	**535,335**	**535,335**

		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 at 31.12.09
Financial assets						
Cash and cash equivalents	28	11,991	–	–	–	11,991
Available-for-sale investments	21		3,543	–	–	3,543
Trade and other receivables	25	38,117	–	–	–	38,117
Other financial assets		3,719	–	–	–	3,719
Total financial assets		53,827	3,543	–	–	57,370
Financial liabilities						
Trade and other payables	31	–	–	–	24,656	24,656
Accrued liabilities and deferred income	34	–	–	–	12,146	12,146
Interest bearing loans and borrowings	30	–	–	–	269,646	269,646
Other financial liabilities		–	–	–	3,161	3,161
Total financial liabilities		–	–	–	309,609	309,609

Financial risk management

Overview

The Group has exposure to the following risks from its use of financial instruments:

> credit risk
> liquidity risk
> market risk – including currency and commodity risk

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

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

Notes to the Consolidated Financial Information continued

Note 38: Financial instruments continued

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

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

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

Financial instrument risk exposure and management

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

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

Credit risk

Trade and other receivables

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

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

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

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

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

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

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

Investment securities

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

Note 38: Financial instruments continued

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

> the counterparty is resident in Ukraine; and
> the counterparty is included in the Top 15 financial institutions in Ukraine based on the Group's assessment of the creditworthiness of the financial institution.

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

Guarantees

The Group's policy is to provide financial guarantees only to wholly-owned subsidiaries. At 31 December 2010 Ferrexpo AG and Ferrexpo Finance plc were jointly and severally liable under a US$350 million loan agreement having an outstanding balance of US$350,000 thousand (31 December 2009: US$207,723 thousand).

Exposure to credit risk

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

US$000	**As at 31.12.10**	As at 31.12.09
Cash and cash equivalents	**319,470**	11,991
Trade and other receivables	**111,890**	38,117
Other financial assets	**1,164**	3,719
Total maximum exposure to credit risk	**432,524**	53,827

The total receivables balance relating to the Group's top three customers was US$73,749 thousand (2009: US$24,999 thousand) making up 65.9% of the total amounts receivable (2009: 68.5%).

Impairment profile

The Group's exposure to credit risk relating to trade and other receivables is disclosed in note 25.

Liquidity risk

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

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

Notes to the Consolidated Financial Information continued

Note 38: Financial instruments continued

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

US$000	As at 31.12.10 Less than 1 year	Between 1 to 2 years	Between 2 to 5 years	Total
Interest bearing				
Syndicated loans – secured	**–**	**142,288**	**199,651**	**341,939**
Other banks – secured	**19,313**	**10,750**	**27,275**	**57,338**
Obligation under finance lease	**2,832**	**2,999**	**18,327**	**24,158**
Interest accrued	**418**	**–**	**–**	**418**
Future interest payable	**29,812**	**24,305**	**13,703**	**67,820**
Non interest bearing				
Trade and other payables	**88,089**	**–**	**–**	**88,089**
Accrued liabilities and deferred income	**23,393**	**–**	**–**	**23,393**
Other financial liabilities	**–**	**–**	**–**	**–**
Total financial liabilities	**163,857**	**180,342**	**258,956**	**603,155**

US$000	As at 31.12.09 Less than 1 year	Between 1 to 2 years	Between 2 to 5 years	Total
Interest bearing				
Syndicated loans – secured	207,727	–	–	207,727
Other banks – secured	31,170	6,044	5,500	42,714
Obligation under finance lease	1,264	1,419	15,792	18,475
Interest accrued	730	–	–	730
Future interest payable	9,923	3,827	2,674	16,424
Non interest bearing				
Trade and other payables	24,656	–	–	24,656
Accrued liabilities and deferred income	12,146	–	–	12,146
Other financial liabilities	3,161	–	–	3,161
Total financial liabilities	290,777	11,290	23,966	326,033

Currency risk

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

The Group's major lines of borrowings and the majority of its sales are denominated in US dollars, with costs of local Ukrainian production mainly in hryvnia. During the year the value of the hryvnia moved from being pegged to a managed float.

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

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

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

Note 38: Financial instruments continued

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

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

The Group's exposure to foreign currency risk was as follows based on notional amounts:

	As at 31.12.10					
US$000	Ukraine hryvnia	US dollar	Euro	Swiss franc	Other currencies	Total
Financial assets	**–**	**111,589**	**38,315**	**375**	**357**	**150,636**
Financial liabilities						
Syndicated bank loans – secured	**–**	**–**	**–**	**–**	**–**	**–**
Other banks – secured	**–**	**(16,735)**	**–**	**–**	**–**	**(16,735)**
Obligation under finance lease	**–**	**(24,088)**	**–**	**–**	**–**	**(24,088)**
Interest accrued	**–**	**(75)**	**–**	**–**	**–**	**(75)**
Total borrowings	**–**	**(40,898)**	**–**	**–**	**–**	**(40,898)**
Trade and other payables	**–**	**(6,910)**	**(501)**	**(242)**	**(67)**	**(7,720)**
Accrued liabilities and deferred income	**–**	**–**	**–**	**–**	**(81)**	**(81)**
Other financial liabilities	**–**	**–**	**–**	**–**	**(68)**	**(68)**
Total financial liabilities	**–**	**(47,808)**	**(501)**	**(242)**	**(216)**	**(48,767)**
Net financial assets/(liabilities)	**–**	**63,781**	**37,814**	**133**	**141**	**101,869**

