This document comprises a prospectus relating to Ferrexpo plc (the "Company" and, together with its subsidiaries, the "Group") prepared in accordance with the Prospectus Rules made under Section 73A of the Financial Services and Markets Act 2000 (the "FSMA").

Application has been made to the Financial Services Authority and to the London Stock Exchange plc (the "London Stock Exchange") for the Ordinary Shares of the Company, issued and to be issued in connection with the Global Offer, to be admitted to the Official List of the Financial Services Authority and for such Ordinary Shares to be admitted to trading on the London Stock Exchange's main market for listed securities. Admission to the Official List together with admission to trading on the London Stock Exchange's main market for listed securities (together, "Admission") will constitute admission to listing on a regulated market. Conditional dealings in the Ordinary Shares are expected to commence on the London Stock Exchange on 15 June 2007. It is expected that Admission will become effective and that unconditional dealings will commence in the Ordinary Shares at 8.00 a.m. (London time) on 20 June 2007. All dealings before the commencement of unconditional dealings will be of no effect if Admission does not take place and such dealings will be at the sole risk of the parties concerned.

The Company and its Directors (whose names appear on page 32 of this document) accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Company and the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and contains no omission likely to affect the import of such information.

For a discussion of certain risks and other factors that should be considered in connection with an investment in the Ordinary Shares, see "Risk factors".

FERREXPO

Ferrexpo plc

(incorporated and registered in England and Wales under the Companies Act 1985 with registered number 5432915)

Global Offer of 152,097,932 Ordinary Shares of 10 pence each at an Offer Price of 140 pence and admission to the Official List of the Financial Services Authority and to trading on the London Stock Exchange

Sponsor, Financial Adviser, Global Co-ordinator and Joint Bookrunner

JPMorgan Cazenove

Joint Bookrunner

Deutsche Bank

Expected ordinary share capital immediately following the Global Offer (and assuming no exercise of the Manager's Option)

Authorised		*Issued*	
Number	*Amount*	*Number*	*Amount*
800,000,000	£80,000,000	606,070,850	£60,607,085

The New Ordinary Shares will, on Admission, rank *pari passu* in all aspects with the Existing Ordinary Shares and will rank in full for all dividends declared, made or paid on the Ordinary Shares after Admission.

In connection with the Global Offer, JP Morgan Cazenove, as Stabilising Manager, or any of its agents may (but will be under no obligation to) over-allot or effect other transactions which stabilise or maintain the market price of the Ordinary Shares or any options, warrants or rights with respect to, or interests in, the Ordinary Shares, in each case at a higher level than might otherwise prevail in the open market. Such transactions may commence on or after the date of publication of the Offer Price and will end no later than 30 calendar days thereafter. Such transactions may be effected on the London Stock Exchange, the over-the-counter market or otherwise. There is no assurance that such transactions will be undertaken and, if commenced, they may be discontinued at any time. Save as required by law or regulation, it is not intended that the Stabilising Manager will disclose the extent of any over-allotments and/or stabilisation transactions in relation to the Global Offer.

In connection with the Global Offer, the Stabilising Manager may, for stabilisation purposes, over-allot Ordinary Shares up to a maximum of 7 per cent. of the total number of Ordinary Shares comprised in the Global Offer. For the purposes of allowing it to cover short positions resulting from any such over-allotments and/or from sales of Ordinary Shares effected by it during the stabilisation period, the Stabilising Manager has entered into the Manager's Option with the Option Shareholder, pursuant to which the Stabilising Manager may purchase, or procure purchasers for, additional Existing Ordinary Shares up to a maximum of 7 per cent. of the total number of Ordinary Shares comprised in the Global Offer at the Offer Price. The Manager's Option will be exercisable in whole or in part at any time during the period commencing on the date of publication of the Offer Price and ending 30 calendar days thereafter. Any Option Shares made available pursuant to the Manager's Option will rank pari passu in all respects with the Ordinary Shares, including for all dividends and other distributions declared, made or paid on the Ordinary Shares, will be purchased on the same terms and conditions as the Ordinary Shares being issued and sold in the Global Offer, and will form a single class for all purposes with the other Ordinary Shares.

JPMorgan Cazenove has been appointed as Sponsor, Financial Adviser, Global Co-ordinator and Joint Bookrunner and Deutsche Bank has been appointed as Joint Bookrunner, both of which are advising the Company and no one else in connection with the Global Offer and will not be responsible to anyone other than the Company for providing the protections afforded to their respective clients or for providing any advice in relation to the Global Offer or Admission.

JPMorgan Cazenove is authorised and regulated in the United Kingdom by the Financial Services Authority. Deutsche Bank is authorised under German banking Law (competent authority: BaFin - Federal Financial Services Authority) and with respect to UK commodity derivatives business by the Financial Services Authority, and is regulated by the Financial Services Authority for the conduct of UK business.

The Ordinary Shares offered by this Prospectus have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act") or under the applicable securities laws of any state of the United States and may not be offered or sold within the United States or to, or for the account or benefit of, US persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Ordinary Shares are being offered solely outside the United States in offshore transactions to selected institutional investors in reliance on Regulation S under the Securities Act. Certain restrictions on transfers of the Ordinary Shares are described in "The Global Offer and related matters – Securities laws and restrictions on transfer-United States" in Part V.

The Global Offer being made by means of this Prospectus is being made in the United Kingdom by means of an institutional offer. This Prospectus does not constitute an offer, or the solicitation of an offer, to subscribe for or buy any Ordinary Shares to any person in any jurisdiction to whom or in which such offer or solicitation is unlawful and, in particular, subject to certain exceptions, is not for distribution in Australia, Canada or Japan. Subject to certain exceptions, the Ordinary Shares may not be offered or sold in Australia, Canada or Japan or to any national, resident or citizen of Australia, Canada or Japan.

The distribution of this Prospectus in certain jurisdictions may be restricted by law and therefore persons into whose possession this Prospectus comes should inform themselves about and observe any such restriction. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. The offer and sale of Ordinary Shares and the distribution of this Prospectus are subject to the restrictions described in "The Global Offer and related matters – Securities laws and restrictions on transfer" in Part V.

No person has been authorised to give any information or make any representations other than those contained in this Prospectus and, if given or made, such information or representations must not be relied upon as having been so authorised. Neither the delivery of this Prospectus nor any subscription or sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Group since the date hereof or that the information in this Prospectus is correct as of any time subsequent to the date of this Prospectus, save for such statements as are required by law or regulation to refer to one or more future dates.

Apart from the liabilities and responsibilities, if any, which may be imposed on JPMorgan Cazenove or Deutsche Bank by the FSMA or the regulatory regime established thereunder, JPMorgan Cazenove and Deutsche Bank accept no responsibility whatsoever for the contents of this Prospectus or for any other statement made or purported to be made by them or on their behalf in connection with the Company, the Ordinary Shares or the Global Offer. JPMorgan Cazenove and Deutsche Bank accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which they might otherwise have in respect of this Prospectus or any such statement.

The content of this Prospectus is not to be construed as legal, business or tax advice. Each prospective investor should consult his, her or its own solicitor, independent financial adviser or tax adviser for legal, financial or tax advice.

None of the US Securities and Exchange Commission (the "SEC"), any other US federal or state securities commission or any US regulatory authority has approved or disapproved of the Ordinary Shares nor have such authorities reviewed or passed upon the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

Under Ukrainian law, the Ordinary Shares are securities of a foreign issuer. The Ordinary Shares are not eligible for initial offering and public distribution in Ukraine. Neither the issue of the Ordinary Shares nor this Prospectus has been, or is intended to be, registered with the State Commission for Securities and Stock Markets of Ukraine. The information provided in this document is not an offer, or an invitation to solicit offers, to sell, exchange or otherwise transfer the Ordinary Shares in Ukraine.

Contents

Summary

This summary should be read as an introduction to the Prospectus. Any decision to invest in the Ordinary Shares should be based on the consideration of this Prospectus as a whole by the investor and not just this summary. Under the Prospectus Directive (Directive 2003/71/EEC) in each member state of the European Economic Area ("EEA") civil liability attaches to those persons who are responsible for the summary, including any translations of the summary, but only if the summary is misleading, inaccurate or inconsistent when read together with other parts of this Prospectus. Where a claim relating to the information contained in this Prospectus is brought before a court, the plaintiff investor, under the national legislation of the EEA States, might have to bear the costs of translating the Prospectus before the legal proceedings are initiated.

Overview

The Group's principal business is the mining, processing and sale of iron ore in the form of pellets for use in the production of steel.

In 2006, the Group produced 8.6 million tonnes of iron ore pellets, compared with 7.8 million tonnes and 7.4 million tonnes in 2005 and 2004, respectively. The Group's total sales revenues for 2006 were US$547.3 million compared with US$563.4 million and US$375.1 million for 2005 and 2004, respectively. According to AME, the Group accounted for approximately 50 per cent. of total iron ore imports into Central and Eastern Europe in 2006. The Group expects to increase production to 16 million tonnes of pellets and up to 3.5 million tonnes of saleable concentrate by the end of 2014.

The business and primary facilities

The Group owns and operates an integrated mining and processing facility, comprising an open pit iron ore mine and crushing, concentrating and pelletising plant in Ukraine.

The deposits which the Group is currently mining have 491 million tonnes of proved and probable iron ore reserves. The Group has ready access to additional iron ore reserves and resources to expand its current production of pellets and is undertaking a feasibility study of the Yeristovskoe deposit adjacent to the current pit with additional probable reserves of 632 million tonnes of iron ore.

The table below sets out the Group's iron ore reserves and mineral resources as at 1 January 2007. The reserves and resources figures have been extracted without material adjustment from the "Technical report" in Part XII and are presented in accordance with the JORC Code. Mineral resources are reported inclusive of those resources reported as ore reserves.

	Reserves			*Resources*					
	Proved and probable (million tonnes)	*Fe grade (total) %*	*Fe grade (magnetite) %*	*Measured and indicated (million tonnes)*	*Fe grade (total) %*	*Fe grade (magnetite) %*	*Inferred (million tonnes)*	*Fe grade (total) %*	*Fe grade (magnetite) %*
Gorishne-Plavninskoe(1)	399	30	21	1,085	32	25	51	34	28
Lavrikovskoe(1)	92	30	21	480	33	24	13	27	17
Yeristovskoe(1) (3)	632	34	30	833	34	26	–	–	–
Belanovskoe(1) (3)	–	–	–	1,627	31	22	37	30	20
Galeschinskoe(2) (3)	–	–	–	325	59	0	29	59	0

(1) Banded ironstone formation (BIF) deposit.

(2) Haematite deposit (not amenable to magnetic separation).

(3) Not yet operational.

The table below provides selected production information for the years ended 31 December 2004, 2005 and 2006 that has been extracted without material adjustment from the "Technical report" in Part XII.

	Year ended 31 December		
	2004	*2005*	*2006*
		(in kilotonnes)	
Ore mined	21,747	23,341	26,507
Concentrate production[(1)]	7,909	8,314	9,695
Iron ore pellet production	7,367	7,757	8,550
65% Fe pellets	785	1,376	3,121
62% Fe pellets	6,582	6,381	5,429

(1) From the Group's own ore. The Group additionally purchased 629 kilotonnes, 709 kilotonnes and 451 kilotonnes of concentrate in 2004, 2005 and 2006, respectively, for pellet production.

Key strengths

Management considers that the competitive strengths of the Group's business include its:

- substantial commercialised but under-exploited iron ore reserves and ready access to additional resources;
- under-utilised capacity;
- brownfield expansion capability;
- favourable geographic location and logistics;
- export-oriented sales and expanding customer base;
- proven track record and long-term relationship with key customers; and
- experienced management.

Strategy

The Group's strategy is to increase its production of iron ore pellets and to enhance overall value for its shareholders. The Group's main strategic driver is to commercialise its significant unexploited iron ore reserves by increasing sales into growing markets for iron ore, extracting value through its advantageous logistical position and its enhanced operational capability. The Group intends to pursue this strategy by:

- implementing best practice mine and facilities operations at the Ferrexpo Poltava Facility, enhancing efficiency and reducing operating costs;
- increasing mine output by optimising extraction of iron ore from existing deposits and developing the nearby Yeristovskoe deposit, and maximising production by upgrading existing assets;
- building on the Group's existing global customer base to grow market share and support its increased production profile;
- continuing to develop the Group's logistic capabilities to match its growing production;
- reducing the Group's exposure to energy market volatility; and
- continuing to evaluate the most appropriate method of maximising the Group's value by accelerating commercialisation of its extensive undeveloped ore deposits.

Summary of financial and operating information

The table below provides selected financial and operating information in relation to the Group. Other than total pellets produced, which has been extracted without material adjustment from the "Technical report" in Part XII, this information has been extracted without material adjustment from "Historical financial information – Historical financial information on the Group" in Part VIII and has been prepared on the basis described in the footnotes to the Group's consolidated financial information in Part VIII, except for the unaudited EBITDA information and total cash costs of production, which have been calculated as set out in Part VI. Investors should read the whole of this Prospectus and not rely solely on summarised information.

	Year ended 31 December		
	2004	*2005*	*2006*
		$000 (except as indicated)	
Income statement data:			
Revenue	375,145	563,417	547,310
Gross profit	167,208	254,898	250,590
Profit from continuing operations before adjusted items	105,392	155,485	120,579
Profit before tax	85,128	140,842	80,737
Profit for the year	78,166	120,934	65,979
Attributable to:			
Equity shareholders of Ferrexpo	80,943	105,836	63,578
Minority interest	(2,777)	15,098	2,401
	78,166	120,934	65,979
Cash flow data:			
Net cash flows from operating activities	85,523	141,537	60,797
Net cash flows used in investing activities	(62,618)	(211,639)	(177,394)
Net cash flows from/(used in) financing activities	(13,592)	61,663	130,337
Net increase/(decrease) in cash and cash equivalents	9,313	(8,439)	13,740
Other operating and financial data (unaudited):			
EBITDA[1]	133,980	188,353	144,010
Total cash costs of production from own ore[2]	208,333	285,246	331,055
Total pellets produced from own ore (kt)	6,818	7,137	8,165

Balance sheet data:	*As at 31 December*		
	2004	*2005*	*2006*
		$000	
Total assets	415,350	596,596	706,916
Interest-bearing loans and borrowings (short- and long-term)	172,202	236,151	285,975
Other current liabilities	45,147	71,089	49,007
Other non-current liabilities	34,885	33,446	35,142
Total equity	163,116	255,910	336,792

(1) EBITDA is calculated as profit from continuing operations before tax and finance less foreign exchange (loss)/gain plus depreciation (included in cost of sales, administrative expenses and selling and distribution costs) and non-recurring cash items included in other income, non-recurring cash items included in other costs plus the net gain/(loss) from disposal of subsidiaries and associates. EBITDA is not a measure of financial performance under IFRS.

(2) Total cash costs of production from own ore are calculated to include total costs less depreciation, all costs of producing pellets from third party concentrate, pellets purchased from third parties and the cost of other outputs included in cost of sales plus the cash costs of distribution and the cash administration costs of production. Total cash costs of production from own ore are not a measure of financial performance under IFRS.

Summary of the Global Offer

The Global Offer comprises an issue of 72,527,361 New Ordinary Shares by the Company and the sale of 79,570,571 Sale Shares by the Selling Shareholder (assuming no Option Shares are sold pursuant to the Manager's Option).

All Shares issued or sold pursuant to the Global Offer will be issued or sold at the Offer Price. In addition, 10,646,855 Ordinary Shares are being made available by the Option Shareholder pursuant to the Manager's Option described below to cover over-allotments made (if any) in connection with the Global Offer and to cover short positions resulting from stabilising transactions.

Admission is expected to take place, and unconditional dealings in the Ordinary Shares are expected to commence, on the London Stock Exchange at 8.00 a.m. (London time) on 20 June 2007. When Admission occurs, the Underwriters will be subject to an unconditional obligation to underwrite the Global Offer (other than any Sale Shares being sold pursuant to the exercise of the Manager's Option).

The Global Offer comprises an offer to institutional investors in the United Kingdom and certain other jurisdictions outside the United States in reliance upon Regulation S under the Securities Act.

In connection with the Global Offer, the Stabilising Manager may over-allot or effect other transactions which stabilise or maintain the market price of the Ordinary Shares or any options, warrants or rights with respect to, or interests in, the Ordinary Shares, in each case at a higher level than might otherwise prevail in the open market. Such transactions may commence on or after the date of publication of the Offer Price and will end no later than 30 days thereafter. Such transactions may be effected on the London Stock Exchange, the over-the-counter market or otherwise. There is no assurance that such transactions will be undertaken and, if commenced, they may be discontinued at any time. Save as required by law, it is not intended that the Stabilising Manager will disclose the extent of any over-allotments and/or stabilisation transactions under the Global Offer.

In connection with the Global Offer, the Option Shareholder has agreed with the Stabilising Manager that Ordinary Shares may be over-allotted for stabilisation purposes up to a maximum of 7 per cent. of the total number of Ordinary Shares to be issued and sold under the Global Offer (assuming no exercise of the Manager's Option) and has granted the Stabilising Manager the Manager's Option, pursuant to which it may purchase, or procure purchasers for, additional Existing Ordinary Shares up to a maximum of 7 per cent. of the total number of Ordinary Shares to be issued and sold under the Global Offer (assuming no exercise of the Manager's Option) at the Offer Price for the purposes of allowing the Stabilising Manager to cover short positions resulting from any over-allotments made and stabilising transactions. The Manager's Option will be exercisable in whole or in part at any time during the period commencing on the date of publication of the Offer Price and ending 30 days thereafter.

Use of proceeds

Based on the Offer Price, the Group's net proceeds from the Global Offer will be approximately £71.1 million (approximately US$140.0 million), after deduction of maximum offer costs and estimated expenses payable by the Group. The Group will not receive any portion of the proceeds from the sale of Sale Shares by the Selling Shareholder.

The Group intends to use the net proceeds of the Global Offer primarily in the following ways:

- approximately US$5 million to optimise the extraction of iron ore and maximise production of existing operations;
- approximately US$50 million to develop the Yeristovskoe deposit;
- approximately US$20 million for other projects and developments;
- approximately US$65 million to repay existing debt and to exploit acquisition opportunities that may arise within the natural resources sector.

Pending investment, the net proceeds will be placed on deposit in cash or cash instruments.

Current trading and prospects

Revenues for the four months ended 30 April 2007 are ahead of those for the comparable period in 2006, mainly as a result of market prices and sales volumes for the four months ended 30 April 2007 being ahead of those achieved for the comparable period in 2006. The annual round of price negotiations with all major customers has now been concluded with prices confirmed until 30 April 2008.

Operating costs for the four months ended 30 April 2007 have increased broadly in line with increased volumes. Inflationary pressures continue to have an impact on the cost of inputs and are being monitored closely by the Directors to minimise their effect on unit costs where possible. Operating costs for the four months ended 30 April 2007 have also increased due to greater volumes of concentrate being purchased than in the comparable period in 2006, as the Group implements its strategy of maximising profits by the sale of pellets produced from purchased concentrate where specified margins can be obtained. Administration and other income and expenses for the four months ended 30 April 2007 are in line with the comparable period in 2006.

The Directors currently believe that the Group's financial and trading outlook for the remainder of the year is generally in line with expectations.

Significant change

There has been no significant change in the financial or trading position of the Group since 31 December 2006, the date to which the historical financial information in Part VIII was prepared (save for the increase in the Group's total indebtedness to US$312.4 million as at 30 April 2007 and an additional draw-down of US$10 million under an existing loan facility on 29 May 2007).

Dividend policy

The Directors intend to pursue a dividend policy consistent with the Company's growth profile, reflecting the investment the Group is making to drive future growth and the cash generated by the existing operations. An interim and final dividend of approximately equal proportions will be paid.

Following Admission, in the absence of unforeseen circumstances and assuming the Group's performance continues in line with the Board's expectations, subject to there being available distributable reserves for the purpose, the Directors intend to declare a final dividend of not less than US$10 million for the year ending 31 December 2007. To the extent that the Group generates cash in excess of its investment or expansionary needs the Directors will consider the most appropriate method of returning capital to shareholders.

Dividends will be declared by the Company in US dollars. The Company may only pay dividends if distributable reserves are available for this purpose. As a holding company, the ability of the Company to pay dividends will principally depend upon dividends or interest paid to it by its subsidiaries.

Risk factors

The Group's results of operations, financial condition, business and prospects could be materially affected by:

Risks relating to the Group's operations

- its dependence on the global price of iron ore and demand for steel and steel products;
- disruption or damage to persons and property associated with mining and processing operations;
- the cost of processing iron ore into pellets;
- varying customer demands;
- increases in production costs;
- failure to upgrade existing facilities and develop currently unexploited mining assets in accordance with its plans, on time and to budget;
- relations with third parties;
- uncertainty over the volume and grade of its reserves and production rates;
- increases in transportation costs;

- disruptions in transportation;
- challenges to its title to its assets;
- its dependence on a limited number of customers and markets;
- failure to manage labour costs;
- reliance on the continued services of key personnel;
- dependence on iron ore pellet production at one facility;
- obstacles in introducing international best practice in Ukraine;
- lack of adequate insurance;
- dependence on exploration and mining licences, which may be suspended or revoked;
- disputes with the Ukrainian tax authorities;
- possible infringements of Ukrainian anti-monopoly legislation;
- difficult and costly environmental challenges;
- labour disruptions;
- competition from other iron ore mining companies;
- attempts by competitors or third parties to hinder or prevent the Offering;
- failure to comply with health and safety laws;
- fluctuations in currencies;
- transfer pricing rules;
- changes in applicable taxation regimes or in the taxation residence of the Company;
- costs associated with the local community;

Risks relating to operating in Ukraine

- greater risks associated with emerging markets;
- political instability;
- deterioration in Ukraine's relations with its neighbours;
- increasing energy prices;
- changes in Ukraine's relations with western governments and institutions;
- a downturn in the Ukrainian economy;
- macroeconomic factors;
- the effect of fluctuations in the global economy on the Ukrainian economy;
- any further re-privatisation or nationalisation of privatised assets;
- deterioration in the business environment;
- labour and social unrest;
- further deterioration of Ukraine's physical infrastructure;
- uncertainties relating to the legal system;
- uncertainties relating to the judicial system;
- evolving interpretation and application of tax laws and regulations;
- unreliability of official Ukrainian statistics and economic data;

Risks relating to the Group's structure

- the Selling Shareholder's ability to exercise significant control over the Group after the Global Offer;
- the Group may enter into transactions with its affiliates;
- the Company's ability to pay dividends, which depends upon the ability of its subsidiaries to pay dividends and advance funds;
- Ferrexpo Poltava's numerous minority shareholders;

Risks relating to the Ordinary Shares

- shares available for future sale; and
- the lack of a prior public trading market for the Ordinary Shares, and risk that an active trading market may not develop or be sustained in the future.

Directors and senior management

Directors	Michael Abrahams	*Non-executive Director/Chairman*
	Michael Oppenheimer	*Chief Executive Officer/Executive Director*
	Dennis McShane	*Executive Director/Director of finance and strategic development*
	Kostyantyn Zhevago	*Non-executive Director*
	Raffaele (Lucio) Genovese	*Non-executive Director*
	Wolfram Kuoni	*Non-executive Director*
	Ihor Mitiukov	*Non-executive Director*
Company secretary	Prism Cosec Limited	
Senior management	Simon Wandke	
	David Webster	
	Viktor Lotous	
	Mykola Goroshko	

Working capital

In the opinion of the Company, taking account of the Group's existing banking facilities and the net proceeds to be received by the Company from the offering of New Ordinary Shares and forming part of the Global Offer, the working capital available to the Group is sufficient for the Group's present requirements, that is for at least the next 12 months following the date of publication of this Prospectus.

Capitalisation and indebtedness

The Group's capitalisation as at 31 December 2006 was US$300,646,000 and its net financial indebtedness as at 30 April 2007 was US$278,763,000.

Relationship with the major shareholder

The Selling Shareholder, Kostyantyn Zhevago, The Minco Trust and the Company have entered into an agreement which will, conditional on Admission, regulate the ongoing relationship between them to ensure that the Group is capable of carrying on its business independently of the Selling Shareholder and Kostyantyn Zhevago, and to ensure that transactions and relationships between the Group, the Selling Shareholder and Kostyantyn Zhevago are at arm's length and on normal commercial terms.

Lock-ups

Each of the Company, the Directors, Kostyantyn Zhevago and the Selling Shareholder has agreed to enter into certain lock-up arrangements. The Company, the Selling Shareholder, Kostyantyn Zhevago and the other Non-executive Directors have each agreed that they will not offer or sell any Ordinary Shares for a period of 18 months after Admission. Michael Oppenheimer and Dennis McShane have agreed that they will not offer or sell any Ordinary Shares for a period of 12 and 6 months after Admission respectively. Further details of these lock-up arrangements, including the restrictions and exceptions to them, are contained in "Additional information – Underwriting Agreement" in paragraph 8 of Part XI.

Documents on display

Copies of this Prospectus, the Company's constitutional documents, service agreements of the Executive Directors and letters of appointment of the Non-executive Directors, the reports prepared by Ernst & Young LLP, the technical report by SRK and the letters of consent referred to in paragraph 18 of Part XI: "Additional information" shall be on display during normal office hours from the date of publication of this Prospectus until 14 days following Admission at the offices of Baker & McKenzie LLP, 100 New Bridge Street, London EC4V 6JA.

Risk factors

In addition to the other information contained in this Prospectus, prospective subscribers or purchasers of the Ordinary Shares should consider carefully the specific risks set out below before making a decision to invest in the Ordinary Shares. These risks and uncertainties may not be the only ones facing the Group. Additional risks and uncertainties not presently known to the Group or that the Group currently deems immaterial may also impair the Group's business operations. The business, results of operations, financial condition or prospects of the Group could be materially adversely affected by any of the following risks, together with possible additional risks and uncertainties of which the Directors are currently unaware or which they consider not to be material in relation to the Group's business. The trading price of the Ordinary Shares could decline due to any of these risks and investors could lose part or all of their investment.

Risks relating to the Group's operations

The Group's financial performance is dependent on the global price of and demand for iron ore and demand for steel and steel products

The Group's business is highly dependent on the market price of iron ore. Sale prices and volumes in the worldwide iron ore market depend predominantly on the prevailing and expected level of demand for iron ore, mainly from steel manufacturers, and the world steel industry is cyclical. Worldwide prices for iron ore are set based on a benchmark price which is determined in part based on the outcome of negotiations between the world's largest steel manufacturers and the world's largest iron ore mining companies, to which the Group is not party. A number of factors beyond the Group's control, the most significant of these being the prevailing level of worldwide demand for steel products, influence the world steel industry and therefore demand for iron ore and the parameters for the contract price which the Group may demand for its iron ore. Historically, changes in worldwide demand for steel and iron ore have had a greater impact on demand for pellets than other iron ore products due to their higher cost. Future prolonged reductions or declines in world contract prices or sales volumes for iron ore would have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

In recent years, the growth in demand for iron ore in emerging markets, particularly in China and to a lesser extent in India, Brazil and Russia, has had a significant effect on iron ore prices in the market. A significant reduction by these markets of their iron ore consumption, or a significant increase in global supplies of iron ore, would likely reduce the prices for the Group's products, which could have a material adverse effect on its business, results of operations, financial condition and prospects.

In addition, local demand for and domestic consumption of iron ore in Ukraine and Russia has been relatively high in recent years. Any significant reduction in Ukrainian or Russian demand for, or consumption of, iron ore may result in an increase in the volume of exports of iron ore by Ukrainian and Russian producers, which would likely reduce the contract price which the Group is able to charge, and this could have a material adverse effect on its business, results of operations, financial condition and prospects.

The Group's business is subject to a number of risks and hazards, including the significant risk of disruption or damage to persons and property

The Group's business operations, like those of other mining companies, are subject to a number of risks and hazards, including industrial accidents, equipment failure, unusual or unexpected geological conditions, environmental hazards, labour disputes, changes in the regulatory environment, extreme weather conditions (especially in winter) and other natural phenomena. Hazards associated with open-pit mining include accidents involving the operation of open-pit mining and rock transportation equipment and the preparation and ignition of large scale open-pit blasting operations, collapses of the open pit wall and flooding of the open pit. In addition to open cast mining at the current pit, the Group may need to conduct underground mining at the current pit or its other mines in the future. Hazards associated with processing include the risk of accidents associated with operating crushing, concentrating and pelletising plant and equipment.

The Group may experience material mine or plant shutdowns or periods of reduced production as a result of any of the above factors. Such occurrences could result in material damage to, or the destruction of, mineral properties or production facilities, human exposure to pollution, personal injury or death, environmental and natural resource damage, delays in mining, delays in shipment, monetary losses and possible legal liability.

In 2004, 2005 and 2006, Ferrexpo Poltava GOK Corporation, the Group's principal operating subsidiary ("Ferrexpo Poltava"), experienced 24, 24 and 14 accidents, respectively, which are defined as work-related injuries that prevent the employee from working for at least one day. In 2004 it had three fatalities, compared with two in 2005 and one in 2006. Any further such events could negatively affect the Group's results of operations.

The Group's operations require the removal of groundwater during mining, particularly pre-stripping works at the new Yeristovskoe deposit. No assurance can be given that future efforts to remove groundwater will be adequate or will meet future operational demands or expectations. A failure to resolve any unexpected problems relating to these conditions at a commercially reasonable cost could adversely affect the results and/or feasibility of the Group's operations.

Any production disruption would have a negative effect on the Group's profitability and cash flows. In addition to the revenue losses, longer-term business disruption could result in a loss of customers. If this were to occur, the Group's future sales levels, and therefore its future profitability, could be materially adversely affected.

The processing of iron ore into iron ore pellets is costly and increased customer demand for higher grade iron ore would increase the Group's expenses, particularly its energy costs

Steel plants are designed to use iron ore feedstock having a specific percentage of iron content and other characteristics, such as silica, in their blast furnaces. The iron content of iron ore deposits varies widely from "rich" ore, which may have an iron content of 45 per cent. or more, to "lean" ore with an iron content of less than 45 per cent. The Group has in the past produced pellets with an enriched iron content of between 58 and 65 per cent. using lean ore with an average iron content of 30 per cent. The enrichment of iron content is an energy-intensive process and the use of lean ore by the Group means that energy costs form a larger proportion of its production costs as compared to producers stripping and mining richer ore deposits. Any increase in the price of gas or electricity in Ukraine (see "– Risks relating to operating in Ukraine – Energy prices have increased significantly and may increase further") may affect the Group disproportionately as compared to producers mining richer ore deposits and this could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The Group is subject to particular demands from customers, which vary from customer to customer and from time to time

Steel manufacturers worldwide, but in particular outside the CIS region, are more frequently seeking iron ore feedstock with a higher iron content as the need for production efficiency increases and steelmaking technology develops. Growth in direct reduced iron steelmaking technology, which requires higher quality feedstock, and decreasing supplies of alternative feedstock such as high-grade lump ore, are also influencing demand for higher grade pellets. Increased demand for higher grade ore may reduce demand and contract prices for pellets with 62 per cent. iron content and may require the Group to shift more of its production to the manufacture of pellets with a higher iron ore content. To produce higher grade iron ore pellets in large quantities the Group would have to make additional capital expenditure and its processing costs and energy requirements would increase. These additional expenditures may reduce the Group's margin and place it at a competitive disadvantage, in particular in relation to competitors that strip and mine richer iron ore deposits. Customers are also increasingly demanding pellets that are of higher quality in terms of other characteristics such hardness and silica content. If the Group is unable to meet its customers' current requirements for higher quality pellets or increase the overall quality of its pellets to meet their future requirements, this could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

An increase in the Group's production costs could materially adversely affect its business and results of operations

The Group's main production expenses are raw materials (including grinding bodies and iron ore concentrate purchased from third parties from time to time), energy and fuel costs (see "– Risks relating to operating in Ukraine-Energy prices have increased significantly and may increase further"), salaries and overheads. Changes in costs of the Group's mining and processing operations could occur as a result of unforeseen events and consequently result in changes in profitability or the feasibility and cost expectations in mining existing reserves. Many of these changes may be beyond the Group's control. Changes in the Group's production costs could materially adversely affect its business, results of operations, financial condition and prospects.

The Group's future financial and operational performance depends on its ability to upgrade existing facilities and develop currently unexploited mining assets in accordance with its plans, on time and to budget

The Group's plans for future iron ore production and processing involve improving efficiency and reducing operating costs as part of its business improvement programme, upgrading its current plant and processes (such as its concentrating and pelletising facilities) and developing new mining resources (such as the Yeristovskoe deposit and, in the longer term, the Belanovskoe and Galeschinskoe deposits). The Group is also considering accelerating the commercialisation of the Company's extensive undeveloped ore deposits, including the Belanovskoe and Galeschinskoe deposits, as part of its strategy. The Group can give no assurances that any of these proposed improvements, upgrades and developments will be successfully completed.

Some of these projects, including development of the Yeristovskoe deposit, are currently the subject of feasibility or pre-feasibility studies. If reports or investigations indicate that development of these assets is not economically feasible, the proposed development may not occur at all.

Significant expenditure will be required to implement new mining and processing facilities. Furthermore, the Group is relying to a large extent on third party contractors and consultants in relation to the implementation of these proposed developments. See "– Dependence on relations with third parties". The projects relating to the development of the Yeristovskoe deposit and processing facilities are complex in terms of their technology, engineering, procurement, construction and commissioning requirements. There can be no assurance that these projects will be completed in accordance with the Group's current plans, on time or to budget.

The Group has presented estimates in this Prospectus of the reserves and resources at the Yeristovskoe deposit and is currently undertaking a feasibility study in relation to this deposit. In addition, the Group has presented estimates in this document of the resources at the Belanovskoe and Galeschinskoe deposits. Production is not expected to commence until the economic feasibility of production at these deposits has been completed and all appropriate licences and permits have been obtained, and therefore the viability of any project as a whole may change in the intervening period. See also "– The Group's business depends on exploration and mining licences issued by the Government of Ukraine and such licences may be withheld, revoked or not renewed".

The Group also expects that it will need to obtain or renew a number of operating licences and permits as its production and processing operations expand and there can be no assurance that such licences will be granted or renewed upon terms which are favourable to the Group or at all.

The Group's medium- to long-term expansion plans and projects may be materially adversely affected if the Group is unable to obtain funding for any uncommitted capital expenditure or is unable to obtain funding for such uncommitted capital expenditure on satisfactory terms. Any failure by the Group to implement the above projects, or any other proposed developments or changes to its business, in accordance with its plans or to budget or on time may have a materially adverse effect on the Group's business, results of operations, financial condition and prospects.

Dependence on relations with third parties

The Group will be heavily dependent on the provision of certain services (such as project management, engineering, construction, process design and planning) by third-party contractors and consultants in order to carry out its operations and implement strategic developments. Whilst the Group is currently negotiating or has certain arrangements currently in place for some of these services, such as a project management alliance with Worley Parsons, a contract with Turgis to optimise the current pit at the Gorishne-Plavninskoe and Lavrikovskoe deposits and a contract with DTP Terrassement to mine the Yeristovskoe deposit, there can be no guarantee that these arrangements will be sufficient for the Group's future needs or that such provision of services will not be interrupted or cease altogether. Some of the services required for the Group's operations and strategic developments are currently only available on commercially reasonable terms from one or a limited number of providers. These operations and developments may be interrupted or otherwise adversely affected by failure to supply, or delays in the supply of these services by third party providers, by any change to the terms on which these services are made available by third party providers, and by the failure of third party providers to provide services that meet the Group's quality requirements. If the Group is forced to change a provider of such services, there is no guarantee that this would not result in the Group experiencing additional costs, interruptions to supply continuity or some other adverse effect on its business. There is also no guarantee that the Group will be able to find adequate replacement services on a timely basis or at all.

The volume and grade of the Group's reserves and its rate of production may not conform to current expectations

The Group's mineral reserves and resources, as described in this Prospectus, are estimates only and no assurance can be given that the estimated quantities or grades of minerals will be available to extract, or that any particular level of recovery of minerals will in fact be realised. Mineral exploration is speculative in nature and there is uncertainty in any mineral resource estimate. Therefore, the actual deposits and the grade of mineralisation encountered may differ materially from the estimates disclosed in this document.

There can be no guarantee that an identified reserve or resource will continue to qualify as a commercially mineable deposit that can be legally and economically exploited over the medium to long term. Production of mineral resources can be affected by such factors as permitting regulations and requirements, weather, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formations and work interruptions. The estimated resources described in this Prospectus should not be interpreted as an assurance of the commercial viability, potential or profitability of any future operations. Moreover, there can be no assurance that the Group's production levels at any of its mines will ever reach previous historical production levels. The Group has engaged SRK, an independent technical consultant, to advise it with respect to estimation of mineral reserves and resources, and all such estimates contained in this Prospectus are extracted without adjustment from SRK's "Technical report" in Part XII. The Directors believe that SRK is competent and that it has carried out its work in accordance with internationally recognised industry standards. Investors should refer to the explanation of the basis of preparation of SRK's report in Part XII, in particular sections 1 and 4. Whilst SRK has taken all reasonable care to ensure that the information contained in its report is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import, if the work conducted by SRK is ultimately found to be incorrect or inadequate in any material respect; if the information on which SRK's reserves and resources estimates are based is found to be incorrect; or if, due to the inherent uncertainty regarding resources and reserves, these are found to be materially different to the current estimates, the Group may experience delays and/or increased operating costs, and the economic viability of its projects may be adversely affected.

Increases in transportation costs could materially adversely affect the Group's business and results of operations

The Group currently relies substantially on the rail freight network operated by Ukrzaliznytsya, the Ukrainian State-owned southern railway authority, for transportation of its raw materials and finished products. Railway tariffs for freight increase periodically. For example, railway tariffs increased by 60 per cent. in 2004. There can be no assurance that substantial additional increases will not occur in the future. In addition, certain of the Group's customers depend on the rail networks of countries that neighbour Ukraine and therefore the competitiveness of the Group's products can be impacted by the rail tariffs in those countries. For example, following a significant increase in Russian rail tariffs, it is currently not cost-efficient for the Group to export its products to customers in Russia. Although the Group has generally been able to pass the higher transportation costs on to its customers through price increases, if it is unable to do so then a significant increase in rail freight or other transportation costs could materially adversely affect the Group's business, results of operations, financial condition and prospects.

The Group generally bears the risk of loss of or damage to its pellets until delivery at the Ukrainian border or port and it does not have insurance against such risk. In the future, the Group may be required to insure its goods under delivery terms with its customers.

Disruptions in transportation could materially adversely affect the Group's business and results of operations

Most of the Group's pellets are transported by rail to the Ukrainian border or port. In the past, the Group has experienced delays in obtaining sufficient rail cars, particularly at certain times of the year when agricultural producers ship their produce by rail, and on occasion rail cars are in poor condition. Any disruption or delay in shipment could have a negative effect on the Group's profitability and cash flows.

In addition, the Group transports part of its products by sea, principally through the ports of Yuzhniy, Izmail and Galats. The Group competes with a number of other exporters (including Russian exporters) for limited storage and berthing facilities at these ports, which can result in delays in loading the Group's products and expose the Group to the risks of demurrage and increased handling costs. The lack of sufficient dedicated storage facilities at the port also increases the Group's exposure to risks of interruption in rail transport to the port and of contamination of its pellets. The Group recently acquired a 49.9 per cent. stake in a joint venture to develop a new berth with a dedicated stockpile area at Port Yuzhniy, the Group's principal port for seaborne exports on the Black Sea, which began operation in May 2007. However, any limitations on shipping capacity at any of these ports could impede the Group's ability to deliver its products on time or expand its sales, which could materially adversely affect the Group's business, results of operations, financial condition and prospects.

Title to the Group's mineral properties or production facilities, or to any privatised company acquired by the Group, may be challenged

Some of the properties and facilities that the Group has acquired may be subject to prior claims or unregistered agreements, and title may be affected by undetected defects. There can be no assurance that title to these properties will not be challenged or impugned. In addition, competitors may from time to time also seek to deny the Group's rights to develop certain natural resource deposits by challenging its compliance with tender rules and procedures or compliance with licence terms.

The Group acquired Ferrexpo Poltava from intermediaries following its privatisation. Privatisations in some former Soviet republics (including Ukraine) have been subject to political controversy and legal challenge or reversal, including the re-privatisation (by way of re-nationalisation and re-sale by tender) of OJSC Kryvorizhstal, Ukraine's largest steel mill, in 2005. No action has been taken towards the invalidation of Ferrexpo Poltava's status as a privately-owned company and, currently, the Group is not aware of any challenges pending to the privatisation of any subsidiary of the Company.

A former shareholder in Ferrexpo Poltava is currently bringing proceedings in the Ukrainian courts against certain nominee companies that were previously ultimately controlled by Kostyantyn Zhevago, among other parties, seeking to invalidate an agreement pursuant to which a 40 per cent. stake in Ferrexpo Poltava (which was subsequently diluted to less than 25 per cent. following further share issues by Ferrexpo Poltava) was sold to those nominee companies in 2002. A declaratory judgment was granted in the claimant's favour by the court of first instance in Donetsk in March 2007 and upheld on appeal by the Donetsk Appellate Court in April 2007 and is currently subject to appeal to the Higher Commercial Court of Ukraine by one of the defendants. Whilst management considers that the action is without merit and that it is unlikely that the claimant would be able to recover either the shares or damages, and neither Kostyantyn Zhevago nor any member of the Group is party to the proceedings, there can be no assurance that the claim will not ultimately succeed, nor that the claimant or other parties will not take further steps to attempt to vindicate themselves and seek to hinder or prevent the Offering. See paragraph 16.2 of Part XI for further details and also "–The Group's competitors or other third parties may seek to hinder or prevent the Offering".

In the event that any title to, or the Group's ownership stakes in, any privatised company acquired by the Group is subject to challenge on the grounds of defects in the privatisation process or otherwise, and the Group is unable to defeat such claim, the Group risks losing its ownership interest in such company or its assets, which could materially adversely affect the Group's business, results of operations, financial condition and prospects.

The Group depends on a limited number of customers and markets, the loss of any of which could materially adversely affect the Group's business or financial condition

The Group's top three customers, all of which are located in Central and Eastern Europe, together accounted for approximately 46.5 per cent. of the Group's net sales revenue in 2006, compared to 51.8 per cent. in 2005 and 68.1 per cent. in 2004. Whilst the Group has entered into framework agreements with these customers on terms customary for the industry, there can be no assurance that these agreements or any other framework agreements will not be terminated before their expiry. Furthermore, there is no guarantee that the Group will be able to continue to expand its access to new customers and markets and thereby decrease its reliance on this small number of customers and the Central and Eastern European market generally. The loss of any one or more of the Group's customers may have a material adverse affect on the Group's business, financial condition, results of operations and prospects.

The Group may not be able to implement its plans to manage its labour costs

In 2006, Ferrexpo Poltava's production labour costs amounted to approximately 15 per cent. of its total cost of sales. Although the Group's average labour costs are low, with the majority of its employees receiving less than the equivalent of US$300 per month in 2006, its headcount is relatively high and productivity per worker is relatively low compared to producers of iron ore in other parts of the world. Approximately half of all employees are support personnel. The Group's goal is to bring its current workforce in line with international industry practice by reducing its headcount, primarily through the outsourcing of support functions and natural attrition, while increasing average wages and productivity. However, the Group faces certain statutory, political and social constraints in seeking to reduce headcount. As a result, there can be no assurance that the Group will succeed in managing its labour costs, which may impair the Group's competitiveness compared with iron ore producers with lower production costs per tonne of iron ore produced.

The Group relies on the continued services of key managerial, marketing and technical personnel, who may be difficult to replace with equally qualified personnel if they were to depart

The Group's ability to maintain its competitive position and to implement its business strategy is dependent, to a large degree, on the services of its senior management team. The loss or diminution in the services of members of its senior management team or an inability to attract and retain additional senior management, technical or marketing personnel could have a material adverse effect on its business, financial condition, results of operations or prospects. Moreover, competition in Ukraine for senior management, marketing and technical personnel with relevant expertise and exposure to international best practice is intense due to the small number of qualified individuals, which may affect Ferrexpo Poltava's ability to retain its existing senior management, marketing and technical personnel and attract additional qualified personnel.

Substantially all of the Group's revenues are derived from iron ore pellet production at one facility

Substantially all of the Group's revenues are derived from sales of iron ore pellets produced at Ferrexpo Poltava's iron ore mine and associated concentrating and pelletising facility in Komsomolsk, Ukraine. If mining and processing operations at this site were to be materially reduced, interrupted or curtailed, or if Ferrexpo Poltava's mining licences and the other permits and approvals it requires to carry out mining operations were to be revoked or not renewed upon their expiry (see "– The Group's business depends on exploration and mining licences issued by the Government of Ukraine and such licences may be withheld, revoked or not renewed"), Ferrexpo Poltava's ability to continue to produce pellets would be at risk and the

Group's business, results of operations, financial condition and prospects would be materially adversely affected.

The Group may face obstacles in introducing international best practice at its facilities in Ukraine

The Group may face obstacles in implementing international best practice in mining operations at its facilities in Ukraine due to the limited exposure of its local management and employees to international best practice in mining operations and business processes, the potential cultural and language barriers between the English-speaking management of the Company and the local management of Ferrexpo Poltava and the legacy of Ferrexpo Poltava's previous State ownership. Each of these factors could negatively affect the Group's ability to reduce operating costs. In addition, whilst the Group's new senior management has established IFRS financial reporting and risk management procedures that they consider appropriate for the Group's present level of activities, the Group's principal operating subsidiary, Ferrexpo Poltava, has historically applied Ukrainian corporate practice and reporting procedures and there can be no guarantee that it will not face any difficulties in correctly applying the new procedures in all circumstances. Any of these factors could materially adversely affect the Group's business, results of operations, financial condition and prospects. Notwithstanding the above, the Group believes that its financial systems, which have been reviewed by its professional advisers, are sufficient to ensure compliance with the requirements of the UKLA's Disclosure and Transparency Rules as a listed entity.

Ferrexpo Poltava could be subject to uninsured liabilities, which could adversely affect the Group's operations and financial condition

Ukrainian law requires mining companies to insure only against certain limited risks, and Ferrexpo Poltava generally carries the mandatory types of insurance required by Ukrainian law such as civil liability insurance, motor vehicle insurance and fire insurance. It also maintains insurance against accidents at certain of its blasting, transportation and production facilities and at its tailings pond and insures assets that are pledged as security for loans against loss or damage. The Group's management periodically evaluates the procurement of additional insurance cover. As Ukrainian law currently prohibits foreign insurance companies from operating directly in Ukraine, the underdeveloped insurance market in Ukraine offers only limited opportunities for insuring risks associated with the Group's business, and reinsurance with an international insurance house would substantially increase costs. Should one or more events for which Ferrexpo Poltava is not insured occur, Ferrexpo Poltava could experience substantial property loss and significant disruptions in its production capacity, for which it would not be compensated. Depending on the severity of the property damage, the Group may not be able to rebuild damaged property in a timely manner or at all. Moreover, no assurance can be given that the Group will be able to maintain existing levels of insurance in the future at rates it considers reasonable. The occurrence of a significant adverse event, the risks of which are not fully covered by insurance, could materially adversely affect the Group's business, results of operations, financial condition and prospects.

