Ferrexpo plc

Producing iron ore pellets for over 30 years

5432915.

Annual Report and Accounts 2011

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

Ferrexpo listed on the main market of the LSE in June 2007.

In this report

Shareholder Information

Registered Office
2–4 King Street
London
SW1Y 6QL
www ferrexpo com

Advisors
Share Registrars
Equiniti
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
UK
www equiniti com

Financial
JPMorgan Cazenove Ltd
20 Moorgate
London EC2R 6DA

Corporate Brokers
JP Morgan Cazenove Ltd
20 Moorgate
London EC2R 6DA

Deutsche Bank AG
1 Great Winchester Street
London EC2N 2DB

Legal
Allen & Overy LLP
One Bishops Square
London E1 6AD

Auditors
Ernst & Young LLP
1 More London Place
London SE1 2AF

Highlights 2011

Key Figures

Full Capacity
Production volumes from own ore
Production of 9 1 million tonnes (2010 9 0 million tonnes)

+5%
Production of Premium 65% Fe pellets (own ore)
Ferrexpo produced 4 3 million tonnes of higher quality 65% Fe pellets

+2%
Sales volumes
Sales volumes increased 2% to 9 8 million tonnes

+38%
Revenue
Group revenue increased to US$1 8 billion (2010 US$1 3 billion)

+37%
EBTIDA[1]
Group EBITDA increased to US$801 million (2010 US$585 million)

+34%
Diluted earnings per share
Group diluted EPS increased to 97 0 US cents per share (2010 72 2 US cents per share)

6.6 US cents per share
Total dividend per share
Final dividend of 3 3 US cents per share in line with 2010

+75%
Capital investment as % of net operating cash flows
Capital investment increased to US$378 3 million (2010 US$166 8 million)

-23%
Net debt
Net debt reduced to US$80 2 million (2010 US$104 4 million)

1 The Group calculates EBITDA as profit from continuing operations before tax and finance plus depreciation and amortisation and non recurring exceptional items included in other income and other expenses and the net of gains and losses from disposal of investments property plant and equipment

Ferrexpo at a Glance Reserves and Resources

Ferrexpo produces iron ore pellets, which are a premium input used in steel production.

Compared with iron ore fines and lump, pellets improve blast furnace productivity in the steel production process.

14 2bt
GKZ Soviet
Classified

6 8bt
JORC
Classified

4 0bt
Brovarskoye

2 8bt
Kharchenkovskoye

1 5bt
Zarudenskoye

0 3bt
Galeshinskoye

1 2bt
Yeristovskoye

3 6bt
Gorishne-Plavninskoye
and Lavrikovskoye

3 1bt
Manuilovskoye

2 8bt
Vasilievskoye

1 7bt
Belanovskoye

North

South

Future Expansion

Current Production

Gdantsev Succession
- quartzite, schist, fillite
- schist units

Saksagan Succession
■ ■ ■ ■ BIF units

Basement
amphilobite
- granite, migmatite

JORC Reserves and Resources as of 1 January 2012

Deposit	Proved and probable (mt)	Fe grade (total) %	Resources: Measured and indicated (mt)	Fe grade (total) %	Inferred (mt)	Fe grade (total) %
Gorishne-Plavninskoye and Lavrikovskoye[1]	859	30	2,140	30	1,449	31
Yeristovskoye[2]	632	34	828	34	364	30
Belanovskoye[3]	–	–	1,485	31	217	30
Galeshinskoye	–	–	268	55	58	55
Total	**1,491**	**32**	**4,721**	**32**	**2,088**	**31**

1 Ferrexpo Poltava Mining ('FPM')
2 Ferrexpo Yeristovo Mining ('FYM')
3 Ferrexpo Belanovo Mining ('FBM')

Strong Pipeline of Organic Growth

- Mining operations based 20 kilometres from Kremenchuk in central Ukraine, on the banks of the Dnieper River
- Total resources, including Soviet classified, more than 20 billion tonnes of 30% Fe average
- Deposits along same ore body with existing infrastructure
- Mining currently carried out at Gorishne-Plavninskoye and Lavrikovskoye ('FPM') deposits
- FPM operating for 30+ years
- Funding in place for approved expansion
- First ore at FYM due late 2012
- Low risk brownfield development offering superior returns
- Drilling works and site preparation underway at FBM

Ferrexpo at a Glance Operations

1
Mining Ore

89 large haulage trucks
43 excavators

18 ore haulage trains

Open cut, hard rock iron ore mining, using truck and shovel Average Fe content of 30%

4
Beneficiation

a Grinding
The ore is ground to produce fine particles of 0-0 44mm in size

b Wet Magnetic Separation
The fine ore particles are collected to produce 63% Fe concentrate, half of which goes to the pelletiser to produce 62% Fe iron ore pellets

c Flotation
Approximately 50% of the concentrate is upgraded to 67% Fe content, used to create 65% Fe iron ore pellets, with unwanted waste material removed to the tailings storage area

2
Crushing

The ore is crushed and screened to allow it to be upgraded through separation by two crushing plants Input particle size 0-1,200mm, output particle size 0-20mm

3
Dry Magnetic Separation

Dry magnetic separation separates waste material from the iron resulting in output particles of 0-20mm with a Fe content of 40%

5
Pelletising

Four kiln grate units which heat and form the materials into pellets of around 16mm
Temperature of pelletising kiln 1,250°C

6
Distribution

The iron ore pellets are transported by rail, barge and sea to customers around the world

Ferrexpo at a Glance Distribution and Markets

Transport and Logistics

Established Infrastructure

- Rail links to European customers and to port on Black Sea
- Own river port at mine site for pellet transportation by barge
- Own rail wagons which transport two thirds of pellet production to border dispatch points Target is self-sufficiency to reduce reliance on state-owned rail cars
- Port on Black Sea (48 6% ownership, 100% of capacity)
- Capesize capability nine capesize vessels of average 173 thousand dwt loaded for first time in 2011 To be expanded in 2012
- Own barges which transport pellets along the Danube/Rhine River corridor (capacity around 1 0mt)

Well Located to Supply Regional and Seaborne Markets

53%
66%

7%
7%

40%
27%

- Closest major pellet producer to Europe
- 35 sailing days to China
- 16 sailing days to Middle East

Sales
2011
2010

- Traditional markets
- Natural markets
- Growth markets
- Target markets
- Ferrexpo

- London office
- Marketing office
- Ferrexpo transportation routes
- Competitor routes

Chairman's and Chief Executive Officer's Statement

Introduction

2011 was another year of significant development for Ferrexpo, despite a volatile financial and political environment globally. The Group delivered an excellent operational performance with record production from own ore further increasing the quality of its pellets. Sales volumes and average pricing reached historic highs and net profit grew by 35%.

The Group's growth projects gained momentum as investment increased to record levels at approximately 75% of operating cash flows This is part of Ferrexpo's strategy to upgrade and modernise existing mining facilities and to access new ore so as to increase pellet production output by one third from 2013 onwards and, following further Board approvals, to 20 million tonnes These projects are proceeding on budget and schedule

In 2011, Ferrexpo developed its resource base, expanded and strengthened its customer mix, maintained a competitive cost of production, improved the quality of its product and expanded its logistics capabilities while ensuring sufficient financial liquidity This has positioned the Group favourably for the short and medium-term, increasing value to all stakeholders – employees, customers, its country of operation and shareholders

Results and Dividend

Group revenue increased by 38% to US$1 8 billion for the 12 months ended 31 December 2011 (2010 US$1 3 billion), primarily driven by higher sales prices The Group's C1 cash cost[1] of production increased by 28% to US$50 7 per tonne, compared to the average C1 cash cost in 2010 of US$39 7 per tonne

Prices of key inputs increased in line with world market prices for commodities, in particular energy and steel This accounted for 56% of the C1 cash cost increase Local costs were higher due to Ukrainian producer price inflation of 19% Continued progress in the Business Improvement Programme ('BIP') improved efficiencies, and production at full capacity further enabled maximum absorption of the fixed cost base The Ukrainian Hryvnia remained stable against the US Dollar during the period

Overall EBITDA rose by 37% to US$801 million (2010 US$585 million) Group profit after tax increased to US$575 million (2010 US$425 million)

Operating cash flow after interest and tax and before acquisitions was US$503 million for the period (2010 US$380 million) Capital expenditure amounted to US$378 million (2010 US$167 million) with the increase reflecting higher spend on growth projects

At the period end, Ferrexpo had net debt of US$80 million (2010 US$104 million)

The Board's strategy remains to fund capital expenditure out of operating cash flows and to pay a modest, consistent dividend throughout

1 The C1 cash cost of production per tonne is defined as the cash costs of production of iron pellets from own ore divided by production volume from 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

the economic cycle, while maintaining adequate liquidity to develop the significant project pipeline The Directors therefore recommend a final dividend in respect of profits generated for the Group in 2011 of 3 3 US cents per Ordinary Share (2010 final dividend 3 3 US cents per Ordinary Share) for payment on 1 June 2012 to shareholders on the register at the close of business on 4 May 2012 The dividend will be paid in UK Pounds Sterling with an election to receive US Dollars

Market Environment
In 2011 China's crude steel output grew 9% to 696 million tonnes, an increase of 56 million tonnes Global steel production in 2011 grew 7% to a record 1 5 billion tonnes Asia accounted for 65% of the global production (source World Steel Association)

As a result of the growth in steel production, especially in China, the average realised price for iron ore was an industry record in 2011 This reflected a 35% fall in the China CFR index price for 62% Fe fines in September 2011 from US$181 per tonne to a low of US$117 per tonne in October, before the price recovered towards the year end

A key factor in price realisation and contract performance throughout the year was the continued evolution of the iron ore price setting mechanism In China, the period of duration for calculating the average price was shortened, with many of the major iron ore producers moving to monthly time periods In most other markets, the leading producers continued to follow a quarterly pricing mechanism which moved to the average quarter of loading following the fall in the spot price in September and October Such a move assisted contract performance, in contrast with the second half of 2008, when contract prices did not immediately adjust to the changing market conditions and subsequently resulted in customers being reluctant to fulfil their contractual commitments

In this market environment, Ferrexpo has continued as a price follower but has made significant strides towards

1. Establishing Index Linked Pricing:
During the year, Ferrexpo established index linked pricing using the average for the quarter of loading as the preferred pricing mechanism This move was aligned with that of the major iron ore suppliers who moved to a similar pricing methodology for the October to December quarter This is the first step towards ensuring that Ferrexpo achieves prices in line with its international peer group

2 Capitalising on its Geographic Proximity to Major Steel Markets
Ferrexpo successfully loaded its first capesize ship in May, allowing it to realise significant freight cost benefits as compared to using smaller panamax vessels By the end of 2011, nine capesize ships had been loaded reducing freight costs, for that volume, by approximately US$7 per tonne

3 Strengthening its Customer Base
It is the Group's strategy to expand sales to high quality customers and to develop new customer relationships in Asia Sales volumes to Asia increased to 40% of total sales compared to 27% in 2010 The increased Asian sales included additional trial shipments to target blue chip customers in the region The Group intends to maintain such geographic diversity in the sales portfolio

As Ferrexpo increases its production and sales volumes and targets growth regions, dependence on some traditional markets is expected to decrease Reliance on these markets was reduced to 44% of total sales in 2011 from 55% of sales in 2010

As a result of the above developments, the Group achieved satisfactory pricing during the year under review While market prices have moderated so far in 2012, and are not expected to reach the highs of 2008 or 2011, the Group still believes that they will be above average historic levels Meanwhile, Ferrexpo will continue with its programme of developing its customer base and shipping capabilities as well as increasing the quality of its pellets supplied to global markets

Production
In 2011, Ferrexpo Poltava Mining ('FPM'), the Group's current mining operation, achieved one of its best production years in history, once again operating at full capacity throughout the year The Division produced 9,063 thousand tonnes of pellets from own ore compared to 9,033 thousand tonnes of pellets produced in 2010 Over the last 10 years, production, from own ore, has doubled on a 100% Fe equivalent basis

Ferrexpo has made significant strides towards improving the quality of its pellet output 2011 was FPM's best performance on record regarding the production of its Premium 65% Fe pellets, from own ore, which increased 5% to 4,256 thousand tonnes

The production of pellets from purchased third party concentrate was the second highest in the Group's history, despite lower availability in local markets 747 thousand tonnes of pellets were produced from purchased concentrate compared to 998 thousand tonnes in 2010 Total pellet production, including pellets processed from purchased concentrate, for 2011, was 9,810 thousand tonnes compared to 10,031 thousand tonnes in 2010

The current level of production from own ore represents full mining capacity of approximately 30 million tonnes per year (30% average iron content) This is expected to remain at this level until first ore from the Ferrexpo Yeristovo Mining ('FYM') deposit is achieved at the end of 2012 (see Capital Investment below)

Health and Safety
In accordance with the Group's clearly stated policy to improve safety standards, Ferrexpo is pleased to report that there were no fatalities at its mines in 2011, and that the lost-time injury frequency rate ('LTIFR') at FPM fell to 0 82 per million man hours worked, the lowest rate in its history (2010 1 43) FYM experienced no lost-time injuries during the year which was a major accomplishment Overall, the Group's total LTIFR in 2011 was 0 77 as compared to 1 46 in 2010

The management of Ferrexpo fosters a culture of safety in the organisation, linking safety performance to remuneration The Group has regular safety audits by DuPont and is determined to follow international best practice as well as to set the standard for mining companies operating in the Commonwealth of Independent States ('CIS')

Cost Environment
In common with all metals and mining producers, the cost environment in 2011 was impacted by commodity price increases and inflation in Ukraine Specifically, the full year impact of higher energy prices, following the oil price hike at the end of 2010, as well as increased prices for steel grinding bodies, resulted in higher operating costs overall for the Group Ferrexpo's C1 cash cost increased by 28% to US$50 7 per tonne

Within this environment, Ferrexpo focused on limiting cost inflation through production increases and BIP initiatives aimed at reducing consumption norms For the year, BIP reduced the C1 cash cost of production by 1 8%, in line with the Group's annual target of 1% to 2%

70% of total operating costs are in Ukrainian Hryvnia In 2011, the Hryvnia remained stable against the US Dollar compared to 2010 at approximately UAH8 per US Dollar

Chairman's and Chief Executive Officer's Statement
continued

Ferrexpo is well placed, in the lowest quartile of the global pellet cost curve, to sustain its competitive position should iron ore pricing decrease In the meantime, it will invest up to 80% of cash flows after operating activities in the expansion and modernisation of the existing mine and processing facilities as well as in new mining operations, starting with FYM This investment should further ensure that Ferrexpo at least maintains its position on the pellet cost curve

Capital Investments
Ferrexpo is currently investing substantial sums of money into its mining complex to increase the quality and volume of its production output, thereby underpinning future profit and earnings growth The approved investment programmes are on schedule and will increase the Group's output by one third by the end of 2013, and the overall quality of its pellets to 65% Fe for all production

In 2011, reflecting these programmes, the Group more than doubled its capital expenditure investing US$378 million (2010 US$167 million) This included investments of US$121 million for improving the efficiency, reliability and output of the existing mining complex, and US$49 million in respect of extending the life of FPM's open pit and for initial engineering work for the upgrade of the Group's pellet quality The FYM operation received investment of US$129 million as part of its programme to reach first ore by the end of 2012

These projects are progressing on time and to budget and are discussed fully in the operating review

After this first phase of investment, Ferrexpo intends to increase further its production output by another 60% to 20 million tonnes by 2016, following approval by the Board of a new concentrating and pelletising facility

Currently, the Group is finalising the engineering design for the concentrator to ensure it complies with international best practice and local design institute requirements Ferrexpo anticipates final approval of this project, in its entirety, during 2012

Financial Management
Ferrexpo issued its debut Eurobond in 2011 for US$500 million The bond has a duration of five years and was issued at a yield of 7 875% This is the lowest yield achieved by a company with Ukrainian assets since 2005, reflecting the quality of Ferrexpo's iron ore assets and operations

The Group also refinanced its main bank debt facility during the year It replaced its previous facility of US$350 million with an interest rate of LIBOR plus 550 basis points with a five-year revolving US$420 million facility paying 225 basis points over LIBOR on drawn amounts The facility will begin amortising in 2014 This is the lowest priced bank facility achieved by a corporate in Ukraine and is at 10 basis points lower than the pre-crisis levels achieved by Ferrexpo in 2006 and 2007

The above treasury management has secured the Group's financial position and provides the necessary financial flexibility for the Group to develop its project pipeline The Group's net gearing (net debt to EBITDA) as of 31 December 2011 was 0 1 times The long-term nature of Ferrexpo's financing arrangements means the Group has minimal debt repayments of approximately US$11 million per year in 2012 and 2013 As of 31 December 2011, the Group had total available debt facilities of over US$1 billion, of which US$978 million was drawn The Group's cash position as of 31 December 2011 was US$890 million

Ukraine
As a significant employer in the Poltava region of Ukraine and as its leading pellet exporter, Ferrexpo is committed to the future development of the local area and the country

Ukraine is a young democracy which has been subject to various changes in government over the past 20 years As is common with developing economies there is a risk that the country may develop in a manner that is adverse to general business practice These operating risks are commonly faced by all mining companies in emerging markets, and the Board believes Ferrexpo has the expertise to manage them

As of 31 December 2011, it was estimated that the Ukrainian government owed the industrial sector over UAH15 billion (US$2 billion) of overdue VAT repayments Ferrexpo is not unique in being affected by this situation and was due UAH1 billion (US$172 million) in VAT repayments at the end of the year, an increase of US$71 million compared to 2010 Ferrexpo is working together with the authorities to ensure the arrears return to normal levels

In 2011, Ferrexpo spent approximately UAH102 million (US$12 million) on community projects These included providing financial support to over 4,000 vulnerable people, the provision of free medical treatments and modernisation of the local hospital as well as refurbishment of schools and sporting facilities

Since the Group's IPO in 2007, Ferrexpo has invested over US$1 billion in its local operations benefiting the Ukrainian economy Ferrexpo believes it sets the standard for best practice within Ukraine by raising operational standards, maintaining high levels of transparency in all its business dealings and attracting new investments through debt financing, thus demonstrating that Ukraine is a sound country in which to invest

Corporate Governance
The Board remains committed to maintaining the highest standards of corporate governance throughout the Group in the conduct of its business Ferrexpo has fully complied, since listing in 2007, first with the Combined Code on Corporate Governance, and since 2011, with the UK Corporate Governance Code 2010 During the year, the Group implemented appropriate procedures in accordance with the UK Bribery Act which came into effect in July 2011

The Board has eight members a Non-executive Chairman, four independent Non-executive Directors, one Non-executive Director and two Executive Directors The Board believes that this is an appropriate size and structure to manage the Group successfully

People
The Board would very much like to thank all the management and staff for their continued hard work and dedication which has led to another excellent year of progress at Ferrexpo

During the second half of the year, Ferrexpo was pleased to welcome Jason Keys as the new Chief Marketing Officer Jason has already made a significant contribution towards the evolution of new pricing terms agreed with customers He joined Ferrexpo from BHP Billiton where he was the global marketing manager for iron ore for five years He has significant industry experience in both the European and the Asian bulk commodity markets having also previously worked for Rio Tinto The Board would like to thank Yaroslavna Blonska, the Group's Marketing Manager for the CIS and Eastern Europe, for acting as the Chief Marketing Officer in the period prior to Jason's arrival

Strategy
It is Ferrexpo's strategy to develop its significant resource base, one of the largest iron ore deposits in the world, and to improve the quality of its product mix In addition, the Group intends to remain in the lowest quartile of the global pellet cost curve so as to ensure consistent production at full capacity and thereby a good financial performance through the commodities cycle Ferrexpo will look to expand its logistics capabilities and to open new markets prior to the planned increase in production output Finally, as previously stated, the Group plans to fund capital expenditure out of operating cash flows while maintaining adequate liquidity

Outlook
Ferrexpo, with its substantial iron ore reserves, is well placed to capitalise on the progress made in 2011 Its low-cost structure and proximity to its customer base together with its logistics infrastructure makes it a key supplier to its customers These factors enable Ferrexpo to develop long-term supply relationships to the major steel producers in Europe, the Middle East and Asia

The Board believes that although there is likely to be increased volatility in the world economy in the short term, the Group is well placed to continue to deliver sustainable value creation

Ferrexpo Strategic Priorities

Ferrexpo has defined seven strategic priorities, which it believes will lead to the achievement of sustained growth and the creation of long-term shareholder value.

It has identified a number of operational key performance indicators ('KPI') against which to benchmark these priorities

	STRATEGIC PRIORITY	OPERATIONAL KPI
1	To develop the Group's significant resource base	**Total production from own ore** 000 tonnes **Definition** Total pellet production, including from purchased concentrate
2	To improve the quality of the Group's pellets	**Production of Premium 65% Fe pellets from own ore** 000 tonnes **Definition** Production of higher quality pellets
3	To remain in the lowest quartile of the global pellet cost curve	**C1 cash cost per tonne of pellets** US$/tonne **Definition** The cash costs of production of iron pellets from own ore divided by production volume of own ore **Consumption norms** US$/tonne **Definition** The rate of utilisation of raw materials and labour in the production of pellets

STRATEGIC PRIORITY

4

To expand the Group's logistics capabilities

OPERATIONAL KPI

Sales volume managed through Ferrexpo's supply chain %

Definition The % of sales transported to customers through Ferrexpo's port and barging facilities

5

To open and develop new markets and customers

Sales volumes to the Group's two largest customers %

Definition The % of sales volume sold to Ferrexpo's two largest customers per annum

6

To maintain adequate liquidity and low balance sheet gearing

Net debt to EBITDA

Definition Net debt divided by EBITDA

7

To be a responsible corporate citizen

Fatalities

Definition Work related fatal accidents

LTIFR

Definition Lost-time injury frequency rate[1]

1 Lost Time Injury Frequency Rate (LTIFR) 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

Ferrexpo in Action

Largest Iron Ore Deposit in Europe

Galeshinskoye

Belanovskoye

The Group holds licences to explore or mine a 50 kilometre long strike, containing 10 identified iron ore deposits The picture to the right shows the first five deposits. Current operations are situated at the southern end of the deposit, adjacent to the Dnieper River at the Gorishne-Plavninskoye Lavrikovskoye pit (Ferrexpo Poltava Mining).

First ore is expected from the Yeristovskoye deposit (Ferrexpo Yeristovo Mining) at the end of 2012.

Ferrexpo expects to invest in pre-stripping at the Belanovskoye deposit (Ferrexpo Belanovo Mining) in 2012.

GPL Pit

Yeristovskoye

Ferrexpo in Action

Operating to Best International Standards

On an Fe equivalent basis the Group's output of iron units has doubled in the last 10 years of production. In addition, the average grade of its pellets has increased significantly reaching 63.5% Fe.

The Group's strategy is to reduce costs in order to remain in the lowest cost quartile of global pellet producers This has been achieved through ongoing efficiency improvements over many years Since 2005, savings of US$6.6 per tonne in the C1 cash cost of production have been achieved.

Ferrexpo in Action

Developing Logistics Capabilities

Ferrexpo has dedicated export capacity at its ocean port terminal of over five million tonnes per annum In May 2011, in addition to loading panamax vessels, this facility began loading standard capesize vessels

The Group completed nine capesize shipments by the year end, loading up to 130 thousand tonnes at the berth and topping up the vessel with a further 40 to 50 thousand tonnes at the anchorage. By moving into capesize shipments, Ferrexpo was able to significantly reduce freight costs to Far East and Western European markets resulting in increased FOB returns from CFR sales.

Review of Operations Reserves and Resources

Ferrexpo's resource base consists of magnetite ore of 30% iron content, which is particularly well-suited for pelletising. The ore body is a single 50 kilometre-long strike divided into 10 adjacent deposits. Five of these deposits are classified according to the international JORC Code and as at 1 January 2012 represented estimated resources of 6.8 billion tonnes. The other five deposits, representing an estimated 14.2 billion tonnes, are FSU classified.