	As at 31.12.09					
US$000	Ukraine hryvnia	US dollar	Euro	Swiss franc	Other currencies	Total
Financial assets	249	816	2	76	44	1,187
Financial liabilities						
Other banks – secured	–	(26,840)	(124)	–	–	(26,964)
Obligation under finance lease	–	(18,475)	–	–	–	(18,475)
Interest accrued	–	(188)	(5)	–	–	(193)
Total borrowings	–	(45,503)	(129)	–	–	(45,632)
Trade and other payables	–	(2,246)	(811)	(763)	(139)	(3,959)
Other financial liabilities	–	(17)	(5)	(419)	(106)	(547)
Total financial liabilities	–	(47,766)	(945)	(1,182)	(245)	(50,138)
Net financial assets/(liabilities)	249	(46,950)	(943)	(1,106)	(201)	(48,951)

Interest rate risk

The Group predominantly borrows funds that are at floating interest rates and is exposed to interest rate movements. The interest rate exposure to US dollars remained relatively low during the period, and no interest rate swaps have been entered into in this or prior periods.

Notes to the Consolidated Financial Information continued

Note 38: Financial instruments continued

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	As at 31.12.10			
US$000	Floating interest	Fixed interest	Other non-interest bearing	Total
Financial assets				
Cash and cash equivalents	**161,912**	**156,507**	**1,051**	**319,470**
Available-for-sale investments	**–**	**–**	**3,356**	**3,356**
Trade receivables	**–**	**–**	**111,890**	**111,890**
Other financial assets	**–**	**1,000**	**164**	**1,164**
Total financial assets	**161,912**	**157,507**	**116,461**	**435,880**
Weighted av. interest rate (%)	**0.1%**	**1.7%**		
Financial liabilities				
Trade and other payables	**–**	**–**	**88,089**	**88,089**
Accrued liabilities and deferred income	**–**	**–**	**23,393**	**23,393**
Interest bearing loans and borrowings	**403,832**	**19,603**	**418**	**423,853**
Other financial liabilities	**–**	**–**	**–**	**-**
Total financial liabilities	**403,832**	**19,603**	**111,900**	**535,335**
Weighted av. interest rate (%)	**5.7%**	**–**		

	As at 31.12.09			
US$000	Floating interest	Fixed interest	Other non-interest bearing	Total
Financial assets				
Cash and cash equivalents	10,227	1,465	299	11,991
Available-for-sale investments	–	–	3,543	3,543
Trade receivables	–	–	38,117	38,117
Other financial assets	2,550	–	1,169	3,719
Total financial assets	12,777	1,465	43,128	57,370
Weighted av. interest rate (%)		7.7%		
Financial liabilities				
Trade and other payables			24,656	24,656
Accrued liabilities and deferred income			12,146	12,146
Interest bearing loans and borrowings	251,036	18,610	–	269,646
Other financial liabilities	–	–	3,161	3,161
Total financial liabilities	251,036	18,610	39,963	309,609
Weighted av. interest rate (%)	4.1%	–		

The interest rate maturity profile for financial liabilities is shown under the liquidity risk section. The interest rate maturity profile for financial assets is all current for both years, except for US$1,000 thousand of the floating rate loan to associate which matures between two to five years as at 31 December 2010 (2009: US$2,000 thousand).

Note 38: Financial instruments continued

Commodity risk

The Group is exposed to longer-term movements in the price of iron ore, but does not have a commodity risk exposure to its financial assets and liabilities once the sale has been made. Trade receivables are based on a fixed contract price, and so do not fluctuate with iron ore market prices. Similarly finished goods are held at cost, with revaluation to a spot price not applicable for iron ore pellets, there being no tradable exchange in the product to ascertain its market value.

Sensitivity analysis

A 20% strengthening of the US dollar against the following currencies at 31 December would have increased/(decreased) income statement and equity by the amounts shown below. This assumes that all other variables, in particular interest rates, remain constant.

US$000	Year ended 31.12.10 Income statement/ Equity	Year ended 31.12.09 Income statement/ Equity
UAH	**12,756**	(9,440)
EUR	**(7,563)**	189
CHF	**(27)**	221
Total	**5,166**	(9,030)

A 20% weakening of the US dollar against the above currencies would have an equal but opposite effect to the amounts shown above, on the basis that all the other variables remain constant.