The Group's business depends on exploration and mining licences issued by the Government of Ukraine and such licences may be withheld, revoked or not renewed

In Ukraine, all subsurface resources belong to the people of Ukraine. Currently, exploration and mining licences are granted by the Ministry of Environmental Protection of Ukraine. Exploration and mining licences are not granted in perpetuity and any renewal must be obtained before expiration of the relevant licence. Exploration and mining licences may be suspended or revoked, or an extension may be refused, if the Group does not satisfy the conditions of its licence, including the payment of exploration and mining fees, the commencement of work within the period stipulated in the licence and compliance with mining, environmental, health and safety regulations. There can be no assurance that the Group will be able to achieve compliance with all applicable regulations at all times. For example, the licence for the Yeristovskoe deposit was issued subject to the condition that "activity relating to subsurface use" be commenced within two years of the date of issue. Stripping operations were delayed for more than two years after the issue date due to archaeological excavations which were undertaken at the site. Although Ferrexpo Poltava received a letter from the then licensing authority extending the two-year period, and has now begun preliminary works at the site, the applicable law does not provide for the extension of such term. Similarly, subsurface operations have not been commenced at seven further deposits within the statutory two year time limit. In addition, beginning from 2004, the Ukrainian government generally sold subsurface licences by competitive auction (tender). Mining or exploration licences for certain deposits which the Group is not currently working (including mining licences for the Belanovskoe and Galeschinskoe deposits and exploration licences for a further five deposits) were issued in late 2004 without a tender process (the "2004 licences"). Although the licensing authority cancelled its internal decision on the issuance of the 2004 licences to Ferrexpo Poltava, it subsequently confirmed on 1 April 2007 and 15 May 2007 that all such licences are still valid and that it is not taking any steps to revoke any or all of the licences issued at that time. Notwithstanding the foregoing, in the absence of any specific exemption from the tender procedure, there can be no assurance that the 2004 licences will not be revoked or subject to challenge in the future, in which case the Group would need to re-apply for them before it can begin exploration or mining works at these further deposits. Ferrexpo Poltava is also currently using the Lavrikosvkoe deposit to store overburden, which may contravene the terms if its existing licence. If any or all of such licences were to be revoked and the Group were unable to re-obtain them, this could negatively affect the Group's ability to implement its long-term expansion plans, which could have a materially adverse affect on its business, results of operations, financial conditions and prospects.

With effect from March 2006, the extraction of natural resources from deposits which are deemed to be of national importance and which are included within the State Fund of Natural Resources is subject to the requirement to obtain a separate business activity licence under Ukrainian law. Since iron quartzites of the type which are currently being mined by Ferrexpo Poltava are considered to be of national importance, and since all of the quartzite deposits for which Ferrexpo Poltava has mining licences are included within the State Fund of Natural Resources Deposits, Ferrexpo Poltava is subject to the formal requirement to obtain such business activity licence. Management considers, however, that Ferrexpo Poltava could not have obtained such licence to date because the applicable licensing terms have not yet been adopted in Ukraine and is not aware of any such licences having been issued to other companies to date. Ferrexpo Poltava intends to apply for such business activity licence as soon as it is practicable to do so. However, there can be no assurance that Ferrexpo Poltava will be able to obtain such a licence, or that the state authorities will not conclude that a licence should have been obtained notwithstanding the absence of any applicable licensing terms.

In 2005, the Ukrainian government required producers to obtain licences to export iron ore pellets from Ukraine in connection with the temporary imposition of export quotas at that time, and there can be no assurance that export quotas or requirements to obtain export licences for iron ore pellets will not be reintroduced in the future, or that the Group would be able to obtain such licences if they were to be required.

Ferrexpo Poltava is in dispute with the Ukrainian tax authorities

Ferrexpo Poltava is currently disputing several tax claims by the local tax authorities following inspections for the fiscal year 2005 and part of 2006. The claims relate, among other things, to payments of corporate profits tax, VAT, environmental payments and other taxes and duties. The aggregate amount claimed by the Ukrainian tax authorities including alleged underpayments of tax and duties and an allegedly overstated VAT refund together with applicable fines and penalties is approximately equivalent to US$13 million. Ferrexpo Poltava disputes the basis on which the tax authorities are claiming these amounts and is currently bringing proceedings in relation to the most significant of these claims in the Ukrainian courts. While Ferrexpo Poltava believes the tax authorities' claims are unlikely to be enforced in full, and has made a provision in its accounts for a significantly lower amount, there can be no assurance that Ferrexpo Poltava will succeed. See paragraph 16.3 of Part XI for further details. In addition, the Group continues to be in a net VAT receivable position in Ukraine due mainly to the slow payment of VAT credits and is therefore exposed to any further delays in recovering VAT owed by the Government of Ukraine.

If the Ukrainian Anti-monopoly Committee were to conclude that the Group acquired a new company or increased the level of control it exerts over certain of its subsidiaries in contravention of anti-monopoly legislation, the Group could face administrative sanctions or be required to divest certain assets

The Group's business has grown substantially through the acquisition and establishment of companies incorporated and operating in Ukraine. Certain of these acquisitions or establishments of companies required the prior approval of or notification to the Ukrainian Anti-monopoly Committee (the "AMC"). The failure to obtain necessary approvals for such transactions could subject Ferrexpo, the Group and/or Kostyantyn Zhevago to fines of up to five per cent. of the Group's consolidated revenue for the financial year immediately preceding the year in which the fine is imposed, or the invalidation of such transactions if they are found to have led to the creation of a monopoly or substantially reduced competition in the relevant market or part thereof. Although members of the Group received AMC approvals for certain transactions pertaining to the establishment of the Group, they failed to disclose all of the necessary information in their submissions to the AMC. Fevamotinico S.à r.l. intends to make a supplemental filing to the AMC in respect of such acquisitions informing the AMC that previous filings were inaccurate and incomplete and confirming the current structure of the Group with the AMC and providing it with complete information (including with respect to beneficial ownership of the Group). The making of an inaccurate or incomplete application to the AMC could result in the imposition of fines of up to one per cent. of the Group's consolidated revenue for the financial year immediately preceding the year in which the fine is imposed or, in the case of any substantial inaccuracy or omission, could result in the relevant approval being annulled. The Group believes that none of the transactions or the establishment of companies has led to the creation of a monopoly or substantially reduced competition in the relevant market in Ukraine, and any actions on the part of the AMC in relation to a number of such past acquisitions and establishments would be barred under the applicable statute of limitations in Ukraine, and it therefore expects that any administrative fine in respect of making an inaccurate or incomplete application to the AMC and/or the failure to obtain AMC approvals for such past acquisitions and establishments is likely to be substantially less than the maximum amount specified above, or time-barred. However, there can be no assurance that this will be the case, nor that the AMC will not conclude that an acquisition or the creation of a new company was done in contravention of applicable anti-monopoly legislation and that competition in Ukraine has been reduced as a result. Any such finding could result in the imposition of further administrative sanctions or fines on the Group or require the divestiture of such newly acquired or created company or other assets, adversely affecting the Group's business, results of operations, financial condition and prospects.

Ferrexpo Poltava's mining operations create difficult and costly environmental challenges, and future changes in environmental laws, or unanticipated environmental impacts from Ferrexpo Poltava's operations, could require the Group to incur increased costs

Mining operations on the scale of Ferrexpo Poltava's operations involve significant environmental risks and challenges. Ferrexpo Poltava's primary challenge is to dispose of the large amount of crushed and ground rock material, called tailings, which results from the process by which Ferrexpo Poltava physically separates the iron ore bearing materials from the ore that is mined. Another environmental challenge is managing overburden, which is the rock that must be moved aside in the mining process in order to reach the ore. Ferrexpo Poltava also uses hazardous materials such as explosives used in mining operations and its pelletising plant produces harmful air emissions and waste water. These activities are subject to a number of laws and regulations relating to environmental protection in Ukraine.

Under the current system, the Ukrainian authorities review the Group's operations and determine the amount of environmental discharge into the atmosphere or water, and waste, which includes tailings and overburden, which is permissible for the Group based on its expected production output. The Group is required to pay quarterly environmental charges to the State based on these quotas (calculated separately for each pollutant) and, to the extent that the Group exceeds the quotas, it will have to pay a penalty amounting to five times the amount of the relevant charge. Although the Group is voluntarily implementing new pollution reduction equipment at Ferrexpo Poltava, there have been instances where Ferrexpo Poltava has exceeded its permitted quotas in the past and there can be no assurance that it will not exceed its permitted quotas, or that it will not be subject to substantially higher environmental charges and penalties in the future. In particular, in connection with the Group's plans to increase its mining operations and expand production to 56 million tonnes of iron ore, 16 million tonnes of iron ore pellets and up to 3.5 million tonnes of additional saleable concentrate per annum by the end of 2014, it will need to apply to the Ukrainian authorities for new emissions quotas. Total emission levels are set for Ukraine as a whole and each region is allocated a portion of these overall limits. The regions then allocate quotas among the businesses within their region based on the regional emissions allocation. As a result, the Group may not be able to obtain permission for higher emission levels to facilitate its planned production increase if the pre-existing emissions quotas issued within the Poltava region are close to its regional allocation. Although the Group believes that Ferrexpo Poltava is currently able to obtain higher environmental emissions quotas, the Group's failure to obtain higher quotas could hinder its ability to increase production or require the Group to make additional capital expenditure for equipment to reduce emissions in connection with any production increase. Such an event could materially adversely affect the Group's business, results of operations, financial condition and prospects.

In addition, enforcement of existing legislation, regulations and licences may become more stringent, and more comprehensive legislation could be adopted in Ukraine. Future changes in environmental laws or in the enforcement of such laws may require the Group to make significant capital expenditure or otherwise alter aspects of Ferrexpo Poltava's operations and such changes could materially adversely affect the Group's business, results of operations, financial condition and prospects.

The Group's business may be affected by labour disruptions

Nearly all of Ferrexpo Poltava's employees are members of a labour union (the "Poltava Trade Union"). Although management believes its present labour relations are good, there can be no assurance that a work slowdown, a work stoppage or strike will not occur prior to or upon the expiration of the current labour agreements and management is unable to estimate the effect of any such work slowdown, stoppage or strike on the Group's production levels. Work slowdowns, stoppages or other labour-related developments could materially adversely affect on the Group's business, results of operations, financial condition or prospects.

The iron ore industry is intensely competitive and the Group may have difficulty effectively competing with other iron ore mining companies

The iron ore industry is characterised by intense competition. The Group competes with a number of large mining companies, including international mining companies, some of which have total assets and financial resources substantially greater than those of the Group. Although, at present, the Group believes that it benefits from the close proximity of Ferrexpo Poltava's iron ore mine and associated processing facilities to its customers, and therefore from a competitive cost of supply, some of these competitors may, in the future, use their substantial resources to enter into purchase agreements with the Group's customers, which may result in a loss of market share for the Group. These competitors may also acquire additional exploration rights over iron ore deposits, further develop iron ore pellet production facilities or engage in pricing or other financial or operational practices that will increase competitive pressure on the Group. Competition from foreign iron ore pellet producers, or foreign direct investment in the Group's domestic competitors, may also result in losses of market share for the Group and materially adversely affect the Group's business, results of operations, financial condition and prospects.

The Group's competitors or other third parties may seek to hinder or prevent the Offering

Within the CIS there have been instances in which rival companies, groups or third parties have used tactics, such as filing frivolous legal claims and/or seeking injunctions from a court to freeze a company's share register, which would prevent its shareholders from taking any actions requiring the approval of the shareholders in general meeting, including transferring shares, approving the payment of dividends or entering into certain major transactions, in order to prevent a particular business transaction from being implemented. Management has been informed that two former shareholders of Ferrexpo Poltava are intending to bring an action against Ferrexpo Poltava in the court of first instance in the Poltava region seeking to invalidate decisions taken and resolutions passed at a meeting of shareholders of Ferrexpo Poltava in 2002 and subsequent decisions taken by the shareholders of Ferrexpo Poltava. These proceedings may not be commenced against Ferrexpo Poltava without the sanction of the court. The relevant court has not sanctioned any such proceedings in this regard to date and Management has received no indication that proceedings will be permitted by the court. Having taken professional advice, Management does not consider that the court will allow such proceedings to be initiated and in any event considers that, if any such claim were to be brought against Ferrexpo Poltava, it would be frivolous and without merit. There can be no assurance that competitors of the Group or other third parties will not take actions against the Group, Kostyantyn Zhevago or any connected person designed to hinder or prevent the consummation of the Offering.

The Group's compliance with health and safety laws may require increased capital expenditures, and non-compliance may subject the group to significant penalties

A violation of health and safety laws relating to a mine, or at a concentrating, pelletising or other plant, or a failure to comply with the instructions of the relevant health and safety authorities, could lead to, amongst other things, a temporary shut down of all or a portion of the mine, concentrator, pelletiser or other plant; a loss of the right to mine or operate a concentrator, pelletiser or other plant; or the imposition of costly compliance procedures. If health and safety authorities require the Group to shut down all or a portion of a mine, concentrator, pelletiser or other plant or to implement costly compliance measures, whether pursuant to existing or new health and safety laws and regulations, or the more stringent enforcement of existing laws and regulations, such measures could materially adversely affect the Group's business, results of operations, financial condition and prospects. In addition, the Group's stated objective of enhancing health and safety compliance at the Ferrexpo Poltava Facility in line with global best practice may entail significant costs, which may adversely affect the Group's results of operations.

Fluctuations in currencies may adversely affect the Group's financial condition and results of operations

The functional currency of the Group's Ukrainian companies is the Hryvnia. The functional currency of the Group's parent company and non-Ukrainian business has been determined to be the US dollar. On consolidation, income statements and cash flows of the Group's subsidiaries for which the US dollar is not the functional currency are translated into US dollars, the presentation currency for the Group, at the average rates of exchange. The exchange rate between the Hryvnia and the US dollar has historically fluctuated, and the translation effect of such fluctuations could have a material adverse effect on both Group members' individual, and the Group's consolidated, results of operations.

The Group produces iron ore pellets which are commodities that are typically priced by reference to prices in US dollars, while a substantial portion of the Group's costs are incurred in Hryvnia. In 2005, the Hryvnia strengthened against the US dollar, which increased the Group's costs in US dollar terms. While the exchange rate between the Hryvnia and the US dollar has been relatively stable since that time, if the Hryvnia were to strengthen against the US dollar, this could have an adverse effect on the Group's results of operations and financial condition.

Transfer pricing rules may potentially affect the Group's results of operations

Ukrainian transfer pricing rules apply to a wide range of situations involving cross-border and certain domestic transactions, most typically among related parties. The Group's historical and current trading relationships, including sales between Ferrexpo Poltava and Ferrexpo, could fall within these transfer pricing rules. Even among parties that are not related, prices may still be subject to the transfer pricing rules. No "safe harbour" is provided by the applicable Ukrainian corporate profits tax legislation if the sale price deviates from the arm's length price. If the tax authorities establish failure to comply with these rules, they may demand transfer pricing adjustments. If substantial transfer pricing adjustments were upheld by the relevant Ukrainian authorities or courts and implemented, the Group's financial results could be adversely affected.

The Company's financial condition may be adversely affected by changes in applicable taxation regimes or in the taxation residence of the Company

Although the Company is incorporated in England and Wales, the Directors currently intend to conduct the affairs of the Company in a manner such that it continues to be regarded as resident in Switzerland, and not in the UK, for Swiss and UK tax purposes and for the purposes of the Switzerland/UK Double Taxation convention. This means, broadly, that the Company's profits, income and gains will be subject to the Swiss tax regime and not, save in the case of UK source income, to the UK tax regime. Any dividends paid by the Company will be regarded as Swiss dividends rather than UK dividends. See paragraph 13.1 of Part XI for further details of the applicable UK tax regime.

It is possible that in the future, whether as a result of a change of law or the practice of any relevant tax authority or the renegotiation of the Swiss/UK Double Taxation convention, or as a result of any change in the management or the conduct of the Company's affairs, the Company could become, or be regarded as having been, resident in the UK, therefore becoming subject to the UK tax regime. This could materially adversely affect the Group's financial results.

As a company incorporated in England and Wales, the Company is technically subject to the UK controlled foreign company rules, which can operate to apportion the profits of overseas subsidiaries to the UK parent company which will be subject to UK corporation tax on those amounts (subject to certain deductions). The Company has obtained confirmation from HM Revenue and Customs in the United Kingdom that the motive test exclusion applies so that the Company will not be subject to the operation of the controlled foreign company rules (with the exception that the Company will still have to comply with certain administrative procedures set out under these rules). The confirmation from HM Revenue and Customs lasts for a period of five years and only applies to those companies that form part of the Group at the date the confirmation was given. Application for a renewal of the exemption, or extension to cover newly acquired or incorporated entities, can be made at any time and HM Revenue and Customs have assured the Company that provided the Group continues to operate and to be structured as it currently is and further provided that there is no change in law, then extending the clearance beyond the initial five-year period or to cover the new Group companies, as appropriate, will not present difficulties.

However, it is possible that in the future, whether as a result of a change in law or practice, or as a result of a change in the operations or structure of the Group, the exemption from the operation of the UK controlled foreign company rules will not be renewed. If that were to occur, the profits of certain non-UK resident Group companies could be apportioned to the Company, which would be subject to UK corporation tax on any such apportioned profits. This could adversely affect the Group's financial results.

The Group is exposed to certain costs associated with the local community in the town of Komsomolsk

Ferrexpo Poltava's predecessors established or maintained most of the social and physical infrastructure in the town of Komsomolsk and it remains by far the largest local employer. It contributes to a number of voluntary social projects and municipal charitable funds for the benefit of its employees, their families and the community. As a result, the Group may face political and social constraints on its ability either to reduce its headcount or to reduce its support for the local town and community, which may have a material impact on the Group's ability to implement its cost reduction programme.

Risks relating to operating in Ukraine

Since independence in 1991, Ukraine has undergone a substantial political transformation from a constituent republic of the former Soviet Union to an independent sovereign democracy. In parallel with this transformation, Ukraine is slowly changing from a centrally planned economy to a market economy. Although some progress has been made since independence in reforming Ukraine's economy and its political and judicial systems, to a large extent Ukraine still lacks the necessary legal infrastructure and regulatory framework that is essential to support market institutions, the effective transition to a market economy and broad-based social and economic reforms. The pace of economic, political and judicial reforms has adversely been affected by political instability caused by continuing disagreement among the Government, the Parliament and the President of Ukraine. As a consequence, an investment in a company with operations in Ukraine carries risks not typically associated with companies operating in more mature markets.

Emerging markets are subject to greater risks than more developed markets

Investors in emerging markets such as Ukraine should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant political, economic and legal risks. Investors should also note that emerging economies such as Ukraine's are subject to rapid change and that the information set out in this Prospectus may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved, and investors are urged to consult with their own legal and financial advisors before making an investment in the Ordinary Shares.

The Government of Ukraine has been subject to instability since independence

Since independence in 1991, the frequent lack of political consensus in the Ukrainian parliament (Verkhovna Rada) (the "Parliament") has made it difficult for the Ukrainian government (the "Government") to secure the support necessary to implement a variety of policies intended to foster liberalisation, privatisation and financial stability. Ukraine has had 14 different prime ministers during this period. The various state authorities, the relations between them, the Government's policies and the political leaders who formulate and implement them are all subject to rapid change. On 2 April 2007, President Yuschenko signed a decree dissolving the Parliament after several peoples' deputies from the opposition joined the ruling coalition. The ruling coalition in the Parliament and the majority in the Government immediately rejected the President's decree and approved several decisions aimed at blocking the new parliamentary elections. On 26 April 2007, President Yuschenko cancelled his decree of 2 April 2007 and resolved to dissolve the Parliament and hold new parliamentary elections on 24 June 2007. Following further debate between the President, the Prime Minister and the Speaker of Parliament, on 5 June 2007 the President issued a new decree rescheduling the elections for 30 September 2007. However, the majority coalition refuses to recognise the presidential decree on the dissolution of Parliament. It remains unclear whether the new parliamentary elections will in fact take place in September 2007. See "Information on Ukraine – Political developments since independence" in Part III. No assurance can be given that reform and economic growth will not be hindered as a result of any further disruption of Government continuity, continued dissent between the President, the Parliament and the Government or other changes affecting the stability of the Government or involving a rejection or reversal of reform policies favouring privatisation, industrial restructuring and administrative reform. Political instability in Ukraine may have negative effects on the Ukrainian economy or the climate for foreign direct investment in Ukraine. Any negative changes in the Ukrainian economy or the climate for foreign direct investment in Ukraine could have a materially adverse effect on the Group's business, results of operations, financial condition and prospects.

Ukraine's relations with its neighbours (including Russia) could deteriorate significantly

Ukraine generally maintains positive relations with its neighbours. Because of its geographical position and history, Ukraine's most significant relationships are with the Russian Federation and Poland. Significant relations have also been developed with neighbouring member states of the EU (including Germany, Hungary, Slovakia and Romania), members of the CIS (including Belarus and Georgia) and with Turkey. Ukraine is dependent on Russia for a significant part of its energy needs, including substantially all of its natural gas (see "– Energy prices have increased significantly and may increase further"). Any major changes in Ukraine's relations with Russia, in particular any such changes adversely affecting energy supplies from Russia to Ukraine and/or Ukraine's export revenues derived from transit charges for Russian oil and gas, may also have negative effects on the economy and thus on the Group's business, results of operations, financial condition and prospects.

Energy prices have increased significantly and may increase further

Energy prices in Ukraine have historically been below the market rates prevailing in Western countries due to the availability of inexpensive energy resources from Russia. However, Russia has been increasing the cost of energy supplied to Ukraine to bring prices closer to international market prices (including increasing gas prices and oil export duties from Russia). For example, gas prices in Ukraine have risen as a result of disagreements in late 2005 and early 2006 between Naftogaz and Gazprom over the prices of and methods of payment for gas delivered by Gazprom to, or in, Ukraine. See "– Ukraine's relations with its neighbours (including Russia) could deteriorate significantly". The price for natural gas to be supplied by Russia in 2007 for consumption in Ukraine has been set at US$130 per 1,000 cubic metres, which represents a price increase of 44 per cent. compared to the prior price. Management expects that prices of energy, including natural gas, are likely to increase above current levels over time. While the Group is taking steps to increase its energy efficiency and reduce consumption to help minimise the impact of recent gas and other energy price increases on its production costs, if it is unable to do so or if prices increase significantly, this may materially adversely affect the Group's business, results of operations, financial condition and prospects.

Any major changes in Ukraine's relations with western governments and institutions may adversely affect the ability of Ukrainian manufacturers to access world export markets

Ukraine continues to pursue its objectives of a closer relationship with the North Atlantic Treaty Organisation, accession to the World Trade Organisation (the "WTO") in the near future and becoming an associate member of the EU in the longer term. Whilst Ukraine was given market economy status by the EU in December 2005 and by the United States in February 2006, failure to obtain WTO membership (which Ukraine has been pursuing for over ten years) could adversely affect the position of Ukraine in the world economy and could hinder growth that might otherwise be obtainable. In addition, any major changes in Ukraine's relations with Western governments and institutions, in particular any such changes adversely affecting the ability of Ukrainian manufacturers to access world export markets, may have negative effects on the economy and thus on the Group's business, results of operations, financial condition and prospects.

A downturn in the Ukrainian economy could materially adversely affect the Group's business, results of operations, financial condition and prospects

Although the Ukrainian government has generally been committed to economic reform, the implementation of reform has consistently been impeded by lack of political consensus, controversies over privatisation, the restructuring of the energy sector, the removal of exemptions and privileges for certain state-owned enterprises or for certain industry sectors, and the limited extent of cooperation with international financial institutions. No assurance can be given that current reform policies favouring privatisation, industrial restructuring, administrative and tax reform will continue to be implemented and, even if implemented, that those policies will be successful, or that the economy in Ukraine will improve. For example, the rate of inflation for 2005 was 10.3 per cent., which is lower than the inflation rate of 12.3 per cent. in 2004, but higher than the inflation rates of 8.2 per cent. and (0.6) per cent. in 2003 and 2002, respectively. The rate of inflation for 2006 was 11.6 per cent. In 2006, Ukraine's gross domestic product ("GDP") growth was 7 per cent., compared with the GDP growth rate of 2.2 per cent. in 2005 and GDP growth rates of 12.1 per cent. and 9.4 per cent. in 2004 and 2003, respectively. Industrial output growth was 6.2 per cent. for 2006 compared to 3.1 per cent. for 2005. In February 2007, the Government approved its forecast for Ukraine's economic and social development, which estimated Ukraine's GDP growth at 6.5 per cent. and its inflation rate at 7.5 per cent. in 2007. An economic downturn could materially adversely affect the Group's business, results of operations, financial condition and prospects.

Any failure of Ukraine to receive support from official creditors and international financial institutions could adversely affect the financing of its budget deficit, inflation, foreign exchange reserves, ability to service its debt and/or the value of the Hryvnia

In 2000, Ukraine undertook a comprehensive debt restructuring exercise to alleviate its rising external debt resulting from the accumulation of large payments on external debt due in 2000 and 2001. Since the conclusion of this debt restructuring exercise, the ratio of external debt servicing (including principal and interest but excluding debt owed to the International Monetary Fund ("IMF")) to GDP has risen from approximately 1.9 per cent. as at 31 December 2001 to approximately 2.3 per cent. as at 31 December 2002 and approximately 2.9 per cent. as at 31 December 2003, and has fallen to approximately 2.4 per cent. as at 31 December 2004 and to approximately 1.8 per cent. as at 31 December 2005, based on data from official Government sources. Total Government external debt servicing (excluding payments to the IMF) was approximately US$1.4 billion in 2003, approximately US$1.3 billion in 2004 and approximately US$1.5 billion in 2005, based on official Government sources.

Although Ukraine has been able to access the international capital markets to raise new financing in 2003, 2004 and 2005, the absence of a deep and liquid market for domestic treasury bonds means that Ukraine remains dependent on its ability to access to international capital markets to raise additional funds. As a result of political instability caused by the Presidential decree to dissolve the Parliament and to convene new elections, in April 2007, Standard & Poor's downgraded Ukraine's credit rating from "stable" to "negative". Under such circumstances, any failure of Ukraine to receive support from official creditors and international financial institutions (such as the IMF and the World Bank) could adversely affect the financing of the budget deficit, the level of inflation, the size of Ukraine's foreign exchange reserves, its ability to service its debt and/or the value of the Hryvnia, which, in turn, could adversely affect the business, results of operations, financial condition and prospects of the Group.

Fluctuations in the global economy may have an adverse effect on the Ukrainian economy

Ukraine's economy is vulnerable to market downturns and economic slowdowns elsewhere in the world especially as its economy depends heavily on its trade flows with Russia and other CIS countries. In addition, as Ukraine is a major producer and exporter of metal and agricultural products, the Ukrainian economy is especially vulnerable to declines in world commodity prices and the imposition of import tariffs by the United States, the EU or other major export markets. Any such developments may have a negative effect on the Ukrainian economy and thus on the business, results of operations, financial conditions and prospects of the Group.

Any future attempts to re-privatise private enterprises could lead to a deterioration in the climate for foreign direct investment in Ukraine

Notwithstanding recent improvements in the Ukrainian economy, cumulative foreign direct investment remains relatively low for an industrialised country with a population as large as that of Ukraine. As has happened in the past, an increase in the perceived risks associated with investing in Ukraine could dampen foreign direct investment and adversely affect the Ukrainian economy. No assurance can be given that Ukraine will remain receptive to foreign trade and investment. In particular, despite statements by President Yuschenko and the previous Government that plans announced in early 2005 by an earlier government to review the privatisation of 22 major companies (other than OJSC Krivorizhstal, which was re-privatised in October 2005) were no longer under consideration, there can be no assurance that the present or any future government will not attempt to re-privatise or nationalise private enterprises. Any such steps could lead to a deterioration in the climate for foreign direct investment in Ukraine, which could in turn have a materially adverse effect on the economy and thus on the Group's business, results of operations, financial condition and prospects.

The business environment in Ukraine could deteriorate

Ukrainian enterprises have a limited history of operating in free-market conditions and have had limited experience (compared with companies in more developed jurisdictions) of entering into and performing contractual obligations. Ukrainian enterprises, when compared to businesses operating in more developed jurisdictions, are often characterised by management that lacks experience in responding to changing market conditions and limited capital resources with which to develop their operations. In addition, Ukraine has a limited infrastructure to support a market system, and communications, banks and other financial infrastructure are less well developed and less well regulated than their counterparts in more developed jurisdictions. Ukrainian enterprises face significant liquidity problems due to a limited supply of domestic savings, few foreign sources of funds, high taxes and limited lending by the banking sector to the industrial sector, among other factors. Many Ukrainian enterprises cannot make timely payments for goods or services and owe large amounts in taxes, as well as wages to employees.

External analysts have identified corruption and money laundering as problems and both the local and international press have alleged high levels of official corruption in Ukraine. In accordance with amendments to Ukrainian anti-money laundering legislation which came into force in June 2003, the NBU and financial institutions are required to monitor certain financial transactions more closely for evidence of money laundering. As a result of the implementation of these amendments, the Financial Action Task Force on Money Laundering ("FATF") removed Ukraine from its list of Non-Co-operative Countries and Territories in February 2004 and in February 2006, FATF ended formal monitoring of Ukraine. However, any future allegations of corruption in Ukraine or evidence of money laundering could have a negative effect on the ability of Ukraine to attract foreign direct investment.

Any of the above factors could lead to a deterioration in the business environment in Ukraine and could have a materially adverse effect on the Group's business, results of operations, financial condition and prospects and on the market price of the Ordinary Shares.

The potential for labour and social unrest in Ukraine could have a materially adverse effect on the Group's ability to conduct its business effectively and on the market price of the Ordinary Shares

The failure of the Government and many private enterprises to pay full salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living have led in the past, and could lead in the future, to labour and social unrest. Labour and social unrest may have political, social and economic consequences, such as increased support for a renewal of centralised authority, increased nationalism including calls for restrictions on foreign ownership of Ukrainian businesses, and violence. Any of these events could restrict the Group's operations and lead to the loss of revenue, thereby materially adversely affecting both the Group's ability to conduct its business effectively and the market price of the Ordinary Shares.

Ukraine's physical infrastructure could deteriorate further

Ukraine's physical infrastructure, including its power generation and transmission and communication systems and building stock, largely dates back to Soviet times and has not been adequately funded and maintained over the past decade. Road conditions throughout Ukraine are relatively poor in comparison with more developed countries. The Ukrainian government has been implementing plans to develop the nation's rail, electricity and telephone systems, which may result in increased charges and tariffs whilst failing to generate the anticipated capital investment needed to repair, maintain and improve these systems. The deterioration of Ukraine's physical infrastructure has an adverse effect on the national economy, disrupts the transportation of goods and supplies, adds costs to doing business in Ukraine and can interrupt business operations. Any further deterioration in Ukraine's physical infrastructure could have a materially adverse effect on the Group's business, results of operations, financial condition and prospects.

Uncertainties relating to the legal system in Ukraine could have a negative effect on the economy

Since independence in 1991, the Ukrainian legal system has evolved to support Ukraine's transformation from a planned to a market-based economy. The Ukrainian legal system is still in transition and therefore subject to greater risks and uncertainty than a more mature legal system. Risks associated with the Ukrainian legal system include, but are not limited to: inconsistencies between and among Ukraine's constitution, its laws, presidential decrees, and Ukrainian governmental, ministerial and local orders, decisions, resolutions and other acts; provisions in laws and regulations that are ambiguously worded or lack specificity and thereby raise difficulties when implemented or interpreted; a lack of judicial and administrative guidance on the interpretation of Ukrainian legislation, including the complicated mechanism through which the Constitutional Court of Ukraine exercises its jurisdiction; general inconsistency in the judicial interpretation of Ukrainian legislation in the same or similar cases; the fact that not all Ukrainian legislation is readily available as yet to the public or organised in a manner that facilitates understanding; and corruption within the judiciary.

Furthermore, several fundamental Ukrainian laws either have only recently become effective or are still pending before the Ukrainian Parliament. For example, in 2004 and 2005, Ukraine adopted new civil, civil procedural, economic and administrative procedure codes and new laws governing mortgage finance, personal income, state registration of proprietary rights on immovable property and international conflicts of law. The rapid evolution of the Ukrainian legal system in ways that may not always coincide with market developments place the enforceability and underlying constitutionality of laws in doubt and may result in legislative ambiguities, inconsistencies and anomalies. In addition, Ukrainian legislation often calls for implementing regulations. Often such implementing regulations have either not yet been promulgated, leaving substantial gaps in the regulatory infrastructure, or have been promulgated with substantial deviation from the principal rules and conditions imposed by the underlying legislation, resulting in a lack of clarity and growing conflicts with regulatory authorities. The uncertainties relating to the legal system in Ukraine could have a negative effect on the Group directly, or on the economy and thus indirectly on the Group's business, results of operations, financial condition and prospects.

Uncertainties relating to the judicial system in Ukraine (including the difficulties in enforcing court orders and judgments) could have a negative effect on the economy

The independence of the Ukrainian judicial system and its immunity from economic and political influences in Ukraine remain largely untested. Courts are not bound by earlier decisions taken under the same or similar circumstances, which results in the inconsistent application of Ukrainian legislation to resolve the same or similar disputes. In addition, court claims are often used to further political aims. The Group may be subject to such claims and may not be able to receive a fair hearing. Moreover, the enforcement of court orders and judgments can, in practice, be very time-consuming and may fail for a variety of reasons, including the defendant lacking sufficient bank account funds, the complexity of auction procedures for the sale of the defendant's property or the defendant undergoing bankruptcy proceedings. Furthermore, notwithstanding the successful execution of a court order or a judgment, a higher court could reverse the court order or judgment and require that the relevant funds or property be restored to the defendant. Uncertainties relating to the judicial system could have a negative effect on the economy and thus on the Group's business, results of operations, financial condition and prospects.

The interpretation and application of Ukrainian tax laws and regulations continues to evolve, which significantly increases the risks with respect to the Group's operations and investment in Ukraine

Ukraine currently has a number of laws relating to various taxes imposed by both central and regional governmental authorities. Applicable taxes include value added tax (VAT), corporate income tax (profits tax), customs duties, personal income tax, payroll (social) taxes and other taxes. These tax laws have not been in force for significant periods of time as compared to more developed market economies, and, as a result, there is uncertainty as to their application. Differing opinions regarding legal interpretation often exist both among and within governmental ministries and organisations, including the tax administration, creating uncertainties and areas of conflict. Ukrainian enterprises also commonly face delays in obtaining VAT refunds from the tax authorities, which can adversely affect their cash flow. Furthermore, tax laws are subject to changes and amendments, which could have a material adverse effect on the Group's operations or financial condition.

Tax returns and supporting documents (including customs and currency control documentation) are subject to review and investigation by a number of authorities, which are authorised by law to impose severe fines, penalties and interest charges. If violations of the tax laws involving sums of UAH 170,000 (approximately equivalent to US$34,000) or more are discovered, the prosecutor's office generally initiates criminal proceedings against a corporate taxpayer's general director, chief accountant or other senior managers. This creates tax risks in Ukraine that are substantially more significant than those typically found in countries with more developed tax systems. Generally, tax returns in Ukraine remain open and subject to inspection for an indefinite period of time. However, in practice, the risk of retroactive tax assessments and penalty charges decreases significantly after three years. Nonetheless, this term may not be observed, or may be extended, in certain circumstances. As at the date hereof, the tax authorities have reviewed substantially all of Ferrexpo Poltava's tax returns up to 31 March 2006. See paragraph 16.3 of Part XI for a discussion of certain disputes between Ferrexpo Poltava and the local tax authorities. The fact that a period has been reviewed does not exempt that period, or any tax return applicable to that period, from further review. While the Group believes that it is currently substantially in compliance with the tax laws affecting its operations, except for the claim by the tax authorities described above, the relevant authorities have taken differing positions with regard to interpretative issues, which could, if upheld by the courts, result in a materially adverse effect on the Group's results of operations and financial condition.

Official Ukrainian statistics and economic data may not be as accurate or reliable as those compiled in more developed countries

Although a range of Government ministries, along with the NBU and the State Committee of Statistics, produce statistics on Ukraine and other data on its economy, there can be no assurance that such information is as accurate or reliable as that compiled in more developed countries. The Company has not independently verified such official statistics and other data, and any discussion of matters relating to Ukraine in this Prospectus is, therefore, subject to uncertainty due to questions regarding the completeness or reliability of such information. Specifically, investors should be aware that certain statistical information and other data contained in this Prospectus has been extracted from official governmental sources in Ukraine and was not prepared in connection with the preparation of this Prospectus. In particular, prospective investors should be aware that figures relating to Ukraine's GDP and many other aggregate figures cited in this Prospectus may be subject to some degree of uncertainty and may not be fully in accordance with international standards. Furthermore, standards of accuracy of statistical data may vary from ministry to ministry and from period to period due to the application of different methodologies. In this Prospectus, data are presented as provided by the relevant ministry to which the data are attributed, and no attempt has been made to reconcile such data to the data compiled by other ministries or by other organisations, such as the IMF. Starting in the fourth quarter of 2002, Ukraine has been producing data in accordance with IMF's Special Data Dissemination

Standard. There can be no assurance, however, that this IMF standard has been fully implemented and correctly applied. The existence of a sizeable unofficial or shadow economy may also affect the accuracy and reliability of statistical information. In addition, Ukraine has experienced variable rates of inflation, including periods of hyperinflation. Unless indicated, the information and figures presented in this Prospectus have not been restated to reflect such inflation and, as a result, period-to-period comparisons may not be meaningful. Prospective investors should be aware that none of these statistics has been independently verified by any person in connection with the Offering. The Company only accepts responsibility for the correct extraction and reproduction of such information.

Risks Relating to the Group's structure

The Selling Shareholder will exercise significant control over the Group after the Global Offer, and as a result, investors may not be able to influence the outcome of important decisions in the future

Following the Offering, the Group will continue to be controlled by the Selling Shareholder. The Selling Shareholder is wholly-owned by The Minco Trust, the beneficiaries of which include Kostyantyn Zhevago. Although the Group will continue to be managed by the Executive Committee, of which Kostyantyn Zhevago is not currently a member and will not be a member after the Global Offer, he will continue to have the ability to influence the Group's business indirectly through his beneficial interest in The Minco Trust, which as the holder of the entire issued share capital of the Selling Shareholder has the ability to control all actions that require shareholder approval, including the approval of significant corporate transactions, and he will also be a Non-executive Director of the Company. Although the Selling Shareholder and Kostyantyn Zhevago (as a Non-executive Director) have entered into a relationship agreement with the Company to ensure that the Group is capable of carrying on its business independently, and to ensure that transactions and relationships between the Group, the Selling Shareholder and Kostyantyn Zhevago are at arm's length and on normal commercial terms, there can be no assurance that the Selling Shareholder and Kostyantyn Zhevago will adopt such a course of action in practice (see "Major shareholders and the Relationship Agreement" in Part X for further information about the Relationship Agreement). Kostyantyn Zhevago's interests may be different from those of other shareholders, and he may seek to cause the Group to take actions that are not in the best interests of the minority shareholders.

The concentration of ownership may have the effect of delaying or deterring a change in control of the Group, could deprive shareholders of an opportunity to receive a premium for their Ordinary Shares as part of a sale of the Group and might affect the market price of the Ordinary Shares. Further, although the Selling Shareholder has agreed not to dispose of its Ordinary Shares for a period of 18 months from the date of this Prospectus, subject to certain exceptions (see "The Global Offer and related matters – Dealing arrangements – Lock-up arrangements" in Part V), the Selling Shareholder may subsequently sell all or part of its holding of Ordinary Shares.

The Group may enter into transactions with its affiliates

The Group has engaged and may continue to engage in transactions with related parties, including Kostyantyn Zhevago and companies controlled by him or in which he owns a controlling interest, and with entities with which the Executive Directors are connected. The Company is aware of its obligations under the Listing Rules with respect to related party transactions, and the Group has procedures in place to ensure that prospective related party transactions are properly reported and approved, including by the shareholders where necessary. However, there can be no assurance that transactions will not be entered into on terms that are not solely determined by market prices and that may not represent terms that would normally prevail between unaffiliated parties.

Because the Company is primarily a holding company, its ability to pay dividends depends upon the ability of its subsidiaries to pay dividends and to advance funds

Because the Company conducts business primarily through Ferrexpo, Ferrexpo Poltava, and other subsidiaries, its ability to pay dividends to shareholders depends on the earnings and cash flow of Ferrexpo, Ferrexpo Poltava and the Company's other subsidiaries and their ability to pay the Company dividends and to advance funds to it. Other contractual and legal restrictions applicable to the Company's subsidiaries could also limit its ability to obtain cash from them. Its rights to participate in any distribution of its subsidiaries' assets upon their liquidation, reorganisation or insolvency would generally be subject to prior claims of the subsidiaries' creditors, including any trade creditors and preferred shareholders.

The payment of dividends by Ferrexpo Poltava to its shareholders outside Ukraine, including Ferrexpo, is also subject to a number of procedural requirements. Ferrexpo Poltava may only pay dividends to Ferrexpo in respect of most of its shares (other than those for which it subscribed for directly) through an investment account or a broker's account in Ukraine in Hryvnia. Ferrexpo in turn is required to submit documents evidencing its investment in shares in Ferrexpo Poltava in order to convert the dividends into US dollars and transfer them outside Ukraine. Tax is withheld at source on payments of dividends to Ferrexpo at the reduced rate of five per cent. under the Switzerland/Ukraine double taxation convention, or at the rate of fifteen per cent. absent a tax residency certificate attesting to Ferrexpo's tax residency in Switzerland. There can be no assurance that further restrictions on the payment of dividends to a foreign shareholder will not be applied in the future.

Ferrexpo Poltava has a number of minority shareholders

Ferrexpo Poltava has a number of minority shareholders, comprising legal entities (including a privately owned Austrian ore trader, Ukrainian and Russian securities traders) and individuals, most of whom are not known to the Group and who may have certain rights under Ukrainian law, and a certain portion of its shares are traded on the over-the-counter market in Ukraine. Management is investigating the possibility of offering Ordinary Shares to minority shareholders in lieu of their existing shares in Ferrexpo Poltava, but there is no assurance that it will do so, nor is there any assurance that minority shareholders will not seek to demand certain rights.

Risks relating to the Ordinary Shares

Shares available for future sale

The Selling Shareholder has agreed not to dispose of any of the Ordinary Shares in which it is legally or beneficially interested for a period of 18 months from the date of Admission under the lock-up arrangements, including the restrictions and exceptions, described in "The Global Offer and related matters – Dealing arrangements – Lock-up arrangements" in Part V. The Group is unable to predict whether substantial amounts of Ordinary Shares will be sold in the open market following the termination of these restrictions. Any sales of substantial amounts of Ordinary Shares in the public market, or the perception that such sales might occur, could materially and adversely affect the market price of the Ordinary Shares.

There has been no prior public trading market for the Ordinary Shares, and an active trading market may not develop or be sustained in the future

Prior to the Global Offer, there has been no public trading market for the Ordinary Shares. Although the Company has applied to the Financial Services Authority for admission to the Official List and has applied to the London Stock Exchange for admission to trading on its market for listed securities, the Company can give no assurance that an active trading market for the Ordinary Shares will develop or, if developed, can be sustained following the closing of the Global Offer. If an active trading market is not developed or maintained, the liquidity and trading price of the Ordinary Shares could be adversely affected.

Publicly traded securities from time to time experience significant price and volume fluctuations that may be due to a change in sentiment in the market regarding the Ordinary Shares (or securities similar to them) or in response to various facts and events which may be unrelated to the operating performance of the companies that have issued them. In addition, the market price of the Ordinary Shares may prove to be highly volatile. The market price of the Ordinary Shares may fluctuate significantly in response to a number of factors, many of which are beyond the Group's control, including: variations in operating results in the Group's reporting periods; changes in financial estimates by securities analysts; changes in market valuation of similar companies; announcements by the Group of significant contracts, acquisitions, strategic alliances, joint ventures or capital commitments; loss of a major customer; additions or departures of key personnel; any shortfall in revenues or net income or any increase in losses from levels expected by securities analysts; future issues or sales of Ordinary Shares; and stock market price and volume fluctuations. Any of these events could result in a material decline in the market price of the Ordinary Shares.

Part I

Administration, advisers and presentation of information

Expected timetable of principal events

Conditional dealings in Ordinary Shares expected to commence on the London Stock Exchange	8.00 a.m. on 15 June 2007
Admission and expected commencement of unconditional dealings in Ordinary Shares on the London Stock Exchange	8.00 a.m. on 20 June 2007
Crediting of Ordinary Shares to CREST accounts	20 June 2007
Despatch of definitive share certificates (where applicable)	27 June 2007

Each of the times and dates in the above timetable is subject to change. All times are London times.

If Admission does not occur, all conditional dealings will be of no effect, and any such dealings will be at the sole risk of the parties concerned.

Persons responsible and advisers

Persons responsible

The Directors, whose names appear below, and the Company accept responsibility for the information contained in this Prospectus. To the best of the knowledge of the Directors and the Company (who have taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and contains no omissions likely to affect its import.

Directors, secretary, registered office and head office

Directors	Michael Abrahams *Non-executive Director/Chairman* Michael Oppenheimer *Chief Executive Officer/Executive Director* Dennis McShane *Executive Director* Kostyantyn Zhevago *Non-executive Director* Raffaele (Lucio) Genovese *Non-executive Director* Wolfram Kuoni *Non-executive Director* Ihor Mitiukov *Non-executive Director*
Company secretary	Prism Cosec Limited
Registered office	2-4 King Street London SW1Y 6QL United Kingdom
Group head office in Switzerland	Bahnhofstrasse 13 CH-5340 Baar Switzerland
Ferrexpo	Bahnhofstrasse 13 CH-5340 Baar Switzerland
Ferrexpo Poltava	16 vul. Budivelnykiv Komsomolsk Poltava Oblast 39802 Ukraine

Advisers

Sponsor, Financial Adviser, Global Co-ordinator and Joint Bookrunner	JPMorgan Cazenove Limited 20 Moorgate London EC2R 6DA United Kingdom
Joint Bookrunner	Deutsche Bank AG, London Branch Winchester House 1 Great Winchester Street London EC2N 2DB United Kingdom
Legal advisers to the Company as to English law	Baker & McKenzie LLP 100 New Bridge Street London EC2V 6JA United Kingdom

Legal advisers to the Company as to Swiss law	Baker & McKenzie Zollikerstrasse 225 PO Box 8034, Zurich Switzerland
Legal advisers to the Company as to Ukrainian law	Baker & McKenzie - CIS, Limited 24 Vorovskoho Street Kyiv 01054 Ukraine
Legal advisers to the Sponsor, Global Co-ordinator and Joint Bookrunners as to English law	Linklaters LLP One Silk Street London EC2Y 8HQ United Kingdom
Auditors to the Company and reporting accountant	Ernst & Young LLP 1 More London Place London SE1 2AF United Kingdom Registered to carry out audit work by the Institute of Chartered Accountants in England and Wales
Registrar and Paying Agent	Lloyds TSB Registrars Princess House 1 Suffolk Lane London EC4R 0AX United Kingdom
Technical Consultant	SRK Consulting (UK) Ltd. Fifth Floor Churchill House Churchill Way Cardiff CF10 2HH United Kingdom

Presentation of information

Investors should rely only on the information in this document. No person has been authorised to give any information or to make any representations other than those contained in this document in connection with the Global Offer and, if given or made, such information or representations must not be relied upon as having been authorised by or on behalf of the Company, the Directors, JPMorgan Cazenove or Deutsche Bank. No representation or warranty, express or implied, is made by JPMorgan Cazenove or Deutsche Bank or any selling agent as to the accuracy or completeness of such information, and nothing contained in this document is, or shall be relied upon as, a promise or representation by JPMorgan Cazenove or Deutsche Bank or any selling agent as to the past, present or future. Without prejudice to any obligation of the Company to publish a supplementary prospectus pursuant to section 87G of the FSMA and PR 3.4.1 of the Prospectus Rules, neither the delivery of this document nor any subscription or sale made under this document shall, under any circumstances, create any implication that there has been no change in the business or affairs of the Company or of the Group taken as a whole since the date hereof or that the information contained herein is correct as of any time subsequent to its date.

The contents of this document are not to be construed as legal, business or tax advice. Each prospective investor should consult his or her own lawyer, financial adviser or tax adviser for legal, financial or tax advice in relation to any purchase or proposed purchase of Ordinary Shares.

In connection with the Global Offer, either JPMorgan Cazenove, Deutsche Bank or the Underwriters and any of their respective affiliates, acting as investors for their own accounts, may take up Ordinary Shares and in that capacity may retain, purchase, sell, offer to sell or otherwise deal for their own accounts in such Ordinary Shares and other securities of the Company or related investments in connection with the Global Offer or otherwise. Accordingly, references in this document to the Ordinary Shares being issued, offered, subscribed, acquired, placed or otherwise dealt in should be read as including any issue or offer to, or subscription, acquisition, placing or dealing by JPMorgan Cazenove, Deutsche Bank or the Underwriters or any of their respective affiliates acting as investors for their own accounts. Neither JPMorgan Cazenove nor Deutsche Bank or the Underwriters intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligations to do so.

