

23 March 2011

**FERREXPO plc**  
**("Ferrexpo" or the "Group")**

**PRELIMINARY RESULTS**

Ferrexpo, the FTSE 250 iron ore pellet producer, today announces its preliminary results for the year ended 31 December 2010.

**Financial Performance**

Excellent financial performance driven by increased volume, significant price growth and robust cost control

- Revenue doubled to US\$1.3 billion (2009: US\$649 million)
- EBITDA increased by over 300% to US\$585 million (2009: US\$138 million)
- PBT increased over 5 fold to US\$498 million (2009: US\$81 million)
- Diluted EPS increased 5 fold to 72.24 US cents (2009: 12.05 US cents)
- Final dividend maintained at 3.3US cents per share in line with growth strategy
- Net debt reduced 60% to US\$104 million (2009: US\$258 million), low gearing at 12%

**Operational and Strategic Highlights**

Record level of pellet production and recommencement of capital investment programme

- Pellet production increased 14% to a record of 10.0 million tonnes (2009: 9.7 million tonnes)
- US\$647 million capex expenditure approved as part of an investment programme to double pellet output
- Further logistics capabilities improved:
  - Purchased 300 rail cars
  - Acquired European logistics company, Helogistics
- Post Period End
  - Appointment of Brian Maynard as COO
  - Sales office opened to develop sales in the Middle East and Asia
  - Appointment of Jason Keys as incoming CMO
  - Acquisition approved for up to a further 1,000 rail cars

**Outlook**

- 2011 financial year started well with continued strong demand for Ferrexpo's product
- Ferrexpo to continue to produce at full capacity
- Whilst the industry is cyclical, our low cost base, flexible marketing strategy and established infrastructure to seaborne and regional markets to mitigate demand volatility

**Michael Abrahams, Non-Executive Chairman, commented:**

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

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

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

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Notes to Editors:

Ferrexpo is a Swiss headquartered iron ore company with assets in Ukraine. It is principally involved in the production and export of high quality iron ore pellets, which are used in the manufacture of steel. Ferrexpo's resource base is one of the largest iron ore deposits in the world. Its current producing asset, FPM, produced approximately 10 million tonnes of iron ore pellets in 2010 making it the largest exporter of pellets in the CIS. The Company has a diversified customer base supplying steel mills in Austria, Serbia, Slovakia, Czech Republic, Germany and other European states, as well as in China, India, Japan, and other Asian countries. Ferrexpo is listed on the main market of the London Stock Exchange under the ticker FXPO. For further information, please visit [www.ferrexpo.com](http://www.ferrexpo.com)

## **CHAIRMAN'S AND CHIEF EXECUTIVE OFFICER'S REVIEW**

### **Introduction**

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

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

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

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

### **Summary of results**

The Company's sales volumes increased 8% to 9.7 million tonnes of pellets (2009: 9.0 million tonnes). The Group achieved significant price increases throughout the year compared with 2009. These higher sales volumes and prices saw Group revenues almost double to US\$1.3 billion (2009: US\$649 million). The Group produced at full capacity throughout the period which allowed for full absorption of the fixed cost base.

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

Operating cash flow for the year improved significantly and as a result net debt reduced by US\$153 million to US\$104 million (2009: US\$258 million). As of 31 December 2010 the Group had cash balances of US\$319.5 million compared with US\$12.0 million as of 31 December 2009.

### **Pricing Environment and Strategy**

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

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

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

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

### **Marketing and Logistics Strategy**

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

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

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

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

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

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

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

### **Production**

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

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

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

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

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

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

### **Costs**

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

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

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

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

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

### **Ukraine**

Ukraine has recovered in many respects in 2010 compared to the hardships experienced in 2009. There has been a stable political environment since the presidential elections in February 2010. In terms of economic recovery, the steel industry (which is the largest contributor to the economy) increased production by an estimated 13%<sup>1</sup> in 2010 (2009: negative 20%<sup>1</sup>). Overall, GDP growth in 2010 was 4.2%<sup>1</sup> compared to a decline of 15%<sup>1</sup> in 2009.