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not hold any derivatives (eg interest rate swaps). Therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity for fixed and variable rate instruments

An increase of 100 basis points in interest rates would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

US$000	Year ended 31.12.10	Year ended 31.12.09
Net finance charge	**(2,885)**	(2,080)

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

Set out below are the carrying amounts and fair values of the Group's financial instruments that are carried in the consolidated statement of financial position:

	Carrying amount		Fair value	
US$000	As at 31.12.10	As at 31.12.09	As at 31.12.10	As at 31.12.09
Financial assets				
Available-for-sale financial assets	**3,356**	3,543	**3,356**	3,543
Cash and cash equivalents	**319,470**	11,991	**319,470**	11,991
Total financial assets	**322,826**	15,534	**322,826**	15,534
Financial liabilities				
Interest bearing loans and borrowings	**423,853**	269,646	**423,853**	276,419
Total financial liabilities	**423,853**	269,646	**423,853**	276,419

Notes to the Consolidated Financial Information continued

Note 38: Financial instruments continued

The fair values of interest bearing loans and borrowings are based on the cash flows discounted using market interest rates.

The fair values of cash and cash equivalents, trade and other receivables and payables are approximately equal to their carrying amounts due to their short maturity.

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices).

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	As at 31.12.10			
US$000	Level 1	Level 2	Level 3	Total
Financial assets				
Available-for-sale financial assets	**3,356**	**–**	**–**	**3,356**
Total available-for-sale financial assets	**3,356**	**–**	**–**	**3,356**

	As at 31.12.09			
US$000	Level 1	Level 2	Level 3	Total
Financial assets				
Available-for-sale financial assets	1,449	–	2,104	3,553
Total available-for-sale financial assets	1,449	–	2,104	3,553

There were no transfers between Level 1 and 2 in the period.

Reconciliation of Level 3 fair value measurements of financial assets

US$000	As at 31.12.2010 Available-for-sale financial assets Unquoted equities	As at 31.12.2009 Available-for-sale financial assets Unquoted equities
Opening balance	**2,104**	4,000
Total gains or losses:		
– in profit or loss	**(2,104)**	(1,896)
– in other comprehensive income	**–**	–
Purchases	**–**	–
Issues	**–**	–
Settlements	**–**	–
Transfer out of level 3	**–**	–
Closing balance	**–**	2,104

Note 38: Financial instruments continued

Capital management

The Board's policy is to maintain a strong capital base. The Board of Directors monitors both the demographic spread of shareholders, as well as the return on capital, which the Group defines as total shareholders' equity, excluding non-controlling interests, and the level of dividends to Ordinary Shareholders. Please refer to the Statement of Changes in Equity for details of the capital position of the Group.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and advantages and security afforded by a sound capital position. Access to securing borrowings in the context of the events affecting the global financial credit markets during the year has affected the elasticity at which the Board can maintain this balance. The Board continues to support maintaining a sound capital base balanced against these market constraints.

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

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements other than a bank covenant requirement to maintain consolidated equity in respect of the Ferrexpo AG group of US$300,000 thousand including non-controlling interests. Compliance is ensured by balancing dividend payments against the earnings of the Ferrexpo AG group.

For more information about the Group's interest bearing loans and borrowings, see note 30.

Note 39: Share-based payments

Listing bonus share award

Share awards were granted in 2007 to certain senior management following the successful listing of the Company on the London Stock Exchange in June 2007. A proportion of the award vests immediately with the remainder vesting over a period of up to four years, provided that the individual is still in the employment of the Group on the date of vesting. It has been assumed that all awards will vest.

The fair values of the awards were determined to be the closing share price on the date of award. The weighted average fair value (WAFV) of awards granted was determined at the date of grant to be US$3.33 per share.

The unvested portion of the award does not accrue dividends. There are no cash settlement alternatives.

The expense recognised under the scheme during the year to 31 December 2010 is US$55 thousand (2009: US$427 thousand), all of which arose from equity-settled share-based payment transactions.

	Year ended 31.12.10 WAFV ($)	Year ended 31.12.09 WAFV ($)	**Year ended 31.12.10 No. ('000)**	Year ended 31.12.09 No. ('000)
Beginning of the year	**3.63**	3.63	**91**	442
Awards granted during the year	**–**	–	**–**	–
Vested during the year	**3.63**	3.63	**(91)**	(349)
Forfeited during the year	**–**	3.63	**–**	(2)
Outstanding at 31 December	**–**	3.63	**–**	91

Long-term incentive plan (LTIP)

The following share awards were granted under the LTIP and the Interim LTIP in the previous financial years. The LTIP runs for three years whereas the period for the Interim LTIP is two years.

No. ('000)	**2010 LTIP**	2009 LTIP	2008 LTIP	Interim LTIP	Total
Year ended 31.12.10	**330**	**–**	**–**	**–**	**330**
Year ended 31.12.09	–	320	–	–	320
Year ended 31.12.08	–	–	695	415	1,110

The LTIP and Interim LTIP are subject to a performance condition based on the Total Shareholder Return ('TSR') compared to a comparator group, measured over the vesting period, as described in the Director's Remuneration Report.