None of the Company, the Directors, JPMorgan Cazenove or Deutsche Bank is making any representation to any offeree or purchaser of the Ordinary Shares regarding the legality of an investment by such offeree or purchaser.

Apart from the responsibilities and liabilities, if any, which may be imposed on JPMorgan Cazenove or Deutsche Bank by the FSMA or the regulatory regime established thereunder or any other applicable regulatory regime, neither JPMorgan Cazenove nor Deutsche Bank accepts any responsibility whatsoever for the contents of this document or for any other statement made or purported to be made by it, or on its behalf, in connection with the Company, the Ordinary Shares or the Global Offer. Each of JPMorgan Cazenove and Deutsche Bank accordingly disclaims all and any liability whether arising in tort, contract or otherwise (save as referred to above) which it might otherwise have in respect of this document or any such statement.

Prior to making any decision as to whether to purchase Ordinary Shares, prospective investors should read this document. In making an investment decision, prospective investors must rely upon their own examination of the Company and the terms of this document, including the risks involved.

Presentation of financial information

Unless otherwise indicated, financial information in this Prospectus has been prepared in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS") and is presented in US dollars. The underlying financial information stated in Hryvnia has been translated into US dollars on the basis set out in "Currencies" below. All unaudited financial information in this Prospectus has been extracted without material adjustment from the Group's accounting records.

The Company was incorporated on 22 April 2005 and acquired its current shareholding in Ferrexpo pursuant to a share exchange agreement, which completed on 24 May 2007. The historical financial information on Ferrexpo included in Part VIII Section B: "Historical financial information on the Group" and in Part VIII

Section D: "Historical financial information on Ferrexpo plc" reflects the results of Ferrexpo under the structure that existed prior to this date.

The financial information contained in Part VIII: "Historical financial information" has been audited.

The Group calculates EBITDA as profit from continuing operations before tax and finance less foreign exchange (loss)/gain plus depreciation (included in cost of sales, administrative expenses and selling and distribution costs) and non-recurring cash items included in other income, non-recurring cash items included in other costs plus the net gain/(loss) from disposal of subsidiaries and associates. The Company presents EBITDA because it believes that EBITDA is a useful measure for evaluating its ability to generate cash and its operating performance. EBITDA is not a measure of financial performance under IFRS. Investors should not consider EBITDA in isolation, as an alternative to profit from continuing operations, as an indicator of operating performance, as an alternative to cash flows from operating activities or as a measure of the Company's profitability or liquidity. EBITDA as presented in this Prospectus is unaudited and also may not be comparable to other similarly titled measures of performance of other companies.

The Group calculates total cash costs of production from own ore to include total costs less depreciation, all costs of producing pellets from third party concentrate, pellets purchased from third parties and the cost of other outputs included in cost of sales plus the cash costs of distribution and the cash administration costs of production. Total cash costs of production from own ore and total cash costs of production from own ore per tonne (FOB/DAF) are presented because the Company believes they provide a measure for comparing the Group's operational performance against that of its peer group. In addition, management uses these measurements to compare the performance of the Group's operations period-to-period from a cash flow perspective, to monitor costs and to evaluate operating efficiency. Total cash costs of production from own ore and total cash costs of production from own ore per tonne (FOB/DAF) are not measures of financial performance under IFRS. Investors should not consider total cash costs of production from own ore or total cash costs of production from own ore per tonne (FOB/DAF) in isolation, as an alternative to profit from continuing operations, as an indicator of operating performance, as an alternative to cash flows from operating activities or as a measure of the Group's profitability or liquidity. Total cash costs of production from own ore and total cash costs of production from own ore per tonne (FOB/DAF) as presented in this Prospectus are unaudited and may also not be comparable to other similarly titled measures of performance of other companies.

Pro forma financial information

In this Prospectus, references to "pro forma" financial information are to information which has been extracted without material adjustment from the unaudited pro forma financial information contained in "Unaudited pro forma financial information" in Part IX. Potential investors should read the whole Prospectus and not just rely on the information contained in Part IX. The historical information in the unaudited pro forma financial information contained in Part IX is based on, and is extracted without material adjustment from, Section B: "Historical financial information on the Group" and Section D: "Historical financial information on Ferrexpo plc" in Part VIII: "Historical financial information". The unaudited pro forma balance sheet includes certain adjustments in respect of the proposed Global Offer. However, the unaudited pro forma financial information is not necessarily indicative of what the financial position of the Group would have been had the Global Offer occurred on 31 December 2006.

The unaudited pro forma financial information is for illustrative purposes only. Because of its nature, the pro forma financial information addresses a hypothetical situation and, therefore, does not represent the Group's actual financial position or results.

Currencies

In this Prospectus, references to "Hryvnia" or "UAH" are to the lawful currency of Ukraine; references to "euro" or "€ are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended; references to "pounds sterling", "£", "pence" or "p" are to the lawful currency of the United Kingdom; references to "Swiss francs" or “CHF” are to the lawful currency of Switzerland; and references to “US dollars”, “$” or “cents” are to the lawful currency of the United States of America.

The Offer Price is stated in pounds sterling. On 14 June 2007 (being the last practicable date prior to the publication of this Prospectus), £1.00 = US$1.9697, based on the spot rate at 4 p.m. New York time, as quoted on Bloomberg.

Unless otherwise indicated, the financial information contained in this Prospectus has been expressed in US dollars. In addition, solely for convenience, this Prospectus contains translations of certain currencies to US dollars at specified rates. The functional currency of the Group’s Ukrainian companies is the Hyrvnia as the majority of their operating costs are incurred in Hyrvnia. The functional currency of the Group’s parent company and non-Ukrainian business has been determined to be the US dollar. On consolidation, income statements and cash flows of subsidiaries for which the US dollar is not the functional currency are translated into US dollars, the presentation currency for the Group, at average rates of exchange. Balance sheet items are translated into US dollars at period end exchange rates. These translations should not be construed as representations that the relevant currency could be converted into US dollars at the rate indicated or at any other rate.

Indicative exchange rates of the US dollar against the Hryvnia comprising the average rate used for income statements and the specific date used for balance sheet information are shown below:

Period	*Average Rate*	*Period end rate*
Year ended 31 December 2004	5.32	5.31
Year ended 31 December 2005	5.12	5.05
Year ended 31 December 2006	5.05	5.05

The basis of translation of foreign currency transactions and amounts in the financial information set out in Part VIII: “Financial information’’ is described in that Part VIII.

Ore reserve and mineral resource reporting - basis of preparation

SRK Consulting (UK) Ltd. (“SRK”) has reviewed the reserve and resource statements compiled by the Company and has restated the reserves and resources as in Table 4-11 of the “Technical report” in Part XII, in compliance with the Prospectus Rules and the CESR recommendations and in accordance with the criteria for internationally recognised reserve and resource categories as included in the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code). In this Prospectus, all reserve and resource estimates, initially prepared by the Company in accordance with the classification system and estimation methods for reserves and resources established by the Former Soviet Union and last revised in 1981 (the “FSU Classification”), have been substantiated by evidence obtained from SRK’s site visits and observation and are supported by details of drilling results, analyses and other evidence and take account of all relevant information supplied by the Company’s management and the Directors.

Mineral resources are based on mineral occurrences quantified on the basis of geological data and an assumed cut-off grade, and are divided into measured, indicated and inferred categories reflecting decreasing confidence in geological and/or grade continuity. No allowances are included for dilution and losses during mining, but the reporting of resource estimates carries the implication that there are reasonable prospects for eventual economic exploitation. Resources may therefore be viewed as the estimation stage prior to the application of more stringent economic criteria for reserve definition, such as a rigorously defined cut-off grade and mine design outlines, along with allowances for dilution and losses during mining. It is common practice, for example, for companies to include in the resources category material with a reasonable expectation of being converted to reserves, but for which either the detailed mine planning work has not been undertaken or for which an improvement in economic conditions or exploitation efficiencies would be required to enable the company to exploit the resources economically. Ore reserves as defined by the JORC Code are designated as proved and probable, and are derived from the corresponding measured and indicated resource estimates by including allowances for dilution and losses during mining. It is an explicitly stated further requirement that other modifying economic, mining, metallurgical, marketing, legal, environmental, social and governmental factors also be taken into account. The measured and indicated mineral resources can be reported as either being inclusive of those mineral resources modified to produce the ore reserves or additional to the ore reserves.

Except for certain reserve and resource estimates which have been prepared in accordance with the FSU Classification, the reserve and resource estimates provided in this Prospectus comply with the reserve and resource definitions of the JORC Code. The relevant definitions from the 2004 edition of the JORC Code can be found in "Definitions and glossary of technical terms" in Part XIII.

In this Prospectus, reserve and resource estimates are reported as at 1 January 2007, unless otherwise stated.

Reserves and resources data under the FSU reporting system

The Group has reported resource estimates for certain deposits in accordance with the FSU Classification, as described in paragraph 4.2.5 of the "Technical report" in Part XII. The FSU system of classification of reserves consists of seven categories reflecting increasing levels of reliability and depth of study. These are, in decreasing order of confidence; A, B, C1, C2, P1, P2 and P3. In common with other internationally accepted reporting systems, these categories are assigned based on the geological complexity of the orebody being assessed, and the quantity and quality of the exploration data collected. The FSU system is, however, both more complex and more rigid than its western counterparts.

In general, A and B resources for deposits such as those managed by the Company require relatively close spaced drilling at a spacing of 400m or less and/or underground development, C1 resources require drilling at a spacing of no more than 800m while C2 resources can be based on a wider drillhole spacing and/or extrapolation from C1 resource areas. P1 resources are often based on sparse sampling data or extrapolation beyond C2 resources, P2 resources are commonly based on geochemical or geophysical exploration and P3 resources are based on 'favourable geological environments' and are intended to give an indication of the prospectivity of an area.

Given that the geological and structural complexity of the iron ore deposits at the Ferrexpo Poltava Facility are considered to be low, the consistent distribution of the mineralisation throughout the orebodies and the quantity and quality of the data on which the resource estimates are based, SRK considers that, in this case, A and B reserves are equivalent to the Measured Resource category as defined by the JORC Code, C1 reserves to the Indicated Resource category and C2 reserves to the Inferred Resource category. In some instances P1 reserves are also converted to the Inferred Resource category although this is dependent on the level of understanding of geological and grade continuity of the particular deposit and also the deposit must be demonstrated to be potentially economic.

Cost curves and industry overview

This Prospectus contains references to "cost curves" and information on the iron ore industry. A cost curve is a graphic representation in which the production volume of a given commodity across the relevant industry is arranged on the basis of average unit costs of production from lowest to highest to permit comparisons of the relative cost positions of particular production sites, individual producers or groups of producers within a given country or region. Generally, a producer's position on a cost curve is described in terms of the particular quartile or tercile, the first quartile or tercile being the lowest cost and the fourth quartile or the third tercile being the highest, in which the production of a given plant or producer or group of producers appears.

The cost curves referred to in this Prospectus and information on the iron ore industry contained in "Industry overview" in Part IV have been obtained by the Company from an independent industry analyst, AME, with recognised experience in constructing cost curves and providing industry analysis for the relevant commodities. To construct cost curves and undertake industry analysis, the analyst compiles information from a variety of sources, including reports made available by producers, site visits, personal contacts, trade publications and other analysts' reports. Although producers may thus participate to some extent in the process through which cost curves are constructed and market information and forecasts are prepared, they are typically unwilling to validate cost analyses directly because of commercial sensitivities. Inevitably, assumptions must be made by the analyst with respect to data that such analyst is unable to obtain and judgment must be brought to bear in the case of virtually all data, however obtained. Thus, AME's work uses a wide range of public domain and industry data sources for which it is not responsible. AME then compiles, interprets and analyses this data to make estimates of producing mines and plants which may contain inconsistencies or be otherwise unreliable. Consequently, AME makes no warranty or representation regarding this cost curve or iron ore industry information and it should not be relied upon. In addition, the time required to produce cost curves means that even the most recent available examples will be unable to take account of recent developments; in some cases, the most recent available cost curve may be based on data that is several years old. Costs data for specific producers may be based on costs incurred by the producers over their respective accounting years; to the extent these differ, the direct comparability of their costs may be limited. The cost curves referred to in this Prospectus reflect direct cash costs of production only, and exclude non-cash or indirect costs (such as depreciation, interest and unrelated overhead expenses) and costs relating specifically to marketing and export. Delivery costs reflect estimates for each producer to accepted selling points, based on actual sales. They include estimates for all costs involved in delivery, including freight, insurance, warehousing and financing costs as well as sales commissions. Moreover, all cost curves embody a number of significant assumptions with respect to exchange rates and other variables. In summary, the manner in which cost curves are constructed means that they have a number of significant inherent limitations.

In certain cases, cost curves and market information and forecasts produced by more than one reputable industry analyst may exist with regard to a specific commodity. The methodologies employed and conclusions reached by such analysts may differ. Moreover, the reliability of any given cost curve may be difficult to assess, as the accuracy of the data, and the reasonableness of the assumptions on which it has been based, usually cannot be tested directly. Particular producers are, however, in a position to validate the accuracy of the presentation with respect to their own costs subject to adjustments to bring their methodology in line with the methods of the others. This can provide a useful indication of the reliability of a cost curve overall and, notwithstanding their shortcomings, independently produced cost curves are widely used in the industries in which the Group operates.

The cost curves and market information and forecasts to which this Prospectus refers are the most recent cost curves and market information and forecasts that have been obtained by the Company from AME. All such cost curves are based on 2006 data. The cost curves have been prepared using cost data for the Group's and other producers' operations. The Directors have satisfied themselves that the Group's own production costs which were used in the preparation of the cost curves are reasonably represented. See also Part VI: "Selected financial and operating information" for further details as to the cash costs of production for the Group.

Forward-looking statements

Certain statements contained in this Prospectus, including (but not limited to) those in "Risk factors", "Information on the Group" in Part II, "Industry and mining regulatory overview" in Part IV, "Operating and financial review" in Part VII and "Technical report" in Part XII, constitute "forward-looking statements". Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may", "will", "expect", "intend", "estimate", "anticipate", "plan", "target" or "believe". Such forward-looking statements involve risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Group, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks, uncertainties and other factors include, amongst others, general economic and business conditions; industry trends; competition; commodity prices; changes in government regulation; currency fluctuations (including the US dollar, the Hryvnia and Euro exchange rates); the Group's ability to recover its reserves or develop new reserves; the Group's ability to implement its expansion plans and achieve cost reductions and efficiency measures; changes in business strategy or development; political and economic uncertainty; and other risks described in "Risk factors". There can be no assurance that the results and events contemplated by the forward-looking statements contained in this Prospectus will, in fact, occur. These forward-looking statements speak only as at the date of this Prospectus. All subsequent written and oral forward-looking statements attributable to the Group are expressly qualified in their entirety by reference to these cautionary statements. Subject to the requirements of the Prospectus Rules, the Disclosure and Transparency Rules and the Listing Rules, the Group does not intend and does not assume any obligations publicly to release the result of any revisions to any forward-looking statement contained in this Prospectus that may occur due to a change in the Group's expectations or to reflect events or circumstances after the date of this Prospectus.

Enforceability of judgments in Ukraine

A substantial portion of the Group's assets is located in Ukraine, through Ferrexpo Poltava, an open joint stock company incorporated under the laws of Ukraine. All of the members of Ferrexpo Poltava's management board and certain members of its supervisory board reside in Ukraine. As a result, it may not be possible for investors to effect service of process outside Ukraine upon Ferrexpo Poltava or its executive officers and/or directors or to enforce in Ukraine judgments rendered against them in jurisdictions other than Ukraine, including judgments predicated upon the civil liability provisions of the US federal securities laws. Judgments rendered by a court in any jurisdiction outside Ukraine will be recognised by courts in Ukraine only if an international treaty providing for the recognition and enforcement of judgments in civil cases that was ratified by the Ukrainian parliament exists between Ukraine and the country where the judgment is rendered. A foreign court judgment may also be recognised in Ukraine based on an "*ad hoc*" arrangement between Ukraine and the country where the judgment was rendered, although there are currently no examples of such arrangements publicly available. If there is such a treaty or arrangement, the Ukrainian courts may nonetheless refuse to recognise and enforce a foreign court judgment on the grounds provided in the relevant treaty and in Ukrainian legislation in effect on the date on which such recognition and enforcement are sought. Furthermore, Ukrainian legislation may be changed, among other things, by way of inserting further grounds preventing foreign court judgments from being recognised and enforced in Ukraine. No such treaty exists between Ukraine and the United States or the United Kingdom.

Part II

Information on the Group

Investors should read the whole of this Prospectus and not just rely upon summarised information including the tables in this Part II. Where stated, information in this section has been extracted without material adjustment from "Historical financial information-Historical financial information on the Group" in Part VIII and from the "Technical report" in Part XII.

Overview

The Group's principal business is the mining, processing and sale of iron ore in the form of pellets for use in the production of steel. The Group owns and operates an integrated mining and processing facility, comprising an open pit iron ore mine, crushing, concentrating and pelletising plant in the town of Komsomolsk, Poltava region, Ukraine.

The Group's operations are vertically integrated. It processes all the iron ore it mines and produces substantially all the iron ore concentrate it processes. Management believes there is significant potential to make fuller use of the existing ore body and production assets to increase mined output and raise pellet production levels.

In 2006, the Group produced 8.6 million tonnes of iron ore pellets, compared with 7.8 million tonnes and 7.4 million tonnes in 2005 and 2004, respectively. The Group's total sales revenues for 2006 were US$547.3 million compared with US$563.4 million and US$375.1 million for 2005 and 2004, respectively. According to AME, the Group accounted for approximately 50 per cent. of total iron ore imports into Central and Eastern Europe in 2006. The Group expects to increase production to 16 million tonnes of pellets and up to 3.5 million tonnes of additional saleable concentrate (which the Group does not currently sell) by the end of 2014. See "– Group strategy".

The Group has an advantageous location on the Dnipro River in Ukraine, in close proximity to its major customers in Central and Eastern Europe and with water and rail links to the European market and (via the Black Sea) to the main sea routes to emerging Asian markets. In 2006, 85 per cent. of the Group's products were exported. The Group's export sales are handled by its specialist sales and marketing arm, Ferrexpo, which is based in Switzerland with additional offices in Kyiv, Shanghai and Hong Kong. Sales are typically made pursuant to framework agreements with iron and steel producers. The Group's principal export markets are Central and Eastern Europe and China. The Group has expanded its sales to China from 1.7 per cent. of total sales in 2004 to 15.2 per cent. in 2006.

The Group has undergone a significant restructuring since the fourth quarter of 2005, with the arrival of a new senior management team and the streamlining of the Group's corporate structure, which has allowed it to refinance its existing indebtedness and reduce its cost of borrowing. In 2005, the Group established new management and corporate governance procedures focusing on increasing production, lowering costs and raising product quality. See "– History and development of the Group – Recent developments".

The table below provides selected production information for the years ended 31 December 2004, 2005 and 2006 that has been extracted without material adjustment from the "Technical report" in Part XII.

	Year ended 31 December		
	2004	*2005*	*2006*
		(in kilotonnes)	
Ore mined	21,747	23,341	26,507
Concentrate production(1)	7,909	8,314	9,695
Iron ore pellet production	7,367	7,757	8,550
65% Fe pellets	785	1,376	3,121
62% Fe pellets	6,582	6,381	5,429

(1) From the Group's own ore. The Group additionally purchased 629 kilotonnes, 709 kilotonnes and 451 kilotonnes of concentrate in 2004, 2005 and 2006, respectively, for pellet production.

The table below sets out the Group's iron ore reserves and mineral resources as at 1 January 2007 at the Ferrexpo Poltava Facility. The reserves and resources figures have been extracted without material adjustment from the "Technical report" in Part XII and are presented in accordance with the JORC Code. Mineral resources are reported inclusive of those resources reported as ore reserves.

	Reserves			*Resources*					
	Proved and probable (million tonnes)	*Fe grade (total) %*	*Fe grade (magnetite) %*	*Measured and indicated (million tonnes)*	*Fe grade (total) %*	*Fe grade (magnetite) %*	*Inferred (million tonnes)*	*Fe grade (total) %*	*Fe grade (magnetite) %*
Gorishne-Plavninskoe(1)	399	30	21	1,085	32	25	51	34	28
Lavrikovskoe(1)	92	30	21	480	33	24	13	27	17
Yeristovskoe(1) (3)	632	34	30	833	34	26	-	-	-
Belanovskoe(1) (3)	-	-	-	1,627	31	22	37	30	20
Galeschinskoe(2) (3)	-	-	-	325	59	0	29	59	0

(1) Banded ironstone formation (BIF) deposit.

(2) Haematite deposit (not amenable to magnetic separation).

(3) Not yet operational.

The table below sets out selected financial information in relation to the Group that has been extracted without material adjustment from "Historical financial information-Historical financial information on the Group" in Part VIII.

	Year ended 31 December		
	2004	*2005*	*2006*
		(US$ millions)	
Revenue	375	563	547
EBITDA (unaudited)(1)	134	188	144
Profit for the year	78	121	66
Attributable to equity shareholders of Ferrexpo	81	106	64

(1) EBITDA is calculated as profit from continuing operations before tax and finance less foreign exchange (loss)/gain plus depreciation (included in cost of sales, administrative expenses, selling and distribution costs) and non-recurring cash items included in other income, non-recurring cash items included in other costs plus the net gain/(loss) from disposal of subsidiaries and associates. EBITDA is not a measure of financial performance under IFRS. See Part VI: "Selected financial and operating information" for a reconciliation of profit from continuing operations before tax and finance costs/income to EBITDA.

Key strengths

Management considers that the competitive strengths of the Group's business include the following:

Substantial commercialised but under-exploited iron ore reserves and ready access to additional resources

The Gorishne-Plavninskoe and Lavrikovskoe deposits which the Group is currently mining have more than 18 years of reserves at current levels of production, based on 491 million tonnes of proved and probable iron ore reserves. The Group has ready access to additional iron ore reserves and resources in order to expand its current production of iron ore pellets. It is currently undertaking a feasibility study of the Yeristovskoe iron ore deposit adjacent to the current pit to confirm the most appropriate mining and processing methods to exploit the deposit and the expected returns, which is due for completion later this year. This deposit has additional probable reserves of 632 million tonnes of iron ore. Management believes that the development of the Yeristovskoe deposit will add a further 25 years of production. The Group also holds iron ore extraction licences for a further two deposits (Belanovskoe and Galeschinskoe) and exploration licences for a further five deposits, all of which are along strike from the current pit.

Underutilised capacity

The Group's ore production in 2006 was 27 million tonnes per annum, which is sufficient for the production of approximately nine million tonnes of pellets per annum but less than its installed annual pelletising capacity of approximately 12 million tonnes.

Brownfield expansion capability

The Group has the capability readily to expand production through brownfield expansion opportunities of existing facilities that it believes will allow it to take advantage of the rapidly growing demand for iron ore pellets and concentrate. These brownfield expansion projects will include upgrading the existing concentrating plant and expanding and upgrading the existing pelletising plant which, together with the development of a new concentrating plant at the Yeristovskoe mine, would allow it to produce up to 16 million tonnes of pellets per annum, representing an 87 per cent. increase above 2006 pellet production, and up to 3.5 million tonnes of additional saleable concentrate per annum. This expansion in production capacity would be based on an increase in iron ore production from 27 million tonnes per annum in 2006 to 56 million tonnes per annum by the end of 2014, representing a 108 per cent. increase, through optimisation of the current pit and development of the adjacent Yeristovskoe deposit.

Favourable geographic location and logistics

The Ferrexpo Poltava Facility is located on the Dnipro River in Ukraine, in close proximity to the Group's major traditional customers in Central and Eastern Europe. Management believes that the Group has better rail and water links to the European market than most of its principal competitors, which provides it with a competitive advantage over a number of major iron ore producers. The Group believes that its cost of supply to its traditional markets is lower than that of its competitors. The Group also believes that it has an advantage over its principal competitors in supplying the Western European, Turkish and Middle Eastern markets due to Ukraine's closer proximity, via the Black Sea, to these markets. The Group's ready access, via the Black Sea, to the main sea routes to Asia also provides it with a competitive advantage in supplying the growing markets in this region.

Its location next to a navigable river also facilitates the transport of its products by barge (except during winter months), which provides an alternative to rail transport. To further secure its export channels and enhance its supply reliability, the Group has secured exclusive storage and port handling capacity at Port Yuzhniy, the Group's principal export port located near Odessa on the Black Sea. Management believes that this facility will enable the Group to enhance its logistical competitiveness in supplying emerging Asian markets and will remove a potential constraint on its ability to increase its seaborne exports. The Group intends to monitor and develop its logistical capabilities in line with the growth in its production.

Export-oriented sales and expanding customer base

The Group has a unique position compared to other ore-mining producers in Ukraine and other CIS countries in having a high level of exports. The Group exported more than 85 per cent. of its production in 2006, which reduces its exposure to the domestic steel market. Management believes that, as a result of its longstanding focus on exports, the Group is well positioned to continue to capitalise on the expected increase in global demand for iron ore and steel, particularly in developing markets such as China. Accordingly, in addition to consolidating the Group's strong customer base in its traditional markets, since 2004 the Group has begun to establish a customer base in other geographic areas, including Western Europe, Turkey and Asia. In particular, the Group has expanded its sales to China from 1.7 per cent. of total sales in 2004 to 15.2 per cent. in 2006.

Proven track record and long-term relationship with key customers

The Ferrexpo Poltava Facility has been producing iron ore for more than 37 years and supplying iron ore pellets to some of the Group's key customers for more than 20 years. Many of the Group's traditional customers within Central and Eastern Europe operate steel plants that were designed to use its iron ore pellets and have well established transport links to the Ferrexpo Poltava Facility. The Group currently has framework agreements with the majority of its key customers.

Experienced management

The Group is managed by the Company's Executive Committee, which is comprised of individuals with an aggregate of over 100 years of experience in global resources industries. Members of the Group's senior management also have a detailed knowledge of the Ukrainian business and political environment. In addition, the Group has well trained, motivated, and experienced management, marketing and technical staff with low levels of turnover.

Group strategy

The Group's strategy is to increase its production of iron ore pellets and to enhance overall value for its shareholders. The Group's main strategic driver is to commercialise its significant unexploited iron ore reserves by increasing sales into growing markets for iron ore, extracting value through the Group's advantageous logistical position and its enhanced operational capability. The Group intends to pursue this strategy by:

- implementing best practice mine and facilities operations at the Ferrexpo Poltava Facility, enhancing efficiency and reducing operating costs, in particular by improving current levels of capacity utilisation and reducing the consumption of consumables and energy, in order to develop a globally-competitive iron ore operation. This will be combined with improving health, safety and environmental compliance, business and corporate governance towards global best practice;

- increasing mine output by optimising the extraction of iron ore from the current Gorishne-Plavninskoe and Lavrikovskoe deposits and developing the nearby Yeristovskoe deposit to achieve target production of 56 million tonnes of iron ore per annum by the end of 2014, compared to production of 27 million tonnes of iron ore in 2006. The Group also intends to maximise production from the existing concentration and pelletising capacity at the Ferrexpo Poltava Facility by upgrading the existing production assets to achieve target production levels of 16 million tonnes of pellets (from own ore) and up to 3.5 million tonnes of additional saleable concentrate per annum by the end of 2014. These actions will commercialise an additional 800 million tonnes of iron ore reserves;

- building on the Group's existing global customer base to support the Group's increased production profile and continuing to develop framework contract relationships with all customers, with a view to selling most of its planned output in 2014 pursuant to framework agreements (which covered 70 per cent. of sales in 2006). The Group also intends to continue to raise product quality, including increasing the production of higher-value 65 per cent. iron ore content pellets from 3.1 million tonnes or 35 per cent. of total output in 2006 to 10 million tonnes or 62 per cent. of total output in 2014;

- continuing to develop the Group's logistic capabilities to match its growing production, including securing closer control of logistics management and logistic costs, such as the joint venture established in February 2007 at Port Yuzhniy, and seeking opportunities to develop energy supplies or energy generation for use at the Ferrexpo Poltava Facility;

- reducing the Group's exposure to energy market volatility by further enhancing the energy efficiency of its operations and pursuing opportunities to secure long-term competitively-priced energy supplies; and

- continuing to evaluate the most appropriate method of maximising the Group's value by accelerating the commercialisation of the Company's extensive undeveloped ore deposits, namely the Belanovskoe and Galeschinskoe deposits (for which the Group has extraction licences) and four further deposits for which it has exploration licences. The Group's options include developing the deposits itself, introducing development partners and the selective early development of the potentially higher grade formations within a given deposit, or a combination thereof.

History and development of the Group

History and privatisation

Mining operations began at the site of the current Ferrexpo Poltava Facility in the 1960s. The production facility was commissioned and began producing iron ore concentrate in 1970 and iron ore pellets in 1977. The business was initially organised as a state enterprise under the name Dneprovsky Mining and Concentration Plant, and its name was changed to the Poltava State Mining and Concentration Plant in 1981. In 1995, the entity was reorganised as an open joint stock company ("JSC Poltava GOK", subsequently renamed Ferrexpo Poltava GOK Corporation). The Ukrainian state (the "State"), represented by the Ministry of Industry, was the sole founder of this joint stock company, contributing the then-existing mining and production facilities to the new joint stock company's charter capital.

In February 1995, the Ukrainian State Property Fund (the "SPF") resolved to privatise JSC Poltava GOK and a share distribution plan was approved by the SPF in May 1995. In accordance with the share distribution plan, 5.69 per cent. of the shares in JSC Poltava GOK were sold to management and employees on preferential terms in 1996.

In October 1996, the Government sold 42 per cent. of the shares in JSC Poltava GOK to three companies unrelated to Kostyantyn Zhevago in three tranches by way of non-commercial tender. The sale was part of a policy in Ukraine to revitalise production assets; as a condition to the purchase of the shares, the purchasers were obligated to make investments in the business in the form of credit facilities by certain target dates.

Acquisition by Kostyantyn Zhevago

In November 1996, these three companies resold the shares in JSC Poltava GOK to nominee companies controlled by Kostyantyn Zhevago and his business partners at that time, who assumed the sellers' investment obligations (which were satisfied by 1999, as confirmed by the SPF). Later in 1996, Kostyantyn Zhevago and his former business partners purchased a further three per cent. shareholding on the secondary market.

In 1996 and 1997, the State sold further tranches of shares totalling 20.7 per cent. to the public in return for privatisation and compensation certificates. 6.59 per cent. of the shares were sold on the Ukrainian over-the-counter market in 2001. Kostyantyn Zhevago and his former business partners (through companies controlled by them) purchased a further 5.2 per cent. of the shares on the secondary market during these years.

On 17 October 2001, the SPF declared by its Order No. 1894 that the share distribution plan (in its final form as approved by the SPF pursuant to Order No. 450 dated 21 March 2001) and the privatisation process had been successfully completed.

In October 2003, JSC Poltava GOK sold 15 per cent. of its shares to Decometal (currently known as DCM Decometal International Trading GmbH, "DCM"), a privately owned Austrian ferroalloy and iron ore trader, subject to a deferred obligation to repurchase these shares at a fixed price in 2008. The financing arrangements with Decometal served the secondary purpose of strengthening JSC Poltava GOK's relations with Voest Alpine, one of its key customers. As a result of subsequent capital increases in which Decometal did not subscribe for new shares, its interest has been diluted to approximately 10.6 per cent.

Kostyantyn Zhevago subsequently bought out his former business partners and purchased a further 40 per cent. of the shares on the secondary market.

Following a Group reorganisation that was completed in May 2007, Fevamotinico S.à r.l. currently controls, through Ferrexpo, approximately 85.9 per cent. of Ferrexpo Poltava. Fevamotinico S.à r.l. is wholly-owned by The Minco Trust, one of the beneficiaries of which is Kostyantyn Zhevago. The remaining 14.1 per cent. of the shares of Ferrexpo Poltava are owned by DCM (which holds 10.6 per cent. of the shares, subject to a deferred share purchase agreement as described above), other legal entities (principally Ukrainian securities traders) and individuals (including members of the public and employees of Ferrexpo Poltava). See "Risk factors – Risks relating to the Group's operations – If the Ukrainian Anti-monopoly Committee were to conclude that the Group acquired a new company or increased the level of control it exerts over certain of its subsidiaries in contravention of anti-monopoly legislation, the Group could face administrative sanctions or be required to divest certain assets" and " – Risks relating to the Group's structure – The Selling Shareholder will exercise significant control over the Group after the Global Offer, and a result, investors may not be able to influence the outcome of important decisions in the future".

Recent developments

In 2005 and 2006, Ferrexpo increased its shareholding in Ferrexpo Poltava to approximately 85.9 per cent. through a series of share acquisitions from related parties and companies under common ownership. During this period, the Group also disposed of certain non-core assets and also undertook a review of its core operational processes in order to improve productivity and efficiency and implement cultural change. This resulted in a reversal during 2006 of the increase in costs that had occurred during 2004 and 2005, and an increase in pellet production and a reduction in headcount during 2006 as compared with the previous year. See Part VII: "Operating and financial review".

The Group strengthened its senior management team during 2005 and 2006 by making a number of strategic additions, including a new Chief Executive Officer, director of finance and strategic development, chief marketing officer and chief projects officer, all of whom have experience with leading international companies. See "– Directors and senior management". The Group also hired a new financial controller, treasurer and head of communications together with additional personnel for its Swiss office, which is responsible for financial, marketing and logistic activities, to facilitate the efficient growth of the Group's business.

The Group also strengthened its corporate governance procedures by the introduction in 2005 of an Executive Committee to act as the main decision-making body of Ferrexpo (see "– Directors and senior management – The Company's Executive Committee"). Since its formation, the Executive Committee has approved and implemented a broad range of 'best practice' initiatives within the Group including a new health, safety and environmental policy, formal capital expenditure procedures and rigorous monitoring of budget performance. The Executive Committee has initiated a series of projects across the production chain intended to expand production, reduce unit costs and take full commercial advantage of the existing resource base, including by way of increasing production from the current assets and accelerating the development of new deposits, such as Yeristovskoe. See "– Group strategy" and "– Projects and developments".

During 2006, the Group disposed of most of its interest in LLC Vostock Ruda, a Ukrainian company holding the Nova mine, comprising an underground iron ore mine and concentrator, which it had acquired in a series of transactions completed in 2005. The Nova mine was intended to supply concentrate to the Poltava pelletising plant but the Group decided not to proceed with the development of the mine following a preliminary technical assessment. The Group intends to dispose of its remaining minority interest in LLC Vostock Ruda in the near future.

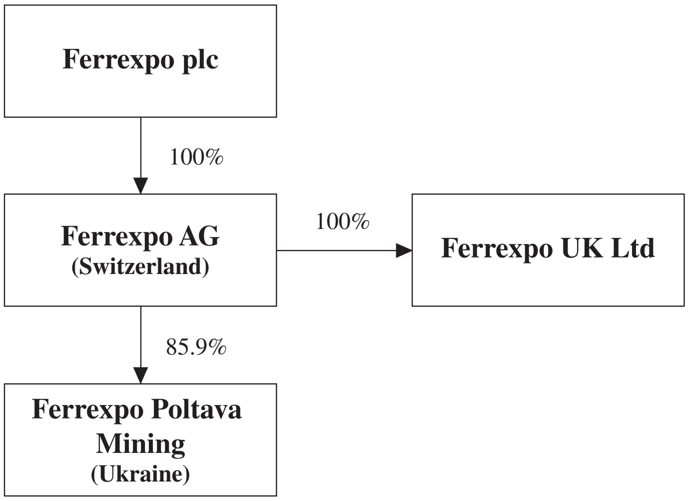
In December 2006, the Group completed a refinancing of its operations by way of an underwritten four-year bank facility of US$275 million provided by ABN-AMRO, BNP Paribas and Société Générale, to re-finance the Group's bi-lateral debt facilities and provide working capital.

Group structure and principal group facilities

The Group is a vertically integrated producer of iron ore pellets. It processes all the iron ore it mines and produces substantially all of the iron ore concentrate it processes at the Ferrexpo Poltava Facility, its principal production facility located near the town of Komsomolsk, Poltava region, Ukraine, which includes the current open-pit mine, crushing, concentrating and pelletising plant operated by Ferrexpo Poltava. See "– Ukrainian iron ore business".

Most of the Group's export sales are handled by its specialist sales and marketing arm, Ferrexpo (see "– Sales and marketing"). In addition, it has a special purpose finance subsidiary in the United Kingdom, Ferrexpo UK, together with ancillary transport and logistics units in Ukraine.

The following chart shows the structure of the Group including the Company and its principal subsidiaries:



Ukrainian iron ore business

Reserves and resources

The table below sets out the Group's iron ore reserves and mineral resources as at 1 January 2007 at the Ferrexpo Poltava Facility. The reserves and resources figures have been extracted without material adjustment from the "Technical report" in Part XII and are presented in accordance with the JORC Code. Mineral resources are reported inclusive of those resources reported as ore reserves.

	Reserves			*Resources*					
	Proved and probable (million tonnes)	*Fe grade (total) %*	*Fe grade (magnetite) %*	*Measured and indicated (million tonnes)*	*Fe grade (total) %*	*Fe grade (magnetite) %*	*Inferred (million tonnes)*	*Fe grade (total) %*	*Fe grade (magnetite) %*
Gorishne-Plavninskoe[1]	399	30	21	1,085	32	25	51	34	28
Lavrikovskoe[1]	92	30	21	480	33	24	13	27	17
Yeristovskoe[1] [3]	632	34	30	833	34	26	-	-	-
Belanovskoe[1] [3]	-	-	-	1,627	31	22	37	30	20
Galeschinskoe[2] [3]	-	-	-	325	59	0	29	59	0

(1) Banded ironstone formation (BIF) deposit.
(2) Haematite deposit (not amenable to magnetic separation).
(3) Not yet operational.

SRK has reported mineral resource estimates for the Gorishne-Plavninskoe, Lavrikovskoe, Yeristovskoe, Belanovskoe and Galeschinskoe deposits as set out in the table above reflecting SRK's confidence that these have been sufficiently well assessed by them to be able to confirm that they are potentially economic in accordance with the requirements of the JORC Code. The Group has four other projects, namely the Manuilovskoe, Vasilievskoe, Kharchenkovskoe and Brovarkovskoe deposits, where geological surveying has been completed but where either the continuity of the mineralisation or their potential to be exploited economically is unable to be confirmed by SRK in accordance with the JORC Code. The Group has reported resource estimates for these deposits in accordance with the FSU Classification and which amount to approximately 14,000 million tonnes of *in situ* material in total. Whilst the majority of this (approximately 11,000 million tonnes) falls within the "P" categories under the FSU Classification, and is therefore at a very early stage of exploration, nevertheless, the Group considers that it has good potential to operate for a significant period using these deposits beyond the periods assumed by its current business plan.

Production

The following table sets out the Group's iron ore pellet production levels at the Ferrexpo Poltava Facility for the years ended 31 December 2004, 2005 and 2006. The production figures have been extracted without material adjustment from the "Technical report" in Part XII.

	Year ended 31 December		
	2004	*2005*	*2006*
		(in kilotonnes)	
Ore mined	21,747	23,341	26,507
Concentrate production[(1)]	7,909	8,314	9,695
Iron ore pellet production	7,367	7,757	8,550
65% Fe pellets	785	1,376	3,121
62% Fe pellets	6,582	6,381	5,429

(1) From the Group's own ore. The Group additionally purchased 629 kilotonnes, 709 kilotonnes and 451 kilotonnes of concentrate in 2004, 2005 and 2006, respectively, for pellet production.

Iron ore mine

The Group currently has one operating open pit iron ore mine. This open pit mine is approximately 5.8 kilometres long by 1.5 kilometres wide and has reached a depth of 300 metres. It exploits the Gorishne-Plavninskoe and Lavrikovskoe iron ore deposits. All of the Group's iron ore production to date has been from these deposits. The pit has an annual iron ore production capacity of 28 million tonnes and an estimated life of approximately 18 years, based on annual production capacity.

The current pit has an in-pit crusher and conveyer system with a capacity of approximately seven million tonnes per annum. Mining is carried out using conventional open-pit mining technology. Ore is either hauled to the in-pit crusher or reloaded onto rail cars for transport to the processing plant. Waste (overburden) is either hauled to the in-pit crusher, the in-pit temporary waste dumps or the in-pit reloading stations or is re-loaded onto rail cars and hauled to the surface waste dump. Ore and waste are transported separately in order to optimise costs. The Group's transport division has a fleet of trucks and bulldozers that transport ore and waste from the pit to the in-pit transfer stations, the in-pit crusher and the waste dump. Trucks are generally most economic over shorter distances and are used to transport ore to the reloading stations. Because the waste dump is a longer distance from the pit, approximately six kilometres, rail is most economic for transporting waste. Management is studying ways to improve transport efficiency. It expects that, as the pit deepens and the distance to the surface increases, it will increase the use of conveyors to transport ore to the surface of the pit.

Crushers

The Ferrexpo Poltava Facility has two crushing plants and a dry magnetic separation unit with a combined installed capacity in excess of 34.0 million tonnes per year. The crushing plants have multiple crushing lines equipped with modern and fully automated cone crushers and screens. In addition, Barmac 9000 high-speed impact crushers are installed in the dry magnetic separation plant.

Concentrators

The Ferrexpo Poltava Facility has two concentrating plants with a combined installed capacity of 13.8 million tonnes per year. The concentrating plants each have several lines of rod and ball mills, spiral classifiers and cyclones for grinding ore and a modern flotation concentrator that processes concentrate from both concentrator plants. The flotation concentrator uses technology and procedures developed by Metso Minerals (Sweden) and the Mekhanobrchermet Institute (Ukraine).

Pelletising plant

The pelletising plant has four grate-kiln induration lines with annular ring cooling systems procured from Metso Minerals (formerly Allis Chalmers). This technology minimises environmental discharge and produces very hard iron ore pellets with an iron content of up to 65.5 per cent. that can be handled and transported long distances without significant degradation and that are unaffected by extreme weather conditions, relative to other iron ore products. The pelletising plant has a design capacity of 12 million tonnes per annum and each line has a design capacity of three million tonnes per annum, although each pelletising line is currently operating at a capacity of approximately 2.5 million tonnes per annum due to low utilisation. The fourth pelletising line was taken out of operation in 2000 due to decreased pellet sales at that time and was reintroduced in 2005. Each of the lines is equipped with a thickener, homogenisation tank, disc filters, a pellet drum and rotary kiln and ring cooler.

Raw materials and energy

The principal raw materials used by the Group to produce iron ore pellets at the Ferrexpo Poltava Facility are steel grinding bodies, iron ore concentrate (which it sources mainly from its on-site mine) and energy (principally electricity and gas). Raw materials and energy (excluding fuel costs) together represented approximately 54 per cent., 60 per cent. and 56 per cent. of the Group's cost of sales for the years ended 31 December 2004, 2005 and 2006, respectively.

Steel grinding bodies

Ferrexpo Poltava obtains most of the steel grinding bodies that it uses in the crushing process from Ukrainian producers, principally LLC Leman-Ukraine and Ferrolit, under annual supply contracts. Alternative suppliers are available.

Iron ore concentrate

Ferrexpo Poltava internally sourced approximately 96 per cent. of its iron ore concentrate requirements in 2006. In that year, it purchased 451 kilotonnes of additional concentrate from third parties. Ferrexpo Poltava's external suppliers of additional iron ore concentrate were LLC Vostock Ruda (the Nova mine, in which the Group formerly owned a majority stake) and the Yuzhniy and Inguletsky mining and concentrating plants, all of which are located in Ukraine. Ferrexpo Poltava plans to purchase small quantities of concentrate from third party suppliers during 2007 to the extent that it requires more concentrate than it can produce internally for pellet production and expects to continue purchasing third party concentrate until iron ore production begins at Yeristovskoe.

Electricity

Ferrexpo Poltava is supplied with electricity by State Enterprise Energorynok on the basis of an agreement entered into in June 2004, which is extended on a semi-annual basis. Electricity tariffs are subject to regulation by the National Energy Regulation Commission of Ukraine ("NERC"), which sets minimum tariffs for both industrial and household customers. Payments for electricity are calculated and paid every month based on the amount consumed each month and the prevailing wholesale electricity price in Ukraine. Electricity is transmitted from the grid to Ferrexpo Poltava's network via the local distribution company, OJSC Poltavaoblenergo, for a monthly fee.

The current power demand for the existing Ferrexpo Poltava Facility nominally averages 200 MW with a peak loading of 225 MW. The total power demand for the Ferrexpo Poltava Facility is expected to increase to an average of 400 MW with a peak loading of 450 MW when the new Yeristovskoe deposit and concentrator plant are fully operational. Power is supplied from the local Kremenchug switchyard which also supplies 70 to 80 MW of power to the surrounding district. The switchyard has a current capacity of 400 MW which is expected to increase to 600 MW once the fourth transformer which is currently installed is connected electrically to the system. This will provide sufficient transmission capacity for the planned developments and agreement in principle has been reached with the energy authority (Severnaya Energosystema) for the supply of up to 450 MW for Ferrexpo Poltava from the upgraded Kremenchug switchyard, although the Group is in discussions in relation to funding the renovation of the switchyard.

The Group is also studying plans for local power supply projects that may provide opportunities to improve long-term power supply costs as one of the portfolio of projects aimed at to realising the Group's growth objectives.

Natural gas

Ferrexpo Poltava is supplied with natural gas by CJSC Ukrgaz-Energo, a company established by Naftogaz, Ukraine's state-owned natural gas supplier and RosUkrEnergo, a Swiss company which imports natural gas into Ukraine ("Ukrgaz-Energo") under an annual supply contract. The annual contract sets out the expected delivery volumes per month. Payments are made four times per month based on the planned amount of natural gas to be supplied in a given month and the price is set out in a monthly supplement to the contract. Any excess paid over the value of gas delivered is credited towards future deliveries. Prices for natural gas sales and tariffs for natural gas transportation in Ukraine are subject to regulation by the Cabinet of Ministers of Ukraine, which sets maximum threshold prices for natural gas sold domestically to industrial customers. There is no clear formula to determine natural gas prices to customers and price levels are subject to extensive negotiations involving Naftogaz, the country's largest natural gas consumers and the NERC. Natural gas transportation tariffs are also set by the NERC and payable to Ukrtransgaz, the State-owned gas pipeline operator.

Gas is used mainly to fire the grate-kilns at the pelletising plant and the on-site water heating plant that supplies heating water during winter months. Ferrexpo Poltava's annual consumption of gas is seasonal, ranging from approximately 12-13 million cubic metres during summer to approximately 16-17.5 million cubic metres during winter months. Ferrexpo Poltava is connected to Ukrtransgaz's pipeline network by a supply pipeline owned by the state gas distribution pipeline company, to which Ferrexpo Poltava pays a small distribution fee. Management believes that the capacity of the supply pipeline represents approximately twice Ferrexpo Poltava's gas requirements when operating at full capacity.

At the beginning of 2006, Russia raised the price of the natural gas it supplies to Ukraine to US$95.00 per 1,000 cubic metres. The price for natural gas for consumption in Ukraine was further increased to US$130.00 per 1,000 cubic meters in 2007. There can be no assurance that the price of gas will not increase in the future. See "Risk Factors – Risks relating to the Group's operations – An increase in the Group's production costs could materially adversely affect its business and results of operations". Although gas prices have increased for all Ukrainian companies, the current market price for natural gas in Ukraine remains significantly lower than in Western Europe.

The Group is currently reviewing plans to halve its usage of natural gas, which represents approximately five per cent. of its production costs, taking into account the price increase. These plans include the installation of a heat recovery system in its pelletising plant (see "–Business improvement programme" below). Management believes that the installation of such a system will enable the Group to minimise the impact of recent gas price increases on its production costs.