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

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

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<sup>1</sup> Source: OECD

## **Investing Activities and Funding**

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

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

## **Dividend**

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

## **People**

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

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

Ferrexpo is very pleased to welcome Jason Keys to the Executive Committee as the new Group Marketing Officer. Jason joins Ferrexpo from BHP Billiton where he is currently Global Marketing Manager for Iron Ore. He has significant industry experience in both the European and Asian iron ore markets, having led BHP Billiton's Iron Ore commercial marketing team over the last 5 years.

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

## **Corporate Governance and Social Responsibility**

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

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

**Outlook**

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

**Michael Abrahams CBE DL**  
*Chairman*

**Kostyantyn Zhevago**  
*Chief Executive Officer*

## OPERATING REVIEW

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

### Ferrexpo JORC resources:

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

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

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

### Ferrexpo Poltava Mine (“FPM”)

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

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

The table below highlights FPM’s production statistics in 2010 and 2009.

('000t unless otherwise stated)	2010	2009	Change	
			+/-	%
Iron ore mined	<b>28,929.77</b>	28,547.28	382.49	1.3%
Average Fe content	<b>30.25</b>	30.29	-0.04	-0.1%
Iron ore processed	<b>29,096.90</b>	27,720.20	1376.1	5.0%
Concentrate produced ('WMS')	<b>11,225.50</b>	10,564.60	660.90	6.3%
Average Fe content	<b>62.96</b>	63.33	-0.37	-0.6%
Floated concentrate	<b>6,195.20</b>	6,671.40	-476.2	-7.1%
Higher grade	<b>4,426.20</b>	4,674.80	-248.6	-5.3%
Average Fe content	<b>67.19</b>	67.05	0.14	0.2%
Purchased concentrate	<b>1,141.90</b>	180.10	961.80	534.0%
Average Fe content	<b>66.63</b>	65.39	1.24	1.9%
Purchased iron ore	-	0.00	-	0.0%
Pellets produced from own ore	<b>9,033.00</b>	8,609.20	423.8	4.9%
Higher grade	<b>4,060.70</b>	4,304.10	-243.4	-5.7%
Average Fe content	<b>64.97</b>	64.94	0.03	0.0%
Lower grade	<b>4,972.30</b>	4,305.10	667.2	15.5%
Average Fe content	<b>62.16</b>	62.17	-0.01	0.0%
Pellets produced from purchased concentrate and ore	<b>998.10</b>	157.40	840.7	534.1%
Higher grade	<b>817.90</b>	0.00	817.9	-
Average Fe content	<b>64.97</b>	0.00	64.97	-
Lower grade	<b>180.20</b>	157.40	22.8	14.5%
Average Fe content	<b>62.16</b>	62.20	-0.04	-0.1%
Total pellet production	<b>10,031.10</b>	8,766.60	1264.5	14.4%
Pellet sales volume	<b>9,720.67</b>	9,015.12	705.55	7.8%
Gravel output	<b>2,904.60</b>	2,864.10	58.5	2.1%
Stripping volume	<b>25,480.50</b>	23,558.90	1921.6	8.2%

### Ferrexpo Yeristovskoye Mine ("FYM")

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

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

### Belanovskoye and Galeschinskoye

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

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

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

### **Pricing and Marketing**

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

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

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

#### **Traditional Markets**

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

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

#### **Natural Markets**

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

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

#### **Growth Markets**

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

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

## Logistics

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

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

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

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

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

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

## Operating costs

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

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

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

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

Overall, the average C1 cash cost of production was below US\$40 per tonne for 2010, in line with the Company's expectations. This represented a 15.4% increase compared to the average 2009 C1 cash cost of US\$34 per tonne. The increase was, however, lower than the local inflation rate of 21% for the period.