Notes to the Consolidated Financial Information continued

Note 39: Share-based payments continued

The following expenses have been recognised in 2010 and 2009 in respect of the LTIP and the Interim LTIP:

US$000	2010 LTIP	2009 LTIP	2008 LTIP	Interim LTIP	Total
Year ended 31.12.10	**178**	**188**	**557**	**–**	**923**
Year ended 31.12.09	–	80	1,836	1,480	3,396

The awards of the Interim LTIP were forfeited in 2009 as they did not satisfy the market related performance conditions as of 31 December 2009.

The fair value of these awards was assessed at their grant date using a simulation or 'Monte Carlo' model consistent with the mathematics underlying the standard Black-Scholes options pricing model, extended to allow for the performance conditions. Each simulation of the model projects the Company's and comparator's share prices (with reinvested dividends) over the vesting period, allowing for the volatilities and correlations between the shares as estimated from historical data. From this projection the proportion of awards vesting, and the value to employees, is calculated. 100,000 simulations were run to calculate the fair values. The fair value is set as the average value over all the simulations.

	Year ended 31.12.10 WAFV ($)	Year ended 31.12.09 WAFV ($)	Year ended 31.12.10 No. ('000)	Year ended 31.12.09 No. ('000)
LTIP				
Beginning of the year	**4.11**	5.52	**810**	695
Awards granted during the year	**3.28**	1.94	**330**	320
Forfeited during the year	**3.47**	5.52	**(235)**	(180)
Lapsed during the year	**–**	5.52	**–**	(25)
Vested during the year	**–**	–	**–**	–
Outstanding at 31 December	**3.92**	4.11	**905**	**810**
Interim LTIP				
Beginning of the year	**–**	5.22	**–**	–
Awards granted during the year	**–**	–	**–**	415
Forfeited during the year	**–**	5.22	**–**	–
Vested during the year	**–**	–	**–**	–
Outstanding at 31 December	**–**	–	**–**	415

Note 40: Operating profit by function

US$000	Notes	Before adjusting items	Adjusted items	Year ended 31.12.10	Before adjusting items	Adjusted items	Year ended 31.12.09
Revenue	6	**1,294,900**	**–**	**1,294,900**	648,667	–	648,667
Cost of sales	7	**(481,857)**	**–**	**(481,857)**	(341,067)	–	(341,067)
Gross profit		**813,043**	**–**	**813,043**	307,600	–	307,600
Selling and distribution expenses	8	**(212,006)**	**–**	**(212,006)**	(162,266)	–	(162,266)
General and administrative expenses	9	**(49,175)**	**–**	**(49,175)**	(43,161)	–	(43,161)
Other income	10	**4,515**	**–**	**4,515**	4,102	–	4,102
Other expenses	11	**(5,938)**	**(11,291)**	**(17,229)**	(3,418)	(2,468)	(5,886)
Operating foreign exchange gain	12	**(1,078)**	**–**	**(1,078)**	2,534	–	2,534
Operating profit		**549,361**	**(11,291)**	**538,070**	105,391	–	102,923
Share of profit of associates	14	**4,155**	**–**	**4,155**	1,304	–	1,304
Total profit from operations and associates		**553,516**	**(11,291)**	**542,225**	106,695	(2,468)	104,227

Note 40: Operating profit by function continued

Summary of adjusted items:

US$000	Notes	Year ended 31.12.10	Year ended 31.12.09
Operating adjusting items			
Under recovery of VAT receivable	27	**(10,936)**	–
Write-offs and impairment losses	13	**(1,618)**	(2,757)
Gain on bargain purchase	15	**2,623**	503
Initial public offering costs	39	**(55)**	(427)
(Losses)/gains on disposal of property, plant and equipment		**(1,305)**	213
Total operating adjusting items		**(11,291)**	(2,468)

Note 41: Business combination

Subsidiaries acquired

On 31 December 2010, the Group acquired Helogistics Holding GmbH and its subsidiaries ('Helogistics') in order to develop the Group's distribution and logistics capabilities. The acquisition agreements were signed on 14 December 2010 and the completion of the acquisition was subject to the approval from the Austrian merger control authorities which was obtained on 10 January 2011. The Group however obtained effective control on the 14 December 2010 and Helogistics has been consolidated as at the 31 December 2010 as no material transactions or events occurred between 14 December 2010 and 31 December 2010 that would have a material impact on the amounts recognised in the income statement in that period.

The controlled entities acquired as part of this business combination are identified below:

Subsidiaries	Country of incorporation	Principal activity	Proportion of shares acquired in %
Helogistics Holding GmbH (Group)	Austria	Holding company	100.0
EDDSG GmbH	Austria	Logistic company	100.0
DDSG Tankschiffahrt GmbH	Austria	Logistic company	100.0
Helogistics Transport GmbH	Austria	Logistic company	100.0
Mahart Duna Cargo Kft.	Hungary	Logistic company	100.0
Pancar Kft.	Hungary	Logistic company	100.0

Consideration transferred

No consideration has been transferred in cash for this acquisition to previous shareholders of the Helogistics. Transaction costs of US$1,624 thousand have been incurred and expensed by the Group. These costs are included in general and administrative expenses.