Use of tailings

Ferrexpo Poltava and UAU Limited Liability Company, an entity controlled by Kostyantyn Zhevago ("UAU LLC"), have entered into a tailings supply and utilisation agreement pursuant to which UAU LLC will be granted rights to purchase existing and/or future tailings from the Ferrexpo Poltava Facility in order to process them at its own cost and risk to extract gold, by-products and any other valuable minerals, if it is commercially viable to do so.

Business improvement programme

The Group is seeking to increase production efficiency and reduce costs as part of a phased business improvement programme. This is currently being implemented with the assistance of GPRDehler, who have been engaged to design and implement a three-year plan to implement industry best practice and reduce costs at the current pit and processing plants. The goals of the business improvement programme include increasing ore throughput at the plant, managing the truck fleet more effectively, identifying and removing operational bottlenecks, freezing increases in labour and better process management to save costs. This programme includes measures such as rationalising the Group's structure and internal organisation and providing training to address the local lack of project management skills.

Gas and electricity represent approximately 30 per cent. of the Group's cash cost of production and a major component of the Group's business improvement programme is to identify and implement material energy savings projects in its mining and processing operations. A series of projects is now being engineered to enhance the energy efficiency of each of the four pelletising lines. The first of these projects is expected to be approved by the Board in 2007.

Supply competitiveness

An estimated cost of supply curve produced by AME in March 2007 ranked the Ferrexpo Poltava Facility's 2006 iron ore pellet operations in the first (lowest cost) quartile of world production of iron ore pellets (for its existing markets in Central and Eastern Europe on a CIF (carriage, insurance and freight) basis). See Part I: "Administration, advisers and presentation of information – Presentation of information – Cost curves and industry overview". The Group is currently implementing a plan to increase production efficiency and reduce costs as part of its business improvement programme described above. Management believes that, as result of the Group's favourable geographic location and logistics, its cost of supply to its historic core markets in Central and Eastern Europe is highly competitive. See "– Key strengths".

Transport and distribution

Ferrexpo Poltava's mining and production facility is located on the Dnipro River and has railway links to Central and Eastern Europe. This location allows Ferrexpo Poltava to ship its products to customers by rail or (depending on the season) by river barge. Finished pellets are transported by a system of conveyors to a stockpile yard and then into a series of load-out bins, from where they are loaded onto rail cars, or via a system of conveyors from the stockpile yard to river transport bins for loading onto barges on the Dnipro River. The Dnipro port has an annual capacity of approximately 8 million tonnes of pellets per year.

Most pellets are shipped by rail to the Ukrainian frontier or one of the Black Sea ports by the State-owned Southern Railway Authority (Ukrzaliznytsya) under a revolving annual contract. The applicable rail tariffs are regulated by the State (see "Risk factors – Risks relating to the Group's operations – Increases in transportation costs could materially adversely affect the Group's business and results of operations" for details of increases in tariffs). Pellets are generally transported by rail to the Ukrainian border and cleared for export but not import. The Group relies upon Slavutych Ruda, a logistics agent, for the coordination of rail transit and customs clearance. Ferrexpo Poltava has a one per cent. shareholding in Slavutych Ruda.

River transport is mainly used as a back-up within Ukraine in case of interruptions in rail transport. The Group has a revolving annual contract with the state-owned shipping company JSC Ukrrichflot, the largest company providing transport on the Dnipro River.

Pellets sold to overseas customers are generally transported by rail to one of the Black Sea ports. Port Yuzhniy, near Odessa, is the Group's principal port for seaborne exports. Ferrexpo Poltava has an agreement in place with the state-owned Port Yuzhniy authority, which is responsible for handling pellets shipped through the port (including unloading them from the rail cars, storing them at the port and loading them on board the designated vessels for onward shipment). It also uses Danube Shipping management Service Ukraine to handle pellets exported through Izmail, another Black Sea port.

Ferrexpo Poltava recently acquired a 49.9 per cent. stake in LLC TIS-Ruda, a Ukrainian enterprise which is developing a new berth at Port Yuzhniy (the "TIS-Ruda Terminal"). Management believes that this captive loading capacity will enable the Group to enhance its logistical competitiveness in supplying emerging Asian markets. The TIS-Ruda Terminal is expected to be able to handle up to 5 million tonnes of freight per annum and is designed for vessels carrying over 100,000 tonnes, compared with current port limitations of 75-80,000 tonnes. Management believes that the ability to ship larger quantities of pellets will improve loading time at the port, reducing the risks of demurrage and handling costs and improving the reliability of delivery to the Group's overseas customers. The TIS-Ruda Terminal will also have stockpile areas, which management believes will reduce the risks associated with temporary interruptions to rail or barge transport and contamination of the Group's pellets. The TIS-Ruda Terminal began operating in May 2007. See "Risk factors – Risks relating to the Group's operations – Disruptions in transportation could materially adversely affect the Group's business and results of operations".

The Group intends to monitor and develop its logistical capabilities in line with the growth in its production.

Sales and marketing

Overview

Ferrexpo Poltava's products are mainly sold in the international markets. The Group exported approximately 85 per cent. of its production in 2006. Historically, Ferrexpo Poltava has principally supplied pellets to iron and steel plants in Central and Eastern Europe.

The following table shows the Group's principal export markets for iron ore pellets for the years ended 31 December 2004, 2005 and 2006 (by sales):

	2004	*2005*	*2006*
		US$000	
Austria	76,998	186,724	140,286
China	6,734	68,191	83,258
Slovakia	72,393	38,595	54,143
Serbia	33,433	33,944	64,015
Czech Republic	27,618	73,768	52,775
Russia	-	37,254	-
Bulgaria	13,600	20,022	15,587
Poland	69,572	15,140	15,571
Romania	42,904	12,240	23,838
Netherlands	-	3,703	-
Germany	287	3,267	4,183
Turkey	-	478	12,302
Italy	5,225	6,495	-
Other	170	-	1,141
	348,934	499,821	467,099

Sales and marketing strategy

The Group's sales strategy for the additional volumes of pellets that it expects to produce from fully utilising its existing pelletising capacity is to maintain and consolidate the Group's existing markets in Central and Eastern Europe (its "traditional markets") while attempting to maximise opportunities for sales growth in Western Europe, Turkey and the Middle East, where the Group believes it has a natural logistical advantage (its "natural markets") as well as targeting the fast growing markets of Asia, particularly China (its "growth markets"). The Group believes that, for customers throughout Europe, its products represent an attractive alternative to those of Brazilian and Canadian suppliers due to the lower costs of transporting pellets over a shorter distance from Ukraine, together with a continuous small-parcel delivery chain. In addition, Ferrexpo Poltava began exporting iron ore pellets to China in 2003, and management considers China to be an increasingly important strategic market due to its rapidly growing demand for and domestic consumption of iron and steel.

The Group is also focussing on achieving higher prices through enhanced pellet quality and a better understanding of its customers' experience using its products, in order to capture the maximum price relative to its competitors' delivered cost to the customer.

A key element of the Group's sales strategy is to utilise framework agreements with its principal customers. Over 77 per cent. of the Group's sales for 2006 (compared with over 75 per cent. of its sales for 2005) were made pursuant to framework agreements. The Group intends to establish framework agreements with selected customers in its natural and growth markets. It is also in the process of developing a best practice marketing organisation.

The Group's strategy for subsequent pellet volume growth includes pursuing new business in all of its target markets, developing its facilities and logistic capabilities in line with its marketing objectives, continuing to enhance product quality and diversifying its product range to meet increased customer requirements, engaging selected customers in strategic offerings and relationships and capturing market share among steel-makers who use direct reduction technology. In particular, Ferrexpo Poltava is seeking to increase its ability to produce pellets with a higher grade iron ore in response to increasing demand from steel manufacturers worldwide (including in particular steel-makers who use direct reduction technology) for iron ore feedstock with an iron content of 65 per cent. or higher. The Group also believes that it will be better able to capture new markets in northern and southern Europe (where it has a logistical supply advantage) as the quality of its pellets improves. See, however, "Risk factors – Risks relating to the Group's operations – The processing of iron into iron ore pellets is costly and increased customer demand for higher grade iron ore would increase the Group's expenses, particularly its energy costs".

The Group's strategies for further value growth include selling concentrate, considering further investments in logistics (such as the acquisition of additional rail cars and developing the TIS-Ruda Terminal) and considering opportunities to leverage its logistics and marketing capability by developing joint projects with key customers.

Customer Base

The Group's traditional customer base comprises steel plants in Central and Eastern Europe. Ferrexpo Poltava has longstanding relationships with most of its key strategic customers, some of which have been purchasing iron ore pellets from Ferrexpo Poltava for more than 20 years. These customers typically operate facilities that were specifically designed to use Ferrexpo Poltava's pellets as feedstock and have well-established transport and logistical links to the Ferrexpo Poltava Facility. The Group's top three customers, all of which are located in Central and Eastern Europe, together accounted for approximately 46.5 per cent. of the Group's net sales revenue in 2006, compared to 51.8 per cent. in 2005 and 68.1 per cent. in 2004. In 2006, Ferrexpo Poltava's customers in Ukraine were all iron and steel manufacturers. Historically, the Group has sold a portion of its products through sales and logistics agents, which resulted from the disruption of direct trading links after the collapse of the Soviet Union in 1991. However, the Group is reducing the use of third party agents in all markets, and attempting to build direct commercial and technical relationships with end-users.

Marketing by Ferrexpo

Ferrexpo is responsible for selling all of the Group's pellets outside Ukraine; arranging export transportation from Ukraine by barge, rail and ocean-going vessels and carrying associated risks; invoicing, including carriage of quality risks; and arranging customs formalities on behalf of the Group. The marketing team in the Group's Kyiv office (Ferrexpo Services) negotiates sales contract terms with end customers in Ukraine with support from Ferrexpo to ensure consistency with the Group's sales policy. Ferrexpo purchases pellets from Ferrexpo Poltava on either a "FOB" or a "DAF" basis at prices negotiated to reflect the cost and risk carried by Ferrexpo plus a profit margin for providing full sales and logistics services. In most cases Ferrexpo sells the pellets to the end customer on the same delivery terms or on "CIF" or similar terms.

Ferrexpo's marketing organisation comprises a front office, with marketing and sales managers based in Vienna, Kyiv, Shanghai and Hong Kong, and a back office team in Baar (Switzerland). The Group currently has four marketing managers and a chief marketing officer who is responsible for the overall implementation of the Group's sales and marketing strategy.

Framework agreements

The Group generally seeks to negotiate framework agreements with its customers and it currently has such agreements in place with its key strategic customers, including, amongst others, all of the largest customers in its traditional markets. In 2006, Ferrexpo signed its first framework agreement with a customer in the growth market of China.

The Group's framework agreements are generally entered into for a term of up to five years, although they can be terminated prior to their expiry in accordance with market practice. These agreements typically set out the minimum amount of pellets which the parties expect to be shipped each year, although there is no obligation on the part of the customer to purchase the minimum amount of pellets specified. Any price and volume increases are typically agreed on an annual basis and the agreed terms are set forth in a supplement to the framework agreement. In 2005, the Group generally negotiated these terms on a mixed quarterly and annual basis; however, it intends to move toward annual prices based on supply and demand factors in the world iron and steel industry (see "– Pricing" for details of how prices are set). The agreements generally contain provisions for adjusting shipments by up to 10 per cent. of the amount specified in the supplement at either the seller's option or by mutual option. The agreements also generally specify that pellets must have an iron content of 62 per cent. or 65 per cent., and contain a price adjustment formula based upon the actual iron content and quality of the pellets supplied. In the event of any shortfall between the volumes specified in the contract and the amounts delivered, the Group generally agrees extended delivery times with the customer.

Ferrexpo Poltava generally sells any iron ore pellets that are not sold pursuant to framework agreements on shorter term contracts consistent with the terms of trade in certain markets.The Group has contracts with key domestic customers for the supply of specific volumes of pellets with monthly delivery schedules.

Ferrexpo and Ferrexpo Poltava enter into intra-group supply contracts as required for the supply of pellets produced by Ferrexpo Poltava to Ferrexpo for on-sale to the end customers.

Most of the Group's contracts require payment within five to seven days after shipping the products, although certain key customers have longer payment terms of up to 15 days. For sales into China, the Group requires customers to open irrevocable documentary letters of credit, payable at sight, and established with a first class international bank accepted by the Seller and in a form acceptable to the Seller. For sales into the European market, the Group requires payment prior to release of title.

Pricing

Iron ore pellets are generally priced at a premium per tonne compared to iron ore in fines or lump form, as pellets provide iron and steelmakers with a higher level of productivity in the blast furnace, requiring less coke in the iron making production process. Moreover, unlike concentrate, which cannot be shipped during very cold weather, pellets can be shipped all year because compression of the iron ore into pellets inhibits freezing. The Group also considers that its pellets are relatively low in phosphorus, which is particularly important to flat steel manufacturers.

Most sales outside Ukraine are based on agreed prices set forth in supplements to framework agreements, although quarterly prices have historically been used in the domestic market. Prices under export contracts are denominated in US dollars and are determined by mutual negotiation with buyers based on supply and demand fundamentals. Some contracts are tied to the seaborne traded iron ore "benchmark" price movement agreed between the major iron ore producers and specific western European or Asian steel producers for a given year. Historically, domestic prices for iron ore pellets have been lower than export prices. From mid-2006, however, domestic spot prices have exceeded export prices in some cases, due to increasing demand for steel from the Ukrainian construction industry and export markets.

During 2004 and 2005, the spot price for the Group's iron ore pellets tended to be higher than the price of pellets sold pursuant to framework agreements as world demand for pellets significantly exceeded supply. Iron ore spot sales are a more recent phenomenon in the world market and have been driven mainly by significant demand for imports from China in recent years. Historically, very little tonnage was internationally traded on a spot basis, because iron and steel companies prefer a stable blend so that they can meet stringent customer quality and cost requirements. International iron ore framework agreement prices have generally been lower than spot market prices, reflecting the need of iron ore producers to reserve specific types of iron ore, and the mutual stability derived by both parties from such agreements. However, increased supply to meet global increasing demand for iron ore has helped to stabilise prices.

Projects and developments

As part of its strategy to expand production in the medium-term, the Group is undertaking a number of development and improvement projects, including an evaluation of current pit reserves, new mine developments and the upgrading and expansion of existing processing capacity, which are described below. The Group plans to establish a project management alliance with Worley Parsons, an Australian project management, engineering and construction company to assist with implementing the projects. The project management alliance will be responsible for planning and project management of all major projects at Ferrexpo Poltava, and will be overseen by the Executive Committee. The Group has also recently appointed a chief projects officer with experience in managing resource projects worldwide. The rationale underlying the Group's projects is to commercialise additional resources at the current pit and the new Yeristovskoe deposit, to optimise resource utilisation through best practice mining, efficiency and quality improvements and to fully utilise its existing fixed assets. The initial focus of the plan is on maximising production from the existing concentrators and pelletising plants and optimising iron ore production from the current pit, with a special focus on increasing the production of pellets with a higher (65 per cent.) iron ore content. The next stage is intended to focus on increasing production and quality through de-bottlenecking and brownfield expansion of concentration, pelletising and logistics capacity, including the acquisition of additional rail cars and developing the TIS-Ruda Terminal.

The following projects are in various stages of development or are currently under consideration by the Executive Committee.

Optimising and upgrading the current pit

The Group plans to extend production at the existing mine beyond the current business plan mine life subject to optimisation studies of iron ore extraction from the current Gorishne-Plavninskoe and Lavrikovskoe deposits. Turgis (a leading South African mining engineering consultant) is undertaking a pit optimisation study which will provide recommendations for consideration by the Executive Committee. The costs of the pit optimisation study are included within the Group's approved business plan and budget for 2007.

Developing the Yeristovskoe deposit

The Group has a licence to mine the Yeristovskoe iron ore deposit, which is adjacent to the current pit. See "Risk factors-Risks relating to the Group's operations-The Group's business depends on exploration and mining licences issued by the Government of Ukraine and such licences may be withheld, revoked or not renewed". The deposit has probable reserves of approximately 632 million tonnes of iron ore, with an average total iron content of approximately 34 per cent. Turgis has completed a pre-feasibility study focusing on pit optimisation, mine design and mining methods and is currently undertaking a definitive feasibility study which is expected to be completed in the second half of 2007. In addition, a mining alliance is planned to be implemented for Yeristovskoe with DTP Terrassement, a mining contractor and subsidiary of Bouygues, the French civil works and building contractor. Yeristovskoe will be managed and operated independently from the existing mine, although its proximity to the existing pit will facilitate the sharing of certain facilities and resources. Yeristovskoe mining operations will be managed by the alliance. Management believes that this will allow current best practice in mining to be introduced immediately at the Yeristovskoe mine and will also provide a proximate "best practice model" for the existing mine that will enable the Group to accelerate progress towards achieving its strategic goal of adopting best practice in its existing operations.

The Group undertook a trial pit in early 2007 to evaluate dewatering and soil stability and expects pre-stripping of soft overburden to commence in the third quarter of 2007 and take approximately four years to complete. The Group will begin making capital investments in mining assets from 2007. The Group's current plan assumes that iron ore production will commence from late 2011, and the Group currently projects an annual production rate of approximately 27 million tonnes of iron ore will be achieved at the Yeristovskoe mine by the end of 2014. The Group currently estimates that capitalised expenditure in connection with the initial development of the pit (up to 2013) will amount to US$621 million.

Developing a new crushing and concentrating plant at the Yeristovskoe mine

The Group plans to build a new crushing and concentrating plant to process ore from the Yeristovskoe deposit with a capacity of approximately 11 million tonnes of concentrate in total (or 10 million tonnes of "dry" concentrate) per annum, including facilities for up to 3.5 million tonnes of saleable concentrate. ProMet Engineers ("ProMet"), a Western Australian engineering services company specialising in magnetite ore processing, has been engaged to undertake process design for the new Yeristovskoe concentrator and associated materials handling facilities. ProMet is also undertaking laboratory and pilot plant trials on the Gorishne-Plavninskoe and Lavrikovskoe and Yeristovskoe ores. The Group currently estimates that capital expenditure in connection with this project will amount to US$647 million and plans to achieve design capacity by 2013.

Upgrading the existing concentrating plant

The Group plans to upgrade both complexes at the existing concentrating plant with the aim of increasing throughput slightly and improving final concentrate quality, so as to produce higher levels of 65 per cent. iron content pellets, enhance their operational efficiency and reduce unit costs. This will require a number of modifications and additions to the existing plant, including installing a new wet magnetic separation stage, concentrate regrind and flotation circuit and re-commissioning an existing grinding line. ProMet has been engaged to undertake process design for the upgrading of the existing concentration plant. The Group currently estimates that capital expenditure in connection with this project will amount to US$127 million and plans to carry out the work over the next three years.

Expanding and upgrading the existing pelletising plant

The Group plans to upgrade each of the four existing pelletising lines incrementally over a six-year period to increase their capacity from approximately 2.5 million tonnes to four million tonnes per annum and to substantially enhance their energy efficiency. Increasing throughput at the pelletising plant will require a number of modifications, including replacing existing vacuum filters with pressure filters, replacing certain equipment such as mixers, balling drums, screens and conveyors and adding a heat recovery system to the grate-kiln-cooler system. Metso Minerals has been contracted by the Group and is currently working as a supplier on the implementation of the heat recovery system and upgrading the pelletising plant capacity. Metso Minerals, which is one of the market leaders in mineral processing solutions, has a long-standing relationship with Ferrexpo Poltava. The Group currently estimates that capital expenditure in connection with this project will amount to US$472 million and plans to carry out the work over the period ending 2013. The Group is also considering alternative means of increasing pelletising capacity, which include alternative approaches to enhancing the plant's efficiency and adding incremental capacity. This could result in a more economic solution.

In addition, the Group currently estimates that capital expenditure in respect of general infrastructure and utilities projects relating to its expansion plans will amount to US$442 million.

The Group intends to finance these projects partly from working capital and existing resources and the remainder of the cost will be financed from additional bank facilities.

Commercialisation of undeveloped deposits

The Group is carrying out preliminary evaluation work of the Belanovskoe and Galeschinskoe deposits, which it intends to use to supplement ore production when the current pits go into decline and is continuing to evaluate the most appropriate method of maximising the Group's value by accelerating the commercialisation of the Company's extensive undeveloped ore deposits, including the Belanovskoe and Galeschinskoe deposits (for which the Group has extraction licences) and the four further deposits for which it has exploration licences. The Group's options include developing the deposits itself, introducing development partners and the selective early development of the potentially higher grade formations within a given deposit, or a combination thereof.

Non-core business opportunities

The Group is considering new projects in the energy and iron ore sectors that may enhance its business. In 2005, Ferrexpo Poltava (through its subsidiary UEC) incurred expenditure (as set out in Part VII: "Operating and financial review – Liquidity and capital resources – Net cash flows from investing activities") in connection with the acquisition of a minority stake in certain oil and gas assets described below as part of its strategy to acquire long-term energy supplies. During 2006, the Group incurred total expenditure of approximately US$1.38 million on such projects, and expects that it will spend up to US$2 million on preliminary expenses, including the preparation of feasibility studies, relating to such proposed projects in 2007.

Steel plant

Ferrexpo has entered into a memorandum of understanding with the Vorskla Stahl AG group of companies ("Vorskla Steel"), in which Kostyantyn Zhevago has an ownership interest, and which plans to establish a steel plant adjacent to the Ferrexpo Poltava Facility to convert iron ore pellets into steel slabs. Pursuant to this memorandum of understanding, Ferrexpo will have the exclusive right to negotiate a long-term pellet supply agreement with Vorskla Steel, subject (among other things) to Ferrexpo's assessment of the economic viability of the project and to agreeing suitable commercial terms. It is anticipated that Vorskla Steel would purchase up to five million tonnes of pellets per annum. Vorskla Steel is being managed independently from the Group and will not be funded by it.

Oil and gas leases

Ferrexpo Poltava (through its subsidiary UEC) has a 9.95 per cent. share in LLC Atol and a nine per cent. stake in each of CJSC AMA and CJSC Amtek, companies which together own the rights to a number of licences for oil and gas deposits in the Dnepr basin in Ukraine. Kostyantyn Zhevago indirectly owns a 75 per cent. share in LLC Atol and 50 per cent. stake in each of CJSC AMA and CJSC Amtek. The Group and Kostyantyn Zhevago are currently considering options for the further development of these licences. Michael Oppenheimer, the Group's Chief Executive Officer, is the non-executive chairman, and Dennis McShane, the Group's director of finance and strategic development, is a member of the supervisory committee which has been established by the holding company of these oil and gas ventures.

Maintenance

Ferrexpo Poltava has its own maintenance department which is responsible for the routine maintenance and repair of the vast majority of its plant, equipment and infrastructure, and a laboratory for assessing the condition of its equipment. In addition, Ferrexpo Poltava has an ongoing contract for maintenance and the supply of spare parts with Sandvik (for crushing equipment) and has recently entered into service contracts with Komatsu (for servicing dump trucks) and Caterpillar (for servicing bulldozers and trucks). Such suppliers have service offices on Ferrexpo Poltava's premises.

As part of its routine maintenance programme, each of Ferrexpo Poltava's pelletising lines is shut down periodically to replace footings and perform other maintenance. Ferrexpo Poltava seeks to stagger these maintenance shutdowns. The maintenance department continually replaces equipment, as required. The Group's planned expansion is expected to result in additional pressure on capacity and create the need for increased maintenance of its production equipment. Accordingly, the Group expects that it is likely to increase its dependence on external contractors for maintenance in the future.

Regulatory and health and safety matters

Mining Licences

Exploration licences are required to search for mineral deposits in Ukraine. Mining (extraction) licences together with corresponding licensing agreements grant the right to work deposits for a specified resource, but do not convey ownership of the deposit, which remains with the State. Licences are generally awarded through an auction (tender) process. With effect from 2004, the procedure and conditions for obtaining licences by way of tender and any exemptions from the tender process have been approved by the Cabinet of Ministers each year. Currently, an applicant will have preferential rights to acquire a licence to mine a deposit without a tender if it bore the costs of exploration and state approval of the reserves, subject to payment of the statutory fee for mining the deposit. In addition, exploration and mining licences may be awarded without tender to the owners of facilities that have been purpose-built for the extraction and processing of ore at a given deposit. Licences may be extended, without a public tender, if the holder applies for the extension at least six months prior to termination of the licence (or three months in the case of exploration licences). Generally, licences are not transferable, although they may be re-issued in the name of a legal successor of the original licence holder or to another legal entity in certain other specified cases. Changes in the ownership structure of the licence holder do not affect the licence.

Licences may be revoked under certain circumstances, including, among others, where the licence holder no longer wishes to use or misuses the relevant natural resources, if the holder fails to comply with the disclosure and other obligations required by the licence and the licensing agreement (including the requirement to start work within the statutory two-year time limit following issuance of the licence) or if a court declares that either the licence or the tender by which it was awarded is invalid.

The Group holds a number of mining and exploration licences as described below.

Gorishne-Plavninskoe and Lavrikovskoe deposits

Ferrexpo Poltava currently holds licences for the extraction of iron ore from the Gorishne-Plavninskoe deposit and the Lavrikovskoe deposit, which were issued by the then subsurface licensing authority (the State Committee for Geology and Use of Natural Resources of Ukraine) on 29 July 1997. These licences expire in July 2017 (unless extended). The licences are subject to conditions that Ferrexpo Poltava complies with the requirements of the State environmental agency of the Poltava region; makes mandatory payment for geological works; and prepares annual reports on its deposits in the prescribed form. The Lavrikovskoe deposit is also used to store overburden, which may contravene the terms of its existing licence. See "Risk factors – Risks relating to the Group's operations – The Group's business depends on exploration and mining licences issued by the Government of Ukraine and such licences may be withheld, revoked or not renewed".

Yeristovskoe deposit

Ferrexpo Poltava holds a licence for the extraction of iron ore from the Yeristovskoe deposit, which was issued by the Ministry of Ecology and Natural Resources of Ukraine on 27 August 2002. This licence expires in August 2012. It contains similar conditions to the licences for the Gorishne-Plavninskoe and Lavrikovskoe deposits and also requires annual monitoring of radiation to be carried out. In addition, pursuant to applicable licensing regulations, the licence was issued subject to the condition that "activity relating to subsurface use" be commenced within two years of the date of its issue. Stripping operations were delayed due to archaeological excavations which were at the site. See "Risk factors – Risks relating to the Group's operations – The Group's business depends on exploration and mining licences issued by the government of Ukraine and such licences may be withheld, revoked or not renewed". Ferrexpo Poltava undertook a trial pit in early 2007 and expects pre-stripping works to commence by the end of 2007.

Other deposits

Ferrexpo Poltava currently holds a further two licences for the extraction of iron ore from the Belanovskoye and Galeschinskoe deposits (expiring in 2024 and 2016, respectively) and five geological exploration licences (all of which expire in December 2009) in relation to five additional deposits, all of which are along strike from the current pit.

See "Risk factors – Risks relating to the Group's operations – The Group's business depends on exploration and mining licences issued by the government of Ukraine and such licences may be withheld, revoked or not renewed" in respect of certain risks relating to Ferrexpo Poltava's mining and exploration licences. See also "Industry and mining regulatory overview – Ukrainian regulatory framework – Exploration and mining licenses" in relation to the requirement to obtain a separate licence for the extraction of natural resources from deposits which are deemed to be of national importance.

Mining allotments

Mining allotments are documents which evidence the right to use a particular deposit. Ferrexpo Poltava holds a mining allotment for the Gorishne-Plavninskoe and Lavrikovskoe deposits and a mining allotment for the Yeristovskoe deposit which were issued by the State Committee of Ukraine on Supervision of Labour Protection on 27 December 2000 and 12 December 2002, respectively. The mining allotment for the Gorishne-Plavninskoe and Lavrikovskoe deposits was issued for an unlimited period while the allotment for the Yeristovskoe deposit was issued for a period of ten years. Ferrexpo Poltava intends to apply for mining allotments for the Belanovskoe and Galeschinskoe deposits when it is required to do so (which is typically before commencing mining operations). No mining allotments are required for deposits for which exploration licences are held.

Environmental standards

In common with other natural resources and mineral processing companies, the Group's operations generate hazardous and non-hazardous waste, effluent and emissions into the atmosphere, water and soil. One of Ferrexpo Poltava's key challenges is the disposal of large amounts of crushed and ground rock material, called tailings, resulting from the process of physically separating iron ore bearing materials from the ore that is mined. Another environmental challenge is managing the rock (known as overburden) that must be moved aside in the mining process in order to reach the iron ore. A further challenge is the management of dust created by the mining and crushing process. Ferrexpo Poltava also uses hazardous materials, such as explosives which are used in mining operations, and its pelletising plant produces harmful emissions into the atmosphere and waste water.

There are environmental laws in Ukraine, applicable to the Group's operations, which address such matters as protection of the natural environment, the use of natural resources, emissions into the atmosphere and water and waste disposal. Ferrexpo Poltava holds a number of environmental licences and permits, including permits for atmospheric emission control, solid waste disposal, tailings disposal, mine waste disposal and special use of fresh water. All permits are subject to annual renewal except permits for emissions into the atmosphere and water use. The Group believes that Ferrexpo Poltava has all the permits required for its current operations. The relevant Ukrainian authorities determine the amount of environmental discharge into the atmosphere or water, and as waste, which includes tailings and overburden, which is permissible for the Group based on its expected production output. The Group is required to pay quarterly environmental charges to the State based on these quotas (calculated separately for each pollutant) and, to the extent that the Group exceeds the quotas, it will have to pay a penalty amounting to five times the amount of the relevant charge. In connection with the Group's plans to increase its production to 56 million tonnes of iron ore, 16 million tonnes of iron ore pellets and up to 3.5 million tonnes of additional saleable concentrate per annum, it will need to apply to the regional authorities for new emissions quotas. The Group's planned increase in production is expected to result in a greater impact on the environment and it is considering various measures for implementation during the period from 2007 to 2010, including the construction of new water resource protection measures, the reconstruction of a washing station for dump trucks used in the pit and a new industrial waste yard.

Ferrexpo Poltava's mining and production facilities are also subject to environmental monitoring and regulation with respect to, amongst other things, monitoring air, dust and gas emissions, waste disposal and storage and water usage and water quality monitoring by environmental regulators. While management considers that Ferrexpo Poltava is in compliance with Ukrainian environmental laws in all material respects, the most recent audits carried out by the relevant authority in 2006 identified a number of infringements of applicable environmental requirements (including an increase in the concentration of crude oil in underground water as a result of truck washing on site, the lack of a plan of action in the event of dangerous discharges, the absence of certain permits for the use or transportation of dangerous substances and certain other minor violations) and have prescribed a number of measures to be taken which Ferrexpo Poltava is in the process of implementing.

Management considers that Ferrexpo Poltava has an effective internal environmental management and monitoring system. The system is administered by a chief ecologist, a dedicated ecology unit and an ecological laboratory which continually monitors air and water quality, gas filtering equipment and the working environment. All gas emission points are equipped with filters. Dust control measures have been implemented to prevent wind-borne dust pollution from the tailings dams. Most of the dam water is recycled for use in the production process; the excess is biologically treated before being released into the environment. In 2006, the Group spent approximately US$10.1 million on environmental permits and protection measures including approximately US$1.5 million in statutory emissions payments, approximately US$5.2 million on environmental protection equipment and infrastructure and approximately US$3.4 million on new projects. The Group intends to install new electronic filters to minimise the risk of air pollution and a heat recovery system to recycle hot gases from the kiln to pre-heat pellets. The Group endeavours to apply the Equator Principles, a set of internationally recognised, voluntary project finance guidelines that establish social and environmental standards in the industry, when assessing new projects and is aiming to achieve ISO 14001-97 certification.

Ukrainian environmental laws also require the reclamation and restoration of mining areas. Ferrexpo Poltava has a closure and rehabilitation plan in place for the current pit. In addition to complying with the statutory requirements, the Group is carrying out a tree planting programme. The anticipated land restoration costs are approximately US$63,000 per annum or UAH 7 million for the lifetime of the pit (assuming a twenty-year operating life). SRK estimates that the Group’s total closure and rehabilitation liability under Ukrainian law will be a minimum of US$5 million.

Health and safety standards

The Group is required to comply with a range of health and safety laws and regulations, and considers the health and safety of its employees to be a priority. In accordance with Ukrainian law, the Group has developed a health and safety policy applicable to the Group’s operations and categories of activity. Compliance with this policy is monitored through a three-tiered system. Daily control is conducted by operating personnel, engineers and technicians. The Group’s production managers carry our weekly inspections, and senior management conducts periodic inspections with governmental personnel. All personnel are given annual medical tests and provided with special clothing, footwear and other protective equipment as required by applicable regulations. Ferrexpo Poltava is subject to an annual inspection by the State Committee of Industrial Safety, Labour Protection and Mining Supervision, which is responsible for inspecting working conditions, safety standards and equipment. The Group is required by law to dedicate 0.5 per cent. of sales to labour protection and safety, including implementation of its health and safety policy, described above, which is required under Ukrainian labour safety legislation. The statutory payment amounted to approximately US$2.4 million in 2006. The Group believes that it is in compliance in all material respects with applicable health and safety legislation in Ukraine and has obtained confirmation of OHSAS 18001 certification. The OHSAS specification sets out requirements for an occupational health and safety (“OH&S”) management system, to enable an organisation to control its OH&S risks and improve its performance, should it choose to do so. The Group is implementing a number of measures to improve the health and safety of its workers, including the introduction of enhanced OH&S standards in the collective bargaining agreement with its workforce, upgrading technology, introducing systemic changes and sanitary measures, better protective equipment and health care measures.

The main health and safety hazards at the Ferrexpo Poltava Facility involve the danger of falling from heights, electrocution and vehicle accidents. Ferrexpo Poltava is currently investigating recent accidents for the purpose of improving work-site safety. Road traffic accidents are the most common cause of injury or fatalities in mining operations. As production at Poltava increases, more sophisticated traffic monitoring equipment will be introduced to improve road safety conditions at the pit. The Group is also focusing on training and instilling a culture of safety that encourages reporting of all non-compliance with safety policies and procedures. Management expects that the number of reported health and safety policy violations and accidents is likely to increase as a result of the increased emphasis on accident and safety reporting.

HSEC committee

The Group has established a Health, Safety, Environment and Community (“HSEC”) committee of its Board. The Group also intends to engage specialists with appropriate technical expertise to be members of or advisers to this committee. The HSEC committee will meet at least twice a year and be responsible for formulating and recommending to the Board the Group’s policy for HSEC issues as they affect the Group’s operations. The committee will focus particularly on compliance with national and international standards to ensure that an effective system of HSEC standards, procedures and practices is in place at each of the Group’s operations. The committee will also be responsible for reviewing management’s investigation of incidents or accidents that occur in order to assess whether policy improvements are required. The ultimate responsibility for establishing HSEC policy will remain with the Board.

Operational hazards and insurance

The Group's operations are subject to numerous operating risks, including geological conditions, seismic activity, climatic conditions, interruptions to power supplies, environmental hazards, technical failures, fires, explosions and other accidents which may occur at a mine, processing plant or related facility. These risks and hazards could result in damage to production facilities, personal injury, fatalities, environmental damage, business interruption and possible legal liability.

Ferrexpo Poltava maintains mandatory insurance policies against certain types of risk in accordance with Ukrainian law. Specifically, it insures all vehicle drivers and employees engaged in hazardous occupations (such as blasting) against death or injury in accordance with Ukrainian law. It also insures assets that are pledged as security for loans against loss or damage and maintains an insurance policy in respect of liability for damage to the environment in relation to the use of its tailings pond. Ferrexpo Poltava does not have full coverage against loss of or damage to all of its plant and equipment, losses arising from interruption of business or third party liability in respect of accidents occurring on its premises or as a result of its operations, including environmental damage. See "Risk factors – Risks relating to the Group's operations – Ferrexpo Poltava could be subject to uninsured liabilities, which could adversely affect the Group's operations and financial condition".

The Group's management periodically evaluates the procurement of additional insurance cover. As Ukrainian law currently prohibits foreign insurance companies from operating directly in Ukraine, the underdeveloped insurance market in Ukraine offers only limited opportunities for insuring risks associated with the Group's business, and reinsurance with an international insurance house would substantially increase costs.

Social and community programmes

The town of Komsomolsk was established adjacent to the original Poltava mine and plant to support mining operations and a range of ancillary industries. Ferrexpo Poltava is still the largest employer in the town, which has a population of approximately 40,000 people. Management estimates that approximately 25 per cent. of the working population of Komsomolsk is employed by Poltava. Ferrexpo Poltava contributes to a number of mandatory and voluntary social programmes for the benefit of its employees, their families and the community. For example, Ferrexpo Poltava has voluntarily founded a charitable fund in conjunction with the municipality through which it supports social municipal projects and local citizens, including a football club. Ferrexpo Poltava contributed US$524,000 to this fund in 2006. Contributions are reported on a quarterly basis to the Group's Executive Committee. To support the local communities where it operates, Ferrexpo Poltava also contributes to a number of cultural and religious activities, including the construction of churches in Komsomolsk. In addition, Ferrexpo Poltava supports cultural and recreational facilities for the town and community of Komsomolsk through charitable donations. The cost of such support amounted to US$80,000 in 2006. Ferrexpo also pays US$50,000 per month to a local football club for advertising its logo.

Ferrexpo Poltava owns medical facilities at the Poltava site. Maintaining the health and welfare of its employees is an important objective of the Group's management. Accordingly, the medical facilities are available at no cost or at subsidised rates to Group employees and their dependants. The cost of such provision was US$462,000 in 2006.

A number of the Group's proposed expansion plans and projects will have an impact on the local community. Certain of the Group's proposed development initiatives will also require the prior approval of the local village or city councils or consent of community interest groups. For example, the allocation of land at the Yeristovskoe deposit for leasing to Ferrexpo Poltava was subject to prior approval by the Cabinet of Ministers of Ukraine and the local community. The Cabinet of Ministers of Ukraine ruled on 24 June 2006 to appropriate the land over the Yeristovskoe deposit and lease it to Ferrexpo Poltava for 49 years. The local village council granted its approval and the lease agreements were executed in October 2006. A number of households have already been resettled in anticipation of starting pre-stripping works at Yeristovskoe. Ferrexpo Poltava negotiates resettlement compensation directly with the affected households. In addition to providing statutory compensation to the local village council and affected members of the community, Ferrexpo Poltava has also budgeted for the voluntary provision of additional funds to families required to relocate their homes and for infrastructure improvements such as renovating the local hospital and the installation of a gas pipe-line in the area. Such costs totalled US$805,000 in 2006.

Competitive environment

The international iron ore export market is highly competitive, with three large producers dominating the export market and several mid-tier producers operating in selected markets. The principal factors affecting competition are price, quality, range of products offered, reliability and transportation costs. Historically, Central and Eastern European markets have been the primary markets for the Group's pellets, although the Group is now expanding its sales into Western Europe (where the Group believes it has a natural logistical advantage) and South East Asia, primarily China (its main growth market).

Management believes that it has relatively fewer competitors in its traditional markets in Central and Eastern Europe due to its long-standing historical customer base and technical compatibility with steel plants in that region but faces competition principally in its natural markets in Western Europe and its growth markets in Asia, where it is currently attempting to increase its market share and presence. Management considers that its principal competitors in such natural and growth markets are the following:

- Companhia Vale do Rio Doce ("CVRD"), a company incorporated in Brazil, is one of the world's largest producers and exporters of fine, lump iron ore and iron ore blast furnace pellets. It is the largest diversified mining company in the Americas, operates logistics systems including railways and ports and has major investments in the energy, aluminium and steel industries. CVRD is the market leader in the seaborne iron ore trade market and exports the majority of its iron ore and pellets, primarily to Asia and Western Europe. CVRD has relationships with a number of leading steel-makers, which include investments by CVRD in customer facilities. Management considers it to be the Group's key competitor in the natural market of Western Europe and a competitor in the growth market of China.

- Luossavaara Kiirunavaara AB ("LKAB") is wholly owned by the Swedish state. It is one of the leading producers of high grade iron products for the steel industry. It produces blast furnace pellets as well as direct reduction pellets for use in direct reduction furnaces, fines and industrial minerals. Most of its products are sold to steel mills in Europe. It owns mines, ore processing plants, a pelletising plant, rail transport systems and a harbour. Management considers it to be a competitor in the natural market of Western Europe.

- Iron Ore Company of Canada, an affiliate of Rio Tinto ("IOC") is one of Canada's leading producers of iron ore. It produces and delivers a wide range of iron ore concentrates and pellets to customers in North America, Europe and the Asia-Pacific region. It owns and operates a mine, concentrating and pelletising plants, a rail transport system and a shipping terminal. Management considers it to be a competitor mainly in the natural market of Western Europe.

- BHP Billiton is a leading supplier of core iron-making raw materials to global iron and steel manufacturers, and it is the third largest supplier of iron ore worldwide. It sources iron ore from its extensive operations in Australia and is a major supplier to the growth market of China. BHP Billiton also operates in Brazil through Samarco, its joint venture with CVRD. Management considers Samarco to be a direct competitor in both the natural market of Europe and the growth market of China for blast furnace pellets. Samarco also produces direct reduction ("DR") grade pellets which do not compete with the Group's pellets.

- The Group considers the major Russian exporters of blast furnace pellets (Lebidinsky-GOK and Mikhailovsky-GOK) to be competitors in the traditional market of Central Europe and the natural market of Western Europe, and, periodically, in the growth market of China.

- The Group considers Ukraine's major producers of blast furnace pellets (principally Severny-GOK, which produces iron ore concentrate and blast furnace pellets, and is reportedly increasing production) to be competitors in the traditional market of Central Europe and the natural markets of Southern Europe, principally Turkey.

The Group considers that the major market trends impacting competition include:

- *Markets.* Chinese imports of iron ore are driving the majority of the seaborne iron ore global trade flows. This rapid growth in demand has caused most major iron ore producers to expand their capacity. This has caused China to buy a significant tonnage of iron ore imports on a spot basis, much of which is considered to be relatively high cost ore supply. In addition, strong domestic demand in Russia has reduced the volume of Russian iron ore competing on the export market. This in turn has improved demand and prices for Ukraine domestic and export iron ores.

- *Concentration of ownership*. The last decade has seen increased concentration of ownership in the seaborne iron ore industry.

- *Products.* Generally strong global demand for iron and steel, particularly in China, has resulted in increased demand for agglomerated iron ore, pellets, lump, and, to a lesser extent, sinter, as iron and steelmakers who use blast furnace technology strive to increase productivity from their furnaces. This trend has benefited producers of such iron ore products. At the same time, direct reduction steelmaking, which uses higher quality iron ore pellet and lump feeds at premium prices, has been growing rapidly. There is evidence that Brazilian producers, in particular, may be favouring increased production of such types of iron ore feedstock rather than pellets intended for use in a blast furnace.

- *Transportation.* China's demand for iron ore and many other bulk commodities has caused significant upward pressure on global freight rates with demand outstripping new vessel supply. In addition, China-driven bulk shipping demand has at times caused imbalances in Atlantic-Pacific ocean freight rates, which at times has affected the landed cost competitiveness of regional supply.

Intellectual property

Ferrexpo Poltava has registered 21 patents with the Ukrainian or Russian patents office for inventions and technical processes, including one patent relating to improvements in the concentration process for certain types of iron ore. Some of these patents have also been registered with the Academy of Natural Science. Ferrexpo Poltava obtained rights to use its principal equipment and technology upon purchase. Management does not consider the registered patents to be material to its business.

The Group registered the name and trademark "Ferrexpo-Poltava Mining" with the World Intellectual Property Organisation ("WIPO") in Switzerland in 1997 and registered the "Ferrexpo-Poltava Mining" trademark in Ukraine in 1999.

Kostyantyn Zhevago also intends to use the Ferrexpo brand in connection with his separate oil and gas business.

Directors and senior management

The Company's management structure

The Company will only undertake high-level strategic management and supervision of the Group, including:

- major business decisions affecting the Group as a whole, which will require a decision of the full Board;

- business decisions which relate to the Company as a distinct entity, such as the issue of its securities, the payment of dividends, or changes to its memorandum and articles of association; and

- matters of compliance and/or administration for the Company, such as the convening of shareholders' meetings, the approval of public announcements required by listing rules and the approval of tax returns.

It will have no employees, other than its non-executive directors acting solely in their role as directors. The Company will be managed almost entirely through board or committee meetings. The board of directors (the "Board") will have an executive committee (the "Executive Committee") which will act as the main decision-making body of the Group. Certain administrative activities, such as investor relations functions, will be either sub-contracted to third parties or provided by Ferrexpo UK. Operational management at a local level will take place in Ferrexpo Poltava, with support, guidance and oversight from the Executive Committee.

The Company's Board

The following table shows the name, age, position, qualifications and certain other information for each member of the Board.

Name	*Age*	*Position*
Michael Abrahams	69	Non-executive Director/Chairman
Michael Oppenheimer	52	Chief Executive Officer/Executive Director
Dennis McShane	51	Executive Director
Kostyantyn Zhevago	33	Non-executive Director
Raffaele (Lucio) Genovese	45	Non-executive Director
Wolfram Kuoni	40	Non-executive Director
Ihor Mitiukov	54	Non-executive Director

Michael Abrahams, CBE DL (Non-executive Director/Chairman). Mr Abrahams was appointed to the Board on 1 June 2007. Mr Abrahams is also Chairman of the London Clinic, Kingston Communications (Hull) plc, the Prudential Staff Pension Limited and Amteus plc. He was Deputy Chairman of Prudential plc until May 2000 and has served as chairman and as a director of a number of quoted and unquoted companies including John Waddington and Cavaghan and Gray. Mr Abrahams was educated at Shrewsbury and Worcester College, Oxford.

Michael Oppenheimer (Chief Executive Officer/Executive Director). Mr Oppenheimer joined the Group in August 2005 as Chief Executive Officer. Mr Oppenheimer has global executive leadership experience across a number of resource industries, in both the mining and petroleum sectors. He was President of BHP Billiton Energy and a member of the BHP Billiton Executive Committee until July 2004 and, prior to that, President of BHP Billiton Energy Coal. Before the BHP merger with Billiton, Mr Oppenheimer held a number of positions with BHP, including President BHP Coal, President North West Shelf & Gas Commercialisation and membership of the BHP Petroleum Executive Committee. Mr Oppenheimer has been a director of Richards Bay Coal Terminal, International Colombia Resources Corporation, QCT Resources Limited and the World Coal Institute and was a Member of the Coal Industry Advisory Board of the IEA. He graduated from the University of Cape Town (BSc Chem Eng - First Class Honours).

Dennis McShane (Executive Director and Director of finance and strategic development). Mr McShane joined the Group in September 2004 as director of finance and strategic development. In this role he is responsible for the Group's international capital markets activities. He has also advised the Group on the recruitment of senior executives and on corporate restructuring. Prior to joining the Group, Mr McShane was an investment banker with JPMorganChase. Over his 25 year career with the bank, he gained extensive experience in the mining and metals sector and emerging markets, his last position being Head of Mining & Metals in JPMorgan Chase's Sydney office. In addition, he has also worked in New York, Johannesburg and London. He graduated from Harvard Business School (PMD) and the State University of New York (BA - Honours).

Kostyantyn Valentynovych Zhevago (Non-executive Director). Mr Zhevago has over nine years of managerial experience. Mr Zhevago has been a member of the Ukrainian Parliament since 1998 and is a member of the "Yuliya Timoshenko Block" political faction. He is currently a member of the Parliamentary Committee on Law Policy and Co-chairman of the Parliamentary Group for Inter-Parliamentary Relations with Japan. Since 2002, Mr Zhevago has been a member of the permanent delegation of the Ukrainian Parliament in the Parliamentary Assembly of the European Council and a member of the Ukrainian faction of the Committee for Parliamentary Cooperation between Ukraine and the European Union. He has previously served as chairman of the management board and deputy chairman of the supervisory board of CJSC Commercial Bank Finance and Credit ("Finance and Credit Bank") and as a member of the supervisory board of JSC Ukrnafta. Between 1993 and 1996, Mr Zhevago was financial director of Finance and Credit Bank. Mr Zhevago graduated from the Kyiv State Economic University in 1996, specialising in international economics. Mr Zhevago is a beneficiary of The Minco Trust, which owns 100 per cent. of the Selling Shareholder.

