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Producing iron ore pellets for 35 years

Ferrexpo plc
Annual Report & Accounts 2012

Ferrexpo's vision is to be a sustainable iron ore producer through the commodity cycle.

This has resulted in a reputation for reliable production while maintaining prudent financial management.

For up-to-date information please visit www.ferrexpo.com

Highlights
A Snapshot of 2012

Ferrexpo increased production from own ore during 2012, and maintained a level of profitability which reflected lower market prices and industry cost inflation, and a continued competitive position on the global cost curve for iron ore.

Sales and Marketing
- Average benchmark China CFR 62% Fe fines price 23% lower at US$128 per tonne (2011 US$168 per tonne)
- Sales volumes 9 7 million tonnes of pellets (2011 9 8 million tonnes of pellets)
- Lower prices partially mitigated through reduced freight rates to seaborne market

Operations
- 9 3 million tonnes of pellet production from FPM (2011 9 1 million tonnes)
- First ore at FYM, 0 1 million tonnes of pellet production (2011 nil)
- C1 cash cost[1] of US$59 6 per tonne (2011 US$50 7 per tonne)
- C1 cash cost reflected a stable exchange rate between Ukrainian Hryvnia and US Dollar as well as higher energy prices and local inflation

Growth Projects
- Growth projects progressed as planned
- First ore achieved at FYM in July 2012, commercial production expected in 2013
- Significant capital investment of US$429 million (2011 US$380 million)

6.6

US cents per share

special dividend as recognition of the progress made since IPO and in particular of the opening of the Yeristovo mine

Performance

US$ millions unless otherwise stated	**Year ended 31 12 12**	Year ended 31 12 11	%
Pellets produced from own ore (thousand tonnes)	**9,409**	9,063	4%
Total pellet production (thousand tonnes)	**9,690**	9,811	(1%)
Sales volumes (thousand tonnes)	**9,675**	9,876	(2%)
EBITDA[2]	**402**	801	(50%)
Profit before tax	**262**	691	(62%)
Diluted EPS (US cents per share)	**36.57**	96 97	(62%)
Capital investment	**429**	380	13%
Net debt	**423**	80	
Cash and cash equivalents	**597**	890	(33%)

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

2 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 property, plant and equipment

Ferrexpo at a Glance
Scalable Assets

Long-life Resource

Ferrexpo's ore body is a single 50 kilometre-long strike divided into 10 adjacent deposits. The southern five mines have JORC classified of 6.8bt and the northern five 13.2bt FSU Soviet Classified.

6 8bt JORC
Classified

13 2bt FSU
Soviet Classified

Gorishne-Plavninskoye and Lavrikovskoye
3 6bt

Yeristovskoye
1 2bt

Belanovskoye
1 7bt

Galeschinskoye
0 3bt

Zarudenskoye
1 5bt

Vasilievskoye
1 4bt

Kharchenkovskoye
2 8bt

Manuilovskoye
3 5bt

Brovarskoye
4 0bt

Production
Development
Licence Maintenance

Gdantsev Succession
quartzite schist fillite schist units

Saksagan Succession
BIF units

Basement
amphilobite
granite, migmatite

Yeristovskoye
First ore at Yeristovo reached in 2H 2012, commercial production expected in 2H 2013 Once in full production, mine to deliver 28mtpa of ore

FYM pit as of May 2011

Poltava
The FPM open pit mine is over 350 metres deep and seven kilometres long In 2012 it mined 29,761 thousand tonnes of ore

FPM pit as of June 2011

High Quality Processing

Ferrexpo produces two types of pellets, 62% Fe and 65% Fe.

Ore from mine

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

Primary crushing

Medium fine 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

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%

Rock

Ore

The waste rock is sold on for use as thickeners and gravel

Grinding

The ore is ground to produce fine particles of 0–0 44mm in size

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

Flotation tanks

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

Pelletising

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

Transportation

Ferrexpo transports its finished products by rail to border dispatch points. From the border points, the means of transportation include rail, barges and capesize vessels

Customers

Ferrexpo at a Glance
Distribution and Markets

Sophisticated Logistics

Ferrexpo transports its finished products by rail to border dispatch points, predominantly using its own rail cars. From the border points, means of transportation include barges and rail to customers in Eastern and Central Europe and capesize vessels for seaborne cargo

Ferrexpo owns just under 2,000 rail cars which transports a high proportion of its pellets to border dispatch points

In 2012, 17 capesize ships were loaded, allowing the Group to benefit from lower freight rates as compared to panamax vessels

In 2012, Ferrexpo shipped approximately 1 4mt of pellets to customers in Europe via its 143 strong bargefleet

Close Proximity to End Markets

Ferrexpo sells its product to the key steel producing regions in the world.

End Markets
- Traditional
- Growth
- Natural

Developing the Customer Base Since 2008

- **Entered new markets in Japan and Germany**
- **Captured significant market share of pellet demand from China's leading steel mill**

Reducing Freight Costs

- **Panamaxes to Far East being phased out**
- **17 capes loaded in 2012; more than 30 expected to be loaded in 2013**
- **Iron Destiny transshipment vessel to reduce top-off costs and reduce time taken to load cape vessel (increasing port efficiency)**

Traditional Markets These markets are located within Central and Eastern Europe and include steel plants that were designed to use our pellets

Growth Markets Ferrexpo has the potential to deliver new and significant sales volumes to these markets in Asia.

Natural Markets These markets include Turkey, the Middle East and Western Europe and are located where we have a competitive advantage over more distant producers

Ferrexpo at a Glance
A Sustainable Producer Through the Cycle

Significant Investment

Ferrexpo has reinvested its profits to modernise and develop FPM's mine and production facilities and to develop the FYM deposit as well as its logistics capabilities. These investments should yield operating efficiencies and increased output while greater logistics infrastructure provide a more competitive level of service to customers.

US$429M
capital investment in 2012

17
capes loaded in 2012

Ferrexpo transshipment vessel, Iron Destiny, arrived in port in December 2012

Output and Grade to Steadily Increase

1st

ore at Yerlstovo
in 2012

A Caterpillar excavator
at work in the FYM pit

Business Model

A sustainable high quality iron ore producer through the cycle

Iron Ore Producer Value Chain

Development

Ferrexpo Key Strengths

Large Brownfield Resource

Ferrexpo's significant resource base is situated along a single ore body, which allows for efficient expansion through brownfield developments The FPM mine has consistent geology and allows for a long-life production profile The development of the FYM mine fully utilises known and existing technology and infrastructure, as well as the Group's skill base As of 1 January 2013, Ferrexpo had estimated resources of approximately 6 8 billion tonnes classified according to the JORC Code and a further 13 2 billion tonnes of resources estimated under the FSU Classification

Mining

Processing

Logistics

Marketing

Low Cost Pellet Producer

On a cost of production basis, Ferrexpo is a competitive cost producer of iron ore concentrate with relatively low pelletising costs on global basis The cornerstone of the cost reduction strategy is to maximise production outputs and continually implement efficiency enhancements through the Business Improvement Programme

High Quality Output

Ferrexpo produces iron ore pellets, which are a premium input used in the steel industry Ferrexpo's product improves blast furnace productivity in the steel production process due to its form, substance and low level of impurities Approximately half of the Group's products contain 65% iron content, which the market considers to be premium content, and thus commands a premium to the benchmark price

Integrated Logistics

An integrated and well-invested logistics system is an essential and a key competitive advantage for a bulk commodity producer Ferrexpo transports its finished products by rail to border dispatch points, predominantly using its own rail cars From the border points, means of transportation include barges and rail to customers in Eastern and Central Europe and capesize vessels, through its 49% owned port, for seaborne cargo

Customer Relationships

Ferrexpo remains committed to long-term framework agreements with customers that are focused on producing high value added steel products It has supplied many of its existing customers for a number of decades The Group is focused on supplying a geographically diversified customer base and allocates a proportion of sales to potential new customers through trial spot cargoes

Chairman's and Chief Executive Officer's Statement

"In acknowledgement of the progress made since the IPO, as well as the significant milestone of reaching first ore at FYM, the Directors are pleased to announce a special dividend of 6.6 US cents per share. As in previous years, the Directors are recommending an unchanged final ordinary dividend of 3.3 US cents per share."

Introduction

In the last five years, since its IPO, Ferrexpo has made significant progress in achieving its strategic objectives

In the face of general cost inflation prevalent in the mining industry, the Group has maintained its position as a competitive cost producer of pellets and in 2012 it lowered its seaborne freight costs delivering more product via capesize vessels both enhancing margins and allowing Ferrexpo to provide a better service to first class steel mills around the world with its high quality iron ore product

The Group has continued to develop its asset base through the modernisation of the existing mine and processing facilities at Ferrexpo Poltava Mining ('FPM'), and in 2012 by opening its second mine, Ferrexpo Yeristovo Mining ('FYM'), the first new iron ore mine in the CIS for many years Once mining operations at FYM have ramped up, Ferrexpo will have two mines in full operation providing associated cost benefits through higher output and remains on track to increase production in 2013 and to reach its target of 12 million tonnes of pellet production in 2014

As a result of the above factors, Ferrexpo has reduced its operational and financial risk and enhanced its reputation as a premium supplier of pellets with excellent quality and service In the financial markets, Ferrexpo is increasingly recognised for its sound management and good governance

Results

Group revenue declined by 20% to US$1 4 billion for the 12 months ended 31 December 2012 (2011 US$1 8 billion) due to lower market prices for iron ore In 2012, the average benchmark price for 62% Fe iron ore fines to China CFR fell by 24% to US$128 per tonne compared to an average of US$168 per tonne in 2011 Group sales volumes were in line with 2011 at 9 7 million tonnes

The Group's average C1 cash cost[1] of production increased by 18% to US$60 per tonne, compared to the average C1 cash cost in 2011 of US$51 per tonne This was due to increased electricity tariffs and gas prices as well as local inflation while the Ukrainian Hryvnia remained stable against the US Dollar Since October 2008 when C1 costs reached US$51, overall cost inflation has amounted to 4% per year

1 The C1 cash cost of production per tonne is defined as the cash costs of production of iron pellets from own ore to the mine gate 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

Ferrexpo maintained satisfactory levels of profitability reflecting lower market prices and industry cost inflation while retaining its competitive position on the global cost curve for iron ore EBITDA for the period was US$402 million (2011 US$801 million) Group profit after tax declined to US$216 million (2011 US$575 million)

Net cash flows from operating activities were US$119 million for the period (2011 US$503 million) reflecting higher working capital requirements following a US$130 million increase in VAT receivables outstanding in Ukraine during the year The gross Ukrainian VAT receivable balance as at 31 December 2012 was US$302 million, a US$20 million discount has been recorded to reflect the time value of money for VAT due to the expectation that a portion of VAT will be recovered after more than one year

During the year the Group spent US$429 million (2011 US$380 million) on capital investment in its existing and new mines as well as on logistics infrastructure, which was the highest level of annual capital investment at Ferrexpo on record

At the period end, Ferrexpo had net debt of US$423 million (2011 US$80 million)

Dividend

Ordinary Dividend

As is consistent with the Group's dividend policy since listing, of paying a modest sustainable dividend commensurate with the growth profile of the business through the economic cycle, the Board of Directors recommend a final dividend in respect of profits generated for the Group in 2012 of 3 3 US cents per Ordinary Share (2011 final dividend 3 3 US cents per Ordinary Share) for payment on 31 May 2013 to shareholders on the register at the close of business on 3 May 2013 The dividend will be paid in UK Pounds Sterling with an election to receive US Dollars

Special Dividend

The Group has invested significantly over the past five years and has maintained its dividend since IPO at 6 6 US cents per share split equally between interim and final payments The Group is continuing to invest in its operations and the Directors believe it is appropriate at the current time to maintain the ordinary dividend at its current level until further milestones are achieved In recognition of the opening of the Yeristovo mine which lowers the operational risk profile of the business and given Ferrexpo's strong balance sheet the Directors are pleased to announce a special

Left to right
Kostyantin Zhevago, Chief Executive Officer,
Michael Abrahams, CBE DL, Chairman

Chairman's and Chief Executive Officer's Statement continued

Demand for iron ore pellets has been steadily increasing due to declining availability of high quality lump iron ore.

dividend of 6 6 US cents per share, amounting to approximately US$39 million, for payment on 28 March 2013 to shareholders on the register at the close of business on 22 March 2013 This dividend will be paid in UK Pounds Sterling with an election to receive US Dollars

Market Environment
In 2012, according to the World Steel Association, global crude steel production grew 1% to 1 6 billion tonnes while the average capacity utilisation of steel mills declined to 79% from 81% in 2011 China, the principal driver of the iron ore market in recent years, increased its steel production by 3% to 717 million tonnes and accounted for 46% of global steel production

CRU estimates that in 2012 the global consumption of iron ore increased 1% while production was marginally below 2011 levels The industry move to a generally accepted benchmark pricing mechanism based on spot prices ensured that the market remained largely in balance, although iron ore pricing was volatile, moving from US$140 per tonne at the beginning of 2012 to a three year low of US$87 per tonne before finishing the year around the US$145 per tonne level

Production of iron ore remains highly concentrated with the top four producers accounting for over 70% of seaborne iron ore production in 2012 Historically, there have been challenges in developing greenfield iron ore projects including access to affordable financing, a lack of equipment, skills shortages, prohibitive logistics costs and local permitting and geopolitical restrictions Bank of America Merrill Lynch estimates that as much as 260 million tonnes of iron ore capacity was either delayed or cancelled during 2012 as the above challenges impacted project economics

With regards to iron ore pellets, demand has been steadily increasing due to declining availability of high quality lump iron ore and growing environmental pressure on sinter plant emissions CRU estimates that demand for pellets will show a compound annual growth rate of 5% from 2012 to 2017 compared to total iron ore consumption of 4% per annum for the same period CRU expects the premium for pellets over sinter fines to remain at around US$30 per tonne for this period although this could fluctuate according to the level of steel demand

Marketing and Logistics
Ferrexpo's marketing strategy is to supply the world's leading steel producers, who are focused on producing high quality steel for premium applications

Ferrexpo aims to supply a geographically diversified customer portfolio under long-term framework agreements Indeed it has been servicing some of its customers for decades securing reliable off-take volumes The Group enjoys a balanced sales portfolio with approximately half of sales derived from Central and Eastern Europe while the remainder originates from Western Europe, Turkey and Asia

A critically important logistics focus of the Company is to secure reliable and competitive shipping to customers in Asia compared to the major pellet producers from Brazil Ukraine's central location allows Ferrexpo to ship at increasingly competitive rates to the major iron ore pellet markets The Group has a 49% stake in the TIS-Ruda port terminal at Yuzhny on the Black Sea with a capacity of over 5 million tonnes per annum In 2012, the Group invested in upgrading its loading and shipping capabilities to allow for the routine use of capesize vessels As a result, Ferrexpo loaded 17 capesize vessels compared to nine in 2011 and it intends to further increase this method of shipment in 2013 by loading over 30 capesize vessels In December 2012, Ferrexpo's transshipment vessel, Iron Destiny, was put in operation which should allow the Group to further reduce international freight costs

An integrated and well-invested logistics system is an essential and a key competitive advantage for a bulk commodity producer In addition to the Group's port facilities, as at 31 December 2012 Ferrexpo owned just under 2,000 rail cars enabling it to transport a high proportion of its pellets to border points with its own fleet, reducing its reliance on state rail cars and lowering transportation costs Ferrexpo also has in place a large barging fleet operating on the Danube and Rhine rivers further securing reliable access to customers in Central and Eastern Europe

Resource Base
Ferrexpo holds the licences to the largest iron ore resource base in Europe This resource base is situated along a single ore body containing 10 adjacent deposits, which allows the Group to efficiently expand production through brownfield developments The deposits exploited by the subsidiary FPM have consistent geology and a long-life production profile The opening and development of the Yeristovskoye deposit in 2012 through the subsidiary FYM fully utilises known and existing technology and infrastructure, as well as the Group's current skills

As of 1 January 2013, Ferrexpo had estimated proved and probable reserves of 1 5 billion tonnes classified according to the JORC Code These reserves are included in estimated resources of approximately 6 8 billion tonnes classified according to the JORC Code Ferrexpo has further estimated resources of over 13 2 billion tonnes classified under the methodology used in the Former Soviet Union

Production
In 2012, FPM produced 9,409 thousand tonnes of pellets from own ore, a 4% increase compared to 9,063 thousand tonnes of pellets produced in 2011 This includes 108 thousand tonnes of pellets mined from FYM ore The production of pellets from purchased third party concentrate was lower due to reduced availability of concentrate

on the local market at prices able to generate positive margins, as such total production declined by 1% to 9,690 thousand tonnes compared with 9,811 thousand tonnes in 2011 The average pellet iron content from own ore was 63 3% in 2012 in line with 2011

Importantly, FPM continued throughout the year with the modernisation programme of its existing mining and processing facilities whilst maintaining consistent and reliable production

The current level of production from own ore represents full mining capacity of approximately 30 million tonnes per year (30% average iron content) Once processed into iron ore pellets with an average content of 63 3%, this translates into 9,301 thousand tonnes of pellets The Group intends to increase its annualised pellet production from own ore to 12 0 million tonnes in 2014 To accomplish this, it will continue to develop the FYM mine, where first ore was reached in the second half of 2012

Health and Safety
In accordance with the Group's policy of continuously improving safety standards, Ferrexpo is pleased to report that there have been no fatalities at its mines in well over two years and that the lost-time injury frequency rate ('LTIFR') at FPM continued to fall to 0 74 per million man hours worked (2011 0 82) FYM, the Group's new operating mine, experienced no lost-time injuries during the year which was a major accomplishment Overall, the Group's total LTIFR in 2012 was 0 66 compared to 0 77 in 2011

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

Health and Safety Highlights

- **No fatalities in two years**
- **Regular safety audits**
- **LTIFR continuing to fall**

Caterpillar 793D truck at FYM

Costs
FPM is a cost competitive producer on the global iron ore concentrate cost curve on both a FOB and CFR China basis Furthermore, its cost of converting its iron ore concentrate into pellet form positions it as a profitable producer on the global pelletising market through the commodities cycle Crucially, this combination of low cost concentrate production and pellet conversion has enabled it to sustain positive operating cash flows every quarter since 2006

For the year ended 31 December 2012, the C1 cash cost of production of pellets from own ore was US$60 per tonne compared to US$51 per tonne in 2011 In line with the industry, the increase in costs was driven by higher energy prices and local inflation

Just over half of C1 cash costs are denominated in Ukrainian Hryvnia The Hryvnia has remained largely stable since 2009 at UAH8 to the US Dollar Prior to the devaluation of the Hryvnia at the end of 2008, when it depreciated from UAH5 to UAH8 to the US Dollar, production costs peaked at US$51 per tonne In this context, since 2008 production costs have increased by a compound annual growth rate of 4% per annum

Ferrexpo offsets cost increases by increasing output and producing at maximum capacity to ensure full absorption of the fixed cost base Improved energy efficiencies are also achieved through the Business Improvement Programme ('BIP') which aims to reduce the C1 cost of production by 1% to 2% per annum on a constant output basis The BIP programme has resulted in an overall reduction in the C1 cost of US$7 per tonne or US$64 million since its inception in 2006 Looking forward, it is anticipated that the

Chairman's and Chief Executive Officer's Statement continued

Ferrexpo has maintained strict financial discipline over many years.

mining and processing of FYM ore will have a positive impact on the Group's overall production cost through lower mining costs and the addition of higher grade ore.

Capital Investments
Ferrexpo aims to finance capital investment out of operating cash flows and, excluding the increase in the Group's VAT receivable, has broadly done so in 2012 and the five year period since 2007. As such, the pace of investment inevitably depends on the market price for iron ore. Group policy is to ensure that the balance sheet does not become over leveraged and that Ferrexpo has a sustainable funding position despite iron ore price fluctuations.

The Group is part way through a US$650 million investment programme to increase the quality and quantity of its pellet output. The successful implementation of this programme will enable Ferrexpo to increase output at FPM by approximately one third to 12 million tonnes of pellet per annum in 2014 (from current production levels of 9.4 million tonnes of pellet per annum) and to further increase the quality of the Group's pellet output to 65% iron content (currently average pellet iron content is 63.3%) in 2015. The increase to 12mtpa of pellet output is expected to be initially achieved utilising crude ore from FYM. These projects are progressing on time and to budget.

The next phase of investment concerns the construction of a 10mtpa concentrator at FYM to process the remaining crude ore that it can mine annually (total annual mining capacity is expected to be 28 million tonnes). In October 2012, the Board of Directors approved US$30 million to begin this development in 2013 which, subject to market conditions, is targeted to begin concentrate production in 2016 and to ramp up to full production by the end of 2017. Thus, following further capital expenditure, Ferrexpo expects to produce approximately 12 million tonnes of pellets per annum with 65% iron content and 8 to 10 million tonnes of concentrate per annum with up to 67% iron content, doubling output from 2012 production levels.

The Group will continue to evaluate, and if appropriate, invest in NPV accretive opportunities, both within the Company and externally, that de-risk and diversify its operations.

Financial Management
Ferrexpo has maintained strict financial discipline over many years. Key aspects of the Group's approach include funding capital expenditures out of operating cash flows and where appropriate debt, maintaining robust liquidity and retaining competitive credit metrics and cost of financing.

Ferrexpo's financial position reflects this strategy, as evidenced by the strong balance sheet, low gearing and EBITDA to debt ratios and competitive cost of financing. Net gearing[1] was 21% as of 31 December 2012 (compared to 5% as of 31 December 2011) and net debt to EBITDA was 1.05x as of 31 December 2012 (compared to 0.1x as of 31 December 2011). The Group's average cost of debt in 2012 was 5.24% a 1% improvement compared to 2011 at 6.23%. As of 31 December 2012, the Group had net debt of US$423 million which included cash of US$597 million. In 2013, Ferrexpo has minimal debt repayments of approximately US$19 million.

CSR Highlights

- **Significant investor in local community initiatives**
- **23% of the local working population are employed by the Group**
- **Unemployment in the town of Komsomolsk is significantly below the national average**

IT lesson at school in Komsomolsk

1 Net gearing is calculated as net financial indebtedness over net financial indebtedness plus shareholder's equity

Ferrexpo will continue with its strategy of developing its significant resource base, improving the quality of its pellets, and further advancing its logistics infrastructure to enhance its service to first class steel customers around the world with its premium iron ore product.

VAT

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 2012, Ferrexpo was owed US$302 million of VAT by the Ukrainian government, the majority of which is significantly overdue This amount has been discounted by US$20 million to US$282 million in order to reflect the cost of financing those VAT balances that are expected to be recovered more than one year after the period in which they arose As part of the procedure adopted in Ukraine, it is common for VAT claims to be challenged by the government in the court system A significant portion of the VAT outstanding is currently being challenged in this way, although the Directors believe that the full amounts will eventually be recovered

The late repayment of VAT is, in the view of the Directors, a result of the Ukrainian government's current weak fiscal position The Directors believe that there is a risk that continued fiscal weakness could further preclude the prompt repayment of VAT for some time This would lead to higher levels of working capital and increase the risk of a financial loss when repayment occurs which would depend on the eventual type of repayment and the prevailing exchange rate if repayment was made in local currency Ferrexpo continues to have a constructive dialogue with the Ukrainian authorities regarding the repayment of overdue VAT

CSR

In 1960 the town of Komsomolsk was established adjacent to the Poltava mine to support the mining and processing operations Ferrexpo remains the largest employer in the town, which has a population of approximately 55,000 people, of which approximately 23% of the working population are employed by the Group Ferrexpo has been a significant investor in local community initiatives from the outset, investing funds in the social infrastructure of Komsomolsk and the surrounding area These funds have been spent on 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 In 2012, Ferrexpo spent approximately UAH166 million (US$21 million) (2011 UAH102 million or US$12 million) on community projects Due to Ferrexpo's presence as a major local employer and its contributions to community initiatives, unemployment in Komsomolsk is significantly below the national average, and the average salary is significantly above the national average

Corporate Governance

The Board remains dedicated to maintaining the highest standards of corporate governance in the conduct of its business throughout the Group, as well as instilling a culture of commitment and accountability in all employees Ferrexpo has fully complied, since its 2007 listing, with the Combined Code on Corporate Governance, and since 2011 with the UK Corporate Governance Code of 2010

The Board is comprised of 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

2012 has been a notable year in the history of Ferrexpo Without the dedication and commitment of all Ferrexpo employees this would not have been possible The Board would very much like to thank the management and staff for their continued hard work which directly contributes to the progress achieved

Strategy and Outlook

Ferrexpo will continue with its strategy of developing its significant resource base, improving the quality of its products, and further advancing its logistics infrastructure to enhance its service to first class steel customers around the world with its premium iron ore pellets It will do so in a cost competitive manner to ensure it can deliver its product reliably through the commodity cycle

The Group is well placed to increase its production from 9 4 million tonnes of pellets, from own ore, with an average iron content of 63 3%, to its stated goal of 12 million tonnes of pellets per annum in 2014 The Group is also on track to increase the average iron content of its pellets to 65% in 2015 As Ferrexpo's total output of crude ore ramps up following the opening of the FYM pit, it will be in a position to build further processing facilities and double production output This will be undertaken in accordance with the Directors' approach to prudent debt management and adequate levels of liquidity consistent with the cyclical nature of the business

Overall, pricing for the iron ore market remains difficult to predict while the economic outlook for Ukraine is uncertain In this environment, Ferrexpo's proven management team will continue to implement its strategy, and the Directors believe that the Group will make further progress during the current year

Chairman's and Chief Executive Officer's Statement continued

Strategic Priorities

Delivering the Group's vision to be a sustainable iron ore producer through the commodity cycle.