In relation with the acquisition of Helogistics Holding GmbH, the Group acquired bank debts amounting to US$95,472 thousand for a consideration transferred in cash to the lending banks of US$37,768 thousand. The amount was held in an escrow account at 31 December 2010 as the financial closing of the transaction was on 19 January 2011. The debts acquired have been fair valued for the purpose of the acquisition accounting.

There is no contingent consideration to be paid by the Group to the previous shareholders of Helogistics.

Notes to the Consolidated Financial Information continued

Note 41: Business combination continued

Assets acquired and liabilities assumed at the date of acquisition

The provisional fair value of the identifiable assets and liabilities assumed of Helogistics as at the date of acquisition were:

US$000	Helogistics Holding GmbH
Non-current assets	
Property, plant and equipment	**65,348**
Financial assets	**4**
Intangible assets	**1,637**
Deferred tax assets	**5,258**
Current assets	
Inventories	**2,252**
Trade and other receivables	**3,096**
Prepayments and other current assets	**4,179**
Available-for-sale financial assets	**7**
Cash and cash equivalents	**582**
Assets classified as held for sale	**3,149**
Total assets acquired	**85,512**
Non-current liabilities	
Defined benefit pension liability	**(819)**
Deferred tax liabilities	**(1,875)**
Current liabilities	
Interest bearing loans and borrowings	**(38,726)**
Trade and other payables	**(14,596)**
Income taxes payable	**(81)**
Accrued liabilities and deferred income	**(15,911)**
Total liabilities assumed	**(72,008)**
Fair value of identifiable net assets acquired	**13,504**

The fair value of intangible assets consists of licenses amounting to US$397 thousand and capitalised software of US$2,140 thousand. The license were capitalised as acquired intangible assets in the course of the accounting for the business combination. The Group acquired trade and other receivables amounting to US$3,096 thousand. This amount is net of an allowance for doubtful receivables of US$564 thousand. The outstanding balances with the five largest customers representing 65.3% of the total balance as of 31 December 2010 were fully paid in March 2011.

The initial accounting for the acquisition of Helogistics has been provisionally determined at the end of the reporting period. At the date of finalisation of these financial statements, the fair values of the vessels acquired and the certain liabilities assumed had not been finalised and they have therefore been provisionally determined based on the directors' best estimate of the likely values. The actual fair values may also impact the recognised fair values of the other assets acquired as part of the business combination.

Non-controlling interests from business combination

The Group acquired 100% of Helogistics Holding GmbH which wholly owned its subsidiaries listed above. The business combination did not result in the recognition of any non-controlling interests to be measured at fair value.

Bargain purchase arising on acquisition

The acquisition of Helogistics resulted in a bargain purchase of US$2,623 thousand recognised in profit or loss as of 31 December 2010.

US$000	Helogistics Holding GmbH
Consideration paid in cash	–
Value of pre-existing loan balances	**10,881**
Less: fair value of identifiable net assets acquired	**(13,504)**
Bargain purchase on acquisition	**2,623**

Note 41: Business combination continued

Loans amounting to US$10,881 thousand were provided by the Group to Helogistics prior to the acquisition. These loan balances were considered to be settled for the purpose of the business combination. The amount of US$10,881 thousand reflects the fair value of the loans granted. As a result of overcapacity in its market, Helogistics sustained continual losses allowing Ferrexpo to acquire Helogistics at a consideration below the estimated fair value of the assets acquired and liabilities assumed, resulting in the recognition of a gain on bargain purchase amounting to US$2,623 thousand. Further information is provided on page 23 in the Operational Review of the Annual Report.

No tax impact is expected on the gain on bargain purchase arising on this transaction.

Net cash outflow on acquisition

US$000	Helogistics Holding GmbH
Consideration paid in cash	–
Cash and cash equivalent balances acquired[1]	**582**
Transaction costs of the acquisition[2]	**(1,624)**
Net cash outflow on acquisition (net of cash acquired)	**(1,042)**

1 Included in cash flow from investing activities.
2 Included in cash flow from operating activities.

Impact of acquisition on the result of the Group

Had this business combination been affected at 1 January 2010, the revenue of the Group would have been US$52,200 thousand higher, and the profit for the year would have been US$13,300 thousand lower. The Directors of the Group consider these 'pro-forma' numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

Note 42: Events after the reporting period

No material adjusting or non-adjusting events have occurred subsequent to the year end other than the proposed dividend disclosed in note 18 and the completion of the acquisition of Helogistics Holding GmbH and its subsidiaries described in note 41.