Raffaele (Lucio) Genovese (Independent Non-executive Director). Mr Genovese was appointed to the Board on 1 June 2007. He is also the Chief Executive Officer of Nage Capital management, a Swiss-based advisory and proprietary company specialising in the metals and mining sector. 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 and Manager of the Moscow office and Trader in the Ferrous Division and was an Assistant Manager in the Audit Division of PriceWaterhouseCoopers in South Africa. He is qualified as a Chartered Accountant (South Africa).

Wolfram Kuoni (Independent Non-executive Director). Mr Kuoni was appointed to the Board on 1 June 2007. Mr Kuoni is the founder and senior partner of KUONI Attorneys at Law, Zurich, Switzerland (established in 2005) 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 in Equity Capital Markets, M&A and as head of the Export and Project Finance Team. He originated and structured cross-border acquisitions and equity capital markets transactions. Mr Kuoni graduated with a law degree from the University of Berne and also holds a Ph.D. in law from the University of Zurich and an MBA from INSEAD in France. He is a member of the Zurich and Swiss bar.

Ihor Mitiukov (Independent Non-executive Director). Mr Mitiukov was appointed to the Board on 1 June 2007. Mr Mitiukov is the General Director of the Financial Policy Institute, a Ukrainian non-governmental organisation. From 2002 to 2005, Mr Mitiukov served as Extraordinary and Plenipotentiary Ambassador of Ukraine in the United Kingdom. He also represented Ukraine in the International Maritime Organisation. From 1997 to 2001 he served as Minister of Finance of Ukraine and from 1995 to 1997 as Ukraine's Special Representative (with Vice-Prime Ministerial status) to the European Union in Brussels. In 1994, he was successively Deputy Governor of the National Bank of Ukraine and Vice-Prime Minister of Ukraine for banking and finance. Prior to that, he held various positions at Agrarian-Industrial Bank Ukraina, before being appointed as its Deputy Governor in 1992. Mr Mitiukov graduated from the Cybernetics Department, Kyiv State University and has a Ph.D. in Economics (1985) from the Institute of Economy, Academy of Sciences (Ukraine).

The Board will operate in accordance with the Combined Code. This requires active participation by all directors (executive and non-executive) and states that no one individual may have unfettered powers of decision. Accordingly, as noted above, major business decisions will need to be made by the Board or relevant Board committee, and will not be within the authority of any individual.

The Group's senior management

Below are biographical details of certain senior managers of the Group who are not members of the Company's Board.

Simon Wandke (Chief Marketing Officer). Simon Wandke joined the Group in April 2006. He has 25 years of work experience in marketing, business development, business strategy and consulting with a particular focus in the resources sector. Mr Wandke has managed global sales and marketing teams with combined annual revenue in excess of US$2.75 billion. He has experience managing teams during major mergers and through the programmes of strategy assessment/realignment, reorganisation and change implementation. Mr Wandke has previously held senior management positions in Australia, Indonesia and Hong Kong. Until late 2001, he was employed at BHP Billiton where he held various positions including vice president of the strategy department and vice president of the Coal, Iron Ore Department and HBI Marketing. Between 2002 and 2006, Mr Wandke was a partner of Destra Consulting Group, LCC, working in the fields of change management, application of continuous improvement initiatives and organisational effectiveness.

David Webster (Chief Projects Officer). David Webster joined the Group in June 2006. Has 25 years of experience with BHP Billiton in senior management positions covering business performance, operations, technology, business development and strategic planning. Mr Webster also held the position of president of Orinoco HBI, reporting to the BHP Minerals Executive Council. In this role he had executive responsibility for the business performance of BHP's investment in the Venezuelan HBI joint venture. After leaving BHP in 2001, Mr Webster joined ProMet Engineers in Perth, Australia in the role of project director, with responsibility for directing major feasibility studies and engineering projects with a particular focus on the iron ore and steel industries. In 2006 Mr Webster was appointed interim chief operating officer of Vorskla Steel on secondment from ProMet Engineers. Mr Webster has a Bachelor of Metallurgy (Process Metallurgy), First Class Honours, from the University of Newcastle (1975).

Viktor Viktorovych Lotous (Chief Operating Officer). Mr Lotous became Chief Operating Officer of the Group in April 2007. He is also chairman of the management board and chief engineer of Ferrexpo Poltava, which latter position he has held since 1 April 2000. Mr Lotous has over fifteen years of managerial experience in the mining sector and has worked for Ferrexpo Poltava since 1986. From 1987 until 2000, Mr Lotous was successively chief of the excavating unit, dispatcher at the production department, chief engineer of the crushing plant and chief of the production department. He is a graduate of Kryvy Rih Mining and Ore Institute, specialising in technical and complex mechanisation of open ore deposits and of the Kyiv State Economic University, specialising in finance and credit.

Mykola Petrovych Goroshko (Chief Financial Officer). Mr Goroshko has been Chief Financial Officer of the Group since April 2007. He is also deputy chairman of the management board and finance director of Ferrexpo Poltava, which position he has held since 1 April 2000. Mr Goroshko has over twenty years of experience in mining and fifteen years of managerial experience in the mining sector. He has worked for Ferrexpo Poltava since 1984. From 1984 until 1997, Mr Goroshko was successively deputy chairman of the technical department of the capital construction unit and head of the planning and economic department. From 1997 until 1999, he was deputy general director of economics and from 1999, finance director. He is a graduate of the Kyiv Institute of National Economy, specialising in industrial planning.

The Company's Executive Committee

The Executive Committee acts as the main decision-making body of the Group. It is responsible for taking all the main decisions relating to the Group apart from those that are reserved for the entire Board or which require a decision of the full Board, such as approving the Group's strategy, capital expenditures and budget. It is expected that the Executive Committee will meet at least on a quarterly basis and the reports of each meeting will be delivered to the Company's Board. The Executive Committee will initially consist of seven members with the Chief Executive Officer as the chairman.

Corporate governance

The Combined Code recommends that at least half the board (excluding the chairman) should be non-executive directors who are independent in character and judgement and free from relationships or circumstances which are likely to affect, or could appear to affect, the director's judgement. In the opinion of the Board, the Non-executive Directors (other than Kostyantyn Zhevago, who is a beneficiary of The Minco Trust, which owns 100 per cent. of the Selling Shareholder) are independent in character and judgement. Kostyantyn Zhevago and the Selling Shareholder have entered into a relationship agreement with the Company to ensure that the Group is capable of carrying on its business independently, and to ensure that transactions and relationships between the Group and the Selling Shareholder and Kostyantyn Zhevago are at arm's length and on normal commercial terms (see "Major shareholders and the Relationship Agreement" in Part X for further information about the Relationship Agreement).

The Board has recently established an audit committee, a remuneration committee, a nomination committee and an HSEC committee.

It is intended that a senior independent director will be appointed in due course. The senior independent director will evaluate the performance of the Chairman and address shareholders' concerns that are not resolved through the normal channels of communication with the Chairman, Chief Executive Officer or the Executive Director/Director of finance and strategic development, or in cases when such communications would be inappropriate.

The role of the audit committee is to monitor the integrity of the financial reporting of the Company, to review the Company's internal control and risk management systems, to monitor the effectiveness of the Group's internal audit function and to oversee the relationship with the Group's external auditors. The audit committee focuses particularly on compliance with legal requirements, accounting standards and the rules of the Financial Services Authority. The Combined Code recommends that all members of the audit committee should be non-executive directors, all of whom are independent in character and judgement and free from relationships or circumstances which are likely to affect, or could appear to affect, their judgement and that at least one member should have recent and relevant financial experience. The audit committee is chaired by Wolfram Kuoni. The other members are Raffaele (Lucio) Genovese and Ihor Mitiukov. The ultimate responsibility for the appointment, re-appointment and removal of the external auditors remains with the Board. The Company fully complies with the Combined Code recommendations regarding audit committee membership.

The role of the remuneration committee is to determine and agree with the Board the broad policy for the remuneration of executives and senior management as designated, as well as specific remuneration packages, including pension rights and any compensation payments. The Combined Code recommends that all members of the remuneration committee should be non-executive directors, all of whom are independent in character and judgement and free from relationships or circumstances which are likely to affect, or could appear to affect, their judgement. The remuneration committee is chaired by Raffaele (Lucio) Genovese, and its other members are Michael Abrahams and Ihor Mitiukov. It is intended that an additional independent non-executive director will be appointed to the remuneration committee in due course. The Company does not currently comply with the Combined Code recommendations regarding remuneration committee membership but it expects to comply fully following the appointment of such additional independent non-executive director.

The role of the nomination committee is to identify and nominate candidates for the approval of the Board to fill Board vacancies and makes recommendations to the Board on Board composition and balance. The Combined Code recommends that a majority of the members of the nomination committee should be non-executive directors, all of whom are independent in character and judgement and free from relationships or circumstances which are likely to affect, or could appear to affect, their judgement. It is intended that the nomination committee will be chaired by the additional independent non-executive director upon his appointment and its other members will be Michael Abrahams, Dennis McShane and Kostyantyn Zhevago. The Company will not be in compliance with the Combined Code provision A.4.1 regarding the nomination committee. This is because the membership of the committee will not consist of a majority of independent directors, and the Chairman cannot be regarded as an independent director for the purposes of the Combined Code. The Company has adopted the approach that Board appointments will be the responsibility of the Board as a whole, with the nomination committee performing a function as a working group for making recommendations to the Board. All final decisions regarding Board appointments will be referred to the Board as a whole.

The role of the HSEC committee is to formulate and recommend to the Board the Group's policy for HSE issues as they affect the Group's operations. The committee will focus particularly on compliance with national and international standards to ensure that an effective system of HSE standards, procedures and practices is in place at each of the Group's operations. The committee will also be responsible for reviewing management's investigation of incidents or accidents that occur in order to assess whether policy improvements are required. The Group also intends to engage specialists with appropriate technical expertise to be members of or advisers to this committee. The HSEC committee will meet at least twice a year.

The Directors intend to continue to comply with the recommendations of the Combined Code in relation to the constitution of the Board and Board committees save as described above.

In addition, the Company will, upon Admission, comply with a code of securities dealings in relation to the Ordinary Shares, which is based on, and is no less exacting than, the Model Code published in the Listing Rules. The code will apply to the Directors and relevant employees of the Company.

Employees and employee relations

The Company was formed on 22 April 2005. As of 31 December 2006, the Group had 10,251 full time employees. Additional information concerning the average number of the Group's employees by category (based on management information) for the years 2004, 2005 and 2006 is set forth in the table below.

	2004	*2005*	*2006*
Production	7,648	8,097	8,518
Sales, marketing and distribution	175	197	197
Administration & other employees	2,348	2,549	2,635
Total	**10,171**	**10,843**	**11,350**

The Group does not have individual contracts with its employees in Ukraine other than with its senior managers. Most of Ferrexpo Poltava's workers are members of a trade union (the "Poltava Trade Union"). The chairman of the Poltava Trade Union is a member of Poltava's Supervisory Board. There has been no significant industrial action or labour dispute at Poltava since its privatisation in 1995. In 2006, Ferrexpo Poltava resolved a dispute with the Poltava Trade Union relating to the basis for calculating employees' salaries through arbitration. Poltava is required under Ukrainian law to enter into collective bargaining agreements with its employees. Collective bargaining agreements provide for certain benefits (including, among other things, additional retirement benefits and vacation rights). Ferrexpo Poltava recently entered into a new collective bargaining agreement for 2007 with the Poltava Trade Union, which was approved on 30 March 2007. Management has signed a protocol of intent with the Poltava Trade Union for the period from 2008 to 2010 in which it has agreed to ensure that individual salaries will be increased at least in line with inflation and that an annual reduction in headcount will occur, subject (except for any jobs that are outsourced) to an agreed maximum. Management considers that it has good relations with its employees.

Worker salary levels are specified in the collective bargaining agreement with the Poltava Trade Union. Salary levels are set with reference to the statutory minimum wage. As of 1 January 2006, workers with the lowest qualifications are entitled to the minimum wage of UAH 483 month. Salary levels are higher for persons working in strenuous working conditions and employees with qualifications. Additional compensation is paid for such things as overtime work and shift work and workers may receive a bonus based upon production levels. Management believes that wages paid by the Group are higher than average wages in Ukraine, although they tend to be less than the average wages paid by other Ukrainian mining companies. In addition, Ferrexpo Poltava provides financial support (mainly in the form of providing guarantees for loans taken out by employees to purchase housing) to enable specialists to relocate to the town of Komsomolsk to take up employment. The Ukranian State budget for 2007 provides for the minimum monthly wage to be increased up to UAH 440 from 1 July 2007 and to UAH 460 from 1 October 2007. Management does not believe that this increase will have a material impact on the financial condition of the Group and believes that the protocol of intent which it has signed with the Poltava Trade Union as described above, together with a freeze on hiring additional workers and natural attrition, will enable it to manage its real labour costs over this period.

Ferrexpo Poltava makes mandatory contributions, equal to 37.5 per cent. of total payroll in 2006, to the Ukrainian state retirement fund and other mandatory state funds as part of its statutory employer's contribution to social security taxes on behalf of its employees. It does not finance any voluntary (non-State) retirement schemes for its employees, although the Group may consider implementing such a voluntary retirement scheme if the Ukrainian Parliament passes the legislation currently being debated which would reform the Ukrainian pensions system. There is no automatic retirement age for workers, although the statutory retirement age is 60 for men and 55 for women. Employees working in hazardous conditions may retire earlier, at age 50 or 55, depending on their type of employment. The average age of employees at the mine is 43 years.

The Group believes that, taking into account production levels, its headcount is consistent with or better than most of its CIS competitors. However, it is significantly higher than producers of iron ore in other parts of the world and productivity per worker is relatively low. The primary reason is that the Group does not currently outsource ancillary services, which is a holdover from its prior State ownership. For example, within Ferrexpo Poltava, approximately half of all employees are support personnel. However, the Group's labour rates are relatively low, with the majority of its employees receiving less than the equivalent of US$240 per month in 2005 and up to the equivalent of US$300 per month in 2006.

The Group's goal is to bring its current workforce in line with international industry standard by reducing its headcount, primarily through outsourcing of support functions and natural attrition, increases in average wages, and increasing productivity. Management believes that plan will ameliorate inflationary pressure on the Group's labour costs, as well as increasing its workers' standard of living. However, the Group faces certain statutory constraints in seeking to reduce headcount. As a result, there can be no assurance that the Group will succeed in reducing its headcount or lowing its overall employment costs, which may impair the Group's competitiveness compared with iron ore producers with lower employment costs per tonne of iron ore produced.

Dividend policy

The Directors intend to pursue a dividend policy consistent with the Company's growth profile, reflecting the investment the Group is making to drive future growth and the cash generated by the existing operations. An interim and final dividend of approximately equal proportions will be paid.

Following Admission, in the absence of unforeseen circumstances and assuming the Group's performance continues in line with the Board's expectations, subject to there being available distributable reserves for the purpose, the Directors intend to declare a final dividend of not less than US$10 million for the year ending 31 December 2007. To the extent that the Group generates cash in excess of its investment or expansionary needs the Directors will consider the most appropriate method of returning capital to shareholders.

Dividends will be declared by the Company in US dollars. The Company may only pay dividends if distributable reserves are available for this purpose. As a holding company the ability of the Company to pay dividends will principally depend upon dividends or interest paid to it by its subsidiaries.

Although the Company is incorporated in England and Wales, the Directors currently intend to conduct the affairs of the Company in a manner such that it continues to be regarded as resident in Switzerland, and not in the UK, for Swiss and UK tax purposes and for the purposes of the Switzerland/UK Double Taxation convention. Any dividends paid by the Company will be regarded as Swiss dividends rather than UK dividends. See paragraph 13.2 of Part XI for further details of withholding tax on dividends.

Long term incentive plan ("LTIP")

On 14 June 2007, the Board resolved that the Company would adopt an LTIP on broadly the following terms. Awards may be granted under the LTIP after Admission. The current intention is that any of the Board, the members of the Board constituting the remuneration committee (the "Remuneration Committee") or the trustees of the employee discretionary trust (the "Grantor") will grant awards under the LTIP to members of the management team including the Executive Directors after Admission. The Grantor has yet to consider and determine how many Ordinary Shares will be subject to such awards or what performance conditions will apply to them although it is intended that they be suitably challenging and linked to the Company's performance. The performance conditions applying to future grants made to Executive Directors under the LTIP will be described to shareholders in the Company's annual report and accounts.

The principal provisions of the LTIP are summarised below.

(a) The LTIP would allow two types of share incentive to be granted:

  (i) *a performance share award,* which is a contingent award of Ordinary Shares that may be acquired for no or only a nominal payment (including pursuant to an option with a nil exercise price), that will vest after a specified vesting period subject to, and to the extent that, performance criteria determined at the time of grant have been satisfied; and

  (ii) *a share option* to acquire Ordinary Shares at a specified exercise price to the extent that performance conditions have been satisfied after a specified vesting period. The exercise price will not be less than the market value of an Ordinary Share at the time of grant.

(b) The Grantor has a discretion as to which type of incentive it will use and whether it will grant an individual a performance share award, a share option or a combination of the two. In countries where an award or option involving real shares is not appropriate or feasible for legal, regulatory or tax reasons, a phantom version may be used. This will deliver a cash payment equal to the net benefit a participant would have derived from the vesting or exercise of a performance share award or share option.

Eligibility

(c) All employees and Executive Directors of the Group will be eligible to participate in the LTIP at the discretion of the Grantor. In practice it is anticipated that grants under the LTIP following Admission will be extended to the management team of the Group.

Individual limits

(d) The maximum number of Ordinary Shares that an Executive Director and/or an employee may acquire pursuant to performance share awards or options granted to him in any 12 month period under the LTIP may not have an aggregate market value, as measured at the date of grant, exceeding 200 per cent. of the Executive Director's annual base salary or such higher limit as the Grantor may determine is appropriate in exceptional circumstances in any individual case. Market value for this purpose will be based on the average closing middle market quotations for an Ordinary Share as derived from the Daily Official List of the London Stock Exchange for the five dealing days immediately preceding the date of grant.

Grant of performance share awards and options

(e) The Grantor (at the recommendation of the Remuneration Committee) may grant performance share awards or options under the LTIP at any time during the period of six weeks following the date of adoption of the LTIP, six weeks following Admission and thereafter within six weeks following the Company's announcement of its results for any period or at such other time as the Grantor considers that exceptional circumstances exist which justify a grant.

(f) No payment will be required for the grant of a performance share award or option.

Performance conditions

(g) Performance share awards and options under the LTIP will be subject to performance conditions imposed by the Grantor at the time of grant. The extent to which the performance conditions are satisfied during the relevant vesting period will determine how many (if any) of the Ordinary Shares under an award or option that a participant is entitled to acquire. Performance conditions will not be capable of being re-tested, so that any proportion of an award or option which does not vest will lapse.

(h) Performance conditions may be amended after the date of grant if circumstances relevant to the performance condition when it was originally imposed have subsequently changed and the Grantor is satisfied that amending the performance condition would give a fairer measure of performance which is no less demanding to satisfy than the original performance condition.

(i) The performance conditions applicable to awards or options made to Executive Directors in any year will be disclosed in the Company's annual report and accounts for that year.

(j) In exceptional circumstances only, the Board may decide that performance share awards or options may be granted without a performance condition in order to recruit or retain a key individual.

Release or exercise of performance share awards and options

(k) Performance share awards will vest either at the end of a three year period or on an annual basis in equal tranches over a three year period. The relevant performance conditions will be measured over these vesting periods. Vesting periods will start at the beginning of the financial year in which a performance share award or option is granted. Vested performance shares are capable of release for a period of three months after the third anniversary of grant or each anniversary of grant, or three months after the end of the performance period of each award, after which they will lapse. Share options will either become exercisable on the third anniversary of grant or on each anniversary of grant in equal tranches over the three year period. Vested options are exercisable for a maximum of seven years, after which they will lapse.

(l) Share options will entitle participants to acquire Ordinary Shares at a price per Ordinary Share which will be fixed by the Grantor at the time of grant. The exercise price per Ordinary Share will not be less than the market value of such a share on the date of grant, or, in case of an option to subscribe for newly issued Ordinary Shares, if greater, the nominal value of an Ordinary Share. Market value will be based on the average closing middle market quotations of an Ordinary Share as derived from the Daily Official List of the London Stock Exchange for the five dealing days immediately preceding the date of grant.

(m) Performance share awards and options may normally only vest if the participant remains in employment with the Group. If a participant leaves employment during the vesting period, any unvested part of his award will normally lapse. However, a performance share award or option may be retained in the event of a participant's death or if the reason for leaving is injury, disability, ill-health, redundancy, the sale of the business or company in which the participant is employed, or any other reason, at the Grantor's discretion. In such circumstances, a performance share award or option will vest in accordance with the normal vesting schedule to the extent that the performance condition has been satisfied (as determined by the Grantor) at that time. The Grantor, however, has a discretion, where it considers it appropriate, to allow a performance share award or option to vest immediately upon the cessation of employment to the extent that, in the Grantor's opinion, the performance condition has been satisfied (measured, if appropriate, over a shortened period of performance) at the date of leaving. In both cases, the number of Ordinary Shares which may be acquired will be reduced on a time pro-rated basis to reflect the proportion of the vesting period which has not been completed prior to the cessation of employment.

(n) In the event of a takeover, merger, reconstruction or amalgamation, demerger or voluntary winding-up of the Company, performance share awards or options which have not yet vested will vest to the extent that the performance condition has been satisfied (as determined by the Grantor and measured (if appropriate) over a shortened period of performance) at the date of the relevant event. The number of Ordinary Shares which may be acquired will be reduced on a time pro-rated basis to reflect the proportion of the vesting period which has not been completed at the time of the relevant event. The Grantor has a discretion to allow performance share awards or options to vest to a greater or lesser extent if it considers it appropriate having regard to the circumstances of the transaction and the Company's financial performance up to the date of the relevant event. Performance share awards or options may also be exchanged for performance share awards or options over shares in the acquiring company.

Scheme limits

(o) To the extent that new Ordinary Shares are to be issued to satisfy share awards and options granted under the LTIP, no performance share award or option may be granted under the LTIP if it would cause the aggregate number of Ordinary Shares that are capable of being issued pursuant to performance share awards and options granted under the LTIP, when added to the number of Ordinary Shares issued or issuable pursuant to rights to subscribe for Ordinary Shares granted during the preceding 10 years under any other discretionary executive share plan operated by the Company, to exceed 10 per cent. of the Company's issued ordinary share capital from time to time.

(p) The listing bonuses granted upon Admission to certain of the Directors and to the Senior Managers will not count towards the percentage limits stated above.

(q) If awards or options are to be satisfied by a transfer of Ordinary Shares, the percentage limits stated above will not apply.

Adjustment of awards and options

(r) In the event of any rights or capitalisation issue, sub-division, consolidation, reduction or other variation of the Company's share capital or the implementation of a demerger, or the payment by the Company of a dividend in specie or a super-dividend which would otherwise materially affect the value of an award or option, the Grantor may adjust the number of Ordinary Shares subject to awards and options and any exercise price payable on the exercise of options.

Participant's rights

(s) Benefits under the LTIP are not pensionable.

(t) Awards granted under the LTIP are not transferable and may only be released to or exercised by the persons to whom they were granted or their personal representatives.

Rights attaching to Ordinary Shares

(u) Ordinary Shares allotted or transferred under the LTIP will rank pari passu with Ordinary Shares of the same class then in issue (except in respect of entitlements arising prior to the date of allotment or transfer). Application will be made for any newly issued Ordinary Shares to be admitted to listing by the Financial Services Authority and admitted to trading on the London Stock Exchange.

Amendments

(v) The Grantor may amend the LTIP. However, the provisions governing eligibility requirements, equity dilution, individual participation limits and the adjustments that may be made following a rights issue or any other variation of capital cannot be altered to the advantage of eligible employees or participants without the prior approval of Shareholders in general meeting (except minor amendments to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment or to benefit administration).

(w) The Grantor may adopt appendices to the LTIP without Shareholder approval to take account of any applicable legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for employees or any member of the Group.

Termination

(x) The LTIP will terminate on the tenth anniversary of adoption, or such earlier time as the Grantor may determine, after which time, no further awards may be granted but the rights attaching to existing awards will not be affected by such termination.

Employee Trust

(y) The LTIP may be operated in conjunction with an employee discretionary trust established by the Company or one of its subsidiaries (the "Trust"). The beneficiaries of the Trust will be the employees and former employees of the Group, and their spouses, widows, widowers and children or step-children under the age of 18. The Trust may grant performance share awards and options to eligible employees and acquire and hold Ordinary Shares required to satisfy awards and options granted under the LTIP. Existing Ordinary Shares may be acquired by the trustee of the Trust or new Ordinary Shares may be issued by the Company to the trustee. The Company and any relevant subsidiaries may provide sufficient funds by way of loan or gift to the trustee of the Trust to enable it to fulfil its obligations under the LTIP. The company that established the Trust will have the power to appoint new and additional trustees or to remove any trustee. It will also have the power to amend the trust deed with the agreement of the trustee. The trustee will be entitled to an indemnity out of the assets of the trust fund and, if they are insufficient, from the Company or its relevant subsidiaries against claims, costs and liabilities that it may incur in carrying out its duties (other than where it has been fraudulent, negligent or guilty of gross misconduct). The aggregate number of Ordinary Shares that the Trust and any other trust set up for the benefit of non-executive directors may hold at any time will be limited to five per cent. of the Company's issued share capital.

Part III

Information on Ukraine

The following information relating to Ukraine is provided for background purposes only. The information contained in this Part III has been extracted from documents and other publications released by various officials and other public and private sources, including participants in the capital markets and financial sector in Ukraine. There is not necessarily any uniformity of views among such sources as to the information provided therein.

Area and population

Ukraine occupies a land area of 603,700 sq km, which makes it the second largest country in Europe, after Russia. It is bordered by Russia to the east, Belarus to the north, Poland, Slovakia, Hungary, Romania and Moldova to the west and the Black Sea to the south.

Ukraine is subdivided into 24 oblasts (or regions). Two Ukrainian cities – Kyiv, the capital of Ukraine, and Sevastopil', currently the site of a major naval base of the Russian Federation – are granted special status under the Ukrainian Constitution in respect of certain administrative, budgetary and other matters. The Crimean Peninsula constitutes an autonomous republic.

Based on figures from the Ukrainian State Committee of Statistics, the population of Ukraine totalled approximately 46.7 million as at 1 December 2006, of which approximately 78 per cent. were ethnic Ukrainians and 17 per cent. ethnic Russians. Other groups, including Byelorussians, Moldavians, Bulgarians, Crimean Tatars, Hungarians, Romanians, Greeks and Poles, accounted for approximately 5 per cent. of the population. The official language is Ukrainian, although 80 per cent. of the population is bi-lingual, speaking both Ukrainian and Russian fluently.

Between 1980 and 1990, the population grew by 3 per cent. annually, but this trend has reversed since 1991, reflecting the worsening economic and social conditions associated with the significant post-independence recession. As a result, the population of Ukraine has declined by approximately 5 million people since 1992. It is estimated that the population is currently decreasing at a rate of 0.7 per cent. per year.

Although living standards have fallen since independence in 1991, it should be noted that the growth in the shadow economy and non-wage incomes, both difficult to measure, indicate that real incomes have fallen by less than officially recorded real income. Furthermore, income distribution appears to have remained relatively stable since 1992. In addition, the Government has succeeded in maintaining high literacy rates in Ukraine of approximately 98 per cent.

Political developments since independence

Mr Leonid Kravchuk won the first Presidential elections in December 1991, on a "moderate nationalist" platform. Economic difficulties, however, forced early Parliamentary and Presidential elections in 1994. The Parliamentary elections gave left wing parties (communists, agrarians and socialists) around 40 per cent. of the seats, with the remainder split among nationalists, centrists from the Ukrainian and Russian speaking population groups and independents. In the 1994 Presidential elections, Mr Leonid Kuchma defeated Mr Kravchuk on a platform emphasising better relations with Russia and moderation of economic reform. The election revealed a regional division, with nationalist western Ukraine and Kyiv supporting Mr Kravchuk, whilst more Russified eastern Ukraine and Crimea (which accounted for the majority of the electorate) supported Mr Kuchma. Mr Kuchma proved in office to be as independent in relation to Russia as his predecessor. In addition, he actively pursued a policy of economic structural reform designed to establish a free market economy through privatisation and deregulation of the economy. In November 1994, an IMF-approved economic stabilisation programme was unveiled and reformers were promoted to the Government. Opposition to reforms by Parliament led to proposals by Mr Kuchma to increase the powers of the presidency with a new constitution. The new constitution, which was finally adopted by Parliament in June 1996, divided powers between the executive, legislative and judicial branches. Parliament, given its concentration of various competing interests, has remained an obstacle to radical economic reforms.

In October 1999, presidential elections were held and President Kuchma was re-elected for a second term of five years with 56.3 per cent. of the votes in the second round against the Communist leader Petro Symonenko, who obtained 37.8 per cent. of the votes. Following his re-election, President Kuchma appointed Mr Viktor Yuschenko (the former governor of the NBU) as Prime Minister. In mid-2001, Mr Yuschenko was dismissed and replaced with Mr Anatoliy Kinakh. On 16 November 2002, President Kuchma dismissed Prime Minister Kinakh and the Cabinet of Ministers. Viktor Yanukovych, the governor of the Donetsk region, was appointed by Parliament as Prime Minister in November 2002; other members of the Cabinet of Ministers were appointed by the President, also in November 2002.

Between 1999 and 2001, the pace of reform was adversely affected by political deadlock in Parliament, notwithstanding the re-election of President Kuchma in October 1999. In early 2000, Ukraine underwent a political crisis in Parliament revolving around attempts by a newly formed, largely pro-presidential centre-right majority to replace the incumbent Speaker and First Deputy Speaker. On 16 April 2000, the pro-presidential and centre-right majority survived a nationwide referendum that was called to vote on questions of the scope of parliamentary authority. The result of the referendum also supported the grant of additional powers to the President (particularly as regards the dissolution of Parliament and the calling of new elections) and the restructuring of Parliament. These measures have not yet been implemented into the Constitution by Parliament.

In October 2001, Parliament passed the Law of Ukraine "On the Election of People's Deputies of Ukraine", which significantly strengthened the role of political parties and introduced greater transparency into the electoral process by, among other things, providing clearer voting procedures and setting concrete terms for pre-election campaigns. In March 2004, Parliament passed, and in July 2005 further amended, a new Law of Ukraine "On the Election of People's Deputies of Ukraine", which came into effect on 1 October 2005. Under the old law, half of the seats were elected pursuant to a majority voting system from single-seat constituencies across all regions of Ukraine and half were chosen according to a system of proportional representation from lists of political parties with at least 4 per cent. of the total vote. Pursuant to the new law, starting with the parliamentary elections which were held in March 2006, all seats are chosen from lists of political parties with at least 3 per cent. of the total vote according to a system of proportional representation.

Ukraine experienced significant political instability during the 2004 presidential election. The results of the first run-off of the election, between Mr Yuschenko and Mr Yanukovych on 21 November 2004, in which Mr Yanukovych was declared the winner, were disputed on the basis of allegations of corruption, voter intimidation and direct electoral fraud, as reported by numerous domestic and foreign observers. These claims were acknowledged in a decision of the Supreme Court of Ukraine, which declared the results of the election invalid. The disputed election was followed by a series of popular protests, including a series of nationwide protests, sit-ins and planned general strikes by supporters of Mr Yuschenko. A second run-off was ordered by Ukraine's Supreme Court and was held on 26 December 2004. Mr Yuschenko was declared the official winner of the second run-off and was inaugurated as President on 23 January 2005.

Prime Minister Yulia Tymoshenko took office on 4 February 2005 with a Cabinet of Ministers formed based on a compromise among various political and economic groups that supported Mr Yuschenko at the time of the elections. On 8 September 2005, President Yuschenko dismissed Prime Minister Tymoshenko and the Cabinet of Ministers and appointed Yuriy Yekhanurov, the governor of Dnipropetrovs'k region, as the acting Prime Minister. On 22 September 2005, Mr Yekhanurov was appointed Prime Minister by Parliament. On 27 September 2005, the President appointed a majority of Ministers (many of which were also in the previous Government and reappointed to the same positions), including the First Vice Prime Minister and other Vice Prime Ministers.

On 13 September 2005, President Yuschenko, the speaker of Parliament, then acting Prime Minister Yekhanurov and representatives of 10 parliamentary factions signed the Declaration on Unity and Cooperation for the Future of Ukraine. The Declaration reconfirmed the signatories' allegiance to the values of democracy, freedom, national and religious concord and toleration, freedom to speech, freedom of opposition, and adherence to moral and ethical values in politics. The parties to the Declaration also expressed their intention that the March 2006 elections to Parliament and local councils be democratic, free and fair. The Declaration also contemplates a national round table discussion among political parties, labour unions, academics and other representatives of the civil society on the country's strategic problems of the development and public influence on national policy. In addition, the Declaration calls for the creation of an All-Ukrainian Political Council to serve as an advisory body to the President of Ukraine on development issues.

On 1 January 2006, constitutional reform limiting the powers of the President and transferring certain powers to the Parliament and the Prime Minister partially occurred (see "– The Constitution and the President").

On 10 January 2006, Parliament adopted a resolution on the dismissal of the Cabinet of Ministers following a vote of no confidence relating to the dispute between Ukraine and Russia over gas prices (see "– Recent Developments – Gas Price Dispute with Russia). The government was entrusted to continue to perform its duties until a new government could be formed. On 19 January 2006 the Parliament additionally dismissed the Minister of Fuel and Energy and the Minister of Justice. Under the amended Constitution, the Cabinet of Ministers must resign before the new Parliament takes power but will continue to exercise its powers until the appointment of a new government.

On 26 March 2006, the first Ukrainian parliamentary elections by proportional representation took place. According to the official results of the vote counting, out of 45 participants only five political forces were able to collect 3 per cent. or more of the national vote required to gain seats in the Parliament: *Partiya Regioniv* (the Party of Regions) chaired by President Yuschenko's main opponent at the 2004 presidential election and current Prime Minister, Mr Viktor Yanukovych; *Blok Yuliy Tymoshenko* (Yuliya Tymoshenko Block) led by former Prime Minister Tymoshenko; *Blok Nasha Ukrayina* (Our Ukraine Block), an election alliance of political parties led by former Prime Minister Yekhanurov and associated with President Yuschenko; the Socialist Party of Ukraine chaired by Mr Oleksandr Moroz, the current Speaker of the Parliament; and the Communist Party of Ukraine led by Mr Petro Symonenko. On 25 May 2006 the new Parliament gathered for its first session. Since none of the parties or electoral blocks won a majority of the seats in Parliament, the majority coalition had to be formed following the first session of the new Parliament. The majority coalition was established and currently comprises the parliamentary factions of the Party of Regions, the Socialist Party of Ukraine and the Communist Party of Ukraine with 238 deputies as at 12 February 2007.

The majority coalition was established on 18 July 2006, when the Socialist Party of Ukraine (which was allied with the Our Ukraine Block and the Yuliya Tymoshenko Block at the time of the controversial presidential election campaign in 2004) left the initial coalition with the Yuliya Tymoshenko Block and the Our Ukraine Block shortly after it was created. The parliamentary factions of the Our Ukraine Block and the Yuliya Tyomshenko Block are in the opposition to the Government. The next parliamentary elections are scheduled to be held in March 2011.

The table below shows a breakdown of the number of seats in Parliament for each faction/block.

Parliamentary Faction	*Total number of seats won*[(1)]	*Number of Seats*[(2)]	*Percentage of seats in Parliament*
Party of Regions	186	186	41.3
Yuliya Tymoshenko Block	129	125	27.7
Our Ukraine Block	81	77	17.1
Socialist Party of Ukraine	33	31	6.8
Communist Party of Ukraine	21	21	4.6
Non-faction	0	9	1.2

Source: Parliament of Ukraine

(1) As a result of the March 2006 Parliamentary elections.

(2) As at 16 April 2007.

On 3 August 2006 President Yuschenko and the leaders of the political powers represented in the Parliament (with the exception of the Yuliya Tymoshenko Block) signed the so called National Unity Accord setting forth their agreement on major policy issues, including closer integration with Europe and market reforms.

On 4 August 2006 the Parliament appointed Mr Yanukovych as Prime Minister and endorsed a new coalition Government. Representatives of Our Ukraine Block were appointed to the new Government along with nominees of the political parties from the majority coalition. While the Party of Regions and its allies obtained control of the Ministries of Economy, Finance and Fuel and Energy, the Our Ukraine Block and its allies secured the key strategic Ministries of Defence, Foreign Affairs, Justice and the Interior. However, policy disagreements between the current majority coalition group and the Our Ukraine Block have resulted in a number of subsequent changes. Thus, in October 2006, due to a number of disagreements on the key policy issues with the Party of Regions and its allies, several ministers nominated by the Our Ukraine Block announced their resignation. In addition, in December 2006, the Parliament voted to dismiss the Ministers of Foreign Affairs and the Interior. In February 2007, the Parliament refused to support two candidates nominated by the President for the positions of the Minister of Foreign Affairs and Head of Security Service of Ukraine. The President has repeatedly nominated the same candidates for these positions, however, it is not certain whether the majority coalition in the Parliament will support them. Furthermore, in late 2006 and early 2007, the President has actively used his right to veto bills adopted by Parliament, including in respect of the law on the state budget for 2007. This law was later signed by the President following an agreement with the Government. The President also vetoed the law on the moratorium on sales of certain types of land and the law on the Cabinet of Ministers of Ukraine, on both of which the veto was overturned by a combined vote of the factions comprising the majority coalition and the faction of the Yuliya Tymoshenko Block. That notwithstanding, on 6 February 2007, the Our Ukraine Block and the Yuliya Tymoshenko Block signed a declaration of joint opposition activity, where among other important political goals, they announced their intentions to cancel the constitutional reform and carry out pre-term parliamentary and local elections. On 24 February 2007, an agreement on joint opposition was signed by the Our Ukraine Block and the Yuliya Tymoshenko Block determining the future co-operation between the two political forces in the opposition status and, in case of pre-term parliamentary elections – after such elections. In response to such steps, in early March 2007, the Party of Regions announced its intention to support pre-term presidential and parliamentary elections to be carried out at the same time. On 2 April 2007, President Yuschenko signed a decree dissolving the Parliament after several members of Parliament from the opposition joined the ruling coalition and scheduled new parliamentary elections for 27 May 2007. The ruling coalition in Parliament and the majority of the Government immediately rejected the President's decree and approved several decisions aimed at blocking the parliamentary elections. Members of Parliament requested the Constitutional Court of Ukraine to confirm the constitutionality of the President's decree. On 26 April 2007, President Yuschenko cancelled his decree of 2 April 2007 and resolved to dissolve the Parliament and hold new parliamentary elections on 24 June 2007. Following further debate between the President, the Prime Minister and the Speaker of Parliament, on 5 June 2007 the President issued a new decree rescheduling the elections for 30 September 2007. However, the majority coalition refuses to recognise the presidential decree on the dissolution of Parliament. It remains unclear whether the new parliamentary elections will in fact take place in September 2007.

Prime Minister Yanukovych and the new Government face several challenges, including the need to improve the relations between the eastern and western regions of Ukraine, the improvement of relations with Russia, the implementation of unpopular economic reforms and the building of a political consensus. It is not clear whether the President will be able to continue to shape and implement a clear political agenda for Ukraine's future development. Future political instability in the executive or legislative branches could hamper efforts to implement necessary reforms.

The Constitution and the President

The Constitution (the Fundamental Law of Ukraine) was adopted by Parliament on 28 June 1996. It defines Ukraine as a sovereign, independent, democratic, social, legal and unitary state. The Constitution guarantees, amongst other things, the principles of political, economic and ideological diversity; human and civil rights and freedoms; freedom of the press; the inviolability of private property and the right to conduct entrepreneurial activity. The state ensures the protection of competition and business activity. The Constitution also stipulates the responsibilities of the Parliament, the President and the Government and outlines the system for the administration of justice and the functions of the judiciary of Ukraine. Under the Constitution, both the President and Parliament are directly elected by universal suffrage.

On 8 December 2004, the Parliament of Ukraine (*Verkhovna Rada*) passed a political reform bill that introduced constitutional amendments to make Ukraine a European-style parliamentary republic and to significantly limit the powers of the President and transfer them to the Parliament and the Prime Minister. According to the amended Constitution:

- the newly elected Parliament is now required to form a majority coalition within a month of holding its first session;
- the parliamentary majority will appoint the Prime Minister upon the President's nomination;
- the Prime Minister will select nominees to head government ministries (with certain exceptions), the State Property Fund, the Anti-monopoly Committee and other government agencies and submit the nominations to Parliament for approval;
- nominees for the positions of Minister of Defence and Minister of Foreign Affairs will be proposed by the President and approved by the Parliament;
- Parliament will appoint the Governor of the NBU and the Head of the Security Service of Ukraine upon the President's nomination;
- Parliament will approve the appointment of the Prosecutor General by the President;
- Parliament may dismiss the Cabinet, while the President will only be able to propose government resignation, subject to Parliamentary approval;
- the President may dismiss Parliament if (i) it fails to form a majority coalition within a month of holding its first session, (ii) it fails to appoint the Cabinet within 60 days or (iii) it fails to convene during 30 days of a non-recess period.

The Constitution envisages that the President is the head of Ukraine as a sovereign state and is authorised to act on behalf of Ukraine both within and outside of Ukraine. The President is elected for a term of five years and has the authority to submit candidates proposed by the majority coalition for the post of Prime Minister for parliamentary approval. Currently, the Prime Minister, in turn, appoints the Cabinet of Ministers, subject to presidential approval. Starting from January 2006, when changes to the Constitution described above took effect, the Prime Minister selects nominees to head government ministries (subject to certain exceptions), the SPF, the Anti-monopoly Committee and other government agencies and submit nominations to Parliament for approval. Nominees for the positions of Minister of Defence and Minister of Foreign Affairs are proposed by the President and approved by Parliament, while the remaining members of the Government are proposed by the Prime Minister and approved by the Parliament. The President has no longer the right to appoint members of the Government. The President has the right to initiate legislation, the power to veto Parliamentary bills and the right to revoke acts of the ministers. The President may also issue his own decrees and directives.

The President is also the head of the National Security and Defence Council (the "NSDC") and is authorised to appoint its members. The NSDC was created in 1992 to develop national security policy on domestic and international matters and to advise the President. The role of the NSDC was significantly strengthened under former President Kuchma. Members of the NSDC ex officio include, amongst others, the Prime Minister, the Minister of Defence, the Head of the National Security Service, the Minister of the Interior and the Minister of Foreign Affairs.

The Executive

The powers of the Government of Ukraine are vested in the Cabinet of Ministers of Ukraine, which is the highest body of executive power in Ukraine. The Cabinet of Ministers is accountable to the President and the Parliament and reports to the Parliament.

The majority coalition proposes a candidate for the position of Prime Minister to the President who makes a further nomination to the Parliament for appointment. The Prime Minister selects nominees to head

Government ministries (subject to certain exceptions), the SPF and other Government agencies and submits the nominations to Parliament for approval.

Ukraine continues to redefine the powers of the Executive. In line with the recommendations of the IMF and the World Bank, in December 1999, President Kuchma issued decrees reducing the number of ministries from 24 to 15 and restructuring a number of other state committees and governmental departments to simplify administration and enhance accountability. President Yuschenko made further changes in the executive branch of government, increasing to 20 the number of ministries, in addition to 34 state committees and other government agencies.

On 21 January 2006, the Parliament approved the new Law on the Cabinet of Ministers of Ukraine which defines the principal objectives of the Cabinet of Ministers, the principles of its organisation and activities and other related issues. The Law on the Cabinet of Ministers delegated significant authority in foreign policy, defence and other areas to the Prime Minister, making his role more influential than that of the President. The President attempted to veto the new Law on the Cabinet of Ministers, but his veto was overruled by the Parliament. The new Law became effective on 2 February 2007. Under the new Law, the President must propose candidates for the positions of Minister of Defence and Minister of Foreign Affairs not later than fifteen days after the majority coalition proposes its candidate for the role of Prime Minister. If the President fails to propose candidates within the specified period, the majority coalition may propose the candidates itself. The new Law also provides that officials from the NSDC and the Secretariat of the President cannot provide instructions to the Government or interfere with its activity. The President has now appealed to the Constitutional Court of Ukraine to declare the new Law on Cabinet of Ministers of Ukraine unconstitutional.

Under the amended Constitution, the Parliament is able to dismiss the Cabinet, and the President is only be able to propose a Cabinet dismissal subject to parliamentary approval.

The Legislature

Legislative power in Ukraine is vested in the Parliament. Parliament adopts laws, which have the highest authority in the hierarchy of normative acts in Ukraine after the Constitution itself. Parliament is a unicameral body with 450 seats. Members of Parliament are elected for a term of four years. In March 2004, Parliament passed, and in July 2005 further amended, a new Law of Ukraine "On the Election of People's Deputies of Ukraine", which is effective from 1 October 2005. Starting from the parliamentary elections which took place in March 2006, all seats are chosen according to a system of proportional representation from lists of political parties with at least 3 per cent. of the total vote.

In addition to its legislative function, Parliament decides on items such as the general Government agenda (including the State budget and the privatisation programme), the granting and receiving of loans from foreign countries, international organisations, banks and international financial institutions that are not otherwise envisioned in the State budget in any given year and the general structure and functions of the Ukrainian armed forces.

The Parliament is required to form a majority coalition within a month of holding its first session and such parliamentary majority is required to appoint the Prime Minister upon the President's nomination. The coalition is also entitled to nominate candidates for other positions within the Cabinet of Ministers to the President or the Prime Minister, as applicable. The Parliament also approves nominees to head government ministries (subject to certain exceptions), the SPF, the NBU, the Security Service of Ukraine, the Anti-monopoly Committee and other government agencies and the Prosecutor General upon the President's or the Prime Minister's nomination, as the case may be. The President may only dismiss Parliament if (i) it fails to form a majority coalition within a month of holding its first session, (ii) it fails to appoint a Cabinet within 60 days or (iii) it fails to convene during 30 days of a non-recess period. See "– The Constitution and the President".

The judicial system and legal framework

The Constitutional Court of Ukraine is the highest judicial body in Ukraine. It has exclusive jurisdiction over the interpretation of the Constitution and laws of Ukraine and acts as final arbiter on constitutional issues. It consists of 18 judges, six nominated by the President, six nominated by Parliament and six nominated by the Congress of Judges. Judges of the Constitutional Court were chosen for the first time in 1996, as the late adoption of the Constitution hampered development of the judicial system before June 1996.

In June 2002, the Law of Ukraine "On the Judicial System" came into force. This law aims to reform the Ukrainian judicial system and envisages the creation of new judicial institutions as well as a system of specialised courts. However, until recently the creation of specialised courts had been postponed because of insufficient funds in the State budget. In 2005, the Higher Administrative Court of Ukraine was created; however, local administrative courts, appellate administrative courts and the Administrative Chamber of the Supreme Court of Ukraine have not yet been created.

The Law of Ukraine "On Arbitration Courts" passed in 2004 provides for the establishment of independent permanent arbitration courts and *ad hoc* arbitration courts (courts formed for the purpose of resolving a particular dispute). Permanent arbitration courts are subject to state registration by the Ministry of Justice of Ukraine or its regional departments.

On 18 March 2004, the Law of Ukraine "On Election of Professional Judges by the Verkhovna Rada of Ukraine" was passed. This law sets forth the procedural framework for the election of judges for a life tenure.

As a result of its relatively recent transition towards a market economy, Ukraine does not yet have a mature legal system comparable to the legal systems of most major European countries. Although new laws have been introduced and amendments have been made to company, property, bankruptcy, securities, taxation, banking and foreign investment legislation, the legislation is undeveloped and contains many gaps, thereby failing to provide an adequate underpinning for sophisticated transactions. In order to facilitate implementation and enforcement of important legislation, such as tax legislation, Parliament has gradually been taking steps to adopt new legislation that consolidates the laws into unified codes.