Table 1 JORC Reserves and Resources as of 1 January 2012

			Resources			
Deposit	Proved and probable (mt)	Fe grade (total) %	Measured and indicated (mt)	Fe grade (total) %	Inferred (mt)	Fe grade (total) %
Gorishne-Plavninskoye and Lavrikovskoye	859	30	2,140	30	1,449	31
Yeristovskoye	632	34	828	34	364	30
Belanovskoye	–	–	1,485	31	217	30
Galeshinskoye	–	–	268	55	58	55
Total	**1,491**	**32**	**4,721**	**32**	**2,088**	**31**

Note Five further deposits are estimated to contain resources of over 14 2 billion tonnes according to the former Soviet Union ('FSU') classification code Ferrexpo is currently working together with international consultants to convert these resources to the universally accepted Australasian Joint Ore Reserves Committee ('JORC') standards These deposits are collectively known as the 'Northern Deposits' and are classified under the names Manuilovskoye, Vasilievskoye, Kharchenkovskoye, Zarudenskoye and Brovarkovskoye

Ferrexpo mines and develops its reserves under the well-established laws and codes governing mining in Ukraine The State Service for Geology and Use of Natural Resources of Ukraine has granted Ferrexpo development licences for the Gorishne-Plavninskoye, Lavrikovskoye, Yeristovskoye, Belanovskoye and Galeshinskoye deposits Exploration licences are held for the remaining Northern Deposits In general, a development licence is granted for a period of 20 years and an exploration licence is granted for 10 years Renewal is deemed automatic, subject to adherence to stipulated requirements in terms of development of the deposit and community obligations

Production
In 2011, Ferrexpo was the largest exporter of pellets in the CIS and one of the top 10 pellet producers in the global seaborne iron ore market Production continued at full capacity and a record quantity of iron units was produced and shipped in the form of pellets On a Fe equivalent basis, the Group's output of iron units has doubled in the last 10 years of production In addition, the average grade of its pellets has increased significantly by over 1% to 63 5% Fe

6.8bn
JORC resources

14.2bn
resources classified according to the Former Soviet Union code

Ferrexpo 65% Fe Premium pellets

Review of Operations Ferrexpo Poltava Mine ('FPM')

Pellet production began at FPM in 1977 after construction of the mine, processing facilities and local town of Komsomolsk under Soviet Union ownership The pit is open cut and approximately 330 metres deep and seven kilometres long Some key milestones of production output have recently been reached In December 2010, the processing facilities reached total production of 250 million tonnes of pellets, while in 2011, the mining division extracted the one billionth cubic metre of rock and ore since the start of mining activities

FPM once again increased the amount of iron ore mined per annum In 2011, it mined 29,637 thousand tonnes, 2 4% higher than 2010 This is in line with Ferrexpo's strategy to expand the mining capacity of the pit in conjunction with the Mine Life Extension project (see Development Capital Investment at FPM below) Stripping volumes increased in 2011 by 10 7% to 28,214 thousand tonnes reflecting the age of the mine and required pre-stripping to access new reserves as part of the mine life extension

The FPM processing facilities have latent processing capacity of approximately 3 0 million tonnes of pellets per annum as a result of insufficient mined ore from the existing operations During the year, 747 thousand tonnes of pellets were produced from purchased third party concentrate (2010 998 thousand tonnes) The Group purchases third

Table 2 Production Statistics

			Change	
(000t unless otherwise stated)	2011	2010	+/-	%
Iron ore mined	**29,637**	28,930	707	2 4
Average Fe content	**30**	30	–	(0 1)
Iron ore processed	**29,535**	29,097	438	1 5
Concentrate produced ('WMS')	**11,487**	11,226	261	2 3
Average Fe content %	**63**	63	–	(0 6)
Floated concentrate	**7,241**	6,195	1,045	16 9
Higher grade	**4,685**	4,426	258	5 8
Average Fe content %	**67**	67	–	(0 2)
Purchased concentrate	**864**	1,142	(278)	(24 4)
Average Fe content %	**66**	67	1	(0 7)
Purchased iron ore	**–**	–	–	–
Pellets produced from own ore	**9,063**	9,033	30	0 3
Higher grade	**4,256**	4,061	195	4 8
Average Fe content %	**65**	65	–	(0 0)
Lower grade	**4,807**	4,972	(164)	(3 3)
Average Fe content %	**62**	62	–	0 1
Pellets produced from purchased concentrate and ore	**747**	998	(250)	(25 1)
Higher grade	**543**	818	(275)	(33 6)
Average Fe content %	**65**	65	–	(0 0)
Lower grade	**205**	180	24	13 5
Average Fe content %	**62**	62	–	0 1
Total pellet production	**9,811**	10,031	(220)	(2 2)
Pellet sales volume	**9,876**	9,721	155	1 6
Gravel output	**2,855**	2,905	(49)	(1 7)
Stripping volume	**28,214**	25,481	2,733	10 7

party concentrate subject to availability in the local market and will substitute this with own ore as the capacity expansion and ore from FYM comes on line

In total, the processing facilities produced 9,811 thousand tonnes of pellets (2010 10,031 thousand tonnes) of which 4,799 thousand tonnes were Premium 65% Fe pellets (2010 4,879 thousand tonnes) and 5,012 thousand tonnes were Basic 62% Fe pellets (2010 5,152 thousand tonnes)

Health and Safety

There were no fatalities at FPM in 2011, and lost-time injuries reduced from 19 in 2010 to 11, reducing the LTIFR to 0 82 per million man hours worked which is the lowest rate in FPM's history (2010 1 43 per million man hours worked) This reduced the three-year moving average to a LTIFR of 1 12 compared to the prior three average of 1 16 per million man hours worked

The management of Ferrexpo strongly encourages a culture of safety in the organisation linking safety performance to remuneration The Group has regular internal safety audits and external audits by DuPont, and is committed to following international best practice as well as to set the standard for mining companies operating in the CIS

Business Improvement Programme ('BIP')

In 2011, FPM completed and implemented 34 projects as part of the BIP This reduced the C1 cash cost of production by UAH68m or 1 8%, in line with its goal of 1% to 2% cost savings per annum Of these projects, 18 concerned transportation efficiencies in the open pit, seven projects were focused on improving productivity in the processing facilities and nine projects focused on reducing downtime in the service departments Table 3 shows the actual resource savings achieved in 2011

Table 3 Resource Savings under BIP

Resource	Savings
Power (million kWh)	21 4
Steam (Gcal)	6,520 7
Grinding media (tonnes)	1,257 2
Diesel fuel (tonnes)	278 0
Lining (tonnes)	60 3

It is an essential part of the Group's strategy to reduce costs in order to remain in the lowest cost quartile of global pellet producers This has been achieved through ongoing efficiency improvements and cost reductions over many years Table 4 below illustrates the effect of these projects Since 2005, the year before the start of the BIP, FPM has achieved savings of US$6 6 per tonne in the C1 cash cost of production

• Please note following an increased focus on safety by the Group from 2009 incidents that were previously unreported are now reported on and disclosed

Review of Operations Ferrexpo Poltava Mine ('FPM') continued

Table 4 Improvement in Consumption Norms

Norms – examples	2005	2011	Ch %
Electricity kWh/t	205 5	**179 2**	(15)
Gas m³/t	22 0	**16 8**	(31)
Grinding bodies kg/t	6 4	**5 6**	(15)
Labour productivity thousand tonnes/ person	0 7	**1 5**	53

Examples of the BIP in 2011

Decrease in consumption of steel grinding media in concentration plant

Cost no capital cost required
Savings 1,257 tonnes of steel grinding media, UAH8 million (at current prices)

Description of project

A programme was designed to monitor electrical consumption of the motors on the ball mills in the concentration plant Ball mills contain steel grinding media which are used to grind the iron ore into an optimum size for further processing By studying the pattern of power consumption, FPM could assess when grinding media were being over or under loaded As a result, FPM could optimise the process for consistent loading of grinding media and reduce overall power consumption

Benefits

1 More efficient energy management
2 Reduction of grinding media required
3 Consistent particle size achieved

Reduction of power consumption at the tailings plant

Cost UAH13 million
Savings 18 million kWh power, UAH11 million per annum

Description of project

Tailings, fine particles of waste, which are a by-product of pellet production, are stored in a tailings dam During 2010 and 2011 FPM redesigned the piping from the dam to the processing plant to allow water to flow by gravity, instead of via electrical pumps, back to the processing area for reuse

Benefits

1 Lower electricity consumption
2 Reduction in wear and tear of water pumps
3 Recycling water

Dispatch system in open pit

Cost UAH28 million

Description of project

Trucks used in the pit to collect ore have been fitted with GPS tracking systems This allows for better scheduling of pick-ups thereby improving overall mining efficiency In 2011, the focus was to set up the hardware for this dispatch platform Now that this has been achieved, the system can be expanded to monitor other performance criteria, such as the pressure and temperature of tyres and engine performance in trucks The system can also be used in the future to evaluate the performance of other equipment in the pit such as drilling rigs

Expected project outcomes

1 Reduced downtime for trucks waiting to load
2 Reduction of instances of 'zero mileage' for trucks
3 Increase of mine fleet capacity by 7% after first year of operation

The BIP is embedded in the Group's culture with targeted outcomes linked to operational managers' performance evaluations Ferrexpo believes the programme is essential to ensure continued improvement in the cost reduction of its mining and processing activities

Sustaining Capital Investment at FPM

During the period, the Group allocated US$121 million for the modernisation and debottlenecking of FPM's production facilities (2010 US$49 million)

Included in sustaining capital investment are projects to upgrade FPM's facilities to allow processing capability of 35 million tonnes of crude ore per annum by the end of 2013 This will ensure FPM can process additional ore from the FPM open pit and first ore from FYM, increasing the Group's pellet output to 12 million tonnes per year Activities during the year focused on the redesign and reinstallation of parts of the crushing plant and were completed and commissioned in January 2012

Sustaining capital investment also provides for the modernisation of existing assets and systems to increase operating efficiencies, benefiting the cash cost of production

Development Capital Investment at FPM
Quality Upgrade Project
Of the total pellets produced at FPM in 2011, 49% represented Ferrexpo Premium pellets (65% Fe) while the remaining were Ferrexpo Basic pellets (62% Fe) The Group's strategy is to increase the quality so that all output is Premium pellets To achieve this, the Board approved a US$212 million investment programme in November 2010

The FPM pit consists principally of two types of ore seams The Quality Upgrade Programme will enable the Division to upgrade (beneficiate) leaner ore to a higher iron content through the modification of the existing flotation circuit and the installation of two additional circuits The project also involves the upgrade and replacement of filters to remove water from the concentrate prior to it entering the pelletising plant The project is scheduled for completion by the end of 2014

During the year, FPM completed the majority of the engineering and design documentation and prepared the sites for the flotation sections Long-lead orders for the vertical mills, used in the beneficiation process were placed, with delivery expected to start in mid-2012

Mine Life Extension
The FPM open pit mine has been in operation since 1977 and contains ore beyond the original planned pit limits and depths In November 2010, US$168 million was approved for expenditure to extend the life of the mine to 2038 This project involves stripping and removal of overburden to access further iron rich ore by 2014 The project began in 2011 and is scheduled for completion by the end of 2018

During the year, approximately 13 million cubic metres of overburden was removed in line with the plan Higher diesel prices resulted in increased costs, however, the Group expects these costs to moderate over the remaining life of the project Orders for a drilling rig and two excavators were placed and are expected to be delivered in the first quarter of 2012, while three dump-trucks were delivered in September 2011

Total development capital investment at FPM in 2011 was US$49 million (2010 US$55 million)

Review of Operations Ferrexpo Yeristovo Mine ('FYM')

Development Capital Investment
Phase 1 – First Ore
Capital investment at FYM during the period was US$129 million (2010: US$43 million). This project is proceeding on time and on budget (total cost US$267 million) with first ore expected at the end of 2012.

Overall, 60% of the required pre-stripping has been completed. In 2011, 16 million cubic metres of overburden was removed with 15 million cubic metres of pre-stripping remaining. Currently, five draglines, 16 CAT 789 haul trucks, five CAT 793 haul trucks and a hydraulic excavator are in operation. A further excavator and five additional CAT 793 trucks are expected to be in operation by the second quarter of 2012. Meanwhile, construction of permanent pit infrastructure is well underway and the Division employed 677 permanent staff as of 31 December 2011.

Once first ore is achieved, Ferrexpo will be able to increase its pellet output by one third to 12 million tonnes per annum by using the processing facilities at FPM.

Phase 2 – Construction of Concentrating Facilities
Ferrexpo intends to increase its total production output by over 60% to 20 million tonnes by 2016. FYM plans to produce approximately 28 million tonnes of crude ore output per annum. In order to process this material, a new concentrator facility will process the surplus ore to increase output from 12 million tonnes per annum to 20 million tonnes per annum.

Currently, the Group is finalising the engineering design for the concentrator to ensure it complies with international best practice and local design institute requirements. Ferrexpo anticipates final approval of the project, in its entirety, during 2012.

Although concentrate is saleable as a product in its own right, Ferrexpo recognises the benefits of producing iron ore pellets, which are of higher value to end customers. As a result, approval of the concentrator will also initiate the third phase of the project, subject to Board approval, which is to construct a 10 million tonne per annum pelletiser to be established in the most favourable location.

Health and Safety
Since the start of the project in 2008, FYM has had an excellent safety record. There were no fatalities or lost time injuries in 2011.

Ferrexpo Belanovo Mining ('FBM')
The Ferrexpo Belanovo deposit has total JORC resources of 1,702 million tonnes. Drilling works and site preparation activities were undertaken in 2011 amounting to US$8 million. A Bucyrus RH340 hydraulic face shovel and five Caterpillar 793D haul trucks have been ordered for delivery in mid-2012 in order to begin stripping works. It is anticipated that in 2012 capital investment will be in the region of US$50 million, as part of the programme to reach first ore at the deposit.

Review of Operations Marketing and Logistics

53%

of sales volume to Traditional Markets
2010 66% of sales volume

40%

of sales volume to Growth Markets
2010 27% of sales volume

7%

of sales volume to Natural Markets
2010 7% of sales volume

Marketing

Evolution of Iron Ore Pricing

In 2011, the majority of physical iron ore traded globally was priced against the Platts iron ore index for 62% Fe fines on a CFR North China basis Producers and customers would then agree a quotation period to calculate the average fines price and negotiate a quality adjustment and a premium for lump or pellets The resulting price reflected value in use to the steel mill, taking into account iron content as well as any impurities, and for pellet producers, the pellet premium reflected the benefits to the steel mill of using pellets compared with fines or lump

Within this context, in 2011 Ferrexpo commenced index linked pricing with a significant number of long-term customers using the average of the quarter of loading as the preferred time period for calculation of the price Leading iron ore suppliers moved to a similar pricing methodology in most markets during the October to December quarter

The Group, however, has a number of relationships mainly in Eastern Europe, where long-term contracts exist and where Ferrexpo conducted direct negotiations on a quarterly basis using international pricing trends as a guide

In 2011, approximately 76% of sales were conducted under long-term volume framework agreements The remaining sales were made on a short-term or spot basis as new target customers were introduced to the Ferrexpo product ahead of the considerable growth in production in coming years It is Ferrexpo's strategy to place its products where it can consistently achieve the best market prices

During the period, the Group was able to further diversify its customer base and, in the process, reduce its dependence on its two largest customers Sales to these customers reduced to 44% of total sales volume from 55% in 2010 This trend is expected to continue as Ferrexpo finalises additional long-term contracts in China, Japan and Western Europe in 2012

Logistics Infrastructure

Ferrexpo's mining operations are integrated with both port facilities on the adjacent Dnieper River and with the Ukrainian rail network The Group transports most of its finished product by rail to border dispatch points, and as of 31 December 2011, it owned 1,045 rail cars (31 December 2010 933 rail cars) which can transport approximately two thirds of current Group output The remaining production is transported by state owned rail cars or by barge Ferrexpo aims to become self-sufficient in rail car transportation and expects a further 600 rail cars to be delivered in the first half of 2012 This ensures availability of rail cars during peak times and provides a competitive advantage on railway costs

Review of Operations Marketing and Logistics continued

Currently, a quarter of the Group's pellets are transported via rail to the western Ukrainian border for customers in Central and Western Europe The remaining pellets are transported via rail or barge

1 either to the Group's port terminal in Yuzhny on the Black Sea where the product is shipped to seaborne markets around the world Ferrexpo has guaranteed capacity at its ocean port terminal of five million tonnes per annum

   In May 2011, in addition to loading panamax vessels, this facility began loading standard capesize vessels The Group completed nine capesize shipments by the year end, loading up to 130 thousand tonnes at the berth and topping up the vessel with a further 40 to 50 thousand tonnes at the anchorage By moving into capesize shipments, Ferrexpo was able to significantly reduce freight costs to Far East and Western European markets resulting in increased FOB returns from CFR sales Further improvements in loading efficiency and cost are expected in 2012 as new loading systems are embedded

2 or to the Group's barge loading facility at the Port of Ismail where the product is shipped to customers along the Danube River

   From the barge loading terminal at the mouth of the Danube River, pellets are transported via Ferrexpo's barging subsidiary, Helogistics, to customers in Eastern and Central Europe along the Danube/Rhine River corridor Since acquisition Helogistics has become an integral part of the supply chain to support key customers in this region

Overall in 2011, the proportion of sales controlled by Ferrexpo along the supply chain to customers increased to 52% of sales from 14% in 2010 This was achieved through a combination of increased use of the Group's barges, and increased CFR sales to Asia

Logistics Capital Investment
In 2011, Ferrexpo invested US$58 million in its logistics infrastructure (2010 US$18 million) This included US$41 million for 112 rail wagons and part prepayment for delivery of 600 wagons in 2012 The Group acquired land for trans-shipment from barge to rail in Austria for US$4 million, which will allow it to access markets in Northern Europe In addition, Ferrexpo paid US$38 million for Helogistics in January 2011

Markets
Ferrexpo sells its product to the key steel producing regions in the world, focusing on three market segments

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

  In 2011, approximately 53% of sales volumes went to these markets compared with 66% in 2010 The reduction in volume is part of the Group's strategy to develop Growth and Natural markets ahead of the increase in production output in order to maximise returns for this new tonnage

- Natural Markets. these include Turkey, the Middle East and Western Europe and are those markets where Ferrexpo has a competitive advantage over more distant producers, but where market share remains relatively low In 2011, approximately 7% of sales volumes went to these markets in line with 2010, and

- Growth Markets. these are predominantly in Asia and have the potential to deliver new and significant sales volumes to the Group In 2011, approximately 40% of sales volumes went to these markets compared with 27% in 2010

Financial Review

Highlights

- Record sales volumes
- Increased revenues
- Strong cash flow generation
- Balance sheet positioned to develop project pipeline
- Average debt maturity four years, no significant repayments in 2012 or 2013
- Approved projects on track
- Final dividend maintained at 3 3 US cents per share

Table 5 Summary Financial Results

US$ millions unless otherwise stated	Year ended 31 12 11	Year ended 31 12 10	Change
Revenue	**1,788 0**	1,294 9	38 1%
EBITDA	**800 9**	585 3	36 8%
As % of revenue	**44 8%**	45 2%	–
Profit before taxation	**690 9**	498 1	38 7%
Income tax	**116.0**	73 0	58 9%
Profit for the period	**574.9**	425 1	35 2%
Diluted earnings per share (US cents)	**97 0**	72 2	34 3%
Final dividend per share (US cents)	**3.3**	3 3	–

Revenue
Total revenue increased by 38 1% to US$1 8 billion for the year ended 2011 compared to US$1 3 billion in 2010

The average realised price achieved by the Group for its pellets rose 28 4% during the period, which increased revenues by US$349 9 million 40% of sales were on a CFR or similar basis adding US$44 7 million to revenue Sales volumes reached a historic high at 9 9 million tonnes compared to 9 7 million tonnes in 2010, enhancing growth in margins

Reliance on the Group's two largest customers, in Central and Eastern Europe, was reduced to 43 5% of pellet sales from 55 4% of sales in 2010 Ahead of an increase in production volumes the Group increased sales to customers in China, Germany, India and Japan which accounted for 41 9% of sales volumes compared to 29 6% in 2010

Other revenue, not related to pellet sales, amounted to US$88 1 million (2010 US$5 8 million) This included revenue from third party services, such as bunker fuel sales, at the Group's barging subsidiary Helogistics (acquired in December 2010) as well as sales from gravel

Cost of Sales
Total cost of sales for the year ended 31 December 2011 increased 34 8% to US$649 5 million (2010 US$481 9 million) Cost of sales consists of the C1 cash cost of sales and other costs including depreciation These are reviewed below

C1 Cash Cost
The C1 cash cost of production per tonne is defined as the cash costs of production of iron pellets from own ore, divided by production volume, from own ore, and excludes non-cash costs such as depreciation, pension costs and inventory movements,

Financial Review continued

costs of purchased ore, concentrate and production cost of gravel

The C1 cash cost increased by 27 7% to US$50 7 per tonne compared to US$39 7 per tonne in 2010, principally as a result of global commodity price inflation

Of the US$11 0 per tonne increase in the C1 cash cost, commodity related price inflation accounted for 55 5% of the increase compared to 2010 In 2011, gas and electricity prices rose by 38 0% and 21 8% respectively while the cost of diesel fuel was 40 6% higher, reflecting a full year impact of the increased oil price at the end of 2010 Higher steel prices resulted in a 14 6% increase in steel grinding media costs In total, these factors added US$6 1 per tonne to the C1 cash cost

Personnel, repair and maintenance and other material costs increased the C1 cash cost by US$4 9 per tonne These expenses are principally denominated in local currency On average Ukrainian producer price inflation was approximately 19 0% in 2011[1]

1 Average of January 2011 to December 2011 compared to average January 2010 to December 2010

The Group produced at full capacity throughout the period, which helped to absorb the cost increases In addition, the Business Improvement Programme ('BIP') reduced the C1 cash cost by 1 8%, generating savings of $0 9 per tonne Since the inception of the BIP in 2006, cumulative productivity gains have achieved savings of approximately US$6 6 per tonne of pellets produced, or US$56 1 million to 31 December 2011

Just over half of the C1 cash costs are denominated in Ukrainian Hryvnia The Hryvnia remained on average broadly stable in 2011 compared to 2010 at around UAH8 0 to the US Dollar

Table 6. C1 cash costs

	Year ended 31 12 11		Year ended 31 12 10	
	US$m	**% of total**	US$m	% of total
Electricity	**118.1**	**25 7%**	97 3	27 1%
Gas	**59 8**	**13 0%**	43 1	12 0%
Fuel	**47 1**	**10 2%**	31 2	8 7%
Grinding media	**40 9**	**8.9%**	35 9	10 0%
Explosives	**13 2**	**2.9%**	8 1	2 4%
Other materials	**38 7**	**8 4%**	31 4	8 7%
Spare parts, maintenance and consumables	**78 2**	**17 0%**	58 9	16 4%
Personnel costs	**55 8**	**12.1%**	45 4	12 7%
Royalties and levies	**7 7**	**1.8%**	7 2	2 0%
C1 cost of sales	**459 5**		358 5	
C1 cost per tonne	**50 7**		39 7	

Non C1 cost of sales relating to pellet production
Non C1 cost of sales amounted to US$190 0 million for the period (2010 US$123 3 million)

Depreciation increased by 16 1% to US$28 6 million, reflecting capital investments at FPM in 2011

The remainder of non C1 cost of sales related to the purchase of concentrate for reprocessing into pellets The Group has nameplate pelletising capacity of 12 million tonnes of pellet production per year Ferrexpo is currently able to mine ore sufficient to produce around nine million tonnes of pellets To utilise the spare pelletising and process capacity efficiently, third party concentrate was purchased when available on the local market The Group will continue to purchase third party concentrate, provided adequate margins can be achieved During the year, 747 3 thousand tonnes of pellet equivalent third party concentrate was acquired (2010 998 1 thousand tonnes) which generated a positive contribution

Gross margin
The Group's gross margin increased to 63 6% in 2011 compared to 62 8% in 2010 This reflected higher sales prices and volumes, which were partially offset by an increase in production costs

Selling and distribution expenses
Selling and distribution expenses were US$318 0 million for the year compared to US$212 0 million in 2010

Selling and distribution costs to the Ukrainian border increased by US$10 7 million to US$138 0 million in the period (2010 US$127 3 million), equating to US$14 0 per tonne (2010 US$13 1 per tonne) These costs primarily include railway freight to the southern ports at Yuzhny and Ismail and to the western Ukrainian border as well as port charges

Rail tariffs increased on average by approximately 10 8% during the year, this was partially offset by a discount for volumes transported by the Group's own rail cars Currently, two thirds of the sales volumes are railed using Ferrexpo's wagons receiving a 6 5% discount for these volumes

Table 7 Selling and distribution expenses

(US$ million unless otherwise stated)	**Year ended 31 12 11**	Year ended 31 12 10
Railway transportation	**89.2**	81 5
Port charges	**37 7**	32 3
International freight	**152.7**	74 9
Other (commissions, insurances, personnel, depreciation, advertising)	**38 4**	23 3
Total selling and distribution expenses	**318 0**	212 0
Total sales volume (thousand tonne)	**9,876**	9,721
Cost per tonne of pellets sold (including international freight)	**32.2**	21 8
DAP/FOB distribution costs per tonne of pellets sold (US$)	**14 0**	13 1

Financial Review continued

FINANCIAL KPIs

Revenue US$ million

EBITDA US$ million

Definition
The Group calculates EBITDA as profit from continuing operations before tax and finance plus depreciation and amortisation and non-recurring exceptional items included in other income and other expenses, and the net of gains and losses from disposal of investments, property, plant and equipment

NOPAT US$ million

Definition
Net operating profit after tax

International freight costs amounted to US$152 7 million (2010 US$74 9 million) These costs, which are also reflected as part of revenue on associated CFR[1] sales, relate to the shipping of pellets by ocean vessel to customers in Asia (on a CIF[2] or CFR basis), and by barge to customers in Serbia (on a DAP[3] basis) and Austria (through Helogistics) In 2011, Helogistics' operations were included for the first time The Group doubled shipments of pellets to Asia to three million tonnes on a CFR or equivalent basis principally through the loading of nine capesize vessels thus increasing costs recognised

Depreciation amounted to US$8 2 million (2010 US$1 8 million) and related to amortisation of Helogistics river vessels as well as to capital investment from the purchase of new rail cars

General and Administrative Expenses
General and administrative expenses were US$52 0 million (2010 US$49 2 million) This was related to an increase in professional fees, including legal services reflecting increased activities and projects

Other Income and Expense
Other income was US$6 9 million in 2011 (2010 US$4 5 million) The increase reflected higher operating income from the lease of premises to third parties at FPM

Other expenses increased to US$17 1 million (2010 US$5 9 million) This reflected increased spending on support for the local communities in the Poltava region, where Ferrexpo is based and is a key part of the Group's strategy

EBITDA
EBITDA increased by 36 8% to US$800 9 million for the year compared to US$585 3 million for 2010 This is the highest EBITDA achieved by the Group The increase was mainly due to a higher average FOB sales price contributing US$323 4 million to EBITDA This was partially offset by increased production costs of US$100 5 million, driven by domestic and commodity cost inflation, as discussed previously The EBITDA margin was in line with 2010 at 44 8% (2010 45 2%)

Finance Income and Expense
Finance income was US$2 5 million (2010 US$1 3 million) During the year, income from interest earned increased by US$1 1 million to US$2 5 million This was driven by higher average cash balances in 2011 of US$604 8 million compared to US$165 7 million in 2010 as well as longer-term deposits receiving more attractive interest rates

Finance expense increased to US$68 2 million (2010 US$41 6 million) which included US$28 8 million of interest cost on the Group's US$500 million Eurobond, issued in April 2011 at a coupon of 7 875% Due to financial instability in the global banking sector, particularly in Western Europe, Ferrexpo drew in full its US$420 million revolving bank facility in October 2011 Interest on this facility is 225 basis points above LIBOR on drawn amounts The average gross debt for the period was US$697 1 million (2010 US$346 8 million)

Foreign Exchange Gains and Losses
Operating Foreign Exchange Gains and Losses
Ferrexpo prepares and reports 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

During the period, the Ukrainian Hryvnia remained stable against the US Dollar at an average rate of UAH7 9579 (2010 UAH7 9547) As a result, there was no significant operating foreign exchange movements, with a loss of US$1 4 million recorded (2010 loss of US$1 1 million)

Non-operating Foreign Exchange Gains and Losses
Non-operating foreign exchange gains or losses result from the retranslation of financial liabilities, loans and other similar items

Non-operating foreign exchange losses for the period were US$1 9 million compared to US$3 9 million in 2010 The losses were primarily related to the revaluation of income tax payables in Swiss Francs The average exchange rate between a US Dollar and the Swiss Franc was 0 88 in 2011 compared to 1 04 in 2010

1 CFR is defined as delivery including cost and freight
2 CIF is defined as delivery including cost, insurance and freight
3 DAP is defined as delivery at place

Table 8 Summary of Group Liquidity and Debt

US$ million	As of 31 12 2011	As of 31 12 2010
Cash and equivalents	**890 1**	319 5
Gross debt	**970 3**	423 9
Net debt	**(80 2)**	(104 4)
Total equity	**1,393 1**	861 5
Undrawn facilities	**50 0**	65 0
Total liquidity (facilities plus cash)	**940 1**	384 5

Cash Flows
Net cash flow from operating activities was US$502 7 million for the period, an increase of 32 4% compared to 2010 (US$379 8 million)

Working capital increased by US$111 4 million reflecting higher VAT and trade receivables As a result of high capital expenditure during the year, and a delay in respect of VAT repayments in May, June and July 2011, VAT receivables increased by US$72 1 million during the period Higher average prices increased trade and other receivables by US$17 4 million

Total capital investment for the year was US$378 3 million, which was more than double 2010's investment of US$167 4 million

Sustaining and modernisation capital investment was US$128 0 for the Group, of which US$121 3 million was invested at FPM (2010 US$49 1 million) The remaining US$6 7 million was invested at Helogistics

In November 2010, the Board approved US$646 9 million for development projects at FPM and FYM In 2011, the Group spent US$177 9 million in this regard (2010 development capex US$97 5 million) US$49 0 million was spent at FPM, while US$129 0 million went towards achieving first ore at FYM The expected spend for 2012 is fully funded while the Group's low level of gearing will underpin future development spend for processing facilities at FYM

US$8 3 million was spent on the Belanovo deposit (FBM) during the period (2010 US$2 4 million) This was for drilling works and site preparation activities

In terms of logistics capital investment was US$57 8 million in 2011 (2010 US$17 7 million) which was primarily related to the acquisition of rail cars

In January 2011, Ferrexpo paid US$38 0 million for the Helogistics acquisition, which was agreed in December 2010 and disclosed in the 2010 financial statements

The Group's closing cash balance increased by US$570 7 million to US$890 1 million as of 31 December 2011, partly as a result of the net financing inflow of US$521 3 million following the placement of a US$500 0 million bond and the increase of the pre export facility from US$350 0 million to US$420 0 million

Ferrexpo's gross debt had an average maturity of 4 0 years at the 31 December 2011 The Group has minimal debt repayments of US$10 8 million and US$10 4 million in 2012 and 2013 respectively Net debt to EBITDA as of 31 December 2011 was 0 1 times

Ferrexpo Principal Risks

The list of the principal risks and uncertainties facing the Group's business that follows below is based on the Board's current understanding. Due to the very nature of risk it cannot be expected to be completely 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	POSSIBLE IMPACT
Iron ore prices and market	Fluctuations in iron ore prices as well as in demand may negatively impact the financial result of the Group
Mining risks and hazards	The mining risks and hazards may result in material mine or plant shutdowns or periods of reduced production Such events could damage the Group's operating results and reputation
Reliance on state monopolies	The Group purchases certain goods and services from state-owned enterprises, and changes in the related tariffs affect the Group's cost base Availability of services can also be limited, which could affect the Group s ability to produce and deliver pellets Examples include railway tariffs and availability of rail wagons, supply of gas and electricity and associated tariffs and mining royalties
Logistics	The Group's logistics capability is dependent on services provided by third parties and state-owned organisations mainly in relation to rail and port services Logistical bottlenecks may affect the Group s ability to distribute its products on time impacting customer relationships
Counterparty risk	Financial instability of the Group s counterparties, especially its major customers, could lead to lower sales volumes and adversely affect its financial results
Licences See also 'Risk relating to the Group's strategy – Government approvals of expansion'	Mining and land allotment licences are critical to the Group s operations, and there can be no guarantee that they will be renewed or that additional licences will be obtained This could adversely affect the Group's operations and its ability to develop in the future