Parent Company Balance Sheet

US$000	Notes	As at 31.12.10	As at 31.12.09
Fixed assets			
Non-current investments			
Subsidiary undertakings	2	**147,496**	134,732
Total fixed assets		**147,496**	134,732
Current assets			
Debtors – amounts falling due:			
Amounts due from subsidiaries		**134,441**	181,026
Deferred tax assets	3	**1,156**	1,596
Prepayments and other current assets		**1,165**	1,121
Other taxes recoverable and prepaid		**3**	10
Cash at bank and in hand		**20**	25
Total current assets		**136,785**	183,778
Creditors – amounts falling due within one year			
Trade and other creditors	5	**512**	357
Accruals and deferred income	6	**900**	450
Income taxes payable		**16**	–
Other taxes payable	7	**–**	3,233
Total creditors		**1,428**	4,040
Net assets		**282,853**	314,470
Represented by			
Capital and reserves			
Share capital	4	**121,628**	121,628
Share premium	4	**185,112**	185,112
Treasury share reserve	4	**(77,260)**	(77,260)
Employee benefit trust reserve	4	**(10,172)**	(11,593)
Retained earnings	4	**63,545**	96,583
Total capital and reserves	4	**282,853**	314,470

All liabilities held by the Company are current in nature.

The financial statements were approved by the Board of Directors on 22 March 2011.

Kostyantin Zhevago
Chief Executive Officer

Christopher Mawe
Chief Financial Officer

Parent Company Notes to the Financial Statements

Note 1: Parent company accounting policies

Basis of preparation

The parent company financial statements of Ferrexpo plc are presented as required by the Companies Act 2006 and were approved for issue on 22 March 2011. The financial statements are prepared under the historical cost convention and are prepared in accordance with applicable UK accounting standards. No profit and loss account is presented by the Company as permitted by Section 408 of the Companies Act 2006.

The Company is exempt from the disclosure requirements of FRS 29 Financial Instruments, under its section 2D (a) as the entity is included in publicly available consolidated financial statements, which include disclosures that comply with FRS 29/IFRS 7.

Disclosures and narratives have not included information required by that standard, as the Group's consolidated financial statements, in which the Company is included, provide equivalent disclosures for the Group under IFRS 7 Financial Instruments: Disclosures.

Investments

Equity investments in subsidiaries are carried at cost less any provision for impairments.

Deferred income tax

Deferred income tax is recognised in respect of all timing differences that have originated but not reversed at the reporting date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

- provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the reporting date, dividends have been accrued as receivable; and
- deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the reporting date.

Foreign currencies

The Company's functional currency and presentation currency is US dollars. Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Financial instruments

Derivative financial instruments

The Company does not hold any derivative financial instruments.

Non-derivative financial instruments

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

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

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

Other

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

Parent Company Notes to the Financial Statements
continued

Note 1: Parent company accounting policies continued

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit or loss or available-for-sale. Such assets are carried at amortised cost using the effective interest method if the time value of money is significant. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Impairment of financial assets

The Company assesses at each reporting date whether a financial asset or a group of financial assets is impaired. Investments in subsidiaries undertakings are held at cost. The Company assesses investments for impairment whenever events or changes in circumstances indicate that the carrying amount of an investment may not be recoverable. If any such indication of impairment exists, the Company makes an estimate of its recoverable amount (valuation). Where the carrying amount of an investment exceeds its recoverable amount, the investment is considered impaired and is written down to its recoverable amount.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (ie the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced, with the amount of the loss recognised in administration costs. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the profit and loss account, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Derecognition of financial assets and liabilities

A financial asset or liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

Share-based payments

Equity-settled transactions

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

In valuing equity-settled transactions, no account is taken of any vesting conditions, except for market conditions. No expense is recognised for awards that do not ultimately vest.

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

All costs related to the share-based payments of the Group are recorded in Ferrexpo plc. Note 42 provides further information on the valuation related to the share-based payments and the costs recorded.

Employee benefit trust reserve

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

Note 2: Investments

US$000	As at 31.12.10	As at 31.12.09
Non-current investments	**147,496**	134,732

The balance above relates to the Company's investment in Ferrexpo AG which is a 100% owned subsidiary based on Switzerland. During the financial year 2010, the Company purchased 3,178,877 shares of Ferrexpo AG which have been previously held in treasury by the subsidiary.

Note 3: Deferred tax assets

Deferred tax assets at 31 December 2010 relate to the following:

US$000	As at 31.12.10	As at 31.12.09
Deferred tax assets:		
Tax loss recognised	**430**	370
Timing difference on IPO costs	**726**	1,226
Total deferred tax assets	**1,156**	1,596

Note 4: Capital and reserves

US$000	Issued capital	Share premium	Treasury share reserve	Employee benefit trust reserve	Retained earnings	Total equity
At 1 January 2009	121,628	185,112	(77,260)	(15,443)	134,508	348,545
Profit for the period	–	–	–	–	1,625	1,625
Total comprehensive income for the year	–	–	–	–	1,625	1,625
Equity dividends paid to shareholders	–	–	–	–	(39,550)	(39,550)
Share-based payments	–	–	–	3,850	–	3,850
At 31 December 2009	121,628	185,112	(77,260)	(11,593)	96,583	314,470
Profit for the period	–	–	–	–	5,544	5,544
Total comprehensive income for the year	–	–	–	–	5,544	5,544
Equity dividends paid to shareholders	–	–	–	–	(38,582)	(38,582)
Share-based payments	–	–	–	1,421	–	1,421
At 31 December 2010	**121,628**	**185,112**	**(77,260)**	**(10,172)**	**63,545**	**282,873**