In 2001, Parliament passed a new Land Code and a new Criminal Code. The Land Code, which became effective as of 1 January 2002, applies to all types of land in Ukraine and governs the ownership, use and disposition of land in Ukraine. Under the Land Code, agricultural land may not be sold or otherwise disposed of (subject to certain exceptions) until 1 January 2008. In addition, the Land Code prohibits natural persons and legal entities from owning more than 100 hectares of agricultural land per person until 1 January 2015. The Land Code does not contain any similar restrictions with respect to non-agricultural land. Foreign individuals, legal entities and foreign states continue to be allowed to own, use and dispose of certain non-agricultural land in Ukraine but are explicitly prohibited from owning agricultural land.

On 1 January 2004, a number of new legislative acts came into force, the key acts comprising new editions of the Civil Code, the Commercial Code, the Customs Code, the Family Code and the Criminal Enforcement Code.

The new Civil Code replaced the former Civil Code adopted in 1963. The new Civil Code provides new regulations in the areas of company law, property law and inheritance law as well as intellectual property laws that take into account Ukraine's transition to a market economy and bring Ukrainian laws and regulations closer to those that exist in more developed civil law countries. On 15 May 2003, Parliament adopted legislation which is aimed at improving the protection of visual media products, as well as increasing criminal liability for infringement of intellectual property legislation. Parliament also adopted a law on 6 July 2005 to bring the legal system into compliance with the WTO Agreement on Trade Aspects of Intellectual Property Rights. This law provides for increased criminal liability for unlawful production, export, import, storage, sale and transfer of laser discs, matrixes and primary materials for their production. As a result of these actions to improve intellectual property rights, on 31 August 2005, the United States ended sanctions in the form of import tariffs first imposed in January 2002.

The new Commercial Code codifies existing legislation and provides legal guidelines for economic activities and relationships by regulating the use of natural resources, the rights of industrial ownership and the market for equity and debt securities and by defining corporate rights, the procedures for signing economic contracts, the status of free economic zones, insurance procedures, banking procedures and auditing procedures. Application of the inconsistent and often conflicting rules of the new Commercial Code and the new Civil Code have resulted in conflicting judicial and administrative decisions, in particular in the context of the regulation of securities and legal entities. The Cabinet of Ministers has recently approved a draft law that provides for the elimination of inconsistencies between the Commercial Code and Civil Code. This law is currently being reviewed by Parliament, as are separate draft laws to address inconsistencies which were passed by Parliament on first reading.

The new Customs Code sets forth rules and procedures of customs control, establishes new mechanisms for determination of the customs value of goods and provides for liability for violation of customs rules.

On 29 June 2004, Parliament approved the new Code of Commercial Procedure on its first reading. This Code regulates proceedings in Ukrainian commercial courts and grants commercial courts exclusive rights to consider disputes related to bankruptcy, privatisation and disputes between companies and their shareholders. The Code of Commercial Procedure has not yet been submitted to Parliament for approval in a second reading.

On 6 July 2005, the Code of Administrative Procedure of Ukraine was passed by Parliament. It establishes the powers of administrative courts in relation to administrative matters, procedure of appeal in administrative courts and procedure for implementation of administrative legal proceedings. In accordance with the Code, any decisions, actions or inaction of governmental authorities, other than cases in relation to which another procedure is established by the Constitution or laws, can be appealed in administrative courts. Under the Code, which came into force on 1 September 2005, the Higher Administrative Court of Ukraine, as a court of first and last instance, is responsible for deciding cases related to voting results by the Central Electoral Commission, results of Ukrainian referendums and cases on the elimination of presidential candidates.

From 1 September 2005, the new Code of Civil Procedure, adopted on 18 March 2004, and the new Code of Administrative Procedure, together replace the previous Code of Civil Procedure by introducing different procedural rules for proceedings in courts of general jurisdiction and administrative courts, which remain to be established.

In 2001, a new comprehensive tax code was proposed in Parliament and adopted in the second reading but rejected in the third reading. Since then, Parliament has adopted several separate tax laws throughout 2002 and 2003 instead of implementing the proposed new tax code. For instance, the corporate profit tax rate was reduced from 30 per cent. to 25 per cent. effective from 1 January 2004. Also effective from 1 January 2004, the personal income tax was reformed by introducing a flat tax of 13 per cent. for all levels of income until 31 December 2006 and 15 per cent. starting from 1 January 2007. Before the introduction of these changes to the Law of Ukraine “On Personal Income Tax”, individuals were subject to personal income tax at rates ranging from 10 per cent. to 40 per cent. Under the same changes, a new tax on interest accrued on private deposits held by individuals in Ukrainian commercial banks was introduced, which tax will be withheld starting from 1 January 2010. Several laws providing for, amongst other things, a reduction of the VAT rate from 20 per cent. to 17 per cent., the introduction of special VAT collection accounts and the elimination of certain tax privileges were passed by Parliament and vetoed by the President in the course of 2003 and 2004.

In addition, on 16 January 2007, the draft law “On Uniform Social Tax”, which provides for a uniform 20 per cent. social tax instead of payments to the pension fund and other social funds, was submitted to Parliament.

A bill against money laundering came into force on 12 June 2003 establishing two levels of financial monitoring. At the primary level, financial institutions involved in transferring money are required to monitor financial transactions, while State financial monitoring is conducted by the NBU and a specially authorised executive agency for financial monitoring. A financial transaction is subject to monitoring if its aggregate value equals or exceeds UAH 80,000 (or its equivalent in foreign currency). On 22 July 2003, the President signed a decree which set out measures to improve and to further develop the anti-money laundering system. In February 2004, Ukraine was removed from the list of Non-Cooperative Countries and Territories of the international organisation for money laundering, FATF. On 3 August 2005, the Cabinet of Ministers approved the Concept for Development of a System to Prevent and Counteract Legalisation (Laundering) of Profits Obtained from Criminal Sources and Terrorism Financing for 2005-2010. The Concept is aimed at, amongst other things, improving the supervision over institutions subject to primary financial monitoring and increasing the efficiency of law enforcement activities. In order to implement 40 recommendations of the FATF into law, the State Financial Monitoring Committee is preparing a revised version of Ukraine's money laundering law. The most recent amendments to Ukraine's anti-money laundering law, providing for the improvement of Ukraine's legal framework on the prevention and counteraction of financing of international terrorism, came into effect on 1 January 2006. As a result of this continued progress, the FATF ended formal monitoring of Ukraine in February 2006.

On 1 January 2004, the Laws of Ukraine "On Mortgage" and "On Mortgage Lending, Transactions with Consolidated Mortgage Debt and Mortgage-Backed Certificates" came into force. These laws permit, amongst other things, mortgage-backed financial instruments and their trading on the securities market.

The laws also introduce a procedure for state registration of mortgages and establish new rules for the determination of priority of claims over collateral. The Law of Ukraine "On Securing Claims of Creditors and Registration of Encumbrances" adopted in November 2003 further regulates the granting of security over movable property by providing a broad definition of an encumbrance, setting up a comprehensive regime of registration and introducing an advance notice of enforcement requirement. The Government expects that the adoption of these mortgage-related laws will have a positive effect on the development of the mortgage lending, real estate, securities and debt markets.

In July 2004, the Law of Ukraine "On State Registration of Property Rights to Immovable Property and Their Restrictions" was passed. This law establishes legal, economic and organisational measures to create a unified system of registration of property rights to land plots and other real property within a state land register.

On 1 July 2004, the Law of Ukraine "On State Registration of Legal Entities and Individuals-Entrepreneurs" entered into force. This law simplifies the procedure for state registration of subjects of business activities, providing for registration with state statistics bodies, tax authorities and social security funds by submitting a single notification to a state registrar. In June 2005, the Cabinet of Ministers further simplified the procedure for state registration of subjects of business activities; however, registration by submitting a single notification to a state registrar remains to be implemented due to lack of an electronic communication system between the state registrar, tax authorities, state statistics bodies and social security funds.

In June 2005, Ukraine adopted a new law on credit histories and credit bureaus expected to result in the establishment of so called credit bureaus which will collect information on borrowers (both individuals and legal entities) and form credit histories of each borrower. The information gathered by such credit bureaus will assist Ukrainian banks in evaluating and minimising the credit risk of prospective borrowers. The often insufficient statistical, corporate and financial information (including audited financial statements) available to Ukrainian banks about their clients makes the assessment of credit risk, including the evaluation of collateral, currently difficult.

On 1 September 2005, the Law of Ukraine "On International Private Law" came into force. The Law supplements the Civil Code of Ukraine by governing private legal relationships involving foreign elements (parties, objects or actions). The Law covers such issues as the determination of governing law, legal capacity of foreigners, submission to the jurisdiction of Ukrainian courts, service of process, and recognition and enforcement in Ukraine of foreign judgments.

A new Law of Ukraine "On Securities and the Stock Market" was enacted by Parliament on 23 February 2006 and came into effect on 12 May 2006. This law has updated the Ukrainian legal and regulatory framework governing the issuance and circulation of securities and codified in one document various stock market rules. In March 2006, Ukraine also enacted a new law "On Holding Companies in Ukraine" governing the creation, operation (including decision-making processes, mandatory information disclosure and liability) and liquidation of holding companies in Ukraine.

For a number of years, Ukraine has been working on harmonization of its legislation with EU legislation. The "All-Nation Program of Harmonization of the Legislation of Ukraine to EU Legislation" was adopted by Parliament in 2004. As a result, all new draft laws and certain regulations are subject to the obligatory examination by the Ministry of Justice as to compliance with EU law. In addition, new draft laws are developed applying a comparative analysis of comparable regulations in the EU. In February 2006, Ukraine enacted the Law of Ukraine "On the Enforcement of Judgments of the European Court of Human Rights ("ECHR") and the Application of its Case Law". The law is Ukraine's first on the enforcement of ECHR judgments, having introduced the mechanisms for enforcing ECHR judgments in Ukraine, and the legal framework for the application of ECHR case law. One of the provisions of the law is the requirement that monetary remedies provided for in a judgment be paid by Ukraine within three months of the judgment becoming final. The law also provides for the enforcement of non-monetary remedies ordered by the ECHR, such as *restitutio in integrum* (restoration of the original position). It also identifies the responsible state bodies, expands on the mechanism for their collaboration and sets deadlines within which they must comply.

In spite of this progress, many laws continue to be unclear, internally inconsistent, in conflict with other legislation and subject to varying interpretations and unpredictable implementation by Ukrainian courts, state agencies and authorities and the enforcement of such laws is relatively untested.

The independence of the judicial system and its immunity from economic and political influences in Ukraine remain largely untested, notwithstanding the decision of the Supreme Court of Ukraine to declare the results of the disputed first run-off of the presidential election in November 2004 invalid (see "– Political developments since independence"). Although the Constitutional Court of Ukraine is the only body authorised to exercise constitutional jurisdiction and has mostly demonstrated the impartiality of its judgments, the system of constitutional jurisdiction itself remains too complicated to ensure the smooth and effective removal of discrepancies between the Constitution of Ukraine and applicable Ukrainian legislation on the one hand and among various laws of Ukraine on the other hand. The system of general and specialised courts is understaffed and under-funded. Judicial precedents under Ukrainian law have no binding effect on subsequent decisions. Not all Ukrainian legislation is readily available to the public or organised in a manner that facilitates understanding. Court decisions are not open to public access and, therefore, may not serve as guidelines in interpreting applicable Ukrainian legislation to the public at large. However, according to a new law "On Access to Court Decisions" signed on 10 January 2006, court decisions of general jurisdiction in civil, economic, administrative and criminal matters will be made available to the public in early 2007.

Moreover, courts themselves are not bound by earlier decisions taken under the same or similar circumstances, which results in the inconsistent application of Ukrainian legislation to resolve the same or similar disputes. The Ukrainian judicial system became more complicated and hierarchical as a result of the recently introduced judicial reform. The expected result of the judicial reform is that the Ukrainian judicial system will become slower than before.

The enforcement of court orders and judgments can, in practice, be very difficult in Ukraine. The State Execution Service, a body independent of the Ukrainian courts, is responsible for the enforcement of court orders and judgments in Ukraine. Often, enforcement procedures are very time-consuming and may fail for a variety of reasons, including the defendant lacking sufficient bank account funds, the complexity of auction procedures for the sale of the defendant's property or the defendant undergoing bankruptcy proceedings. In addition, the State Execution Service may be unable to enforce court orders and judgments quickly and effectively. Ukrainian enforcement agencies are bound by the method of execution envisaged by the relevant court order or judgment and may not independently change such method even if it proves to be inefficient or unrealisable. Furthermore, notwithstanding the successful execution of a court order or a judgment, a higher court could reverse the court order or judgment and require that the relevant funds or property be restored to the defendant. Moreover, in practice, the procedures employed by the State Execution Service do not always comply with applicable legal requirements, resulting in delays to, or failures in the enforcement of, court orders and judgments.

Finally, in Ukraine there is no established history of investors' rights or responsibility to investors and in certain cases, the courts may not enforce these rights. Court orders are not always enforced or followed by the law enforcement institutions.

All of these factors make judicial decisions in Ukraine difficult to predict and effective redress uncertain. In addition, court claims are often used to further political aims. The Group may be subject to such claims and may not be able to receive a fair hearing.

International relations

Ukraine has established diplomatic relations with 169 countries, is a member of nearly 80 international organisations and attaches significant importance to developing relations with international organisations. Ukraine is a member of the United Nations ("UN"), is a member of several UN bodies and special agencies and participates in the organisation's activities in the areas of security, human rights, economic cooperation and environmental protection. Ukraine has signed and ratified the Non-Proliferation Treaty and other conventions banning weapons of mass destruction. Ukraine is a member of the IMF, the World Bank and a number of other international organisations, and it cooperates closely with the Organisation for Economic Cooperation and Development ("OECD").

Ukraine applied to join the WTO in 1993 and hopes to join WTO in the near future. As at December 2006, Ukraine had signed bilateral protocols on access to markets for goods and services with 49 WTO members that participate in the WTO working party for membership negotiations with Ukraine, including an agreement with the EU signed in March 2003. Achieving the target date of accession will be largely contingent on Ukraine's ability to harmonise its legislation with WTO rules. Reform of Ukraine's foreign trade regime to conform to WTO standards is required in the following areas: customs, technical barriers to trade, liberalisation of the foreign exchange system, and subsidies. The Government has analysed Ukrainian legislation in the spheres governed by WTO agreements and has prepared draft bills to address inconsistencies, certain of which have already been enacted by Parliament. In order to prepare for WTO accession, the Government submitted a package of 20 bills to Parliament in 2006. As of December 2006, all of the bills earmarked by the Government as being essential preconditions for joining WTO membership had been adopted by Parliament and signed by the President, including those significantly reducing or eliminating the differentiation among rates of import duties on agricultural, industrial and consumer goods and protecting intellectual property rights. Ukraine believes that it may be possible to finalise membership negotiations and address the question of WTO membership at the WTO conference in October 2007.

As of February 2007, Ukraine was party to over 500 multilateral treaties and over 3,000 bilateral treaties. The international treaties to which Ukraine is a party are an integral part of its domestic legislation and, to the extent specifically provided by domestic legislation, will prevail over such domestic laws and regulations whose provisions are inconsistent with the international treaties. Ukraine is a party to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards and the Convention on the Settlement of Investment Disputes between States and Nationals of Other States. However, Ukraine has not entered into a treaty on the recognition and enforcement of judgments with the United States, Ireland, Germany or the United Kingdom.

Economic background

Prior to commencing the transition to a market economy, Ukraine had a centrally planned economy that was geared towards Russia and the other countries in the CIS. Although considerable progress has been achieved in the transition to a market economy in the realm of economic liberalisation, privatisation and financial stabilisation policies, the process remains incomplete in many substantial respects.

In its transition from a planned economy to a market economy, the Ukrainian economy has experienced: declines in gross domestic product; hyperinflation; devaluation of its currency; high government debt relative to gross domestic product; a weak banking system, providing limited liquidity to Ukrainian enterprises; high levels of loss-making enterprises that continued to operate due to the lack of effective bankruptcy proceedings; significant use of barter transactions and illiquid promissory notes to settle commercial transactions; widespread tax evasion; growth of a black and grey-market economy; pervasive capital flight; high levels of corruption and the penetration of organised crime into the economy; and the impoverishment of a large portion of the Ukrainian population and increasing unemployment.

The pace of reform has been adversely affected by various political problems and disruptions in international markets, on which Ukrainian exports depend. Although various Governments appointed by former President Kuchma were generally committed to economic reform, lack of political consensus in Parliament and controversies surrounding such issues as privatisations, subsidies to state-owned enterprises and cooperation with international financial institutions have impeded reform. Delays in implementing reforms, together with deteriorating conditions in the social sphere associated with substantial declines in income and high unemployment, have exerted considerable pressure on limited state resources.

The Ukrainian leadership, which has been in place since early 2005 following Mr Yuschenko's victory in the presidential elections in December 2004, has expressed its commitment to accelerating economic reforms. The current Government, which was appointed by Parliament in August 2006, has already implemented certain reforms significantly increasing tax revenue and improving customs collections. It is expected that the majority coalition will support the Government's initiatives in Parliament. However, the structural weaknesses in the economy that have not yet been corrected are likely to restrain economic growth and continue to impose substantial fiscal pressures on the Government over the coming years.

Action programme

On 4 February 2005, Parliament adopted a Government action program entitled "Towards the People". The program's strategic goal is to improve living standards and to introduce European social, economic and democratic standards. The Government's social and economic programme envisioned yearly increases of wages, pensions and other social payments and providing citizens with quality medical, educational and cultural services.

In the sphere of the budget policy, the Government sees its main task as transforming the budget from an instrument serving corporate interests into an instrument serving the whole of society's interests. The Government also intends to concentrate the functions of revenue and expenditure management, implementation of the state budget and internal control in a single body, the Ministry of Finance.

In the regulatory domain, the Government's task is to establish simple, clear, comprehensive, common rules for all market participants in order to improve compliance, create conditions for free and fair access to all market segments and to guarantee to all businesses the protection of their legal rights and interests. One of the Government's top priorities is the efficient usage of the state ownership and a significant increase in proceeds to the State Budget from state enterprises. The action programme provides for improvements to the system of corporate rights and reduction of the shadow economy as well as implementation of a corporate governance system in compliance with the EU standards and more strict disclosure requirements for companies and financial institutions.

The development of productive enterprises that are competitive in the domestic and foreign market, within the framework of a market economy, is the Government's principal task in the industrial and investment policy. Its main tasks in developing the economy are the modernisation and structural reconstruction of production, reduction of its energy and material requirements and the development of technologically advanced products that will increase the efficiency and competitiveness of the national economy.

The principal goal of the Government in the agricultural sector is to make Ukraine one of the world leaders. Among the Government's strategic tasks is the qualitative transformation in the energy sector of economy, which is an essential element of the national security of the state. Strong measures in technical innovation and modernisation of energy enterprises are needed to ensure a stable energy supply for all categories of users.

On 3 October 2006, the Parliament approved the Government's draft State Programme for Economic and Social Development for 2007. The new State Programme sets the following priorities for the Government's economic and social activity in 2007, which are:

- ensuring innovation-driven changes in the economy;
- achieving a positive foreign trade balance;
- creating favourable conditions for increased investment inflow into the country;

- improving the quality of social services;
- increasing the well-being of the population; and
- creating the conditions for rapid development of small and medium-sized enterprises.

In addition, in order to establish medium-term priorities the Government is developing a draft action programme until 2011 entitled "Competitive Ukraine", which is aimed at increasing the country's competitiveness and improving people's quality of life.

Gross domestic product

According to official statistics, real GDP fell by 55.4 per cent. between 1992 and 1999. The main reasons for this decline were the breakdown of intra-CIS trade coupled with slow progress in finding new markets, the impact of energy prices that more closely reflected world levels (compared to the previous approximately one-third of world prices), the slow emergence of market structures, failure to impose tight budgetary constraints, the significant fall in domestic demand and, since 1995, high real interest rates.

Ukraine's economic performance improved in 2001 and 2002 with economic growth being export-led initially then increasingly driven by growth in investment and consumption. In 2001 and 2002, GDP increased by 9.2 per cent. and by 5.2 per cent., respectively, industrial production increased by 14.2 per cent. and by 7.0 per cent., respectively, and agricultural output increased by 10.2 per cent. and by 1.2 per cent., respectively. The strong economic growth in 2001 was driven by the agricultural, oil refining and food processing industries and by steel exports. In 2002, although Ukraine's economic growth slowed mainly as a result of the deteriorating external economic environment, which led to lower exports (especially steel exports), economic growth was mainly attributable to strong domestic demand and growth in food processing, oil refining, wholesale and retail trade and agriculture.

Ukraine's real GDP in 2003 increased by 9.6 per cent., despite a poor grain harvest. The GDP growth was primarily a result of an increase in industrial output of approximately 13.1 per cent. compared to 2002. Growth in the construction, wholesale and retail business and transport sector reached 28.3 per cent., 21.6 per cent. and 11 per cent., respectively.

Strong growth in GDP and industrial production continued in 2004, when Ukraine's real GDP increased by 12.1 per cent., its highest rate of growth in recent years. This growth was primarily a result of an increase in industrial output of approximately 12.5 per cent., due in particular to growth in agriculture, construction, wholesale and retail business and manufacturing sectors of 19.5 per cent., 18.4 per cent., 17.8 per cent. and 14.7 per cent. respectively.

Ukraine's real GDP increased by only 2.4 per cent. in 2005. The slow growth in GDP in 2005 compared to 2004 was principally due to a lack of growth in the agricultural sector, a 1.3 per cent. decrease in transport and a 6.6 per cent. decrease in construction as compared to 2004. Manufacturing grew by 3.1 per cent. and the retail sector by 22.4 per cent. compared with 2004. The slowdown in real growth rates in 2005 reflects less favourable external conditions affecting Ukraine's steel exports, an increase in energy prices and a decline in investment due to uncertainty in the domestic market resulting from the disputed presidential elections in late 2004 and subsequent political instability. During 2006, Ukraine's real GDP increased by 7.0 per cent. as a result of increases in gross added value in wholesale and retail, transport, energy, gas and water production and distribution, construction and extractive industry. In February 2007, the Government approved its forecast for Ukraine's economic and social development, which estimates Ukraine's GDP growth will be 6.5 per cent. and its inflation rate will be 7.5 per cent. in 2007.

The following table sets forth certain information about Ukraine's GDP for the periods indicated:

	2001	*2002*	*2003*	*2004*	*2005*	*2006*
Nominal GDP (UAH millions)	204,190.0	225,810.0	267,344.0	344,822.0	363,163.0	452,939.0
Nominal GDP (US$ millions)[1]	38,562.4	42,389.7	50,158.3	64,938.2	70,865.2	89,690.2
Real GDP (per cent. change)[2]	109.2	105.2	109.6	112.1	102.4	107.0
Nominal per capita GDP (US$)	788.4	879.4	1,053.7	1,368.5	1,759.4	N/A[3]

Source: State Committee of Statistics

(1) Hryvnia amounts have been converted to dollar amounts using publicly-available period-end exchange rates.

(2) The State Committee of Statistics calculates real GDP for a particular year by dividing nominal GDP for such year by the relevant consumer price index. The real GDP percentage change for a particular year indicates the percentage change from the previous year, where 100 = 0 per cent. growth.

(3) Data unavailable.

Inflation

The following table sets forth certain consumer price index and wholesale price index information, year on year, for year-end 1998 to 2006.

	1998	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*
Consumer Price Index (CPI)	20.0	19.2	25.8	6.1	(0.6)	8.2	12.3	10.3	11.6
Food	22.1	26.2	28.4	7.9	(2.3)	10.9	16.8	10.7	2.5
Non-Food	24.1	10.6	8.9	0.2	1.6	1.5	5.6	4.0	3.5
Paid Services	13.0	11.9	31.2	5.3	3.4	5.4	6.0	15.8	N/A[1]
Wholesale Price Index (WPI)	35.4	15.7	20.8	0.9	5.7	11.1	24.1	N/A[1]	N/A[1]

Source: State Committee of Statistics

(1) Data unavailable.

In 2002, Ukraine had 0.6 per cent. deflation, which was mainly a result of a decrease in food prices (especially in grain prices) caused by an unusually large grain harvest in 2001 and 2002, and growth in the food processing output. At year-end 2003, year on year, Ukraine had 8.2 per cent. inflation, which was mainly a result of a 10.9 per cent. increase in food prices for the year due to a poor harvest. At year-end 2004, year on year, Ukraine had 12.3 per cent. inflation, which was mainly the result of higher disposable incomes (including increased pensions) and a 15.3 per cent. increase in food prices caused principally by increased demand for meat products. At year-end 2005, year on year, Ukraine had 10.3 per cent. inflation, which was mainly the result of a 10.7 per cent. increase in food prices, due mainly to an increase in prices for meat products, fish and other seafood, sugar, fruits and vegetables, and a 15.8 per cent. increase in the cost of services, caused by result from increased social spending, higher personal incomes, and increased minimum wages and pensions, as well as continuing increases in prices of fuel, housing and utilities. At year-end 2006, year on year, Ukraine had 11.6 per cent. inflation.

The average annual inflation rate (CPI) was 10.6 per cent. in 1998, 22.7 per cent. in 1999, 28.2 per cent. in 2000, 12.0 per cent. in 2001, 0.8 per cent. in 2002, 5.2 per cent. in 2003, 9.0 per cent. in 2004, 13.5 per cent. in 2005 and 11.6 per cent. in 2006. The rate of consumer price inflation is particularly influenced by the prices of grain, milk and meat, as food products account for approximately 62 per cent. of the consumer basket.

The Government forecasts CPI inflation of 7.5 per cent. in 2007.

Price liberalisation

Ukraine has taken concrete steps towards liberalising prices to remove misallocation of resources. Starting in 1993, administered prices for energy, agricultural products and communal services were raised gradually towards full cost recovery and global market prices. The vast majority of distortionary practices were eliminated in October 1994.

Currently, the only goods that remain subject to national price regulation are gas, electricity (regulated by an independent body, the National Commission on Electric Energy Regulation), certain telecommunications services, central heating, water and sewage. In addition, local authorities may regulate prices of bread, crops, sugar, oil and meat products.

Rates for municipal services were increased by 35.5 per cent. in 2000, 5.1 per cent. in 2001, 1.5 per cent. in 2002, 6.7 per cent. in 2003 and 7.2 per cent. in 2004 and 10.1 in 2005 followed by a significant increase of 85.7 per cent. in 2006. Household electricity tariffs were increased in nominal terms by 39.2 per cent. in 2000 (as a condition to the disbursement of IMF funds) but remained unchanged until late 2006, when household electricity tariffs were increased by nearly 50 per cent. In August 2005 the Cabinet of Ministers adopted a resolution recommending that the National Commission for Electric Power Industry Regulation adopt, effective from 1 September 2005, a unified tariff for all consumers with the exception of electricity supplied to the population, cities, towns and villages, or to exterior lighting. Monthly increases in the unified tariff should not exceed 5 per cent. of the tariff for the previous month. Decisions regarding price changes are made at the local governmental level and overseen by the central government, taking into account the current economic situation.

Tariffs for public telecommunications services and access to the telecommunications networks of the operator with a dominant market position are regulated by the National Commission for the Regulation of Communications, established by the Law of Ukraine "On Telecommunications" enacted 18 November 2003, and which replaced the authority of the Cabinet of Ministers of Ukraine to regulate the prices for telecommunications services.

Privatisation

Ukraine began implementing a privatisation programme in 1992 with the objectives of increasing the private sector's share of the economy, generating FDI and contributing funds to the State budget. From 1992 to the first half of 2004, Ukraine collected approximately UAH 13.5 billion in privatisation receipts, with approximately UAH 12 billion collected during the course of the 2000-2004 Privatisation Programme.

Initially, the privatisation programme focused on the auction of small scale enterprises (defined as, before 2000, enterprises with a book value of fixed assets worth not more than UAH 170 million; and after 2000, enterprises with up to 100 employees). According to figures published by the SPF, 73,749 small scale entities were privatised by the end of 2003, including 20,090 since 1 January 2000. As of the date of this Prospectus, small scale privatisation has been almost concluded. In addition, Ukraine implemented a privatisation programme for medium to large scale enterprises. Large and medium enterprises were first converted into joint-stock companies and then sold to investors through commercial tenders, sales of privatisation certificates, auctions, preferential sales, leases and buyouts. Between 1993 and the end of 2004, 11,158 companies were converted into joint stock companies. More than 70 per cent. of these enterprises were transferred to municipal ownership and the remainder became private. Between 1992 and the end of 2004, 11,450 medium to large scale enterprises were transferred from State or municipal ownership to private ownership and approximately 1,370 enterprises remain at least partially owned by the State.

The SPF administers the privatisation programme in Ukraine. In consultation with various ministries, the SPF identifies enterprises to be privatised every year. Once the Cabinet of Ministers approves the list of companies to be privatised, the SPF proceeds with the conversion of the enterprises into joint-stock companies and the sale to investors. A bill governing the activities of the SPF was initially approved by the Parliament on 8 September 2005 but vetoed by the President in October and December 2005 and January 2006 and finally rejected by the Parliament in March 2006. In November 2006, a new bill on the SPF was approved by Parliament on its first reading. The bill establishes the SPF as a central body of the executive branch with special status and with responsibility for (i) implementing state privatisation policy, (ii) carrying out the powers of the state as an owner, (iii) managing certain state-owned assets, and (iv) leasing state-owned property complexes and other state-owned real property. At present, the activities of the SPF are governed by temporary regulations approved in 1992.

Certain laws prohibit the privatisation of particular enterprises in strategic sectors, including power generation, the military and mining, without the consent of the Cabinet of Ministers and the approval of Parliament. Furthermore, the State has the right to retain an ownership interest in such enterprises, enabling the State to block certain management decisions.

The Presidential Order "On Acceleration of the Privatisation Process" of 29 December 1999 and the Law of Ukraine "On the Privatisation Programme for 2000-2002" represented efforts by the Government to facilitate and accelerate privatisations of State-owned enterprises and to formalise and increase the transparency of the privatisation process. The SPF's privatisation programme for 2001 contemplated the privatisation of over 65 state-owned enterprises, including the sale of a large stake in Ukrtelecom, the Ukrainian telecommunications company, and sales of several regional energy distributors (oblenergos). However, political disputes within Parliament and various ministries regarding the pace, structure and desirability of the Government's privatisation programme prevented timely completion of the privatisations envisaged for 2001. As a result, in 2001 Ukraine only collected UAH 2.2 billion in revenues from privatisations against a target of UAH 5.9 billion for that year.

In 2002, the SPF again postponed both the privatisation of Ukrtelecom pending changes in the world telecommunications market and the privatisation of nine energy distributors pending a reduction of their outstanding debt. As a result, in 2002 Ukraine collected approximately UAH 603.4 million in revenues from privatisations against a target of UAH 5.8 billion. Of this amount, foreign investment accounted for UAH 155.1 million (US$8.2 million), although these amounts represent receipts from privatisation contracts concluded prior to 2002.

During 2003, the SPF received approximately UAH 2.2 billion in revenues from privatisations, against a target of UAH 2.1 billion, including proceeds from the sale of a 51 per cent. stake in Ukrainian Mobile Communications, a mobile telecommunications operator, and a 50 per cent. stake in the Nikopol Ferroalloy Plant. The sale of the stake in Nikopol is currently being investigated. The constitutionality of certain legislative provisions applicable to the sales by Ukrtelecom of the Ukrainian Mobile Communications shares is currently being reviewed by the Constitutional Court of Ukraine. It is possible that one or both of these privatisations may be declared invalid, and that the State may be required to compensate current owners for investments made in the relevant businesses.

As a result of the postponement of significant privatisations in 2002 and 2003 and due to other factors, the privatisation process was accelerated in 2004. Target privatisation revenues were originally set at UAH 2.1 billion but were revised upward to UAH 5.22 billion on 17 June 2004. In 2004, actual privatisation revenues were UAH 9.6 billion, as the SPF sold several large enterprises, including OJSC Kryvorizhstal, Ukraine's largest steel mill, for approximately UAH 4.3 billion, and OJSC SHC Pavlohradvuhillia, a coal mining company, for approximately UAH 1.4 billion. The sale of 93 per cent. of OJSC Kryvorizhstal in June 2004 was the largest privatisation in Ukraine to date. However, the Supreme Commercial Court and courts of general jurisdiction declared this privatisation invalid and a new privatisation tender was conducted on 24 October 2005 at an auction price reported to be UAH 24.2 billion. Following the sale, the State returned the purchase price paid by the original purchasers, which had acquired Kryvorizhstal in 2004. The State has sold its shareholdings in four iron ore producers within the Ukrrudprom group (the state-run umbrella organisation for the Ukraine's iron ore producers) for an aggregate amount of UAH 495 million, and this privatisation is also currently being challenged.

Approximately UAH 20 million was received from sales 2005, including the repeat auction of OJSC Kryvorizhstal, which significantly exceeded the targeted figure of UAH 7 billion mainly due to the resale of OJSC Kryvorizhstal. For 2006, target privatisation revenues were set at approximately UAH 2.1 billion, of which only approximately UAH 575 million was received from sales in 2006. The SPF's draft privatisation programmes for 2005-2007 and 2006-2008 were not supported by the Cabinet of Ministers.

In January 2005, a Law of Ukraine "On the Suspension of the Privatisation of Oil Refining Enterprises in Ukraine" entered into force, providing for suspension of the privatisation of the relevant enterprises until the adoption of the State Privatisation Programme for 2005 - 2007 and the Law of Ukraine on particular features of the privatisation of oil refining industry.

The SPF has prepared a draft law on the privatisation programme for 2007-2009, which remains subject to approval by the Parliament. However, the Cabinet of Ministers has not yet submitted these programmes to Parliament for their approval. The SPF's privatisation programme for 2007-2009 prioritises the sale of:

- small packages of shares, specific real estate objects and unfinished construction;

- loss-making enterprises, with financial rehabilitation obligations on investors;
- highly liquid assets to achieve targets in the state budget.

Government institutions have examined a number of privatisations that took place in previous years under irregular conditions and without full transparency. The annulment of the privatisation of Kryvorizhstal is the result of such an examination. A Special Parliamentary Control Commission on Privatisation supervises compliance with privatisation laws. If the Commission determines that such laws have been breached, it may request that the authorised privatisation bodies, including the SPF, cancel or terminate the illegal orders and actions. If these sales are found to have taken place on illegally favourable terms, the Government may decide to petition the appropriate courts to annul the sales of the companies concerned and to refund the original purchase price to the owners. To date, 233 privatisations have been challenged in court by State bodies or private parties, though the majority of these challenges have been for non-compliance with the purchase and sale agreements.

Gas price dispute with Russia

Gas prices in Ukraine have risen as a result of recent disagreements between Naftogaz and Gazprom over the prices of and methods of payment for gas delivered by Gazprom to, or in, Ukraine, as well as statements recently made by Turkmenistan that it may refuse to accept payments in kind for gas from Ukraine due to Ukraine's current levels of arrears in payments. On 1 January 2006, Gazprom temporarily stopped selling natural gas to Naftogaz in connection with a dispute over an increase in prices. On 4 January 2006, Gazprom, Naftogaz and RosUkrEnergo, a trading company controlled by Gazprom, entered into a new five-year agreement for the supply of natural gas at an increased price of US$95.00 (compared with the previous price of US$50.00) per 1,000 cubic metres of natural gas and supplies resumed. In accordance with the same agreement, Naftogas and RosUkrEnergo established a joint venture, Ukrgaz-Energo, which entered into a five years contract with RosUkrEnergo for the supply of natural gas at a price to be fixed on a year-by-year basis. Although the parties established the transit fee charged by Ukraine to Russia for the period until 1 January 2011, the price of US$95.00 per 1,000 cubic metres of natural gas was only agreed for the year 2006. In October 2006, RosUkrEnergo and Ukrgaz-Energo agreed to increase the price for natural gas to be supplied for domestic consumption in Ukraine in 2007 to US$130.00 per 1,000 cubic meters of natural gas. See "Risk factors – Risks relating to the Group's operations – An increase in the Group's production costs could materially adversely affect its business and results of operations".

Part IV

Industry and mining regulatory overview

Industry overview

Background

Iron ore is used to make pig iron, which is the main raw material used to make steel. Over 98 per cent. of the iron ore mined worldwide is used to make steel. Steel is produced either through the blast furnace/basic oxygen furnace ("BF/BOF") process, or via the electric arc furnace ("EAF") process. The BF/BOF process liberates iron by smelting iron ore in a blast furnace ("BF"), which is then converted to make steel via a basic oxygen furnace ("BOF"). In the EAF process, iron, steel scrap and often direct reduced iron are melted to produce steel.

The behaviour of iron ore in the steel-making process is determined by its chemical composition and by its structure or form (fine, lump or pellet), both of which affect BF productivity. The chemical constituents that affect BF productivity are iron content, the relative levels of undesirable substances such as silica and alumina, moisture and other impurities (such as phosphorus and sulphur) and levels of desirable substances such as limestone and dolomite.

Iron ore is mined in a number of different forms including magnetite (with 72 per cent. iron content), haematite (70 per cent. iron content), goethite (62 per cent. iron content), limonite (50-60 per cent. iron content) and siderite (48 per cent. iron content). In natural deposits, the iron content percentages shown above are rarely attained because of impurities such as silica, alumina, sulphur and phosphorus. For example, haematite is usually mined at a grade of about 65 per cent.. Therefore, iron ore is generally concentrated or beneficiated (to upgrade the iron content) before being reduced to metallic iron ("pig iron"). Iron ore is reduced by being charged in combination with limestone flux and coke into a blast furnace that is heated with air. The pig iron produced will contain high levels of carbon, sulphur, phosphorus and magnesium. These need to be significantly reduced from the pig iron for steel-making.

Iron ore is traded in three principal forms: fines, lumps and pellets Fines and lumps are produced from the same ore and are separated by screening and sorting. Neither product is concentrated (i.e. beneficiated). Lumps and pellets are most commonly charged directly into a BF to produce pig iron. However, the lump ore may "decrepitate" (break down under thermal load) in the furnace, thereby lowering its efficiency.

The particle size of fines needs to be increased before they can be charged into a BF. This is required to improve permeability in the furnace burden and to prevent loss of fines up the stack. Therefore, fines are mainly used as sinter or pellet feed, the resulting agglomerated product (in the form of sinter or pellets) being charged to the BF. Pellets are usually the most desirable form of iron ore as they make a major contribution to the productivity of the BF. Lump ore is the next most desirable in terms of BF productivity.

Lump ore is essentially un-beneficiated naturally-occurring pellets or clumps of iron ore, with a diameter of more than 5 mm and generally less than 30 mm. The value of lump ore is greater if it does not break up during transportation. An integrated steel mill will normally screen lump ore prior to it being fed into the blast furnace. Lump ore that does not quickly decrepitate in the blast furnace is highly valued by steel-makers.

Pellets begin as fine-grained concentrate. They are the product of an agglomeration process that involves very fine, pure ore (pellet feed) being mixed with a binder (such as a slurry of bentonite), rolled into "green" ball-like pellets and then fired on a grate or in a kiln at about 1,200°C to produce the final indurated (i.e. hardened) product. The process was first developed in North America to convert the low-grade taconite ores into an economic feed for the integrated steel mills. Pellets are typically 8-20mm in diameter and may also contain fluxes to aid smelting.

Supply

In 2006, global iron ore production totalled 1,768Mt, representing a 15 per cent. increase on 2005. Global iron ore supply is expected to grow strongly over the remainder of the decade with annual output projected to increase by more than 254Mt to 2,022Mt by 2009. Global pellet production totalled 332Mt in 2006, and pellet sales represented 19 per cent. of the total iron ore market in 2006.

The largest iron ore producers are CVRD, BHP Billiton and Rio Tinto (the "Big Three"), which control 32 per cent. of world iron ore production (or 39 per cent. if China's production is adjusted for grade) and 73 per cent. of world seaborne trade in iron ore. The main pellet producers are CVRD, Cleveland Cliffs, US Steel and LKAB, which collectively accounted for 37 per cent. of the total pellet market in 2006. In 2006, the top five iron ore producers accounted for 63 per cent. of production in developed markets and 36 per cent. of global production (or 45 per cent. if China's production is adjusted for grade).

The Big Three are believed to be heavily investing in their mining operations in order to keep up with the anticipated ten per cent. growth of the world iron ore market over the next two years. By the end of 2007, Chinese imports of iron ore alone are expected to exceed 380Mt out of a total world import market of 810Mt.

Overall, the seaborne iron ore market share of the Big Three is approximately 73 per cent., which is similar to their market share in 2005. In 2007, AME forecasts that global seaborne trade in iron ore will grow by around 8.2 per cent. compared with 2006, while overall seaborne iron ore exports from the Big Three will remain relatively unchanged, maintaining the market share of the Big Three at approximately 73 per cent.. CVRD's exports are expected to rise by six per cent., while Rio Tinto and BHP Billiton deliveries are expected to fall slightly in 2007.

Global pellet production is expected to increase by 81Mtpa to 407Mtpa by 2009, with the bulk of the capacity coming from North and South America, Oceania and the CIS. For the seaborne pellet market, Brazil is the centre of most new capacity that is earmarked to come on stream over the next five years, with three CVRD-related developments totalling 26Mtpa and Companhia Siderúrgica Nacional, the Brazilian steelmaker ("CSN") adding 6Mtpa in two plants. In Venezuela, CVG Ferrominera Orinoco CA ("FMO") is considering a 6Mtpa plant. In Trinidad, India's Essar Steel is planning a 4.5Mtpa unit, but being part of a steel project, it should not affect pellet trade. Elsewhere, another prominent producer, Sweden's LKAB, installed 4Mtpa of new capacity in 2006 planning to add another 6Mtpa in 2008.

Demand

Global iron ore demand is expected to grow strongly by 240Mt to around 2 billion tonnes by 2009, mainly powered by steel industry expansions in Asia - particularly China and India. Rising iron ore demand will be further supported by emerging industrial economies in the FSU, South America and the Middle East. The global iron ore growth rate is expected to continue at an average annual rate of 4.3 per cent. in the period to 2009.

Demand growth will be greatest in China, with iron ore consumption (not adjusted for low grade domestic production) expected to grow by 146Mt to 1060Mt by 2009, driven by China's blast furnace based steel industry. By 2009, China is expected to account for 53 per cent. of global iron ore consumption on an unadjusted basis, or 45 per cent. of global consumption when the low-grade nature of domestic Chinese ore is taken into account.

Imports of ore into China are projected to increase from 326Mt in 2006 to around 470Mt by 2009. In 2006, imports accounted for 36 per cent. of China's iron ore supply. Imports are expected to account for 40 per cent. of the domestic market by 2009.

Indian iron ore consumption is expected to grow from 69Mt in 2006 to 92Mt by 2009, based on the ambitions of the Indian steel industry to reach 65Mtpa crude steel capacity by 2012.

Steel sector reconstruction and modernisation in the FSU is expected to result in iron ore consumption growth by over 18Mt to 169Mt between 2006 and 2009.

South American iron ore demand is expected to increase from 82Mt in 2006 to 110Mt in 2009, driven largely by plans of the Brazilian steel industry to lift steel production through blast furnace upgrades, new furnaces and greenfield projects.

Iron ore consumption growth of 16Mt is forecast for the Middle East in the period 2006-2009, driven by expanding direct reduced iron based steel production as steel-makers in the region capitalise on cheap natural gas supplies.

Pellets are playing an important role in meeting this consumption growth. Factors influencing global iron ore pellet demand (and availability) include:

- renewed interest in direct reduced iron production, which is largely pellet-based (outside India);
- limited sources of high-grade lump ore;
- the need for iron ore producers to do more processing and concentration of raw ore as existing deposits become depleted and new deposits of lower-grade ore are exploited to meet rising demand;
- the productivity benefits of pellets in blast furnaces; and
- increasing rates of pulverised coal injection in blast furnaces, which puts additional quality requirements on the iron ore feed.

Another factor affecting the form of iron ore which is used is steel demand. When demand is low, steel-makers tend to switch to fines because they allocate a lower priority to productivity targets. In a tighter supply market, more pellets and lump are consumed.

Markets and prices

The majority of world seaborne iron ore trade is sold under long-term contract with tonnages agreed upon between ore producers and steel mills. Prices are usually set annually, for the Japanese fiscal year (April-March) in Japan, and for the calendar year in Europe.

The two dominant markets in international iron ore trade are Europe and East Asia, now led by China (formerly by Japan). Benchmark prices are set annually in these two trade zones, with agreed price movements flowing from one market to the other.

CVRD, the world's largest iron ore producer, settled with Baosteel Group Corp, China's largest steel-maker, on a 9.5 per cent. price increase for iron ore fines in 2007, setting the benchmark for steel companies globally. This follows a 19 per cent. increase in 2006 and a record 71.5 per cent. increase in 2005.

A price for fines is usually settled first and then premia for lumps and pellets are negotiated, depending on supply-demand balances.

A smaller portion of world seaborne traded iron ore is sold on the spot market. Most spot sales are individually negotiated, one-time contracts are made directly between buyer and seller.

The seaborne traded iron ore spot market is dominated by Indian sales to China, with most Indian ore sold on spot. Indian ore is typically sold to China on a contracted basis.

The current tightness seen in the global iron ore market, caused by surging Chinese demand outstripping the ability of suppliers to expand existing capacity and commission new capacity, will continue well into 2008. From 2009, AME expects an increasing pool of iron ore production capacity from brownfield expansions and new entrants will shift the supply/demand balance into surplus. India's expanding ore demand is expected to be self-sufficient, with exports possibly decreasing in order to satisfy domestic demand.

AME predict a 5 per cent. decrease in benchmark iron ore prices for fines in 2008, followed by a further real term decline of 5 per cent. in 2009, caused by capacity increases outstripping slowing demand growth, potential steel supply surpluses and the increased negotiating power of steel mill blocs.

In recent years the price of lump ore has moved in line with benchmark increases for fines that are agreed first. AME believes that this situation will persist, as prices for fines are projected to decline towards the end of the decade. However, the price differential between lump ore and fines is projected to widen, as the fines market becomes oversupplied with an excess of low-quality domestic Chinese concentrate.

Ukrainian regulatory framework

General

Ukrainian law, notably the Code of Ukraine on the Subsurface, dated 27 July 1994 (the "Subsurface Code"), the Law of Ukraine No. 1775-III on Licensing of Certain Entrepreneurial Activities, dated 1 June 2000 (the "Licensing Law"), the Land Code of Ukraine, dated 25 October 2001 (the "Land Code") and the Law of Ukraine No. 1264-XII On Environmental Protection, dated 25 June 1991 (the "Environmental Law") and other laws and regulations, including annual resolutions of the Cabinet of Ministers of Ukraine, impose a number of restrictions on mining companies in Ukraine. Such restrictions relate to, amongst other things:

- the procedure for obtaining rights to mineral deposits;
- the manner in which mineral deposits are exploited;
- the protection of the environment and prevention of pollution; and
- the health and safety of workers.

The Subsurface Code provides that the subsurface (including its mineral resources) is the exclusive property of the Ukrainian people and may only be granted for the use of legal entities and individuals. Mining companies in Ukraine can only prospect for and mine mineral resources pursuant to production sharing agreements or licences and permits granted by the relevant state authorities. With effect from 2004, exploration and mining licences are generally sold on a competitive basis to the highest bidder at an auction (tender).

Exploration and mining licences

A company that intends to develop an unexplored deposit (being a deposit whose resources have not been estimated and approved by the Ukrainian State Commission on Mineral Reserves) must first obtain an exploration licence and carry out prospecting works at its own expense. The Ministry of Environmental Protection of Ukraine (the "Ministry") currently grants exploration licences for deposits to applicants for an initial period of five years (other than oil and gas deposits), which may be extended for a further period of up to five years. The licence is subject to various conditions and may be suspended or revoked in specified circumstances. Prospecting work must begin within two years of the date of issue of the licence.