## **Growth Projects**

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

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

### **Ferrexpo Yeristovskoye Mine ("FYM")**

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

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

### **Quality Upgrade Project at FPM**

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

### **Mine Life Extension Project at FPM**

The Board has approved expenditure of US\$168 million over a period of 8 years to extend the life of the existing FPM mine to 2038. The project will involve additional stripping works in 2011 of around 15 million cubic metres to allow access to additional ore from 2014. As a result, the ore output from the existing mine will peak at 35 million tonnes per annum by 2014 compared to the current output of 28 million tonnes per annum.

## FINANCIAL REVIEW

### Summary of financial results

US\$ 000	Year ended 31.12.2010	Year ended 31.12.2009	Change
Revenue	<b>1,294,900</b>	648,667	99%
EBITDA	<b>585,297</b>	138,136	324%
As % of revenue	<b>45%</b>	21%	9.2%
Profit before taxation	<b>498,126</b>	80,850	516%
Income tax	<b>73,002</b>	9,852	641%
Profit for the period	<b>425,124</b>	70,998	499%
Diluted earnings per share (US cents)	<b>72.24</b>	12.05	500%
Final dividend per share (US cents)	<b>3.3</b>	3.3	0%

### Revenue

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

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

### Cost of sales

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

For the year ended 31 December 2010, Ferrexpo maintained robust cost control in the face of rising commodity prices and local inflation. The average C1 cash cost increased 15.4% to US\$39.7 per tonne. This compared with US\$34.4 in 2009. The Group experienced cost increases from commodities used in the production and processing of iron ore such as oil and steel, as well as local PPI inflation of 20.9%. The C1 cash cost per tonne once more benefited from production at full capacity throughout the period under review. This allowed for efficient absorption of the fixed cost base which along with the Business Improvement Programme (BIP) helped mitigate inflationary cost pressures. As a result, the increase in C1 cash costs was lower than the local PPI inflation rate.

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

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

The table below provides a breakdown of Ferrexpo's C1 cash costs:

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

Since the inception of the BIP in 2006, the cumulative productivity gains have reduced costs by approximately US\$5.27 per tonne of pellets produced, or US\$47.6 million to the 31 December 2010. This has been achieved through reduced consumption norms as highlighted in the table below.

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

### Purchased concentrate

The Group has nameplate pelletising capacity of 12 million tonnes of pellet production per year. Ferrexpo is currently able to mine ore sufficient to produce around 9.0 million tonnes of pellets. To efficiently utilize the spare processing capacity, third party concentrate was purchased which increased sales in the high demand environment. The Group will continue to purchase third party concentrate provided adequate margins can be achieved. During the year, 998.1 thousand tonnes of pellet equivalent third party concentrate was acquired (2009: 157.4 thousand tonnes) which generated a positive contribution.

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

### Selling and distribution expenses

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

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

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

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

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

	<b>Year ended 31.12.2010</b>	Year ended 31.12.2009
Traditional <sup>1</sup>	<b>65.5%</b>	52.8%
Natural <sup>2</sup>	<b>7.2%</b>	7.9%
Growth <sup>3</sup>	<b>27.3%</b>	39.3%
<b>Total</b>	<b>100%</b>	100%

<sup>1</sup> Traditional Markets include Austria, Czech Republic, Hungary, Serbia, Slovakia, Russia and Ukraine.

<sup>2</sup> Natural Markets include Western Europe, Turkey and the Middle East.

<sup>3</sup> Growth Markets include China, India, Japan and South Korea.

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

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

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

#### **General and administrative expenses**

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

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

### **Other income and expense**

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

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

### **EBITDA**

Ferrexpo defines EBITDA as profit from continuing operations before:

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

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

### **Disposal of VAT bonds**

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

### **Finance income and expense**

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

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

### **Foreign exchange gain/(loss)**

Operating foreign exchange gains and losses

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

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

#### Non-operating foreign exchange gains and losses

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

#### Income tax expense

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

#### Statement of financial position and cash flow

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

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

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

#### Borrowings

Net financial indebtedness ('NFI') reduced by US\$153.2 million to US\$104.4 million (2009: US\$257.6 million).

Ferrexpo secured a new Pre-Export Financing ("PXF") facility in September 2010 for US\$350 million. The facility matures on 31 March 2014, amortising over 24 months following an 18 month grace period.