To develop the Group's significant **resource** base

FYM open pit as of 31 May 2012

Ferrexpo's significant resource base (the largest in Europe) is situated along a single ore body, which enables efficient expansion through brownfield development

What's been achieved in 2012

- First ore at FYM, the first new iron ore mine in the CIS for many years
- Mine life expansion at FPM
- Land acquisition and feasibility studies underway at FBM

Objectives for 2013

- Ramp up of FYM ore to commercial production
- Continuation of mine life extension at FPM
- Development of feasibility study at FBM

Key performance indicators

To improve the **quality** of the Group's pellets

Ferrexpo sells high quality iron ore pellets to premium customers

Ferrexpo is on track to increase the average quality of its pellets from 63 3% iron content to 65% iron content in 2015 Currently, 65% iron content pellets account for approximately half of output

What's been achieved in 2012

- Modernisation of key grinding and WMS sections dedicated to the higher grade concentrate circuit
- Construction of flotation capacity to yield higher grade pellets
- Upgrade of the balling machines and installed larger capacity vacuum filters
- Installation of a new annular cooling ring

Objectives for 2013

- Complete construction of first of two new flotation sections, including five vertimills
- Installation of new concentrator mixers
- Evaluation of new gas burners for pellet kilns

Key performance indicators

Maintain a **competitive cost** of production

Ferrexpo is well positioned on the global cost curve sustaining profitability during downturns

Ferrexpo believes it is a competitive cost producer of iron ore concentrate with relatively low pelletising costs on a FOB & CFR basis, allowing it to be among the most competitive iron ore pellet producers globally This has allowed Ferrexpo to maintain positive operating cash flows each quarter since 2006

What's been achieved in 2012

- Since October 2008 when C1 costs reached US$51, overall cost inflation has amounted to 4% per year
- The BIP has reduced the C1 cash cost by US$6 9 per tonne since 2005

Objectives for 2013

- Offset cost inflation through higher production volumes
- Maintain the current level of the C1 cash cost at constant currency

Key performance indicators

Chairman's and Chief Executive Officer's Statement continued

To **expand** the Group's logistics capabilities

A critical focus is to secure reliable and competitive shipping to customers in Europe and Asia compared to major pellet producers from Brazil

A key aspect of long-term sustainable competitive costs with consistent production and product delivery is an integrated and well-invested logistics system In this context, Ferrexpo owns almost 2,000 rail cars, over 140 barges and has a 48 6% ownership in a port terminal on the Black Sea

What's been achieved in 2012

- Significant reduction in seaborne freight costs which increased the Group's net sales price
- Arrival of Ferrexpo's own transhipment vessel
- Further acquisition of rail cars

Objectives for 2013

- Transshipment efficiency gains
- Loading of over 30 capesize vessels
- Increased production volume to be shipped to seaborne markets

Key performance indicators

To open and develop new **markets** and customers

Ferrexpo's location in Ukraine allows it to supply a geographically diverse customer base

Ferrexpo supplies some of the world's leading steel producers, which are focused on producing high quality steel for premium applications The Group allocates a portion of sales to potential new customers through trial spot cargoes, and have conducted such trials with several significant producers in Asia and Germany ahead of the planned production growth from FYM

What's been achieved in 2012

- A new long-term contract with a customer in Europe
- Captured significant market share with China's leading steel mill
- Trial cargoes to premium steel producers in Asia

Objectives for 2013

- To convert previous trial cargoes into long-term contracts

Key performance indicators

To maintain adequate **liquidity** and low balance sheet gearing

As at 31 December 2012 Ferrexpo had cash of US$597 million

Ferrexpo's financial focus is on employing strict financial discipline to ensure financial stability through the economic cycle

What's been achieved in 2012

- Further diversified sources of funding with an increase in Export Credit Agency lending, lowering the Group average cost of funding and lengthening debt maturities

Objectives for 2013

- Continue to review the international debt capital markets as a potential source of financing subject to market conditions
- Continue to manage the debt profile of the Company through lower cost funding and longer dated maturities

Key performance indicators

To be a **responsible** corporate citizen

In 2012 Ferrexpo refurbished the local swimming in Komsomolsk

Ferrexpo's commitment to corporate social responsibility derives from a strong belief that the Group's licence to operate will be underpinned by the Group's CSR performance

What's been achieved in 2012

- No work related fatalities during 2012 or 2011, and the lost time injury frequency rate continued to improve, reaching the lowest point in the Group's history
- Total emission levels (NO_2, SO_2, CO_2 and dust) declined vs 2011 and were within regulated limits
- FPM & FYM continued to foster relationships with local communities e g supply of new equipment to schools, construction of new apartments for employees, supply of medical equipment to local and regional hospitals, provision of medicines to pensioners

Objectives for 2013

- Maintain the trend towards lower emissions (per tonne of pellets produced) while continuing to develop the mine and increase production
- Continue to support the community through various initiatives aimed at helping children through to pensioners

Key performance indicators

Chairman's and Chief Executive Officer's Statement continued

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

Iron Ore Prices and Market

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

Mitigation
- Ferrexpo has a competitive 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

Associated strategic priority[1]

Mining Risks and Hazards

Possible impact
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

Mitigation
- 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

Associated strategic priority[1]

Reliance on State Monopolies

Possible impact
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.

Mitigation
- The factors affecting the Group's future cost structure are closely managed
- Cost reduction initiatives are planned and reported to the Board
- Since inception of BIP in 2006, it has reduced the C1 cash cost by US$6.90 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
- Ferrexpo actively looks to invest in areas to reduce reliance on state monopolies

Associated strategic priority[1]

Logistics

Possible impact
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.

Mitigation
- The Group continues to invest in its logistics capabilities in order to ensure available capacity, better service its customers, lower costs and to reduce reliance on third party providers. Beside considerable investment in the rail car fleet over recent years Ferrexpo owns 143 barges operating on the Danube/Rhine River corridor. It also owns a 48.6% in the port of TIS Ruda which guarantees the Group independent access to the seaborne markets avoiding reliance on the state port

Associated strategic priority[1]

Counterparty Risk

Possible impact
The Group operates in Ukraine which has a weak country credit profile as defined by international credit rating agencies. Financial instability of the Group's counterparties, including its major customers, suppliers, Ukrainian Government and local financial institutions and banks could lead to lower sales volumes, delays in projects and interruption of production or financial loss and adversely affect its future financial results.

Mitigation
- The financial strength of all of the Group's counterparties is subject to regular and thorough review. The results of these reviews are used to determine appropriate levels of exposures consistent with benefits obtained in order to mitigate the potential risk of financial loss. The Group has not experienced any financial losses from transactions with its counterparties
- The Group regularly reviews its supplier base in order to avoid excessive dependence on any supplier, actively encouraging a diversity of supply where possible

Associated strategic priority[1]

Licences

Possible impact
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
- 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

Associated strategic priority[1]

Risks Relating to Finance

Exchange Rate Risk

Possible impact
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.

Mitigation
- 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

Associated strategic priority[1]

1 Please see pages 16 and 19 for the KPI associated with the Strategic Priorities

Chairman's and Chief Executive Officer's Statement continued

Risks Relating to Finance continued

Interest Rate Risk

Possible impact
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

Mitigation
- 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

Associated strategic priority[1]

Financing Risk

Possible impact
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

Mitigation
- The Group s financing risk has been mitigated by the issue of a US$500 million Eurobond and a US$420 million bank facility
- The average debt maturity at 31 December 2012 was three years.
- The Group has minimal debt repayments of US$19 million in 2013

Associated strategic priority[1]

Risks Relating to the Group's Strategy

Expansion Capital Investment

Possible impact
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

Mitigation
- 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

Associated strategic priority[1]

Government Approvals of Expansion

Possible impact
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

Mitigation
- 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

Associated strategic priority[1]

Risks Relating to Operations in Ukraine

Political

Possible impact
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

The Group faces an ongoing legal claim over a shareholding in Ferrexpo Poltava Mining The case has been running for more than six years in Ukraine and the Directors believe it still has some way to go The Board continues to receive legal advice that the case against Ferrexpo has little legal merit under Ukrainian law for legal technical and practical reasons

Mitigation
- 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 and actively defends its rights

Associated strategic priority[1]

Ukrainian Producer Price Inflation ('PPI')

Possible impact
As the Group s operations are in Ukraine it is exposed to cost inflation Ukraine has experienced high levels of inflation over a number of years The inflationary environment increases local costs if not mitigated by a devaluation of the Ukrainian currency and operational efficiency improvements

Mitigation
- The Group's BIP has achieved continuing efficiency improvements and cost reductions over many years Since inception of BIP in 2006, the cash cost of production has reduced by US$6 90 per tonne of pellets The Group also has a consistent track record of producing at full capacity to achieve maximum overhead absorption and is set to expand production output in 2013

Associated strategic priority[1]

Ukrainian VAT Receivable (See Note 26 in the Accounts)

Possible impact
As the bulk of the Group's output is exported it does not collect substantial amounts of VAT on sales (which could otherwise be offset against VAT incurred on purchases of goods and services for operating and investment activities) 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 must be funded from operating cash flows and debt Ukrainian VAT balances are exposed to a risk of devaluation of the UAH The country of Ukraine as the debtor of the VAT balances has a rating of B (S&P)

As of 31 December 2012, Ferrexpo was owed US$302 million of VAT by the Ukrainian government, the majority of which is significantly overdue This amount has been discounted by US$20 million to US$282 million in order to reflect the cost of financing those VAT balances that are expected to be recovered more than one year after the period in which they arose As part of the procedure adopted in Ukraine, it is common for VAT claims to be challenged by the government in the court system A significant portion of the VAT outstanding is currently being challenged in this way, although the Directors believe that the full amounts will eventually be recovered

Mitigation
- The Group maintains an open dialogue with the Government and operates to best international standards ensuring the validity of the VAT repayments

Associated strategic priority[1]

Ukrainian Taxes (See Note 36 in the Accounts)

Possible Impact
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
- 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

Associated strategic priority[1]

1 Please see pages 16 and 19 for the KPI associated with the Strategic Priorities

Operational Review

Reserves and Resources

Ferrexpo's resource base consists of a magnetite ore of average 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.

The Group is currently exploiting the first two deposits through the subsidiary Ferrexpo Poltava Mining ('FPM') In July 2012, Ferrexpo reached first ore at the third deposit with its subsidiary Ferrexpo Yeristovo Mining ('FYM'), and first commercial production of ore from this mine is expected in 2013 The Group is investing in the development of the fourth deposit through Ferrexpo Belanovo Mining ('FBM')

In total, as of 1 January 2013, Ferrexpo had estimated resources of approximately 6 8 billion tonnes classified according to the Australasian Joint Ore Reserves Committee ('JORC') code, and further estimated resources of over 13 2 billion tonnes classified according to the former Soviet Union method of classification (FSU classification) Based on a combination of the JORC and FSU classified resources, management believes the Group holds the licences to the largest iron ore deposit in Europe[1]

The tables below set out our estimates of iron ore reserves and measured, indicated and inferred mineral resources as at 1 January 2013 The reserves and resources estimates are presented in accordance with the JORC Code

Five further deposits are estimated to contain resources of over 13 2 billion tonnes according to the FSU ('Former Soviet

1 Excluding European Russia west of the Ural mountains

Table 1: JORC Reserve Statements as at 1 January 2013

	Reserves					
Deposit	Proved (million tonnes)	Fe grade (total)	Fe (magnetite)	Probable (million tonnes)	Fe grade (total)	Fe (magnetite)
Gorishne-Plavninskoye[1]	207	26	17	496	30	22
Lavrikovskoye[1]	39	32	22	97	32	24
Yeristovskoye[2]	–	–	–	631	34	26
Total	**246**	–	–	**1,224**	–	–

1 The reserves estimates for the GPL deposits are those estimated in the report by RHDHV (Former Turgis UK Consulting (Pty) Ltd) dated 29 May 2009 less the volume of ore mined from GPL deposits in 2009 2010 2011 and 2012
2 The reserves estimates for the Yeristovskoye deposits are based on a report by SRK Consulting (UK) Ltd (SRK) dated 15 June 2007 less the volume of ore mined from the Yeristovskoye deposit in 2012

JORC Resource Statements as at 1 January 2013

	Resources								
Deposit	Measured (million tonnes)	Fe grade (total)	Fe (magnetite)	Indicated (million tonnes)	Fe grade (total)	Fe (magnetite)	Inferred (million tonnes)	Fe grade (total)	Fe (magnetite)
Gorishne-Plavninskoye[1]	285	31	21	1,044	31	23	1,275	31	23
Lavrikovskoye[1]	100	28	20	692	31	23	174	29	20
Yeristovskoye[2]	267	34	27	560	32	26	364	30	23
Belanovskoye[2]	336	31	24	1,149	31	23	217	30	21
Galeschinskoye[2]	–	–	–	268	55	–	58	55	–
Total	**988**	–	–	**3,713**	–	–	**2,088**	–	–

1 The resource estimates for the GPL deposits were calculated based on a review conducted by SRK in March 2008 less the volume of ore mined from GPL deposits in 2008 (27 8 million tonnes) 2009 (28 6 million tonnes) 2010 (28 9 million tonnes) 2011 (29 6 million tonnes) and 2012 (29 8 million tonnes)
2 The resource estimates are based on a report by SRK Consulting (UK) Ltd ('SRK') dated 15 June 2007 less the volume of ore mined from the Yeristovskoye deposit in 2012 (1 14 million tonnes)

Union') classification code Ferrexpo is currently working together with international consultants to convert these resources to the universally accepted 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 Galeschinskoye deposits The Group is currently extending the exploration licences 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 of stipulated requirements in terms of development of the deposit and community obligations

Production
In 2012, 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 were produced and shipped in the form of pellets

FPM Highlights

- **Increase in production from own ore of 2.6%**
- **On track to increase volume to 12mtpa in 2014**
- **On track to increase average pellet quality to 65% Fe in 2015**

FPM pit as at July 2011

Review of Operations Ferrexpo Poltava Mining ('FPM')
FPM consists of a mine, concentrating and pellet processing facilities that exploit the Gorishne-Plavninskoye and Lavrikovskoye ('GPL') deposits As of 1 January 2013, the GPL deposits had iron ore resources of 3 6 billion tonnes, of which approximately 839 million tonnes were proved and probable reserves with an average iron content of 30% under the JORC Code The mine is adjacent to rail and port facilities on the Dnieper River and is six kilometres long and over 350 metres deep FPM operates a traditional shovel and truck open pit mining operation extracting approximately 30mtpa of crude ore This mine has operated successfully for over 40 years without any significant disruptions or delays in production

At FPM's production facilities, the crude ore is ground and crushed to remove rock and concentrated, thereafter, it is formed into balls and fired to produce iron ore pellets which have a current average iron content of 63 3% FPM's production facilities have technical capacity to produce 12mtpa of pellets Output, however, is currently limited to 10mtpa due to the amount of crude ore available from the FPM pit and certain bottlenecks in concentrating and pelletising, which are being upgraded and modernised as part of the sustaining capital expenditure programme

For the year ended 31 December 2012, FPM increased the amount of iron ore mined to 29,761 thousand tonnes compared to 29,637 thousand tonnes in 2011 9,301 thousand tonnes of pellets from own ore were produced, of which 4,118 thousand tonnes had circa 65% iron content and 5,183 thousand tonnes had circa 62% iron content FPM also produced 108 thousand tonnes of pellets from FYM ore and 281 thousand tonnes of pellets from purchased third party concentrate

FPM plans to mine up to 30 million tonnes of ore per year from the pit equating to an estimated mine life in excess of 25 years

Our Growth Projects – FPM

25 **years**
mine life

30 **million tonnes**
of crude ore mined per annum

Increasing the Quantity and Quality of the Group's Pellets

"FPM is on track to increase production output from own ore by c. 30% to 12mtpa in 2014 and to increase the average quality of its pellets from 63.3% Fe to 65.0% Fe in 2015."

Viktor Lotous
Chief Operating Officer of Ferrexpo Poltava Mining

"These projects are brownfield in nature as while FPM increases its future production capabilities it must do so without affecting current production levels and most importantly without compromising safety FPM places great emphasis on continual improvements in work place safety The graph below demonstrates the improvements it has made"

Operational Review continued

Table 2 Production Statistics

(000t unless otherwise stated)	2012	2011	Change +/	%
Iron ore mined	**29,761**	29,637	124	0 4
Average Fe content	**30 66**	30 23	0 03	0 1
Iron ore processed	**29,803**	29 535	268	0 9
Concentrate produced ('WMS')	**11,830**	11,487	343	3 0
Average Fe content %	**62.24**	62 60	(0 36)	(0 6)
Floated concentrate	**6,834**	7,241	(407)	(5 6)
Higher grade	**4,571**	4,685	(114)	(2 4)
Average Fe content %	**67**	67	–	–
Purchased concentrate	**325**	864	(539)	(62 4)
Average Fe content %	**65**	66	(1)	(1 6)
Purchased iron ore	**373**	–	373	–
Pellets produced from own ore	**9,301**	9,063	237	2 6
Pellets produced from FYM ore	**108**	–	–	–
Total Group production from own ore	**9,409**	9,063	346	3 8
Higher grade	**4,118**	4,256	(138)	(3 3)
Average Fe content %	**64 85**	64 95	(0 1)	(0 2)
Lower grade	**5,291**	4,807	484	10 1
Average Fe content %	**62.14**	62 2	(0 06)	(0 1)
Pellets produced from purchased concentrate and ore	**281**	748	(467)	(62 4)
Higher grade	**56**	543	(487)	(89 7)
Average Fe content %	**65**	65	–	(0 0)
Lower grade	**225**	205	20	9 8
Average Fe content %	**62**	62	–	–
Total pellet production	**9,690**	9,811	(121)	(1 2)
Pellet sales volume	**9,675**	9,876	(201)	(2 0)
Gravel output	**2,822**	2,855	(33)	(1 2)
Stripping volume	**27,916**	28,214	(298)	(1 1)

BIP Highlights

- **In 2012, FPM implemented 36 projects as part of BIP saving US$64 2 million**
- **Since inception of BIP in 2006, the C1 cash cost of production has reduced by US$6 9 per tonne**

Bucket wheel excavator at FPM stockpile

Health and Safety

There were no fatalities at FPM in 2012 and 2011, and lost-time injuries reduced from 11 in 2011 to 10 in 2012, reducing the LTIFR to 0 74 per million man hours worked which is the lowest rate in FPM's history (2011 0 82 per million man hours worked) This reduced the three-year moving average to a LTIFR of 0 96 compared to the prior three year average of 1 12 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 and to set the standard for mining companies operating in the CIS

Business Improvement Programme ('BIP')

In 2012, FPM completed and implemented 36 projects as part of the BIP This reduced the C1 cash cost of production by US$64 2 million or 1 8%, in line with its goal of 1% to 2% cost savings per annum Of these projects, 17 related to mining activities, six projects were focused on improving productivity in the processing facilities and 13 projects focused on reducing downtime in the service departments Overall 14 projects were aimed at reducing electricity consumption Table 3 shows the actual resource savings achieved in 2012

Table 3 Resource Savings Under BIP

Resource	Savings
Power (million kWh)	31 7
Steam (Gcal)	1,920 0
Grinding media (tonnes)	741 0
Diesel fuel (tonnes)	79 2
Lining (tonnes)	11 7

It is an essential part of the Group's strategy to reduce costs in order to remain a competitive pellet producer This has been achieved through ongoing efficiency improvements and cost reductions over many years Table 4 illustrates the effect of these projects Since inception of the BIP programme in 2006, FPM has achieved savings of US$6 9 per tonne in the C1 cash cost of production

Table 4: Improvement in Consumption Norms

Norms – examples	2012	2005	Ch %
Electricity (kWh/t)	**173.1**	205.5	(15.8)
Gas (m^3/t)	**17.0**	22.0	(23.1)
Grinding bodies (kg/t)	**5.6**	6.4	(12.8)
Labour productivity (thousand tonnes/person)	**1.5**	0.7	108.8

Examples of the BIP in 2012.
Decrease in Consumption of Steel Grinding Media in Concentration Plant
Cost: no capital cost required
Total savings since the project inception in 2011 are 1,998 tonnes of steel grinding media and reduced electricity costs of UAH18 million

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 assessed 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 required grinding media
3. Consistent particle size achieved

Reduction of Power Consumption at the Tailings Plant
Cost: UAH13 million
Total savings since the project inception in 2010 are 33 million kWh of power and reduced electricity costs of UAH21 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. FPM redesigned the piping from the dam to the processing plant to allow water to flow by gravity back to the processing area thereby eliminating the use of large electrical pumps

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

Mine Dewatering System
Cost: UAH0.5 million
In 2012, 1.7 million kWh of power was saved and electricity costs were reduced by UAH1.2 million

Description of Project
The project commenced in 2011 with the design and approval by FPM's technical committee. In December 2011, the pit dewatering scheme at the Lavrikovskoye deposit (at the northern end of the pit) was changed from a double stage dewatering system to a single stage system. This allowed FPM to eliminate a transitional pumping station located near ground level of the pit by installing higher capacity pumps at -90 metres in the pit

Expected Project Outcomes
1. Electricity cost reduction
2. Maintenance cost reduction
3. Improved efficiency

The BIP is embedded in the Company's culture with targeted outcomes linked to operational managers' performance evaluations. The Group 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$108.4 million for the modernisation and debottlenecking of FPM's production facilities (2011: US$121.0 million)

Included in sustaining capital investments are projects to upgrade FPM's beneficiating and pelletising 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 ore from the FPM pit and, additionally, the first ore from the FYM pit, increasing the Group's pellet output capacity to 12 million tonnes per year. Activities during the period, focused on the redesign and refurbishment of the grinding sections. These were completed and commissioned through the year, while maintaining day to day operations and production levels. Future activities will involve the modernisation of additional grinding sections of the existing beneficiation plant, as well as the replacement of vacuum filters, and mixers in the pelletising plant to achieve a higher quality of iron ore concentrate to feed the balling machines

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
FPM is undertaking a number of development and improvement projects that will increase its volume of output, as well as the average quality of its pellets and drive down the overall cost of production through increased operating efficiency

Quality Upgrade Programme
In November 2010, the Board of Directors approved a US$212 million investment programme to increase the average quality of FPM's pellet output from 63.3% iron content to 65% iron content.
In order to improve the quality of the pellet product, the overall iron content of the concentrate requires upgrading. The primary method to achieve this is through vertimill fine grinding technology and flotation. This will allow for the production of concentrate with an average 67% iron content (compared to the current average iron content of 65%) and will ensure all pellets contain 65% iron content. Below is a summary of the key stages in the project

- Construction of a new flotation unit consisting of vertimills and flotation tanks to allow for further processing of the lower grade ore mined in FPM's pit
- Modernisation of the existing flotation unit that currently processes the higher grade ore from the FPM pit, including installation of vertimills
- Construction of an additional flotation unit to process tailings from the above flotation sections to liberate further iron ore
- Expansion and upgrade of the tailings facilities to accommodate the increased volumes that will be processed as production of pellets from own ore is increased from 9.4mtpa to 12mtpa
- Construction of a new filter plant at the pelletising plant which will accommodate the filtering of the higher grade concentrate

Since 2011, FPM has spent US$38.3 million primarily on engineering design works and processing equipment such as vertimills. FPM expects to spend US$67.8 million out of the remaining US$173.7 million in 2013

FPM expects to be able to deliver pellets with an average grade of 65% iron content in 2015

Our Growth Projects – FYM

50 million m³

of overburden removed at FYM as of
31 December 2012

First Ore at FYM – a Milestone in the Group's History

"FYM is the first new mine in the CIS since Ukraine gained its independence. Ferrexpo is developing the mine to world class levels, aiming to set the standard for mining in the region."