If the geological exploration reveals the existence of commercially extractable minerals, the results of the survey must be confirmed by the State Commission on Mineral Reserves of Ukraine and registered in the State Balance of Mineral Deposits. The applicant may then apply for a mining licence and a mining allotment. The State Committee for Industrial Safety, Labour Protection and Mining Supervision grants a mining allotment to applicants on submission of the mining licence, estimated reserves report and field development or extraction programme. A mining company may also apply for a mining licence for a deposit which has already been explored by the State and whose reserves are registered in the State Balance of Mineral Deposits, subject to payment for the geological data.

The Ministry also grants licences for the extraction of minerals (other than oil and gas) for an initial period of up to 20 years. The licensee may apply to extend a mining licence. A mining licence may be subject to special conditions relating, amongst other things, to the mining technology used, environmental protection, scope of work and termination of mining activities. In general, mining activities must begin within two years of the date of issue of the mining licence. Mining licences may be suspended or revoked, or an extension may be refused, in specified circumstances, including breach of licence conditions or non-payment of fees.

Under the Licensing Law, with effect from March 2006, the extraction of natural resources from deposits which are deemed to be of national importance and which are included within the State Fund of Natural Resources Deposits is subject to the requirement to obtain a separate business activity licence. Iron quartzites of the type which are currently being mined by Ferrexpo Poltava are considered to be natural resources of national importance for such purposes and all of the quartzites deposits for which Ferrexpo Poltava has mining licences (being the Gorishne-Plavninskoe, Lavrikovskoe, Yeristovskoe, Belanovskoe and Galeschinskoe deposits) are included within the State Fund of Natural Resources Deposits. Failure to obtain such a licence may result in the imposition of administrative fines on the management of the defaulting entity of up to UAH 680 (approximately equivalent to US$135) and can also result in an order for the confiscation of any mined product. Notwithstanding this, the licensing terms that would set out the applicable qualification requirements for applicants have not yet been adopted in Ukraine and the Group is not aware of any such licences having been issued to other companies to date. See "Risk factors – Risks relating to the Group's operations – The Group's business depends on exploration and mining licences issued by the Government of Ukraine and such licences may be withheld, revoked or not renewed". See further "Information on the Group – Regulatory and health and safety matters – Mining licences" and "– Mining allotments" in Part II for details of Ferrexpo Poltava's exploration and mining licences and mining allotments.

Mining companies are subject to fees for conducting exploration and mining works which are calculated based on the type of ore, size and geological features of the deposit, duration of mining works and other factors. Excess profits of mining companies may be subject to excise tax for certain types of minerals.

Ancillary licences

In addition to licences for exploration and mining, the Group is required to obtain a number of ancillary licences in connection with its operations. Ferrexpo Poltava also has licences or permits to conduct ancillary operations, including the following:

- supplying electricity at an unregulated tariff;
- supplying natural gas at an unregulated tariff;
- manufacturing explosives;
- blasting;
- operating telecommunications equipment and networks and using radio frequencies; and
- construction works.

Land

Land in Ukraine is divided into categories depending on its use. Land used for mining purposes falls within the category of industrial land. Each category of land is subject to a particular legal regime. Mining companies may obtain rights to land following the allocation of a mining allotment (see "Exploration and mining licences" above). Under the Land Code, land may be held for mining purposes under rights of ownership or rights of use. Rights of use may be conveyed pursuant to a grant of rights of permanent use or a lease. Only State-owned entities are eligible to hold land under rights of permanent use under the current Land Code.

Ferrexpo Poltava has the right of permanent use of an area of approximately 5,434 hectares of land on which its mine and production facilities are situated. The right of permanent use was granted by the Komsomolsk City Council on 26 December 2000 and Ferrexpo Poltava obtained a State Act on the Right of Permanent Use of Land for the property on 20 June 2001. Ukrainian law on land use has been amended since Ferrexpo Poltava acquired this land and now requires companies which occupy land on the basis of permanent use rights to either buy or lease such land by 1 January 2008. Ferrexpo Poltava has bought most of the land where its main industrial facilities are located (totalling approximately 324 hectares) and intends to buy the remainder of the land on which its main industrial facilities are located in the near future. Ferrexpo Poltava intends to lease the remainder of the land which is not occupied by production facilities (including the land where the waste dumps and tailings pond are located).

Land tax is assessed on the land currently occupied by Ferrexpo Poltava's mining and production facilities at the rate of approximately UAH 7 million per year.

Ferrexpo Poltava leases the land over the Yeristovskoe deposit pursuant to three land lease agreements entered into with the local village council for a term of 49 years.

Environmental standards

State and local laws (principally the Environmental Law, the Subsurface Code and other regulations) contain provisions for the control and protection of the environment in Ukraine. These laws and regulations govern, amongst other things, the use of natural resources, the reclamation and restoration of mining areas, ecological safety standards including atmospheric emissions, the treatment of industrial effluents, the use, handling and disposal of waste and the control of water resources. The use of the subsurface in such a manner as to adversely affect the condition of the subsurface, the environment or public health entails the termination of mining rights. In addition, environmental protection legislation in Ukraine provides that subsurface users (including mining companies) are liable for damage caused by the contamination of the environment and deterioration of natural resources as a result of their activities. Mining activities are subject to mandatory ecological inspections. Mining companies are subject to payments for environmental contamination based on the actual levels of pollutants discharged. Mining sites must be liquidated or conserved after mining operations cease and the land affected by mining operations must be restored for future use.

Ferrexpo Poltava's mining and production facilities are subject to environmental monitoring and regulation with respect to the following:

- air quality control with respect to dust and gas emissions from the open-pit mine, crushing and processing and waste (tailings dam) operations;
- the disposal of solid waste from the mine and town-site (including hazardous material and waste rock);
- the disposal and storage of waste from the production facilities, mine water and sewage;
- the treatment of excess tailings dam water;
- monitoring ground water quality;
- the disposal of mine waste in dumps;
- the extraction of fresh water from the Dnipro River for use in mining and production; and
- mining operations.

Ferrexpo Poltava holds a number of environmental licences and permits, including permits for air emission control, solid waste disposal, tailings disposal, mine waste disposal and special use of fresh water. All permits are subject to annual renewal except for air emission and water use permits which are issued for a five year period. Ferrexpo Poltava has all the permits required for its current operations. Ferrexpo Poltava has applied for the necessary environmental permits to begin mining operations at the Yeristovskoe deposit. It expects to receive some of these permits in 2007 with the remainder to be received before the commencement of mining operations.

In addition to the above, Ferrexpo Poltava has adopted its own system of environmental standards and environmental controls. Management considers that its has an effective internal environmental management and monitoring system, including a dedicated ecology unit and an ecological laboratory which continually monitors air and water quality, gas filtering equipment and the working environment. All gas emission points are equipped with filters. Dust control measures have been implemented to prevent wind-borne dust pollution from the tailings dams. Most of the dam water is recycled for use in the production process; the excess is biologically treated before being released into the environment.

Ferrexpo Poltava is subject to monitoring by several national and regional environmental bodies, chiefly the State Board of Environment and Natural Resources in the Poltava region, the Poltava Regional Environmental Reconnaissance Institute and the State management of Environmental Water, and to regular and random inspections by the environmental authorities, including annual monitoring of its tailings dam and waste dumps. Ferrexpo Poltava is generally in compliance with all national and local regulations concerning emissions. There have been no significant instances of non-compliance with any environmental permit or regulation; see, however, "Information on the Group – Regulatory and health and safety matters – Environmental standards" for details of certain minor infringements of environmental regulations identified in 2006.

Part V

The Global Offer and related matters

The Global Offer

Pursuant to the Global Offer, which will be fully underwritten by the Underwriters in accordance with the terms of the Underwriting Agreement (further details of which are set out below and in "Additional information-Underwriting Agreement" in paragraph 8 of Part XI), the Company expects to raise approximately £71.1 million, net of underwriting commissions and other fees and expenses of up to approximately £30.5 million by the issue of 72,527,361 New Ordinary Shares.

An amount of approximately £111.4 million is expected to be raised by the sale of 79,570,571 Sale Shares on behalf of the Selling Shareholder (assuming that the Manager's Option is not exercised). The Company will not receive any portion of the proceeds from the sale of the 79,570,571 Sale Shares. The earliest closing date, which will be the last date for subscription, for the Global Offer is 14 June 2007.

The Global Offer comprises an issue of 72,527,361 New Ordinary Shares and the sale of 79,570,571 Sale Shares (representing approximately 12.0 per cent. and 13.1 per cent., respectively, of the expected issued ordinary share capital of the Company immediately following Admission, assuming that the Manager's Option is not exercised).

The New Ordinary Shares will, on Admission, rank pari passu in all respects with the Existing Ordinary Shares and will rank in full for all dividends and other distributions thereafter declared, made or paid on the ordinary share capital of the Company.

The Global Offer is fully underwritten by the Underwriters and will be subject to the satisfaction of the conditions in the Underwriting Agreement including the representations and warranties given at the time of entry into the agreement being correct, there having been no material adverse change, the Company and the Selling Shareholder having performed all their obligations under the agreement, Admission occurring and becoming effective by 8.00 a.m. on 20 June 2007 or such later time or date as may be determined in accordance with the Underwriting Agreement, and the Underwriting Agreement not having been terminated. Further details of the Underwriting Agreement are set out in "Additional information – Underwriting Agreement" in paragraph 8 of Part XI.

Stabilisation and the Manager's Option

In connection with the Global Offer, JPMorgan Cazenove as Stabilising Manager, or any of its agents, may (but will be under no obligation to) over-allot or effect transactions which stabilise or maintain the market price of the Ordinary Shares or any options, warrants or rights with respect to, or interests in, the Ordinary Shares, in each case at a higher level than might otherwise prevail in the open market. Such transactions may commence on or after the date of publication of the Offer Price and will end no later than 30 calendar days thereafter. Such transactions may be effected on the London Stock Exchange, the over-the-counter market or otherwise. There is no assurance that such transactions will be undertaken and, if commenced, they may be discontinued at any time. Save as required by law or regulation, it is not intended that the Stabilising Manager will disclose the extent of any over-allotments and/or stabilisation transactions in relation to the Global Offer.

In connection with the Global Offer, the Stabilising Manager may, for stabilisation purposes, over-allot Ordinary Shares up to a maximum of 7 per cent. of the total number of Ordinary Shares comprised in the Global Offer (assuming no exercise of the Manager's Option). For the purposes of allowing it to cover short positions resulting from any such over-allotments and/or from sales of Ordinary Shares effected by it during the stabilisation period, the Stabilising Manager has entered into the Manager's Option with the Option Shareholder, pursuant to which the Stabilising Manager may purchase, or procure purchasers for, additional Existing Ordinary Shares amounting up to a maximum of 7 per cent. of the total number of Ordinary Shares comprised in the Global Offer (assuming no exercise of the Manager's Option) at the Offer Price. The

Manager's Option will be exercisable in whole or in part at any time during the period commencing on the date of publication of the Offer Price and ending 30 calendar days thereafter. Any Option Shares made available pursuant to the Manager's Option will rank pari passu in all respects with the Ordinary Shares, including for all dividends and other distributions declared, made or paid on the Ordinary Shares, will be purchased on the same terms and conditions as the Ordinary Shares being issued and sold in the Global Offer, and will form a single class for all purposes with the other Ordinary Shares.

Dealing arrangements

The Global Offer is subject to the satisfaction of conditions contained in the Underwriting Agreement including Admission, expected to occur by 8.00 a.m. (London time) on 20 June 2007 or such later date as may be determined in accordance with such agreement. Certain conditions are not capable of waiver. Further details of the Underwriting Agreement are set out in "Additional information – Underwriting Agreement" in paragraph 8 of Part XI.

Admission is expected to take place, and unconditional dealings in the Ordinary Shares are expected to commence, on the London Stock Exchange at 8.00 a.m. (London time) on 20 June 2007. Settlements of dealings from that date will be on a three-day rolling basis. Once admitted to trading, the Shares will be registered with ISIN number GB00B1XH2C03 and SEDOL number B1XH2C0. It is expected that Ordinary Shares allotted to investors in the Global Offer will be delivered in uncertificated form and settlement will take place through CREST on Admission. Investors in the Global Offer will pay the Offer Price in respect of the Ordinary Shares to be received by them in such manner as shall be directed to them by the Global Co-ordinator on behalf of the Underwriters.

It is expected that dealings in the Ordinary Shares will commence on a conditional basis on the London Stock Exchange at 8.00 a.m. (London time) on 15 June 2007. The earliest date for settlement of such dealings will be 20 June 2007. All dealings between the commencement of conditional dealings and the commencement of unconditional dealings will be on a "when issued" basis.

If the Global Offer does not become unconditional, all such dealings will be of no effect. Any such dealings will be at the sole risk of the parties concerned.

CREST

CREST is a paperless settlement procedure enabling securities to be evidenced without a certificate and transferred otherwise than by a written instrument. The Articles permit the holding of shares under the CREST system. The Company has applied for the Ordinary Shares to be admitted to CREST with effect from Admission. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place within the CREST system if any Shareholder so wishes.

CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will be able to do so. Investors applying for Ordinary Shares under the Global Offer may, however, elect to receive Ordinary Shares in uncertificated form if they are a system-member (as defined in the CREST Regulations) in relation to CREST.

Underwriting arrangements

The Company, the Directors, Kostyantyn Zhevago, the Selling Shareholder, the Sponsor, the Global Co-ordinator and the Underwriters have entered into the Underwriting Agreement, pursuant to which the Joint Bookrunners have agreed, subject to certain conditions, to use their reasonable endeavours to procure subscribers for all the New Ordinary Shares and purchasers for all the Sale Shares, and the Underwriters have agreed, subject to certain conditions, to the extent that the Joint Bookrunners fail to procure subscribers for all the New Ordinary Shares and purchasers for all the Sale Shares, themselves to subscribe for or purchase (or to procure subscription or purchase by one or more nominated subscribers or purchasers) any unplaced New Ordinary Shares and Sale Shares. All such subscriptions and purchases will be at the Offer Price.

Further details of the terms of the Underwriting Agreement are set out in "Additional information – Underwriting Agreement" in paragraph 8 of Part XI.

Lock-up arrangements

Each of the Company, the Directors (excluding Michael Oppenheimer and Dennis McShane), Kostyantyn Zhevago and the Selling Shareholder have agreed to enter into certain lock-up arrangements for a period of 18 months from Admission.

Dennis McShane and Michael Oppenheimer have agreed to enter into certain lock-up arrangements for a period of 6 months and 12 months from Admission respectively.

In the case of the Selling Shareholder and Kostyantyn Zhevago, the lock-up arrangements are subject to certain further exceptions.

Approximately 74.9 per cent. of the Ordinary Shares in issue on Admission (assuming no exercise of the Manager's Option) will be subject to lock-up arrangements.

Further details of these lock-up arrangements, including the restrictions and exceptions to them, are contained in "Additional information-Underwriting Agreement" in paragraph 8 of Part XI.

Securities laws and restrictions on transfer

General

The distribution of this Prospectus and the offer of Ordinary Shares in certain jurisdictions may be restricted by law and therefore persons into whose possession this Prospectus comes are required by the Joint Bookrunners, the Company and the Selling Shareholder to inform themselves about and observe any such restrictions, including those in the paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of such jurisdiction. Persons receiving this Prospectus should not distribute or send it into any jurisdiction where to do so would or might contravene local securities laws or regulations.

No action has been taken by the Company, the Selling Shareholder or the Joint Bookrunners that would permit, otherwise than under the Global Offer, an offer of Ordinary Shares or possession or distribution of this Prospectus or any other offering material relating to Ordinary Shares in any jurisdiction where action for that purpose is required. No offer is being made, or being permitted to be made, to the public in any jurisdiction.

None of the Ordinary Shares may be offered for subscription, sale or purchase or be subscribed, sold or delivered, and this Prospectus and any other material in relation to the Ordinary Shares may not be circulated in any jurisdiction where to do so would break any securities laws or regulation of any such jurisdiction or, other than in the UK, give rise to an obligation to obtain any consent, approval or permission, or to make any application, filing or registration.

No Ordinary Shares have been marketed to, or are available for subscription or purchase in whole or in part by, the public in the United Kingdom or elsewhere in conjunction with the Global Offer. This Prospectus does not constitute an offer or the solicitation of an offer in the United Kingdom to subscribe for or buy any securities in the Company or any other entity.

Because of the following restrictions, investors are advised to consult legal counsel prior to making any resale, pledge or transfer of Ordinary Shares.

United States

The Ordinary Shares offered by this Prospectus have not been and will not be registered under the Securities Act or under the applicable securities laws of any state of the United States. The Ordinary Shares may not be offered or sold in the United States except in certain transactions exempt from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Each Underwriter has represented and agreed that it will solicit purchases of Ordinary Shares in the United States solely outside the United States in offshore transactions to selected institutional investors in reliance on Regulation S under the Securities Act.

European Economic Area

In relation to each member state of the European Economic Area which has implemented the Prospectus Directive (each, a "relevant member state"), with effect from and including the date on which the Prospectus Directive was implemented member state (the "relevant implementation date") no Ordinary Shares have been offered or will be offered pursuant to the Global Offer to the public in that relevant member state, except that with effect from and including the relevant implementation date, offers of Ordinary Shares may be made to the public in that relevant member state pursuant to the following exemptions under the Prospectus Directive:

(a) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

(b) at any time to any legal entity which has two or more of: (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than €43,000,000; and (iii) an annual turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;

(c) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Joint Bookrunners for any such offer; or

(d) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Ordinary Shares shall result in a requirement for the publication by the Company or the Joint Bookrunners of a prospectus pursuant to Article 3 of the Prospectus Directive or any measure implementing the Prospectus Directive in a relevant member state and each person who initially acquires any Ordinary Share or to whom any offer is made under the Global Offer will be deemed to have represented, acknowledged and agreed that it is a "qualified investor" within the meaning of Article 2(1)(e) of the Prospectus Directive.

For the purpose of the expression "an offer of any Ordinary Shares to the public" in relation to any Shares in any relevant member state means the communication in any form and by any means of sufficient information on the terms of the offer of any Ordinary Shares to be offered so as to enable an investor to decide to purchase any Ordinary Shares, as the same may be varied in that relevant member state by any measure implementing the Prospectus Directive in that relevant member state.

Japan

The Ordinary Shares offered by this Prospectus have not been and will not be registered under the Securities and Exchange Law of Japan (the "Securities and Exchange Law"). Accordingly, each Underwriter has represented and agreed that the Ordinary Shares which it purchases will be purchased by it as principal and that it has not offered or sold, and will not offer or sell any Ordinary Shares, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (including Japanese corporations), or to others for reoffering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident in Japan (including Japanese corporations) except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and relevant regulations of Japan.

Hong Kong

In Hong Kong this Prospectus may only be issued, circulated or distributed and the Ordinary Shares are only being offered for subscription or purchase: (a) to persons who are "professional investors" within the meaning of section 1 of Part 1 of Schedule 1 to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong); and/or (b) otherwise in accordance with the provisions of Part 1 of the Seventeenth Schedule of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as read with the other parts of that Schedule; and/or (c) in any other circumstances that would not result in (i) this Prospectus constituting a prospectus as defined in section 2(1) of the Companies Ordinance and (ii) the issue or possession of this Prospectus constituting an offence under section 103(1) Securities and Futures Ordinance; (all such persons in (a), (b) and (c) together being referred to as "relevant persons").

This Prospectus has not been and will not be registered with any regulatory authority in Hong Kong. The contents of this Prospectus have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the Global Offer. If prospective investors in Ordinary Shares are in any doubt about any of the contents of this Prospectus, they should obtain independent professional advice.

The copying, forwarding, reproduction, publication, disclosure or distribution, directly or indirectly, of this Prospectus by recipients is strictly prohibited and may result in a breach of the securities laws of Hong Kong.

Persons in Hong Kong who are not relevant persons and who receive a copy of this Prospectus should not act on it and should immediately return this Prospectus to the Company.

Singapore

This Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of Ordinary Shares may not be circulated or distributed, nor may Ordinary Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (a) to an institutional investor under Section 274 of the SFA, (b) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Ordinary Shares are subscribed or purchased under Section 275 by a relevant person which is:

(i) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(ii) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor,

shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the Ordinary Shares under Section 275 except:

(1) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA;

(2) where no consideration is given for the transfer; or

(3) by operation of law.

Australia

This Prospectus does not constitute a disclosure document under Part 6D.2 of the Corporations Act 2001 of the Commonwealth of Australia (the "Corporations Act") and will not be lodged with the Australian Securities and Investment Commission. Any offer of shares received in Australia is void to the extent that it needs disclosure to investors under the Corporations Act. The Ordinary Shares will be offered to persons who receive offers in Australia only to the extent that such offers of shares for issue or sale do not need disclosure to investors under Part 6D.2 of the Corporations Act. In particular, offers for the issue or sale of Ordinary Shares will only be made in Australia in reliance on various exemptions from such disclosure to investors provided by section 708 of the Corporations Act. Any person to whom Ordinary Shares are issued or sold pursuant to an exemption provided by section 708 of the Corporations Act must not within 12 months after the issue, offer those Ordinary Shares for sale in Australia unless that offer is itself made in reliance on an exemption from disclosure provided by that section.

Canada

The Ordinary Shares may not, directly or indirectly, be offered or sold within Canada, or offered or sold to a resident of Canada, except with the prior approval of the Joint Bookrunners on a basis exempt from any requirement to prepare and file a prospectus with or to obtain clearances from the relevant securities regulatory authorities of any province or territory in Canada.

Risk factors

Prior to investing in the Ordinary Shares, prospective investors should consider, together with other information contained in this Prospectus, certain risks and other factors set out in "Risk factors".

Part VI

Selected financial and operating information

The table below provides selected financial and operating information in relation to the Group. Other than total pellets produced, which has been extracted without material adjustment from the "Technical report" in Part XII, this information has been extracted without material adjustment from Part VIII: "Historical financial information" and has been prepared on the basis described in the footnotes to the Group's consolidated financial information in Part VIII, except for the EBITDA information and total cash costs, which have been calculated as set out in this Part VI. Investors should read the whole of this Prospectus and not rely solely on summarised information.

	Year ended 31 December		
	2004	*2005*	*2006*
	US$000 (except as noted)		
Income statement data:			
Revenue	375,145	563,417	547,310
Cost of sales	(207,937)	(308,519)	(296,720)
Gross profit	**167,208**	**254,898**	**250,590**
Selling and distribution expenses	(41,613)	(65,130)	(86,376)
General and administrative expenses	(18,302)	(30,033)	(41,140)
Other income	1,000	1,606	2,583
Other expenses	(2,901)	(5,856)	(5,078)
Profit from continuing operations before adjusted items	**105,392**	**155,485**	**120,579**
Write offs and impairment losses	(197)	(1,691)	(2,205)
Share of losses of associates	(153)	(41)	-
Net gain/(loss) from disposal of subsidiaries and associates	-	1,181	(3,524)
Profit before tax and finance	**105,042**	**154,934**	**114,850**
Finance income	2,907	5,683	2,326
Finance expense	(22,587)	(22,913)	(32,655)
Foreign exchange (loss)/ gain	(234)	3,138	(3,784)
Profit before tax	**85,128**	**140,842**	**80,737**
Income tax expense	(6,962)	(19,908)	(14,758)
Profit for the year	**78,166**	**120,934**	**65,979**
Attributable to:			
Equity shareholders of Ferrexpo	80,943	105,836	63,578
Minority interest	(2,777)	15,098	2,401
	78,166	**120,934**	**65,979**
Cash flow data:			
Net cash flows from operating activities	85,523	141,537	60,797
Net cash flows used in investing activities	(62,618)	(211,639)	(177,394)
Net cash flows from/(used in) financing activities	(13,592)	61,663	130,337
Net increase/(decrease) in cash and cash equivalents	9,313	(8,439)	13,740
Other operating and financial data:			
EBITDA (unaudited)[(1)]	133,980	188,353	144,010
Total cash costs of production from own ore[(2)]	208,333	285,246	331,055
Total pellets produced from own ore (kt)	6,818	7,137	8,165

	As at 31 December		
	2004	*2005*	*2006*
		US$000	
Balance sheet data:			
Cash and cash equivalents	10,935	2,496	16,236
Available for sale financial assets (current and non-current)	1,587	34,653	36,092
Total assets	415,350	596,596	706,916
Interest-bearing loans and borrowings (short- and long-term)	172,202	236,151	285,975
Other current liabilities	45,147	71,089	49,007
Other non-current liabilities	34,885	33,446	35,142
Total equity	163,116	255,910	336,792

(1) EBITDA is calculated as profit from continuing operations before tax and finance less foreign exchange (loss)/gain plus depreciation (included in cost of sales, administrative expenses and selling and distribution costs) and non-recurring cash items included in other income, non-recurring cash items included in other costs plus the net gain/(loss) from disposal of subsidiaries and associates. EBITDA is not a measure of financial performance under IFRS. A reconciliation of profit from continuing operations before tax and finance costs/income to EBITDA is presented in this Part VI.

(2) Total cash costs of production from own ore are calculated to include total costs less depreciation, all costs of producing pellets from third party concentrate, pellets purchased from third parties and the cost of other outputs included in cost of sales plus the cash costs of distribution and the cash administration costs of production. Total cash costs of production from own ore are not a measure of financial performance under IFRS. A reconciliation of cost of sales to total cash costs of production from own ore is presented in this Part VI.

EBITDA

The Group calculates EBITDA as profit from continuing operations before tax and finance less foreign exchange (loss)/gain plus depreciation (included in cost of sales, administrative expenses and selling and distribution costs) and non-recurring cash items included in other income, non-recurring cash items included in other costs plus the net gain/(loss) from disposal of subsidiaries and associates. The Company presents EBITDA because it believes that EBITDA is a useful measure for evaluating its ability to generate cash and its operating performance. EBITDA is not a measure of financial performance under IFRS. Investors should not consider EBITDA in isolation, as an alternative to profit from continuing operations, as an indicator of operating performance, as an alternative to cash flows from operating activities or as a measure of the Company's profitability or liquidity. EBITDA as presented in this Prospectus is unaudited and also may not be comparable to any other similarly titled measure of performance of other companies.

The following table reconciles the Group's profit from continuing operations before tax and finance costs/income to EBITDA:

	Year ended 31 December		
	2004	*2005*	*2006*
		US$000	
Profit from continuing operations before tax and finance costs/income	105,042	154,934	114,850
Plus:			
Foreign exchange (loss)/gain	(234)	3,138	(3,784)
Depreciation	28,975	29,771	27,215
Write offs and impairments	197	1,691	2,205
Net (gain) / loss from disposal of subsidiaries and associates	-	(1,181)	3,524
EBITDA	133,980	188,353	144,010

Total cash costs of production from own ore

The Group calculates total cash costs of production from own ore to include total costs less depreciation, all costs of producing pellets from third party concentrate, pellets purchased from third parties and the cost of other outputs included in cost of sales plus the cash costs of distribution and the cash administration costs of production. Total cash costs of production from own ore and total cash costs of production from own ore per tonne (FOB/DAF) are presented because the Company believes they provide a measure for comparing the Group's operational performance against that of its peer group. In addition, management uses these measurements to compare the performance of the Group's operations period-to-period from a cash flow perspective, to monitor costs and to evaluate operating efficiency. Total cash costs of production from own ore and total cash costs of production from own ore per tonne (FOB/DAF) are not measures of financial performance under IFRS. Investors should not consider total cash costs of production from own ore or total cash costs of production from own ore per tonne (FOB/DAF) in isolation, as an alternative to profit from continuing operations, as an indicator of operating performance, as an alternative to cash flows from operating activities or as a measure of the Group's profitability or liquidity. Total cash costs of production from own ore and total cash costs of production from own ore per tonne (FOB/DAF) as presented in this Prospectus are unaudited and may also not be comparable to other similarly titled measures of performance of other companies.

The following table reconciles the Group's cost of sales to total cash costs of production from own ore and presents the calculation of total cash costs of production from own ore per tonne (FOB/DAF):

	Year ended 31 December		
	2004	*2005*	*2006*
	US$000 (except as noted)		
Cost of sales	207,937	308,519	296,720
Adjusted for:			
Pellets purchased from 3rd parties	(8,800)	(36,031)	-
Costs to produce pellets from 3rd party concentrate (excluding depreciation)	(18,224)	(38,839)	(19,757)
Depreciation	(28,359)	(28,524)	(24,895)
Stock movement	4,992	11,997	(9,930)
Cost of other outputs	(3,072)	(3,424)	(2,728)
Total cash costs ex works	154,474	213,698	239,409
Total pellets produced from own ore (kt)	6,818	7,137	8,165
Total cash cost per tonne ex works ($/tonne)	22.66	29.94	29.32
Total cash costs of distribution	38,814	51,390	70,883
Total pellets exported	6,529	6,517	7,400
Total cash distribution costs ($/tonne)	5.94	7.89	9.58
Total cash administration costs of production	15,045	20,157	20,763
Total pellets produced (kt)	7,367	7,757	8,550
Total cash administration cost ($/tonne)	2.04	2.60	2.43
Total cash costs of production	**208,333**	**285,246**	**331,055**
Total cash cost per tonne (FOB/DAF) ($/tonne)	**30.64**	**40.43**	**41.33**

Part VII

Operating and financial review

The following discussion of the financial condition and results of operations of the Group should be read in conjunction with "Historical financial information" in Part VIII and with the information relating to the business of the Group included elsewhere in this Prospectus. The discussion includes forward-looking statements that reflect the current view of the Group's management and involve risks and uncertainties. The actual results of the Group could differ materially from those contained in any forward-looking statements as a result of factors discussed below and elsewhere in this Prospectus, particularly in "Risk factors". Investors should read the whole of this Prospectus and not just rely upon summarised information.

Overview

The Group's principal business is the mining, processing and sale of iron ore in the form of pellets for use in the production of steel. The Group's operations are vertically integrated. The mining and processing operations are conducted by Ferrexpo Poltava at its facilities in Poltava, Ukraine. Domestic sales are conducted by Ferrexpo Poltava in Ukraine, while international sales are conducted by Ferrexpo Poltava's parent company Ferrexpo, which is based in Switzerland with additional offices in Kyiv, Shanghai and Hong Kong. The Company is the ultimate parent company of Ferrexpo Poltava and the parent company of Ferrexpo.

In the calendar year 2006, the Group produced 8.6 million tonnes of iron ore pellets, compared with 7.8 million tonnes and 7.4 million tonnes in 2005 and 2004, respectively. The Group's total sales revenues for 2006 were US$547.3 million compared with US$563.4 million and US$375.1 million for 2005 and 2004, respectively. The Group's EBITDA for 2006, 2005 and 2004 was US$144.0 million, US$188.4 million and US$134.0 million, respectively.

Factors affecting results of operations

Key factors affecting the Group's results of operations are discussed below.

Iron ore pellet prices

The average annual pellet price of the Group is a function of global trends in international prices for iron ore pellets, the mix of international and domestic sales, the mix of sales by iron content and other quality features (such as silica content) and the frequency of pricing.

The following table shows the average pellet prices for 2004, 2005 and 2006 for the different grades of pellets that Ferrexpo Poltava produces (including applicable distribution costs).

	Average pellet prices (US$ per tonne)		
	2004	*2005*	*2006*
62 per cent. ferrous content iron ore pellets	51.25	73.29	59.60
65 per cent. ferrous content iron ore pellets	57.23	78.51	65.88

In 2006, the Group's weighted average price per tonne for 62 per cent. ferrous content pellets varied from US$53.48 for natural markets to US$54.82 for growth markets and US$62.46 for traditional markets while its weighted average price per tonne for 65 per cent. ferrous content pellets varied from US$57.55 for natural markets to US$61.30 for growth markets and US$69.09 for growth markets.

The Group's international prices are increasingly influenced by global benchmark iron ore prices, which are principally the result of negotiations between the world's principal producers of iron ore and the world's principal steel producers. In the period from 2004 to 2005, international iron prices increased significantly, driven principally by a surge in demand from China. Since 2005, international iron ore prices have fluctuated, year on year, within a more moderate band than was the case in 2005, as increases in capacity by the leading iron ore producers and increased spot iron ore supply from India and China have eased the global gap between supply and demand for iron units to some extent. In 2006, iron ore pellet prices decreased, while prices for fines and lump increased. See "Industry and mining regulatory overview" in Part IV.

Generally, the higher the ferrous content of the Group's iron ore pellets, the higher their price. For the most part, the Group's iron ore pellets with 65 per cent. iron content, including those sold in the domestic market, are priced in accordance with the international benchmark prices.

Average annual product prices are also a factor of the Group's ability to adjust their prices to fluctuations in the benchmark worldwide iron ore price. This is in part a function of the percentage of the Group's sales that are, in any given period, subject to framework agreements and the frequency of re-pricing that may be permitted under these agreements. Under these framework agreements, which have terms of up to five years, the customer is not typically required to purchase or pay for any minimum amounts. Product prices have been generally negotiated on an annual basis and reflected in pricing supplements. However, in 2005, due to the exceptional volatility of iron ore prices in the international markets, the Group shifted pricing frequency in some of its key agreements to a quarterly rather than an annual basis. In 2006, the Group shifted back to its normal policy of annual pricing. It is the Group's policy to secure a larger percentage of its sales under framework agreements in order to, among other things, ensure a more stable revenue base. In 2004, 2005 and 2006, approximately 97 per cent., approximately 75 per cent. and approximately 77 per cent., respectively, of the Group's sales were made under framework agreements. The percentage of the Group's sales that are made under framework agreements, and the frequency of the pricing mechanism under these agreements, may affect the Group's ability to pass on production costs increases to customers, and thus affect gross margins. On the other hand, long term agreements provide the Group with greater stability in its customer relationships. See "Information on the Group – Sales and marketing – Contract terms" in Part II.

Historically (from 1 January 2004 to about mid-year 2006), domestic prices for iron ore pellets have been lower than export prices. From mid-2006, however, domestic spot prices have on average exceeded export prices in some cases due principally to an increase in demand for steel from the Ukrainian construction industry. Historically most of the Group's sales in Ukraine were conducted on a spot basis. Beginning in 2006, a growing proportion of the Group's domestic sales have been represented by sales under three-month framework agreements. See "Information on the Group – Sales and marketing – Contract terms" in Part II for further information.

Sales volumes. For any given period, the Group's sales volumes are driven by demand and the Group's ability to meet any such demand, which in turn depends on the Group's production capacity, actual production and inventory levels. The following table sets forth the Group's sales volumes, production and actual capacity for the periods indicated.

	As at and for the year ended 31 December		
	2004	*2005*	*2006*
	(in thousands of tonnes)		
Sales volumes:			
62 per cent. ferrous content iron ore pellets	6,765	6,132	5,673
65 per cent. ferrous content iron ore pellets	462	1,413	3,067
Production:			
62 per cent. ferrous content iron ore pellets	6,582	6,381	5,429
65 per cent. ferrous content iron ore pellets	785	1,376	3,121
Nominal capacity (at period end):	7,500	10,000	10,000

The Group's current ore production capacity is 27 million tonnes per annum, which is sufficient for the production of approximately nine million tonnes of pellets per annum but less than the annual design capacity of its pelletising plant of 12 million tonnes.

Production costs and efficiency

Production efficiency is an important factor affecting the Group's profitability and in particular its gross profit. Production efficiency can be measured in a variety of ways, including, for example, by estimating the

Group's cash costs to produce a tonne of product or, excluding the cost element of production, measuring the Group's material, labour and/or energy consumption to produce a tonne of iron ore pellet.

Materials

Ferrexpo Poltava's principal materials are grinding bodies, purchased concentrate, explosives, bentonite and spare parts. The Group's average annual prices of materials are driven principally by inflation in Ukraine (as explained above, as the majority of these materials are sourced locally and purchased in Hryvnia), and by international trends in certain commodities, as grinding bodies, for example, are made from steel. In terms of consumption, Ferrexpo Poltava's consumption of grinding bodies (the largest component of its materials in 2006) measured in tonnes consumed per tonne of iron ore pellets produced was 0.0058, 0.0059 and 0.0057 in 2004, 2005 and 2006, respectively. Ferrexpo Poltava has maintained stable consumption of grinding bodies during the periods discussed and analysed herein, with cost increases principally attributable to inflation. Ferrexpo Poltava's consumption of purchased concentrate in terms of tonnes used per tonne of total pellets produced was 0.081, 0.090 and 0.056 in 2004, 2005 and 2006, respectively. The significant increase in Ferrexpo Poltava's consumption of purchased concentrate in 2005 was principally due to the increase in the price of iron ore pellets in 2005 relative to 2004, which made it profitable for Ferrexpo Poltava to increase production by the enrichment of iron ore with concentrate sourced from third parties.

Energy

Ferrexpo Poltava's principal energy requirements are electricity, fuel and natural gas. Electricity prices in Ukraine are set by State Enterprise Energorynok, which revises tariffs on a monthly basis. Management believes that inflation is a significant factor in tariff setting. Ferrexpo Poltava's average annual electricity prices have increased from US$28.1 per MW in 2004 to US$33.2 per MW in 2005 and were US$38.7 per MW in 2006. Ferrexpo Poltava's electricity consumption per tonne of pellets produced was 201.3 kwh, 205.9 kwh and 199.4 kwh in 2004, 2005 and 2006 respectively. The increase in consumption levels in 2005 was as a result of the greater proportion of lean ore extracted in 2005 relative to 2004.

Diesel fuel, which is used to run mining equipment, is a significant cost element of production for Ferrexpo Poltava. The principal factors affecting diesel fuel consumption for any given period are mining and excavation man hours, which are in turn affected by the stripping ratio and extraction volumes. Diesel consumption, measured as tonnes used per tonne of iron ore pellets produced, was 0.0037, 0.0039 and 0.0036 in 2004, 2005 and 2006, respectively. The increase in consumption of diesel in 2005 relative to 2004 was due principally to an increase in activity to remove overburden that had accumulated in the mine pit in previous years, as explained below under "Stripping ratio". In addition, the total cost of fuel was affected by increases in the price of diesel fuel, which was driven by movements in worldwide oil prices.

Ferrexpo Poltava obtains its natural gas from Ukrgaz-Energo under an annual supply contract with amendments reflecting the gas price each month. Prices for natural gas sales and tariffs for natural gas transportation in Ukraine are subject to regulation by the Electricity Regulatory Commission of Ukraine, which sets maximum prices for natural gas sold domestically by Ukrgaz-Energo to industrial and retail customers. Ferrexpo Poltava's annual average natural gas prices per 1,000 cubic metres were US$67.1, US$77.5 and US$118.3 in 2004, 2005 and 2006, respectively. The principal reason for the significant increase in natural gas prices in 2006 relative to 2005 was Russia's increase, in early 2006, of the price of natural gas it supplies to Ukraine to US$95.00 per 1,000 cubic metres, representing a price increase of 90 per cent. compared to the prior price. The price for natural gas for consumption in Ukraine was further increased to US$130.00 per 1,000 cubic meters in 2007. Although gas prices have increased for all Ukrainian companies, the market price for natural gas in Ukraine remains significantly lower than in Western Europe. In terms of natural gas consumption, Ferrexpo Poltava's consumption of natural gas, measured as cubic metres of natural gas used per tonne of iron ore pellets produced, was 24.6 million, 22.9 million and 20.0 million in 2004, 2005 and 2006, respectively. The decreasing gas consumption is due principally to economies of scale, as natural gas consumption is relatively independent of production levels, as well as, to a lesser extent, favourable weather conditions.

Stripping ratio

The stripping ratio, or the amount of overburden extracted per tonne of iron ore extracted, is a significant factor in production efficiency. Generally, the greater the stripping ratio, the greater the consumption of materials, energy, and other production costs per tonne of iron ore. The Group's total stripping ratio, including primary and secondary stripping, was 0.63, 0.80 and 0.70 m^3 per tonne in 2004, 2005 and 2006, respectively. The increase in the stripping ratio in 2005 relative to 2004 is principally due to an increase in the activity to remove overburden stored in the pit mine in previous years and in both deepening and widening the pit. Generally, the stripping ratio has generally been higher than in previous years as the Group has had to remove more overburden in its efforts to regain access to the target ore body. In addition, in 2006, the ratio fell as the target ore was more accessible following the deepening and widening of the pit in 2005.

Employee wages

Wages of employees have represented a significant portion of the Group's costs during the periods discussed and analysed herein. During the periods discussed and analysed herein, wage increases have on average outstripped increases in volume production, principally as a result of increases in the average annual salary of employees. The principal driving factor in the growth in annual salaries has been wage inflation in Ukraine in general and the addition of key management personnel at the corporate centre during 2005 and an increase in the payment of bonuses to key management in 2005 relative to 2004.

Distribution costs

Of the Group's sales during 2004, 2005, and 2006, approximately 93.0 per cent., 88.7 per cent. and 85.3 per cent. were export sales. The Group's principal distribution costs with respect to these sales consist of railway tariffs for transporting the products to shipping points near the Ukrainian border or the shipping port, and also, beginning in 2005, other transportation costs relating principally to international shipping costs as an increasingly significant portion of the Group's sales are being undertaken with partial or full transportation to the end-customer. Railway tariffs are therefore a significant factor in the Group's distribution costs. Railway tariffs are set by the State and are subject to periodic increase. In 2004, 2005 and 2006, railway tariffs, which are charged per wagon, increased by 28.7 per cent in January 2004, by 60.1 per cent in July 2004, by 12.9 per cent in April 2005 and in 2006 the tariff remained at 2005 levels. Distribution costs also include costs for arranging customs clearance, cargo handling and the costs of storing pellets at the shipping point.

Revenue recognition

For the majority of its sales, the Group invoices and recognises 100 per cent. of the agreed purchase price as revenue upon delivery (when the risk and rewards of ownership pass) as defined in the sales contract. For a small but growing share of its sales, the Group invoices only 95 per cent. of the agreed purchase price on delivery as defined in the contract, and recognises 97 per cent. of the agreed purchase price as revenue. The Group recognises as revenue the remaining balance (or any lesser amount as is subsequently confirmed) of the purchase price upon confirmation of the final discharge quality and quantity. The recognition of the deferred revenue could fall in the financial period subsequent to the financial period in which the principal amount of revenue was recognised.

Exchange rates

The functional currency for each entity in the Group is determined as the currency of the primary economic environment in which it operates. The functional currency of Ferrexpo Poltava is the Ukrainian Hvrynia and that of the Company and Ferrexpo is the US dollar. On consolidation, income statements of subsidiaries are translated into the presentation currency for the Group, which is the US dollar, at average rates of exchange for the relevant periods. Balance sheet items are translated into US dollars at period-end exchange rates.

Transactions in foreign currencies are recorded at the rate prevailing 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 balance sheet date and non-monetary assets and liabilities at the historic rate. Foreign exchange differences arising on translation are recognised in the income statement.

The majority of the Group's revenues are denominated in US dollars and the majortiy of its production costs are priced in Hryvnia. An appreciation of the US dollar relative to the Hryvnia therefore reduces the Group's costs when they are translated into US dollars, thereby increasing operating margins, while a depreciation tends to have the opposite effect. The average exchange rate for the Hryvnia relative to the US dollar during the year ended 31 December 2004 was 5.319. During 2005 the Hryvnia strengthened relative to the US dollar such that the average exchange rate during the year ended 31 December 2005 was 5.124. Furthermore, since March 2005, the NBU has fixed the Hryvnia to US dollar exchange rate at 5.05, effectively reducing this foreign currency risk to the Group. The Group also incurs some costs in Swiss francs, euro and pounds sterling. Movements of the Swiss franc, the euro and the pound sterling relative to the US dollar have a similar impact as movements of the US dollar relative to the Hryvnia.

Inflation

Because the majority of the Group's production costs are denominated in Hryvnia, inflation in Ukraine is a significant factor driving costs. Employee wages, consumable prices, and energy costs have been and are likely to continue to be particularly sensitive to monetary inflation in Ukraine. See "Employee wages" and "Production costs and efficiency" above.

The following table sets forth the certain inflation-related information for Ukraine for the periods indicated.

	For the year ended 31 December		
	2004	*2005*	*2006*
		(percentage)	
Consumer price index	12.3	10.3	11.6
Producer price index	24.1	9.5	14.1

Source: National Bank of Ukraine.

Depreciation

While during the periods discussed and analysed herein depreciation expenses have remained relatively constant, significant investments, particular investments in mining operations either to expand existing production at the existing open pit or to develop new sites, could increase materially the depreciation expenses recognised by the Group in the future. For a description of the Group's capital expenditures, see "Liquidity and capital resources – Capital expenditures" below.

Weather

Extreme weather conditions, particularly in winter, can have a disruptive effect on mining operations at the open pit, as well as in the transportation of the Group's products, particularly seaborne transportation. For example, difficult weather conditions resulted in shipments on the Danube being suspended during January and February 2006. Conversely, the winter of 2006-2007 was particularly mild and there was no disruption. Sustained extreme weather conditions such as snowfall or extremely low temperatures could materially affect mining operations at the open pit.

Explanation of certain income statement line items

Revenue

The Group generates revenue from the sale of iron ore pellets for export and also locally in Ukraine. The Group currently sells two types of iron ore pellets: 62 per cent. ferrous content and 65 per cent. ferrous content. Of the two, the higher ferrous content pellets commands higher per tonne prices.

The following table sets forth a breakdown of the Group's revenues for the periods indicated:

	For the year ended 31 December		
	2004	*2005*	*2006*
		(US$ in millions)	
Export sales:			
62 per cent. ferrous content iron ore pellets	322.5	388.8	265.0
65 per cent. ferrous content iron ore pellets	26.4	111.0	202.1
Total	348.9	499.8	467.1
Domestic sales:			
62 per cent. ferrous content iron ore pellets	24.2	60.6	73.1
Non-pellet sales:	2.0	3.0	7.1
Total revenue	375.1	563.4	547.3

Cost of sales

The principal components of cost of sales are materials, electricity, personnel costs, spare parts and consumables, depreciation of assets related to production, fuel, gas and extraction taxes. The principal materials are grinding bodies, diesel, explosives, bentonite and purchased concentrate.

The following table sets forth a breakdown of the Group's cost of sales for the periods indicated:

	For the year ended 31 December		
	2004	*2005*	*2006*
		(US$ in millions)	
Materials	57.5	119.4	78.7
Electricity	42.0	52.9	65.5
Personnel	29.1	38.3	46.2
Spare parts and consumables	22.1	30.4	27.1
Depreciation	28.4	28.5	24.9
Fuel	12.7	20.4	25.8
Gas	12.2	13.8	20.8
Extraction taxes	3.9	4.8	7.7
Total	207.9	308.5	296.7

Selling and distribution expenses

Selling and distribution expenses consist principally of railway tariffs incurred in connection with the transportation of the Group's iron ore within Ukraine to transfer points; other distribution expenses such as river freight costs and sea port expenses; expenses for materials, spare parts and fuel consumed incidental to distribution; and agent fees, custom duties and wages of employees involved in selling and distribution.

General and administrative expenses

General and administrative expenses consist principally of wages of employees not involved in the production process or in selling and distribution, maintenance expenses in relation to non-production assets and fees paid to consultants and other outside professionals.

Write-offs and impairment losses

This item includes principally impairment of goodwill; write-off of inventories that are not considered sellable; impairment of property, plant and equipment; other impairments or reversals of impairments; and impairment of value-added taxes formerly deemed recoverable.

Other income

Other income consists principally of income from the sale of surplus spare parts for maintenance and income from operating leases.

Other expenses

Other expenses consist principally of charitable donations to support local community projects, losses on disposals of property, plant and equipment and fines and penalties paid.

Net gain/(loss) from associates and disposal of subsidiaries

Net gain/(loss) from associates and disposal of subsidiaries consists principally of profits/(losses) arising on the disposal of a number of non-core subsidiaries and associates and the share of profits/(losses) based on the Group's percentage ownership interest in associates.

Finance income

Finance income consists principally of interest income on cash balances on term deposits and on other loans made by the Group.

Finance expense

Finance expense arises principally from interest expense on bank financing and bank charges.