Note 5: Trade and other creditors

Trade and other creditors at 31 December 2010 relate to the following:

US$000	As at 31.12.10	As at 31.12.09
Trade and other creditors:		
Falling due within one year	**512**	357
Total trade and other creditors	**512**	357

Note 6: Accrued liabilities and deferred income

Accrued liabilities and deferred income at 31 December 2010 relate to the following:

US$000	As at 31.12.10	As at 31.12.09
Accrued liabilities and deferred income:		
Falling due within one year	**900**	450
Total accrued liabilities and deferred income	**900**	450

Parent Company Notes to the Financial Statements
continued

Note 7: Other taxes payable

Other taxes payable at 31 December 2010 comprises the following taxes:

US$000	**As at 31.12.10**	As at 31.12.09
Other taxes payable:		
Withholding tax on dividend	**–**	3,225
Other taxes	**–**	8
Total other taxes payable	**–**	3,233

Note 8: Related party disclosures

There are no related party transactions and balances to be disclosed. All transactions and balances are with subsidiaries, which are wholly owned.

Note 9: Auditor remuneration

The audit fee in respect of the parent company was US$16 thousand (2009: US$16 thousand).

Note 10: Events after the reporting period

No material adjusting or non-adjusting events have occurred subsequent to the year end other than the proposed dividend disclosed in note 18 to the consolidated financial statements and the refinancing of the Group described below.

Glossary

Act	The Companies Act 2006
AGM	The Annual General Meeting of the Company to be held on Thursday 26 May 2011
Articles	Articles of Association of the Company
Audit Committee	The Audit Committee of the Company's Board
Belanovo or Belanovskoye	An iron ore deposit situated immediately to the north of Yeristovo
Benchmark Price	International seaborne traded iron ore benchmark price agreed between the major iron ore producers and specific West European or British steel producers for a given year
BIP	Business Improvement Programme, a programme of projects to increase production output and efficiency at FPM
Board	The Board of Directors of the Company
bt	Billion tonnes
Cape size	Cape size vessels are typically above 150,000 tonnes deadweight. Ships in this class include oil tankers, supertankers and bulk carriers transporting coal, ore, and other commodity raw materials
Capital Employed	The aggregate of equity attributable to shareholders, non-controlling interests and borrowings
CFR	Delivery including cost and freight
C1 Costs	Cash costs per tonne of pellets, ex-works, excluding administrative and distribution costs
CIF	Delivery including cost, insurance and freight
CIS	The Commonwealth of Independent States
Combined Code	The Combined Code on Corporate Governance published by the Financial Reporting Council in June 2008
Company	Ferrexpo plc, a public company incorporated in England and Wales with limited liability
CPI	Consumer Price Index
CSR	Corporate Safety and Social Responsibility
CSR Committee	The Corporate Safety and Social Responsibility Committee of the Board of the Company
DAF	Delivery at frontier
DFS	Detailed Feasibility Study
Directors	The Directors of the Company
Dragline excavators	Heavy excavators used to excavate material. A dragline consists of a large bucket which is suspended from a boom
EBITDA	The Group calculates EBITDA as profit from continuing operations before tax and finance plus depreciation and amortisation (included in cost of sales, administrative expenses and selling and distribution costs) and non-recurring cash items included in other income and other expenses plus the net of gains and losses from disposal of investments and property, plant and equipment
EBT	Employee Benefit Trust
EPS	Earnings per share
Executive Committee	The Executive Committee of management appointed by the Company's Board

Glossary continued

Executive Directors	The Executive Directors of the Company
Fe	Iron
Ferrexpo	Ferrexpo plc
Ferrexpo AG Group	Ferrexpo AG and its subsidiaries including FPM
Fevamotinico S.a.r.l.	A company incorporated with limited liability in Luxembourg
FOB	Delivered free on board
FPM	Ferrexpo Poltava Mining, also known as Ferrexpo Poltava GOK Corporation or PGOK, a company incorporated under the laws of Ukraine
FRMC	Financial Risk Management Committee, a sub-committee of the Executive Committee
FTSE 250	Financial Times Stock Exchange top 250 companies
FYM	Ferrexpo Yeristovskoye Mining, also known as YGOK, a company incorporated under the laws of Ukraine to administer the three major growth projects
GPL	Gorishne, Plavninskoye and Lavrikovskoye Mine, the mine operated by FPM
Group	The Company and its subsidiaries
Growth Markets	Those markets that offer to add new and significant tonnage expansion potential
Helogistics	Helogistics Holding GmbH and its subsidiaries, an inland waterway transport group operating on the Danube/ Rhine corridor
HSE	Health, safety and environment
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards, as adopted by the EU
IPO	Initial public offering
Iron ore concentrate	Product of the flotation process with enriched iron content
Iron ore sinter fines	Fine ground iron ore
Iron ore pellets	Dried and hardened agglomerate of iron ore concentrate, whose physical properties are well suited for transportation and downstream processing in a blast furnace
JORC	Australasian Joint Ore Reserves Committee – the internationally accepted code for ore classification
K22	GPL ore has been classified as either K22 or K23 quality, of which K22 ore is of higher quality (richer)
KPI	Key Performance Indicator
kt	Thousand tonnes
LIBOR	The London Inter Bank Offered Rate
LLC	Limited Liability Company
LTIFR	Lost-Time Injury Frequency Rate