MITIGATION	ASSOCIATED STRATEGIC PRIORITY[1]
■ Ferrexpo has a low cost base which has enabled it to produce at full capacity and remain profitable throughout the commodities cycle ■ The Group has an established, broad customer base and logistics infrastructure which can service regional and seaborne markets This provides flexibility should a particular region experience a decline in demand	■ To develop further the Group's significant resource base ■ To improve the quality of the Group's pellets ■ To expand the Group's logistic services ■ To open and develop new markets and customers
■ Safety, environmental and operational performance is regularly and rigorously reviewed throughout the organisation including the COO the Executive Committee and the Board ■ Through its capital investment programme Ferrexpo is modernising its mining and production facilities which is improving safety, environmental and operational performance ■ All accidents are fully investigated and lessons are drawn and implemented ■ Appropriate safety training is regularly provided to employees ■ Employee remuneration is linked to safety performance	■ To be a responsible corporate citizen
■ The factors affecting the Group's future cost structure are closely managed ■ Cost reduction initiatives are planned and reported to the Board ■ Since 2005, the BIP has reduced the C1 cash cost by US$6 60 per tonne of pellets ■ The Group has purchased its own rail wagons to reduce reliance on state-owned rail cars ■ The Group sourced alternative gas supplies in January 2009 when there were gas price disputes between Russia and Ukraine ■ The Group actively looks to invest in areas to reduce reliance on state monopolies	■ To remain in the lowest quartile of the global pellet cost curve ■ To consider investments to secure production inputs ■ To develop further the Group's significant resource base ■ To maintain adequate liquidity and low balance sheet gearing
■ The Group continues to enhance its logistics capabilities in order to meet the expected increase of sales volumes and to reduce its reliance on third parties Beside considerable investment in the rail car fleet in 2010 and 2011, the Group acquired a barging company operating on the Danube/Rhine River corridor It also owns a 49 9% investment in the port of TIS-Ruda which guarantees the Group independent access to the seaborne markets avoiding reliance on the state port	■ To expand its logistics services ■ To open and develop new markets and customers
■ The financial strength of the Group's customers is subject to regular and thorough review The results of these reviews are used to allocate pellet volumes and if necessary amend sales terms with customers, in order to mitigate the potential risk of unallocated pellets and bad debts The Group has not experienced any significant bad debt losses ■ The Group regularly reviews its supplier base in order to avoid excessive dependence on any supplier actively encouraging a diversity of supply where possible	■ To open and develop new markets and customers
■ The Group complies with commitments under its various licences in order to ensure that the conditions contained within the licences are fulfilled or if appropriate waivers are obtained	■ To develop further the Group's significant resource base

1 Please see pages 12 and 13 for the KPI associated with the Strategic Priorities

Ferrexpo Principal Risks continued

RISKS RELATING TO FINANCE	POSSIBLE IMPACT
Exchange rate risk	The Group receives the majority of its income in US Dollars while a large proportion of its costs are denominated in Ukrainian Hryvnia An appreciation of the Ukrainian Hryvnia against the US Dollar could have a negative impact on the profitability of the Group
Interest rate risk	A portion of the Group's finance facility is linked to US Dollar LIBOR rates An increase in interest rates will have a negative impact on the Group's financial costs, thus affecting profitability
Financing risk	The Group's development projects may be funded using debt secured with financial guarantees There is a risk that cancellation of contracts as a result of force majeure events and/or lower iron ore pellet prices would limit the amount of funding available to the Group, and could prompt lenders of existing finance facilities to require Ferrexpo to assign additional contracts to meet agreed ratios

RISKS RELATING TO THE GROUP'S STRATEGY	POSSIBLE IMPACT
Expansion capital investment	The Group's growth depends on its ability to upgrade existing facilities and develop its iron ore resource base For any major capital project there is a risk of insufficient controls cost overruns, shortage of required skills, and unexpected technical problems affecting the time taken to complete the project and the return on the capital invested
Government approvals of expansion	The Group does not yet have all the governmental approvals required to develop future deposits Although all approvals that have been applied for have been granted, there is no guarantee that others will be granted in the future

RISKS RELATING TO OPERATIONS IN UKRAINE	POSSIBLE IMPACT
Political	Ukraine is a young democracy which has been subject to various changes in government over the past 20 years As is common with developing economies there is a risk that the country may develop in a manner that is adverse to general business practice This could include a weak judicial system that is susceptible to outside influence
Ukrainian producer price inflation ('PPI')	As the Group's operations are in Ukraine it is exposed to cost inflation Ukraine has experienced double digit inflation over a number of years In 2011, the average PPI rate was 19 0% The inflationary environment increases local costs if not mitigated by a devaluation of the Ukrainian currency and operational efficiency improvements
Ukrainian VAT receivable	As the bulk of the Group's output is exported, it does not collect substantial amounts of VAT on sales (which could otherwise be used to offset VAT incurred on purchases of goods and services) The Ukrainian government refunds the outstanding balance of VAT, although not always on a timely basis The late repayment of VAT results in increased working capital, which is funded by the Group
Ukrainian taxes	The Group is exposed to changes in local tax laws especially in Ukraine Ukrainian tax laws are complex and subject to varying interpretations, and inconsistent enforcement by local, regional and national authorities Tax authorities can challenge the Group's interpretation and treatment of these laws resulting in increased tax liabilities owed by the Group

MITIGATION	ASSOCIATED STRATEGIC PRIORITY
■ Historical weakness of the Ukrainian Hryvnia in times of low commodity prices has provided a natural hedge during downturns in the commodity cycle All of the Group's revenues and associated debt are denominated in US Dollars	■ To remain in the lowest quartile of the global pellet cost curve
■ The Group has optimised its debt structure, maintaining low balance sheet gearing As a result its interest costs are a low proportion of its profitability	■ To maintain adequate liquidity and low balance sheet gearing
■ The Group's financing risk has been mitigated by the issue of a US$500 million Eurobond and a US$420 million bank facility ■ Ferrexpo maintains debt with long maturities Average maturity of four years at the 31 December 2011 ■ The Group has minimal debt repayments of US$11 million and US$10 million in 2012 and 2013 respectively	■ To maintain adequate liquidity and low balance sheet gearing

MITIGATION	ASSOCIATED STRATEGIC PRIORITY AND KPI
■ The Group has established strict procedures to control, monitor and manage this expenditure which is regularly reviewed by the Investment and Executive Committee and the Board	■ To develop further the Group's significant resource base ■ To improve the quality of the Group's pellets ■ To open and develop new markets and customers
■ Ferrexpo maintains an open and proactive relationship with various governmental authorities and is fully aware of the importance of compliance with local legislation and standards ■ The Group monitors and reviews its commitments under its various mining licences in order to ensure that the conditions contained within the licences are fulfilled or the appropriate waivers obtained Ferrexpo maintains strict compliance with the Ukrainian mining code and execution of work in accordance with the project design through active engagement of Ukrainian and international legal advisers	■ To develop further the Group's significant resource base

MITIGATION	ASSOCIATED STRATEGIC PRIORITY AND KPI
■ Management proactively engages with local, regional and central government Ferrexpo protects its local and international interests by ensuring it operates to the very highest international standards	■ To develop further the Group's significant resource base
■ The Group's BIP has achieved continuing efficiency improvements and cost reductions over many years Since 2005 it has reduced the cash cost of production by US$6 60 per tonne of pellets The Group also has a consistent track record of producing at full capacity to achieve maximum overhead absorption	■ To remain in the lowest quartile of the global pellet cost curve ■ To consider investments to secure production inputs
■ The Group maintains an open dialogue with the Government and operates to best international standards, ensuring the validity of the VAT repayments	■ To maintain adequate liquidity and low balance sheet gearing
■ The Group takes regular advice on tax matters from Ukraine tax experts and complies with all known requirements The Group maintains a transparent and open relationship with local, regional and national tax authorities	■ To remain in the lowest quartile of the global pellet cost curve ■ To maintain adequate liquidity and low balance sheet gearing

Group History Building on our Heritage

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

Pellet production began at Ferrexpo Poltava Mining in 1977, after construction of the mine, processing facilities and local town of Komsomolsk under Soviet Union ownership

1960
Mining operations commence at Poltava GOK

2004
First production of higher grade 65% pellets

2007
Port joint venture at Yuzhny on the Black Sea established Enables shipping to global seaborne markets

1970
First concentrate produced

1977
First production of pellets using an Allis Chalmer Rotary Kiln

1992
Privatisation of mine Poltava GOK

4.0 billion tonnes

2005
Ferrexpo AG opens sales office in Shanghai

2006
First conversion of Soviet classified resources into 4 0 billion tonnes of JORC resources

2007
Ferrexpo is the first Ukrainian company to list on the main market of the LSE and enters the FTSE 250 Index

75%

2008
Commencement of Ferrexpo Yeristovo Mining

2010
Acquisition of Helogistics Holdings GmbH (December)

2011
Record profit and capital investment growth, 75% of operating cash flows re-invested into the business for future development

Corporate Social Responsibility Review

Chairman's Statement
Relevance of CSR to the Group
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, the Board views legal standards for CSR as a minimum level and is striving to achieve the highest international standards of performance in CSR matters During 2012 investment in health, safety and the environment will be maintained

Company Values
The values that the Company strives to impart throughout its operations are set out below

- **Ethical Standards**
  Ferrexpo aims to maintain high standards of behaviour with all those with whom it deals, both inside and outside the Group Its employees' conduct and business dealings should be associated with honesty and integrity, making it an attractive and reliable business partner
- **Community Relations**
  Ferrexpo's presence and activities 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
- **Safety**
  Ferrexpo aims at all times to prevent injuries to its staff

CSR Reporting
Ferrexpo is committed to improving its CSR reporting This is a continuous process and we welcome feedback from interested parties on this CSR report

Michael Abrahams
Chairman

About this Report
The Board and its Corporate Safety and Social Responsibility ('CSR') Committee (described below) are committed to continuing the drive to improve health and safety, environmental and social performance and reporting As part of this programme the decision was taken during the year to adopt a more coherent structure for reporting which can be built on as the Company's monitoring procedures grow To this end, this report uses the Global Reporting Initiative framework as a reference point, although at this stage it is not formally reporting against this index

This report covers the reporting period 1 January 2011 – 31 December 2011, and reporting is on an annual basis However, if there are any significant CSR issues or developments during the year, these are reported in the half-yearly report The last annual CSR review was in the Company's 2010 Annual Report

Report Content
The scope of this report covers all areas of Ferrexpo's activities and those of its operating subsidiaries

The content of this report has been defined by consideration of
- Company principles and policies
- Consideration of the Company's strategy and how this may be affected by sustainable development risks facing the Company
- Feedback from and interests of stakeholder groups
- Key CSR topics identified by senior management engaged with the CSR process
- Review against peer group companies
- Legislation and regulation that affects the Company

The topics covered are those that have been assessed to be most material to the Company We will take account of stakeholders' views in order to refine and build on our CSR reporting

Report Audience
The report is aimed principally at existing and prospective shareholders and investment analysts Other users may include local and national government, employees, communities affected by the Company's operations, contractors, suppliers, customers and the media

External Assurance
This report has been self-reviewed, which is considered to be appropriate at this stage in the development of our CSR reporting

Organisational Profile
Information on the Group and its activities may be found in the Business Review on pages 20 to 28 and employee numbers are detailed in note 35 to the Financial Statements For information on the scale of organisation (revenues, assets, capitalisation, etc) please see notes 6, 18 to 21, and 28 to the Financial Statements

Governance
The general governance structure of the Group is explained in the Corporate Governance Report on page 50

CSR Governance
The Corporate Safety and Social Responsibility Committee
The Group has a Corporate Safety and Social Responsibility Committee (the 'CSR Committee') which is a sub-committee of the main Board and includes two Board members and two Board non-members It monitors the implementation of CSR policies The CSR Committee is chaired by Brian Maynard (Group Chief Operating Officer) The other members of the CSR Committee are Michael Abrahams (Chairman of the Board), Kostyantin Zhevago (Chief Executive Officer) and Viktor Lotous (FPM Chief Operating Officer) To assist them in the exercise of their duties, the CSR Committee will, from time to time, engage specialist technical advisers

During the year the matters considered by the CSR Committee and the Board included the following
- Monitoring the review of targets and metrics to be set in relation to the CSR Performance Indicators this work will continue in 2012
- Reviewing the work being done to implement the Kyoto Protocol on greenhouse gas emissions (concentrating mainly on energy-saving measures)
- 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

Business Conduct
A concern for high standards of business conduct informs the Group's approach to its activities A Group Policy on Bribery and

CSR Strategy
Set out below are the short, medium and long-term strategic CSR goals for the Group

	Short-term	Medium term	Long term
Health and safety	Reduce/eliminate recurring injuries through improvement in safe workplace behaviour	Implement effective systems to ensure compliance with company safety standards	Implement hazardous operations analysis and risk assessment processes to drive best practice
Employees	Increase availability of improved living accommodation	Increase employee development programmes	Integrate recruitment & retention systems
Environment	Keep controlled emissions (dust, gas and effluent) below permitted limits and reduce further where possible Improve workplace conditions through the implementation of modern equipment and processes	Adapt production techniques so as to minimise use of inputs and minimise waste	Increase productive output while reducing the impact on the environment through new processes and technology
Community	Contribute to the development of the education and skills of the local population, and support the modernisation of local community infrastructure and services, in order to develop and maintain the local labour pool Conduct successful negotiations with local communities in order to facilitate land acquisition for mining infrastructure	Align the growth of operations with land acquisition and city planning processes for rural and urban living	Work jointly with local communities to create new infrastructure, social programmes, and leisure activities

Corruption was introduced and circulated to all managers and commercial employees during the year, with training provided, in order to ensure best practice and compliance with the UK Bribery Act It is the responsibility of the Chief Financial Officer to monitor the Group's anti-bribery policies and report to the Committee of Independent Directors on their effectiveness The Committee of Independent Directors oversees the operation of business ethics and anti-bribery policies and makes any necessary recommendations for improvement

Structure
Commitment to CSR is demonstrated through

- Group policies
- Board and management focus
- Asset level management systems
- Performance management at all levels

The Board considers that Ferrexpo has continued to make good progress in 2011 The Group's values (see the Chairman's Statement at the beginning of this CSR review) are reflected in a Group-wide Code of Corporate Responsibility and Business Ethics

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 2011, from 365 to 677 CSR matters form an increasing part of FYM's regular reporting procedures

CSR at Helogistics Holdings
See section on Helogistics on page 47

All Employees
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

Adherence to External Charters
Safety
Management continues to take into account best practice both in Ukraine and abroad In 2011 there was further co-operation with the safety consultants DuPont in the area of labour safety training and auditing

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 accreditation is renewed each year after an audit, most recently in March 2011

Environment
FPM and FYM are currently in compliance with all applicable standards under environmental laws in Ukraine, which 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

Corporate Social Responsibility Review continued

waste disposal and industrial use of fresh water 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 The system was last audited in May 2011, and the accreditation was confirmed by external auditors At FYM, which is at an earlier stage of development, preparations have been made for ISO 14001 certification which is expected to be achieved in 2012

Stakeholder Engagement
Stakeholders
Stakeholders are those groups or individuals who are significantly affected by Ferrexpo's activities or those whose actions may affect the ability of the Group to implement its strategies and objectives

The stakeholder groups that the Group engages with are described below

Shareholders and the Investment Community
Directors and senior executives have frequent discussions with institutional investors and major shareholders on a range of issues including performance, strategy and governance The Head of Investor Relations manages programmes and communications, particularly at the time of the full and half-year results announcements when presentations are given to analysts, brokers and major shareholders The Annual General Meeting is an important event in the calendar, giving all shareholders the opportunity to engage directly with Directors and management

Customers and Suppliers
Ferrexpo has had successful business relationships with several of its customers for over 20 years Marketing plays an important role in developing new relationships in order to diversify the customer base in anticipation of the planned increase in production

Employees
Successful communication with employees is crucial in helping Ferrexpo to achieve its objectives Communication starts at a personal level when employees begin their employment through an induction programme, and continues throughout their time with Ferrexpo It takes a variety of forms according to the circumstances – from face-to-face discussion to formal group training programmes, from job-specific training to programmes for ensuring compliance with legal or regulatory

HIGHLIGHTS OF 2011 AND CHALLENGES FOR 2012

Highlights
Safety
- A marked decline in the accident rate, and no work-related fatalities during 2011 This reflects constant efforts to increase safety standards and reduce injuries
- No incidents requiring evacuation of staff or members of the local community

Environment
- Emissions levels (NO_2, CO, SO_2, dust) fell in both absolute terms and per tonne of pellets produced
- Further regulatory permits were obtained, allowing Ferrexpo to proceed with planned mine developments

Community Initiatives (see also panel on page 47)
- Major overhaul of a retirement home in Dmytrivka village including insulation, windows and heating system
- Renovation of the secondary schools in Pryshyb & Dmytrivka villages
- Prospecting for water reserves, and construction of water pipeline to Pryshyb village
- Provision of sports facilities in Komsomolsk

Community Resettlement
- Successful resettlement of 10 homesteads at Voloshyno village away from the area in which the new Yeristovo Concentrator is planned to be built

Medical Sponsorship
- Sponsorship of state-of-the-art X-ray diagnostic equipment for three operating theatres, and a fluorograph apparatus with digital data processing, for the Kremenchug District Hospital So far this equipment has been used for examinations of more than 1,000 patients Ferrexpo also sponsored the repair of the surgery department at the same hospital

Challenges
Environment
- Maintain the trend towards lower emissions while continuing to develop the site and increase production

Skills Availability
- In order to secure a large pool of labour, FYM runs a job placement programme for local residents (see 'Case Study' panel on page 47)

requirements (such as that undertaken in 2011 in implementing anti-bribery procedures across the Group) Communication is of course two-way, and employees are encouraged to give feedback either through their managers or occasional employee surveys (for example, a recent survey on employee perceptions of safety, conducted with DuPont)

Local Communities
Ferrexpo has a positive impact on local communities through being a major employer As a mining company, it also recognises the sensitivities that surround the occasional necessary displacement of small communities by its operations, and those operations' impact on the physical landscape It works hard to maintain dialogue with local communities, and has a dedicated department through which communications are channelled

Local Training Institutions
Ferrexpo works towards establishing a closer relationship with the local training institutions, with a view to developing accelerated training programmes that improve the flow and quality of new recruits to its operations

Government (National and Local)
Engagement with local and national government is open and proactive Communication often revolves around project implementation and land acquisition, as well as routine submission of information as required by the authorities Recent activities included sponsored development of future town planning in the Kremenchuk district

Risks and Opportunities
The main CSR-related business risks are
- Mining risks and hazards
- Licences
- Governmental approvals for expansion-related projects
- Relocation of communities

Mining Risks and Hazards
The Group's mining operations are subject to risks and hazards including industrial accidents, equipment failure, unusual or unexpected geological conditions, environmental hazards, extreme weather conditions (especially in winter) and other natural phenomena Many of these risks are outside management's control

Mitigation The Group is dedicated to a zero-harm objective, and the mitigation of mining risk is one of its primary operational goals All safety initiatives and processes are regularly reviewed by management and adjusted to changing circumstances, with the support of third-party service providers (i e DuPont) Appropriate safety training and re-training is given to all relevant employees, and their remuneration is partly linked to safety performance The modernisation of plant and equipment has also allowed safer working practices and improved environmental performance Accidents are fully investigated and remedies proposed and implemented However, given the nature of mining operations there can be no guarantee that accidents and fatalities will not occur

There were no fatalities in 2011, and the accident rate has fallen during the year Throughout the Group's 40-year history of operation it has not experienced any significant shutdowns

Licences
All licences for FPM's operations have been renewed upon expiry The risk of licences being revoked is low, but requires timely and close monitoring in order to prepare for all externally controlled situations

How Ferrexpo Engages with its Stakeholders

SHAREHOLDERS AND INVESTMENTS COMMUNITY

- Annual Report and Accounts
- Website
- Analyst and investor meetings and conferences
- Annual General Meeting
- Written communication and email
- Presentations
- Site visits

EMPLOYEES AND TRADE UNIONS

- Face to face regular meetings with employees and unions
- Information boards around the site
- Training
- Written communication and email
- Surveys
- Special programmes (e g anti-bribery procedure training)

CUSTOMERS AND SUPPLIERS

- Written communication and email
- Face to face
- Annual Report and Accounts
- Networking at conferences

LOCAL COMMUNITIES

- Sponsorship (finance and know-how)
- Funding of community projects
- Local TV
- Local press articles and interviews
- Site visits

GOVERNMENT (NATIONAL AND LOCAL)

- Written communication and email
- Face to face
- Site visits
- Audits and inspections
- Annual Report and Accounts

Corporate Social Responsibility Review continued

Mitigation The Group continues to monitor and review its commitments under its various licences in order to ensure that the conditions contained within the licences are fulfilled or the appropriate waivers obtained There is careful assessment of the situation regarding transfers of licences

Government Approvals of Expansion
The process of obtaining governmental approvals is time-consuming The Yeristovo mine is being developed according to plan, which should mean that there will be no problem with the extension of the current mining licence The Group does not yet hold all governmental approvals required to conduct all of its future expansion projects that are under study, although none of the approvals applied for to date has been refused by the authorities The risk is kept under careful review

Mitigation The Group continues to maintain an open and proactive relationship with various governmental authorities and is aware of the importance of compliance with local legislation and standards The Group maintains strict compliance with the National Resources Code of Ukraine and execution of work in accordance with the project design, through the active engagement of Ukrainian and international legal advisers

Relocation of Communities (this is a subsidiary risk, and for that reason is not included in the Principal Risks on pages 34 to 37)
Certain small rural settlements will have to be relocated in order to allow us to proceed with some of our mine expansion projects Potential solutions have been explored, and progress has been made during the recent months

Mitigation The resolution of the issue is supported by strong activity at the local level including continual meetings and dialogue with community representatives, pointing out to them the benefits of relocation in terms of improved accommodation and utilities and better access to transport infrastructure and social services Communities are paid a fair price for their land and compensation for disruption As it is included in the approved funding of the Capital Project, the topic is under constant review, including weekly meetings at site, and when necessary at monthly Executive Committee meetings (See also 'Community Resettlement' under 'Highlights' above)

Ferrexpo's Approach
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 reflect this
- Within the 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

Goals
Ferrexpo's goal is to develop a culture in which safe production is recognised as cost-effective, and which leads to improved workplace conditions and behaviour The objective (originally 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 For 2011 management set itself the task of further reinforcing 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)

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

	2011	2010	2009
Lost Time Injury Frequency Rate (LTIFR – see note)	**0.77**	1.46	1.11
Fatal accidents	**0**	1	0
Total accidents	**11**	20	15
Lost days	**469**	916	530

Notes
LTIFR – Number of work related lost time injuries per million man hours

The prevention of injuries to employees is the highest priority of the Board and management, who follow the principle that all accidents are avoidable There were no work-related fatalities within the Group during 2011, and the accident rate in Ferrexpo's operations has fallen

In line with policy, 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

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 in the case of fatalities) 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

Organisational Responsibility
In accordance with the legal requirements of the jurisdictions within which Ferrexpo operates, it has developed health and safety policies appropriate to its operations and types of activity Compliance with these policies is monitored via a three-tiered system daily control is conducted by operating personnel, engineers and technicians, production managers carry out weekly inspections, senior management conducts periodic inspections in conjunction with government personnel

There is a centralised Directorate for Industrial Labour Safety and Environmental Protection taking the place of the previous more localised structure, in this Directorate the remuneration of safety engineers is no longer directly linked to operational output (thereby contributing to the maintenance of health and safety standards) Procedural manuals on labour safety and environmental protection at the operational level continue to be developed

Training
Staff are trained in Health and Safety matters as part of their general technical training In 2011 safety training at the FPM Training Centre was provided to 4,717 employees at all levels of the Group (see 'Training and Development' under 'Employees' below)

Employees
Policy
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

Goals
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 employees by involving an increasing number of staff in its employee development programmes and by providing competitive compensation packages

Ferrexpo also aims to combine employees' local knowledge with modern technology so as to enhance the capacity and utilisation of its physical plant and equipment

Ferrexpo also intends to implement more up-to-date HR systems

Performance
In 2011 56 staff were able to join the employee housing programme, which enables selected employees to take out loans for the purchase of accommodation in Komsomolsk, at a highly subsidised rate of interest and without the normal requirement in Ukraine of a substantial down payment This plays an important part in Ferrexpo's strategy for retaining key employees

Further information on employee numbers is set out in note 35 to the accounts

Organisational Responsibility – Trade Unions and Industrial Relations
The Group does not have individual contracts with its employees in Ukraine other than with its senior managers Every year a Collective Labour Agreement is signed which states, inter alia, that individual salaries will be increased at least in line with inflation Management believes, having conducted market research, that wages paid by the Group are higher than average wages in Ukraine There has been no major industrial action or labour dispute at Poltava since its privatisation in 1995

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 Training takes the form of basic and specialised training, retraining and refresher training courses, both internal and external In 2011, 152 employees and 3 high school graduates were sponsored by Ferrexpo at institutes of higher education Total educational spending for employees in higher educational establishments was UAH675 thousand (US$85 thousand) In 2011 a total of 6,611 employees received various forms of in-house and external training, at a cost of UAH4 5m (US$565 thousand)

Environment
Policy
- Operating practices and growth plans will be implemented in a manner consistent with the principles underlying long-term sustainable resource development, Ferrexpo will always bear in mind the long-term environmental consequences of its actions
- All operating assets are required to develop and implement environmental management systems, in line with Group policy
- All new capital projects will include environmental risk assessments (according to IFC Environmental and Social Performance Standards) and mitigation plans

Goals
- Maximise recovery of iron from ore, tailings, and concentrate so as to ensure the best use of Ferrexpo's natural resource
- Minimise use of production consumables such as water, electricity, natural gas, diesel fuel, and explosives in order to reduce demand for externally-sourced natural resources
- Use timely investment to sustain existing operations, and develop new projects so as to allow mineral resource to be converted into new iron ore reserves
- Utilise stripping materials (topsoil, sand, clay, rock) to support the creation of new plant and transport infrastructure
- Eliminate workplace waste through improved management systems, and utilise plant facilities to re-use scrap materials

Corporate Social Responsibility Review continued

- Monitor processes and employee behaviour in order to minimise waste and by-product contaminants and improve the condition of plant and equipment
- Monitor dust and gas emissions and waste effluents in order to keep them below the permitted limits and reduce them further wherever possible
- Work with engineers and National Design Institutes to ensure that modernisation and production growth plans include designs and documentation that reduce their overall impact on the environment
- Monitor new technologies that could assist in the re-processing of iron ore tailings

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

Emissions in Tonnes

	2009	2010	2011
Total gas emissions	6,167	6,294	**5,803**
Of which			
Nitrogen dioxide	*2,876*	*2,922*	***2,475***
Carbon monoxide	*2,306*	*2,336*	***2,345***
Sulphur dioxide	*886*	*937*	***887***
Total solid emissions	3,212	3,575	**3,968**
Total emissions	9,379	9,869	**9,771**

In 2011, FPM spent UAH76m (US$9 5m) (2010 UAH46m (US$5 8m)) on the implementation of environmental protection measures, this increase was due mainly to work on the tailings slurry storage area Additionally, UAH69m (US$8 7m) (2010 UAH63m (US$7 9m)) was spent on environmental monitoring and maintenance activities Charges payable under emissions regulations increased from UAH23m (US$2 9m) in 2010 to UAH32m (US$4 0m) in 2011, largely because of an increase in tariffs rather than in emissions