28 million tonnes

of crude ore available to mine per annum following ramp up

Nikolay Goroshko
General Director of Ferrexpo Yenstovo Mining

"In 2012, FYM reached first ore in July and developed much of the required infrastructure which will be commissioned in 2013 As such, not only will it ramp up ore production to approximately 9 million tonnes in 2013 but it will commission the tyre wash centre, the welding bay, the handling facility, the service, administration and repair centres, the canteen, the portable water facilities as well as the field offices In conjunction, FYM will finalise the detailed design for a 10mtpa concentrating facility to be in operation, subject to Board approval and market conditions, by 2016/17"

FYM mine and infrastructure as of October 2012

Operational Review continued

Brian Maynard
Group Chief Operating Officer

Mine Life Extension Programme
Capital expenditure of US$168 million over a period of eight years was approved in November 2010 to extend the estimated life of the existing FPM mine by 12 years to 2038 The project will involve removal of 45 2 million m³ of overburden As of 31 December 2012, 24 8 million m³ of overburden had been removed

For the year ended 31 December 2012, US$48 6 million was spent on mining equipment and stripping works, compared to US$45 7 million in 2011 The successful implementation of this project should result in the ore output from the existing mine peaking at 35mpta in 2014 compared to the current output of approximately 30mpta

Review of Operations Ferrexpo Yeristovo Mining ('FYM')
Developing the Yeristovskoye Deposit
Ferrexpo has a licence to mine the Yeristovskoye iron ore deposit at FYM, which is located approximately two kilometres north of the FPM mine The FYM deposit has estimated resources of 1,191 million tonnes under the JORC Code, of which approximately 631 million tonnes were proved and probable reserves with an average iron content of 34% Assuming an iron ore production rate of 28mtpa (broadly similar to FPM's current production), it has the capacity to add approximately 23 years to the Group's production profile

First ore at the Yeristovskoye deposit was reached in the second half of 2012 Ferrexpo spent US$146 3 million and US$128 9 million, respectively, for the year ended 31 December 2012 and 2011 This expenditure was primarily on mining equipment, stripping works and pit infrastructure In total, US$383 million has been spent since 2008 to develop the mine

The FYM mine is managed and operated independently from the existing FPM mine, although its proximity to the FPM mine will facilitate the sharing of certain facilities and resources, particularly during the early stages of operation The ore initially extracted from the FYM mine will be processed at FPM's processing complex Together with existing output from the FPM mine, the Group expects to increase its annualised pellet production from 9 4mtpa of own ore in 2012 to 12mtpa of pellets from own ore in 2014 In 2012, 0 1 million tonnes of pellets were produced from FYM ore Meaningful commercial production of pellets using FYM ore is expected in the second half of 2013 once FYM has mined through the initial layer of weathered ore This will contribute to increased production volumes in 2013 and position the Group to reach its 12mpta target in 2014 as production ramps up

FYM is developing additional processing and pelletising facilities for the remaining available crude ore mined at the FYM pit These processing facilities will be new and stand alone and are expected to increase combined output of both the FPM and FYM mines to around 20mtpa of pellets or concentrate equivalent per annum This project will add an additional concentrating complex with 10 million tonnes of capacity In October 2012, the Board of Directors approved US$30 million to begin the detailed engineering work for this development in 2013, which, subject to market conditions, will be considered for final approval in the second half of 2013 and targeted to begin concentrate production in the second half of 2016 with full production targeted by the end of 2017

Health and Safety
Since its inception in 2008, FYM has had an excellent safety record There were no fatalities or lost time injuries in 2012 or 2011

Ferrexpo Belanovo Mining ('FBM')
The Belanovskoye deposit has total JORC resources of 1,702 million tonnes Drilling works and site preparation activities are under way and during the period the Group spent US$32 9 million (2011 US$8 0 million) Topsoil is being removed and donated to the district council The Belanovo activities are focused on development of a feasibility study, licence maintenance and the acquisition of land Pre stripping work will start following full financial appraisal and the grant of appropriate permits

Ferrexpo Galeschino Mining ('FGM') and the Northern Deposits
The Group holds a mining licence for the Galeschinskoye deposit, located immediately north of the FBM mine Galeschinskoye has estimated total JORC classified resources 326 million tonnes

The Group is in the process of extending the exploration licences for the five remaining Northern deposits, namely Vasilievskoye, Kharchenkovskoye, Manuilovskoye, Brovarskoye and Zarudenskoye, located to the north of Galeschinskoye An initial assessment of these deposits has been undertaken and total in situ reserves of 13 2 billion tonnes classified according to the FSU Classification have been delineated These deposits are situated adjacent to the Group's existing logistics infrastructure and Ferrexpo believes the development will be relatively low risk

Marketing
Sales and Logistics
Ferrexpo exports 99 9% of its production to markets outside of Ukraine and receives all of its revenues in US Dollars The marketing strategy is centred on securing sales for a large percentage of production with long-term contracts Customers are targeted who produce high value added steel products

This is designed to maximise revenue stability and security through the economic cycle For the year ended 31 December 2012, sales to long-term customers accounted for approximately 75% of our sales volumes from own ore, in line with 2011

In advance of the planned FYM mine expansion, Ferrexpo currently allocates around 10% of sales to potential new customers to be supplied through trial spot cargoes As a result of this, the Group recently secured long-term contracts with key customers in both Western Europe and Asia

Ferrexpo services the key steel producing regions in the world through three market segments

- Traditional markets these lie within Central and Eastern Europe and include steel plants that were initially designed to use Ferrexpo pellets Ferrexpo has well-established logistics routes and infrastructure to service these steel mills by both river barge and rail The Group's products represent an attractive alternative to Brazilian and Canadian suppliers due to the closer proximity allowing for a continuous small-parcel delivery chain Key traditional customers are based in Austria, the Czech Republic, and Slovakia
- Natural markets these markets include Turkey, the Middle East and Western Europe and are located where the Group has a similar logistics cost advantage compared to more distant producers Ferrexpo currently has a relatively low market share in these markets which offer sales growth opportunities
- Growth markets these markets are in Asia and have the potential to deliver new and significant sales volumes to the Group Within this region Ferrexpo is focused not only on China and India but also on building relationships with the premium steel producers in South Korea, Taiwan and Japan Ferrexpo concentrates on reducing its freight costs to this region by delivering via capesize vessels enabling it to remain competitive on a landed cost basis

The following table shows the % of Group sales volume by market segment

Table 5 Sales Volume by Market Segment

	2012	2011
Market		
Traditional	**49%**	53%
Growth	**42%**	40%
Natural	**9%**	7%

Ferrexpo intends to maintain and consolidate its leadership in Traditional markets while looking to maximise opportunities for sales growth in its Natural and Growth markets

In Natural and Growth markets, the Group has been steadily reducing the cost of freight Ferrexpo's 48 6% owned port terminal at Yuzhny on the Black Sea has guaranteed capacity of 5mtpa This port berth was initially designed for vessels of carrying capacity of up to 100,000 tonnes, and historically vessels were loaded in the range of 70,000 to 85,000 tonnes Ferrexpo has developed a cost effective capability to load standard capesize vessels, typically around 172,000 tonnes, by use of a transshipment vessel In 2012, Ferrexpo loaded 17 capesize vessels compared to nine in 2011 and it plans to load over 30 capesize vessels in 2013 As of December 2012, Ferrexpo operates its own transshipment vessel which will further reduce loading costs

Overall, the lower freight costs achieved in 2012 were as a result of reduced capesize rates in the market generally, the greater use of capesize vessels for shipping and the more efficient transshipment and loading of vessels This resulted in a higher net sales price for the Group

Logistics Capital Investment

In 2012, Ferrexpo invested US$43 5 million in the development of its logistics infrastructure (2011 US$57 8 million) This included US$14 4 million for its transshipment vessel, Iron Destiny, as well as US$29 1 million for rail wagons As of 31 December 2012, the Group owned 1,933 rail cars which allow it to transport a high proportion of its pellets to Ukrainian border points reducing its reliance on state rail cars and lowering transportation costs In February 2013, the Group ordered a further 267 rail cars which will take the inventory of rail cars to 2,200 units As part of sustaining capital, the Group invested US$5 0 million (2011 US$6 4 million) in its barging operations

Jason Keys
Chief Marketing Officer

Pricing

Pellets are a high quality iron ore product which can be directly charged into the blast furnace and provide steelmakers with a higher level of productivity As a result, iron ore pellets are generally priced at a premium compared to iron ore fines or lump Ferrexpo's pellets are relatively low in alumina and phosphorus, which is particularly important to flat steel manufacturers Pellets can generally be shipped consistently in cold climates as the lower moisture content makes them easier to handle and less prone to freezing Currently in the global iron ore market, there are a number of pricing methodologies being applied by industry participants depending on geography and customer With regards to the major suppliers, the index based pricing mechanism is now well established in long-term contracts whilst it is common for these companies to regularly place shipments to the increasingly liquid spot market In 2012, 61% of Ferrexpo's sales contracts were priced on a quarterly basis while 14% were priced on a monthly basis and 26% were on a spot basis This compares to 76% on a quarterly basis and 24% on a spot basis in 2011

The Group will follow international pricing trends increasing the proportion of contracts priced on a formula or index basis Ferrexpo will continue utilising a 'value in use' methodology Ferrexpo believes that its geographic proximity to key steel customers represents an attractive alternative to the major seaborne suppliers due to the lower costs of transporting pellets over a shorter distance from Ukraine

Financial Review

Table 6 Summary Financial Results

US$000	Year ended 31 12 12	Year ended 31 12 11	Change
Revenue	**1,424,030**	1,788,012	(20 4%)
EBITDA	**401,549**	800,946	(49 9%)
As % of revenue	**28.2%**	44 8%	
Profit before taxation	**262,005**	690,900	(62 1%)
Income tax	**46,425**	115,964	
Profit for the period	**215,580**	574,936	(62 5%)
Diluted earnings per share (US cents)	**36.6**	97 0	
Final dividend per share (US cents)	**3.3**	3 3	–

Chris Mawe,
Chief Financial Officer

Revenue
Group revenue declined by 20 4% to US$1 4 billion for the 12 months ended 31 December 2012 (2011 US$1 8 billion) due to lower market prices for iron ore In 2012, the average benchmark price for 62% Fe iron ore fines to China CFR fell by 23 8% to US$128 per tonne compared to an average of US$168 per tonne in 2011

The average realised price achieved by the Group for its pellets declined 21 7% in line with the market, decreasing revenues by US$326 9 million 38 8% of sales were on a CFR or similar basis adding US$113 5 million to revenue (2011 US$119 6 million) Group sales volumes for the period were 9,675 thousand tonnes compared to 2011 at 9,875 thousand tonnes

Reliance on the Company's two largest customers, in Central and Eastern Europe, was reduced to 36 2% of pellet sales from 43 1% of sales in 2011

Other revenue, not related to pellet sales, amounted to US$94 0 million (2011 US$88 1 million) This included revenue from third party services, such as freight services and bunker fuel sales, at the Group's barging operations as well as sales from gravel

Cost of Sales
Total cost of sales for the year ended 31 December 2012 increased 6 9% to US$694 6 million (2011 US$649 5 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 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

The Group's average C1 cash cost of production increased by 17 6% to US$59 6 per tonne, compared to the average C1 cash cost in 2011 of US$50 7 per tonne This was due to increased electricity tariffs and gas prices as well as local inflation while the Ukrainian Hryvnia remained stable against the US Dollar

Just over half of C1 cash costs are denominated in Ukrainian Hryvnia The Hryvnia has remained largely stable since 2009 at UAH8 to the US Dollar Prior to the 60% devaluation of the Hryvnia at the end of 2008, production costs peaked at US$51 0 per tonne in October 2008 In this context, since then production costs have increased by a compound annual growth rate of 4 0% per annum reflecting local inflation and increases in gas and electricity tariffs offset by savings from volume increases and efficiency gains

Of the US$8 9 per tonne increase in the C1 cash cost in 2012 compared to 2011, commodity related price inflation accounted for 46 0% of the increase In 2012, gas and electricity prices rose by 24 1% and 18 7% respectively while the cost of diesel fuel was 6 9% higher, reflecting higher global oil prices during the year and increased domestic fuel taxes In total, these factors added US$4 3 per tonne to the C1 cash cost

Personnel, repair and maintenance and other material costs increased the C1 cash cost by US$4 5 per tonne These expenses are principally denominated in local currency

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 US$0 8 per tonne Since the inception of the BIP in 2006, cumulative productivity gains have achieved savings of approximately US$6 9 per tonne of pellets produced, or US$64 2 million to the 31 December 2012

Table 7 C1 Cash Costs

	Year ended 31 12 12		Year ended 31 12.11	
	US$000	**% of total**	US$000	% of total
Electricity	**140,227**	**25 0%**	118,148	25 7%
Gas	**77,424**	**13.8%**	59,821	13 0%
Fuel	**55,223**	**9.8%**	47,064	10 2%
Grinding media	**41,716**	**7 4%**	40,921	8 9%
Explosives	**15,970**	**2.8%**	13 151	2 9%
Other materials	**56,478**	**10 1%**	38 662	8 4%
Spare parts, maintenance and consumables	**100,386**	**17.9%**	78,191	17 0%
Personnel costs	**64,280**	**11.5%**	55,810	12 1%
Royalties and levies	**9,444**	**1 7%**	7,746	1 8%
C1 cost of sales	**561,148**		459,514	
C1 cost per tonne	**59 6**		50 7	

Cost of Sales outside C1 Relating to Pellet Production
These costs amounted to US$133 5 million for the period (2011 US$190 0 million)

Depreciation and amortisation increased by 37 2% to US$39 3 million, reflecting the Group's capital investment programmes to modernise and upgrade the existing mine and production facilities

The remainder of non-C1 cost of sales related to the purchase of concentrate for reprocessing into pellets The Group has nominal pelletising capacity of 12 million tonnes of pellet production per year FPM is currently able to mine ore sufficient to produce just over 9 0 million tonnes of pellets To utilise its spare pelletising capacity efficiently, third party concentrate is purchased, when available at economic prices, on the local market During the year, 281 0 thousand tonnes of third party concentrate was acquired (2011 747 3 thousand tonnes) which generated a positive contribution As FYM ore comes on line in 2013 the Group will replace third party concentrate

Gross Margin
The Group's gross margin was 51 2% for the period compared to 63 7% in 2011 This reflected lower market prices for iron ore and industry cost inflation

Financial Review continued

Selling and Distribution Expenses

Selling and distribution expenses were US$311 9 million for the year compared to US$318 1 million in 2011

Selling and distribution costs to the Ukrainian border increased by US$2 4 million to US$140 4 million in the period (2011 US$138 0 million), equating to US$14 5 per tonne (2011 US$14 0 per tonne) These costs primarily include railway freight to the southern ports at Yuzhny and Izmail and to the western Ukrainian border as well as port charges

Rail tariffs increased on average by approximately 12 2% in 2012 compared to 2011 reflecting a full year impact of tariff increases in 2011 This was partially offset by a discount for volumes transported by the Group's own rail cars Ferrexpo owns 1,933 rail cars and received discounts from 9% to 15% for using its own cars, depending on direction

International freight costs amounted to US$113 5 million (2011 US$119 6 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) The Group shipped 3 8 million tonnes of pellets by sea to customers in Growth and Natural markets on a CFR or equivalent basis principally through the loading of 17 capesize vessels Utilisation of capesize vessels allowed Ferrexpo to reduce seaborne freight costs by approximately US$21 million in 2012 compared to 2011

Depreciation amounted to US$9 8 million (2011 US$8 2 million) and related to amortisation of the Group's river vessels as well as to rail cars

Table 8: Selling and Distribution Expenses

(US$ million unless otherwise stated)	**Year ended 31.12.12**	Year ended 31 12 11
International freight for pellets	**113.5**	119 6
Railway transportation	**93.4**	89 2
Port charges	**32.0**	37 7
Other pellet transportation costs	**18 6**	13 5
Costs of logistics business	**27.5**	36 7
Gravel delivery costs	**0.5**	1 8
Advertising	**9 6**	6 9
Depreciation	**9.8**	8 2
Other	**7 0**	4 4
Total selling and distribution expenses	**311 9**	318 0
Total sales volume (thousand tonne)	**9,675**	9,876
Cost per tonne of pellets sold (including international freight) (US$)	**32.2**	32 2
DAP/FOB distribution costs per tonne of pellets sold (US$)	**14 5**	14 0

General and Administrative Expenses

General and administrative expenses were US$56 3 million (2011 US$52 0 million) The increase was related to new marketing offices in Singapore and Japan as well as personnel costs reflecting local inflation

Other Income and Expense

Other income was US$11 3 million in 2012 (2011 US$6 9 million) The increase reflected higher operating income from the lease of premises to third parties at FPM

Other expenses increased to US$30 2 million (2011 US$17 1 million) This reflected increased spending on support for the local communities in the Poltava region, where FPM is based and is a key part of the Group's strategy

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, property, plant and equipment

Ferrexpo maintained satisfactory levels of profitability reflecting a 23 8% fall in market prices and industry wide double digit cost inflation EBITDA for the period was US$401 5 million (2011 US$800 9 million)

Finance Income and Expense

Finance income was US$2 6 million (2011 US$2 5 million) Interest from cash held was US$2 5 million in line with 2011 The average cash balance during the year was US$743 4 million (2011 US$604 8 million)

Finance expense increased to US$88 1 million (2011 US$68 2 million) which included a full year of interest payment on the Group's US$500 million Eurobond totalling US$39 5 million (2011 US$28 8 million) 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 which remained outstanding in 2012 Interest on this facility is 225 basis points above LIBOR which was significantly below the previous bank facility The average cost of Group debt for the period was 5 24%, almost a percentage point lower than the average of 6 23% in 2011 reflecting a full year of the lower cost bank facility

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

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 delivered at place

Dunng the penod, the Ukrainian Hryvnia remained stable against the US Dollar at an average rate of UAH7 9905 (2011 UAH7 9579) As a result, there was no significant operating foreign exchange movements, with a gain of US$0 7 million recorded (2011 loss of US$1 4 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

The Group recorded a non-operating foreign exchange gain for the period of US$6 6 million (2011 loss of US$1 9 million) This related to income received from the conversion of US Dollars for settlement of liabilities denominated in Ukrainian Hryvnia at an exchange rate higher than the one applicable upon initial recognition

Income Tax Expense

Ferrexpo pays tax in various jurisdictions The effective income tax rate was 17 8% for the year ended 31 December 2012 compared to 16 8% for 2011 This rate is influenced by the Group's mix of profits primarily between Switzerland, Ukraine and Dubai, as well as the amount of non-deductible expenses for tax purposes

Cash Flows

Net cash flow from operating activities was US$118 6 million for the period compared to US$502 7 million in 2011

Working capital increased by US$128 2 million primarily reflecting higher VAT receivables (2011 working capital increase was US$111 4 million) As a result of high capital expenditure during the year on which the Group pays 20% VAT, and a delay in respect of VAT repayments from the Ukrainian government, VAT receivables increased by US$129 9 million during the period to US$301 5 million A US$20 0 million discount has been recorded to reflect the time value of money for VAT given the expectation that a portion of VAT will be recovered after more than one year

Total capital investment for the year was US$429 3 million, a 13 5% increase compared to US$380 4 million in 2011

Sustaining and modernisation capital investment was US$113 5 million for the Group (2011 US$128 0 million) of which US$108 4 million was invested at FPM (2011 US$121 3 million) The remaining US$5 1 million was largely invested in the barging operations

In November 2010, the Board approved US$646 9 million for development projects at FPM and FYM In 2012, the Group spent US$230 0 million in this regard (2011 development capex US$177 9 million) US$83 7 million was spent at FPM, while US$146 3 million was invested at FYM

US$41 8 million was spent on the FBM and Northern deposits during the period (2011 US$12 0 million) The spend was primarily related to FBM for topsoil removal and site preparation activities

Total development expenditure on logistics was US$43 5 million (2011 US$57 8 million) Of this US$29 1 million related to the acquisition of rail cars and US$14 4 million was for the Group's transshipment vessel

The Group's closing cash balance was US$596 6 million (2011 US$890 1 million) This reflected lower levels of profitability due to a subdued market environment in 2012 as well as record levels of capital investment

Ferrexpo's gross debt had an average maturity of 3 0 years at 31 December 2012 The Group has minimal debt repayments of US$19 2 million in 2013 Net debt to EBITDA as of 31 December 2012 was 1 05 times

Table 9 Summary of Group Liquidity and Debt

US$ million	As of 31 12 12	As of 31 12 11
Cash and equivalents	**596 6**	890 1
Gross debt	**1,019 9**	970 3
Net debt	**(423.4)**	(80 2)
Total equity	**1,569 9**	1,393 1
Undrawn facilities	**-**	50 0
Total liquidity (facilities plus cash)	**596.6**	**940 1**

Christopher Mawe
Chief Financial Officer

Corporate Responsibility

Chairman's Statement
Ferrexpo's Board is fully committed to the Group's corporate social responsibility ('CSR') initiatives, which aim to achieve a high international standard of performance

The Board focuses its attention on three key areas

Safety: with the assistance of external consultants, Ferrexpo is embedding an improved safety culture throughout the organisation This is reflected in the steady fall in the accident rate and in the accompanying distress and disruption

Environment continuous efforts are made to manage and reduce dust, gas and effluent emissions, by introducing new equipment and procedures Ferrexpo is keenly aware of its duty to manage its resources carefully and with the proper regard for the natural and social environment

Community: Ferrexpo benefits enormously from having a thriving, well-educated and well-motivated local community which aids the recruitment and retention of staff To this end it pursues a wide range of initiatives, from dealing sensitively with its immediate neighbours, to sponsorship of the football teams that enjoy overwhelming support among employees and the local community

In all of this the Board aims to foster high standards of behaviour among employees, reinforced by appropriate codes of conduct

Michael Abrahams
Chairman

2012 Highlights

Safety
- There were no work related fatalities during 2012, and the lost time frequency rate continued to improve, reaching its lowest point in the Company's history This reflects constant efforts to increase safety standards and reduce injuries
- No incidents requiring evacuation of staff or members of the local community

Environment
- Total emissions levels (NO_2, SO_2, CO_2, and dust) declined versus 2011, and were within regulated limits
- Further regulatory permits were obtained for exploration, production, and processing activities

Community Initiatives (see also panel on page 47)
- Project management and monetary support for Regional and District Planning Councils
- Continuing sponsorship of the Ukrainian Premier League football club FC Vorskla which has a large following among the staff and local community, and also the local club FC Gornyak
- Supply of new equipment for local schools
- Construction of new apartment units
- Supply of medical equipment to local and regional hospitals
- More than 500 employees added to FYM in preparation for 2013 commercial production
- Successful resettlement of eight households from the Yemtsy village, in order to support the FYM business
- Medical sponsorship for pensioners and others who are not able to acquire all necessary medicines and supplies

2013 Challenges

Environment
- Maintain the trend towards lower emissions (per tonne of pellets produced), while continuing to develop the site and increase production
- Minimising dust levels from the expansion of the FYM open pit and associated infrastructure

Skills Availability
- Ferrexpo is examining many business and community processes (including peer group compensation analysis, accommodation/housing, and sports/entertainment facilities), in order to attract and retain the skills required to support the modernisation and growth of the site

CSR Strategy

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

	Short term (2012 2014)	Medium term (2012 2016)	Long term (2012 2021)
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 and 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

About this Report

The Board and its 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 in 2011 to adopt a more coherent structure for reporting which can be built on as the Company's monitoring procedures grow

This report covers the reporting period 1 January – 31 December 2012, 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 2011 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, including those highlighted in the Risks and Opportunities section on pages 41 to 42 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 10 to 37 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

Corporate Responsibility continued

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 senior executives 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 2013
- Reviewing the work being done to implement the greenhouse gas emissions reporting regulations in the UK
- Overall review of safety in mining and processing operations, including analysis of industrial injuries and sickness, workplace conditions, and labour safety audits
- A review of CSR related risks

Business Conduct

A concern for high standards of business conduct informs the Group's approach to its activities Awareness of the Group Policy on Bribery and Corruption was reinforced with all managers and commercial employees during the year with training provided when required, 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 2012 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 by far 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 is responsible for health protection, industrial safety, 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 FYM open pit was commissioned in 2012 and will begin commercial production in 2013 A department has been created to deal with health, safety, and environment matters

1,091

number of staff at FYM

The number of staff at FYM grew steadily during 2012, to 1,091 CSR matters form an increasing part of FYM's regular reporting procedures

CSR at First-DDSG Logistics Holding GmbH (formerly Helogistics Holding GmbH)
See section on First-DDSG Logistics 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 2012, there was further action on the recommendations of the DuPont audit of 2011

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 every five years, most recently in January 2013, and audits are carried out annually

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 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

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 (and Trade Unions)
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 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

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

How Ferrexpo Engages with its Stakeholders

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

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

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)

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 Responsibility continued

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) as required Appropriate safety training and refresher 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 2012, and the accident rate for the year has fallen compared with 2011

Throughout the Group's 40-year history of operation it has not experienced any significant shutdowns

Licences
All licences for FPM's and FYM'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

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, and the extension of the current mining licence was approved 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 20 to 23)
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 timely meetings and dialogue with community representatives, in order to reach consensus on 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 Initiatives' under 'Highlights' on page 38)

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 5% in the lost-time injury frequency rate

4,655

employees trained in safety at FPM training centre 2012

For 2012 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

	2012	2011	2010
Lost Time Injury Frequency Rate (LTIFR – see note)	**0 66**	0 77	1 46
Fatal accidents	**0**	0	1
Total accidents	**10**	11	20
Lost days	**338**	469	916

Notes
LTIFR – Number of work related lost time injuries per million man hours (not including contractors)

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 2012, 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 created 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 implemented

Training

Staff are trained in Health and Safety matters as part of their general technical training In 2012, safety training at the FPM Training Centre was provided to 4,655 employees at all levels of the Group (see 'Training and Development' under 'Employees' on page 44)

Corporate Responsibility continued

6,937

employees benefited from various forms of in-house and external training

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 Human Resources systems

Performance
In 2012, 66 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 FPM 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 2012, 107 employees were sponsored by Ferrexpo at institutes of higher education Total educational spending for employees in higher educational establishments was UAH631 thousand (US$79 thousand) In 2012, a total of 6,937 employees received various forms of in-house and external training, at a cost of UAH6 5 million (US$813 thousand)

UAH91M
invested on implementation of environmental protection measures

River Dnieper

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 (International Finance Corporation) 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
- 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 reprocessing 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

	2012	2011	2010
Total gas emissions	**6,332**	5,803	6,294
Of which			
Nitrogen dioxide	**3,293**	2,475	2,922
Carbon monoxide	**2,226**	2,345	2 336
Sulphur dioxide	**813**	887	937
Total solid emissions	**3,296**	3,968	3,575
Total emissions	**9,628**	9,771	9,869

In 2012, FPM spent UAH91 million on the implementation of environmental protection measures, this increase was due mainly to work on the tailings storage area Additionally, UAH69 million was spent on environmental monitoring and maintenance activities Charges payable under emissions regulations declined slightly from UAH32 million in 2011 to UAH31 million in 2012 due to lower waste disposal charges

Ongoing environmental management activities in 2012 included the building of reservoirs for water conservation (using mining overburden to build dams), further development of the closed water cycle for production activities, environmental equipment upgrades and landscaping work

Organisational Responsibility

Ferrexpo has a dedicated Environmental Department the primary responsibility of 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

Corporate Responsibility continued

Ferrexpo is a major sponsor of FC Vorskla a football club based in the Poltava Region which plays in the Ukraine Premier League As well as providing important advertising opportunities for Ferrexpo, this sponsorship of a club that is enthusiastically supported by many people in the local community is a key part of Ferrexpo's social responsibility strategy

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 Ferrexpo for their livelihood is reduced
- Ferrexpo aims to enhance and have a positive relationship with 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 23% 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
- 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

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 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

First-DDSG Logistics Holding GmbH (formerly Helogistics Holding GmbH)
The Group acquired the river transport company Helogistics Holding GmbH (now renamed First-DDSG Logistics Holding GmbH 'First-DDSG') 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 First-DDSG fully into Ferrexpo's CSR culture

(a) Health and Safety
The accident rate at First-DDSG during 2012 was determined by six lost time accidents, equating to a LTIFR of 8 11 accidents per million man hours, and a total of 70 lost days, with no fatalities Accidents were mainly due to injuries causes by handling equipment during frequent barging and mooring operations Accidents are reported to and discussed at monthly meetings with the senior management of the Group, and steps are taken to minimise their reoccurrence

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

(c) Environmental
First-DDSG 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, First-DDSG does not at present consider it appropriate to incur significant expenditure on community initiatives

Community initiatives achieved in 2012

During 2012, FPM and FYM continued to pursue the policy of fostering relationships with the communities around the perimeter of the mining and processing sites, including Komsomolsk, Dmitrovka, and Pryshyb 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

- Upgrades to the local and employer bus transport vehicles
- More than 300 workers hired from the local communities
- Donation of modern equipment to school classrooms
- Purchase of advanced equipment for local hospitals
- Continuation of the 'My First Job' programme, and placement for 92 graduates of the local technical schools
- Renovations and repairs to schools and sports facilities, and hostel accommodation for families

Refurbishment of schools to aid with insulation and upgrade of equipment

Board of Directors and Executive Committee

1 2

3 4

5 6

7 8

Executive Committee

3 5 2 1 7 4 6

1. Michael Abrahams, CBE DL (75)
Non-executive Chairman
Michael Abrahams joined the Board on 14 June 2007 He is chairman of 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 He was chairman of the London Clinic until March 2012