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

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

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

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

US\$ 000	As at 31.12.2010	As at 31.12.2009
Cash and cash equivalents	319,470	11,991
Current borrowings	(22,563)	(251,379)
Non-current borrowings	(401,290)	(18,143)
<b>Net financial indebtedness</b>	<b>(104,384)</b>	<b>(257,655)</b>

## **Statement of Directors' Responsibility**

### **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 CBE DL**  
Chairman

**Christopher Mawe**  
Chief Financial Officer

### Consolidated income statement

US\$ 000	Notes	Year ended 31.12.10	Year ended 31.12.09
<b>Revenue</b>	4	1,294,900	648,667
Cost of sales	5	(481,857)	(341,067)
<b>Gross profit</b>		<b>813,043</b>	<b>307,600</b>
Selling and distribution expenses		(212,006)	(162,266)
General and administrative expenses		(49,175)	(43,161)
Other income		4,515	4,102
Other expenses		(5,938)	(3,418)
Operating foreign exchange (losses)/gains		(1,078)	2,534
<b>Operating profit from continuing operations before adjusted items</b>		<b>549,361</b>	<b>105,391</b>
Under recovery of VAT receivable	9	(10,936)	-
Write-offs and impairment losses		(1,618)	(2,757)
Share of profit of associates		4,155	1,304
Gain on bargain purchase		2,623	503
Initial public offering costs		(55)	(427)
(Losses)/gain on disposal of property, plant and equipment		(1,305)	213
<b>Profit before tax and finance from continuing operations</b>		<b>542,225</b>	<b>104,228</b>
Finance income	6	2,632	2,893
Finance expense	6	(42,843)	(23,718)
Non-operating foreign exchange losses		(3,888)	(2,551)
<b>Profit before tax</b>		<b>498,126</b>	<b>80,851</b>
Income tax expense	7	(73,002)	(9,852)
<b>Profit for the year from continuing operations</b>		<b>425,124</b>	<b>70,998</b>
Attributable to:			
Equity shareholders of Ferrexpo plc		422,906	70,627
Minority interests		2,218	371
		<b>425,124</b>	<b>70,998</b>
Earnings per share:			
Basic (US cents)	8	72.34	12.08
Diluted (US cents)	8	72.24	12.05

**Consolidated statement of comprehensive income**

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

## Consolidated statement of financial position

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

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

Kostyantyn Zhevago  
Chief Executive Officer

Christopher Mawe  
Chief Financial Officer

## Consolidated statement of cash flows

US\$ 000	Notes	Year ended 31.12.10	Year ended 31.12.09
Profit before tax		498,126	80,850
Adjustments for:			
Depreciation of property, plant and equipment and amortisation of intangible assets		30,415	28,018
Interest expense		42,843	20,622
Under recovery of VAT receivable	9	10,936	-
Interest income		(2,632)	(2,893)
Share of profit of associates		(4,155)	(1,304)
Movement in allowance for doubtful receivables		(3,685)	(5,199)
Losses/(gains) on disposal of property, plant and equipment		1,305	(213)
Write-offs and impairment losses		1,618	2,757
Site restoration provision		1,478	159
Employee benefits		3,281	5,474
IPO costs		55	427
Share based payments		1,366	3,423
Gain recognised on rights issue at subsidiary		-	(503)
Gain on bargain purchase from business combination	10	(2,623)	-
Operating foreign exchange (losses)/gains		1,078	(2,534)
Non-operating foreign exchange losses		3,888	2,552
<b>Operating cash flow before working capital changes</b>		<b>583,295</b>	<b>131,636</b>
<i>Changes in working capital:</i>			
(Increase)/decrease in trade and other receivables		(74,020)	14,961
(Increase)/decrease in inventories		(42,938)	1,777
Increase/(decrease) in trade and other accounts payable		11,215	(6,474)
(Increase) in VAT recoverable and other taxes prepaid <sup>1</sup>	9	(31,062)	(24,038)
<b>Cash generated from operating activities</b>		<b>446,490</b>	<b>117,862</b>
Interest paid		(25,437)	(19,197)
Income tax paid		(37,827)	(18,899)
Post-employment benefits paid		(3,468)	(2,897)
<b>Net cash flows from operating activities</b>		<b>379,758</b>	<b>76,869</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(166,775)	(85,823)
Proceeds from sale of property, plant and equipment		-	213
Purchase of intangible assets		(633)	(598)
Interest received		1,270	2,104
Proceeds from loans to associates		1,550	6,450
Pre-acquisition loans provided	9	(10,881)	-
Acquisition of subsidiaries, net of cash acquired	9	582	-
<b>Net cash flows used in investing activities</b>		<b>(174,887)</b>	<b>(77,654)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings and finance		668,802	35,637
Repayment of borrowings and finance		(505,359)	(73,168)
Arrangement fees paid		(21,074)	-
Dividends paid to equity shareholders of Ferrexpo plc		(41,744)	(36,325)
Dividends paid to non-controlling shareholders		(47)	(234)
Dividends from associates		2,931	-
<b>Net cash flows from/(used) in financing activities</b>		<b>103,509</b>	<b>(74,090)</b>
Net increase/(decrease) in cash and cash equivalents		308,380	(74,875)
Cash and cash equivalents at the beginning of the year		11,991	87,822
Currency translation differences		(901)	(956)
<b>Cash and cash equivalents at the end of the year<sup>2</sup></b>		<b>319,470</b>	<b>11,991</b>