Ongoing environmental management activities in 2011 included the building of reservoirs for water conservation (using mining overburden to build dams), further development of the closed water cycle for production activities, and landscaping work

Organisational responsibility
Ferrexpo has a dedicated Environmental Department the primary responsibility for which 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

Communities
Policy

- Ferrexpo's presence should benefit those communities around its operations, operations will benefit if local communities are thriving
- Ferrexpo strives to be recognised as an attractive local employer and a concerned corporate citizen
- Ferrexpo will assist in the development of the micro-economic environment within the communities in which it operates, so as to ensure that their dependence on us for their livelihood is reduced
- Ferrexpo aims to have a positive relationship with and enhance the communities around it, to hold an open dialogue with those communities, and to ensure that its involvement with them is cost effective and relevant to their needs

Community Context
The Poltava region, in which Ferrexpo's mining operations are situated, is an area of predominantly flat agricultural land close to the River Dnieper, one of the largest European river systems and an important transport artery for Ukraine, Belarus and Russia Iron ore mining in the area dates from the 19th century, although the major expansion of mining activity occurred in the early 20th century The town of Komsomolsk was established adjacent to the mine to support the mining operation and ancillary industries (transport, power etc) Ferrexpo is still by far the largest employer in the town, which has a population of around 55,000 people, with approximately 47% of the working population of Komsomolsk being employed by the mine in one capacity or another

Goals

- Make operational leadership accessible to the various local citizen groups and organisations, so as to allow Ferrexpo to assess and prioritise their concerns about its various initiatives
- Provide expertise and voluntary services in order to sustain and/or improve community infrastructure, supplying financial assistance where appropriate
- Participate in the development of modern cultural and social programmes and activities in the local area (Ferrexpo's employees and their families form the majority of the local population)
- Work consistently with local town and village councils in order to understand their expectations of Ferrexpo, so that Ferrexpo can within reason provide value added solutions or alternatives
- Give preference to suitably-qualified local residents when hiring to fill vacancies

CASE STUDY

Community initiatives achieved in 2011

During 2011, FPM and FYM continued to pursue the policy of fostering relationships with the communities around the perimeter of the site At the village of Pryshyb this included

- Modernising the water supply, and
- Repair and modernisation work at the village school and kindergarten

Work in Komsomolsk, the town where FPM and FYM are based and where much of the workforce lives, has concentrated on initiatives designed to increase its attractions as a place in which to live, and thus create favourable conditions for the development of the pool of labour on which Ferrexpo relies

- Renovations and repairs to schools and sports facilities, and hostel accommodation for families,
- Job placements with FPM under the 'My First Job' scheme for 118 graduates of the local technical schools, and
- Purchase of advanced equipment for local hospitals

Performance
Community Initiatives
FPM
FPM has been a significant investor in local community initiatives from the outset, investing substantial funds in the social infrastructure of Komsomolsk and the surrounding area These funds have been spent on charities, medical facilities, social services, education, religion, culture and sporting activities, as well as on the maintenance of certain of the city's social and cultural structures

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 financial and other support to employees who provide these in-house services so as to encourage them to transform internal departments into stand-alone businesses

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 its operations As a rapidly expanding company, FYM has been able to provide significant employment opportunities for local people and aims to have good relationships with the communities near its operations

Helogistics
The Group acquired the river transport company Helogistics Holding GmbH ('Helogistics') at the end of 2010 Because of the different nature of its activities its CSR is reported on separately from that of the Group's mining operations Ferrexpo's strategy is to integrate Helogistics fully into Ferrexpo's CSR culture

(a) Health and Safety
The accident rate at Helogistics during 2011 was 13 lost-time accidents, equating to a LTFIR of 12 14 accidents per million man hours and a total of 468 lost days, with no work-related fatalities Accidents were mainly due to injuries caused by slipping and falling on wet or icy decks or by handling equipment during frequent mooring operations Accidents are reported to and discussed at monthly meetings with the senior management of the Group, and steps are under way to improve the safety culture

(b) Employees
Helogistics provides training for staff so that they can develop the knowledge, skills and values necessary for the performance of their roles

(c) Environmental
Helogistics complies with the applicable environmental regulations of the countries along the Danube in which it operates (for example, regarding the prevention of fuel leakages and the grounding of barges)

(d) Community
As a transport company operating over a wide area rather than concentrated in one place, Helogistics does not at present consider it appropriate to incur significant expenditure on community initiatives

Board of Directors

1. Michael Abrahams, CBE DL (74)
Non-executive Chairman
Michael Abrahams joined the Board on 14 June 2007 He is chairman of the London Clinic and the Prudential Staff Pension Scheme 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 (38)
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 F&C Group of companies He is a non-executive director of New World Resources plc, a subsidiary of BXR Group Limited He graduated from the Kyiv State Economic University in 1996, specialising in international economics

3. Christopher Mawe, FCA (50)
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 (67)
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 (50)
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 He is the non-executive Chairman of Firestone Diamonds plc and serves on a number of other 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 is a Chartered Accountant (South Africa)

6 Wolfram Kuoni (45)
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 (59)
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 to the European Union in Brussels In 1994, he was deputy governor of

Executive Committee

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 He 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 (57)
Non-executive Director
Mike Salamon joined the Board on 27 March 2009 He is executive chairman of New World Resources plc, a subsidiary of BXR Group Limited He is also a non-executive member of the board of directors of the New World Resources subsidiary OKD, and a non-executive director of Central Rand Gold, Gem Diamonds and Minera las Cenizas 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 he 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

1. Kostyantin Zhevago
Chief Executive Officer
(See profile under Board of Directors)

2 Christopher Mawe, FCA
Chief Financial Officer
(See profile under Board of Directors)

3 Nikolay Goroshko (52)
Chief Financial Officer, FYM
Nikolay Goroshko joined Ferrexpo in 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

4 Jason Keys (40)
Chief Marketing Officer
Jason Keys joined Ferrexpo in July 2011 He held sales and marketing posts at Rio Tinto Coal and Iron Ore and at BHP Billiton Coal for 12 years, and then led BHP Billiton's Iron Ore commercial marketing team for five years before joining Ferrexpo He holds a Bachelor of Commerce degree from the University of Western Australia and is a Certified Professional Accountant

5 Nikolay Kladiev (39)
Chief Financial Officer, FPM
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

6 Viktor Lotous (47)
Chief Operating Officer, FPM
Viktor Lotous joined FPM in 1986 He became chief engineer in 1997, and General Director and Chief Operating Officer in April 2007 He is a graduate of Kryvyi Rih Mining and Ore Institute, and of the Kyiv State Economic University, specialising in Finance

7 Brian Maynard (52)
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 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 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 As an English incorporated company with a primary listing on the London Stock Exchange, the Company is in respect of the 2011 financial year subject for the first time to the 2010 UK Corporate Governance Code (the '2010 Code') The 2010 Code is available from the Financial Reporting Council's website, www frc org uk

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
(in accordance with Listing Rule 9 8 6R)
During the year to 31 December 2011 the Company complied with all relevant provisions of the 2010 Code

The 2010 Code establishes principles of good governance in five areas Leadership, Effectiveness, Accountability, Remuneration, and Relations with Shareholders This report explains how these principles were applied, with the exception of those relating to Directors' remuneration which are included in the Remuneration Report on pages 56 to 62

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

Leadership and effectiveness
The Board
The Board is composed of a Non-executive Chairman Michael Abrahams, two Executive Directors Kostyantin Zhevago, CEO and Christopher Mawe, Chief Financial Officer ('CFO'), 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

Biographical details of the Directors at the date of this report are set out on pages 48 and 49, and details of their membership of Board committees are set out on pages 52 and 53 A summary of the roles of the Chairman, the CEO 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 (such as approving the Group strategy and budget, annual and long-term capital expenditure plans, and contracts for more than a certain monetary amount) 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 2010 Code It is the responsibility of the CEO 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 52 All Board meetings are held in Switzerland

Chairman, 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 48 and 49 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 48 and 49

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 dominate or unduly influence 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 2010 Code In the opinion of the Board, all the 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 Mike 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 B 1 1 of the 2010 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 page 60) 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 B 1 1 of the 2010 Code The Board believes this still to be the case

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') (which is composed of certain members of the Executive Committee and other members of senior management) and the Committee of independent Directors ('CID') Any changes to the schedules are noted at the beginning of the next Board meeting The CID 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 the CID 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 This Committee also oversees anti-bribery compliance matters on behalf of the Board

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 is set out in the Directors' Report on page 63

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 in 2011 by the Chairmen of these bodies This is done by the Chairman of the relevant body interviewing his colleagues whilst referring to a questionnaire covering matters including the balance and diversity of the body's membership, the body's and its individual members' effectiveness and performance (in terms of contribution to good governance), and the administration and conduct of the body's business, 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, and no particular areas were identified as needing improvement The mixture of skills and experience on the Board and the committees was felt to be appropriate

The Board's intention is to hold an external assessment once every three years, in line with the 2010 Code

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

Tables 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	4/5
Mike Salamon	Non-executive Director	5/5

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 the significant financial reporting issues and judgements that they contain The Audit Committee is also responsible for reviewing internal controls and risk management systems, whistle-blowing procedures and internal audit processes, and oversees the relationship with the external auditors

Remuneration Committee

Four Remuneration Committee meetings were held during the year

Committee members		Attendance record
Lucio Genovese	Chairman	4/4
Michael Abrahams		4/4
Ihor Mitiukov		3/4
Oliver Baring		4/4

The Remuneration Committee meets at least twice a year, as required by its terms of reference, 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 56 to 62

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		0/1
Kostyantin Zhevago		1/1

Nominations Committee Report

The Nominations Committee meets at least once a year, as required by its terms of reference 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 (including of gender) on the Board

No vacancies arose during 2011, however, when seeking to recruit new Board members in future the Committee will have regard to the recommendations of the Davies Report

Ferrexpo operates equal-opportunities policies with the aim of encouraging the employment of women wherever this is reasonable and acceptable, so that over time women will increase as a proportion of the work force and of the pool from which senior appointments are made

During the year the Committee and the Board also gave consideration to succession planning at the Board and senior executive levels, including the CEO and the CFO

CSR Committee
One CSR Committee meeting was held during the year

Committee members		Attendance record
Brian Maynard	Chairman	1/1
Michael Abrahams		1/1
Viktor Lotous		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 40 to 47

CID
Five CID meetings were held during the year

Committee members		Attendance record
Oliver Baring	Chairman	5/5
Michael Abrahams		5/5
Lucio Genovese		5/5
Wolfram Kuoni		5/5
Ihor Mitiukov		4/5

The 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 During the year the Committee's terms of reference were extended to cover the oversight of anti-bribery procedure implementation

The Executive Committee
The Executive Committee is a key decision making body of the Group Its members are detailed on page 49 It is responsible for managing and taking all material decisions relating to the Group apart from those that are reserved for the entire Board 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 responsibility for the execution of Board-approved strategies for the Group, for ensuring that appropriate levels of authority are delegated to senior management, for the review of organisational structures and for 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 pages 67 and 68

Audit Committee Report
The 2010 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 The Audit Committee complies with these requirements, and 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 52

During the reporting period the Audit Committee met four times, and its activities included

- Reviewing 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
- Reviewing with Ernst & Young LLP the scope of the audit work proposed for 2011 and audit fees
- Reviewing the risk matrix at each meeting, and discussing with the Head of Internal Audit the internal audit plan and the findings of the internal audit reviews conducted during the year
- Reviewing the Group's internal controls and risk management systems
- Reviewing the Group's whistle-blowing arrangements
- Reviewing the effectiveness of the external auditors, their independence and the non-audit services they provided, and considering whether to recommend their reappointment

A statement on the Board's position regarding the Group as a going concern is contained in the Directors' Report on page 66

Internal control and risk management
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

Corporate Governance Report continued

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 2011 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

Full details of the Group's policy on risk and uncertainties are set out in note 37 to the financial statements on pages 112 to 119 See also the Risks section of the Financial Review on pages 34 to 37

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 and by the Board
- Clearly defined organisational and reporting structure and limits of authority for transaction and investment decisions, including any with related parties, applied to subsidiary companies including FPM and FYM, the key Ukrainian subsidiaries, and the Helogistics Group 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
- An Investment Committee (an executive sub-committee) meets approximately twice a month to approve capital expenditures within limits delegated by the Executive Committee and the Board
- The Financial Risk Management Committee ('FRMC') (an executive sub-committee) reviews financial information and management accounts, and meets monthly
- 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
- 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
- A framework of transaction and entity level controls to prevent and detect material error and loss
- Fraud management through an independent department operating in the Group's key operating subsidiary FPM
- A whistle-blowing policy is in place under which staff may in confidence, via an independent, secure website, raise concerns about financial or other impropriety

Treasury
Details of the Group treasury policy are referred to in the Chairman's and Chief Executive Officer's Statement on page 10, the Risks section of the Financial Review section on pages 34 to 37 and in the notes to the financial statements on pages 112 to 119

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 if necessary to the Board for approval

Internal audit
A Group-wide internal audit function has been established, and operated during 2011 using an experienced internal auditor based in Ukraine but independent of operational management, who reported directly to the CFO and the Audit Committee This arrangement will continue in 2012 with a new internal auditor in the process of being appointed

An internal audit programme for 2010–12, approved by the Audit Committee, 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 effectiveness of the audit process and the overall performance, independence and objectivity of the auditors are 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 The Committee reviewed these arrangements during the year and believes that they are still appropriate

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 89

Recommendation on reappointment of auditors
The Committee considered whether Ernst & Young should be proposed for reappointment by the shareholders at the 2012 Annual General Meeting, or whether the audit should be put out to tender as a matter of policy Taking into account their general satisfaction with the auditors and the relative shortness of the auditors' tenure to date, the Committee agreed to recommend to the Board that Ernst & Young should be proposed for reappointment for another year

Implementation of requirements of UK Bribery Act 2010
At the time of the introduction of the Bribery Act in July 2011, and following a thorough risk assessment and the establishment of due diligence procedures for business counterparties, all employees were informed (and given instruction where necessary) about the policies and procedures introduced in order to ensure compliance with the Act (which took the form of the Group Policy on Bribery and Corruption) The Board delegated responsibility for implementing the Policy and monitoring its effectiveness to an anti-bribery compliance officer (currently the CFO), who reports to the CID at its meetings and makes any recommendations arising from the meetings to the full Board

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 CEO, the CFO, and the Head of Investor Relations meet major shareholders to discuss performance, strategy and governance, and the Non-executive Directors are available for discussions with shareholders if required

J P Morgan 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 CEO, 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 13 March 2012

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 2010 Code 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 2011

This Report will be subject to an advisory shareholder vote at the Company's 2012 AGM

Part A Unaudited Information
Remuneration Committee
The Remuneration Committee (the 'Committee') is composed of four independent Non-executive Directors Lucio Genovese is the Chairman of the Committee, and its other members are Michael Abrahams, Oliver Baring and Ihor Mitiukov The Committee met four times during the year Attendance at meetings of the Committee by individual members is detailed in the Corporate Governance Report on page 52

Terms of reference for the 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 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 Committee and its terms of reference comply with the provisions of the Corporate Governance Code and are available for inspection on the Company's website at www ferrexpo com

The CEO usually attends meetings of the Committee at the invitation of the Chairman of the Committee, and the Company Secretary acts as secretary to the Committee No Director is present when his own remuneration is being discussed

Advisers
The 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 Committee no other services were provided by Kepler Associates to the Company

The CEO provides guidance to the Committee on remuneration packages of senior executives employed by the Group (but not in respect of his own remuneration)

Activities of the Committee
During the year the Committee considered the following items of business

- review of the remuneration of the Chairman, Executive Directors and members of the Executive Committee,
- Long-Term Incentive Plan ('LTIP') performance and the Company's performance compared to its peers,
- general market considerations surrounding executive remuneration packages and structure, and
- performance evaluation of the 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 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 Committee will be keeping under review remuneration and incentive plan policy during the forthcoming year The Committee will continue to give full consideration to the principles set out in the 2010 Code in relation to Directors' remuneration and to the guidance of investor relations 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 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 stretch level performance, performance-related pay makes up the majority of the remuneration of the Chief Financial Officer ('CFO') 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 elsewhere in the Ferrexpo Group

Incentive plans

A substantial proportion of Executive Directors' remuneration is based on performance via the LTIP and the Short-Term Incentive Plan ('STIP'), as described below

- LTIP – aims to motivate participants to deliver appropriate longer-term returns to shareholders
- 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 2012 while keeping under review their motivational effectiveness

LTIP

The LTIP framework was approved by shareholders at the 2008 AGM The LTIP provides for annual awards of performance shares and options up to an aggregate limit of 200% of salary in normal circumstances Total outstanding awards granted under the Plan from its inception in 2008 until the end of 2011 are equivalent to 0 16% of issued share capital Actual awards are made on the basis of a similar number of shares to participants at comparable levels in the organisation None of the awards granted to Executive Directors in 2011 exceeded 100% of salary These awards are in the form of performance shares which vest according to the extent to which Ferrexpo's three-year TSR matches or outperforms that of a comparator index (see below)

The 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 Committee reviewed the constituents of the comparator index and their weightings prior to the grant of 2011 LTIP awards and decided to increase the number of 'focused iron ore miners' in the comparator group (see table below) from 4 to 10 companies, and retain the aggregate weighting of 40% on this component

Index component	Constituents		Aggregate weighting
Global diversified miners (10% each)			50%
	Vale	Rio Tinto	
	BHP Billiton	Xstrata	
	Anglo American		
Focused iron ore miners (4% each)			40%
	Atlas Iron[1]	Gindalbie Metals[1]	
	Brockman Resources[1]	Kumba Iron Ore	
	China Vanadium Titano[1]	Mount Gibson Iron	
	Cliffs Natural Resources	MMX Mineração e Metalicos[1]	
	Fortescue Metals Group	Northern Iron[1]	
Single commodity/emerging market miners (0 5% each)			10%
	African Rainbow Minerals	Industrias Penoles	
	Alcoa	Katanga Mining	
	Alumina	Kazakhmys	
	Aluminum Corp of China	KGHM Polska Miedz	
	Antofagasta	Lundin Mining	
	Boliden	MMC Norilsk Nickel	
	ENRC	OZ Minerals	
	Eramet	Peabody Energy	
	First Quantum Minerals	Teck Resources	
	Freeport McMoRan	Vedanta Resources	

1 Companies added to comparator group for 2011 LTIP awards

TSR is calculated on a common currency basis to ensure that comparisons with international comparators listed overseas are fair As described in the 2010 Remuneration Report, the TSR share-price averaging period was extended from three to six months for LTIP awards granted in 2011 (and subsequent awards) to help improve the comparison of the management long-term incentive in relation to potential short-term movements in Ferrexpo's share price or the share price of comparator companies

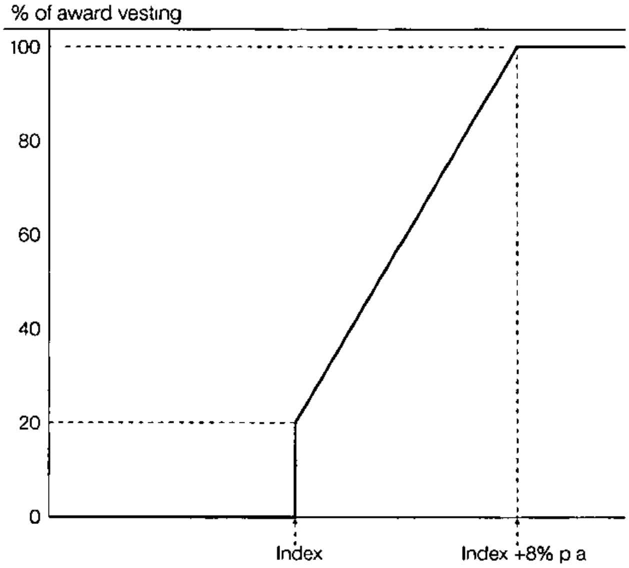
The Committee has discretion to review the comparator index if any of the constituent companies is affected by corporate events such as mergers and acquisitions

The Committee also reviews the constituents and their weightings prior to the start of each LTIP cycle in order to ensure that they remain appropriate The index will be adjusted in 2012 to reflect the listing of Glencore International plc and any eventual merger of Glencore with Xstrata plc

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 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 three-year TSR



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 Committee will retain discretion to vary this treatment if it deems it to be in shareholders' interests to do so

2009 LTIP award vesting
From 1 January 2009 to 31 December 2011, Ferrexpo's TSR performance was 506 5% and Index TSR was 159 0% This outperformance of 32 8% p a of Index TSR resulted in 100% of 2009 LTIP awards vesting for TSR The Committee has considered the Company's overall performance and determined that the recorded TSR outperformance was a fair reflection of Ferrexpo's underlying performance over the performance period and has therefore determined, in accordance with the rules of the plan, that 100% of the 2009 LTIP awards vested

Proposed 2012 LTIP awards
The Committee intends to operate the LTIP framework in 2012 in the same manner as in 2011

LTIP share ownership guidelines
With effect from the 2010 award, Executive Directors and members of the Executive Committee are encouraged, in line with the growing practice among FTSE 250 companies, 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 level is achieved

STIP
The STIP applies to the members of the Executive Committee, excluding Mr Zhevago The STIP is a discretionary annual bonus scheme For 2011, the maximum STIP opportunity for members of the Executive Committee ranged up to 150% of salary

Key performance indicators ('KPIs') for 2011 were set at the start of the year for each member of the Executive Committee and were weighted to reflect the contribution of each executive to the achievement of that KPI KPIs during the year (with their respective weightings in the case of the CFO shown in brackets) related to financial performance (EBITDA and NOPAT) (20%), operational performance (production and sales volumes) (25%), corporate social responsibility (5%), and personal performance, project performance and governance (50%) Financial KPIs were adjusted to take account of market and raw material cost price developments, as appropriate, to the extent that these were not under the direct control of management Adjustments were at the full discretion of the Committee

The Company's overall performance in 2011 was assessed as being between the 'target' and 'stretch' levels Taking account of this and also his strong personal performance, the Committee made an award to the CFO under the STIP of 131% of salary in respect of 2011

The outcome of the KPIs for other members of the Executive Committee under the STIP, as determined by the Remuneration Committee, ranged between 20% and 120% of salary depending on the achievement of the relevant KPIs, which were weighted towards the responsibilities and targets of the executive concerned

The STIP framework for 2012 is in line with the principles of the 2011 framework CSR, projects and personal KPIs continue to be set as in previous years Weightings for the CFO in 2012 will be 22 5% for financial (EBITDA and NOPAT), 10% for CSR, 22 5% for production and sales volumes, and 45% 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	CEO	1 November 2008	Six months from the employee, six months from the employer	US$240,000[1]
Chris Mawe	CFO	7 January 2008	Six months from the employee, 12 months from the employer	CHF626,160

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 In so far as it relates to the STIP, this entitlement is unique to Chris Mawe among the Directors of the Company, and reflects the practice in the Company at the time when Chris Mawe was appointed It is the Committee's policy to review contractual arrangements prior to new appointments in the light of developments in best practice 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$100,000 in 2011, 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 CHF167,790 of accommodation allowance per annum

Pensions
The Group does not operate a separate pension scheme for Executive Directors Chris Mawe and Kostyantin Zhevago are members of the Ferrexpo AG pension plan which is a mandatory insurance scheme under Swiss law, provided for all employees of Ferrexpo AG, to which the Company contributes an average of 6% of their annual base salaries

Pension benefits earned by the Directors in the year ended 31 December 2011 were

US$000	Age	Accrued benefit at 01 01 11	Increase in period (net of indexation)	Transfer value of increase in period	Forex effect	Accrued benefit at 31 12 11	Transfer value at 01 01 11	Transfer value at 31 12 11	Directors contributions	Increase in transfer value during the period less Directors contributions	Forex effect
Chris Mawe	50	452	11	68	-6	525	214	292	28	54	-5
Kostyantin Zhevago	38	24	12	8	-1	43	13	19	5	2	-1

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

Remuneration Report continued

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 may then be renewed on a three-yearly basis, subject to re-election when appropriate by the Company in general meeting, in 2011 the Company adopted the practice of annual re-election of all Directors Unless otherwise determined, neither the Company nor the Director concerned may give less than three months' notice of termination of the appointment

The Non-executive Directors' fees are reviewed each year in light of the time commitment and level of involvement that Non-executive Directors are required to devote to the activities of the Board and its committees, market practice, and surveys by Kepler Associates In July 2011, the fees were reviewed and the annual remuneration of the Chairman was increased from US$400,000 to US$500,000, the annual base fee of the Non-executive Directors was increased from US$120,000 to US$150,000, and the fee paid for chairing a Committee increased from US$20,000 to US$40,000 The Chairman's fee was last increased in 2008 and the Non-executive Directors fees were last increased in 2007 The key appointment terms of the Non-executive Directors are as follows

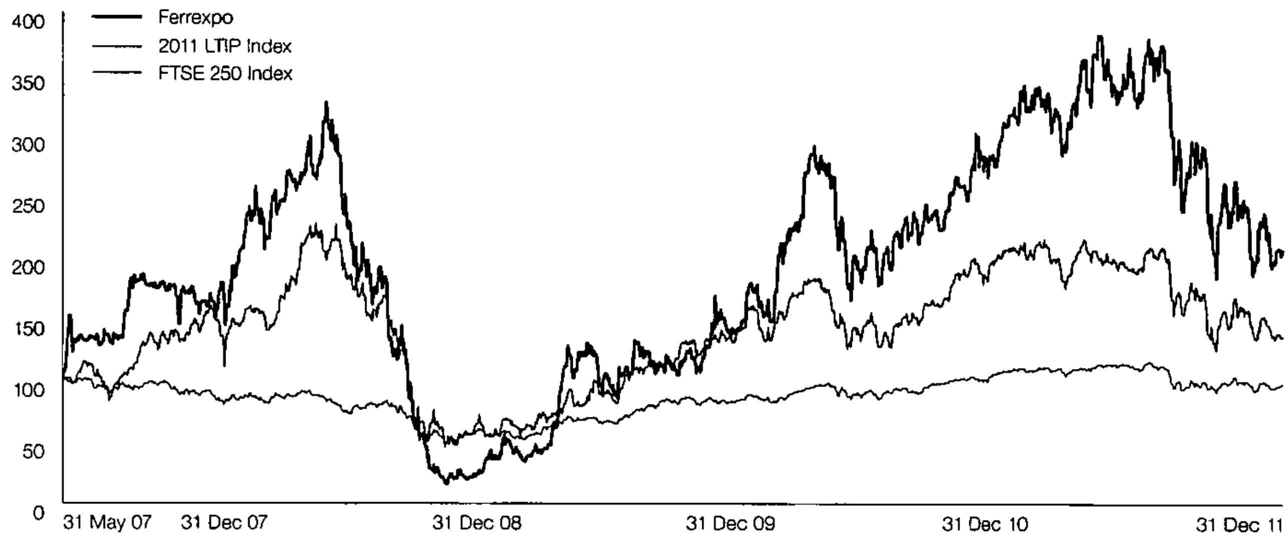
Director	Position	Date of initial appointment	Duration of term	Fees p a US$000
Michael Abrahams	Chairman	14 June 2007	3 years[5]	500
Oliver Baring[1]	Non-executive Director	1 December 2007	3 years[5]	190
Lucio Genovese[2,4]	Non-executive Director	14 June 2007	3 years[5]	230
Wolfram Kuoni[3,4]	Non-executive Director	14 June 2007	3 years[5]	265
Ihor Mitiukov	Non-executive Director	14 June 2007	3 years[5]	150
Mike Salamon	Non-executive Director	27 March 2009	3 years[6]	150

1 Oliver Baring receives a fee of US$150 000 p a as a Non executive Director and an additional fee of US$40 000 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$150 000 p a as a Non executive Director and additional fees of US$40 000 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$150 000 p a as a Non-executive Director and additional fees of US$40 000 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 51
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 AGM
6 Initial term was for three years from 27 March 2009 Appointment was renewed by the Board for a further term of three years (until the date of the 2015 AGM) in March 2012 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 Kostyantin Zhevago Any such directorships must be formally notified to the Board Kostyantin Zhevago's external directorship, for which he retains no fees, is mentioned in the biographical section of the Company overview on page 48