2. Kostyantin Zhevago (39)
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 From 2002 until 2012 he was 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') 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 (51)
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 Before joining Ferrexpo he was finance director of UK Coal plc

4. Oliver Baring (68)
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 (51)
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 (46)
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 (60)
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 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 (58)
Non-executive Director
Mike Salamon joined the Board on 27 March 2009 He is a non-executive director of Central Rand Gold, Gem Diamonds and Minera las Cenizas He was executive chairman of New World Resources plc, a subsidiary of BXR Group Limited and managing director of AMCI Capital, a private equity fund from 2007 until 2012 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

Executive Committee

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 (53)
General Director, FYM
Nikolay Goroshko joined FPM in 1984 He was Chief Financial Officer of FPM until April 2007 and Chief Commercial Officer in charge of the Group's Growth Projects in December 2007 He became the Chief Financial Officer of FYM upon its formation in July 2008, and from 1 November 2012 the General Director of FYM He is a graduate of the Kyiv Institute of National Economics, specialising in Industrial Planning

4 Jason Keys (41)
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 (40)
Chief Financial Officer, FPM
Nikolay Kladiev joined the Ferrexpo Group in June 2005 and FPM in October 2007 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 (48)
Head of Managing Board and Chief Operating Officer, FPM
Viktor Lotous joined FPM in 1986 He became chief engineer in 1997, and Head of Managing Board 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 (53)
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 a company with a premium listing on the London Stock Exchange, the Company is subject 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 2012 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 66

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, Chief Executive Officer ('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 six times during the reporting period Attendance by Directors at Board meetings and Board committee meetings is shown on pages 52 and 53 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 until September 2012 represented 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

Lucio Genovese and Wolfram Kuoni are 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 66) 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, The Minco Trust 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, The Minco Trust 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, The Minco Trust 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 on behalf of the Board transactions where there is a risk of a conflict of interests 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 transactions where there is a risk of a conflict of interest 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 67

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 2012 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 externally-facilitated assessment once every three years, in line with the 2010 Code The first of these is now in progress and will be reported on in the 2013 Annual Report

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

In view of the lapse of five years since the IPO it was decided in 2012 to adjust the composition of some of the committees This was done in August 2012, when Oliver Baring was appointed as an additional member of the Audit Committee and Wolfram Kuoni replaced Michael Abrahams as a member of the Remuneration Committee

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
Six Board meetings were held during the year

Board members		Attendance record
M Abrahams	Non-executive Chairman	6/6
K Zhevago	Chief Executive Officer	6/6
C Mawe	Chief Financial Officer	6/6
O Baring	Senior Independent Non-executive Director	6/6
L Genovese	Independent Non-executive Director	6/6
W Kuoni	Independent Non-executive Director	6/6
I Mitiukov	Independent Non-executive Director	6/6
M Salamon	Non-executive Director	5/6

Audit Committee
Four Audit Committee meetings were held during the year

Committee members		Attendance record
W Kuoni	Chairman	4/4
O Baring[1]		1/1
L Genovese		4/4
I Mitiukov		4/4

1 Appointed to the Committee in August 2012

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
Five Remuneration Committee meetings were held during the year

Committee members		Attendance record
L Genovese	Chairman	5/5
M Abrahams[1]		4/4
W Kuoni[2]		1/1
I Mitiukov		5/5
O Baring		5/5

1 Resigned from the Committee in August 2012
2 Appointed to the Committee in August 2012

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 page 56

Nominations Committee
One Nominations Committee meeting was held during the year

Committee members		Attendance record
O Baring	Chairman	1/1
M Abrahams		1/1
W Kuoni		1/1
I Mitiukov		1/1
K 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 2012, however, when seeking to recruit new Board members in future the Committee will have regard to the recommendations of the Davies Report In accordance with the need for the non-executive membership of the Board to be 'refreshed' from time to time, the Committee will during 2013 start the search for new directors, with a view to making new appointments and retiring current directors from 2014 onwards

Ferrexpo operates equal-opportunities policies with the aim of encouraging the employment of women wherever this is reasonable and practicable, so that over time women will increase as a proportion of the work force and of the pool from which senior appointments are made The Committee will consider the Board's diversity policy in 2013

CSR Committee
One CSR Committee meeting was held during the year

Committee members		Attendance record
B Maynard	Chairman	1/1
M Abrahams		1/1
V Lotous		1/1
K 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 page 40

CID
Five CID meetings were held during the year

Committee members		Attendance record
O Baring	Chairman	5/5
M Abrahams		5/5
L Genovese		5/5
W Kuoni		5/5
I Mitiukov		5/5

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 transactions where there is a risk of a conflict of interest of any member of the Board under the relevant section of the Companies Act 2006

The Committee's terms of reference also 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 71 and 72

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

Corporate Governance Report continued

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 2012 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, the quality of their auditing work, 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 70

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

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 2012 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 120 to 128 See also the Risks section of the Financial Review on pages 20 to 23

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
- 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 once or 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
- Anti-fraud measures 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 14, the Risks section of the Financial Review section on pages 20 to 23 and in the notes to the financial statements on pages 120 to 128

Investment Proposals
A budgetary process and authorisation levels regulate capital expenditure For expenditure beyond specified levels, detailed written proposals are submitted to the Investment and Executive Committees and then if necessary to the Board for approval

Internal Audit
A Group-wide internal audit function has been established, and operated during 2012 using an experienced internal auditor based in Ukraine but independent of operational management, who reported directly to the CFO and the Audit Committee

An internal audit programme for 2012–14, 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 94

Recommendation on Reappointment of Auditors
The Committee considered whether Ernst & Young (who have held office as auditors since 2007) should be proposed for reappointment by the shareholders at the 2013 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 recent rotation of audit partners, 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 12 March 2013

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 UK Corporate Governance Code Part A of the report, which is not subject to audit, sets out the Company's remuneration policy Part B provides details of remuneration and share incentives of the Directors for the year ended 31 December 2012 As required by Schedule 8 of the Companies Act, only subsections entitled Pensions 2010 LTIP award vesting, 2012 LTIP awards granted and Emoluments table of Directors of Part B have been subject to audit This Report will be subject to an advisory shareholder vote at the Company's 2013 Annual General Meeting

Summary Statement
A statement to Shareholders from the Chairman of the Remuneration Committee
On behalf of the Board, I am pleased to introduce the Directors Remuneration Report for the year ended 31 December 2012 As is made clear elsewhere in the Annual Report, in 2012 Ferrexpo performed again in line with its strategic objectives keeping costs under control and maintaining production and sales volumes and expanding productive potential with the opening of a second mine This was against a background of cost inflation and volatile iron ore prices The Remuneration Committee believes that this performance is fairly reflected in executive remuneration outcomes for the year, as set out in this report.

It is the policy of the Board to align executive and shareholder interests by linking a high proportion of remuneration to performance, basing rewards on a balanced portfolio of performance measures, and assessing them against the relevant market so as to ensure that they attract, motivate and retain talented executives The Chief Executive Officer's incentive is derived entirely from his shareholding in the Company, and his salary is paid at a flat rate of US$240,000 per year which is donated to charity The Board considers this large shareholding in the business to be a significant factor in aligning the performance of the CEO with other shareholders' interests and is satisfied that this structure is appropriate The remuneration of the Executive Directors is disclosed in local currency and allows year-on-year comparison, uninfluenced by exchange rate fluctuations on notional translation into US Dollars

Whilst the new regulations governing the reporting and shareholder approval of executive remuneration do not come into force until Ferrexpo's 2013 financial year we have incorporated a number of changes this year to help make our Remuneration Report clearer and easier to understand In summary, this report is divided into two distinct sections the first (A) outlines Ferrexpo's forward-looking remuneration policy setting out components of pay, how they are linked to the business strategy and incentive opportunities for the Executive Directors The second (B) reviews how the policy was implemented in 2012 and includes a table showing a single figure of total remuneration for Executive Directors

Lucio Genovese
Chairman of the Remuneration Committee

Part A: Policy Section

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

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

Key Principles of the Remuneration Policy
Ferrexpo's remuneration policy is designed to help attract motivate and retain talented executives to help drive the future growth and performance of the business The policy aims to.
- align executive and shareholder interests,
- link a high proportion of remuneration to performance,
- reward a balanced portfolio of performance measures (e g relative Total Shareholder Return ('TSR') outperformance of sector peers, annual business priorities and individual performance) and
- provide competitive rewards assessed against the relevant market to attract motivate and retain talented executives

In determining the Company's remuneration policy, the Remuneration Committee takes into account the particular business context of the Ferrexpo Group, the industry segment the geography of its operations, the relevant talent market for each executive and best practice guidelines set by institutional shareholder bodies

The Remuneration Committee will be keeping under review remuneration and incentive plan policy during the forthcoming year The Remuneration Committee will continue to give full consideration to the principles set out in the UK Corporate Governance Code in relation to Directors' remuneration and to the guidance of investor relations bodies

Summary of Ferrexpo's Remuneration Policy for Executive Directors
This section of our report summarises the key components of remuneration for Executive Directors

Purpose and link to strategy	Operation	Opportunity	Performance metrics	Changes for 2013
Fixed pay				
Base salary				
To attract and retain talent by ensuring base salaries are competitive in the market in which the individual is employed	Base salaries are reviewed annually, with reference to the individual's role, experience and performance, business performance, salary levels for equivalent posts at relevant comparators, cost of living and inflation, and the range of salary increases applying across the Group	Base salary increases are applied in line with the outcome of the review	Business and individual performance are considerations in setting base salary	No changes to the policy for 2013 Latest salary increases were effective 1 January 2013 and are set out in the Report on Remuneration in 2012 on page 61
Pension				
To provide retirement benefits	Executive Directors are members of the Ferrexpo AG pension plan which is a mandatory insurance scheme under Swiss law, provided for all employees of Ferrexpo AG	Pension plan entitles members to a fixed pension depending on a conversion percentage ratio fixed by the Swiss government, with the employer liable to make up any deficit	Not performance related	None
Benefits				
Designed to be competitive in the market in which the individual is employed	Benefits include life insurance, annual leave, and medical insurance Where appropriate, allowances for accommodation, relocation, and tax advice may be offered	Benefits values vary by role and are reviewed periodically	Not performance related	None
Variable pay				
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	KPIs are set at the start of the year and are weighted to reflect the contribution of each executive At the end of the year, the Remuneration Committee determines the extent to which these have been achieved The Remuneration Committee has the ability to exercise discretion to adjust for factors outside management control The CEO does not participate	For the CFO, maximum ('stretch') STIP opportunity of 150% of salary, target STIP opportunity of 100% of salary	KPIs selected, and their respective weightings, vary each year depending on strategic priorities Measures used for the STIP are set out in the Report on 2012 Remuneration on page 62	No change to the policy except for minor changes in weighting of measures as set out on page 62

Remuneration Report continued

Purpose and link to strategy	Operation	Opportunity	Performance metrics	Changes for 2013
LTIP Aims to motivate participants to deliver appropriate longer-term returns to shareholders by encouraging them to see themselves not just as managers but as part-owners of the business	The Remuneration Committee has the ability to grant performance shares or market value options under the LTIP To date, the Remuneration Committee has only awarded performance shares to executives The award levels and performance conditions on which vesting depends are reviewed from time to time to ensure they remain appropriate Dividends accrue on performance shares over the vesting period, and are paid on shares that vest The CEO does not participate	For the CFO, the LTIP provides for annual awards of performance shares and options up to an aggregate limit of 200% of salary in normal circumstances This limit may be exceeded in exceptional circumstances, e g recruitment Actual awards are made on the basis of a similar number of shares to participants at comparable levels in the organisation	The vesting of awards is usually subject to • continued employment • the Company's performance over a three-year performance period The performance measures applied to LTIP awards are reviewed from time to time to ensure they remain appropriate and aligned with shareholder interests Measures used for the 2012 LTIP award, and expected for the 2013 LTIP award, are set out in the Report on 2012 Remuneration on pages 62 to 64	None expected

Share Ownership Guidelines
With effect from the grant of 2010 LTIP awards (vesting in 2013), 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

Pay-for-Performance Scenario Analysis
The CEO does not participate in any incentive plan, for reasons stated in the introduction to this report Under all scenarios, therefore, his remuneration, which is donated to charity, remains as set out in Section B of this report For the remaining executive director, the graph below provides estimates of the potential future reward opportunity and the potential split between the different elements of remuneration under three different performance scenarios, 'Below threshold', 'Target' and 'Stretch'

In illustrating potential reward opportunities the following assumptions have been made

Scenario	STIP	LTIP	Fixed pay
Stretch	Maximum STIP (150% of salary)	Performance warrants full vesting[1]	Latest known base salary, pension, benefits
Target	On target STIP (100% of salary)	Performance warrants threshold vesting (20%)[1]	
Below threshold	No STIP payable	Threshold not achieved (nil)	

1 Excludes increase in value arising from share price growth

Potential reward opportunities illustrated above are based on the policy which will apply in 2013, applied to the base salary in force at 1 January 2013 For the STIP, the amounts illustrated for the CFO are those potentially receivable in respect of performance for 2013 For the LTIP awards, the award opportunity for the CFO is assumed to remain the same number of shares as in 2012 (i e 120,000 shares for the CFO) and the face value is estimated using the average share price over Q4 2012 of 215 pence) It should be noted that the LTIP awards do not normally vest until the end of three years following the beginning of the year in which they were granted

Employee Context
In making remuneration decisions, the Remuneration Committee also considers the pay and employment conditions elsewhere in the Group Prior to the annual pay review, the Remuneration Committee receives a report from the CEO setting out changes to broader employee pay This forms part of the basis for determining Executive Director remuneration

Remuneration of Senior Executives Below the Board
The policy and practice with regard to the remuneration of senior executives below the Board is consistent with that for the Executive Directors, except that they may participate in local, discretionary plans

Senior executives participate in the LTIP with the same performance measures applied as for Executive Directors In exceptional circumstances, such as recruitment, long-term incentive awards may be granted without performance conditions to participants below the Board

Details of Executive Directors' Service Contracts
The Executive Directors are employed under contracts of employment with Ferrexpo AG, a Group company 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 principal terms of the Executive Directors' service contracts (which have no fixed term) are as follows Mr Zhevago's service contract with the Company is terminable on not less than six months' notice to be given by the Company or by the executive Mr Mawe's service contract with the Company is terminable on not less than 12 months' notice to be given by the Company or not less than six months' notice to be given by the executive

			Notice period	
Executive Director	Position	Date of contract	From employer	From employee
K Zhevago	CEO	1 November 2008	6 months	6 months
C Mawe	CFO	7 January 2008	12 months	6 months

Exit Payments Policy
The policy on termination payments is to pay no more than what may be stipulated in an individual's service contract

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 such a payment (which in practice it will do if the speed and certainty afforded by this provision are thought to be in the best interests of shareholders), the Executive Director will be entitled under his contract to receive all components of his remuneration, allowances and expenses for the extent of the notice period including (only in the case of Mr Mawe) the STIP, which reflects the practice in the Company at the time when Mr Mawe was appointed

It is the Remuneration Committee's policy to review contractual arrangements prior to new appointments in the light of developments in best practice

Unvested LTIP awards held by leavers normally lapse However, if the individual is considered a 'good' leaver (e g for reasons of death, ill-health, injury or disability, his employing company ceasing to be a member of the Group, the business (or part of the business) in which he is employed being transferred to a transferee which is not a member of the Group, or any other reason which the Remuneration Committee in its absolute discretion permits), any outstanding LTIP awards will be pro-rated for time and performance The Remuneration Committee retains discretion to alter these provisions (as permitted by the relevant Plan Rules) on a case-by-case basis following a review of circumstances, in order to ensure fairness to both shareholders and participants

Remuneration Report continued

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 Details of external directorships of quoted companies held by Executive Directors, along with fees retained, are as follows

Executive Director	Company	Role(s) held	Fees retained
K Zhevago	New World Resources plc	Non-executive Director	Nil[1]
C Mawe	–	–	–

1 The fee is donated to various charities

Relative Importance of Spending on Pay
The graph below shows Ferrexpo's profit after tax, dividend, and total employee pay expenditure (this includes pension, variable pay, and social security) for the financial year ends 31 December 2011 and 31 December 2012, and the percentage change

Considerations of Shareholder Views
The following table shows the results of the advisory vote on the 2011 Remuneration Report at the 24 May 2012 AGM It is the Remuneration Committee's policy to consult with major shareholders prior to any major changes to its executive remuneration structure

For	Against
99 44%	0 45%

Votes withheld (which are not votes in law and are therefore not counted in the calculation of votes cast for or against a resolution) were equal to 0 11% of the votes cast on this resolution

Part B: Remuneration in 2012

The following section provides details of how the remuneration policy was implemented during the year

Remuneration Committee Membership in 2012
The Remuneration Committee is composed of five independent Non-executive Directors Lucio Genovese is the Chairman of the Committee, and its other members are Michael Abrahams, Oliver Baring, Wolfram Kuoni and Ihor Mitiukov The Remuneration Committee met five times during the year Attendance at meetings by individual members is detailed in the Corporate Governance Report on page 52 A summary of the topics discussed at each meeting in 2012 is detailed below
- Review of remuneration of Executive Directors and members of the Executive Committee
- LTIP performance and the Company's performance compared to its peers
- General market considerations surrounding executive remuneration packages and structure
- Performance evaluation of the Committee

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

Advisers

The Remuneration Committee retains Kepler Associates to provide advice on remuneration policy, with particular emphasis on the structure of long-term incentives for senior management Other than advice to the Remuneration Committee no other services were provided by Kepler Associates to the Company The fees paid to Kepler Associates in respect of work carried out in 2012 totalled GBP31,000

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

Single Total Figure of Remuneration

The table below sets out in a single figure for each currency of payment the total remuneration received by each Executive Director for the year ending 31 December 2012 and the prior year (See also table on page 62 below, showing how STIP targets were met in the year)

	K Zhevago (CEO)		C Mawe (CFO)	
All figures shown in currency of payment	**2012**	2011	**2012**	2011
1 Salary	**US$240,000**	US$240,000	**CHF632,000**	CHF626,000
2 Benefits	**US$49,000**	US$100,000	**CHF168,000**	CHF168,000
3 Pension	**CHF2,000**	CHF2,000	**CHF48,000**	CHF48,000
4 STIP	–	–	**CHF650,000**	CHF820,000
5 LTIP	–	–	**£229,000**	£269,000
6 Dividends	–	–	**£6,000**	£7,000
Total	**US$289,000 plus CHF2,000**	US$340,000 plus CHF2,000	**CHF1,498,000 plus £235,000**	CHF1 662,000 plus £276,000

The figures have been calculated as follows

1 Base salary amount earned for the year
2 Benefits the taxable value of benefits received in the year (accommodation allowance)
3 Pension increase in transfer value over the year, less Director's contribution Other formulas (such as 20 times the increase in the value of accrued benefit over the year) are not considered appropriate since this is not a classic Defined Benefit scheme (see 'Pensions' below), and for expatriate staff the pension is repaid as a lump sum on leaving the country
4 STIP this is the total bonus earned on performance during the year
5 LTIP the market value of shares that vested on performance to 31 December of the relevant year (2012 91% vested on performance, 2011 100% vested on performance) and share price on 31 December 2012 of 251 2 pence and 31 December 2011 of 268 8 pence
6 Dividends the total value of dividends earned during the vesting period on LTIP shares vesting on 31 December, paid in cash

Base Salary

Base salaries are reviewed annually, with reference to the individual's role, experience and performance, business performance, salary levels at relevant comparators, and the range of salary increases applying across the Group During the year the Committee considered pay levels against international mining comparators and other FTSE-listed companies of similar size Following this review the Committee decided to increase Mr Mawe's salary by 1% from CHF626,160 to CHF632,424 with effect from 1 January 2012 Mr Zhevago's salary, which he donates to Ukrainian charities, remained unchanged at US$240,000 A further change has been made for 2013, as set out below

		Base salary at		
Executive Director	Position	1 January 2013	1 January 2012	Increase
K Zhevago	CEO	US$240,000	US$240,000	–
C Mawe	CFO	CHF638,748	CHF632 424	1%

The increase to the CFO's base salary for 2013 of 1% is in line with the average increase across the Group (outside the relatively high-inflation environment of Ukraine) of 1% The CEO's salary remained unchanged

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 2012 were

CHF000	Age	Accrued benefit at 31 December 2012	Accrued benefit at 31 December 2011	Increase in period (net of indexation)	Transfer value of net increase in accrual over period	Forex effect	Transfer value of accrued pension at 31 December 2012	Transfer value of accrued pension at 31 December 2011	Director's contributions in 2012	Increase in transfer value less Directors contributions	Forex effect
K Zhevago	39	56	41	4	11	0	24	18	4	2	0
C Mawe	51	648	495	56	97	0	348	275	25	48	0

Remuneration Report continued

Benefits

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$49,480 in 2012, 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

STIP

The STIP applies to the members of the Executive Committee, excluding Mr Zhevago The STIP is a discretionary annual bonus scheme For 2012, the maximum STIP opportunity for members of the Executive Committee ranged up to 150% of salary

Key performance indicators ('KPIs') for 2012 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 related to financial performance (EBITDA and NOPAT), operational performance (pre-stripping, production and sales volumes), safety (behavioural safety initiatives and improvements in lost-time accident statistics), and personal and project performance Financial KPIs were adjusted, as in previous years, 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 level of achievement against each of KPIs for FY2012 as determined by the Committee in the case of the relevant Executive Director is set out in the table below

KPI		Weighting for CFO	FY2012 assessment	Max bonus as % of salary	Actual bonus as % of salary
Financial	EBITDA	22 5%	Just below stretch	33 75%	23%
	NOPAT		Just below target		4%
Operational	Production	22 5%	Just below target	33 75%	16%
	Sales volume		Between threshold and target		2%
CSR		10%	Just below target	15%	8%
Development Projects, Personal and governance		45%	Projects (weighting 10%) – below target	67 5%	7 3%
			Personal and governance (weighting 35%) – between target and stretch		42 5%
Total		**100%**		**150%**	**102.8%**

No payment is made under the STIP if performance is below threshold For the CFO, threshold performance earns a bonus of 50% of salary, target performance 100% of salary and stretch performance 150% of salary

The Company's overall performance in 2012 was assessed as being slightly above target Taking account of this, and individual performance, the Committee made an award to the CFO under the STIP of CHF649,935, equivalent to 102 8% of salary in respect of 2012

The outcome of the KPIs for other members of the Executive Committee under the STIP, as determined by the Remuneration Committee, ranged between 59 9% and 91 1% 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 2013 is in line with the principles of the 2012 framework CSR, projects and personal KPIs continue to be set as in previous years Weightings for the CFO in 2013 are shown in the table below

KPI	Weighting for CFO
Financial (EBITDA, NOPAT)	22 5%
Operational (Production, Sales volume)	20%
CSR	10%
Personal, Projects, Governance	47 5%
Total	**100%**

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 2012 are equivalent to 0 20% 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 The award granted to the CFO in 2012 did not exceed 100% of salary As mentioned earlier, the CEO does not participate 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.