<sup>1</sup> The movement includes effect of VAT receivable amounting to US\$72,318 thousand, which was recovered through VAT bonds. See note 9 for further details.

<sup>2</sup> The balance of cash and cash equivalents includes restricted cash of US\$37,768 thousand (2009: US\$ nil).

## Consolidated statement of changes in equity

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

## Notes to the Consolidated Financial Information

### Note 1: General information

The financial information for the year ended 31 December 2010 does not constitute statutory accounts as defined in section 435 of the Companies Act 2006. The audited statutory accounts for the year ended 31 December 2009 have been delivered to the Registrar of Companies and those for 2010 will be delivered following the Company's annual general meeting convened for Thursday, 26 May 2011.

The auditor has reported on the statutory accounts for year ended 31 December 2010. The auditor's report was unqualified.

### Note 2: Summary of significant accounting policies

#### *International Financial Reporting Interpretations Committee (IFRIC)*

Whilst the preliminary announcement has been prepared in accordance with International Financial Reporting Standards ('IFRS') and International Financial Reporting Interpretation Committee ("IFRIC") interpretations adopted for use by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS, this announcement does not itself contain sufficient information to comply with IFRS. The Board approved the full financial statements that comply with IFRS on Tuesday, 22 March 2011. The financial statements have been prepared under the historical cost convention as modified by the recording of pension assets and liabilities and the revaluation of certain financial instruments.

The accounting policies applied are consistent with those adopted and disclosed in the Group's annual financial statements for the year ended 31 December 2009 except for the following.

The Group has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2010.

#### *International Financial Reporting Interpretations Committee (IFRIC) Effective date*

- |          |   |                |
|----------|---|----------------|
| • IFRS 3 | <i>Business combinations</i>                          | 1 January 2009 |
| • IAS 27 | <i>Consolidated and separate financial statements</i> | 1 January 2009 |

The adoption of these standards did have the following effect on the reported result and financial position of the Group.

Acquisition related costs amounting to US\$1,624 thousand have been expensed when incurred during the financial year 2010 in order to comply with IFRS 3.

Due to the change of IAS 27, the effect of US\$147 thousand from the decrease of the non-controlling interests has been recognised directly in equity.

#### *Changes occurring as a result of improvements to IFRSs*

None of the following new or revised to be adopted for the financial year 2010 affected the presentation and disclosures:

- IFRS 2 *Share-based payment - group cash-settled share-based payment transactions*
- IFRS 28 *Investments in associates*
- IFRIC 17 *Distribution of non-cash assets to owners*
- IFRIC 18 *Transfer of assets from customers*

The Group amended its accounting policies where applicable however the adoption of the above standards did not have an impact upon the financial position or performance of the Group.