Performance Review



The above graph shows the value, at 31 December 2011, 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 to 31 December 2011
Salary, annual bonus and other benefits

	Salary or fees US$000	Pension US$000	Benefits US$000	Bonus US$000	**Total 2011 US$000**	Total 2010 US$000
Chairman						
Michael Abrahams	450	-	-	-	**450**	731
Executive Directors						
Kostyantin Zhevago	240	8	100[1]	-	**348**	341[2]
Chris Mawe	706	94	189[1]	925	**1,914**	1 644[3]
Non-executive Directors						
Oliver Baring	165	-	-	-	**165**	140
Lucio Genovese	205	-	-	-	**205**	180
Wolfram Kuoni	240	-	-	-	**240**	215
Ihor Mitiukov	135	-	-	-	**135**	120
Mike Salamon	135	-	-	-	**135**	120
Former Non-executive Director						
Marek Jelinek	-	-	-	-	-	50
Total	2,276	102	289	925	**3,592**	3,541

1 Relates to accommodation allowance
2 Total for 2010 includes pension related benefits of US$8 000
3 Total for 2010 includes pension related benefits of US$78 000

Remuneration Report continued

Directors' interests in shares of the Company
Interests of the Directors in office as at 31 December 2011

	At 31 12 11	At 31 12 10
Michael Abrahams	**168,690**	167,646
Kostyantin Zhevago[1]	**300,198,313**	300,198,313
Christopher Mawe	**67,439**	0
Oliver Baring	**20,130**	20,130
Lucio Genovese	**169,180**	169,005
Wolfram Kuoni	**28,466**	28,290
Ihor Mitiukov	**31,522**	31,327
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 ultimate 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 12 March 2012, being a date not more than one month prior to the date of notice of the AGM

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	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
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

LTIP awards
In 2011 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 57 and 58

	At 01 01 11	Granted 2011 LTIP Awards	Exercised	Lapsed	Total at 31 12 11	Market price on date of award (pence)	[illegible]	Date from which exercisable	Expiry date
Chris Mawe	100 000		92,000	8,000	**0**	411	-	01 01 2011	16.05.2018
	100 000[2]		–	-	**100,000**	143	–	01 01 2012	14 09 2019
	100,000		–	–	**100,000**	275	–	01 01 2013	17 06 2020
		120 000[1]	–	–	**120,000**	341	–	01 01 2014	07 08 2021
Total					**320,000**				

1 Date of grant 8 August 2011
2 This award has vested 100% under the TSR performance condition described above At the date of vesting (31 December 2011) the market price of a share was 288 8pence

Other transactions involving Directors are set out in note 34 (related party disclosure) to the financial statements

This Report was approved by the Board on 13 March 2012

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 2011

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 8 to 11
- The Review of Operations on pages 20 to 28
- The Financial Review on pages 29 to 33
- The Risks section on pages 34 to 37
- The Corporate Social Responsibility Review on pages 40 to 47

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 50 to 55 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 69

The Directors recommend a final dividend of 3 3 US cents per Ordinary Share Subject to shareholders approving this recommendation at the AGM, the dividend will be paid in UK Pounds Sterling on 1 June 2012 to shareholders on the register at the close of business on 4 May 2012 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
- Wolfram Kuoni
- Chris Mawe
- Ihor Mitiukov
- Mike Salamon
- Kostyantin Zhevago

In compliance with the 2010 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 48 and 49 Details of the remuneration of the Directors, their interests in shares of the Company and their service contracts are contained in the Remuneration Report on pages 56 to 62

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
The Company has a single class of Ordinary Shares of 10 pence 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 Institutional Investor Guidelines

Details of the issued share capital of the Company are shown in note 28 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 26 May 2011 This authority will expire at the conclusion of the Company's 2012 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 AGM enclosed with this report

The Company did not make use of the authority mentioned above during 2011

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 Act

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 Employee Benefit Trust ('EBT')
The trustees of the Company's 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 31 December 2011, the Company had been advised in accordance with the Disclosure and Transparency Rules, of the following notifiable interests in its voting rights There were no changes in these interests between 31 December 2011 and the date of this report

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

Free float
On 14 December 2011 the FTSE Group announced that the FTSE Policy Group had approved a change to the Ground Rules of the FTSE UK Index Series, increasing to 25% the minimum free float (as calculated by FTSE) for a company to be eligible for inclusion The FTSE Group also indicated that Ferrexpo does not currently satisfy this requirement as it calculates that Ferrexpo's free float is approximately 24% Companies not currently satisfying this requirement have been given a time frame of 24 months from 1 January 2012 to reach this free float level if they are to continue to be included in the UK Index Series Ferrexpo is considering with its advisers the options available to it

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

LTIP
The rules of the Company's LTIP 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$420 million revolving pre-export finance facility with ING Bank N V, Uni Credit Bank AG, Societé Générale and other banks entered into in September 2011, if Kostyantin Zhevago ceases to own directly or indirectly at least 30% of the issued and allotted share capital of the Company, or any person (other than Kostyantin Zhevago) becomes the beneficial owner of the shares in the Company carrying more than 50% of the voting rights normally exercisable at a general meeting, then the lenders are not obliged to fund a drawdown

Corporate Bond due 2016
Under the conditions of the Notes issued in April 2011, if Kostyantin Zhevago ceases to own directly or indirectly at least 30% of the issued and allotted share capital of the Company, or any person (other that Kostyantin Zhevago) becomes the beneficial owner of shares in the Company carrying more than 50% of the voting rights normally exercisable at a general meeting, then any Noteholder will have the right to require the repurchase of its Notes at a purchase price in cash equal to 101% of the principal amount plus accrued and unpaid interest

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 Corporate Governance Report (page 51) 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 41 to the financial statements on page 123

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 International Financial Reporting Standards ('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 37 to the Notes to the Consolidated Financial Statements on pages 112 to 119

Directors' Report

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 2011 for the Company was 24 days (2010: 20 days).

Charitable and political donations

The Group made no political donations during the year. Group donations to charities worldwide were US$nil (2010: US$nil), with UK charities receiving US$nil (2010: US$nil). (For community support donations, please see note 11 to the Consolidated Financial Statements.)

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 3[illegible] of the Notes to the Consolidated Financial Information on pages [illegible] to [illegible]. Further references to risk are made in the Risks section on pages [illegible] to 3[illegible] and in the Internal Control section of the Corporate Governance Report on pages [illegible] to [illegible] 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 in the Business Review on pages 29 to 37. The financial position of the company, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 29 to 33. In addition, note 37 of the Notes to the Consolidated Financial Statements on pages 1[illegible] to 119 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 as well as currency risk and interest rate risk. The Directors are of the opinion that the Company will continue to operate and as such the accounts have been prepared using the Going Concern principle.

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 [illegible] to [illegible] (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 67.

Amendments to Articles of Association

The Articles may be amended by special resolution in accordance with the Act.

AGM

The AGM of the Company will be held at 11.00am on Thursday 24 May 2012 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 2012 AGM.

This report was approved by the Board on 13 March 2012.

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;
- 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;
- 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
[illegible]

Christopher Mawe
[illegible]

Independent Auditor's Report to the Members of Ferrexpo plc

We have audited the financial statements of Ferrexpo plc for the year ended 31 December 2011 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Cash Flows, Consolidated Statement of Changes in Equity, the Parent Company Balance Sheet and the related notes 1 to 40 for the Group financial statements and notes 1 to 9 for the Parent Company financial statements The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs') as adopted by the European Union The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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

Respective responsibilities of Directors and auditor
As explained more fully in the Directors' Responsibilities Statement set out on page 67, 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 In addition we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies, we consider the implication for our report

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 2011 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, and
- The information given in the Directors Report for the financial year for which the financial statements are prepared is consistent with the financial statements

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

Under the Companies Act 2006 we are required to report to you if, in our opinion
- Adequate accounting records have not been kept by the Parent Company or returns adequate for our audit have not been received from branches not visited by us, or
- The Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns, or
- Certain disclosures of Directors' remuneration specified by law are not made, or
- We have not received all the information and explanations we require for our audit

Under the Listing Rules we are required to review
- The Directors' Statement, set out on page 66, in relation to going concern,
- The part of the Corporate Governance Statement relating to the Company s compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- Certain elements of the report to shareholders by the Board on Directors remuneration

Ernst & Young LLP Ernst & Young LLP
Bob Forsyth (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
13 March 2012

Consolidated Income Statement

US$000	Notes	Year ended 31 12 11	Year ended 31 12 10
Revenue	6	**1,788,012**	1,294,900
Cost of sales	7	**(649,544)**	(481,857)
Gross profit		**1,138,468**	813,043
Selling and distribution expenses	8	**(317,951)**	(212,006)
General and administrative expenses	9	**(51,969)**	(49,175)
Other income	10	**6,943**	4 515
Other expenses	11	**(17,091)**	(5,938)
Operating foreign exchange losses	12	**(1,360)**	(1,078)
Operating profit from continuing operations before adjusted items		**757,040**	549 361
Under recovery of VAT receivable	26	**–**	(10,936)
Write-offs and impairment losses	13	**(478)**	(1,618)
Share of profit of associates	14	**2,012**	4,155
Gain on bargain purchase	40	**–**	2,623
Initial public offering costs		**–**	(55)
Losses on disposal of property, plant and equipment		**(46)**	(1,305)
Profit before tax and finance from continuing operations		**758,528**	542,225
Finance income	15	**2,511**	1 357
Finance expense	15	**(68,205)**	(41,568)
Non-operating foreign exchange losses	12	**(1,934)**	(3,888)
Profit before tax		**690,900**	498,126
Income tax expense	16	**(115,964)**	(73 002)
Profit for the year from continuing operations		**574,936**	425 124
Profit attributable to			
Equity shareholders of Ferrexpo plc		**567,822**	422,906
Non-controlling interests		**7,114**	2,218
		574,936	425,124
Earnings per share			
Basic (US cents)	17	**97 09**	72 34
Diluted (US cents)	17	**96 97**	72 24

Consolidated Statement of Comprehensive Income

US$000	**Year ended 31 12 11**	Year ended 31 12 10
Profit for the year	**574,936**	425,124
Exchange differences on translating foreign operations	**(3,024)**	533
Income tax effect	**-**	-
Exchange differences arising on hedging of foreign operations	**(894)**	110
Income tax effect	**153**	(27)
Net (losses)/gains on available-for-sale investments	**(1,868)**	1,915
Income tax effect	**437**	(465)
Other comprehensive income for the year, net of tax	**(5,196)**	2,066
Total comprehensive income for the year, net of tax	**569,740**	427,190
Total comprehensive income attributable to		
Equity shareholders of Ferrexpo plc	**562,883**	424,923
Non-controlling interests	**6,857**	2,267
	569,740	427,190

Consolidated Statement of Financial Position

US$000	Notes	As at 31.12.11	As at 31.12.10
Assets			
Property, plant and equipment	13	**924,690**	647 137
Goodwill and other intangible assets	19,40	**103,240**	102 317
Investments in associates	14	**19,186**	21,132
Available for sale financial assets	20	**1,290**	3 356
Other non-current assets	21	**93,358**	24 767
Deferred tax assets	22,40	**23,426**	13,495
Total non-current assets		**1,165,190**	812,204
Inventories	23	**117,046**	104,827
Trade and other receivables	24	**128,905**	111 890
Prepayments and other current assets	25	**22,720**	18 922
Income taxes recoverable and prepaid	26	**384**	35
Other taxes recoverable and prepaid	26,40	**172,951**	104,824
Cash and cash equivalents	27	**890,154**	319 470
		1,332,160	659,968
Assets classified as held for sale		**1,845**	3,149
Total current assets		**1,334,005**	663 117
Total assets		**2,499,195**	1 475,321
Equity and liabilities			
Issued capital	28	**121,628**	121 628
Share premium	28	**185,112**	185 112
Other reserves	28	**(348,603)**	(344 420)
Retained earnings		**1,414,512**	885 353
Equity attributable to equity shareholders of Ferrexpo plc		**1,372,649**	847 673
Non-controlling interests		**20,480**	13 801
Total equity		**1,393,129**	861 474
Interest-bearing loans and borrowings	29	**951,430**	401 290
Defined benefit pension liability	31	**13,329**	17 819
Provision for site restoration	32	**3,015**	2 746
Deferred tax liabilities	22	**2,232**	2,432
Total non-current liabilities		**970,006**	424 287
Interest-bearing loans and borrowings	29	**18,948**	22 563
Trade and other payables	30	**42,648**	88 089
Accrued liabilities and deferred income	31,40	**29,713**	23 174
Income taxes payable	28	**36,674**	41,811
Other taxes payable	23	**8,077**	13 923
Total current liabilities		**136,060**	189,560
Total liabilities		**1,106,066**	613,847
Total equity and liabilities		**2,499,195**	1 475 321

The financial statements were approved by the Board of Directors on 13 March 2012

Kostyantin Zhevago

Christopher Mawe

Consolidated Statement of Cash Flows

US$000	Notes	Year ended 31 12 11	Year ended 31 12 10
Profit before tax		**690,900**	498,126
Adjustments for			
Depreciation of property, plant and equipment and amortisation of intangible assets		**41,003**	30,415
Interest expense	15	**62,321**	41,568
Under recovery of VAT receivable	26	**–**	10,936
Interest income	15	**(2,511)**	(1,357)
Share of income of associates	14	**(2,012)**	(4,155)
Movement in allowance for doubtful receivables	24	**(2,406)**	(3,685)
Losses on disposal of property, plant and equipment		**46**	1,305
Write-offs and impairment losses	13	**478**	1,618
Site restoration provision	32	**269**	1,478
Employee benefits	31	**1,069**	3,281
IPO costs		**–**	55
Share-based payments	38	**891**	1,366
Gain on bargain purchase from business combination	40	**–**	(2,623)
Operating foreign exchange losses	12	**1,360**	1,078
Non-operating foreign exchange losses	12	**1,934**	3 888
Operating cash flow before working capital changes		**793,342**	583,295
Changes in working capital			
Increase in trade and other receivables		**(17,391)**	(74,020)
Increase in inventories		**(12,220)**	(42 938)
(Decrease)/increase in trade and other accounts payable		**(9,788)**	11,215
Increase in VAT recoverable and other taxes prepaid[1]	26	**(72,051)**	(31,062)
Cash generated from operating activities		**681,892**	446 490
Interest paid		**(43,266)**	(25 437)
Income tax paid	26	**(132,176)**	(37,827)
Post-employment benefits paid		**(3,741)**	(3,468)
Net cash flows from operating activities		**502,709**	379,758
Cash flows from investing activities			
Purchase of property, plant and equipment	18	**(378,302)**	(166,775)
Proceeds from sale of property, plant and equipment		**–**	–
Purchases of intangible assets	19	**(2,092)**	(633)
Interest received		**2,067**	1 270
Proceeds from loans to associates	21	**1,000**	1,550
Dividends from associates		**2,207**	2,931
Cash payment for acquisition made in 2010	40	**(38,045)**	–
Pre-acquistion loans provided	40	**–**	(10 881)
Acquisition of subsidiaries, net of cash acquired	40	**(390)**	582
Net cash flows used in investing activities		**(413,555)**	(171,956)
Cash flows from financing activities			
Proceeds from borrowings and finance		**952,269**	668,802
Repayment of borrowings and finance		**(410,027)**	(505,359)
Arrangement fees paid		**(21,021)**	(21,074)
Dividends paid to equity shareholders of Ferrexpo plc		**(38,663)**	(41,744)
Dividends paid to non-controlling shareholders		**(880)**	(47)
Net cash flows from financing activities		**481,678**	100,578
Net increase in cash and cash equivalents		**570,832**	308,380
Cash and cash equivalents at the beginning of the year		**319,471**	11,991
Currency translation differences		**(149)**	(901)
Cash and cash equivalents at the end of the year[2]	27	**890,154**	319,470

1 The movement in the prior year includes effect of VAT receivable amounting to US$72 318 thousand which was recovered through VAT bonds See note 26 for further details
2 The prior year balance of cash and cash equivalents includes restricted cash of US$37 758 thousand

Consolidated Statement of Changes in Equity

	Attributable to equity shareholders of Ferrexpo plc										
US$000	Issued capital (Note 28)	Share premium (Note 28)	Uniting of interest reserve (Note 28)	Treasury share reserve (Note 28)	Employee benefit trust reserve (Note 28 and 38)	Net unrealised gains reserve (Note 28)	Translation reserve (Note 28)	Retained earnings	Total capital and reserves	Non controlling interests (Note 1)	Total equity
At 1 January 2010	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 38)	–	–	–	–	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**
Profit for the period	–	–	–	–	–	–	–	567,822	567,822	7,114	574,936
Other comprehensive income	–	–	–	–	–	(1,431)	(3,508)	–	(4,939)	(257)	(5,196)
Total comprehensive income for the period	–	–	–	–	–	(1 431)	(3,508)	567,822	562 883	6,857	569,740
Equity dividends paid to shareholders of Ferrexpo plc	–	–	–	–	–	–	–	(38,663)	(38 663)	(322)	(38,985)
Share-based payments (note 38)	–	–	–	–	756	–	–	–	756	–	756
Effect from acquisition of subsidiary	–	–	–	–	–	–	–	–	–	144	144
At 31 December 2011	**121,628**	**185,112**	**31,780**	**(77,260)**	**(9,416)**	**1,084**	**(294,791)**	**1,414,512**	**1,372,649**	**20,480**	**1,393,129**

1 Transfer of shareholdings in subsidiaries resulted in change of non controlling interests

Notes to the Consolidated Financial Statements

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 sales and marketing activities in Switzerland, Dubai 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 ultimately owned by The Minco Trust, of which Kostyantin Zhevago, the Group's Chief Executive Officer, is a beneficiary At the time this report was published, Fevamotinico held 51 0% (31 December 2010 51 0%) of Ferrexpo plc's issued share capital The Group's operations are largely conducted through Ferrexpo plc's principal subsidiary, OJSC Ferrexpo Poltava Mining 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	31 12 11 %	31 12 10 %
OJSC Ferrexpo Poltava Mining[1]	Ukraine	Iron ore mining	**97 3**	97 3
Ferrexpo AG[2]	Switzerland	Sale of iron ore pellets	**100 0**	100 0
DP Ferrotrans[2]	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 & procurement	**100 0**	100 0
Ferrexpo Hong Kong Limited[1]	China	Marketing services	**100 0**	100 0
LLC Ferrexpo Yeristovo GOK[4]	Ukraine	Iron ore mining	**100 0**	100 0
LLC Ferrexpo Belanovo GOK[4]	Ukraine	Iron ore mining	**100 0**	100 0
Nova Logistics Limited[3]	Ukraine	Service company (dormant)	**51 0**	51 0
Ferrexpo Middle East FZE[6]	U A E	Sale of iron ore pellets	**100 0**	–
Ferrexpo Singapore PTE Limited[6]	Singapore	Marketing services	**100 0**	–
Helogistics Holding GmbH[5]	Austria	Holding company	**100 0**	100 0
EDDSG GmbH[5]	Austria	Barging company	**100 0**	100 0
DDSG Tankschiffahrt GmbH[5]	Austria	Barging company	**100 0**	100 0
Helogistics Transport GmbH[5]	Austria	Barging company	**100 0**	100 0
Mahart Duna Cargo Kft [5]	Hungary	Barging company	**100 0**	100 0
Pancar Kft [5]	Hungary	Barging company	**100 0**	100 0
Ferrexpo Port Services GmbH[7]	Austria	Port services	**100 0**	–
Helogistics Asset Leasing Kft [7]	Hungary	Asset holding company	**100 0**	–
Ferrexpo Shipping International Limited[8]	Marshall Islands	Holding company	**100 0**	–
Iron Destiny Limited[8]	Marshall Islands	Shipping company	**100 0**	–
Transcanal SRL[9]	Romania	Port services	**77 6**	–

1 The Group s interest in these entities is held through Ferrexpo AG
2 Ferrexpo AG was the holding company of the Group until as a result of the pre IPO restructuring Ferrexpo plc became the holding company on 24 May 2007
3 The Group s interest in these entities is held through OJSC Ferrexpo Poltava Mining
4 The Group s interest in this entity is held through both Ferrexpo AG and Ferrexpo Service Limited
5 The Group s interest in these entities are held through Ferrexpo AG Helogistics Holding GmbH and its subsidiaries were acquired in December 2010
6 Both subsidiaries were incorporated in March 2011 The Group s interest in Ferrexpo Middle East FZE is held by Ferrexpo AG whereas Ferrexpo Singapore PTE Ltd is a subsidiary of Ferrexpo Middle East FZE
7 The subsidiaries were incorporated in April 2011 and December 2011 The Group s interest is held through Helogistics Holding GmbH
8 The subsidiaries were incorporated on 14 July 2011
9 The company was acquired on 1 October 2011

The Group also holds an interest of 48 6% (2010 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 2011

Note 2 Summary of significant accounting policies continued
The consolidated financial statements have been prepared on a historical cost basis, except for post-employment benefits and available-for-sale financial instruments, the latter measured at fair value in accordance with the requirements of IAS 39 'Financial instruments Recognition and measurement', the former measured in accordance with IAS 19 'Employee benefits' The consolidated financial statements are presented in thousands of US Dollars and all values are rounded to the nearest thousand except where otherwise indicated

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010, except for those changes detailed in note 3

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 the 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 96

Business combinations prior to 1 January 2010
The following accounting treatment was applied for business combination prior to 1 January 2010 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

Notes to the Consolidated Financial Statements continued

Note 2 Summary of significant accounting policies continued
The reporting dates of the associates and Ferrexpo plc are identical and the associates' accounting policies are generally in conformity with those applied by the Group

Functional and presentational currencies
Based on the economic substance of the underlying business transactions and circumstances relevant to the parent, the functional currency of the parent has been determined to be the US Dollar, with each subsidiary determining its own functional currency based on its own circumstances The Group has chosen the US Dollar as its presentational currency and OJSC Ferrexpo Poltava Mining (the principal subsidiary) has determined that its functional currency is the 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 presentational currency as at the reporting date, the assets and liabilities of this entity are translated into the presentational 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 (Cost Insurance and Freight),
- CFR (Cost and Freight),
- DAP (Delivery At Place), 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 border 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 spare 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, 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 on 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 26 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 Statements 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 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 a 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 if 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 Statements 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 are described under Goodwill and other intangible assets and Business combination on page 96 and page 121 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 accumulated amortisation and accumulated impairment losses

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 19 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 Statements 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
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 defines the underlying assumptions required by actuaries to calculate the liability of the retirement obligation at each reporting date

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

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

The defined benefit pension liability is the aggregate of the net funded status (present value of the defined benefit obligation less plan assets) and actuarial gains and losses and past service costs not yet recognised

Numerous amendments made to IAS 19 'Employee benefits' will become effective as of 1 January 2013 The most fundamental change of the numerous amendments made to IAS 19 is the removal of the so-called 'corridor-approach' requiring to recognise all actuarial gains and losses from the remeasurement of the defined benefit obligation and the market values of the plan assets in other comprehensive income in the current period (see note 3 for further details)

Details to the pension schemes within the Group are provided in note 31

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 accounting policies and methods of computation adopted in the preparation of these consolidated financial statements are consistent with those of the previous year, except for the adoption of new and amended IFRS and IFRIC interpretations effective as of 1 January 2011

None of the new and amended standards or interpretations affected the reported results and financial positions The adoption of the standards or interpretations is described below

IAS 24 Related party disclosures (Amendment)
The revised standard was issued in November 2009 and became effective for financial years beginning on or after 1 January 2011 The changes of the revised standard were made to simplify the disclosure requirements for government-related entities and clarify the definition of a related party The adoption of this revised standard did not have an impact on the financial position or performance of the Group

IAS 32 Financial instruments presentation (Amendment)
The amended standard was issued in October 2009 and became effective for annual periods beginning on or after 1 February 2010 The amendment to IAS 32 addresses the classification of rights issues and will affect future right issues offered for a fixed amount in a foreign currency This amendment did not have an impact on the financial position or performance of the Group

IFRIC 14 Prepayment of a minimum funding requirement (Amendment)
The amendment to IFRIC 14 became effective for financial years beginning on or after 1 January 2011 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 application of this amendment did not have impact on the financial statements of the Group

IFRIC 19 Extinguishing financial liabilities with equity instruments (New)
The new interpretation became effective for annual periods beginning on or after 1 July 2010 and 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 did not have an effect on the financial statements of the Group

Improvements to IFRSs (issued May 2010)
In May 2010 the IASB issued its second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording There are separate transitional provisions for each standard The adoption of the following amendments resulted in changes to accounting policies, but did not have any impact on the financial position or performance of the Group

IAS 1 Presentation of financial statements
The amendment requires presenting an analysis of components of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements The Group discloses the analysis in note 28

Other amendments resulting from improvements to the following standards and interpretations did not have an impact on the accounting policies, financial position or performance of the Group
- IFRS 3 *Business combinations*
- IFRS 7 *Financial instruments disclosures*
- IAS 27 *Consolidated and separate financial statements*
- IFRIC 13 *Customer loyalty programmes*

Notes to the Consolidated Financial Statements 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 1 Financial statement presentation – presentation of items of other comprehensive income
The amended standard was issued in June 2011 and becomes effective for financial years beginning on or after 1 July 2012 The amendment requires to group items in other comprehensive income based on whether they will be potentially reclassifiable to profit or loss at a future point of time or whether they will never be reclassified The Group does not intend to take advantage of the possibility of an early adoption and will evaluate the impact of the new disclosure requirement

IAS 12 Income taxes – recovery of underlying assets
The amendment to IAS 12 in respect of the deferred taxes investment property measured at fair value The amendment replaces the current requirement of IAS 12 to determine the expected manner in which an asset's carrying amount would be recovered with a rebuttable presumption that the carrying amount would be recovered entirely through sale This amendment was issued in December 2010 and is effective for annual periods beginning on or after 1 January 2012 This amendment will have no impact on the Group's financial position and performance

IAS 19 Employee benefits
The most fundamental change of the numerous amendments made to IAS 19 is the removal of the so-called 'corridor-approach' requiring to recognise all actuarial gains and losses from the remeasurement of the defined benefit obligation and the fair values of the plan assets in other comprehensive income in the current period This amendment will affect the Group's financial position and performance as well as the presentation of the defined benefit obligation The Group does not intend to take advantage of the possibility of an early adoption of the numerous amendments made to IAS 19 that becomes effective for annual periods beginning on or after 1 January 2013 The removal of the 'corridor-approach' under the amended standard will result in the recognition of unrecognised actuarial losses and past service costs totalling to US$51,815 thousand as defined pension obligation in the financial year 2012 (comparative period)

IFRS 7 Financial instruments disclosures – enhanced derecognition disclosure requirements
The amendment to IFRS 7 was issued in October 2010 and requires the disclosure of information that enables the users of the financial statements to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities as well as to evaluate the nature of associated risks and continuing involvement in the derecognised financial assets The amendment becomes effective for annual periods beginning on or after 1 July 2011

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 the first half of 2012

IFRS 10 Consolidated financial statements
The new standard provides additional guidance to assist in the determination of which entities are controlled and are required to be consolidated This standard replaces the portion of IAS 27 Consolidated and separate financial statements that addresses the accounting for consolidated financial statements The standard becomes effective for annual periods beginning on or after 1 January 2013 and the Group does not intend to take advantage of the possibility of an early adoption The impact on the accounting for its associated company TIS Ruda will be assessed

IFRS 11 Joint arrangements
The new standard replaces IAS 31 Interests in joint ventures and SIC 13 Jointly-controlled entities – non-monetary contributions by venturers and becomes effective for annual periods beginning on or after 1 January 2013 The standard defines contractually agreed sharing of control of an arrangement and the accounting for joint operations and joint ventures The Group does not intend to take advantage of the possibility of an early adoption and will review its arrangements in place in order to evaluate the potential impact