Relative TSR is the primary long-term incentive measure as the Remuneration Committee continues to believe this is the most objective external measure of the Company's success over the longer term The Remuneration Committee reviewed the constituents of the comparator index and their weightings prior to the grant of 2012 LTIP awards and dropped Brockman Resources which was acquired by Wah Nam International Holdings in July 2012 The constituents of the index for the last three cycles are summarised in the table below

	Weighting	2010	2011	2012
Focused iron ore miners	**40%**			
Atlas Iron			✓	✓
Brockman			✓	
China Vanadium			✓	✓
Cliffs		✓	✓	✓
Fortescue Metals		✓	✓	✓
Gindalbie Metals			✓	✓
Kumba Iron Ore		✓	✓	✓
MMX Mineracao			✓	✓
Mount Gibson		✓	✓	✓
Northern Iron			✓	✓
Global diversified miners	**50%**			
Anglo American		✓	✓	✓
BHP Billiton		✓	✓	✓
Rio Tinto		✓	✓	✓
Vale		✓	✓	✓
Xstrata		✓	✓	✓
Single commodity/emerging market miners	**10%**			
African Rainbow Minerals		✓	✓	✓
Alcoa		✓	✓	✓
Alumina		✓	✓	✓
Aluminium Corp of China		✓	✓	✓
Antofagasta		✓	✓	✓
Boliden		✓	✓	✓
ENRC		✓	✓	✓
Eramet		✓	✓	✓
First Quantum Minerals		✓	✓	✓
Freeport McMoRan		✓	✓	✓
Industrias Penoles		✓	✓	✓
Katanga Mining		✓	✓	✓
Kazakhmys		✓	✓	✓
KGHM Polska Miedz		✓	✓	✓
Lundin Mining		✓	✓	✓
Norilsk		✓	✓	✓
OZ Minerals		✓	✓	✓
Peabody Energy		✓	✓	✓
Teck Cominco		✓	✓	✓
Vedanta Resources		✓	✓	✓

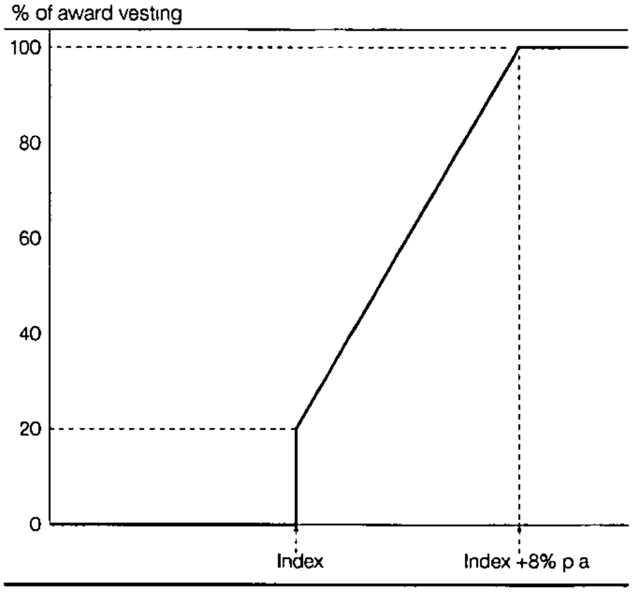
TSR is calculated on a common currency basis to ensure that comparisons with international comparators listed overseas are fair As described in previous reports, the TSR share-price averaging period was extended from three to six months for LTIP awards granted in 2011 onwards to help improve the comparison 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 In the event that the pending acquisition of Xstrata by Glencore completes, the Remuneration Committee intends to replace Xstrata with the combined entity

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



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

2010 LTIP Award Vesting
The performance period for the 2010 LTIP awards ended on 31 December 2012 Ferrexpo's TSR performance relative to the weighted index was measured by Kepler Associates From 1 January 2010 to 31 December 2012, Ferrexpo's TSR performance was 25 4% and Index TSR was 2 1% This outperformance of 7 1% p a of Index TSR resulted in 91% of 2010 LTIP awards vesting for TSR The Remuneration Committee has considered the Company's overall performance and determined that the recorded TSR outperformance was a fair reflection of Ferrexpo's underlying performance over the performance period and has therefore determined, in accordance with the rules of the plan that 91% of the 2010 LTIP awards vested

2012 LTIP Awards Granted
In April 2012 Chris Mawe was granted an award of shares under the LTIP over 120,000 LTIP shares The three year performance period over which TSR performance will be measured began on 1 January 2012 and will end on 31 December 2014 The constituents and weightings of the comparator index are discussed on page 63

	At 1 January 2012	Granted (2012 award)	Exercised	Lapsed	Total at 31 December 2012	Price on date of award (pence)	Date from which exercisable	Expiry date
C Mawe	100 000		100,000	0	0	143	01 01 2012	14 09 2019
	100,000[1]				100,000	275	01 01 2013	17 06 2020
	120,000				120,000	341	01 01 2014	07 08 2021
		120,000			120,000	275	01 01 2015	22 04 2022
Total					**340,000**			

1 This award has vested 91% under the TSR performance condition described above At the date of vesting (31 December 2012) the market price of a share was 251.2 pence

Exit Payments Made in Year
No Executive Directors left during the year

Non-executive Directors (Including the Chairman)
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 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 The current fees are

Role	Fee
Chairman fee	US$500,000
Non-executive Director base fee	US$150,000
Committee chairman fee	US$40,000

The Chairman's fee and the Non-executive Directors' fees were last increased in 2011

The dates of the Chairman's and Non-executive Directors' appointments who served during the reporting period are as follows

Non executive Director	Position	Date of appointment	Date of re-election
M Abrahams	Chairman	14 June 2007	Annual re-election
O Baring	Non-executive Director	1 December 2007	Annual re-election
L Genovese	Non-executive Director	14 June 2007	Annual re-election
W Kuoni	Non-executive Director	14 June 2007	Annual re-election
I Mitiukov	Non-executive Director	14 June 2007	Annual re-election
M Salamon	Non-executive Director	27 March 2009	Annual re-election

Total Shareholdings of Directors
Executive Directors and members of the Executive Committee are encouraged to build up a holding of shares of equivalent value to a year's salary (in the case of Executive Directors) or six months' salary (for other members of the Executive Committee) Executives will be encouraged to retain their vested LTIP shares on an after tax basis until the applicable guideline level is achieved

As at 12 March 2013, the Executive Directors' shareholdings are as follows

	Shareholding requirement (% salary)	Shares held			Current shareholding[2] (% salary)	Guideline met?
		Owned outright	Subject to performance[1]	Subject to deferral		
K Zhevago	100%	300,198,313	–	–	–	Yes
C Mawe	100%	142,202	340,000	–	83%	No

1 Performance awards are nil cost options
2 Based only on shares owned outright at 31 December 2012 and share price of 251 2 pence

Total interests of the Directors in office as at 31 December 2012

	At 31 December 2012	At 31 December 2011
K Zhevago[1]	**300,198,313**	300,198,313
C Mawe	**142,202**	67,439
M Abrahams	**170,992**	168,690
O Baring	**20,130**	20,130
L Genovese	**169,568**	169,180
W Kuoni	**28,854**	28,466
I Mitiukov	**31,952**	31,522
M Salamon	**100,000**	100,000

1 Kostyantin Zhevago is interested in these shares as a beneficiary of the Minco Trust, which is the ultimate shareholder of Fevamotinico Sarl 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 2013, being a date not more than one month prior to the date of notice of AGM

Remuneration Report continued

Emoluments Table of Directors

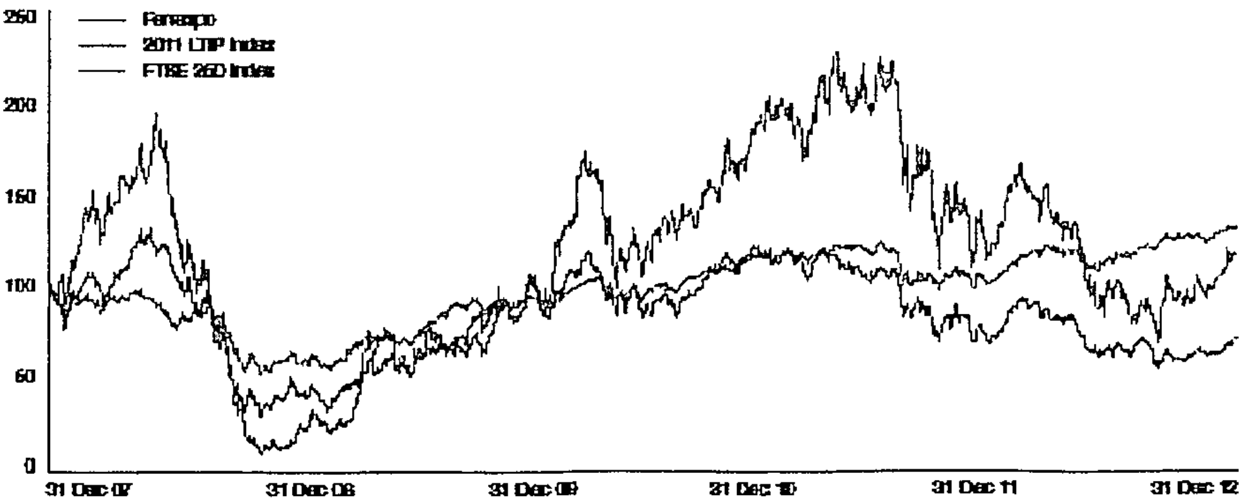
	Currency of payment	Salary or fees 000	Pension 000	Benefits 000	Bonus 000	Total 2012 US$000	Total 2012 CHF000	Total 2011 US$000	Total 2011 CHF000
Chairman									
Michael Abrahams	US$	500	–	–	–	**500**	–	450	–
Executive Directors									
Kostyantin Zhevago	US$	240	2*	49[5]	–	**291**	–	348	–
Chris Mawe	CHF	632	48	168[5]	650	–	**1,498**	–	1 608
Non-executive Directors									
Oliver Baring	US$	190	–	–	–	**190**	–	165	–
Lucio Genovese[2,4]	US$	230	–	–	–	**230**	–	205	–
Wolfram Kuoni	US$	265	–	–	–	**265**	–	240	–
Ihor Mitiukov	US$	150	–	–	–	**150**	–	133	–
Mike Salamon	US$	150	–	–	–	**150**	–	135	–
Total US$		1,725	2	49	–	**1,776**	–	1 678	–
Total CHF		632	48	168	650	–	**1,498**	–	1 698

* Exchange rate CHF1 US1 067

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$40 000 p a for his role as Chairman of the Audit Committee and US$ 5 000 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 [34]
5 Relates to accommodation allowance
6 Total for 2011 includes pension related benefits of US$8 000
Total for 2011 includes pension related benefits of CHF48 000

Comparison of Company Performance and Executive Director Pay

The graph below shows the value, at 31 December 2012 of £100 invested in Ferrexpo's shares on 31 December 2007 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



Other transactions involving Directors are set out in note [34] (related parties) to the Financial Statements

This Report was approved by the Board on 12 March 2013

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 2012

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 10 to 19
- The Operational Review on pages 24 to 33
- The Financial Review on pages 34 to 37
- The Risks section on pages 20 to 23
- The Corporate Social Responsibility Review on pages 38 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 73

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 31 May 2013 to shareholders on the register at the close of business on 3 May 2013 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)

In recognition of the opening of the Yeristovo mine the Directors have also announced a special dividend of 6 6 US cents per share, amounting to US$40 million, for payment on 28 March 2013 to shareholders on the register at the close of business on 22 March 2013 The dividend will similarly be paid in UK Pounds Sterling with an election to receive US Dollars

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 66

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 24 May 2012 This authority will expire at the conclusion of the Company's 2013 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 2012

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 2012, 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 2012 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]	147,156,035	147,156 035	24 99%

1 Fevamotinico S.a.r.l. is a wholly-owned subsidiary of The Minco Trust of which Kostyantin Zhevago is a beneficiary
2 BXR Group Ltd is the ultimate parent undertaking and indirect controller of Wigmore Street Investments No 3 Ltd which holds 147,156 035 shares through its nominee Lynchwood Nominees Ltd

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, Sociéte 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 129

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

Directors' Report continued

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 120 to 128

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 2012 for the Company was 25 days (2011 24 days)

Charitable and Political Donations
The Group made no political donations during the year Group donations to charities worldwide were nil (2011 nil), with UK charities receiving nil (2011 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 37 of the Notes to the Consolidated Financial Information on pages 120 to 128 Further references to risk are made in the Risks section on pages 20 to 23 and in the Internal Control section of the Corporate Governance Report on pages 54 to 55 which provides a summary of the internal control procedures put in place by the Board to identify key risks and review risk management and its effectiveness

Going Concern
The Group's business activities, together with the risk factors likely to affect its future development, performance and position are set out on pages 20 to 23 and 34 to 37 The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 34 to 37 In addition, note 37 of the Notes to the Consolidated Financial Statements on pages 120 to 128 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 50 to 55 (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 71

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 23 May 2013 at The Dorchester, Park Lane, London W1K 1QA A separate letter from the Chairman summarising the business of the meeting and the Notice convening the AGM will be 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 2013 AGM

This report was approved by the Board on 12 March 2013

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
Chairman

Christopher Mawe
Chief Financial Officer

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 2012 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 41 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 71, 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) These 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 implications 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 2012 and of the Group's profit for the year then ended,
- The Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- The Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, 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 70, 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
Ken Williamson (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
12 March 2013

Consolidated Income Statement

US$000	Notes	Year ended 31 12 12	Year ended 31 12 11
Revenue	6	**1,424,030**	1,788,012
Cost of sales	7	**(694,576)**	(649,544)
Gross profit		**729,454**	1,138,468
Selling and distribution expenses	8	**(311,964)**	(317,951)
General and administrative expenses	9	**(56,329)**	(51,969)
Other income	10	**11,347**	6,943
Other expenses	11	**(30,161)**	(17,091)
Operating foreign exchange gains/(losses)	12	**653**	(1,360)
Operating profit from continuing operations before adjusted items		**343,000**	757,040
Write-offs and impairment losses	13	**(836)**	(478)
Share of profit from associates	14	**2,772**	2,012
Losses on disposal of property, plant and equipment		**(4,067)**	(46)
Profit before tax and finance from continuing operations		**340,869**	758,528
Finance income	15	**2,598**	2,511
Finance expense	15	**(88,091)**	(68,205)
Non-operating foreign exchange gains/(losses)	12	**6,629**	(1,934)
Profit before tax		**262,005**	690,900
Income tax expense	16	**(46,425)**	(115,964)
Profit for the year from continuing operations		**215,580**	574,936
Profit attributable to			
Equity shareholders of Ferrexpo plc		**214,340**	567,822
Non-controlling interests		**1,240**	7,114
Profit for the year from continuing operations		**215,580**	574,936
Earnings per share			
Basic (US cents)	17	**36 63**	97 09
Diluted (US cents)	17	**36.57**	96 97

Consolidated Statement of Comprehensive Income

US$000	Year ended 31 12 12	Year ended 31 12 11
Profit for the year	**215,580**	574,936
Exchange differences on translating foreign operations	**(573)**	(3,024)
Income tax effect	**–**	–
Exchange differences arising on hedging of foreign operations	**(201)**	(894)
Income tax effect	**32**	153
Net losses on available-for-sale investments	**(326)**	(1,868)
Income tax effect	**62**	437
Other comprehensive income for the year, net of tax	**(1,006)**	(5,196)
Total comprehensive income for the year	**214,574**	569,740

Total comprehensive income attributable to		
Equity shareholders of Ferrexpo plc	**213,272**	562,883
Non-controlling interests	**1,302**	6,857
Total comprehensive income for the year	**214,574**	569,740

Consolidated Statement of Financial Position

US$000	Notes	As at 31.12.12	As at 31 2 11
Assets			
Property, plant and equipment	18	**1,342,039**	924 690
Goodwill and other intangible assets	19/40	**112,171**	103,240
Investments in associates	14	**16,995**	19,186
Available-for-sale financial assets	20	**534**	1 290
Inventories	23	**12,362**	–
Other non-current assets	21	**41,810**	93 358
Other taxes recoverable and prepaid	26	**97,895**	–
Deferred tax assets	22	**29,130**	23,426
Total non-current assets		**1,652,936**	1 165,190
Inventories	23	**139,635**	117,046
Trade and other receivables	24	**116,553**	128 905
Prepayments and other current assets	25	**36,468**	22 720
Income taxes recoverable and prepaid	23	**24,869**	384
Other taxes recoverable and prepaid	26	**187,246**	172,951
Cash and cash equivalents	27	**596,560**	890 154
		1,101,331	1 332 160
Assets classified as held for sale		**101**	1,845
Total current assets		**1,101,432**	1 334 005
Total assets		**2,754,368**	2 499,195
Equity and liabilities			
Issued capital	28	**121,628**	121,628
Share premium	28	**185,112**	185,112
Other reserves	28	**(348,063)**	(348 603)
Retained earnings		**1,590,192**	1 414 512
Equity attributable to equity shareholders of Ferrexpo plc		**1,548,869**	1 372 649
Non-controlling interests		**21,130**	20 480
Total equity		**1,569,999**	1,393,129
Interest-bearing loans and borrowings	29	**993,139**	951,430
Defined benefit pension liability	31	**23,504**	13,329
Provision for site restoration	32	**2,368**	3 015
Deferred tax liabilities	22	**2,581**	2,232
Total non-current liabilities		**1,021,592**	970 006
Interest-bearing loans and borrowings	29	**26,846**	18,948
Trade and other payables	30	**62,609**	42 648
Accrued liabilities and deferred income	33	**51,285**	29 713
Income taxes payable	26	**13,672**	36,674
Other taxes payable	26	**8,365**	8 077
Total current liabilities		**162,777**	136 060
Total liabilities		**1,184,369**	1,106 066
Total equity and liabilities		**2,754,368**	2,499,195

The financial statements were approved by the Board of Directors on 12 March 2013

Kostyantin Zhevago
Chief Executive Officer

Christopher Mawe
Chief Financial Officer

Consolidated Statement of Cash Flows

US$000	Notes	Year ended 31.12.12	Year ended 31.12.11
Profit before tax		**262,005**	690,900
Adjustments for			
Depreciation of property, plant and equipment and amortisation of intangible assets		**54,169**	41,003
Interest expense	15	**81,271**	62,321
Interest income	15	**(2,598)**	(2,511)
Share of profit from associates	14	**(2,772)**	(2,012)
Movement in allowance for doubtful receivables	11	**721**	(2,406)
Loss on disposal of property, plant and equipment		**4,067**	46
Write-offs and impairment losses	13	**836**	478
Site restoration provision	32	**(650)**	269
Employee benefits	31	**16,381**	1,069
Share-based payments	38	**1,608**	891
Operating foreign exchange gains/(losses)	12	**(653)**	1,360
Non-operating foreign exchange (gains)/losses	12	**(6,629)**	1,934
Operating cash flow before working capital changes		**407,756**	793,342
Changes in working capital			
Decrease/(increase) in trade and other receivables		**(3,226)**	(17,391)
Increase in inventories		**(33,638)**	(12,220)
Increase/(decrease) in trade and other accounts payable		**40,603**	(9,788)
Increase in VAT recoverable and other taxes prepaid	26	**(131,903)**	(72,051)
Cash generated from operating activities		**279,592**	681 892
Interest paid		**(55,610)**	(43,266)
Income tax paid	28	**(99,771)**	(132,176)
Post-employment benefits paid		**(5,641)**	(3,741)
Net cash flows from operating activities		**118,570**	502,709
Cash flows from investing activities			
Purchase of property, plant and equipment	18	**(419,357)**	(378,302)
Proceeds from sale of property, plant and equipment		**569**	–
Purchases of intangible assets	19	**(9,911)**	(2,092)
Interest received		**2,652**	2,067
Proceeds from loans to associates	21	**–**	1,000
Dividends from associates		**6,710**	2,207
Cash payment for acquisition made in 2010	40	**–**	(38,045)
Acquisition of subsidiaries, net of cash acquired	40	**–**	(390)
Net cash flows used in investing activities		**(419,337)**	(413,555)
Cash flows from financing activities			
Proceeds from borrowings and finance		**63,955**	952,269
Repayment of borrowings and finance		**(13,186)**	(410,027)
Arrangement fees paid		**(4,672)**	(21,021)
Dividends paid to equity shareholders of Ferrexpo plc		**(38,775)**	(38,663)
Dividends paid to non-controlling shareholders		**(254)**	(880)
Net cash flows from financing activities		**7,068**	481,678
Net (decrease)/increase in cash and cash equivalents		**(293,699)**	570,832
Cash and cash equivalents at the beginning of the year		**890,154**	319,471
Currency translation differences		**105**	(149)
Cash and cash equivalents at the end of the year	27	**596,560**	890,154

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 (Notes 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 2011	**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**
Profit for the period	–	–	–	–	–	–	–	214,340	214,340	1,240	215,580
Other comprehensive income	–	–	–	–	–	(264)	(804)	–	(1,068)	62	(1,006)
Total comprehensive income for the period	–	–	–	–	–	(264)	(804)	214,340	213,272	1,302	214,574
Equity dividends paid to shareholders of Ferrexpo plc	–	–	–	–	–	–	–	(38,660)	(38 660)	(331)	(38 991)
Share-based payments (note 38)	–	–	–	–	1,608	–	–	–	1,608	–	1,608
Effect from acquisition of subsidiary	–	–	–	–	–	–	–	–	–	(321)	(321)
At 31 December 2012	**121,628**	**185,112**	**31,780**	**(77,260)**	**(7,808)**	**820**	**(295,595)**	**1,590,192**	**1,548,869**	**21,130**	**1,569,999**

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 logistics 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 ('GPL') and Yeristovo deposits

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 2011 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 12 %	31 12 11 %
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[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**	100 0
Ferrexpo Singapore PTE Limited[6]	Singapore	Marketing services	**100 0**	100 0
First-DDSG Logistics 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
DDSG Mahart Kft (formerly 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**	100 0
Helogistics Asset Leasing Kft [7]	Hungary	Asset holding company	**100 0**	100 0
Ferrexpo Shipping International Limited[8]	Marshall Islands	Holding company	**100 0**	100 0
Iron Destiny Limited[8]	Marshall Islands	Shipping company	**100 0**	100 0
Transcanal SRL[9]	Romania	Port services	**77 6**	77 6
Universal Service Group Ltd[10]	Ukraine	Asset holding company	**100 0**	–

1 The Group s interest in these entities is held through Ferrexpo AG
2 Ferrexpo AG was the holding company of the Group until as a result of the pre IPO restructuring Ferrexpo plc became the holding company on 24 May 2007
3 The Group s interest in these entities is held through 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 First DDSG Logistics Holding GmbH (formerly 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 Limited 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 and the Group s interest is held through Helogistics Holding GmbH
10 The company was incorporated in December 2012 and the Group s interest is held through Ferrexpo Services Limited

The Group also holds an interest of 48 6% (2011 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 2012

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 2011, 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 A change in the ownership interest of a subsidiary without a loss of control is accounted for as an equity transaction

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

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 of the impairment testing are disclosed in note 19

Investments in associates

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

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

The share of profit of an associate is shown on the face of the income statement This is the profit attributable to the Group and therefore is profit after tax and non-controlling interests in the subsidiaries of the associate The reporting dates of the associates and Ferrexpo plc are identical and the associates' accounting policies are generally in conformity 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

Notes to the Consolidated Financial Statements continued

Note 2 Summary of significant accounting policies continued

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 resulting directly from the Group's operating activities Non-operating gains and losses are predominately those associated with the sale of assets (including monetary assets), the translation of interest bearing loans and borrowings denominated in currencies different to the respective functional currencies and transactional gains and losses from the conversion of cash balances in currencies different to the local functional currencies at exchange rates different to those at the initial recognition date

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

Note 2: Summary of significant accounting policies continued
Finance expenses comprise the interest expense on borrowings and other financial liabilities Finance expenses also comprise the effect of the estimated discount of overdue VAT balances expected to be received after more than 12 months following the period end

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 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

Equity

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

Notes to the Consolidated Financial Statements continued

Note 2: Summary of significant accounting policies continued
Employee benefit trust reserve
Ferrexpo plc shares held by the Group are classified in capital and reserves as the 'employee benefit trust reserve' and recognised at cost Consideration received for the sale of such shares is also recognised in equity, with any difference between the proceeds from sale and the original cost taken to revenue reserves No gain or loss is recognised on the purchase, issue or cancellation of equity shares

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

Financial assets
Derivative financial instruments
The Group does not hold any derivative financial instruments

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

All regular way purchases and sales of financial assets are recognised on the trade date (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

Note 2 Summary of significant accounting policies continued
Interest-bearing loans and borrowings
All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial 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 In the case of general borrowings used to fund the acquisition or construction costs of qualifying assets, the borrowing costs to be capitalised are calculated based on a weighted average interest rate applicable to the relevant general borrowings of the Group during a specific period

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

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

Upon recognition, items of property, plant and equipment are divided into components, which represent items with a significant value that have different useful lives 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 initially recognised in a separate category 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

Exploration and evaluation assets

Costs incurred in relation to the exploration and evaluation of potential iron ore deposits are capitalised and classified as tangible or intangible asset depending on the nature of the expenditures Costs associated with exploratory drilling, researching and analysing of exploration data and costs of pre-feasibility studies are included in tangible assets whereas those associated with the acquisition of licences are included in intangible assets

Capitalised exploration and evaluation expenditures are carried forward as an asset as long as these costs are expected to be recouped in full through successful development and exploration in a future period

Exploration and evaluation assets included in intangible and tangible assets are measured at cost and neither amortised nor depreciated, but monitored for indications of impairment To the extent that the capitalised expenditures are not expected to be recouped the excess is fully provided for in the financial year in which this is determined

Upon reaching the development stage, exploration and evaluation assets are transferred to asset under construction

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 97 and page 125 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

Notes to the Consolidated Financial Statements continued

Note 2 Summary of significant accounting policies continued

Cash and cash equivalents

Cash and cash equivalents include cash at bank and on hand as well as short-term deposits with original maturity of 90 days or less

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

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 in relation to the amendments of the standard 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 are considered 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

Note 2 Summary of significant accounting policies continued
No expense is recognised for awards that do not ultimately vest, except for awards where vesting is dependent upon a market condition In these cases, the awards are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied

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

Long-Term Incentive Plans ('LTIPs')
The LTIPs are share-based schemes whereby certain senior management and executives receive rewards based on the relative Total Shareholder Return ('TSR') 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 2012

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

IFRS 1 First-time adoption of IFRS – severe hyperinflation and removal of fixed dates for first time adopters
The amendments were issued in December 2010 and became effective for annual periods beginning on or after 1 July 2011 The amendments to IFRS 1 provide guidance for entities emerging from severe hyperinflation and replace the date of prospective application of the derecognition of financial assets and liabilities of 1 January 2004 with the date of transition to IFRS Both amendments did not have an impact on the financial position or performance of the Group

IFRS 7 Financial instruments disclosures – transfer of financial assets
The amendment to IFRS became effective for financial years beginning on or after 1 July 2011 The amendment 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, in the case of fully derecognised financial assets in which the entity retains continuing involvement, information to evaluate the nature of, and associated risks with continuing involvement in the derecognised financial assets The application of this amendment did not have impact on the financial statements of the Group

IAS 12 Income taxes – recovery of underlying assets
The amendment to the standard was issued in December 2010 and became effective for financial years beginning on or after 1 January 2012 The amendment provides an exception to the general principle of measuring deferred taxes for investment properties measured at fair value and introduces a rebuttable presumption that the carrying amount of such assets will be recovered entirely through sale The adoption of this amended standard did not have an impact on the financial position or performance of the Group

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

IFRS 1 First-time adoption of IFRS – government loans
The amendment requires first-time adopters to apply the requirements of IAS 20 *Accounting for government grants and disclosure of government assistance* prospectively to government loans existing at the date of transition to IFRS This amendment is effective for annual periods beginning on or after 1 January 2013 and will have no impact on the Group's financial position and performance

IFRS 7 Financial instruments disclosures – offsetting financial assets and financial liabilities
The amendment requires disclosure of information about rights of offset and related arrangements (e g collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar agreement The amendments are effective for annual periods beginning on or after 1 January 2013 with retrospective disclosure for all comparative periods and will have no impact on the Group's financial position and performance

Notes to the Consolidated Financial Statements continued

Note 3 New accounting policies continued
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 2015 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 In subsequent phases, hedge accounting and impairment of financial assets will be addressed by the IASB

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 IASB implementation date is for periods beginning on or after 1 January 2013 whereas the standard becomes mandatory in the EU only for annual periods beginning on or after 1 January 2014 The Group does not intend to take advantage of the possibility of an early adoption The impact on the accounting for the Group's 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 The IASB implementation date is for periods beginning on or after 1 January 2013 whereas the standard becomes mandatory in the EU only for annual periods beginning on or after 1 January 2014 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 IASB implementation date is for periods beginning on or after 1 January 2013 whereas the standard becomes mandatory in the EU only for annual periods beginning on or after 1 January 2014 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

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 amendment affects presentation only and will have no impact on the Group's financial position or 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 amendments to IAS 19 will result in the recognition of unrecognised actuarial losses and past service costs through other comprehensive income If the Group would have applied the amended standard for the financial year 2012, the shareholders equity would have been lower by US$51,815 thousand and US$26,885 thousand as of 1 January 2012 and as at 31 December 2012 respectively As a result, the current year benefit expenses for the financial year 2012 would have been lower by US$3,764 thousand The amendment of the IAS 19 standard will be retrospectively applied in the financial year 2013 Details of the pension schemes of the Group are provided in note 31