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

- IAS 24 *Related party disclosures*
- IAS 32 *Financial instruments: presentation - classification of rights issues*
- IFRS 9 *Financial instruments: classification and measurements*
- IFRIC 14 *Prepayment of a minimum funding requirement*
- IFRIC 19 *Extinguishing financial liabilities with equity instruments*

### Seasonality

The Group's operations are not affected by seasonality.

### Note 3: Segment information

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

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

#### EBITDA

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

<b>US\$'000</b>	<b>Year ended 31.12.10</b>	<b>Year ended 31.12.09</b>
Profit before tax and finance	542,225	104,228
Under recovery of VAT receivable	10,936	-
Write-offs and impairment losses	1,618	2,757
Gain on disposal of property, plant and equipment	1,305	(213)
Initial public offering costs	55	427
Share based payments	1,366	3,423
Negative goodwill generated on rights issue	(2,623)	(503)
Depreciation and amortisation	30,415	28,018
<b>EBITDA</b>	<b>585,297</b>	<b>138,137</b>

#### 'C1' costs

"C1" costs represent the cash costs of production of iron pellets from own ore divided by production volume of own ore, and excludes non cash costs such as depreciation, pension costs and stock movement, costs of purchased ore, concentrate and production cost of gravel and excludes one-off items which are outside the definition of EBITDA. Cost of sales is reconciled to "C1" costs in the following manner:

<b>US\$ 000</b>	<b>Year ended 31.12.09</b>	<b>Year ended 31.12.08</b>
Cost of sales	481,857	341,067
Depreciation and amortisation	(24,662)	(23,370)
Purchased ore and concentrate	(101,351)	(8,914)
Processing costs for purchased ore and concentrate	(11,042)	(1,206)
Production cost of gravel	(88)	(357)
Inventory movements	18,608	(10,543)
Pension service costs	(2,049)	(1,857)
Other	(2,754)	1,662
<b>C1 cost</b>	<b>358,519</b>	<b>296,482</b>
Own ore produced (tonnes)	9,033,000	8,609,200
<b>C1 cash cost per tonne \$</b>	<b>39.69</b>	<b>34.44</b>

#### *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.

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

#### **Note 4: Revenue**

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

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

Export sales by geographical destination were as follows:

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

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

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

<b>US\$'000</b>	<b>Year ended 31.12.10</b>	<b>Year ended 31.12.09</b>
Customer A	405,511	105,690
Customer B	300,284	161,730

#### **Note 5: Cost of sales**

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

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

**Note 6: Finance income and expense**

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

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

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

**Note 7: Income tax expense**

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

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

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

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

<b>US\$ 000</b>	<b>Year ended 31.12.10</b>	<b>Year ended 31.12.09</b>
Profit before tax	498,126	80,850
Notional tax computed at the weighted average statutory tax rate of 13.1% (2009: 13.0%)	65,254	10,526
Derecognition of deferred tax asset	(902)	135
Effect from differences in local tax rates	3,526	-
Effect from utilisation of non-recognised deferred tax assets	(274)	-
Effect from capitalised tax loss carry forwards	(293)	-
Inflation related indexation of fixed assets for tax		(1,792)
Expenses not deductible for tax purposes	7,338	3,359
Tax exempted income	(623)	(942)
Non recognition of deferred taxes on current year losses	555	780
Effect from change in permanent differences	(2,079)	-
Tax related to prior years	270	(2,497)
Other	230	283
<b>Total income tax expense</b>	<b>73,302</b>	<b>9,852</b>

**Note 8: 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.

	<b>Year ended 31.12.10</b>	<b>Year ended 31.12.09</b>
<b>Profit for the year attributable to equity shareholders:</b>		
Basic earnings per share (US cents)	72.34	12.08
Diluted earnings per share (US cents)	72.24	12.05

<b>Underlying earnings for the year:</b>		
Basic earnings per share (US cents)	72.98	12.80
Diluted earnings per share (US cents)	72.91	12.77

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

<b>Thousands</b>	<b>Year ended 31.12.10</b>	<b>Year ended 31.12.09</b>
<b>Weighted average number of shares</b>		
Basic number of ordinary shares outstanding	584,568	584,652
Effect of dilutive potential ordinary shares	854	1,361
<b>Diluted number of ordinary shares outstanding</b>	<b>585,422</b>	<b>586,013</b>

The basic number of ordinary shares is calculated by reducing the total number of ordinary shares in issue by the shares held in treasury.