IFRS 12 Disclosure of involvement with other entities
The new standard covers the disclosures that were previously required in consolidated financial statements under IAS 27 Consolidated and separate financial statements as well as those included in IAS 31 Interests in joint ventures and IAS 28 Investments in associates The Group does not intend to take advantage of the possibility of an early adoption, but expects that a number of additional disclosures will be required under the new standard

IFRS 13 Fair value measurement
The new standard becomes effective for annual periods beginning on or after 1 January 2013 and provides guidance on how to measure fair value under IFRS and when fair value is required or permitted The Group does not intend to take advantage of the possibility of an early adoption and is currently assessing the impact of the new standard on its financial position and performance

Note 3: New accounting policies continued

IFRIC 20 Stripping costs in the production phase of a surface mine

The new interpretation covers the accounting for the necessary removal of mine waste materials in order to gain access to the mineral ore deposit during the production phase of a mine The interpretation provides guidance on the accounting and separation of the costs of stripping activities resulting in the production of inventory in the current period or improved access to further mineral ore deposits that will be mined in future periods The new interpretation applies to annual periods beginning on or after 1 January 2013 The Group does not intend to take advantage of the possibility of an early adoption and is currently assessing the impact of the new standard on its financial position and performance

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$924,690 thousand as of 31 December 2011 (2010 US$647,137 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 gain 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 2011, the carrying amount of capitalised pre-production stripping costs was US$151,393 thousand (2010 US$61,243 thousand)

Impairment testing of goodwill and intangible assets

As outlined in note 19 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$98,453 thousand as of 31 December 2011 (2010 US$98,747 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 37

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 2011, the carrying amount of defined benefit pension liability was US$13,329 thousand (2010 US$17,819 thousand)

Notes to the Consolidated Financial Statements continued

Note 4 Use of estimates continued

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 2011, the carrying amount of the provision for site restoration amounted to US$3,016 thousand (2010 US$2,746 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 2011, the Group's consolidated financial statements showed deferred tax assets of US$23,426 thousand (2010 US$13,495 thousand) and deferred tax liabilities of US$2,232 thousand (2010 US$2,432 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 While the revenue generated by the Group is analysed, there are no separate measures of profit reported to the Group's Chief Operating Decision-Maker ('CODM') 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 management monitors the operating result of the Group based on a number of measures including EBITDA, 'C1' costs and the net financial indebtedness

EBITDA

The Group presents EBITDA because it believes that EBITDA is a useful measure for evaluating its ability to generate cash and its operating performance The Group's full definition of EBITDA is disclosed in the Glossary on page 129

US$000	Notes	**Year ended 31 12 11**	Year ended 31 12 10
Profit before tax and finance		**758,528**	542,225
Under recovery of VAT receivable	26	**–**	10,936
Write-offs and impairment losses	13	**478**	1,618
Losses on disposal of property, plant and equipment		**46**	1,305
Initial public offering costs		**–**	55
Share-based payments	38	**891**	1,366
Gain on bargain purchase	40	**–**	(2,623)
Depreciation and amortisation		**41,003**	30,415
EBITDA		**800,946**	585,297

Note 5 Segment information continued

'C1' costs

'C1' costs represents 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

US$000	Year ended 31 12 11	Year ended 31 12 10
Cost of sales – pellet production	**600,790**	481 857
Depreciation and amortisation	**(28,639)**	(24,662)
Purchased concentrate and other items for resale	**(102,908)**	(101,351)
Processing costs for purchased concentrate	**(7,873)**	(11,042)
Production cost of gravel	**(572)**	(88)
Inventory movements	**481**	18,608
Pension service costs	**5,334**	(2 049)
Other	**(7,099)**	(2,754)
C1 cost	**459,514**	358,519
Own ore produced (tonnes)	**9,063,398**	9 033 000
C1 cash cost per tonne (US$)	**50 70**	39 69

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 11	Year ended 31 12 10
Cash and cash equivalents	27	**890,154**	319,470
Current borrowings	29	**(18,948)**	(22 563)
Non-current borrowings	29	**(951,430)**	(401,290)
Net financial indebtedness		**(80,224)**	(104,384)

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 2011 consisted of the following

S$000	Year ended 31 12 11	Year ended 31 12 10
Revenue from sales of iron ore pellets and concentrate		
Export	**1,699,154**	1,288,665
Ukraine	**742**	453
Total revenue from sale of iron ore pellets and concentrate	**1,699,896**	1,289,118
Revenue from logistics and bunker business	**73,276**	–
Revenue from services provided	**4,092**	674
Revenue from other sales	**10,748**	5,108
Total revenue	**1,788,012**	1,294,900

Notes to the Consolidated Financial Statements continued

Note 6 Revenue continued
Export sales of iron ore pellets and concentrate by geographical destination were as follows

US$000	Year ended 31 12 11	Year ended 31 12 10
China	**569,924**	320,572
Austria	**453,586**	405,511
Serbia	**158,687**	156,806
Slovakia	**121,041**	143,478
Czech Republic	**119,793**	99 235
Japan	**88,875**	45,318
Turkey	**83,722**	62,166
India	**47,119**	14,153
Germany	**28,898**	24,833
Hungary	**27,509**	16,575
Other	**–**	18
Total exports	**1,699,154**	1,288,665

During the year ended 31 December 2011 sales made to three customers accounted for approximately 50 2% of the sales revenue (2010 62 5%)

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

US$000	Year ended 31 12 11	Year ended 31 12 10
Customer A	**453,586**	405 511
Customer B	**279,728**	300 284

Note 7 Cost of sales
Cost of sales for the year ended 31 December 2011 consisted of the following

US$000	Year ended 31 12 11	Year ended 31 12 10
Materials	**75,246**	67 661
Purchased ore and concentrate	**102,908**	101,351
Electricity	**121,364**	101,528
Personnel costs	**51,677**	47,930
Spare parts and consumables	**20,968**	16,616
Depreciation and amortisation	**28,639**	24,662
Fuel	**47,343**	31 299
Gas	**63,485**	48,236
Repairs and maintenance	**63,801**	45 230
Royalties and levies	**10,437**	8,489
Cost of sales from logistics business	**23,363**	–
Bunker fuel	**25,391**	–
Inventory movements	**(481)**	(18,608)
Other	**15,403**	7,463
Total cost of sales	**649,544**	481,857

S$000	Year ended 31 12 11	Year ended 31 12 10
Cost of sales – pellet production	**600,790**	481,857
Cost of sales – logistics and bunker business	**48,754**	–
Total cost of sales	**649,544**	481,857

Note 8 Selling and distribution expenses

Selling and distribution expenses for the year ended 31 December 2011 consisted of the following

US$000	Year ended 31 12 11	Yea ended 31 12 10
International freight for pellets	**119,572**	74,885
Railway transportation	**89,185**	81,451
Port charges	**37,724**	31,339
Other pellet transportation costs	**13,453**	11,892
Costs of logistics business	**36,671**	–
Gravel delivery costs	**1,783**	1,816
Advertising	**6,911**	3,472
Depreciation	**8,231**	1,757
Other	**4,421**	4,494
Total selling and distribution expenses	**317,951**	212,006

Note 9· General and administrative expenses

General and administrative expenses for the year ended 31 December 2011 consisted of the following

US$000	Year ended 31 12 11	Year ended 31 12 10
Personnel costs	**26,912**	26,362
Buildings and maintenance	**2,182**	2,475
Taxes other than income tax and other charges	**1,480**	1,581
Professional fees	**7,799**	4,840
Depreciation and amortisation	**3,968**	3 867
Communication	**1,149**	899
Vehicles maintenance and fuel	**1,553**	1,222
Repairs	**1,365**	815
Audit fees	**1,445**	1,094
Non-audit fees	**510**	1,395
Security	**1,859**	1,613
Other	**1,747**	3,012
Total general and administrative expenses	**51,969**	49,175

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 11	Year ended 31 12 10
Audit services		
Ferrexpo plc Annual Report	**741**	680
Subsidiary entities[1]	**704**	414
Total audit services	**1,445**	1,094
Non-audit services		
Tax advisory	**139**	80
Assurance related services	**117**	102
Other services[2]	**254**	1,213
Total non-audit services	**510**	1,395
Total auditor remuneration	**1,955**	2,489

1 The prior year balance does not include the agreed fees for audit services in relation to Helogistics 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 40 for further details

2 Other services for the year ended 31 December 2010 include fees paid for due diligence services and assurance services related to raising new debts for the Group

Notes to the Consolidated Financial Statements continued

Note 10: Other income
Other income for the year ended 31 December 2011 consisted of the following

US$000	Year ended 31 12 11	Year ended 31 12 10
Sale of surplus maintenance spares	**2,334**	2,909
Lease income	**1,597**	762
Other income	**3,012**	844
Total other income	**6,943**	4,515

Note 11: Other expenses
Other expenses for the year ended 31 December 2011 consisted of the following

US$000	Year ended 31 12 11	Year ended 31 12 10
Community support donations	**12,393**	4,418
Movements in allowance for doubtful receivables	**(2,406)**	(3,685)
Research	**362**	658
Other personnel costs	**1,962**	1,551
Other	**4,780**	2,996
Total other expenses	**17,091**	5,938

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 financial years 2010 and 2011 the recorded allowance has been partially released in both reporting periods

Note 12 Foreign exchange gains and losses
Foreign exchange gains and losses for the year ended 31 December 2011 consisted of the following

US$000	Year ended 31 12 11	Year ended 31 12 10
Operating foreign exchange losses		
Revaluation of trade receivables	**252**	222
Revaluation of trade payables	**(1,612)**	(1,300)
Total operating foreign exchange losses	**(1,360)**	(1,078)
Non-operating foreign exchange losses		
Revaluation of interest-bearing loans	**(102)**	258
Revaluation of cash and cash equivalents	**605**	(767)
Other	**(2,437)**	(3,379)
Total non-operating foreign exchange losses	**(1,934)**	(3,888)

Other non-operating foreign exchange losses 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 2011 consisted of the following

US$000	Notes	Year ended 31 12 11	Year ended 31 12 10
Write off/(reversal) of inventories		**105**	(254)
Write-off/(reversal) of property, plant and equipment		**175**	(251)
Impairment of available-for-sale financial assets	20	**198**	2 123
Total write-offs and impairment losses		**478**	1 618

Note 14 Investments in associates
As at 31 December 2011 investments in associates comprised

	Principal activity	Country of incorporation	Ownership %	**As at 31 12 11 US$000**	As at 31 12 10 US$000
TIS Ruda	Port development	Ukraine	48 6	**19,186**	21,132

For the year ended 31 December 2011 the summarised financial information for the associate was as follows

	Total assets		Total liabilities		Revenue		Net profit	
US$000	**As at 31 12 11**	As at 31 12 10	**As at 31 12 11**	As at 31 12 10	**Year ended 31 12 11**	Year ended 31 12 10	**Year ended 31 12 11**	Year ended 31 12 10
TIS Ruda	**25,993**	26,648	**4,936**	1,840	**22,205**	18,486	**4,032**	8 326

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$2,012 thousand in TIS Ruda (2010 US$4,155 thousand) TIS Ruda paid a dividend amounting to US$2,207 thousand during the financial year 2011 (2010 US$2,931 thousand) to the Group

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

Note 15 Finance income and expense
Finance income and expenses for the year ended 31 December 2011 consisted of the following

US$000	**Year ended 31 12 11**	Year ended 31 12 10
Finance income		
Interest income	**2,505**	1,357
Other finance revenue	**6**	–
Total finance income	**2,511**	1,357
Finance expense		
Interest expense on financial liabilities measured at amortised cost	**(46,376)**	(24,509)
Interest on defined benefit plans	**(5,765)**	(3,416)
Bank charges	**(14,885)**	(12,694)
Other finance costs	**(1,179)**	(949)
Total finance expenses	**(68,205)**	(41,568)
Net finance expense	**(65,694)**	(40 211)

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

Note 16 Income tax expense
The income tax expense for the year ended 31 December 2011 consisted of the following

US$000	**Year ended 31 12 11**	Year ended 31 12 10
Current income tax		
Current income tax charge	**125,689**	73,700
Amounts under provided in previous years	**150**	270
Total current income tax	**125,839**	73,970
Deferred income tax		
Origination and reversal of temporary differences	**(10,788)**	(4 494)
Effect from changes in tax laws and rates	**913**	3,526
Total deferred income tax	**(9,875)**	(968)
Total income tax expense	**115,964**	73,002

Notes to the Consolidated Financial Statements continued

Note 16 Income tax expense continued
Other comprehensive income contained taxes on the following items charged or credited to it for the year ended 31 December 2011

US$000	Year ended 31 12 11	Year ended 31 12 10
Exchange differences arising on hedging of foreign operations	**(153)**	27
Net losses/(gains) on available-for-sale investments	**(437)**	465
Total income taxes charged to other comprehensive income	**(590)**	492

A breakdown of the deferred tax balances is contained in note 22

The effective income tax rate differs from the corporate income tax rates The weighted average statutory rate was 15 3% for 2011 (2010 13 1%) 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 16 8% (2010 14 7%)

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 2011 is as follows

US$000	Year ended 31 12 11	Year ended 31 12 10
Profit before tax	**690,900**	498,126
Notional tax computed at the weighted average statutory tax rate of 15 3% (2010 13 1%)	**105,531**	65 254
Derecognition of deferred tax asset	**(30)**	(902)
Effect from difference in local tax rates	**722**	3 526
Effect from utilisation of non-recognised deferred tax assets	**(781)**	(274)
Effect from capitalised tax loss carry forwards	**(63)**	(293)
Expenses not deductible for tax purposes	**9,186**	7,338
Tax exempted income	**(912)**	(623)
Non-recognition of deferred taxes on current year losses	**2,284**	555
Effect from change in permanent differences	**–**	(2 079)
Tax related to prior years	**150**	270
Other	**(123)**	230
Total income tax expense	**115,964**	73,002

Note 17 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 11	Year ended 31 12 10
Profit for the year attributable to equity shareholders		
Basic earnings per share (US cents)	**97 09**	72 34
Diluted earnings per share (US cents)	**96 97**	72 24
Underlying earnings for the year		
Basic earnings per share (US cents)	**97 47**	72 98
Diluted earnings per share (US cents)	**97 35**	72 91

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

Thousand	Year ended 31 12 11	Year ended 31 12 10
Weighted average number of shares		
Basic number of Ordinary Shares outstanding	**584,811**	584 568
Effect of dilutive potential Ordinary Shares	**730**	854
Diluted number of Ordinary Shares outstanding	**585,541**	585,422

Note 17 Earnings per share and dividends paid and proposed continued

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 28)

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 11	Year ended 31 12 10
Profit attributable to equity holders		**567,822**	422 906
Write-offs and impairment losses	13	**478**	1,618
IPO costs		**-**	55
Gain on bargain purchase	40	**-**	(2 623)
Losses on disposal of property plant and equipment		**46**	1,305
Non-operating foreign exchange losses	12	**1,934**	3,888
Tax on adjusted items		**(282)**	(346)
Underlying earnings		**569,998**	426 803

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 11
Dividends proposed	
Final dividend for 2011 3 3 US cents per Ordinary Share	**19,301**
Total dividends proposed	**19,301**
Dividends paid during the period	
Interim dividend for 2011 3 3 US cents per Ordinary Share	**19,301**
Final dividend for 2010 3 3 US cents per Ordinary Share	**19,362**
Total dividends paid	**38,663**

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

Notes to the Consolidated Financial Statements continued

Note 18 Property, plant and equipment
As at 31 December 2011 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 2010	**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	165,775
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**
Additions	3,329	65	18	227	64	584	164	330,215	334,666
Acquisition of subsidiaries	–	–	10	164	4	58	3	–	239
Transfers	1 408	682	27 215	9 579	57 000	69 494	1,468	(166,846)	–
Disposals	–	–	(611)	(686)	(1,911)	(1,813)	(44)	(731)	(5,796)
Translation differences	(11)	(69)	(538)	(1,535)	(783)	(600)	(12)	(530)	(4,078)
At 31 December 2011	**7,860**	**20,346**	**177,538**	**69,612**	**276,058**	**238,210**	**5,325**	**339,091**	**1,134,040**
Depreciation									
At 1 January 2010	–	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**
Depreciation charge	3	373	8,575	4,240	21,442	16 035	975	–	51,643
Disposals	(3)	–	(344)	–	(1 729)	(1 650)	(39)	–	(3,765)
Transfers	–	–	293	–	(168)	(21)	(104)	–	–
Impairment	–	–	186	–		–	–	(11)	175
Translation differences	–	(4)	(112)	–	(334)	(120)	(5)	–	(575)
At 31 December 2011	**–**	**1,506**	**38,535**	**4,240**	**113,864**	**48,504**	**2,671**	**30**	**209,350**
Net book value at									
31 December 2010	3 134	18,531	121 507	61,863	127 031	136,227	1,902	176,942	647 137
31 December 2011	**7,860**	**18,840**	**139,003**	**65,372**	**162,194**	**189,706**	**2,654**	**339,061**	**924,690**

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 2011 was US$7,792 thousand (2010 US$27,457 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$128,624 thousand (2010 US$88,498 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$39,781 thousand (2010 US$38,847 thousand)

Note 19 Goodwill and other intangible assets
As at 31 December 2011 goodwill and other intangible assets comprised

US$000	Goodwill	Other intangible assets	Total
Cost			
At 1 January 2010	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**
Effect from PPA adjustments	–	(398)	(398)
At 1 January 2011	**98,747**	**4,527**	**103,274**
Additions	**–**	**2,205**	**2,205**
Acquisition of subsidiaries	**56**	**–**	**56**
Disposals	**–**	**(37)**	**(37)**
Translation differences	**(350)**	**(41)**	**(391)**
At 31 December 2011	**98,453**	**6,654**	**105,107**
Accumulated amortisation and impairment			
At 1 January 2010	–	815	815
Amortisation charge	–	203	203
Disposals	–	(63)	(63)
Translation differences	–	2	2
At 31 December 2010	**–**	**957**	**957**
Amortisation charge	**–**	**931**	**931**
Disposals	**–**	**(19)**	**(19)**
Translation differences	**–**	**(2)**	**(2)**
At 31 December 2011	**–**	**1,867**	**1,867**
Net book value at			
31 December 2010	98,747	3 968	102,317
31 December 2011	**98,453**	**4,787**	**103,240**

The goodwill acquired through business combinations in previous periods has been allocated for impairment purposes to one cash-generating unit, as the Group only has 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 Helogistics Holding GmbH and its subsidiaries This resulted in a gain on bargain purchase of US$2,623 thousand recognised in the income statement and not affecting the balance of capitalised goodwill as of 31 December 2010 Further details on the business combination are given in note 40

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 2011 based on a value-in-use calculation using cash flow projections over the remaining estimated life of the mine (26 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 2011 comprises purchased software

Notes to the Consolidated Financial Statements continued

Note 19 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 longer-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 The assumptions for iron ore prices ranged from US$84 per tonne to US$153 per tonne of Fe 62% fines CFR North China (2010 US$84 per tonne to US$134 per tonne)

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% (2010 10%) 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 20 Available-for-sale financial assets
As at 31 December 2011 available-for-sale financial assets comprised

	Ownership		Carrying value	
US$000	**As at 31 12 11**	As at 31 12 10	**As at 31 12 11**	As at 31 12 10
Non-current				
Investments available-for-sale – equity instruments				
OJSC Stahanov	**3 14%**	3 14%	**860**	2,728
Vostock Ruda	**1 10%**	1 10%	**430**	628
LLC Atol	**9 95%**	9 95%	**–**	–
CJSC AMA	**9 00%**	9 00%	**–**	–
CJSC Amtek	**9 00%**	9 00%	**–**	–
Total non-current			**1,290**	3,356

All investments relate to companies incorporated in Ukraine

Note 20 Available-for-sale financial assets continued
Impairment testing
Ferrexpo Petroleum
The unquoted equity investments 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, were fully impaired during previous financial years based on a discounted cash flow projection 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

There are no indications at 31 December 2011 that require a reversal of any impairment losses booked in previous periods

OJSC Stahanov
The value of OJSC Stahanov decreased due to a lower quoted market price for its shares on the Ukrainian stock exchange ('PFTS') as of 31 December 2011 The decrease of the fair value in the amount of US$1,868 thousand (2010 increase of US$1,915 thousand) has been recorded against the net unrealised gains reserve

Further details regarding available-for-sale investments can be found in note 13 (write-offs and impairment losses) as well as note 34 (related party transactions)

Note 21: Other non-current assets
As at 31 December 2011 other non-current assets comprised

US$000	As at 31 12 11	As at 31 12 10
Prepayments for property, plant and equipment	**86,331**	23,173
Loan provided to associate	**-**	1 000
Other non-current assets	**7,027**	593
Total other non-current assets	**93,358**	24,767

Notes to the Consolidated Financial Statements continued

Note 22 Deferred income tax

Deferred income tax assets and liabilities at 31 December 2011 relate to the following

US$000	Consolidated statement of financial position As at 31 12 11	Consolidated statement of financial position As at 31 12 10	Consolidated income statement Year ended 31 12 11	Consolidated income statement Year ended 31 12 10
Trade and other receivables	**73**	4 106	**(4,019)**	1,480
Inventories	**306**	–	**306**	(96)
Accrued income and prepaid expenses	**–**	294	**(293)**	–
Property, plant and equipment	**17,194**	9,789	**7,443**	640
IPO costs netted against share premium	**227**	726	**(499)**	(499)
Tax losses recognised	**2,022**	2,221	**(206)**	293
Other financial assets	**19**	2	**18**	(104)
Trade and other payables	**1**	29	**(29)**	(48)
Accrued expenses	**1,485**	2,004	**(511)**	45
Defined benefit pension liability	**2,256**	2,666	**(400)**	(944)
Provision for site restoration	**458**	411	**49**	112
Other financial liabilities	**10**	81	**(70)**	(55)
Other items	**1**	7	**(7)**	–
Total deferred tax assets	**24,052**	22 337	**1,782**	824
Thereof netted against deferred tax liabilities	**(626)**	(8,842)		
Total deferred tax assets as per the statement of financial position	**23,426**	13,495		
Trade and other receivable	**(1,127)**	(1 490)	**43**	(992)
Inventories	**–**	(3,952)	**3,962**	(1,424)
Accrued income and prepaid expenses	**(218)**	(3 111)	**2,896**	(628)
Property plant and equipment	**(944)**	(2,479)	**1,524**	(224)
Intangible assets	**–**	(112)	**111**	266
Other non-current assets	**–**	(49)	**48**	101
Other financial assets	**(256)**	–	**(256)**	
Employee benefit trust	**(305)**	(49)	**(259)**	3,045
Trade and other payables	**–**	(29)	**27**	–
Lease obligations	**(8)**	(3)	**(3)**	–
Total deferred tax liabilities	**(2,858)**	(11 274)	**8,093**	144
Thereof netted against deferred tax assets	**626**	8,842		
Total deferred tax liabilities as per the statement of financial position	**(2,232)**	(2,432)		
Net deferred tax assets/net change	**21,194**	11,063	**9,875**	968

The movement in the deferred income tax balance is as follows

US$000	Year ended 31 12 11	Year ended 31 12 10
Opening balance	**11,063**	9 934
Income statement credit	**9,875**	968
Charges booked outside of profit or loss	**590**	(492)
Acquisition of subsidiaries	**–**	282
Foreign currency exchange rate adjustment	**(334)**	371
Closing balance	**21,194**	11,063

As at 31 December 2011, the Group had deductible temporary differences on available tax loss carry forwards in the amount of US$82,453 thousand (2010 US$103,800 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 on 31 December 2010 Tax loss carry forwards in both tax jurisdictions do not expire

Temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised amount to US$582,370 thousand (2010 US$522,876 thousand)

Note 23 Inventories

As at 31 December 2011 inventories comprised

US$000	As at 31 12 11	As at 31 12 10
Raw materials and consumables	**78,111**	70 440
Finished ore pellets	**24,022**	23,668
Work in progress	**11,280**	8,461
Other	**4,063**	2 580
Provision for slow-moving and obsolete inventory items	**(430)**	(322)
Total inventories	**117,046**	104,827

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

Note 24: Trade and other receivables

At 31 December 2011 trade and other receivables comprised

US$000	As at 31 12 11	As at 31 12 10
Trade receivables	**126,715**	114,923
Other receivables	**3,674**	848
Allowance for doubtful receivables	**(1,484)**	(3 881)
Total trade and other receivables	**128,905**	111,890

Trade receivables at 31 December 2011 includes US$3,249 thousand (2010 US$732 thousand) owed by related parties The detailed related party disclosures are made in note 34

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

US$000	Year ended 31 12 11	Year ended 31 12 10
Opening balance	**3,881**	6,455
Recognition	**329**	146
Reversal	**(2,735)**	(3 831)
Acquisition of subsidiaries	**–**	1,046
Foreign currency translation	**9**	65
Closing balance	**1,484**	3,881

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 11				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	**126,715**	**1,218**	**111,285**	**11,268**	**1,337**	**1,607**
Other receivables	**3,674**	**266**	**2,250**	**36**	**27**	**1,095**

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

The Group's exposures to credit and currency risks are disclosed in note 37

Notes to the Consolidated Financial Statements continued

Note 25 Prepayments and other current assets

As at 31 December 2011 prepayments and other current assets comprised

US$000	As at 31 12 11	As at 31 12 10
Prepayments to suppliers		
Electricity and gas	**5,972**	5,348
Materials and spare parts	**4,833**	2,606
Services	**2,594**	1,569
Other prepayments	**59**	946
Accrued income	**7,660**	8 337
Other	**1,602**	116
Total prepayments and other current assets	**22,720**	18,922

Note 26 Taxes payable, recoverable and prepaid

The income tax payable balance as of 31 December 2011 is shown below

US$000	As at 31 12 11	As at 31 12 10
Opening balance	**(41,776)**	(1,364)
Income statement charge	**(125,839)**	(73,970)
Tax paid	**132,176**	37 827
Acquisition of subsidiaries	**-**	(81)
Foreign exchange adjustment	**(851)**	(4 188)
Closing balance	**(36,290)**	(41,776)

Split by

US$000	As at 31 12 11	As at 31 12 10
Income tax receivable balance	**384**	35
Income tax payable balance	**(36,674)**	(41,811)
Income tax payable at the year end	**(36,290)**	(41,776)

As at 31 December 2011 taxes recoverable and prepaid comprised

US$000	As at 31 12 11	As at 31 12 10
VAT receivable	**172,434**	102,860
Other taxes prepaid	**517**	1 964
Total taxes recoverable and prepaid	**172,951**	104,824

A VAT receivable results from VAT paid on domestic purchases of goods and services and on the import of equipment and services into Ukraine, to the extent that this cannot be offset with VAT on domestic sales

During the financial year 2011, FPM received VAT refunds in respect of 2010 and 2011 amounting to US$93 983 thousand

Following tax audits during the year, VAT receivables of US$26,033 thousand from May, June and July 2011 were disputed by tax authorities FPM has challenged these amounts in the court and has won in the first instance in respect to May amounts The June and July amounts are currently subject to ongoing proceedings and a positive result is expected shortly

As a result of high capital expenditure during the year, and the case noted above, the Ukrainian VAT receivable balance has increased by US$70,751 thousand to US$172,434 thousand as of 31 December 2011 Management expects this amount to be recovered within one year through cash repayments, or for the amount outstanding to be offset against corporate profit tax payable or through a combination of the above options

Further information on the Ukrainian VAT situation is provided in the risk section on page 36

Note 26 Taxes payable, recoverable and prepaid continued
As at 31 December 2011 other taxes payable comprised

US$000	As at 31 12 11	As at 31 12 10
Withholding tax	**530**	415
Environmental tax	**2,373**	1,045
Source tax	**42**	-
VAT payable	**-**	4,250
Other taxes	**5,132**	8,213
Total taxes payable	**8,077**	13,923

Note 27 Cash and cash equivalents
As at 31 December 2011 cash and cash equivalents comprised

US$000	Year ended 31 12 11	Year ended 31 12 10
Cash at bank and on hand	**799,361**	251,572
Restricted cash	**-**	37,768
Short-term deposits	**90,787**	30,123
Marketable securities	**6**	7
Total cash and cash equivalents	**890,154**	319,470