IAS 32 Financial instruments presentation – offsetting financial assets and financial liabilities
The amendments clarify existing application issues relating to the offset of financial assets and financial liabilities requirements The amendments are not effective until annual periods beginning on or after 1 January 2014 with retrospective application No material effects on the Group's financial position and performance are expected from this amendment

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 no material effects on the financial position or performance of the Group are expected

Improvements to IFRSs (issued May 2012)

The IASB has issued 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 amendment will result in changes to accounting policies, but will not have any impact on the financial position or performance of the Group

IAS 16 Property, plant and equipment

The improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory As a result of this improvement, major spare parts and servicing equipment will have to be reclassified from inventory to property, plant and equipment in the first half of the financial year 2013 The impact of implementing the amendment on the Group's inventory is being assessed The amendment affects presentation only and will have no impact on the Group's financial position or performance

Other amendments resulting from improvements to the following standards and interpretations will not have an impact on the accounting policies, financial position or performance of the Group

- IFRS 1 *First-time adoption of IFRS*
- IAS 1 *Presentation of financial statements*
- IAS 32 *Financial instruments presentation*
- IAS 34 *Interim financial reporting*

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$1,342,039 thousand as of 31 December 2012 (2011 US$924,690 thousand) See also note 18 for further information

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 2012, the carrying amount of capitalised pre-production stripping costs included in assets under constructions amounted to US$36,794 thousand (2011 US$151,393 thousand) See also note 18 for further information

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$98,413 thousand as of 31 December 2012 (2011 US$98,453 thousand) Related disclosures are also made in note 19

Notes to the Consolidated Financial Statements continued

Note 4 Use of estimates continued

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

Taxes recoverable

Within the Ukraine, the Group has limited domestic sales and exports the majority of its products so that VAT paid on purchases of goods and capital equipment cannot be fully offset from VAT on domestic sales and the Group relies on refunds to be made by the Ukrainian government tax authority Since the financial year 2010, refunds have not been made on time by the Ukrainian government tax authority and the gross recoverable balance increased to US$301,535 thousand as of 31 December 2012 (2011 US$171,654 thousand) Despite the fact that the vast majority of this balance is due for immediate repayment, there is a risk that a large portion will be recovered only after more than 12 months from the period end An estimated discount of US$20,000 thousand has been recorded as of 31 December 2012 (2011 nil) to reflect the time value of money based on management's best estimate of the anticipated timing of refunds The exact timing is subject to uncertainties and outside of management's control A change of estimate of timing may affect the balance of the recorded discount in future periods Additional disclosures are made in note 26

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 2012, the carrying amount of defined benefit pension liability was US$23,504 thousand (2011 US$13,329 thousand) Detailed disclosure is made in note 31

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 2012, the carrying amount of the provision for site restoration amounted to US$2,368 thousand (2011 US$3,015 thousand) See also note 32 for further information

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 2012, the Group's consolidated financial statements showed deferred tax assets of US$29,130 thousand (2011 US$23,426 thousand) and deferred tax liabilities of US$2,581 thousand (2011 US$2,232 thousand) See also note 22 for further information

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 136

US$000	Notes	Year ended 31 12 12	Year ended 31 12 11
Profit before tax and finance		**340,869**	758,528
Write-offs and impairment losses	13	**836**	478
Losses on disposal of property, plant and equipment		**4,067**	46
Share-based payments	38	**1,608**	891
Depreciation and amortisation		**54,169**	41,003
EBITDA		**401,549**	800,946

'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$000	Year ended 31 12.12	Year ended 31 12 11
Cost of sales – pellet production	**642,654**	600,790
Depreciation and amortisation	**(39,290)**	(28,639)
Purchased concentrate and other items for resale	**(29,254)**	(102,908)
Processing costs for purchased concentrate	**(3,293)**	(7,873)
Production cost of gravel	**(612)**	(572)
Inventory movements	**9,029**	481
Pension service costs	**(7,560)**	5,334
Other	**(10,526)**	(7,099)
C1 cost	**561,148**	459,514
Own ore produced (tonnes)	**9,408,662**	9,063,398
C1 cash cost per tonne (US$)	**59 6**	50 7

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 12	Year ended 31 12 11
Cash and cash equivalents	27	**596,560**	890,154
Current borrowings	29	**(26,846)**	(18,948)
Non-current borrowings	29	**(993,139)**	(951,430)
Net financial indebtedness		**(423,425)**	(80,224)

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

Notes to the Consolidated Financial Statements continued

Note 6 Revenue
Revenue for the year ended 31 December 2012 consisted of the following

US$000	Year ended 31 12 12	Year ended 31 12 11
Revenue from sales of iron ore pellets and concentrate		
Export	**1,329,728**	1,699,154
Ukraine	**331**	742
Total revenue from sale of iron ore pellets and concentrate	**1,330,059**	1,699,896
Revenue from logistics and bunker business	**81,845**	73,276
Revenue from services provided	**3,202**	4,092
Revenue from other sales	**8,924**	10,748
Total revenue	**1,424,030**	1,788,012

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

US$000	Year ended 31 12 12	Year ended 31 12 11
China	**529,664**	569,924
Austria	**339,725**	453,586
Slovakia	**141,765**	121,041
Czech Republic	**112,623**	119,793
Turkey	**73,180**	83,722
Germany	**40,486**	28,898
Japan	**33,389**	88,875
India	**23,068**	47,119
Serbia	**19,723**	158,687
Russia	**8,875**	–
Romania	**5,167**	–
Hungary	**2,063**	27,509
Total exports	**1,329,728**	1,699,154

During the year ended 31 December 2012 sales made to three customers accounted for approximately 44 7% of the revenues from export sales of ore pellets (2011 50 2%)

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

US$000	Year ended 31 12 12	Year ended 31 12 11
Customer A	**339,725**	453,586
Customer B	**141,765**	279,728

Note 7: Cost of sales
Cost of sales for the year ended 31 December 2012 consisted of the following

US$000	Year ended 31.12.12	Year ended 31.12.11
Materials	**89,296**	75,246
Purchased concentrate and other items for resale	**29,254**	102,908
Electricity	**141,939**	121,364
Personnel costs	**72,939**	51,677
Spare parts and consumables	**26,563**	20,968
Depreciation and amortisation	**39,290**	28,639
Gas	**79,082**	63,485
Fuel	**56,038**	47,343
Repairs and maintenance	**78,022**	63,801
Royalties and levies	**12,375**	10,437
Cost of sales from logistics business	**22,342**	23,363
Bunker fuel	**29,580**	25,391
Inventory movements	**(9,028)**	(481)
Other	**26,884**	15,403
Total cost of sales	**694,576**	649,544

US$000	Year ended 31.12.12	Year ended 31.12.11
Cost of sales – pellet production	**642,654**	600,790
Cost of sales – logistics and bunker business	**51,922**	48,754
Total cost of sales	**694,576**	649,544

Note 8: Selling and distribution expenses
Selling and distribution expenses for the year ended 31 December 2012 consisted of the following

US$000	Year ended 31.12.12	Year ended 31.12.11
International freight for pellets	**113,538**	119,572
Railway transportation	**93,442**	89,185
Port charges	**31,891**	37,724
Other pellet transportation costs	**18,611**	13,453
Costs of logistics business	**27,495**	36,671
Gravel delivery costs	**516**	1,783
Advertising	**9,643**	6,911
Depreciation	**9,805**	8,231
Other	**7,023**	4,421
Total selling and distribution expenses	**311,964**	317,951

Notes to the Consolidated Financial Statements continued

Note 9: General and administrative expenses

General and administrative expenses for the year ended 31 December 2012 consisted of the following

US$000	Year ended 31.12.12	Year ended 31.12.11
Personnel costs	**30,569**	26,912
Buildings and maintenance	**2,597**	2 182
Taxes other than income tax and other charges	**1,465**	1,480
Professional fees	**4,699**	7,799
Depreciation and amortisation	**4,636**	3,968
Communication	**1,144**	1,149
Vehicles maintenance and fuel	**2,033**	1,553
Repairs	**1,542**	1,365
Audit fees	**1,589**	1,445
Non-audit fees	**473**	510
Security	**2,296**	1,859
Other	**3,286**	1 747
Total general and administrative expenses	**56,329**	51 969

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 31.12.12	Year ended 31.12.11
Audit services		
Ferrexpo plc Annual Report	**823**	741
Subsidiary entities	**766**	704
Total audit services	**1,589**	1 445
Non-audit services		
Tax advisory	**23**	139
Assurance related services	**203**	117
Other services	**247**	254
Total non-audit services	**473**	510
Total auditor remuneration	**2,062**	1,955

Note 10 Other income

Other income for the year ended 31 December 2012 consisted of the following

US$000	Year ended 31.12.12	Year ended 31.12.11
Sale of surplus maintenance spares	**1,276**	2,334
Lease income	**3,050**	1 597
Other income	**7,021**	3,012
Total other income	**11,347**	6,943

Note 11 Other expenses

Other expenses for the year ended 31 December 2012 consisted of the following

US$000	Year ended 31 12 12	Year ended 31 12 11
Community support donations	**20,810**	12,393
Movements in allowance for doubtful receivables and prepayments made	**721**	(2 406)
Research	**680**	362
Other personnel costs	**2,339**	1 962
Other	**5,611**	4,780
Total other expenses	**30,161**	17,091

Note 12· Foreign exchange gains and losses

Foreign exchange gains and losses for the year ended 31 December 2012 consisted of the following

US$000	Year ended 31 12 12	Year ended 31 12 11
Operating foreign exchange gains/(losses)		
Revaluation of trade receivables	**7**	252
Revaluation of trade payables	**23**	(1,612)
Revaluation of cash and cash equivalents	**339**	–
Other	**284**	–
Total operating foreign exchange gains/(losses)	**653**	(1,360)
Non-operating foreign exchange gains/(losses)		
Revaluation of interest-bearing loans	**1,986**	(102)
Revaluation and conversion of cash and cash equivalents	**5,046**	605
Other	**(403)**	(2,437)
Total non-operating foreign exchange gains/(losses)	**6,629**	(1,934)

The non-operating foreign exchange gains in 2012 relates to income received from the conversion of US Dollars for the settlement of liabilities denominated in Ukrainian Hyrvnia at an exchange rate higher than the one applicable upon initial recognition

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 2012 consisted of the following

US$000	Notes	Year ended 31 12 12	Year ended 31 12 11
Write-off of inventories		**215**	105
Write-off of property, plant and equipment		**191**	175
Impairment of available-for-sale financial assets	20	**430**	198
Total write-offs and impairment losses		**836**	478

Notes to the Consolidated Financial Statements continued

Note 14 Investments in associates
As at 31 December 2012 investments in associates comprised

	Principal activity	Country of incorporation	Ownership %	As at 31 12 12 US$000	As at 31 12 11 US$000
TIS Ruda	Port development	Ukraine	48 6	**16,995**	19,186

For the year ended 31 December 2012 the summarised financial information for the associate was as follows

	Total assets		Total liabilities		Revenue		Net profit	
US$000	**As at 31 12 12**	As at 31 12 11	**As at 31 12 12**	As at 31 12 11	**Year ended 31 12 12**	Year ended 31 12 11	**Year ended 31 12 12**	Year ended 31 12 11
TIS Ruda	**20,500**	25,993	**2,498**	4,936	**22,401**	22,205	**5,555**	4,032

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$2,772 thousand in TIS Ruda (2011 US$2,012 thousand) TIS Ruda paid a dividend amounting to US$4,963 thousand for the financial year 2012 (2011 US$2,207 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 2012 consisted of the following

US$000	**Year ended 31 12 12**	Year ended 31 12 11
Finance income		
Interest income	**2,454**	2,505
Other finance revenue	**144**	6
Total finance income	**2,598**	2 511
Finance expense		
Interest expense on financial liabilities measured at amortised cost	**(53,241)**	(46,376)
Interest on defined benefit plans	**(6,821)**	(5,765)
Bank charges	**(6,880)**	(14,885)
Other finance costs	**(21,149)**	(1,179)
Total finance expenses	**(88,091)**	(68,205)
Net finance expense	**(85,493)**	(65 694)

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

Other finance costs includes the recorded discount of US$20,000 thousand (2011 nil) to reflect the time value of money on the outstanding VAT receivable balances in Ukraine that are expected to be recovered after more than one year of the period end Further information is provided in note 26

Note 16· Income tax expense
The income tax expense for the year ended 31 December 2012 consisted of the following

US$000	Year ended 31 12 12	Year ended 31 12 11
Current income tax		
Current income tax charge	**48,797**	125,689
Amounts related to previous years	**2,929**	150
Total current income tax	**51,726**	125,839
Deferred income tax		
Origination and reversal of temporary differences	**(12,763)**	(10,788)
Effect from changes in tax laws and rates	**7,462**	913
Total deferred income tax	**(5,301)**	(9,875)
Total income tax expense	**46,425**	115,964

Other comprehensive income contained taxes on the following items charged or credited to it for the year ended 31 December 2012

US$000	Year ended 31 12 12	Year ended 31 12 11
Exchange differences arising on hedging of foreign operations	**(32)**	(153)
Net losses on available-for-sale investments	**(62)**	(437)
Total income taxes charged to other comprehensive income	**(94)**	(590)

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 9 3% for 2012 (2011 15 3%) 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 17 8% (2011 16 8%)

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 2012 is as follows

US$000	Year ended 31 12 12	Year ended 31 12 11
Profit before tax	**262,005**	690,900
Notional tax computed at the weighted average statutory tax rate of 9 3% (2011 15 3%)	**24,422**	105 531
Derecognition of deferred tax asset	**(98)**	(30)
Effect from changes in local tax rates	**7,462**	722
Effect from utilisation of non-recognised deferred tax assets	**(318)**	(781)
Effect from capitalised tax loss carry forwards	-	(63)
Expenses not deductible for tax purposes	**8,818**	9,186
Tax exempted income	**(422)**	(912)
Non-recognition of deferred taxes on current year losses	**3,684**	2,284
Tax related to prior years	**2,929**	150
Other	**(52)**	(123)
Total income tax expense	**46,425**	115,964

Notes to the Consolidated Financial Statements continued

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 12	Year ended 31 12 11
Profit for the year attributable to equity shareholders		
Basic earnings per share (US cents)	**36 63**	97 09
Diluted earnings per share (US cents)	**36.57**	96 97
Underlying earnings for the year		
Basic earnings per share (US cents)	**36.49**	97 47
Diluted earnings per share (US cents)	**36 43**	97 35

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

Thousand	Year ended 31 12 12	Year ended 31 12 11
Weighted average number of shares		
Basic number of Ordinary Shares outstanding	**585,060**	584,811
Effect of dilutive potential Ordinary Shares	**973**	730
Diluted number of Ordinary Shares outstanding	**586,033**	585 541

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 are considered 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 12	Year ended 31 12 11
Profit attributable to equity holders		**214,340**	567,822
Write-offs and impairment losses	13	**836**	478
Losses on disposal of property, plant and equipment		**4,067**	46
Non-operating foreign exchange (gains)/losses	12	**(6,629)**	1,934
Tax on adjusted items		**879**	(282)
Underlying earnings		**213,493**	569 998

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

Note 17 Earnings per share and dividends paid and proposed continued
Dividends paid and proposed

US$000	Year ended 31 12 12
Dividends proposed	
Final dividend for 2012 3 3 US cents per Ordinary Share	**19,309**
Special dividend for 2012 6 6 US cents per Ordinary Share	**38,618**
Total dividends proposed	**57,927**
Dividends paid during the period	
Interim dividend for 2012 3 3 US cents per Ordinary Share	**19,312**
Final dividend for 2011 3 3 US cents per Ordinary Share	**19,340**
Total dividends paid	**38,652**

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

Notes to the Consolidated Financial Statements continued

Note 18 Property, plant and equipment
As at 31 December 2012 property, plant and equipment comprised

US$000	Exploration and evaluation	Land	Mining assets	Buildings	Vessels	Plant & equipment	Vehicles	Fixtures and fittings	Assets under construction	Total
Cost:										
At 1 January 2011	**–**	**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**
Additions	3,078	–			21,696	39	979	175	470,761	496,728
Transfers	–	1,754	326 015	54,256	19,009	74,290	140,231	1,509	(617,064)	–
Disposals	–		(914)	(3,329)	(1,291)	(3,334)	(4,698)	(78)	(1,259)	(14,903)
Translation differences	–	73	(9)	(67)	1 587	(106)	(95)	2	(84)	1,301
At 31 December 2012	**3,078**	**9,687**	**345,438**	**228,398**	**110,613**	**346,947**	**374,627**	**6,933**	**191,445**	**1,617,166**
Depreciation										
At 1 January 2011	**–**	**–**	**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**
Depreciation charge	–	–	5 479	10 008	4,566	28,367	24 052	1 430	–	73,902
Disposals	–	–	–	(1,310)	–	(2,868)	(3,981)	(73)	–	(8,232)
Transfers	–	–	–	4	–	2	(3)	(3)	–	–
Impairment	–	–	–	16	–	–	–	–	76	92
Translation differences	–	–	(1)	(18)	97	(44)	(20)	1	–	15
At 31 December 2012	**–**	**–**	**6,984**	**47,235**	**8,903**	**139,321**	**68,552**	**4,026**	**106**	**275,127**
Net book value at·										
31 December 2011	–	7 860	18 840	139,003	65,372	162,194	189 706	2,654	339,061	924,690
31 December 2012	**3,078**	**9,687**	**338,454**	**181,163**	**101,710**	**207,626**	**306,075**	**2,907**	**191,339**	**1,342,039**

Assets under construction consist of ongoing capital projects amounting to US$154,545 thousand (2011 US$187,668 thousand) and capitalised pre-production stripping costs of US$36,794 thousand (2011 US$151,393 thousand) Once production commences, stripping costs are transferred to mining assets The accounting policy for mine stripping costs is outlined in note 2

Property, plant and equipment includes capitalised borrowing costs on qualifying assets of US$1,508 thousand (2011 nil) The capitalised borrowing costs on general borrowings were determined based on the capitalisation rate of 5 8% (2011 nil), which is the average effective interest rate on general borrowings during the period The Group has no specific borrowings in relation to qualifying assets during either reporting period

The carrying value of equipment held under finance leases and hire purchase contracts at 31 December 2012 was US$18,549 thousand (2011 US$7,792 thousand) During the financial years 2012 and 2011, the Group entered into sale and lease-back transactions for rail cars and mining equipment, which were considered to be finance leases No gain or loss was realised on the sale of the assets subject to these finance leases Leased assets and assets under hire purchase contracts are pledged as security for the related finance leases and hire purchase liabilities

US$220,053 thousand of property, plant and equipment have been pledged as security for liabilities (2011 US$128,624 thousand)

The gross value of fully depreciated property, plant and equipment that is still in use is US$45,994 thousand (2011 US$39,781 thousand)

Note 19 Goodwill and other intangible assets
As at 31 December 2012 goodwill and other intangible assets comprised

US$000	Goodwill	Exploration and evaluation	Other intangible assets	Total
Cost:				
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**
Additions	**–**	**3,607**	**6,304**	**9,911**
Disposals	**–**	**–**	**(53)**	**(53)**
Translation differences	**(40)**	**–**	**51**	**11**
At 31 December 2012	**98,413**	**3,607**	**12,956**	**114,976**
Accumulated amortisation and impairment:				
At 1 January 2011	**–**	**–**	**957**	**957**
Amortisation charge	–	–	931	931
Disposals	–	–	(19)	(19)
Translation differences	–	–	(2)	(2)
At 31 December 2011	**–**	**–**	**1,867**	**1,867**
Amortisation charge	**–**	**–**	**980**	**980**
Disposals	**–**	**–**	**(53)**	**(53)**
Translation differences	**–**	**–**	**11**	**11**
At 31 December 2012	**–**	**–**	**2,805**	**2,805**
Net book value at				
31 December 2011	98,453	–	4,787	103,240
31 December 2012	**98,413**	**3,607**	**10,151**	**112,171**

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

Goodwill from business combinations are not amortised, but reviewed for impairment 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 2012 based on a value-in-use calculation using cash flow projections over the remaining estimated life of the Gorishne-Plavniskoye and Lavrikovskoye mine ('GPL'), which is expected to expire in 2038 according to the current approved mine plan The estimated production volumes are based on this mine plan and do not take into account the effects of expected future mine life extension programmes The cash flow projection is based on the financial budget covering the next four years and approved by senior management The production capacity remains at a fixed level until full capacity is reached and therefore no perpetual growth rate is applied for the cash flow projections beyond the budgeted four years

The major component of other intangible assets comprises mining licences and 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$85 per tonne to US$128 per tonne of Fe 62% fines CFR North China (2011 US$84 per tonne to US$153 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% (2011 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 2012 available-for-sale financial assets comprised

	Ownership		Carrying value	
US$000	**As at 31 12 12**	As at 31 12 11	**As at 31 12 12**	As at 31 12 11
Non-current				
Investments available-for-sale – equity instruments				
OJSC Stahanov	**1 10%**	1 10%	**534**	860
Vostok Ruda LLC	**1 10%**	1 10%	**–**	430
LLC Atol	**9 95%**	9 95%	**–**	–
CJSC AMA	**9 00%**	9 00%	**–**	–
CJSC Amtek	**9 00%**	9 00%	**–**	–
Total non-current			**534**	1,290

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 2012 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 2012 The decrease of the fair value in the amount of US$326 thousand (2011 decrease of US$1,868 thousand) has been recorded against the net unrealised gains reserve

Vostok Ruda LLC

The investment in Vostok Ruda LLC was fully impaired during the current financial year and there are no indications at 31 December 2012 that could require a reversal of the previously booked impairment losses

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 2012 other non-current assets comprised

US$000	As at 31 12 12	As at 31 12 11
Prepayments for property, plant and equipment	**35,711**	86 331
Other non-current assets	**6,099**	7,027
Total other non-current assets	**41,810**	93,358

Notes to the Consolidated Financial Statements continued

Note 22 Deferred income tax
Deferred income tax assets and liabilities at 31 December 2012 relate to the following

US$000	Consolidated statement of financial position As at 31 12 12	As at 31 12 11	Consolidated income statement Year ended 31 12 12	Year ended 31 12 11
Trade and other receivables	**496**	73	**423**	(4,019)
Inventories	**229**	306	**(77)**	306
Accrued income and prepaid expenses	**12**	–	**12**	(293)
Property, plant and equipment	**23,091**	17,194	**5,880**	7,443
Intangible assets	**53**	–	**59**	–
IPO costs netted against share premium	**33**	227	**(194)**	(499)
Tax losses recognised	**1,060**	2,022	**(962)**	(206)
Other financial assets	**56**	19	**(20)**	18
Trade and other payables	**1**	1	**1**	(29)
Accrued expenses	**1,585**	1,485	**100**	(511)
Defined benefit pension liability	**3,767**	2,256	**1,512**	(400)
Provision for site restoration	**353**	458	**(104)**	49
Other financial liabilities	**9**	10	**(1)**	(70)
Other items	**1**	1	**–**	(7)
Total deferred tax assets	**30,746**	24,052	**6,629**	1 782
Thereof netted against deferred tax liabilities	**(1,616)**	(626)		
Total deferred tax assets as per the statement of financial position	**29,130**	23,426		
Trade and other receivable	**(759)**	(1,127)	**370**	43
Inventories	**(267)**	–	**(267)**	3,962
Accrued income and prepaid expenses	**(159)**	(218)	**59**	2,896
Property, plant and equipment	**(1,678)**	(944)	**(726)**	1,524
Intangible assets	**–**	–	**–**	111
Other non-current assets	**(615)**	–	**(615)**	48
Other financial assets	**(185)**	(256)	**71**	(256)
Employee benefit trust	**–**	(305)	**305**	(259)
Trade and other payables	**(521)**	–	**(520)**	27
Lease obligations	**(1)**	(8)	**7**	(3)
Defined benefit pension liability	**(12)**	–	**(12)**	–
Total deferred tax liabilities	**(4,197)**	(2,858)	**(1,328)**	8,093
Thereof netted against deferred tax assets	**1,616**	626		
Total deferred tax liabilities as per the statement of financial position	**(2,581)**	(2,232)		
Net deferred tax assets/net change	**26,549**	21,194	**5,301**	9,875

The movement in the deferred income tax balance is as follows

US$000	Year ended 31 12 12	Year ended 31 12 11
Opening balance	**21,194**	11,063
Income statement credit	**5,301**	9,875
Charges booked outside of profit or loss	**56**	590
Foreign currency exchange rate adjustment	**(2)**	(334)
Closing balance	**26,549**	21,194

As at 31 December 2012, the Group had deductible temporary differences on available tax loss carry forwards in the amount of US$80,582 thousand (2011 US$82,453 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 during the financial year 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$660,683 thousand (2011 US$582,370 thousand)

Note 23 Inventones
As at 31 December 2012 inventones compnsed

US$000	As at 31 12 12	As at 31 12 11
Raw matenals and consumables	**98,439**	78,111
Finished ore pellets	**28,142**	24,022
Work in progress	**5,178**	11,280
Other	**7,876**	4,063
Provision for slow-moving and obsolete inventory items	**-**	(430)
Total inventones – current	**139,635**	117 046
Raw matenals and consumables	**12,362**	–
Total inventories – non-current	**12,362**	–

Inventory is held at the lower of cost or net recoverable amount Inventories classified as non-current compnses ore stockpiles that are not planned to be processed within one year

Note 24 Trade and other receivables
At 31 December 2012 trade and other receivables compnsed

US$000	As at 31 12 12	As at 31 12 11
Trade receivables	**116,135**	126,715
Other receivables	**1,967**	3,674
Allowance for doubtful receivables	**(1,549)**	(1,484)
Total trade and other receivables	**116,553**	128,905

Trade receivables at 31 December 2012 includes US$826 thousand (2011 US$3,249 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 12	Year ended 31 12 11
Opening balance	**1,484**	3,881
Recognition	**1,080**	329
Reversal	**(1,015)**	(2,735)
Foreign currency translation	**-**	9
Closing balance	**1,549**	1,484

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 12				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	**116,135**	**1,465**	**88,792**	**21,978**	**1,008**	**2,892**
Other receivables	**1,967**	**84**	**891**	**20**	**531**	**441**

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

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 2012 prepayments and other current assets comprised

US$000	As at 31.12.12	As at 31.12.11
Prepayments to suppliers		
Electricity and gas	**4,094**	5,972
Materials and spare parts	**3,289**	4,833
Services	**4,588**	2,594
Other prepayments	**67**	59
Accrued income	**22,176**	7,660
Other	**2,254**	1,602
Total prepayments and other current assets	**36,468**	22,720

Prepayments at 31 December 2012 include US$1,482 thousand (2011 US$693 thousand) made to related parties The detailed related party disclosures are made in note 34

Note 26: Taxes payable, recoverable and prepaid

The income tax receivable/(payable) balance as of 31 December 2012 is shown below

US$000	As at 31.12.12	As at 31.12.11
Opening balance	**(36,290)**	(41,776)
Income statement charge	**(51,727)**	(125,839)
Tax paid	**99,771**	132,176
Foreign exchange adjustment	**(557)**	(851)
Closing balance	**11,197**	(36,290)

Split by

US$000	As at 31.12.12	As at 31.12.11
Income tax receivable balance	**24,869**	384
Income tax payable balance	**(13,672)**	(36,674)
Income tax receivable/(payable) at the year end	**11,197**	(36,290)

As at 31 December 2012 taxes recoverable and prepaid comprised

US$000	As at 31.12.12	As at 31.12.11
VAT receivable	**186,900**	172,434
Other taxes prepaid	**346**	517
Total taxes recoverable and prepaid – current	**187,246**	172,951
VAT receivable	**97,895**	–
Total taxes recoverable and prepaid – non-current	**97,895**	–

VAT receivable is as a result of VAT paid on domestic Ukrainian purchases of goods, capital equipment and services and on the import of goods, capital equipment and services into Ukraine to the extent that this cannot be offset on VAT paid on domestic sales Ferrexpo currently has limited domestic sales and exports the majority of its products As a result, VAT has to be recovered from the Government tax authority and Ferrexpo is reliant on the normal functioning of this system During the financial year 2012, FPM received VAT refunds in respect of 2011 and 2012 amounting to US$70,644 thousand and paid Ukrainian VAT amounting to US$221,973 thousand, including US$81,043 thousand in respect of capital expenditure As a result, the gross recoverable balance increased by US$129,881 thousand to US$301,535 thousand (UAH2,410 million)

Management expects this amount to be fully recovered in local currency However, the exact timing of recovery and method of settlement is subject to uncertainties, along with the prevailing exchange rate to the US Dollar at the time of repayment In the past, VAT has been recovered in cash and by the issuance of domestic local currency bonds An alternative method of settlement could be to offset amounts recoverable against current and future corporate profit tax A financial loss could result, for example from the issuance of bonds which trade at a discount at the time of issue, continued late repayment as a result of Government fiscal constraints diminishing the present value of the receivable, or the conversion to US Dollar of local currency received at a different exchange rate to that recorded at the time of payment.