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

'Underlying earnings' is an alternative earnings measure, which the directors believe provides a clearer picture of the underlying financial performance of the Group's operations. Underlying earnings is presented

after minority interests and excludes adjusted items. The calculation of underlying earnings per share is based on the following earnings data:

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

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

*Dividends paid and proposed*

<b>US\$ 000</b>	<b>Audited Year ended 31.12.10</b>
<i>Dividends proposed</i>	
Final dividend for 2010: 3.3 US cents per ordinary share	19,289
<b>Total dividends proposed</b>	<b>19,289</b>
<i>Dividends paid during the period</i>	
Interim dividend for 2010: 3.3 US cents per ordinary share	19,292
Final dividend for 2009: 3.3 US cents per ordinary share	19,289
<b>Total dividends paid</b>	<b>38,581</b>

**Note 9: Taxes recoverable and prepaid**

As at 31 December 2010 taxes recoverable and prepaid comprised:

<b>US\$ 000</b>	<b>As at 31.12.10</b>	<b>As at 31.12.09</b>
VAT receivable	101,683	81,269
Other taxes prepaid	1,964	15
<b>Other taxes recoverable and prepaid</b>	<b>103,647</b>	<b>81,284</b>

The VAT receivable is as a result of zero rate VAT exports made from Ukraine which is recoverable under Ukrainian tax legislation.

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

**Note 10: Business combination**

*Subsidiaries acquired*

On 31 December 2010, the Group acquired Helogistics Holding GmbH and its subsidiaries (“Helogistics”) in order to develop the Group’s distribution and logistics capabilities. The acquisition agreements were signed on 14 December 2010 and the completion of the acquisition was subject to the approval from the Austrian merger control authorities which was obtained on 10 January 2011. The Group however obtained effective control on the 14 December 2010 and Helogistics has been consolidated as at the 31 December 2010 as no material transactions or events occurred between 14 December 2010 and 31 December 2010 that would have a material impact on the amounts recognised in the income statement in that period.

*Consideration transferred*

No consideration has been transferred in cash for this acquisition to previous shareholders of Helogistics. Transaction costs of US\$1,624 thousand have been incurred and expensed by the Group. These costs are included in general and administrative expenses.

In relation with the acquisition of Helogistics, the Group acquired bank debts amount to US\$95,472 thousands for a consideration transferred in cash to the lending banks of US\$37,768 thousand. The amount was held in an escrow account at 31 December 2010 as the financial closing of the transaction was on 19 January 2011. The debts acquired have been fair valued for the purpose of the acquisition accounting.

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

*Bargain purchase arising on acquisition*

The initial accounting for the acquisition of Helogistics has been provisionally determined at the end of the reporting period. At the date of finalisation of these financial statements, the fair values of the vessels acquired and the certain liabilities assumed had not been finalised and they have therefore been provisionally determined based on the directors’ best estimate of the likely values. The actual fair values may also impact the recognised fair values of the other assets acquired as part of the business combination.

The acquisition of Helogistics resulted in a bargain purchase of US\$2,623 thousand recognised in profit or loss as of 31 December 2010.

<b>US\$ 000</b>	<b>As at 31.12.09</b>
Consideration paid in cash	-
Value of pre-existing loan balances	10,881
Less: fair value of identifiable net assets acquired	(13,504)
<b>Bargain purchase on acquisition</b>	<b>2,623</b>

**Note 11: 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 8 and the completion of the acquisition of Helogistics described above.