The balance of cash and cash equivalents as at the end of the previous financial year consisted of restricted cash of US$37,768 thousand The restricted cash was released subsequent to the year end, following the payment of the net proceeds in relations to the acquisition of Helogistics

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 37

Note 28 Share capital and reserves

	US$000	Number of shares
Balance at 31 December 2011 and 2010	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 2011 was 613,967,956 Ordinary Shares (2010 613,967,956) at a par value of £0 10 paid for in cash, resulting in share capital of US$121,628 thousand (2010 US$121,628 thousand) per the statement of financial position

The closing balance as of 31 December 2011 and 2010 includes 25,343,814 shares which are held in treasury and 3,744,658 shares held in the employee benefit trust reserve (2010 4,019,759 shares)

Notes to the Consolidated Financial Statements continued

Note 28 Share capital and reserves continued

As at 31 December 2011 other reserves attributable to equity shareholders of Ferrexpo plc comprised

US$000	Uniting of interest reserve	Treasury share reserve	Employee benefit trust reserve	Net unrealised gains reserve	Translation reserve	Total other reserves
At 1 January 2010	31,780	(77,260)	(11,593)	1 114	(291,899)	(347,858)
Foreign currency translation differences	–	–	–	–	643	643
Gains on available-for-sale investments	–	–	–	1,863	–	1,863
Tax effect	–	–	–	(462)	(27)	(489)
Total comprehensive income for the period	–	–	–	1 401	616	2,017
Share-based payments	–	–	1,421	–	–	1,421
At 31 December 2010	31,780	(77 260)	(10,172)	2,515	(291,283)	(344 420)
Foreign currency translation differences	–	–	–	–	(3,661)	(3,661)
Loss on available-for-sale investments	–	–	–	(1,868)	–	(1,868)
Tax effect	–	–	–	437	153	590
Total comprehensive income for the period	–	–	–	(1,431)	(3,508)	(4,939)
Share based payments	–	–	756	–	–	756
At 31 December 2011	**31,780**	**(77,260)**	**(9,416)**	**1,084**	**(294,791)**	**(348,603)**

Uniting of interest reserve

The uniting of interest reserve represents the difference between the initial investment by Ferrexpo AG in OJSC Ferrexpo Poltava Mining 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

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

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 Ukrainian Hryvnia) functional currency operations within the Group into US Dollars

Share premium

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

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)

Note 29 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 37

US$000	Notes	As at 31 12 11	As at 31 12 10
Current			
Other bank loans – secured	37	**8,231**	18,818
Commodity loans	37	**–**	495
Obligations under finance leases	37	**1,384**	2 832
Interest accrued	37	**9,333**	418
Total current interest-bearing loans and borrowings		**18,948**	22,563
Non-current			
Eurobond issued	37	**489,257**	–
Syndicated bank loans – secured	37	**420,000**	341,938
Other bank loans – secured	37	**37,955**	36,128
Commodity loans	37	**–**	1 898
Obligations under finance leases	37	**4,218**	21,326
Total non-current interest-bearing loans and borrowings		**951,430**	401,290
Total interest-bearing loans and borrowings		**970,378**	423,853

As at 31 December 2011 the Group has a syndicated US$420 million revolving pre-export finance facility in place and a US$500 million Eurobond

The revolving pre-export finance facility was drawn in full on 7 October 2011 (31 December 2010 fully drawn, in respect of the pre-export finance facility then existing) This finance facility is available for 60 months including a commitment amortisation over the final 24 months The maturity is 31 August 2016

The major bank debt facility as at 31 December 2011 was guaranteed and secured as follows

- Ferrexpo AG assigned the rights to revenue from certain sales contracts,
- OJSC Ferrexpo Poltava Mining assigned all of its rights of certain export contracts for the pellets sales to Ferrexpo AG, and
- the Group pledged a bank account of Ferrexpo AG into which all proceeds from the sale of certain iron ore pellet contracts are received

The unsecured US$500 million Eurobond was issued on 7 April 2011 and is due for repayment on 7 April 2016 The bond has a 7 875% coupon and interest is payable on a semi-annual basis

As at 31 December 2011, the Group has other committed credit lines amounting to US$50,000 thousand (31 December 2010 US$65,000 thousand) These are undrawn at 31 December 2011

Note 30 Trade and other payables

As at 31 December 2011 trade and other payables comprised

US$000	Notes	As at 31 12 11	As at 31 12 10
Materials and services		**31,033**	41,616
Payables for equipment		**4,401**	4 307
Dividends payable		**56**	31
Other	40	**7,158**	42,135
Total current trade and other payables		**42,648**	88,089

Trade and other payables at 31 December 2011 includes US$3,965 thousand (2010 US$3,243 thousand) due to related parties (see note 34) Included in the balance of other payables as of 31 December 2011 is a liability of US$37,768 thousand in relation to an acquisition made in December 2010 (see note 40)

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 37

Notes to the Consolidated Financial Statements continued

Note 31 Defined benefit pension liability

Ukrainian defined benefit plan

The Group makes defined contributions to the Ukrainian State Pension scheme at statutory rates based on gross salary payments for the employees of OJSC Ferrexpo Poltava Mining and LLC Ferrexpo Yeristovo GOK Such expenses are charged to the income statement in the period the related salaries are earned The Group has also 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 Costs relating to this plan are accrued using the projected unit credit method in respect of those employees entitled to such payments

Additionally, 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

All pension schemes in Ukraine are unfunded The defined benefit pension liabilities are calculated by an independent actuary applying accepted actuarial techniques

At 31 December 2011, this defined benefit plan covered 4,850 current employees (2010 4,786 people) There are 1,165 former employees currently in receipt of pensions (2010 1,193 people) During the financial year 2011, the local pension legislation changed and the pension schemes maintained by the Group in Ukraine were amended accordingly The eligibility conditions for the pension benefits (retirement age) are more restrictive than before and the calculation of the insured salary changed The latter resulted in a reduction of benefits for the employees and consequently the defined benefit pension obligation as of 31 December 2011

Swiss defined benefit plan

The employees of the Group's Swiss operation are covered under a collective 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 regulation 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 2011, this defined benefit plan covered 28 people (2010 20 people)

Austrian defined benefit plan

The Group has an unfunded retirement benefit obligation covering the Austrian employees of Helogistics All payments under the scheme are made by the employer as a lump sum in cases of retirement, occupational disability and death in service or redundancy The amount payable is dependent 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

At 31 December 2011, four current employees (2010 37 employees) are covered by this plan During the financial year 2011, a considerable number of employees covered by this plan were either made redundant or transferred to another subsidiary of the Group, so that the eligible amounts were paid out to these participants of the plan and the defined benefit pension obligation consequently decreased as of 31 December 2011 These events qualify as a curtailment under IAS 19, and the resulting effects were calculated and included in the benefit expense of the current year

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

	Year ended 31 12 11			Year ended 31 12 10		
	Swiss scheme	**Austrian scheme**	**Ukrainian scheme**	Swiss scheme	Austrian scheme	Ukrainian scheme
Discount rate	**2 40%**	**5 00%**	**11 00%**	2 40%	5 00%	11 00%
Retail price inflation	**1 00%**	**2 50%**	**7 00%**	1 50%	2 80%	7 00%
Expected future salary increase	**3 00%**	**2 50%**	**10 50%**	3 00%	2 50%	7 00%
Expected future benefit increase	**0 00%**	**0 00%**	**0 00%**	0 00%	0 00%	0 00%
Female life expectancy (years)	**86 0**	**n/a**	**74 5**	86 0	n/a	74 5
Male life expectancy (years)	**82.9**	**n/a**	**63 5**	82 9	n/a	63 5

Note 31 Defined benefit pension liability continued

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

US$000	Year ended 31 12 11 Swiss scheme	Austrian scheme	Ukrainian scheme	Total	Year ended 31 12 10 Swiss scheme	Austrian scheme	Ukrainian scheme	Total
Opening defined benefit obligation	**2,634**	**819**	**53,302**	**56,755**	2 234	–	23 880	26,114
Current service cost	**376**	**51**	**3,381**	**3,808**	565	–	1,291	1,856
Employee contribution	**144**	**–**	**–**	**144**	102	–	–	102
Interest cost	**68**	**40**	**5,657**	**5,765**	73	–	3,344	3 417
Contribution by plan participants	**288**	**–**	**–**	**288**	14	–	–	14
Benefits paid	**(203)**	**(1,347)**	**(3,746)**	**(5,296)**	(220)	–	(3,468)	(3,688)
Actuarial loss	**467**	**31**	**28,796**	**29,294**	(383)	–	28,282	27,899
Losses/(gains) on curtailment	**–**	**277**	**(3,760)**	**(3,483)**	–	–	–	–
Past service cost	**–**	**–**	**(19,962)**	**(19,962)**	–	–	–	–
Termination benefits	**–**	**271**	**–**	**271**	–	–	–	–
Acquisition of subsidiaries	**–**	**–**	**–**	**–**	–	819	–	819
Foreign exchange translation adjustment	**(81)**	**30**	**(216)**	**(267)**	249	–	(27)	222
Closing defined benefit obligation	**3,693**	**172**	**63,452**	**67,317**	2,634	819	53,302	56 755
Opening plan assets	**1,579**	**–**	**–**	**1,579**	1 375	–	–	1,375
Expected return on plan assets	**69**	**–**	**–**	**69**	45	–	–	45
Employer contribution	**450**	**–**	**–**	**450**	309	–	–	309
Employee contribution	**144**	**–**	**–**	**144**	102	–	–	102
Contribution by plan participants	**288**	**–**	**–**	**288**	14	–	–	14
Benefits paid	**(203)**	**–**	**–**	**(203**	(220)	–	–	(220)
Actuarial loss	**(109)**	**–**	**–**	**(109)**	(194)	–	–	(194)
Foreign exchange translation adjustment	**(45)**	**–**	**–**	**(45)**	148	–	–	148
Closing plan assets	**2,173**	**–**	**–**	**2,173**	1,579	–	–	1,579
Net funded status	**1,520**	**172**	**63,452**	**65,144**	1 055	819	53,202	55 176
Unrecognised actuarial losses	**(1,140)**	**(3)**	**(56,525)**	**(57,668)**	(584)	–	(34,046)	(34 630)
Unrecognised past service cost	**–**	**–**	**5,853**	**5,853**	–	–	(2 664)	(2,664)
Foreign exchange translation adjustment	**–**	**–**	**–**	**–**	(63)	–	–	(63)
Closing balance defined benefit pension liability	**380**	**169**	**12,780**	**13,329**	408	819	16,592	17,819
Benefit expense								
Current service cost	**376**	**51**	**3,381**	**3,808**	667	–	1,291	1,958
Interest cost	**68**	**40**	**5,657**	**5,765**	72	–	3 344	3,416
Amortisation of actuarial loss	**46**	**(1)**	**3,587**	**3,632**	68	–	496	564
Expected return on plan assets	**(69)**	**–**	**–**	**(69)**	(45)	–	–	(45)
Recognised past service cost	**–**	**–**	**(11,528)**	**(11,528)**	–	–	382	382
Employee contribution	**–**	**–**	**–**	**–**	(102)	–	–	(102)
Termination benefits	**–**	**271**	**–**	**271**	–	–	–	–
Losses/(gains) on curtailment	**–**	**306**	**(1,116)**	**(810)**	–	–	–	–
Current year benefit expense	**421**	**667**	**(19)**	**1,069**	660	–	5,513	6,173
Net movement on defined benefit pension liability								
Opening balance	**408**	**819**	**16,592**	**17,819**	18	–	14,511	14,529
Derecognition of liability	**–**	**–**	**–**	**–**	–	–	–	–
Benefits expense	**421**	**667**	**(19)**	**1,069**	660	–	5,514	6,174
Benefits paid	**–**	**(1,347)**	**(3,746)**	**(5,093)**	–	–	(3,468)	(3 468)
Employer contribution	**(450)**	**–**	**–**	**(450)**	(309)	–	–	(309)
Foreign exchange translation adjustment	**1**	**30**	**(47)**	**(16)**	39	–	35	75
Closing balance	**380**	**169**	**12,780**	**13,329**	408	819	16,592	17,819

Contributions to the defined benefit plans in 2012 are expected to be US$3,499 thousand

Notes to the Consolidated Financial Statements continued

Note 31 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 11 %	As at 31 12 11	As at 31 12 10 %	As at 31 12 10
Scheme assets at fair value				
Equities	**22 0**	**478**	21 5	339
Bonds	**43 4**	**943**	45 8	723
Properties	**10 4**	**226**	18 1	286
Other	**24 2**	**526**	14 6	231
Fair value of scheme assets	**100 0**	**2,173**	100 0	1,579

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 11 Swiss scheme	Year ended 31 12 10 Swiss scheme
Expected rate of return on plan assets		
Equities	**4 31%**	4 31%
Bonds	**2.50%**	2 50%
Properties	**2 35%**	2 35%
Other	**4 92%**	4 92%
Total	**3 06%**	3 06%
Actual rate of return on plan assets		
Equities	**(7 90%)**	0 91%
Bonds	**3.24%**	2 77%
Properties	**1 90%**	6 11%
Other	**(2 24%)**	4 72%
Total	**(0 74%)**	4 52%

The actual return on the plan assets for the Swiss scheme was a loss of US$40 thousand (2010 profit of US$63 thousand)

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

	Year ended 31 12 11					
	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	**(27)**	**–**	**(504)**	**27**	**–**	**566**
Effect on the defined benefit obligation	**(171)**	**(6)**	**(6,250)**	**182**	**4**	**(7,415)**

	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

Note 31 Defined benefit pension liability continued
The history of unrecognised actuarial losses is as follows for the current and previous four periods

	Year ended 31 12 11	Year ended 31 12 10	Year ended 31 12 09	Year ended 31 12 08	Year ended 31 12 07
Opening balance	**(34,630)**	(7,140)	(6,294)	(3,292)	(945)
Change of assumptions on plan liabilities	**(11,116)**	(13,600)	918	10 551	13,969
Experience adjustments on plan liabilities	**(18,178)**	(14,299)	(2 249)	(16,770)	(16,316)
Experience adjustments on plan assets	**(109)**	(194)	(230)	(84)	–
Recognised losses	**3,632**	564	476	62	–
Impact on curtailment	**2,576**	–	–	–	–
Foreign exchange translation adjustment	**157**	39	239	3,239	–
Closing balance	**(57,668)**	(34,630)	(7,140)	(6,294)	(3,292)

Note 32· 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 8 47% per year (2010 9 22%) 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 2011 is due to the extension of the expected useful lives of the mines

US$000	As at 31 12 11	As at 31 12 10
Opening balance	**2,746**	1,268
Unwind of the discount	**216**	133
Arising during the year	**65**	1 328
Translation adjustments	**(12)**	17
Closing balance	**3,015**	2,746

Note 33 Accrued liabilities and deferred income
As at 31 December 2011 accrued liabilities and deferred income comprised

US$000	As at 31 12 11	As at 31 12 10
Accrued expenses	**8,830**	8,041
Accrued employee costs	**20,836**	13,030
Advances from customers	**47**	801
Deferred income	**–**	1 302
Total accrued liabilities and deferred income	**29,713**	23,174

Note 34 Related party disclosure
During the periods presented the Group entered into arm's length transactions with entities under the common control of the majority owner of the Group, Kostyantin Zhevago, with associated companies 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 Associated companies relate to TIS Ruda LLC, in which the Group holds an interest of 48 6% This is the only associated company of the Group Other related parties are principally those entities controlled by Anatoly Trefilov and Olexander Moroz Anatoly Trefilov is a member of the supervisory board of OJSC Ferrexpo Poltava Mining whereas Olexander Moroz re-signed as supervisory board member as of 14 May 2010 All transactions taking place with the companies controlled by Olexander Moroz up to 31 May 2011, being within one year of his resignation from the supervisory board, are considered to be transactions with a related party for the financial year 2011

Notes to the Consolidated Financial Statements continued

Note 34 Related party disclosure continued
Related party transactions entered into by the Group during the periods presented are summarised in the following tables

Revenue, expenses, finance income and expenses

	Year ended 31 12 11			Year ended 31 12 10		
US$000	**Entities under common control**	**Associated companies**	**Other related parties**	Entities under common control	Associated companies	Other related parties
Other sales [a]	**6,718**	**–**	**1,783**	1 398	–	2,263
Total related party transactions within revenue	**6,718**	**–**	**1,783**	1 398	–	2,263
Materials [b]	**4,638**	**–**	**8,475**	4,232	–	14,946
Purchased concentrate and other items for resale [c]	**24,891**	**–**	**–**	104 367	–	–
Spare parts and consumables [d]	**4,726**	**–**	**256**	2,794	–	278
Fuel [e]	**7,980**	**–**	**–**	–	–	–
Gas [e]	**15,455**	**–**	**–**	14,432	–	–
Total related party transactions within cost of sales	**57,690**	**–**	**8,731**	125 825	–	15,224
Selling and distribution expenses [f]	**–**	**16,674**	**13,470**	–	7,411	18 496
General and administration expenses [g]	**7,767**	**–**	**15**	4,813	–	22
Total related party transactions within expenses	**65,457**	**16,674**	**22,216**	130,638	7,411	33,742
Finance income [h]	**899**	**9**	**–**	964	96	–
Finance expenses [h]	**(411)**	**–**	**–**	(443)	–	–
Net related party finance income	**488**	**9**	**–**	521	96	–

Entities under common control

The Group entered into various related party transactions with entities under common control A description of the material transactions all of which were carried out on an arm s length basis in the normal course of business for the members of the Group (see note 1) are listed below

a Tolling fees of US$2 622 thousand paid by Vostok Ruda Ltd to OJSC Ferrexpo Poltava Mining for the production of pellets (2010 nil) Sales of power steam and water and other materials to Kislorod PCC for US$2 128 thousand (2010 US$181 thousand)

b Purchases of compressed air and oxygen from Kislorod PCC for US$4 033 thousand (2010 US$3 667 thousand)

c Purchases of concentrate and other items for resale from Vostok Ruda Ltd in the amount of US$12 728 thousand (2010 US$11 700 thousand)

c Purchases of merchant concentrate from Vostok Ruda Ltd amounting to US$7 458 thousand (2010 US$92 667 thousand) Vostok Ruda Ltd earned fees on the purchase and resale for this concentrate amounting to US$10 thousand (2010 US$140 thousand) This covered costs incurred procuring and delivering third party merchant concentrate supplied

c Handling commissions to SIA Wellmark Latvia amounting to US$35 thousand (2010 US$69 thousand) for the purchase of goods

d Purchases of spare parts from Komsomolsk Cogeneration Company LLC in the amount of US$736 thousand (2010 nil)

d Purchases of spare parts from OJSC Berdichev Machine Building Plant Progress of US$1 017 thousand (2010 nil) and

d Purchases of spare parts from Valsa GTV of US$541 thousand (2010 US$553 thousand)

e Purchases of fuel for US$7 980 thousand (2010 nil) and gas of US$15 455 thousand (2010 US$14 432 thousand) from OJSC Ukrzakordongeologia

g Purchases from FC Vorskla for advertisement marketing and general public relation services for US$6 536 thousand (2010 US$3 313 thousand)

h Transactional banking services received from Bank Finance & Credit (Bank F&C) Finance income and expenses relate to these transactional banking services Further information is provided under transactional banking arrangements below

Associated companies

The Group entered into related party transactions with its Associated Company TIS Ruda LLC which were carried out on an arm s length basis in the normal course of business for the members of the Group (see note 1) These are described below

f Purchases of logistics services in the amount of US$16 674 thousand (2010 US$7 411 thousand) relating to port operations including port charges handling costs agent commissions and storage costs

Other related parties

The Group entered into various transactions with other related parties Descriptions of the material transactions are below

a Sales of scrap metal to Ferolit amounting to US$1 201 thousand (2010 US$2 193 thousand) and other sales of US$509 thousand (2010 US$30 thousand)

b Purchases of cast iron grinding bodies from Ferolit for US$8 475 thousand (2010 US$14 946 thousand)

f Purchases of logistics management services from Slavutich Ruda Ltd related to customs clearance services and the coordination of rail transit Total billings amounted to US$13 470 thousand (2010 US$18 294 thousand) Slavutich Ruda Ltd earned commission income of US$809 thousand on these services (2010 US$755 thousand)

g Purchases of legal services from Kuoni Attorneys at Law Ltd amounting to US$12 thousand as of 31 December 2011 (2010 US$119 thousand) No services were provided by Wolfram Kuoni directly All services were provided on an arm s length basis by other members of Kuoni Attorneys at Law Ltd

Note 34: Related party disclosure continued
Sale and purchases of property, plant, equipment and investments

US$000	Year ended 31 12 11 Entities under common control	Associated companies	Other related parties	Year ended 31 12 10 Entities under common control	Associated companies	Other related parties
Purchase of property, plant and equipment [i]	**14,655**	–	–	22 459	–	–

i During the financial year 2011 the Group entered into the following transactions with related parties that were not of a revenue nature but were in the normal course of business As such these transactions were subject to an independent confirmation that the terms are fair and reasonable in accordance with the requirements of the UK Listing Rules Additionally in the case of the transaction in respect of the purchase of up to 1 000 rail cars shareholder approval was obtained on 15 March 2011 The transactions subject to fairness opinion are listed below

- In December 2011 the Group purchased two dust filters from OJSC Berdichev Machine-Building Plant Progress for the pellet production plant amounting to US$438 thousand
- In November 2011 the Group entered into another agreement with OJSC DIOS for the procurement of engineering design services in the amount of US$739 thousand
- In September 2011 the Group purchased 12 dumper rail cars from OJSC Stahanov Rail Cars Plant in the amount of US$1 756 thousand
- In August 2011 design services in relation to the conversion of a vessel were provided by Zaliv Ship Design LLC in the amount of US$483 thousand
- In June 2011 project management services in the amount of US$105 thousand were procured from Vorskla Steel Ltd in connection with the construction of service facilities
- In May 2011 the Group entered into an agreement for the purchase of equipment for the crushing and beneficiation plants from CJSC Kiev Shipbuilding and Ship Repair Plant (KSRSSZ) in the amount of US$493 thousand Orders were also placed for three press-filters for US$8 991 thousand from OJSC Berdichev Machine-Building Plant Progress
- In April 2011 the Group entered into an agreement for engineering services to be provided by OJSC DIOS in the amount of US$1 650 thousand for the upgrade of the crushing and concentrating equipment
- The purchase of 400 rail cars with an option to purchase an additional 600 rail cars was approved by the general meeting of the shareholders on 15 March 2011 In March and April 2011 this authority was used to purchase 112 rail cars from OJSC Stahanov Rail Cars Plant amounting to US$7 950 thousand In October and December 2011 another 600 rail cars amounting to US$40 800 thousand were ordered from OJSC Stahanov Rail Cars Plant leaving a balance still to be purchased under this authority of 288 rail cars for up to US$34 560 thousand

Between August and December 2010 the Group purchased 300 rail cars from Trading House Wagonplant LLC in the amount of US$17 500 thousand and conducted drilling programmes by OJSC Donbasgeology at the Northern deposit of OJSC Ferrexpo Poltava Mining and at LLC Ferrexpo Belanovo GOK amounting to US$4 959 thousand

Balances with related parties
The outstanding balances, as a result of transactions with related parties, for the periods presented are shown in the table below

US$000	Year ended 31 12 11 Entities under common control	Associated companies	Other related parties	Year ended 31 12 10 Entities under common control	Associated companies	Other related parties
Investments available-for-sale [j]	**1,286**	–	–	3 353	–	–
Prepayments for property, plant and equipment [k]	**29,080**	–	–	182	–	–
Total non-current assets	**30,366**	–	–	3 535	–	–
Loans [l]	–	–	–	–	1,000	–
Trade and other receivables [m]	**1,262**	**1,981**	**6**	514	203	15
Prepayments and other current assets [n]	**414**	–	**279**	95	27	1
Cash and cash equivalents [o]	**94,933**	–	–	156,807	–	–
Total current assets	**96,609**	**1,981**	**285**	157 416	1 230	16
Trade and other payables [p]	**2,151**	**549**	**515**	1,563	12	1,668
Current liabilities	**2,151**	**549**	**515**	1,563	12	1,668

Entities under common control

j The balance of the investments available for sale comprised of shareholdings in OJSC Stahanov Rail Cars Plant (3 14%) and Vostok Ruda Ltd (1 10%) The ultimate beneficiary of these companies is Kostyantin Zhevago OJSC Stahanov Rail Cars Plant is further listed on the Ukrainian stock exchange The changes of the values in the table above are related to fair value adjustments recorded during the respective reporting periods 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 resulting in a full impairment of this investment Further information is provided in note 18

k Prepayments of US$28 705 thousand were made to OJSC Stahanov Rail Cars Plant in relation to the purchase of rail cars and US$302 thousand were made to DIOS (2010 nil) for engineering design services The prepaid rail cars will be delivered between January and May 2012

m As of 31 December 2011 trade and other receivables included outstanding amounts due from Vorskla Steel Ltd of US$828 thousand (2010 nil) in relation to other sales and US$349 thousand (2010 US$311 thousand) from Kislorod PCC for the sale of power steam and water

n Prepayments and other current assets relate mainly to advance payments of US$194 thousand to OJSC Berdichev Machine Building Plant Progress (2010 nil) and US$92 thousand to OJSC Uzhgorodsky Turbogas for spare parts The advance payments are in the normal course as requested by any third party suppliers in the Ukraine

o As of 31 December 2011 cash and cash equivalents with Bank F&C were US$94 933 thousand (2010 US$156 807 thousand) Further information is provided under transactional banking arrangements below

p Trade and other payables amounting to US$1 276 thousand are due to Vostok Ruda Ltd as of 31 December 2011 (2010 US$1 013 thousand) and related to purchased concentrate and US$535 thousand to compressed air and oxygen purchased from Kislorod PCC (2010 US$416 thousand)

Notes to the Consolidated Financial Statements continued

Note 34: Related party disclosure continued

Associated companies

l The remaining outstanding amount of the loans granted to TIS Ruda LLC in 2007 and 2008 was fully repaid in March 2011

m Other receivables consist a declared dividend due from TIS Ruda LLC in the amount of US$1 749 thousand (2010 nil)

Other related parties

p Trade and other payables amounting to US$515 thousand as of 31 December 2011 are in respect of distribution services provided by Slavutich Ruda Ltd (2010 US$373 thousand) US$1 291 thousand of the prior year balance of trade and other payables were related to purchased material from Ferolit

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 multicurrency 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$10,013 thousand at the exchange rate as of 31 December 2011) and the interest rates increased for Ukrainian Hryvnia advances from 16% to 18% per annum The total value of pledges for this loan facility is US$10,608 thousand (2010 US$11,266 thousand)

Bank F&C provides mortgages and loans to employees of the Group for the acquisition, construction and renovation of apartments in Ukraine This is part of a social loyalty programme started by the Group in December 2011 allowing the employees of the Group to receive borrowings at preferential interest rates OJSC Ferrexpo Poltava Mining acts as a guarantor for the bank's borrowings to the employees of the Group and thus deposited US$1,500 thousand at Bank F&C The interest rate margin earned by Bank F&C covers the costs to administer the mortgages and loans Detailed information on the social loyalty programme is provided in the Corporate Social Responsibility Review section of this Annual Report

Note 35 Employee benefits expenses

Employee benefits expenses for the year ended 31 December 2011 consisted of the following

US$000	**Year ended 31 12 11**	Year ended 31 12 10
Wages and salaries	**63,302**	53,774
Social security costs	**21,832**	17 037
Post-employment benefits	**(5,319)**	2 172
Other employee costs	**2,810**	2,186
Share-based payments	**891**	923
Total employee benefits expenses	**83,516**	76,092

Average number of employees was as follows

	Year ended 31 12 11	Year ended 31 12 10
Production	**6,829**	6 897
Marketing and distribution	**170**	174
Administration	**1,156**	1,119
Other	**966**	724
Total average number of employees	**9,121**	8,914

Compensation for key management was as follows

US$000	**Year ended 31 12 11**	Year ended 31 12 10
Wages and salaries	**6,229**	4,927
Social security costs	**611**	277
Other employee costs	**352**	361
Total compensation for key management	**7,192**	5,565