Note 26 Taxes payable, recoverable and prepaid continued
Management has considered these uncertainties including potential continued International Monetary Fund support for the Ukrainian national budget, domestic economic and budgetary constraints, and current discussions with fiscal authorities in making an estimate of the timing of recovery of the VAT due Management concluded that a large portion of the VAT is likely to be repaid considerably beyond the settlement terms which will result in additional funding costs for the Group As a result, an estimated discount of US$20,000 thousand has been recorded to reflect this uncertainty and its effect is included in finance expense The discount was calculated on the basis that VAT refunds will continue to be limited to an amount which is double monthly corporation tax payments, which has been our recent experience Based on current management estimates, US$186,900 thousand of VAT is expected to be recovered within one year of the period end, with the remainder, amounting to US$97,895 thousand, net of the associated discount to reflect the time value of money, recoverable after more than one year of the period end

Further information on the Ukrainian VAT situation is provided in the risk section on page 23

As at 31 December 2012 other taxes payable comprised

US$000	As at 31 12 12	As at 31 12 11
Withholding tax	**540**	530
Environmental tax	**496**	2,373
Source tax	**10**	42
VAT payable	**1,697**	-
Other taxes	**5,622**	5,132
Total taxes payable	**8,365**	8,077

Note 27 Cash and cash equivalents
As at 31 December 2012 cash and cash equivalents comprised

US$000	Year ended 31 12 12	Year ended 31 12 11
Cash at bank and on hand	**304,994**	799,361
Short-term deposits	**291,566**	90,787
Marketable securities	**-**	6
Total cash and cash equivalents	**596,560**	890,154

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 2012 and 2011	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 2012 was 613,967,956 Ordinary Shares (2011 613,967,956) at a par value of £0 10 paid for in cash, resulting in share capital of US$121,628 thousand (2011 US$121,628 thousand) per the statement of financial position

The closing balance as of 31 December 2012 and 2011 includes 25,343,814 shares which are held in treasury and 3,504,523 shares held in the employee benefit trust reserve (2011 3,744,658 shares)

Notes to the Consolidated Financial Statements continued

Note 28: Share capital and reserves continued

As at 31 December 2012 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 2011	**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)**
Foreign currency translation differences	–	–	–	–	(836)	(836)
Loss on available-for-sale investments	–	–	–	(326)	–	(326)
Tax effect	–	–	–	62	32	94
Total comprehensive income for the period	–	–	–	(264)	(804)	(1,068)
Share-based payments	–	–	1,608	–	–	1,608
At 31 December 2012	**31,780**	**(77,260)**	**(7,808)**	**820**	**(295,595)**	**(348,063)**

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 for 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 31.12.12	As at 31.12.11
Current			
Other bank loans – secured	37	**13,321**	8,231
Obligations under finance leases	37	**3,729**	1,384
Interest accrued	37	**9,796**	9,333
Total current interest-bearing loans and borrowings		**26,846**	18,948
Non-current			
Eurobond issued	37	**491,438**	489,257
Syndicated bank loans – secured	37	**420,000**	420,000
Other bank loans – secured	37	**62,232**	37,955
Obligations under finance leases	37	**19,469**	4,218
Total non-current interest-bearing loans and borrowings		**993,139**	951,430
Total interest-bearing loans and borrowings		**1,019,985**	970,378

As at 31 December 2012 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 This finance facility is available for 60 months including a commitment amortisation over the final 24 months The maturity is 31 August 2016

As at 31 December 2012 the major bank debt facility was guaranteed and secured as follows

- Ferrexpo AG and Ferrexpo Middle East FZE 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 Ferrexpo Middle East FZE, and
- the Group pledged bank accounts of Ferrexpo AG and Ferrexpo Middle East FZE 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 2012, the Group has no other committed credit lines (2011 US$50,000 thousand)

Note 30 Trade and other payables

As at 31 December 2012 trade and other payables comprised

US$000	As at 31.12.12	As at 31.12.11
Materials and services	**50,736**	31,033
Payables for equipment	**9,889**	4,401
Dividends payable	**87**	56
Other	**1,897**	7,158
Total current trade and other payables	**62,609**	42,648

Trade and other payables at 31 December 2012 includes US$1,816 thousand (2011 US$3,215 thousand) due to related parties (see note 34)

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 2012, this defined benefit plan covered 5,030 current employees (2011 4,850 people) There are 1,135 former employees currently in receipt of pensions (2011 1,165 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 at the end of the prior financial year ended on 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 2012, this defined benefit plan covered 20 people (2011 28 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 2012, three current employees (2011 four 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 the end of the prior financial year ended on 31 December 2011 These events qualified as a curtailment under IAS 19, and the resulting effects were calculated and included in the benefit expense of the prior year

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

	Year ended 31 12 12			Year ended 31 12 11		
	Swiss scheme	**Austrian scheme**	**Ukrainian scheme**	Swiss scheme	Austrian scheme	Ukrainian scheme
Discount rate	**1.90%**	**3.50%**	**11.90%**	2 40%	5 00%	11 00%
Retail price inflation	**1.25%**	**2.50%**	**4 70%**	1 00%	2 50%	7 00%
Expected future salary increase	**3.00%**	**2.50%**	**5.28%**	3 00%	2 50%	10 50%
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

	Year ended 31 12 12				Year ended 31 12 11			
US$000	Swiss scheme	Austrian scheme	Ukrainian scheme	Total	Swiss scheme	Austrian scheme	Ukrainian scheme	Total
Opening defined benefit obligation	**3,693**	**172**	**63,452**	**67,317**	2,634	819	53,302	56,755
Current service cost	**499**	**9**	**4,353**	**4,861**	376	51	3,381	3,808
Employee contribution	**135**	**–**	**–**	**135**	144	–	–	144
Interest cost	**83**	**7**	**6,731**	**6,821**	68	40	5,657	5,765
Contribution by plan participants	**–**	**–**	**–**	**–**	288	–	–	288
Benefits paid	**(529)**	**(1,115)**	**(4,526)**	**(6,170)**	(203)	(1 347)	(3 746)	(5,296)
Actuarial losses/(gains)	**230**	**14**	**(21,480)**	**(21,236)**	467	31	28,796	29,294
Losses/(gains) on curtailment	**–**	**–**	**–**	**–**	–	277	(3,760)	(3,483)
Past service cost	**–**	**–**	**–**	**–**	–	–	(19,962)	(19,962)
Termination benefits	**–**	**1,022**	**–**	**1,022**	–	271	–	271
Foreign exchange translation adjustment	**133**	**–**	**(21)**	**112**	(81)	30	(216)	(267)
Closing defined benefit obligation	**4,244**	**109**	**48,509**	**52,862**	3,693	172	63,452	67,317
Opening plan assets	**2,173**	**–**	**–**	**2,173**	1 579	–	–	1,579
Expected return on plan assets	**66**	**–**	**–**	**66**	69	–	–	69
Employer contribution	**564**	**–**	**–**	**564**	450	–	–	450
Employee contribution	**135**	**–**	**–**	**135**	144	–	–	144
Contribution by plan participants	**–**	**–**	**–**	**–**	288	–	–	288
Benefits paid	**(529)**	**–**	**–**	**(529)**	(203)	–	–	(203)
Actuarial loss	**(13)**	**–**	**–**	**(13)**	(109)	–	–	(109)
Foreign exchange translation adjustment	**77**	**–**	**–**	**77**	(45)	–	–	(45)
Closing plan assets	**2,473**	**–**	**–**	**2,473**	2,173	–	–	2,173
Net funded status	**1,771**	**109**	**48,509**	**50,389**	1,520	172	63,452	65,144
Unrecognised actuarial losses	**(1,343)**	**(83)**	**(30,473)**	**(31,899)**	(1,140)	(3)	(56,525)	(57,668)
Unrecognised past service cost	**–**	**–**	**5,014**	**5,014**	–	–	5,853	5,853
Closing balance defined benefit pension liability	**428**	**26**	**23,050**	**23,504**	380	169	12,780	13,329
Benefit expense								
Current service cost	**499**	**9**	**4,353**	**4,861**	376	51	3,381	3,808
Interest cost	**83**	**7**	**6,731**	**6,821**	68	40	5,657	5,765
Amortisation of actuarial loss	**81**	**(60)**	**4,558**	**4,579**	46	(1)	3,587	3,632
Expected return on plan assets	**(66)**	**–**	**–**	**(66)**	(69)	–	–	(69)
Recognised past service cost	**–**	**–**	**(836)**	**(836)**	–	–	(11,528)	(11,528)
Termination benefits	**–**	**1,022**	**–**	**1,022**	–	271	–	271
Losses/(gains) on curtailment	**–**	**–**	**–**	**–**	–	306	(1,116)	(810)
Current year benefit expense	**597**	**978**	**14,806**	**16,381**	421	667	(19)	1,069
Net movement on defined benefit pension liability								
Opening balance	**380**	**169**	**12,780**	**13,329**	408	819	16,592	17,819
Benefits expense	**597**	**978**	**14,806**	**16,381**	421	667	(19)	1,069
Benefits paid	**–**	**(1,115)**	**(4,526)**	**(5,641)**	–	(1,347)	(3,746)	(5,093)
Employer contribution	**(564)**	**–**	**–**	**(564)**	(450)	–	–	(450)
Foreign exchange translation adjustment	**15**	**(6)**	**(10)**	**(1)**	1	30	(47)	(16)
Closing balance	**428**	**26**	**23,050**	**23,504**	380	169	12,780	13,329

Contributions to the defined benefit plans in 2013 are expected to be US$4,700 thousand for the schemes in Ukraine and US$550 thousand and US$45 thousand for those in Switzerland and Austria respectively

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 12.12 %	As at 31 12 12	As at 31 12 11 %	As at 31 12.11
Scheme assets at fair value				
Equities	**24 4**	**603**	22 0	478
Bonds	**42.6**	**1,053**	43 4	943
Properties	**10.5**	**260**	10 4	226
Other	**22.5**	**557**	24 2	526
Fair value of scheme assets	**100.0**	**2,473**	100 0	2,173

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 12 Swiss scheme	Year ended 31 12 11 Swiss scheme
Expected rate of return on plan assets		
Equities	**8.47%**	4 31%
Bonds	**2.55%**	2 50%
Properties	**4.86%**	2 35%
Other	**4.26%**	4 92%
Total	**4.44%**	3 06%
Actual rate of return on plan assets		
Equities	**14 79%**	(7 90%)
Bonds	**5 62%**	3 24%
Properties	**13 15%**	1 90%
Other	**3.90%**	(2 24%)
Total	**8.09%**	(0 74%)

The actual return on the plan assets for the Swiss scheme was US$53 thousand (2011 loss of US$40 thousand)

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

	Year ended 31 12 12					
	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	**(25)**	**–**	**(258)**	**28**	**–**	**284**
Effect on the defined benefit obligation	**(204)**	**(3)**	**(3,668)**	**220**	**3**	**4,216**

	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)

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 12	Year ended 31 12 11	Year ended 31 12 10	Year ended 31 12 09	Year ended 31 12 08
Opening balance	**(57,668)**	(34,630)	(7,140)	(6,294)	(3,292)
Change of assumptions on plan liabilities	**21,653**	(11,116)	(13 600)	918	10,551
Experience adjustments on plan liabilities	**(421)**	(18,178)	(14,299)	(2,249)	(16,770)
Experience adjustments on plan assets	**(13)**	(109)	(194)	(230)	(84)
Recognised losses	**4,579**	3,632	564	476	62
Impact on curtailment	**-**	2,576	–	–	–
Foreign exchange translation adjustment	**(29)**	157	39	239	3,239
Closing balance	**(31,899)**	(57,668)	(34,630)	(7,140)	(6,294)

Note 32 Provision for site restoration
The costs of restoration of the different deposits in the Group's open pit mines are based on amounts determined by an independent and credited institute taking into account the codes of practice and laws applicable in Ukraine The useful lives of the different pits and mines are determined by the same institute based on expected annual stripping and production volumes having taken into account the expected timing and effect of future mine-life extension programmes It is expected that the restoration works of the GPL mine will start after the years 2020, 2038 and 2055 depending on the different areas within the mine The first restoration work of the Yeristovo mine is expected to start after 2035

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 in the relevant areas within the mine The present value of the provision has been calculated using a nominal pre-tax discount rate of 11 7% (2011 8 47%) and the costs are expected to be incurred once the restoration works begin in the different areas of the mines

Uncertainties in estimating the provision include potential changes in regulatory requirements, decommissioning and reclamation alternatives and the discount and inflation rates to be used in the calculations

US$000	As at 31 12 12	As at 31 12 11
Opening balance	**3,015**	2,746
Unwind of the discount	**289**	216
Arising during the year	**(935)**	65
Translation adjustments	**(1)**	(12)
Closing balance	**2,368**	3,015

Note 33. Accrued liabilities and deferred income
As at 31 December 2012 accrued liabilities and deferred income comprised

US$000	As at 31 12 12	As at 31 12 11
Accrued expenses	**6,249**	8,830
Accrued employee costs	**19,726**	20,836
Advances from customers	**23,938**	47
Deferred income	**1,372**	-
Total accrued liabilities and deferred income	**51,285**	29 713

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 the control of Kostyantin Zhevago Associated companies refers 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 from which Olexander Moroz resigned as of 14 May 2010 All transactions taking place 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 and thus included in the disclosures made for the comparative period

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 12			Year ended 31 12 11		
US$000	Entities under common control	Associated companies	Other related parties	Entities under common control	Associated companies	Other related parties
Other sales[a]	**1,198**	**–**	**88**	6,718	–	1,783
Total related party transactions within revenue	**1,198**	**–**	**88**	6,718	–	1,783
Materials[b]	**5,984**	**–**	**24**	4,638	–	8,475
Purchased concentrate and other items for resale[c]	**21,948**	**–**	**–**	24,891	–	–
Spare parts and consumables[d]	**7,859**	**–**	**–**	4,726	–	256
Fuel[e]	**1,373**	**–**	**–**	7,980	–	–
Gas[e]	**9,646**	**–**	**–**	15,455	–	–
Total related party transactions within cost of sales	**46,810**	**–**	**24**	57,690	–	8,731
Selling and distribution expenses[f]	**9,377**	**20,493**	**8,367**	6,536	16,674	13,470
General and administration expenses[g]	**1,644**	**–**	**72**	1,231	–	15
Total related party transactions within expenses	**57,831**	**20,493**	**8,463**	65,457	16,674	22,216
Finance income[h]	**917**	**–**	**–**	899	9	–
Finance expenses[h]	**(733)**	**–**	**–**	(411)	–	–
Net related party finance income/(expenses)	**184**	**–**	**–**	488	9	–

Entities under common control

The Group entered into various related party transactions with entities under common control A description of the most 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) is given below

a Sales of power steam and water and other materials to Kislorod PCC for US$480 thousand (2011 US$2 128 thousand) Revenue of US$507 thousand was received from Vorskla Steel Ltd for the sale of sand (2011 US$548 thousand) Other sales as of 31 December 2011 comprised tolling fees of US$2 622 thousand paid by Vostok Ruda Ltd to OJSC Ferrexpo Poltava Mining for the production of pellets No pellets were produced under the tolling scheme during the financial year 2012

b Purchases of compressed air and oxygen from Kislorod PCC for US$4 933 thousand (2011 US$4 033 thousand)

c Purchases of concentrate and other items for resale from Vostok Ruda Ltd amounting to US$21 948 thousand (2011 US$12 728 thousand)

c No purchases of merchant concentrate from Vostok Ruda Ltd were made as of 31 December 2012 (2011 US$7 458 thousand) During the financial year 2011 Vostok Ruda Ltd earned US$10 thousand on the purchase and resale of concentrate The fee covered costs incurred in procuring and delivering third party merchant concentrate supplied No fee was earned during the financial year 2012

c Handling commissions to SIA Wellmark Latvia amounting to US$35 thousand during the financial year 2011 for the purchase of goods No handling commissions were paid during the financial year 2012

d Purchases of spare parts from AutoKraZ Holding Co in the amount of US$5 255 thousand (2011 US$1 456 thousand)

d Purchases of spare parts from CJSC Kiev Shipbuilding and Ship Repair Plant ('KSRSSZ') in the amount of US$805 thousand (2011 US$228 thousand);

d Purchases of spare parts from OJSC Berdichev Machine Building Plant Progress of US$595 thousand (2011 US$1 017 thousand)

d Purchases of spare parts from Valsa GTV of US$736 thousand (2011 US$541 thousand) and

d Purchase of spare parts from Komsomolsk Cogeneration Company LLC in the amount of US$736 thousand as of 31 December 2011 No procurement from Komsomolsk Cogeneration Company LLC were made during the financial year 2012

e Purchases of fuel for US$1 373 thousand (2011 US$7 980 thousand) from OJSC Ukrzakordongeologia Procurement of gas US$9 646 thousand (2011 US$15 455 thousand) from OJSC Ukrzakordongeologia

f Purchases from FC Vorskla for advertisement marketing and general public relations services during the financial year 2012 of US$9 301 thousand (2011 US$6 536 thousand)

g Insurance premiums of US$686 thousand (2011 US$644 thousand) paid to ASK Omega for workmen s insurance and other insurances

g Fees of US$448 thousand (2011 US$355 thousand) paid to Bank Finance & Credit (Bank F&C) for bank services

h Transactional banking services are provided to certain subsidiaries of the Group by Bank F&C Finance income and expenses relate to these transactional banking services Further information is provided under transactional banking arrangements on page 116

Note 34: Related party disclosure continued

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$21 438 thousand (2011 US$16 674 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 related parties other than those under the control of the majority owner of the Group Descriptions of the material transactions are below

a Sales of scrap metal to Ferrolit amounting to US$1 201 thousand and other sales of US$509 thousand during the financial year 2011 Ferrolit is no longer a related party to the Group due to the resignation of Olexander Moroz as a supervisory board member of OJSC Ferrexpo Poltava Mining in May 2010

b Purchases of cast iron grinding bodies from Ferrolit for US$8 475 thousand during the financial year 2011 As noted above Ferrolit is no longer a related party to the Group

f Purchases of logistics management services from Slavutich Ruda Ltd relating to customs clearance services and the coordination of rail transit Total billings amounted to US$8 367 thousand (2011 US$13 470 thousand) Slavutich Ruda Ltd earned commission income of US$906 thousand on these services (2011 US$809 thousand)

g Purchases of legal services from Kuoni Attorneys at Law Ltd amounting to US$72 thousand as of 31 December 2012 (2011 US$12 thousand) All services were provided on an arm s length basis

Purchases of property, plant and equipment

	Year ended 31 12 12			Year ended 31 12 11		
US$000	**Entities under common control**	**Associated companies**	**Other related parties**	Entities under common control	Associated companies	Other related parties
Purchases with independent fair and reasonable confirmation	**2,659**	–	–	14,655	–	–
Purchases with shareholder approval	**55,026**	–	–	13,167	–	–
Other purchases	**1,044**	–	–	–	–	–
Total purchase of property, plant and equipment[1]	**58,729**	–	–	27,822	–	–

1 During the financial year 2012 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 in so far as they exceeded the relevant aggregated threshold tests on a rolling annual basis subject to an independent fair and reasonable confirmation that the terms are fair and reasonable in accordance with the requirements of the UK Listing Rules Effective 1 October 2012 the UK Listing Rules have been amended to require only independent fair and reasonable confirmation for transactions that are not in the ordinary course of business irrespective of the nature of the transaction

- During the period from October to December 2012 The Group entered in various transactions with related parties totalling to US$653 thousand These transactions were in the ordinary course of business and on an arm s length basis and did not require independent fair and reasonable confirmation
- In September 2012 the Group procured metal works from OJSC Berdichev Machine Building Plant Progress in the amount of US$1 019 thousand in connection with the construction of the flotation equipment.
- In July and August 2012 the Group entered in various smaller transactions with related parties totalling US$391 thousand No independent fair and reasonable confirmation was required as these transactions did not exceed the relevant aggregated threshold at the point of time of the transactions
- In July 2012 the Group procured design documentation services in the amount of US$194 thousand from OJSC DIOS in relation to replacement of mixers at the pellet plant complex and the construction of a dust aspiration system Deslimer equipment in the amount of US$668 thousand was procured from CJSC Kiev Shipbuilding and Ship Repair Plant ('KSRSSZ') and OJSC Berdichev Machine-Building Plant Progress for a beneficiation plant.
- In March 2012, project management services in the amount of US$140 thousand were procured from Vorskla Steel Ltd in connection with the construction of service facilities and technical design documentation amounting to US$618 thousand from OJSC DIOS related to the update of the beneficiation plant
- In February 2012 the Group procured design documentation from OJSC DIOS in the amount of US$21 thousand in relation to the construction of roads and loading facilities

The Group obtained on 24 May 2012 shareholder approval for an option to purchase up to 500 rail cars from PJSC Stakhanov Railcar Company between the date of the approval and 31 December 2014 In February 2013 the Group exercised the right under this option to order 267 rail cars

During the financial year 2011 the Group entered into the following transactions with related parties that required independent fair and reasonable confirmation in accordance with the requirements of the UK Listing Rules

- 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 PJSC Stakhanov Railcar Company 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 from PJSC Stakhanov Railcar Company with an option to purchase an additional 600 rail cars was approved by the general meeting of the shareholders on 15 March 2011 712 rail cars were ordered under the authority of this shareholder approval during the financial year 2011 and 288 rail cars in 2012 bringing the total ordered to 1 000 units As of 31 December 2012 all rail cars ordered under this authority had been delivered which brought the total fleet of rail cars to 1 933 units not including 200 dumper rail cars previously used in the mine and related area and recently brought into service Purchased rail cars under this authority amounting to US$55 026 thousand were put into operation during the financial year 2012 (2011 US$13 167 thousand)

Notes to the Consolidated Financial Statements continued

Note 34 Related party disclosure continued

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 12			Year ended 31 12 11		
	Entities under common control	**Associated companies**	**Other related parties**	Entities under common control	Associated companies	Other related parties
Investments available-for-sale[j]	**530**	–	–	1,286	–	–
Prepayments for property, plant and equipment[k]	**625**	–	–	29,080	–	–
Total non-current assets	**1,155**	–	–	30,366	–	–
Trade and other receivables[l]	**823**	–	**3**	1,262	1,981	6
Prepayments and other current assets[m]	**162**	**1,302**	**18**	414	–	279
Cash and cash equivalents[n]	**141,424**	–	–	94,933	–	–
Total current assets	**142,409**	**1,302**	**21**	96,609	1,981	285
Trade and other payables[o]	**1,694**	–	**122**	2,151	549	515
Current liabilities	**1,694**	–	**122**	2,151	549	515

Entities under common control

j The balance of the investments available for sale comprised shareholdings in PJSC Stakhanov Railcar Company (1 10%) and Vostok Ruda Ltd (1 10%). The ultimate beneficial owner of these companies is Kostyantin Zhevago PJSC Stakhanov Railcar Company 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 During the financial year 2012 the investment in Vostok Ruda Ltd was subject to an impairment of US$430 thousand (2011 US$198 thousand)

k As of 31 December 2012 prepayments of US$153 thousand were made to DIOS (2011 US$302 thousand) for engineering design services and US$289 thousand to OJSC Berdichev Machine Building Plant Progress (2011 nil) and US$142 thousand to CJSC Kiev Shipbuilding and Ship Repair Plant ('KSRSSZ') (2011 nil) for equipment for the crushing and beneficiation plants Prepayments outstanding of US$28 705 thousand in respect of key components for rail cars purchased from OJSC Stahanov Rail Cars Plant as of 31 December 2011 No prepayments were made to OJSC Stahanov Rail Cars Plant as of 31 December 2012

l As of 31 December 2012 trade and other receivables included outstanding amounts due from Vorskla Steel Ltd of US$277 thousand (2011 US$828 thousand) in relation to other sales and US$461 thousand (2011 US$349 thousand) from Kislorod PCC for the sale of power steam and water

m Prepayments and other current assets relate mainly to prepayments of US$91 thousand (2011 US$75 thousand) to ASK Omega for insurance premiums and US$38 thousand to CJSC Kiev Shipbuilding and Ship Repair Plant ('KSRSSZ') (2011 nil) and US$11 thousand to OJSC Berdichev Machine Building Plant Progress (2011 US$194 thousand) for spare parts Prepayments are in the normal course of business as requested by any third party supplier in Ukraine

n As of 31 December 2012 cash and cash equivalents with Bank F&C were US$141 424 thousand (2011 US$94 933 thousand) Further information is provided under transactional banking arrangements below

o Trade and other payables amounting to US$599 thousand for compressed air and oxygen purchased from Kislorod PCC (2011 US$535 thousand) and US$126 thousand in relation to the purchase of concentrate from Vostok Ruda Ltd (2011 US$1 276 thousand) and US$642 thousand for the procurement of fuel and gas from OJSC Ukrzakordongeologia (2011 nil).