LTIP	Long-Term Incentive Plan
m^3	Cubic metre
Majority Shareholder	Fevamotinico S.a.r.l., The Minco Trust and Kostyantin Zhevago (together)
mm	Millimetre
mt	Million tonnes
mtpa	Million tonnes per annum
Natural Markets	Relatively new markets in regions where the Group believes it has competitive advantage which is yet to be exploited
Nominations Committee	The Nominations Committee of the Company's Board
Non-executive Directors	Non-executive directors of the Company
NOPAT	Net operating profit after tax
OHSAS 18001	International safety standard 'Occupational Health & Safety Management System Specification'
Ordinary Shares	Ordinary Shares of 10 pence each in the Company
Ore	A mineral or mineral aggregate containing precious or useful minerals in such quantities, grade and chemical combination as to make extraction economic
Panamax	Modern Panamax ships typically carry a weight of between 65,000 to 75,000 tonnes of iron ore and can transit both Panama and Suez canals
PPI	Ukrainian producer price index
Probable reserves	Those measured and/or indicated mineral resources which are not yet 'proved', but of which detailed technical and economic studies have demonstrated that extraction can be justified at the time of the determination and under specific economic conditions
Proved reserves	Measured mineral resources of which detailed technical and economic studies have demonstrated that extraction can be justified at the time of determination and under specific economic conditions
Rail car	Railway wagon used for the transport of iron ore concentrate or pellets
Relationship Agreement	The relationship agreement entered into among Fevamotinico S.a.r.l., Kostyantin Zhevago, The Minco Trust and the Company
Remuneration Committee	The Remuneration Committee of the Company's Board
Reserves	Those parts of mineral resources for which sufficient information is available to enable detailed or conceptual mine planning and for which such planning has been undertaken. Reserves are classified as either proved or probable
$/t	US dollars per tonne
Sinter	A porous aggregate charged directly to the blast furnace which is normally produced by firing relatively courser fine iron ore, other materials, and coke breeze as the heat source
Spot price	The current price of a metal for immediate delivery
Sterling/£	Pound sterling, the currency of the United Kingdom
STIP	Short-Term Incentive Plan

Glossary continued

Tailings	The waste material produced from ore after economically recoverable metals or minerals have been extracted. Changes in metal prices and improvements in technology can sometimes make the tailings economic to process at a later date
Tolling	The process by which a customer supplies concentrate to a smelter and the smelter invoices the customer the smelting charge, and possibly a refining charge, and then returns the metal to the customer
Ton	A US short ton, equal to 0.9072 metric tonnes
tonne or t	Metric tonne
Treasury Shares	A company's own issued shares that it has purchased but not cancelled
TSF	Tailings storage facility
Traditional Markets	Markets that the Group has supplied historically and in which it enjoys a competitive advantage based on its location. These include Austria, Ukraine, Poland, Slovakia, Romania, Bulgaria and Russia
TSR	Total shareholder return. The total return earned on a share over a period of time, measured as the dividend per share plus capital gain, divided by initial share price
Ukraine	The Republic of the Ukraine
Underlying earnings	An alternative measure which the Directors believe provided a clearer picture of the underlying financial performance of the Group's operations. Underlying earnings is presented as profit attributable to equity shareholders before adjusted items. Adjusted items are those items of financial performance that the Group believes should be separately disclosed on the face of the income statement to assist in the understanding of the underlying financial performance achieved by the Group. Adjusted items that relate to the operating performance of the Group include impairment charges and reversals and other exceptional items. Non-operating adjusting items include profits and losses of investments and businesses as well as IPO costs and non-operating foreign exchange gains and losses
UAH	Ukrainian hryvnia, the currency of the Republic of the Ukraine
Ukr SEPRO	The quality certification system in Ukraine, regulated by law to ensure conformity with safety and environmental standards
US$ or Dollars	United States dollars, the currency of the United States of America
USS	United States Steel Corporation
VAT	Value Added Tax
Value-in-use	The implied value of a material to an end user to use one material relative to other options, eg comparing performance of several types of iron ore pellets into a blast furnace; taking into account the delivered cost of a material and rates relative to other competition materials on a quality and landed cost adjusted basis
WMS	Wet magnetic separation
Yeristovo or Yeristovskoye	The mine being developed by FYM

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