Share-based payments amounting to US$1,378 thousand (2010 nil) are included in wages and salaries

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

Note 36 Commitments, contingencies and legal disputes
Operating lease commitments – Group as lessee
Future minimum rentals payable under non-cancellable operating leases as at 31 December 2011 are as follows

US$000	**As at 31 12 11**	As at 31 12 10
Less than one year	**2,582**	2,128
Between one and five years	**6,135**	5,587
More than five years	**52,644**	45 813
Total minimum rentals payable	**61,361**	53,528

During the year ended 31 December 2011 US$2,037 thousand was recognised as an expense in the income statement in respect of operating leases (2010 US$1,076 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

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 11	
US$000	**Minimum payments**	**Present value of payments**
Less than one year	**1,924**	**1,384**
Between one and five years	**4,906**	**4,218**
More than five years	**–**	**–**
Total minimum lease payments	**6,830**	**5,602**
Less amounts representing finance charges	**(1,228)**	**–**
Present value of minimum lease payments	**5,602**	**5,602**

	As at 31 12 10	
US$000	Minimum payments	Present value of payments
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

Other

US$000	**As at 31 12 11**	As at 31 12 10
Capital commitments on purchase of property, plant and equipment	**137,029**	70,618

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

The Group is currently involved in a share dispute which commenced in 2005 and which was disclosed and as relevant updated in the Group's 2007 Annual Report and Accounts and subsequent IPO and Eurobond prospectuses

Notes to the Consolidated Financial Statements continued

Note 36 Commitments, contingencies and legal disputes continued
Legal continued
Relevant information and the current status of the dispute is stated below

In 2005, a former shareholder of OJSC Ferrexpo Poltava Mining ('FPM') initiated legal proceedings against certain nominee companies that were ultimately controlled by Kostyantin Zhevago in order to seek the invalidation of the agreement related to the sale of a 40 19% stake in FPM sold to these nominee companies in 2002 The case was considered several times by different courts in Ukraine A final decision in the proceedings was taken by the Supreme Commercial Court of Ukraine on 21 April 2010 in favour of the claimant so that the agreements on the sale of the FPM shares were recognized as invalid on the grounds of formal defects under Ukrainian law On 6 October 2011, the claimants filed a new court claim in Ukraine with the intention to invalidate the decision of the general shareholders meeting of FPM as taken place on 20 November 2002 and all subsequent shareholders meetings decisions in order to obtain restitution to the shareholding position as existed before the 20th November 2002 and to register the shares in their names On 22 November 2011, Ferrexpo AG filed a claim against the claimants at the High Court in London seeking a confirmation of ownership in FPM shares The claim was launched in order to take an active step outside the Ukraine to resolve this long-running dispute

The management of the Group, after having taken local legal advice assesses the risk related to this share dispute to be remote as the claim has no merits Neither the final decision by the Supreme Commercial Court of Ukraine nor the subsequent Ukrainian claim entitles claimants with direct enforcement rights to the shares of FPM currently owned by the Group through Ferrexpo AG The restitution of the status quo ante of the shareholding position as sought by claimants is impossible under Ukrainian law for various legal, technical and practical reasons

It follows that except for related legal costs, no provision was recorded for this dispute as of 31 December 2011

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

		As at 31 12 11				
US$000	Notes	Loans and receivables	Available-for-sale financial assets	At fair value through profit or loss	Financial liabilities measured at amortised cost	Total
Financial assets						
Cash and cash equivalents	27	**890,154**	**–**	**–**	**–**	**890,154**
Available-for-sale investments	20	**–**	**1,290**	**–**	**–**	**1,290**
Trade and other receivables	24	**128,905**	**–**	**–**	**–**	**128,905**
Other financial assets		**1,656**	**–**	**–**	**–**	**1,656**
Total financial assets		**1,020,715**	**1,290**	**–**	**–**	**1,022,005**
Financial liabilities						
Trade and other payables	30	**–**	**–**	**–**	**42,648**	**42,648**
Accrued liabilities and deferred income	33	**–**	**–**	**–**	**29,666**	**29,666**
Interest-bearing loans and borrowings	29	**–**	**–**	**–**	**970,378**	**970,378**
Total financial liabilities		**–**	**–**	**–**	**1,042,692**	**1,042,692**

Note 37 Financial instruments continued

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
		As at 31 12 10				
Financial assets						
Cash and cash equivalents	27	319,470	–	–	–	319,470
Available-for-sale investments	20	–	3,356	–	–	3,356
Trade and other receivables	24	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	30	–	–	–	88,089	88,089
Accrued liabilities and deferred income	33	–	–	–	21,071	21,071
Interest-bearing loans and borrowings	29	–	–	–	423 853	423,853
Total financial liabilities		–	–	–	533 013	533 013

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

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

Notes to the Consolidated Financial Statements continued

Note 37 Financial instruments continued
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

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 A ratings approach is used to determine maximum exposure to each counter party Cash not immediately required for production, distribution and capital expenditures is invested with counter parties rated by S&P or Moody's at a level of long-term BBB (S&P) or short-term A3 (S&P) or better

Recognising that the principal activities of the Group are predominantly in Ukraine, special consideration is given to investments with Ukrainian counterparties Exceptions may be made under the following conditions
- the counterparty is resident in Ukraine, and
- the counterparty is included in the Top 15 financial institutions in Ukraine 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 in this respect as well as in relation to certain of its other activities

Guarantees
The Group s policy is to provide financial guarantees under limited circumstances only to wholly-owned or substantially wholly-owned subsidiaries At 31 December 2011 Ferrexpo AG and Ferrexpo Finance plc were jointly and severally liable under a US$420 million loan agreement having an outstanding balance of US$420 million (2010 US$350,000 million)

Ferrexpo plc and Ferrexpo AG are guarantors to the US$500 million Eurobond ('Notes') issued by Ferrexpo Finance plc, which is due for repayment on 7 April 2016 Additionally the Notes benefit from a surety agreement provided by OJSC Ferrexpo Poltava Mining

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 11**	As at 31 12 10
Cash and cash equivalents	**890,154**	319,470
Trade and other receivables	**128,905**	111,890
Other financial assets	**1,656**	1,164
Total maximum exposure to credit risk	**1,020,715**	432,524

The total receivables balance relating to the Group's top three customers was US$53,244 thousand (2010 US$73,749 thousand) making up 57 1% of the total amounts receivable (2010 65 9%)

Note 37 Financial instruments continued
Impairment profile
The Group's exposure to credit risk relating to trade and other receivables is disclosed in note 24

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 that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation by holding surplus cash or undrawn credit facilities

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

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

US$000	As at 31 12 11 Less than 1 year	Between 1 to 2 years	Between 2 to 5 years	Total
Interest-bearing				
Eurobond issued	**–**	**–**	**489,257**	**489,257**
Syndicated loans – secured	**–**	**–**	**420,000**	**420,000**
Other banks – secured	**8,231**	**8,240**	**29,716**	**46,186**
Obligation under finance lease	**1,384**	**1,412**	**2,806**	**5,602**
Interest accrued	**9,333**	**–**	**–**	**9,333**
Future interest payable	**51,768**	**51,511**	**118,818**	**222,097**
Non-interest-bearing				
Trade and other payables	**42,648**	**–**	**–**	**42,648**
Accrued liabilities and deferred income	**28,663**	**1,003**	**–**	**29,666**
Total financial liabilities	**142,027**	**62,166**	**1,060,597**	**1,264,790**

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	21,071	–	–	21,071
Total financial liabilities	161,535	180 342	258,956	600 833

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

A 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

Notes to the Consolidated Financial Statements continued

Note 37. Financial instruments continued
With a devaluation of the local currency, US Dollar denominated loans held by the Ukrainian subsidiary will result in non-operating exchange losses to the extent these are not matched by US Dollar denominated assets Fixed assets are similarly held in local currency amounts and a devaluation in the currency will result in reduced net asset values which are recorded in reserves

The National Bank of Ukraine ('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 financial institutions, exchanges currencies at bank offered market rates

Trade receivables are predominately in US Dollars and are not hedged Trade payables denominated in US Dollars are also not hedged on the market, but are matched against US Dollar currency receipts This includes the interest expense which is principally payable in US Dollars Trade receivables and trade payables in Ukrainian Hryvnia 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 11					
US$000	Ukrainian Hryvnia	US Dollar	Euro	Swiss Franc	Other currencies	Total
Financial assets	**7**	**73,830**	**19,392**	**487**	**1,027**	**94,743**
Financial liabilities						
Other banks – secured	–	**(16,930)**	–	–	**(2)**	**(16,932)**
Obligation under finance lease	–	**(5,577)**	–	–	–	**(5,577)**
Interest accrued	–	**(43)**	**(4)**	–	–	**(47)**
Total borrowings	–	**(22,550)**	**(4)**	–	**(2)**	**(22,556)**
Trade and other payables	–	**(2,298)**	**(618)**	**(346)**	**(1,445)**	**(4,707)**
Accrued liabilities and deferred income	–	–	–	–	**(42)**	**(42)**
Total financial liabilities	–	**(24,848)**	**(622)**	**(346)**	**(1,489)**	**(27,305)**
Net financial assets/(liabilities)	**7**	**48,982**	**18,770**	**141**	**(462)**	**67,438**

	As at 31 12 10					
US$000	Ukrainian Hryvnia	US Dollar	Euro	Swiss Franc	Other currencies	Total
Financial assets	–	111,589	38 315	375	357	150,636
Financial liabilities						
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	–	63,781	37,814	133	141	101,869

Interest rate risk
The Group predominantly borrows bank 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

Note 37 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 11			
US$000	Floating interest	Fixed interest	Other non-interest-bearing	Total
Financial assets				
Cash and cash equivalents	635,785	193,099	61,270	890,154
Available-for-sale investments	–	–	1,290	1,290
Trade receivables	–	–	128,905	128,905
Other financial assets	–	1,656	–	1,656
Total financial assets	635,785	194,755	191,465	1,022,005
Weighted average interest rate (%)	0 4%	0 7%		
Financial liabilities				
Trade and other payables	–	–	42,648	42,648
Accrued liabilities and deferred income	–	–	29,666	29,666
Interest-bearing loans and borrowings	471,475	498,903	–	970,378
Total financial liabilities	471,475	498,903	72,314	1,042,692
Weighted average interest rate (%)	2.6%	7.9%		

	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 average interest rate (%)	0 1%	1 7%		
Financial liabilities				
Trade and other payables	–	–	88,089	88,089
Accrued liabilities and deferred income	–	–	21,071	21,071
Interest-bearing loans and borrowings	403 832	19,603	418	423,853
Total financial liabilities	403,832	19,603	109,578	533,013
Weighted average interest rate (%)	5 7%	–		

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 The remaining outstanding amount of this loan was fully repaid in March 2011

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

Note 37: Financial instruments continued

Notes to the Consolidated Financial Statements continued

US$000	**Year ended 31 12 11 Income statement/ Equity**	Year ended 31 12 10 Income statement/ Equity
Ukrainian Hryvnia	**8,164**	12,756
Euro	**3,128**	(7 563)
Swiss Franc	**23**	(27)
Total	**11,315**	5,166

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 (e g interest rate swaps) Therefore a change in interest rates at the reporting date would not affect profit or loss

Cash flow sensitivity for fixed and variable rate instruments
An increase of 100 basis points 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 11**	Year ended 31 12 10
Net finance charge	**974**	(2,885)

A decrease of 100 bp would increase equity and profit by US$1,682 thousand for the year ended 31 December 2011 and would have an equal but opposite effect to the amount shown above for the year ended 31 December 2010 This is 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 11**	As at 31 12 10	**As at 31 12 11**	As at 31 12 10
Financial assets				
Cash and cash equivalents	**890,154**	319 470	**890,154**	319,470
Trade and other receivables	**128,905**	111,890	**128,905**	111,890
Available-for-sale financial assets	**1,290**	3,356	**1,290**	3,356
Other financial assets	**1,656**	1,164	**1,656**	1,164
Total financial assets	**1,022,005**	435,880	**1,022,005**	435,880
Financial liabilities				
Trade and other payables	**42,648**	88,089	**42,648**	88,089
Accrued liabilities and deferred income	**29,666**	21,071	**29,666**	21,071
Interest-bearing loans and borrowings	**970,378**	423,853	**986,913**	423,853
Total financial liabilities	**1,042,692**	533,013	**1,059,227**	533,013

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 (i e as prices) or indirectly (i e 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 11			
US$000	Level 1	Level 2	Level 3	Total
Financial assets				
Available-for-sale financial assets	**860**	**–**	**430**	**1,290**
Total available-for-sale financial assets	**860**	**–**	**430**	**1,290**

	As at 31 12 10			
US$000	Level 1	Level 2	Level 3	Total
Financial assets				
Available-for-sale financial assets	2,728	–	628	3,356
Total available-for-sale financial assets	2,728	–	628	3,356

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 11 Available-for sale financial assets Unquoted equities**	As at 31 12 10 Available for sale financial assets Unquoted equities
Opening balance	**628**	2,732
Total gains or losses		
– in profit or loss	**(198)**	(2,104)
– in other comprehensive income	**–**	–
Purchases	**–**	–
Issues	**–**	–
Settlements	**–**	–
Transfer out of level 3	**–**	–
Closing balance	**430**	628

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 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 Group of US$500,000 thousand including non-controlling interests Compliance is ensured by balancing dividend payments against the earnings of the Group

For more information about the Group's interest-bearing loans and borrowings, see note 29

Notes to the Consolidated Financial Statements continued

Note 38 Share-based payments

Long-term incentive plan ('LTIP')

The following share awards were granted under the LTIP in the previous financial years, the LTIP vesting period is three years

No (000)	2011 LTIP	2010 LTIP	2009 LTIP	Total
Year ended 31 12 11	**415**	–	–	**415**
Year ended 31 12 10	–	330	–	330
Year ended 31 12 09	–	–	320	320

The LTIP is subject to a performance condition based on the Total Shareholder Return ('TSR') compared to a comparator group, measured over the vesting period, as described in the Director's Remuneration Report

The following expenses have been recognised in 2011 and 2010 in respect of the LTIP

US$000	2011 LTIP	2010 LTIP	2009 LTIP	2008 LTIP	Total
Year ended 31 12 11	**592**	**319**	**198**	**(353)**	**756**
Year ended 31 12 10	178	188	557	–	923

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 11 WAFV ($)	Year ended 31 12 10 WAFV ($)	Year ended 31 12 11 No (000)	Year ended 31 12 10 No (000)
LTIP				
Beginning of the year	**3 92**	4 11	**905**	810
Awards granted during the year	**4 28**	3 28	**415**	330
Forfeited during the year	**5 52**	3 47	**(64)**	(235)
Lapsed during the year	**2 61**	–	**(10)**	–
Vested during the year	**5 52**	–	**(341)**	–
Outstanding at 31 December	**3 38**	3 92	**905**	905

Note 39 Operating profit by function

US$000	Notes	Before adjusting items	Adjusted items	Year ended 31 12 11	Before adjusting items	Adjusted items	Year ended 31 12 10
Revenue	6	**1,788,012**	**–**	**1,788,012**	1,294,900	–	1,294,900
Cost of sales	7	**(649,544)**	**–**	**(649,544)**	(481,857)	–	(481,857)
Gross profit		**1,138,468**	**–**	**1,138,468**	813,043	–	813 043
Selling and distribution expenses	8	**(317,951)**	**–**	**(317,951)**	(212,006)	–	(212,006)
General and administrative expenses	9	**(51,969)**	**–**	**(51,969)**	(49,175)	–	(49,175)
Other income	10	**6,943**	**–**	**6,943**	4,515	–	4,515
Other expenses	11	**(17,091)**	**(523)**	**(17,614)**	(5,938)	(11,291)	(17,229)
Operating foreign exchange gain	12	**(1,360)**	**–**	**(1,360)**	(1 078)	–	(1,078)
Operating profit		**757,040**	**(523)**	**756,517**	549,361	(11,291)	538,070
Share of profit of associates	14	**2,012**	**–**	**2,012**	4,155	–	4,155
Total profit from operations and associates		**759,052**	**(523)**	**758,529**	553,516	(11,291)	542,225

Summary of adjusted items

US$000	Notes	Year ended 31 12 11	Year ended 31 12 10
Operating adjusting items			
Under recovery of VAT receivable	26	**–**	(10,936)
Write-offs and impairment losses	13	**(478)**	(1,618)
Gain on bargain purchase	40	**–**	2,623
Initial public offering costs		**–**	(55)
Losses on disposal of property plant and equipment		**(45)**	(1,305)
Total operating adjusting items		**(523)**	(11,291)

Note 40· Business combination

Subsidiaries acquired in current year

On 1 October 2011, the Group acquired 77 6% of Transcanal S R L ('Transcanal') The consideration of US$557 thousand has been transferred in cash to the previous shareholders of the 77 6% stake There is no contingent consideration to be paid by the Group to the previous shareholders of Transcanal Transaction costs of US$40 thousand have been incurred and expensed by the Group These costs are included in general and administrative expenses

The fair value of assets acquired amounted to US$803 thousand and liabilities assumed to US$158 thousand The acquisition resulted in a goodwill of US$56 thousand as of the date of the acquisition The initial accounting for the acquisition of Transcanal has been definitely determined at the end of the reporting period

The Group has elected to measure the non-controlling interest in Transcanal at the proportionate share in the recognised amounts of the acquiree's identifiable net assets

Had this business combination been effected at 1 January 2011, the revenue of the Group would have been US$588 thousand higher, and the profit for the year would have been US$75 thousand higher 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

Notes to the Consolidated Financial Statements continued

Note 40: Business combination continued
Prior year business combination
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 No consideration has been transferred in cash for this acquisition to previous shareholders of Helogistics The Group acquired bank debts amounting to US$95,472 thousand for a consideration of US$38,045 thousand transferred in cash to the lending banks

The accounting for the acquisition of Helogistics as of 31 December 2010 (acquisition date) was only provisionally determined in respect of the fair values of the vessels acquired and certain liabilities assumed During the financial year 2011, the necessary valuations and assessments have been received so that the accounting for this acquisition has been finalised The details of the adjustments of the provisionally determined fair values of assets acquired and liabilities assumed are shown below

US$000	Provisional fair values	Adjustments	Comments	Acquired values
Non-current assets				
Property, plant and equipment	65,348	–		65,348
Financial assets	4	–		4
Intangible assets	1,637	(398)	1	1,239
Deferred tax assets	5,258	(3,101)	2	2,157
Current assets				
Inventories	2 252	–		2,252
Trade and other receivables	3 096	–		3 096
Prepayments and other current assets	4,179	1,177	3	5,356
Available-for-sale financial assets	7	–		7
Cash and cash equivalents	582	–		582
Assets classified as held for sale	3,149	–		3,149
Total assets acquired	**85,512**	**(2,322)**		**83,190**
Non-current liabilities				
Defined benefit pension liability	(819)	–		(819)
Deferred tax liabilities	(1,875)	–		(1,875)
Current liabilities				
Interest-bearing loans and borrowings	(38,726)	–		(38,726)
Trade and other payables	(14,596)	–		(14,596)
Income taxes payable	(81)	–		(81)
Accrued liabilities and deferred income	(15,911)	2 322	4	(13,589)
Total liabilities assumed	**(72,008)**	**2,322**		**(69,686)**
Fair value of identifiable net assets acquired as at 31 December 2010	**13,504**	**-**		**13,504**

1 Write off of licenses
2 Write off of deferred tax asset capitalised on available tax loss carry forwards
3 Release of allowance on VAT receivable balances after completion of tax audits
4 Release of various tax related accruals after completion of tax audits

Note 40 Business combination continued
The adjustment of the initial accounting of the acquisition had the following impact on the initially recorded gain on bargain purchase

US$000	Provisional accounting	Adjustments	Acquired values
Consideration paid in cash			
Value of pre-existing loan balances	10,881	-	10 881
Less fair value of identifiable net assets acquired	(13,504)	-	(13,504)
Bargain purchase on acquisition as at 31 December 2010	2 623	-	2,623

There was no contingent consideration to be paid by the Group to the previous shareholders of Helogistics

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

No tax impact is expected on the gain on bargain purchase arising on this transaction

Note 41. 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 17

Parent Company Balance Sheet

US$000	Notes	As at 31.12.11	As at 31.12.10
Fixed assets			
Non current investments			
Subsidiary undertakings	2	147,496	147 496
Total fixed assets		147,496	147,496
Current assets			
Debtors – amounts falling due			
Amounts due from subsidiaries		590,520	134 441
Deferred tax assets	3	227	1 156
Prepayments and other current assets		1,651	1,165
Other taxes recoverable and prepaid		–	3
Cash at bank and in hand		459	20
Total current assets		592,857	136 785
Creditors – amounts falling due within one year			
Trade and other creditors	5	442	512
Accruals and deferred income	6	503	900
Income taxes payable		1,308	16
Total creditors		2,253	1,428
Net assets		738,100	282,853
Represented by			
Capital and reserves			
Share capital	4	121,628	121 628
Share premium		185,112	185,112
Treasury share reserve	4	(77,260)	(77 260)
Employee benefit trust reserve	4	(9,416)	(10 172)
Retained earnings		518,036	63 545
Total capital and reserves		738,100	282,853

All liabilities held by the Company are current in nature

The financial statements were approved by the Board of Directors on 13 March 2012

Kostyantin Zhevago

Christopher Mawe

Notes to the Parent Company 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 13 March 2012 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 i e the date that the Group commits to purchase or sell the asset Regular way purchases or sales are those that require delivery of assets within the period generally established by regulation or convention in the marketplace

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

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

Notes to the Parent Company 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 (i e the effective interest rate computed at initial recognition) The carrying amount of the asset is reduced, with the amount of the loss recognised in administration costs If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed Any subsequent reversal of an impairment loss is recognised in the profit and loss account, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date

Derecognition of financial assets and liabilities

A financial asset or liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss

Share-based payments

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the 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 39 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 11	As at 31 12 10
Non-current investments	**147,496**	147,496

The balance above relates to the Company's investment in Ferrexpo AG which is a 100% owned subsidiary based on Switzerland During the previous financial year, 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 2011 relate to the following

US$000	As at 31 12 11	As at 31 12 10
Deferred tax assets		
Tax loss recognised	–	430
Timing difference on IPO costs	**227**	726
Total deferred tax assets	**227**	1 156

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 2010	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	282,853
Profit for the period	–	–	–	–	493,154	493 154
Total comprehensive income for the year	–	–	–	–	493 154	493,154
Equity dividends paid to shareholders	–	–	–	–	(38,663)	(38,663)
Share-based payments	–	–	–	756	–	756
At 31 December 2011	**121,628**	**185,112**	**(77,260)**	**(9,416)**	**518,036**	**738,100**

Note 5 Trade and other creditors

Trade and other creditors at 31 December 2011 relate to the following

US$000	As at 31 12 11	As at 31 12 10
Trade and other creditors		
Falling due within one year	**442**	512
Total trade and other creditors	**442**	512

Note 6 Accrued liabilities and deferred income

Accrued liabilities and deferred income at 31 December 2011 relate to the following

US$000	As at 31 12 11	As at 31 12 10
Accrued liabilities and deferred income		
Falling due within one year	**503**	900
Total accrued liabilities and deferred income	**503**	900

Notes to the Parent Company Financial Statements continued

Note 7. 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 8 Auditor remuneration
The audit fee in respect of the parent company was US$16 thousand (2010 US$16 thousand)

Note 9 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 17 to the consolidated financial statements and the refinancing of the Group described below

Glossary

2010 Code	The UK Corporate Governance Code published in 2010
Act	The Companies Act 2006
AGM	The Annual General Meeting of the Company
Articles	Articles of Association of the Company
Audit Committee	The Audit Committee of the Company's Board
Belanovo or Belanovskoye	An iron ore deposit located immediately to the north of Yeristovo
Benchmark Price	International seaborne traded iron ore pricing mechanism understood to be offered to the market by major iron ore producers under long-term contracts
Beneficiation Process	A number of processes whereby the mineral is extracted from the crude ore (see page 4)
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
Capesize	Capesize 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 Standard capesize vessels are able to transit through Suez Canal
Capital Employed	The aggregate of equity attributable to shareholders, non-controlling interests and borrowings
CFR	Delivery including cost and freight
C1 Costs	Represent the cash costs of production of iron pellets from own ore, divided by production volume, from 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
CIF	Delivery including cost, insurance and freight
CIS	The Commonwealth of Independent States
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
DAP	Delivery at place
DFS	Detailed feasibility study
Directors	The Directors of the Company
Dragline Excavators	Heavy machinery 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 and non-recurring exceptional items included in other income and other expenses, and the net of gains and losses from disposal of investments and property, plant and equipment

Glossary continued

EBT	Employee Benefit Trust
EPS	Earnings per share
Executive Committee	The Executive Committee of management appointed by the Company's Board
Executive Directors	The Executive Directors of the Company
FBM	Ferrexpo Belanovo Mining, also known as BGOK, a company incorporated under the laws of Ukraine
Fe	Iron
Ferrexpo	The Company and its subsidiaries
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, which means that the seller's obligation to deliver has been fulfilled when the goods have passed over the ship's rail at the named port of shipment, and all future obligations in terms of costs and risks of loss or damage transfer to the buyer from that point onwards
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 Yeristovo Mining, also known as YGOK, a company incorporated under the laws of Ukraine
Group	The Company and its subsidiaries
Growth Markets	These are predominantly in Asia and have the potential to deliver new and significant sales volumes to the Group
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 benefication process with enriched iron content
Iron ore sinter fines	Fine iron ore screened to -6 3mm
Iron ore pellets	Balled and fired agglomerate of iron ore concentrate, whose physical properties are well suited for transportation to and reduction within 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	These include Turkey, the Middle East and Western Europe and are those markets where Ferrexpo has a competitive advantage over more distant producers, but where market share remains relatively low
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 90,000 tonnes of cargo 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 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

Glossary continued

US$/t	US Dollars per tonne
Sinter	A porous aggregate charged directly to the blast furnace which is normally produced by firing fine iron ore and/or iron ore concentrate, other binding materials, and coke breeze as the heat source
Spot price	The current price of a product for immediate delivery
Sterling/£	Pound Sterling, the currency of the United Kingdom
STIP	Short-Term Incentive Plan
Tailings	The waste material produced from ore after economically recoverable metals or minerals have been extracted Changes in metal prices and improvements in technology can sometimes make the tailings economic to process at a later date
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	These lie within Central and Eastern Europe and include steel plants that were designed to use Ferrexpo pellets Ferrexpo has been supplying some of these customers for more than 20 years Ferrexpo has well-established logistics routes and infrastructure to these markets by both river barge and rail These markets include Austria, Czech Republic, Hungary, Serbia and Slovakia
TSR	Total shareholder return The total return earned on a share over a period of time, measured as the dividend per share plus capital gain, divided by initial share price
Underlying Earnings	An alternative measure which the Directors believe provided a clearer picture of the underlying financial performance of the Group's operations Underlying earnings is presented as profit attributable to equity shareholders before adjusted items Adjusted items are those items of financial performance that the Group believes should be separately disclosed on the face of the income statement to assist in the understanding of the underlying financial performance achieved by the Group Adjusted items that relate to the operating performance of the Group include impairment charges and reversals and other exceptional items Non-operating adjusting items include profits and losses of investments and businesses as well as IPO costs and non-operating foreign exchange gains and losses
UAH	Ukrainian Hryvnia, the currency of Ukraine
Ukr SEPRO	The quality certification system in Ukraine, regulated by law to ensure conformity with safety and environmental standards
VAT	Value Added Tax
Value-in-use	The implied value of a material to an end user relative to other options, e g evaluating, in financial terms, the productivity in the steel making process of a particular quality of iron ore pellets versus the productivity of alternative qualities of iron ore pellets
WMS	Wet magnetic separation
Yeristovo or Yeristovskoye	The deposit being developed by FYM

Ferrexpo plc
2–4 King Street
London
SW1Y 6QL
Tel: +44 207 389 8300

www.ferrexpo.com