Associated companies

l The prior year balance of other receivables consist a declared dividend due from TIS Ruda LLC in the amount of US$1 749 thousand and US$232 thousand in relation to the provision of rail cars to TIS Ruda LLC for the storage of cargo at the port) No such receivable balances exist as of 31 December 2012

m Prepayments and other current assets relate to prepayments of US$1 302 thousand (2011 nil) made to TIS Ruda LLC for transhipment services Prepayments are in the normal course of business as requested by any third party supplier in Ukraine

Other related parties

m Prepayments and other current assets relate to advance payments of US$18 thousand to Slavutich Ruda Ltd for distribution services (2011 US$279 thousand) Prepayments are in the normal course of business and are common for the provision of supplies in Ukraine

o Trade and other payables amounting to US$99 thousand as of 31 December 2012 are in respect of distribution services provided by Slavutich Ruda Ltd (2011 US$515 thousand)

Transactional banking arrangements

The Group has transactional banking arrangements with Bank Finance & Credit (Bank F&C) in Ukraine which is under common control of the majority shareholder of Ferrexpo plc Finance income and expenses are disclosed in the table on page 114

The Group has an uncommitted multicurrency revolving loan facility agreement with Bank F&C which will expire on the 16 April 2013 The maximum limit of this facility, the terms of which was the subject of a fair value opinion at its renewal and extension in April 2010, amounts to UAH 80 million (2012 US$ 10,008 thousand, 2011 US$10,013 thousand) The loan facility has remained undrawn for the entire period of time since renewal in April 2010

Note 34 Related party disclosure continued

As is required under Ukrainian legislation, assets are pledged or become the subject of a mortgage under the terms of the facility agreements The security for short-term agreements with Bank F&C to issue letters of credit and bank guarantees for the supply of goods and services shares the same pledge of assets given in respect of the loan facility The average cost of issuing letters of credit and guarantees in 2012 amounts to 0 83% of the value of the financial instruments issued The total value of pledges and mortgages under the terms of the loan agreement and letters of credit and guarantee agreements is US$26,180 thousand (2011 US$10,595 thousand)

US$000	Year ended 31 12 12	Year ended 31 12 11
Loan facilities	**10,008**	10,013
Amount drawn	**–**	–
Letter of credit facility outstanding	**7,179**	322
Bank guarantee facility outstanding	**1,081**	2 240

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 certain employees of the Group to borrow at preferential interest rates OJSC Ferrexpo Poltava Mining and LLC Ferrexpo Yenstovo GOK act as guarantors for the bank's loans to the employees of the Group and have deposited US$2,085 thousand at Bank F&C as security (2011 US$1,500 thousand) The interest rate margin earned by Bank F&C covers the costs of administrating the mortgages and loans Detailed information on the social loyalty programme is provided in the Corporate Social Responsibility Review section of this Annual Report and Accounts

Note 35: Employee benefits expenses

Employee benefits expenses for the year ended 31 December 2012 consisted of the following

US$000	Year ended 31 12 12	Year ended 31 12 11
Wages and salaries	**76,057**	63 302
Social security costs	**25,449**	21,832
Post-employment benefits	**8,276**	(5 319)
Other employee costs	**2,927**	2,810
Share-based payments	**1,608**	891
Total employee benefits expenses	**114,317**	83,516

Average number of employees was as follows

	Year ended 31 12 12	Year ended 31 12 11
Production	**7,189**	6 829
Marketing and distribution	**171**	170
Administration	**1,244**	1,156
Other	**954**	966
Total average number of employees	**9,558**	9,121

Compensation for key management was as follows

US$000	Year ended 31 12 12	Year ended 31 12.11
Wages and salaries	**6,299**	6,229
Social security costs	**604**	611
Other employee costs	**260**	352
Total compensation for key management	**7,163**	7,192

Share-based payments amounting to US$984 thousand (2011 US$1,379 thousand) are included in wages and salaries

Notes to the Consolidated Financial Statements continued

Note 35 Employee benefits expenses continued
The balances above include compensation for Non-executive and Executive Directors as well as for other key management personnel The details of compensation relating to Non-executive and Executive Directors are disclosed in the table below

US$000	Year-ended 31 12.12	Year ended 31 12 11
Salary and fees	**2,399**	2,276
Bonus	**694**	925
Benefits	**228**	289
Pension	**53**	57
Gains made on exercise of nil cost share options under the LTIP	**362**	422
Total compensation to Non-executive and Executive Directors	**3,736**	3,969

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 2012 are as follows

US$000	As at 31 12 12	As at 31 12 11
Less than one year	**3,078**	2,582
Between one and five years	**8,249**	6,135
More than five years	**71,475**	52,644
Total minimum rentals payable	**82,802**	61,361

During the year ended 31 December 2012, US$3,063 thousand was recognised as an expense in the income statement in respect of operating leases (2011 US$2,037 thousand)

The Group leases land and buildings under operating leases The leases on land typically run for 48 years and 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 12	
US$000	Minimum payments	Present value of payments
Less than one year	**5,421**	**3,729**
Between one and five years	**17,616**	**13,865**
More than five years	**5,940**	**5,604**
Total minimum lease payments	**28,977**	**23,198**
Less amounts representing finance charges	**(5,779)**	**–**
Present value of minimum lease payments	**23,198**	**23,198**

	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

Other

US$000	As at 31 12.12	As at 31 12 11
Capital commitments on purchase of property, plant and equipment	**162,665**	137,029

Note 36. Commitments, contingencies and legal disputes continued

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, interim as well as annual reports as appropriate since then

A former shareholder in OJSC Ferrexpo Poltava Mining ('FPM') brought proceedings in the Ukrainian courts against certain nominee companies that were previously ultimately controlled by Kostyantin Zhevago, among other parties, seeking to invalidate the shares sale and purchase agreement pursuant to which a 40% stake in FPM (which was subsequently diluted to less than 14% following further share issues by FPM) was sold to those nominee companies On 11 January 2010, a judgement rejecting the claims of the former shareholder that had previously been made by the Commercial Court of Poltava Region was upheld on appeal by the Kyiv Inter Region Appellate Commercial Court Following the appeal proceedings, the former shareholder filed a cassation complaint with the High Commercial Court of Ukraine requesting that it reverse the judgements of the lower courts The High Commercial Court of Ukraine granted the cassation complaint of the former shareholder on 21 April 2010 and invalidated the respective shares sale and purchase agreement without ruling on any consequences of such invalidity

On 6 October 2011, the claimants filed a new claim in Ukraine alleging that as a result of invalidity of the shares sale and purchase agreement with respect to a 40% stake in FPM their rights were infringed by the decisions on the capital increases taken at the general shareholders meeting of FPM which took place on 20 November 2002 and all further decisions of the general shareholders meetings of FPM relating to subsequent changes to FPM's charter capital Accordingly, the claimants asked the court to invalidate the decisions taken at the general shareholders meeting of FPM which took place on 20 November 2002, restore their status as shareholders of FPM as of 20 November 2002 having a 40% stake in FPM, cancel all share issues of FPM that took place after 20 November 2002 and register shares in their names

On 22 November 2011, Ferrexpo AG filed a claim against the claimants at the High Court of Justice in London seeking a confirmation of ownership in FPM shares The claim was launched in order to take an active step outside Ukraine to resolve this long-running dispute By a judgement dated 3 April 2012, the proceedings in the UK were stayed while the case continued in Ukraine

On 20 August 2012, the Commercial Court of Poltava Region, which was considering the case as a court in the first instance, upon motion of the claimants ruled that the case be transferred to the Kyiv City Commercial Court, which has exclusive jurisdiction over the case, given that one of the defendants in the case, the National Commission on Securities and Stock Market of Ukraine, has the status of a central executive authority FPM challenged the transfer of the case to the Kyiv City Commercial Court, however, both the Kharkiv Appellate Commercial Court and the High Commercial Court of Ukraine upheld the ruling of the Commercial Court of Poltava Region dated 20 August 2012

The case is currently being heard before the Kyiv City Commercial Court by a panel of three judges and at the latest hearing on 28 February 2013 the decision was made to postpone the consideration of the case till 21 March 2013 in order to prepare for further consideration of the case and for the decision on the various motions submitted by the defendants

After having taken Ukrainian legal advice, the management of the Group believes the claim has little legal merit primarily since neither the final decision by the High Commercial Court of Ukraine nor any subsequent claims entitles claimants to direct enforcement rights to the shares of FPM In addition, the restitution of the status quo ante of the shareholding position as sought by claimants does not have a basis under Ukrainian law for various legal, technical and practical reasons It follows that no provision was recorded for this dispute as of 31 December 2012 At the same time, in light of the risks surrounding the operation and independence of Ukrainian courts, including the risks associated with the Ukrainian legal system in general, the claimants may ultimately prevail in this dispute and the Group's ownership of the relevant interest in FPM may be successfully challenged in the future, which could have a material adverse effect on Ferrexpo's business, results of operations, financial condition and prospects

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

We are disputing several tax claims by domestic tax authorities following inspections for the fiscal years 2011 and 2012 and continue to dispute in the court system amounts resulting from audits in relation to 2009 and 2010 Corporate profit tax claims are, among other things, claims related to the deductibility of expenses for tax purposes, adjustments in respect of prices charged on the export of products and payments of additional environmental and other taxes and duties The aggregate amount claimed by the Ukrainian tax authorities relating to these matters, together with applicable fines and penalties, is approximately US$16,900 thousand As we believe the tax authorities claims are unlikely to be enforced no provision has been made for these claims, although there is no guarantee the tax authorities' challenges will not succeed

Notes to the Consolidated Financial Statements continued

Note 36 Commitments, contingencies and legal disputes continued
Recoverable VAT amounting to US$103,208 thousand outstanding at 31 December 2012 is in the process of being considered by the Ukrainian court system in several different cases As the VAT is fully recoverable under the relevant Ukrainian legislation, the Group expects to ultimately receive positive court decisions for these ongoing court proceedings Consequently, the VAT is recorded at its full amount in the financial statements, net of an estimated discount to reflect the time value of money as disclosed in note 26

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 12				
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	**596,560**	-	-	-	**596,560**
Available-for-sale investments	20	-	**534**	-	-	**534**
Trade and other receivables	24	**116,553**	-	-	-	**116,553**
Other financial assets		**860**	-	-	-	**860**
Total financial assets		**713,973**	**534**	-	-	**714,507**
Financial liabilities						
Trade and other payables	30	-	-	-	**62,609**	**62,609**
Accrued liabilities	33	-	-	-	**25,976**	**25,976**
Interest-bearing loans and borrowings	29	-	-	-	**1,019,985**	**1,019,985**
Total financial liabilities		-	-	-	**1,108,570**	**1,108,570**

		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	33	-	-	-	29,666	29,666
Interest-bearing loans and borrowings	29	-	-	-	970,378	970,378
Total financial liabilities		-	-	-	1,042,692	1,042,692

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

Note 37 Financial instruments continued

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

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

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

Financial instrument risk exposure and management

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

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

Credit risk

Trade and other receivables

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

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 counterparty. Cash not required within three months for production, distribution and capital expenditures is invested with counterparties 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.

Notes to the Consolidated Financial Statements continued

Note 37: Financial instruments continued
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 for the benefit of wholly-owned or substantially wholly-owned subsidiaries At 31 December 2012 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 (2011 US$420 million)

Ferrexpo plc, Ferrexpo AG and Ferrexpo Middle East FZE 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

Ferrexpo AG acts as a guarantor for several finance facilities provided to Ukrainian subsidiaries amounting to US$150,600 thousand (2011 US$47,900 thousand)

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

US$000	As at 31 12 12	As at 31 12 11
Cash and cash equivalents	**596,560**	890,154
Trade and other receivables	**116,553**	128,905
Other financial assets	**860**	1,656
Total maximum exposure to credit risk	**713,973**	1,020,715

The total receivables balance relating to the Group's top three customers was US$37,383 thousand (2011 US$53,244 thousand) making up 32 2% of the total amounts receivable (2011 57 1%)

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

	As at 31 12 12				
US$000	Less than 1 year	Between 1 to 2 years	Between 2 to 5 years	More than 5 years	Total
Interest-bearing					
Eurobond issued	**-**	**-**	**491,438**	**-**	**491,438**
Syndicated loans – secured	**-**	**70,000**	**350,000**	**-**	**420,000**
Other banks – secured	**13,321**	**13,300**	**37,864**	**11,068**	**75,553**
Obligation under finance lease	**3,729**	**3,870**	**15,600**	**-**	**23,199**
Interest accrued	**9,796**	**-**	**-**	**-**	**9,796**
Future interest payable	**53,323**	**52,560**	**71,559**	**607**	**178,049**
Non-interest-bearing					
Trade and other payables	**62,609**	**-**	**-**	**-**	**62,609**
Accrued liabilities	**25,926**	**50**	**-**	**-**	**25,976**
Total financial liabilities	**168,704**	**139,780**	**966,461**	**11,675**	**1,286,620**

Note 37 Financial instruments continued

	As at 31 12 11				
US$000	Less than 1 year	Between 1 to 2 years	Between 2 to 5 years	More than 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	28,663	1,003	–		29,666
Total financial liabilities	142,027	62,166	1,060,597	–	1,264,790

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 Functional 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 The value of the Hryvnia is managed by the National Bank of Ukraine ('NBU')

The Group has gross recoverable VAT balances of US$301,535 thousand (UAH2,410 million) to be recovered from the Ukraine Government tax authority and is reliant on the normal functioning of this system The exact timing of recovery is subject to uncertainties, along with the prevailing exchange rate to the US Dollar at the time of repayment A devaluation of the Ukrainian Hryvnia will negatively effect the expected cash flows from the refunds in US Dollars

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

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 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

Notes to the Consolidated Financial Statements continued

Note 37. Financial instruments continued
The Group's exposure to foreign currency risk was as follows based on notional amounts

	As at 31 12 12					
US$000	Ukrainian Hryvnia	US Dollar	Euro	Swiss Franc	Other currencies	Total
Financial assets	4	112,515	612	835	1,036	115,002
Financial liabilities						
Other banks – secured	–	(39,066)	(467)	–	–	(39,533)
Obligation under finance lease	–	(2,364)	–	–	–	(2,364)
Interest accrued	–	(425)	(2)	–	–	(427)
Total borrowings	–	(41,855)	(469)	–	–	(42,324)
Trade and other payables	–	(4,219)	(1,754)	(384)	(489)	(6,846)
Accrued liabilities	–	–	–	(14)	(348)	(362)
Total financial liabilities	–	(46,074)	(2,223)	(398)	(837)	(49,532)
Net financial assets/(liabilities)	4	66,441	(1,611)	437	199	65,470

	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	–	–	–	–	(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

Note 37: Financial instruments continued
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

Profile
At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was

	As at 31 12 12			
US$000	Floating interest	Fixed interest	Other non-interest bearing	Total
Financial assets				
Cash and cash equivalents	**305,475**	**280,097**	**10,988**	**596,560**
Available-for-sale investments	**–**	**–**	**534**	**534**
Trade receivables	**–**	**–**	**116,553**	**116,553**
Other financial assets	**–**	**860**	**–**	**860**
Total financial assets	**305,475**	**280,957**	**128,075**	**714,507**
Weighted average interest rate (%)	**0.0%**	**0.8%**		
Financial liabilities				
Trade and other payables	**–**	**–**	**62,609**	**62,609**
Accrued liabilities	**–**	**–**	**25,976**	**25,976**
Interest-bearing loans and borrowings	**462,464**	**557,521**	**–**	**1,019,985**
Total financial liabilities	**462,464**	**557,521**	**88,585**	**1,108,570**
Weighted average interest rate (%)	**3 0%**	**7 6%**		

	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	–	–	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%		

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

Commodity risk
The Group is exposed to longer-term movements in the price of iron ore, but does not have a commodity risk exposure to its financial assets and liabilities once the sale has been made Trade receivables are based on a fixed contract price, and so do not fluctuate with iron ore market prices Similarly finished goods are held at cost, with revaluation to a spot price not applicable for iron ore pellets, there being no tradable exchange in the product to ascertain its market value

Notes to the Consolidated Financial Statements continued

Note 37 Financial instruments continued
Sensitivity analysis
A 20% strengthening of the US Dollar against the following currencies at 31 December would have increased/(decreased) income statement and equity by the amounts shown below This assumes that all other variables, in particular interest rates, remain constant

US$000	Year ended 31 12 12 Income statement/ Equity	Year ended 31 12 11 Income statement/ Equity
Ukrainian Hryvnia	**11,074**	8,164
Euro	**(269)**	3,128
Swiss Franc	**73**	23
Total	**10,878**	11,315

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 ('bp') 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 12	Year ended 31 12 11
Net finance charge	**1,619**	974

A decrease of 100 bp would increase equity and profit by US$2,215 thousand for the year ended 31 December 2012 (2011 US$1,682 thousand) 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 12.12	As at 31 12.11	As at 31 12 12	As at 31 12 11
Financial assets				
Cash and cash equivalents	**596,560**	890,154	**596,560**	890,154
Trade and other receivables	**116,553**	128,905	**116,553**	128,905
Available-for-sale financial assets	**534**	1,290	**534**	1,290
Other financial assets	**860**	1,656	**860**	1,656
Total financial assets	**714,507**	1,022 005	**714,507**	1,022,005
Financial liabilities				
Trade and other payables	**62,609**	42,648	**62,609**	42,648
Accrued liabilities	**25,976**	29,666	**25,976**	29,666
Interest-bearing loans and borrowings	**1,019,985**	970,378	**1,026,084**	986,913
Total financial liabilities	**1,108,570**	1,042,692	**1,114,669**	1,059,227

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

Note 37 Financial instruments continued

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)

US$000	As at 31 12 12 Level 1	Level 2	Level 3	Total
Financial assets				
Available-for-sale financial assets	**534**	**–**	**–**	**534**
Total available-for-sale financial assets	**534**	**–**	**–**	**534**

US$000	As at 31 12 11 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

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 12 Available-for sale financial assets	As at 31 12 11 Available for sale financial assets
Opening balance	**430**	628
Total gains or losses		
– in profit or loss	**(430)**	(198)
– in other comprehensive income	**–**	–
Transfer out of level 3	**–**	–
Closing balance	**–**	430

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

Notes to the Consolidated Financial Statements continued

Note 37. Financial instruments continued
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 is subject to externally imposed capital requirements other than a bank covenant requirement to maintain consolidated equity of the Group of US$500,000 thousand including non-controlling interests and excluding the translation reserve 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

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)	2012 LTIP	2011 LTIP	2010 LTIP	Total
Year ended 31 12 12	**485**	**–**	**–**	**485**
Year ended 31 12 11	–	415	–	415
Year ended 31 12 10	–	–	330	330

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 2012 and 2011 in respect of the LTIP

US$000	2012 LTIP	2011 LTIP	2010 LTIP	2009 LTIP	2008 LTIP	Total
Year ended 31 12 12	**693**	**592**	**323**	**–**	**–**	**1,608**
Year ended 31 12 11	–	592	319	198	(353)	756

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 12 WAFV ($)	Year ended 31 12 11 WAFV ($)	Year ended 31 12 12 No ('000)	Year ended 31 12 11 No ('000)
LTIP				
Beginning of the year	**3 38**	3 92	**905**	905
Awards granted during the year	**2.32**	4 28	**485**	415
Forfeited during the year	**–**	5 52	**–**	(64)
Lapsed during the year	**–**	2 61	**–**	(10)
Vested during the year	**1 94**	5 52	**(240)**	(341)
Outstanding at 31 December	**3.23**	3 38	**1,150**	905

Note 39· Operating profit by function

US$000	Notes	Before adjusting items	Adjusted items	Year ended 31.12.12	Before adjusting items	Adjusted items	Year ended 31.12.11
Revenue	6	**1,424,030**	–	**1,424,030**	1,788,012	–	1 788,012
Cost of sales	7	**(694,576)**	–	**(694,576)**	(649,544)	–	(649,544)
Gross profit		**729,454**	–	**729,454**	1,138,468	–	1,138,468
Selling and distribution expenses	8	**(311,964)**	–	**(311,964)**	(317,951)	–	(317,951)
General and administrative expenses	9	**(56,329)**	–	**(56,329)**	(51,969)	–	(51,969)
Other income	10	**11,347**		**11,347**	6,943	–	6,943
Other expenses	11	**(30,161)**	**(4,903)**	**(35,064)**	(17,091)	(523)	(17,614)
Operating foreign exchange gain	12	**653**	–	**653**	(1,360)	–	(1,360)
Operating profit		**343,000**	**(4,903)**	**338,097**	757,040	(523)	756,517
Share of profit of associates	14	**2,772**	–	**2,772**	2 012	–	2,012
Total profit from operations and associates		**345,772**	**(4,903)**	**340,869**	759,052	(523)	758,529

Summary of adjusted items

US$000	Notes	Year ended 31.12.12	Year ended 31.12.11
Operating adjusting items			
Write-offs and impairment losses	13	**(836)**	(478)
Losses on disposal of property, plant and equipment		**(4,067)**	(45)
Total operating adjusting items		**(4,903)**	(523)

Note 40 Business combination

Prior year business combination

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 shareholder of the 77 6% stake The fair value of assets acquired amounted to US$803 thousand and liabilities assumed to US$158 thousand Based on the definitely determined initial accounting for the acquisition of Transcanal, the acquisition resulted in a goodwill of US$56 thousand

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

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 31.12.12	As at 31.12.11
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 within one year			
Amounts due from subsidiaries		**792,180**	590,520
Deferred tax assets	3	**-**	227
Prepayments and other current assets		**2,055**	1,651
Other taxes recoverable and prepaid		**2**	–
Cash at bank and in hand		**700**	459
Total current assets		**794,937**	592,857
Creditors – amounts falling due within one year			
Trade and other creditors	5	**332**	442
Accruals and deferred income	6	**1,013**	503
Income taxes payable		**1,112**	1,308
Total creditors		**2,457**	2,253
Net assets		**939,976**	738,100
Represented by			
Capital and reserves			
Share capital	4	**121,628**	121,628
Share premium	4	**185,112**	185,112
Treasury share reserve	4	**(77,260)**	(77,260)
Employee benefit trust reserve	4	**(7,808)**	(9,416)
Retained earnings	4	**718,304**	518,036
Total capital and reserves	4	**939,976**	738,100

All liabilities held by the Company are current in nature

The financial statements were approved by the Board of Directors on 12 March 2013

Kostyantin Zhevago
Chief Executive Officer

Christopher Mawe
Chief Financial Officer

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 12 March 2013 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 has taken advantage of the exemption granted by FRS 1 *Cash flow statements* (revised), whereby it is not required to publish its own cash flow statement

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 31.12.12	As at 31.12.11
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

Note 3 Deferred tax assets

Deferred tax assets at 31 December 2012 relate to the following

US$000	As at 31.12.12	As at 31.12.11
Deferred tax assets		
Timing difference on IPO costs	–	227
Total deferred tax assets	–	227

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 2011	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**
Profit for the period	–	–	–	–	238,928	238,928
Total comprehensive income for the year	–	–	–	–	238,928	238,928
Equity dividends paid to shareholders	–	–	–	–	(38,660)	(38 660)
Share-based payments	–	–	–	1,608	–	1 608
At 31 December 2012	**121,628**	**185,112**	**(77,260)**	**(7,808)**	**718,304**	**939,976**

Note 5 Trade and other creditors

Trade and other creditors at 31 December 2012 relate to the following

US$000	As at 31.12.12	As at 31.12.11
Trade and other creditors		
Falling due within one year	**332**	442
Total trade and other creditors	**332**	442

Note 6 Accrued liabilities and deferred income

Accrued liabilities and deferred income at 31 December 2012 relate to the following

US$000	As at 31.12.12	As at 31.12.11
Accrued liabilities and deferred income		
Falling due within one year	**1,013**	503
Total accrued liabilities and deferred income	**1,013**	503

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 (2011 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

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 3)
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
CRU	The CRU Group provides market analysis and consulting advice in the global mining industry (see www crugroup com)
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

Glossary continued

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, share-based payment expenses and the net of gains and losses from disposal of investments and property, plant and equipment
EBT	Employee Benefit Trust
EPS	Earnings per share
Executive Committee	The Executive Committee of management appointed by the Company's Board
Executive Directors	The Executive Directors of the Company
FBM	Ferrexpo Belanovo Mining, also known as BGOK, a company incorporated under the laws of Ukraine
Fe	Iron
Ferrexpo	Ferrexpo plc 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
First-DDSG	First-DDSG Logistics Holding GmbH (formerly Helogistics Holding GmbH) and its subsidiaries, an inland waterway transport group operating on the Danube/Rhine corridor
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
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 beneficiation 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

Glossary continued

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
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 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 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
WAFV	Weighted average fair value
WMS	Wet magnetic separation
Yeristovo or Yeristovskoye	The deposit being developed by FYM

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