Foreign exchange gain/(loss)

Transactions in foreign currencies are recorded at the rate prevailing 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 balance sheet date and non-monetary assets and liabilities at the historic rate. Foreign exchange differences arising on translation are recognised in the income statement.

Income taxes

The Group's income is subject to taxation in Switzerland, the United Kingdom and Ukraine. While the corporate income tax rate varies in each jurisdiction, and may change from time to time, for the periods presented herein, the statutory income tax rate in each of the United Kingdom and Ukraine, has remained constant at 30 per cent. and 25 per cent., respectively. In Switzerland, the statutory income tax rate levied on Ferrexpo has varied from 9.0 per cent. for 2004 to 9.4 per cent. for 2005 and 9.3 per cent. for 2006. The weighted average of the statutory rates was 9.2 per cent. for 2004, 15.4 per cent. for 2005 and 13.9 per cent. for 2006. The weighted average is calculated as the average of the statutory rate applicable in each country where the Group operates, weighted by the profit/(loss) before tax of each company in the Group in its respective jurisdiction.

Results of operations

Year ended 31 December 2006 compared to year ended 31 December 2005

Revenue

Revenue decreased by 2.9 per cent. to US$547.3 million for the year ended 31 December 2006 from US$563.4 million for the year ended 31 December 2005. Of the decrease, US$94 million was due to a decrease in the average selling price per tonne of iron ore pellets to US$61.81 in 2006, compared to US$74.27 in 2005, largely offset by an increase in sales volumes to 8,740 thousand tonnes in 2006 from 7,545 thousand tonnes in 2005. The decrease in the average selling price per tonne was driven principally by a decrease in the international benchmark spot prices of iron ore pellets, which effect was partially offset by a change in the product mix sold, with higher priced 65 per cent. ferrous content pellets sold in 2006 representing 36 per cent. of total sales compared to 20 per cent. in 2005. The increase in sales volume was mainly a reflection of an expansion of the Group's customer base and growing demand for 65 per cent. ferrous content pellets.

Cost of sales

Cost of sales decreased by 3.8 per cent. to US$296.7 million for the year ended 31 December 2006 from US$308.5 million for the year ended 31 December 2005. The decrease was principally due to decreases in costs of materials of US$40.7 million, in depreciation expenses of US$3.6 million and in spare parts and consumables of US$3.3 million, partially offset by increases in electricity costs of US$12.7 million, in gas costs of US$7.0 million, in personnel costs of US$7.9 million and in fuel costs of US$5.4 million. The decrease in costs of materials is partially the result of lower volumes of purchased concentrate as a result of a reduction in the percentage of the total volume of pellets produced from purchased concentrate, as management focused more on producing pellets from the Group's own resources. In addition, during 2005, the Group purchased pellets to sell to its customers from a third party (Wellmark) at a total cost of US$36 million. Wellmark purchased the pellets from Ferrexpo Poltava before re-selling them to the Group. As Ferrexpo purchased the pellets from a third party, these sales have not been eliminated on consolidation, thereby effectively grossing up sales and cost of sales in 2005 compared to 2006. The cost of these pellets is included in cost of materials. The decrease in depreciation was the result of a revision to the useful lives of certain items of plant and equipment. The decrease in spare parts and consumables costs was principally the result of fewer repairs being carried out. The increases in electricity, gas and fuel costs are largely attributable to increased prices. The increase in personnel costs is principally attributable to increased wage levels.

Gross profit

Gross profit decreased by 1.7 per cent. to US$250.6 million for the year ended 31 December 2006 from US$254.9 million for the year ended 31 December 2005.

Selling and distribution expenses

Selling and distribution expenses increased by 32.7 per cent. to US$86.4 million for the year ended 31 December 2006 from US$65.1 million for the year ended 31 December 2005. The increase was principally due to increases in railway transportation costs of US$15.6 million, mainly as a result of the growth in sale volumes from 7,545 kt in 2005 to 8,740 kt in 2006, a higher proportion of deliveries being made to the more expensive port of Yuzhny (for shipment to China, reflecting increasing sales to China) and the full year impact of railway tariff increases in 2005. The increase was also due in part to increases in other transportation costs of US$5.4 million, mainly as a result of growing seaborne shipments to China, in custom duties of US$0.3 million and in advertising costs of US$0.8 million. The increase in selling and distribution expenses was partially offset by a decrease in agent fees of US$1.0 million.

General and administrative expenses

General and administrative expenses increased by 37 per cent. to US$41.1 million for the year ended 31 December 2006 from US$30.0 million for the year ended 31 December 2005. The increase was principally due to increases in personnel costs of US$7.0 million due mostly to the full year inclusion of salaries and bonuses for management personnel hired in 2005, mainly in Switzerland and the United Kingdom, in buildings and maintenance expenses of US$1.9 million, in research costs of US$1.6 million, and in taxes other than income tax and other charges of US$1.2 million, partially offset by decreases in consulting and other professional fees of US$1.6 million. Other increases in individual components of general and administrative expenses of less than US$1 million accounted for the remainder of the increase.

Other income

Other income increased by 60.8 per cent. to US$2.6 million for the year ended 31 December 2006 from US$1.6 million for the year ended 31 December 2005. The increase was principally due to growth in sales of surplus maintenance spares, income from operating leases and other income.

Other expenses

Other expenses decreased by 13.3 per cent. to US$5.1 million for the year ended 31 December 2006 from US$5.9 million for the year ended 31 December 2005. The decrease was principally due to decreases in charitable donations made of US$1.7 million and in losses on disposal of plant, property and equipment of US$0.9 million, partially offset by an increase in fines and penalties of US$1.3 million in relation to a re-assessment and penalty imposed for environmental charges for the fifteen months ended 31 March 2006.

Write-offs and impairment losses

Write-offs and impairment losses increased by 30.4 per cent. to US$2.2 million for the year ended 31 December 2006 from US$1.7 million for the year ended 31 December 2005. The increase was principally due to the write-off and impairment of property, plant and equipment of US$1.5 million in 2006, compared to US$0.2 million in 2005.

Net gain/(loss) from associates and disposal of subsidiaries

The net loss from associates and disposal of subsidiaries was US$3.5 million for the year ended 31 December 2006, arising principally from the sale in 2006 of a 90.6 per cent. interest in LLC Vostock Ruda, while for the year ended 31 December 2005 the Group had a net gain of US$1.2 million in relation to the disposal of a number of non-core subsidiaries and associates as part of an initiative to streamline the business in preparation for the Offering.

Profit from continuing operations before tax and net finance costs

Profit from continuing operations before tax and net finance costs decreased by 25.9 per cent. to US$114.9 million for the year ended 31 December 2006 from US$154.9 million for the year ended 31 December 2005.

Finance income

Finance income decreased by 59.1 per cent. to US$2.3 million for the year ended 31 December 2006 from US$5.7 million for the year ended 31 December 2005. The decrease was principally due to a reduction in interest income of US$3.1 million due principally to a decrease in the average annual balance of term deposits and the repayment in 2005 of loans made to related parties in 2004.

Finance expense

Finance expense increased by 42.5 per cent. to US$32.7 million for the year ended 31 December 2006 from US$22.9 million for the year ended 31 December 2005. The increase was principally due to an increase in interest expense of US$8.9 million resulting principally from an increase in the average annual balance of long-term indebtedness in 2006 relative to 2005 and from the fact that the additional borrowings were principally loans from Ukrainian institutions that have higher interest rates than the average rate incurred in 2005.

Foreign exchange gain/(loss)

The Group incurred a foreign exchange loss of US$3.8 million for the year ended 31 December 2006, and a foreign exchange gain of US$3.1 million for the year ended 31 December 2005. The foreign exchange loss in 2006 arose principally as a result of the strengthening of the euro against the Hryvnia, which gave rise to losses on trade payables and loans denominated in euro. The foreign exchange gain in 2005 arose principally as a result of the foreign exchange gains of US$2.6 million recognised by Ferrexpo Poltava as a result of the higher value of the Ukrainian Hryvnia relative to the US dollar at 31 December 2005 than at 31 December 2004, which gave rise to foreign exchange gains upon the revaluation of Ferrexpo Poltava's non Hryvnia-denominated debt at the end of the period.

Profit before tax

Profit before tax decreased by 42.7 per cent. to US$80.7 million for the year ended 31 December 2006 from US$140.8 million for the year ended 31 December 2005.

Income tax expense

Income tax expense decreased by 25.9 per cent. to US$14.8 million for the year ended 31 December 2006 from US$19.9 million for the year ended 31 December 2005. The decrease was principally due to the lower taxable profit in 2006 relative to 2005.

Profit for the year

As a result of the foregoing factors, profit for the year decreased by 45.4 per cent. to US$66.0 million for the year ended 31 December 2006 from US$120.9 million for the year ended 31 December 2005.

Year ended 31 December 2005 compared to year ended 31 December 2004

Revenue

Revenue increased by 50.2 per cent. to US$563.4 million for the year ended 31 December 2005 from US$375.1 million for the year ended 31 December 2004. Of the increase US$163.6 million (86.7 per cent.) was due to an increase in the average selling price per tonne of iron ore pellets to US$74.27 in 2005, compared to US$51.63 in 2004. The balance of the increase was due to an increase in sales volume to 7,545 thousand tonnes in 2005 from 7,227 thousand tonnes in 2004. The increase in the average selling price per tonne was driven principally by an increase in the international benchmark spot prices of iron ore pellets, which the Group sought to capitalise by increasing the frequency of pricing under its framework agreements and by increasing spot sales, which commanded a higher average selling price than contractually agreed prices, mainly due to the considerable increase in Chinese demand for iron ore. The increase in the average selling price is also attributable to a change in the product mix sold, with 65 per cent. ferrous content pellets sold in 2005 representing 18.7 per cent. of total sales compared to 6.4 per cent. in 2004. The increase in sales volume was mainly a reflection of expansion into new markets such as China and growing demand for 65 per cent. ferrous content pellets.

Cost of sales

Cost of sales increased by 48.4 per cent. to US$308.5 million for the year ended 31 December 2005 from US$207.9 million for the year ended 31 December 2004. The increase in cost of sales was driven principally by an increase in costs of materials of US$61.9 million, an increase of US$10.8 million in electricity costs, an increase of US$9.2 million in personnel costs, an increase of US$8.3 million in spare parts and consumables costs, and an increase of US$7.8 million in fuel costs. The increase in costs of materials is principally the result of an increase in purchases of pellets from a third party (Wellmark) of US$27.2 million. Wellmark purchased the pellets from Ferrexpo Poltava before re-selling them to the Group. As Ferrexpo purchased the pellets from a third party, these sales have not been eliminated on consolidation, thereby effectively grossing up sales and cost of sales in 2005 compared to 2004. The increase in costs of materials is also due in part to an increase in purchased concentrate and grinding bodies. The increases in electricity costs are largely attributable to increased electricity prices and consumption. The increase in personnel costs is attributable both to increased headcount and wage levels. The increases in consumption of electricity, spare parts and consumables and man-hours are to some extent also driven by an increase in production volumes and in the stripping ratio as a result of the requirement to remove significant amounts of overburden in order to regain access to the target ore body in 2005.

Gross profit

Gross profit increased by 52.4 per cent. to US$254.9 million for the year ended 31 December 2005 from US$167.2 million for the year ended 31 December 2004.

Selling and distribution expenses

Selling and distribution expenses increased by 56.5 per cent to US$65.1 million for the year ended 31 December 2005 from US$41.6 million for the year ended 31 December 2004. The increase was principally due to an increase of US$17.5 million in other transportation charges mainly as a result of growing seaborne shipments to China, the sale of pellets in 2005 to one major customer on a "cost and freight" basis rather than a "delivery at frontier" basis, as occurred in 2004, and also, to a lesser extent, due to a US$4.2 million increase in railway transportation expenses due principally to railway tariff increases and to growing sales volumes.

General and administrative expenses

General and administrative expenses increased by 64.1 per cent to US$30.0 million for the year ended 31 December 2005 from US$18.3 million for the year ended 31 December 2004. The increase was principally due to an increase of US$4.6 million in consulting and professional fees in relation to preparation of the Global Offer, and an increase in personnel costs of US$4.4 million, primarily associated with the establishment of a senior management team.

Other income

Other income increased by 60.6 per cent to US$1.6 million for the year ended 31 December 2005 from US$1.0 million for the year ended 31 December 2004. The increase was principally due to an increase in the sale of surplus spare maintenance materials.

Other expenses

Other expenses increased by 101.9 per cent to US$5.9 million for the year ended 31 December 2005 from US$2.9 million for the year ended 31 December 2004. Other expenses consists principally of charitable donations. These donations increased to US$3.5 million in 2005 compared with US$1.7 million in 2004. Moreover, loss on disposal of property, plant and equipment increased to US$1.5 million in 2005 from US$0.7 million in 2004.

Write-offs and impairment losses

Write-offs and impairment losses were US$1.7 million for the year ended 31 December 2005 compared with US$0.2 million for the year ended 31 December 2004. The increase related principally to the write-off of VAT that was not recoverable of US$0.6 million, a write-off of inventories of US$0.6 million and impairment of goodwill of US$0.3 million.

Net gain/(loss) from associates and disposal of subsidiaries

The Group had a net gain from associates and disposal of subsidiaries of US$1.2 million for the year ended 31 December 2005 and a net loss of US$0.2 million for the year ended 31 December 2004. The gain in 2005 related principally to the disposal of a number of non-core subsidiaries and associates as part of an initiative to streamline the business in preparation for the Offering.

Profit from continuing operations before tax and net finance costs

Profit from continuing operations before tax and net finance costs increased by 47.5 per cent. to US$154.9 million for the year ended 31 December 2005 from US$105.0 million for the year ended 31 December 2004.

Finance income

Finance income increased by 95.5 per cent. to US$5.7 million for the year ended 31 December 2005 from US$2.9 million for the year ended 31 December 2004. The increase was principally due to an increase in interest income as a result of an increase in the average annual balance of term deposits and interest earned on loans made to related parties by the Group.

Finance expense

Finance expense increased by 1.4 per cent. to US$22.9 million for the year ended 31 December 2005 from US$22.6 million for the year ended 31 December 2004. The increase was principally due to an increase in bank fees due to the early repayment of long term loans in the last quarter of 2005. This increase was partially offset by moderately lower interest expense resulting from a lower weighted average interest rate and lower average annual balances on indebtedness.

Foreign exchange gain/(loss)

The Group had a foreign exchange gain of US$3.1 million for the year ended 31 December 2005 and a loss of US$0.2 million for the year ended 31 December 2004. The foreign exchange gain in 2005 arose principally as a result of the foreign exchange gains of US$2.6 million recognised by Ferrexpo Poltava as a result of the higher value of the Ukrainian Hryvnia relative to the US dollar at 31 December 2005 than at 31 December 2004, which gave rise to foreign exchange gains upon the revaluation of Ferrexpo Poltava's non Hryvnia-denominated debt at the end of the period. Ferrexpo also contributed US$0.5 million in foreign exchange gains.

Profit before tax

Profit before tax increased by 65.5 per cent. to US$140.8 million for the year ended 31 December 2005 from US$85.1 million for the year ended 31 December 2004.

Income tax expense

Income tax expense increased by 186.0 per cent. to US$19.9 million for the year ended 31 December 2005 from US$7.0 million for the year ended 31 December 2004. The increase was principally due to the increase in profit before tax discussed above and an increase in the effective tax rate at Group level, to 14.1 per cent. for the year ended 31 December 2005, compared with 8.2 per cent. for the year ended 31 December 2004. The increase in the effective tax rate was due to a greater proportion of the Group's profit arising in Ukraine (which has a higher corporate income tax rate than Switzerland) in 2005 relative to 2004.

Profit for the year

As a result of the foregoing factors, profit for the year increased by 54.7 per cent. to US$120.9 million for the year ended 31 December 2005 from US$78.2 million for the year ended 31 December 2004.

Liquidity and capital resources

The Group's principal sources of funds are cash generated from operations and amounts drawn down under short and long-term credit facilities. The Group's principal uses of funds are operating expenses and the service of debt and capital expenditures to renew and enhance its production facilities.

Cash flows

The table below summarises the Group's cash flows for the periods indicated.

	For the year ended 31 December		
	2004	*2005*	*2006*
		(US$ in millions)	
Cash from operating activities	85.5	141.5	60.8
Cash from investing activities	(62.6)	(211.6)	(177.4)
Cash from financing activities	(13.6)	61.6	130.3
Cash and cash equivalents at the beginning of the period	1.6	10.9	2.5
Cash and cash equivalents at the end of period	10.9	2.5	16.2

Net cash flows from operating activities

The Group generated US$60.8 million from operating activities in 2006, compared to US$141.5 million in 2005. The principal reasons for the decrease in cash generated from operating activities in 2006 relative to 2005 was the decrease in profit before tax of US$60.1 million, as well as the negative effect on operating cash flow of an increase in trade accounts receivable and other debtors of US$46.2 million in 2006, compared to a decrease of US$11.8 million in 2005. This was partially offset by the positive effect of improvements in inventory management, resulting in a decrease in inventories of US$9.2 million in 2006, compared to an increase in inventories of US$21.3 million in 2005 and by a reduction on income tax paid of US$12.7 million in 2006 relative to 2005.

The Group generated US$141.5 million from operating activities in 2005, compared to net cash generated from operating activities of US$85.5 million in 2004. The principal reason for the increase in net cash generated was the growing sales volume driven by expansion of the Group's customer base into new geographical markets of China and Russia, as well as an increase in the average selling price of the Group's iron ore pellets. In 2005, changes in working capital had a favourable effect on the Group's cash position.

The decline in debtors in 2005 relative to 2004 was due to a slowdown in sales in the last quarter of 2005, in conjunction with an increase in accounts payable, facilitated the improvement in working capital, largely offset by a significant increase in inventory in 2005 relative to 2004 resulting primarily from increases in the input prices of raw materials and to a lesser extent by the slow down in sales in the last quarter of 2005. The increase in net cash generated was also partially offset by an increase of US$26.2 million in income tax paid by the Group.

Net cash flows from investing activities

The Group used US$177.4 million in investing activities in 2006, compared to US$211.6 million in 2005. The principal reasons for the decrease were the net repayment of loans by related parties of $106.8 million in 2006 compared to net loans granted to related parties of $83.9 million in 2005, a decrease in funds used in the acquisition of subsidiaries of US$49.3 million, a decrease in funds used in purchases of available for sale securities of US$30.9 million, and a decrease of funds used in the purchase of property, plant and equipment of US$17.3 million. The positive effect on cash flow of these increases in cash generated from, and decreases in cash used in, investing activities was partially offset by the increase in cash used to acquire a minority interest in subsidiaries of US$231.9 million, relating principally to the increase in Ferrexpo's interest in Ferrexpo Poltava from 60.3 per cent. to 85.9 per cent. in 2006.

The Group used US$211.6 million in investing activities in 2005, compared to net cash used in investing activities of US$62.6 million in 2004. The principal reasons for the increase were an increase in funds lent to related parties of approximately US$112.1 million representing loans to companies controlled by Kostyantyn Zhevago, an increase of US$48.1 million of funds used for the acquisition of subsidiaries representing principally Ferrexpo's increase in its investment in Ferrexpo Poltava, an increase of approximately US$32.8 million of funds used to purchase property, plant and equipment in relation to mining equipment and construction works, and an increase of approximately US$31.6 million of funds used on purchases of available for sale securities representing principally the acquisition of a 9.95 per cent. interest in LLC Atol and a nine per cent. stake in each of CJSC AMA and CJSC Amtek, which together own the rights to a number of oil and gas licences for deposits in the Dnipro basin. These increases in funds used in investing activities were offset principally by funds received by the Group in the amount of US$49.6 million representing the repayment of loans from related parties and funds generated from the sale of assets classified as for sale of US$19.2 million.

Net cash flows from financing activities

The Group generated US$130.3 million from financing activities in 2006, compared to US$61.7 million in 2005. The principal reason for the increase in net cash generated was an increase in proceeds from other borrowings and finance of US$290.4 million relating principally to US$165 million of a facility to be syndicated which was drawn down at the end of 2006. In addition, the Group underwent a process of restructuring its debt throughout 2006 with the aim of shifting its debt base towards long-term debt. The increase in net cash generated was also due to an increase of US$56.3 million in proceeds from the issue of share capital, resulting mainly from the issue of new Ferrexpo shares in 2006. The positive effects of these borrowings and the equity issue in 2006 on cash flow from financing activity in 2006 relative to 2005 were partially offset by an increase in cash used in repayments of other borrowings and finance of US$280.4 million, relating principally to the debt restructuring described above, which involved the early repayment of debt using the new facilities drawn down during the year.

The Group generated US$61.7 million from financing activities in 2005, compared to net cash used in financing activities of US$13.6 million in 2004. The principal reason for the increase in net cash generated was an increase in proceeds from the issue of share capital of US$43.7 million representing principally an issue of Ferrexpo shares; an increase in draw downs from credit facilities of US$28.6 million; and a decrease of US$5.1 million in distributions to Mauritico Ltd, a company formed in the British Virgin Islands, as a result of a ruling by Swiss tax authorities giving favourable tax treatment to Ferrexpo. Up to 50 per cent. of its gross profit (after adjustment) may be distributed to a non-Swiss entity free of tax. The increase in net cash generated was partially offset by an increase of US$2.0 million of funds used in the repayment of borrowed funds.

Contractual obligations

The following table sets forth the Group's material contractual obligations and their maturity as at 31 December 2006. See Notes 30, 31 and 41 to the historical financial information included in Part VIII for additional information about the Group's contractual obligations.

	Less than one year	*One to three years*	*Three to five years*	*More than five years*	*Total*
			(US$ in million)		
Debt Obligations	81.2	76.6	128.1	–	285.9
Property, plant and equipment obligations	9.3	6.8	2.9	0.7	19.7
Capital commitments	11.0	–	–	–	11.1

Capital expenditures

In the years ended 31 December 2004, 2005, and 2006, the Group made capital expenditures of US$36.9 million, US$69.4 million and US$54.3 million, respectively, principally in relation to sustaining and enhancing works at the existing pit. Over the next two years, the Group has budgeted approximately US$292.5 million of aggregate capital expenditures, principally in relation to increasing pellet production capacity, together with the development of the Yeristovskoe pit and other new deposits. The Group anticipates that most of this amount, and amounts required for maintenance capital expenditures during this period, which the Group anticipates to remain at levels consistent with recent expenditures, will be financed with the proceeds from the Offering and cash generated by its operations.

Indebtedness

As at 31 December 2006, the Group's total outstanding indebtedness was US$285.9 million, of which US$81.2 million was indebtedness maturing within one year and US$204.7 million was indebtedness maturing in more than one year. Of the Group's outstanding indebtedness as at such date, US$165 million had been drawn under the Group's US dollar-denominated facilities agreement with ABN AMRO Bank N.V., BNP Paribas (Suisse) S.A. and Société Générale as arrangers, and BNP Paribas (Suisse) S.A. as agent and security agent and certain financial institutions as lenders, as described in "Additional information – Material contracts" in paragraph 14.1 of Part XI.

Disclosures about market risk

The following information should be read in conjunction with "Historical financial information" in Part VIII. The Group is exposed to changes in commodity prices, foreign exchange rates and interest rates through its commercial and financial operations. The Group does not engage in hedging activities.

Commodity price risk

The Group is exposed to the effect of fluctuations in the price of iron ore, which is the primary product produced by the Group and which is quoted in US dollars on the international markets. To the extent the Group sources a portion of its iron ore concentrate from third parties, it is also exposed, to a much lesser degree, to the price of iron ore concentrate. Price variations and market cycles have historically influenced the financial results of the Group and are expected to continue to do so. See "– Factors affecting results of operations – Iron ore pellet prices".

Foreign currency exchange rate risk

The Group's iron ore pellets are commodities that typically are priced by reference to prices in US dollars and the Group presents its financial information in US dollars. However, the Group incurs most of its costs in currencies other than the US dollar, most notably the Hryvnia. The Group also typically borrows in US dollars and Hryvnia. For accounting purposes, expenses incurred in currencies other than the US dollar are converted into US dollars at the exchange rate prevailing on the date of the transaction. Because most of the Group's expenses are incurred in currencies other than the US dollar, the Group's expenses may from time-to-time increase or decrease relative to its revenues as a result of the fluctuations of the relevant exchange rates. This could affect the results of operations that the Group reports in future periods. See “Factors affecting results of operation – Exchange rates” above. The Group does not hedge its exposure to foreign currency risk.

Interest rate risk

The Group is exposed to interest rate risk principally in relation to its outstanding bank debt. In particular, it is exposed to changes in the LIBOR interest rate of US dollar-denominated debt, as a significant part of its debt both (i) is denominated in US dollars and (ii) has a variable LIBOR rate. The Group does not currently hedge this risk. Management estimates that a one per cent. change in LIBOR would result in the Group’s annual interest expense fluctuating by less than approximately US$3 million. For information about the Group’s instruments that are exposed to interest rate risk and their repayment schedules, see Note 30 to the historical financial information included in Part VIII.

Critical accounting policies and estimates

The significant accounting policies applied in the preparation of the consolidated financial information of the Group are more fully described in note 2 to Section B: “Historical financial Information on the Ferrexpo AG Group” included at Part VIII.

The preparation of the consolidated financial information requires the Group’s management to make estimates and assumptions that affect the reported amounts in the financial statements of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities. By their nature, these estimates and assumptions are subject to a degree of uncertainty and are based on the Group’s historical experience, management’s view on trends in the iron ore industry, information from outside sources and other assumptions that the Group considers to be reasonable under the circumstances. Actual results could differ from these estimates under different assumptions or conditions.

The Group’s critical accounting policies that are subject to significant estimates and assumptions are summarised below.

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. Revenue associated with the sale of goods is recognised in the income statement when all significant risks and rewards of ownership are transferred to the customer, usually when title has passed to the customer. Sales are usually made FOB, CIF or DAF. Title passes to the customer when the goods have passed over the ship’s rail at the named port of origin or destination for each of FOB and CIF, respectively and placed at the frontier for DAF. The Group often retains exposure in respect of the iron content of pellets. If the variation between the actual and contracted iron content falls outside of the agreed range, an adjustment to revenue is made for such variation. If an exposure remains open across more than one financial period, management must estimate the likely adjustment to revenue.

Valuation of property, plant and equipment

For the purpose of the transition to IFRS, management commissioned BGS Aktiv. to carry out an independent appraisal of certain items of property, plant and equipment as of 1 January 2003 to determine their deemed cost at that date. The deemed cost of property, plant and equipment was determined primarily with reference to depreciated replacement cost. Management believes that the deemed cost reflected the economic condition of the Group’s property, plant and equipment at that time. The revaluation process carries a significant element of judgment; however, management believes that the use of an appropriately qualified independent appraiser has resulted in a deemed cost of property, plant and equipment that is suitable for inclusion in the Group’s IFRS financial information.

The Group makes estimates for the useful lives of depreciable property, plant and equipment. In making such estimates, management considers a number of factors including the assets’ own physical life limitations and the present assessment of economically recoverable reserves of the mine property at which the item is located. Changes in estimates of useful economic lives, that affect unit of production calculations, are accounted for prospectively. These initial estimates as well as the changes in estimates are made on the basis of management's subjective assessment and different assumptions and estimates could have a significant impact on the depreciation charge recognised in the Group's income statement. Given the material nature of the property, plant and equipment of Ferrexpo Poltava, these estimates and assumptions could have a significant impact on the Group's business, financial condition, results of operations and prospects. See "Property, plant and equipment" in Note 2 to the historical financial information included in Part VIII.

Depreciation

Mine production assets, including mine development and pre-production stripping costs, are depreciated on a unit-of-production method (the "UOP method") that is calculated on the basis of production for the period in question as a percentage of the estimated economically recoverable reserves. This method of depreciation is common for mining companies. The UOP method requires estimates of the proved and probable reserves, which is a highly subjective area. The Group estimates its ore reserves and mineral resources based on information compiled by internal geologists each year.

There are numerous uncertainties inherent in estimating ore reserves and the Group must make a number of assumptions in making those estimations, including assumptions as to the prices of iron ore, exchange rates, production costs and recovery rates. Assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of iron ore, exchange rates, production costs or recovery rates may change the economic status of reserves and may, ultimately, result in the reserves being restated. Different estimates and assumptions could impact the quantity of reserves and depreciation expenses recognised on the income statement of Ferrexpo Poltava, and could have a significant impact on the Group's business, financial condition, results of operations and prospects. See "Property, plant and equipment" in Note 2 to the historical financial information included in Part VIII.

Impairment of assets

The carrying amounts of fixed assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable. The Group monitors indicators of impairment, including a significant decline in market value, technological changes, changes in the legal environment, changes in interest rates or rates of return, market capitalisation, evidence of obsolescence or physical damage, discontinuance plans, disposal plans, restructuring plans and asset performance decline. If there are indicators of impairment, an exercise is undertaken to determine whether the carrying values are in excess of their recoverable amount. Such a review is undertaken on an asset by asset basis, except where such assets do not generate cash flows independent of other assets, and then the review is undertaken at the cash generating unit level. If the carrying amount of the fixed assets exceeds the recoverable amount, a provision is recorded to reflect the asset at the lower value. Impairment losses are recognised in the income statement.

The calculation of the recoverable amount of an asset requires significant judgments, estimates and assumptions, including those about future demand, technological changes, exchange rates, interest rates and others. The Group carries out reviews of fixed assets and intangible assets when there are changes in events or circumstances that indicate that the carrying amount of such assets might not be recoverable. Changes in events or circumstances, including economic or market conditions, technological advances and competition, may affect previous assumptions and estimates and could have an impact on the Group's results of operations or financial position through impairment charges.

Available for sale investments

In accordance with IAS 39, the Group has treated investments in financial assets that are not classified as either "loans and receivables", "held to maturity investments" or "financial asset at fair value through profit and loss" as "available for sale investments". After initial recognition, available for sale financial investments are measured at fair value with gains or losses being recognised directly in equity. 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 balance sheet date. For investments where there is no active market, the fair value is determined using valuation techniques that may include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis and option pricing models. Such valuations require that management makes subjective assumptions and estimates. See "Financial instruments – Available for Sale Investments" in Note 2 to the historical financial information included in Part VII.

Pensions

The Group makes pension contributions in Ukraine pursuant to defined benefit schemes, which require actuarial valuations to be performed on the basis of actuarial assumptions and estimates that require management to make discretionary judgments. Different assumptions and estimates could result in materially different estimations of funding requirements or the value of the funding assets, which could have a material effect on the Group's business, financial condition, results of operations and prospects. See "Pension obligations and other employee benefits" in Note 2 to the historical financial information included in Part VII.

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 will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Environmental liabilities

As a mining company, the Group is exposed to potential environmental liabilities in the ordinary course of its business. Provisions for liabilities relating to environmental matters, including site restoration, require complex evaluations of applicable environmental regulations, clean-up and site restoration strategies, the environmental technologies available and the costs of each. Management reviews the provision on an annual basis for changes in cost estimates, discount rates or life of operations.

Taxation

The determination of the Group's obligations and expense for taxes requires an interpretation of tax law and therefore certain assumptions and estimates are made.

Income tax for the year comprises current and deferred tax.

Income taxation is recognised in the income statement except to the extent that it relates to items charged or credited directly to equity, in which case it is recognised in equity. The current taxation expense is the expected taxation payable on the taxable income for the year, using taxation rates enacted at the balance sheet date and any adjustment to taxation payable in previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on the tax rates (and tax laws) that have been enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Business combinations

The Group has consolidated subsidiaries acquired from third parties from the date of acquisition, which is the date on which it obtained control, and has accounted for them using the purchase method of accounting. This includes estimating the fair values of the assets and liabilities acquired. See "Business combinations" in Note 2 to the historical financial information included in Part VII.

Recent developments

Between 11 January and 19 April 2007, Ferrexpo made payments under the 50/50 tax ruling to Kostyantyn Zhevago amounting to US$5,000,000.

Subsequent to the year end, Ferrexpo entered into a share buy-back arrangement with its then shareholder Collaton Limited (as nominee for Kostyantyn Zhevago) under which Ferrexpo repurchased 5,178,877 shares of CHF 1 each in exchange for cash in a number of transactions which took place between 13 February and 18 May 2007. The total consideration to be paid under the arrangement is US$64,055,329 of which US$52,830,000 has been paid to date. The repurchased shares are held by Ferrexpo as treasury shares.

On 24 May 2007, the Company acquired a 100 per cent. interest in Ferrexpo.

The ultimate controlling party of the Company and Ferrexpo is The Minco Trust, whose beneficial interest in these companies is held through its controlling shareholding in Fevamotinico S.à r.l. The beneficiaries of The Minco Trust include Kostyantyn Zhevago.

On 29 May 2007, Ferrexpo drew down an additional US$10 million under the US$275 million pre-export finance facility agreement described in paragraph 14.1 of Part XI: "Additional information".

On 14 June 2007, Ferrexpo agreed to sell 2 million treasury shares in Ferrexpo to the Ferrexpo AG Listing Bonus Trust, a discretionary trust, to be used to pay listing bonuses due to directors and senior managers of the Group following Admission, for consideration based on the closing price of the Ordinary Shares on the first trading day following Admission.

Current trading and prospects

Revenues for the four months ended 30 April 2007 are ahead of those for the comparable period in 2006, mainly as a result of market prices and sales volumes for the four months ended 30 April 2007 being ahead of those achieved for the comparable period in 2006. The annual round of price negotiations with all major customers has now been concluded with prices confirmed until 30 April 2008.

Operating costs for the four months ended 30 April 2007 have increased broadly in line with increased volumes. Inflationary pressures continue to have an impact on the cost of inputs and are being monitored closely by the Directors to minimise their effect on unit costs where possible. Operating costs for the four months ended 30 April 2007 have also increased due to greater volumes of concentrate being purchased than in the comparable period in 2006, as the Group implements its strategy of maximising profits by the sale of pellets produced from purchased concentrate where specified margins can be obtained. Administration and other income and expenses for the four months ended 30 April 2007 are in line with the comparable period in 2006.

The Directors currently believe that the Group's financial and trading outlook for the remainder of the year is generally in line with expectations.

Capitalisation and indebtedness statement

The following table shows the indebtedness of the Group prepared under IFRS as at 30 April 2007 extracted without material adjustment from the unaudited management accounts of Ferrexpo.

	As at 30 April 2007 Unaudited US$000
Current Debt	
Secured[(2) (3) (4) (5) (6)]	3,151
Unguaranteed/unsecured	276
Total current debt	3,427
Non-current debt	
Secured[(2) (3) (4) (5) (6)]	308,953
Unguaranteed/unsecured	–
Total non-current debt	308,953
Total indebtedness[(1)]	312,380

The following table shows the capitalisation of the Group prepared under IFRS as at 31 December 2006 extracted without material adjustment from the financial information set out in Section B: Historical financial information on the Group of Part VIII: "Historical financial information".

	As at 31 December 2006
	US$000
Shareholders' equity (excluding retained earnings)	
Share capital	109,451
Share premium	–
Other reserves	28,031
Total capitalisation(7)	137,482

Notes:

(1) The Group does not hold any external debt which is subject to guarantees provided by third parties.

(2) On 27 December 2006, Ferrexpo UK Limited and Ferrexpo entered into a US$275.0 million pre-export finance facility agreement described in paragraph 14.1 of Part XI: "Additional information". The facilities agreement provides for a US$200.0 million term loan facility and a US$75.0 million revolving credit facility. The amount drawn down under this facilities agreement at 30 April 2007 amounted to US$237.0 million. Amounts advanced under both the term loan and the revolving credit facilities bear interest at a floating rate of 2.35 per cent. per annum over LIBOR (plus any mandatory costs associated with syndication in the European markets). The term loan and revolving credit facilities are guaranteed and secured. In particular:

- Ferrexpo Poltava has provided an unlimited financial and performance suretyship covering all of Ferrexpo and Ferrexpo UK's obligations under the Facilities Agreement (and related financing documents);
- Ferrexpo has pledged its bank account held with BNP Paribas (Suisse) S.A. into which all proceeds from the sale of iron ore pellets under certain contracts are required to be paid;
- Ferrexpo Poltava and Ferrexpo have pledged all of their rights under certain contracts for the export of iron ore pellets; and
- Ferrexpo has pledged all its rights under certain contacts for the sale of iron ore pellets and its rights under certain related credit support documents.

The term loan facility is repayable in thirty three equal monthly instalments of US$6.1 million starting on the last day of April 2008. The revolving loan is repayable in five equal monthly repayments of US$12.5 million commencing July 2010.

(3) On 7 February 2007, Ferrexpo Poltava entered into a US$25.0 million revolving loan facility agreement with CJSC OTP Bank. The loan is fully repayable on 8 February 2010. The amount advanced under the revolving loan facility bears interest at a rate of 9.0 per cent. per annum for advances in US dollars and euros and is secured by way of a pledge of vehicles and equipment. The amount drawn down under this facility agreement at 30 April 2007 amounted to US$21.7 million. See paragraph 14.6 of Part XI: "Additional information".

(4) On 16 January 2007, Ferrexpo Poltava entered into a US$35.0 million multi-currency revolving loan facility agreement with CJSC Commercial Bank Industrial Investment Bank. The loan bears interest at the rate of 9.0 per cent per annum for advances in US dollars and euros and 15.0 per cent per annum for advances in Hryvnia. The loan is secured by pledges of Ferrexpo Poltava's pelletising and concentrator plant, including the land plots on which they are situated, vehicles and equipment and rights under certain sales contracts. The amount drawn down under this facility agreement at 30 April 2007 amounted to US$30.1 million. The maximum amount available under the loan facility is reduced from 1 November 2009 and the loan is fully repayable on 15 December 2009. See paragraph 14.2 of Part XI: "Additional information".

(5) On 11 October 2006 Ferrexpo Poltava entered into a US$17.3 million loan facility agreement with Commercial Bank Industrialbank. The amount advanced under the loan bears interest at the rate of 9.0 per cent per annum. The amount drawn down under this facility agreement at 30 April 2007 amounted to US$15.4 million. The loan is fully repayable on 25 June 2008. The loan facility is secured by a pledge of equipment. See paragraph 14.5 of Part XI: "Additional information".

(6) The Group entered into various commodity loans with suppliers for the purchase of mining equipment. The loans attract interest of between 7.6 per cent. and 8.6 per cent. The outstanding balance under such commodity loans at 30 April 2007 amounted to $7.7 million. The amounts are repayable in quarterly instalments with $2.9 million and $4.8 million being due within one year and after more than one year respectively. The commodity loans are secured on the mining equipment purchased.

(7) There has been no material change in the consolidated capitalisation of the Company from 31 December 2006 to 14 June 2007 save for: the allotment and issue to Fevamotinico S.à r. l. of 49,998 ordinary shares in the Company at a par value of £1.00 each (£49,998 (US$98,620)) for cash (following which allotment, the Company's total issued and authorised share capital was subdivided into 500,000 ordinary shares of £0.10 each and the Company's authorised share capital was subsequently increased to £60,050,000 divided into 600,500,000 ordinary shares of £0.10 each), and the allotment and issue to Fevamotinico S.à r.l. of 533,043,489 ordinary shares in the Company at a par value of £0.10 (£53,304,349 (US$105,515,959)) pursuant to the share exchange agreement in accordance with paragraph 14.11 of Part XI: "Additional information"; the share buy-back arrangements between Ferrexpo and its former shareholder Collaton Limited under which Ferrexpo repurchased 5,178,877 shares of CHF 1

each in exchange for cash in a number of transactions which took place between 13 February and 18 May 2007, the total consideration for which is US$64,055,329 of which US$52,830,000 has been paid to date; and the agreement by Ferrexpo on 14 June 2007 to sell 2 million treasury shares in Ferrexpo to the Ferrexpo AG Listing Bonus Trust, a discretionary trust, to be used to pay listing bonuses due to directors and senior managers of the Group following Admission, for consideration based on the closing price of the Ordinary Shares on the first trading day following Admission.

The following table shows the net indebtedness in the short term and in the medium-long term of the Group prepared under IFRS as at 30 April 2007 extracted without material adjustment from the unaudited management accounts of Ferrexpo.

	As at 30 April 2007 Unaudited US$000
Cash	33,617
Liquidity	33,617
Current bank debt	120
Current portion of other non-current financial debt	2,901
Other current financial debt	406
Current Financial Indebtedness	3,427
Net Current Financial Indebtedness(1)	(30,190)
Non-current bank loans	304,164
Other non-current financial debt	4,789
Non-Current Financial Indebtedness	308,953
Net Financial Indebtedness(2)	278,763

Notes:

(1) Total current financial debt less liquidity.

(2) Total non-current financial indebtedness less excess of total liquidity over total current financial debt.

Part VIII

Historical financial information

Section A: Accountant's Report on Historical Financial Information on the Group

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The Directors
Ferrexpo plc
2-4 King Street
London SW1Y 6QL

15 June 2007

Dear Sirs

Ferrexpo AG

We report on the financial information set out in pages 126 to 177. This financial information has been prepared for inclusion in the prospectus dated 15 June 2007 of Ferrexpo plc on the basis of the accounting policies set out in Note 2. This report is required by Annex I item 20.1 of the Commission Regulation (EC) 809/2004 and is given for the purpose of complying with that paragraph and for no other purpose.

Save for any responsibility arising under Prospectus Rule 5.5.3R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 23.1 of Annex I to the Commission Regulation (EC) 809/2004, consenting to its inclusion in the prospectus.

Responsibilities

The Directors of Ferrexpo plc are responsible for preparing the financial information on the basis of preparation set out in Note 2 to the financial information.

It is our responsibility to form an opinion as to whether the financial information gives a true and fair view, for the purposes of the prospectus, and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of the prospectus dated 15 June 2007, a true and fair view of the state of affairs of Ferrexpo AG as at the dates stated and of its profits, cash flows and changes in equity for the periods then ended in accordance with the basis of preparation set out in Note 2 to the financial information and in accordance with IFRS.

Declaration

For the purposes of Prospectus Rule 5.5.3R (2)(f) we are responsible for this report as part of the prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the prospectus in compliance with item 1.2 of Annex I of the Commission Regulation (EC)/809/2004.

Yours faithfully

Ernst & Young LLP

Section B: Historical financial information on the Group

Consolidated income statement

		Year ended 31 December		
		2004	*2005*	*2006*
	Notes	*$000*	*$000*	*$000*
REVENUE	5	375,145	563,417	547,310
Cost of sales	6	(207,937)	(308,519)	(296,720)
GROSS PROFIT		167,208	254,898	250,590
Selling and distribution expenses	7	(41,613)	(65,130)	(86,376)
General and administrative expenses	8	(18,302)	(30,033)	(41,140)
Other income	10	1,000	1,606	2,583
Other expenses	11	(2,901)	(5,856)	(5,078)
PROFIT FROM CONTINUING OPERATIONS BEFORE ADJUSTED ITEMS		105,392	155,485	120,579
Write-offs and impairment losses	9	(197)	(1,691)	(2,205)
Share of losses of associates		(153)	(41)	–
Net (loss)/gain from disposal of subsidiaries and associates	12	–	1,181	(3,524)
PROFIT BEFORE TAX AND FINANCE		105,042	154,934	114,850
Finance income	13	2,907	5,683	2,326
Finance expense	13	(22,587)	(22,913)	(32,655)
Foreign exchange (loss)/gain	13	(234)	3,138	(3,784)
PROFIT BEFORE TAX		85,128	140,842	80,737
Income tax expense	14	(6,962)	(19,908)	(14,758)
PROFIT FOR THE YEAR		78,166	120,934	65,979
Attributable to:				
Equity shareholders of Ferrexpo AG		80,943	105,836	63,578
Minority interest		(2,777)	15,098	2,401
		78,166	120,934	65,979
Earnings per share				
– Basic and diluted for profit for the year attributable to ordinary equity holders of Ferrexpo AG	15	0.5990	0.7833	0.4705

Consolidated balance sheet

		At 31 December		
		2004	*2005*	*2006*
	Notes	*$000*	*$000*	*$000*
ASSETS				
Non-current assets				
Property, plant and equipment	16	234,261	293,011	301,343
Goodwill and other intangible assets	17	196	9,264	156,534
Investments in associates	18	1,522	–	16,950
Available-for-sale financial assets	19	89	34,627	34,641
Other non-current assets	20	37,174	12,636	916
		273,242	349,538	510,384
Current assets				
Inventories	21	34,899	58,490	48,487
Trade and other receivables	22	32,394	31,218	58,284
Prepayments and other current assets	23	14,444	111,708	17,118
Income taxes recoverable and prepaid	24	2,570	5,255	1,424
Other taxes recoverable and prepaid	24	14,524	18,922	42,489
Available-for-sale financial assets	19	1,498	26	1,451
Short term deposits with banks	25	12,294	18,943	11,043
Cash and cash equivalents	26	10,935	2,496	16,236
		123,558	247,058	196,532
Assets classified as held for sale	27	18,550	–	–
		142,108	247,058	196,532
TOTAL ASSETS		415,350	596,596	706,916

Consolidated balance sheet (continued)

		At 31 December		
		2004	*2005*	*2006*
	Notes	*$000*	*$000*	*$000*
EQUITY AND LIABILITIES				
Equity attributable to equity shareholders of the parent				
Share capital	28	122	122	109,451
Reserves		101,625	148,032	191,195
		101,747	148,154	300,646
Minority interest		61,369	107,756	36,146
Total equity		163,116	255,910	336,792
Non-current liabilities				
Interest-bearing loans and borrowings	30	60,764	43,862	204,732
Trade and other payables	31	4,824	5,797	10,484
Shares redemption liability	29	7,343	8,182	9,062
Defined benefit pension liability	33	10,772	12,141	12,659
Provision for site restoration	34	272	339	402
Deferred tax liability	35	11,674	6,987	2,535
		95,649	77,308	239,874
Current liabilities				
Interest-bearing loans and borrowings	30	111,438	192,289	81,243
Trade and other payables	31	23,939	38,201	21,492
Liability to minority participants	32	30	3,566	–
Accrued liabilities and deferred income	36	14,983	19,947	17,986
Defined benefit pension liability	33	630	1,111	1,842
Income taxes payable	37	4,704	6,668	4,646
Other taxes payable	37	861	1,596	3,041
		156,585	263,378	130,250
TOTAL LIABILITIES		252,234	340,686	370,124
TOTAL EQUITY AND LIABILITIES		415,350	596,596	706,916

Consolidated cash flow statement

	Notes	2004 $000	2005 $000	2006 $000
		Year ended 31 December		
NET CASH FLOWS FROM OPERATING ACTIVITIES	39	85,523	141,537	60,797
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment		(33,224)	(66,025)	(48,760)
Proceeds from sale of property, plant and equipment		907	115	374
Purchase of intangible assets		(152)	–	(745)
Deposits returned/ placed by banks		(7,888)	(4,948)	8,732
Purchases of available for sale securities	38	(2,437)	(34,030)	(3,119)
Proceeds from sale of financial assets		542	1,727	2,408
Proceeds from sale of assets classified as held for sale	27	–	19,216	–
Interest received		2,184	4,336	1,473
Dividends received		28	16	17
Acquisition of subsidiaries, net of cash acquired		(1,208)	(49,295)	–
Acquisition of minority interest in subsidiaries	4	–	–	(231,945)
Acquisition of associates	18	–	–	(16,950)
Loans provided to related parties	38	(21,370)	(133,465)	(16,674)
Loans repaid by related parties	38	–	49,600	123,457
Proceeds from disposal of subsidiaries		–	1,114	4,338
Net cash flows used in investing activities		(62,618)	(211,639)	(177,394)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from other borrowings and finance		246,622	275,228	565,593
Repayment of other borrowings and finance		(230,370)	(232,408)	(512,819)
Dividends paid		(102)	(246)	(245)
Distribution under 50/50 tax ruling		(39,130)	(33,980)	(31,521)
Proceeds from issue of share capital in subsidiaries		9,388	53,069	–
Proceeds from issue of share capital in parent		–	–	109,329
Net cash flows from/(used in) financing activities		(13,592)	61,663	130,337
Net increase/(decrease) in cash and cash equivalents		9,313	(8,439)	13,740
Cash and cash equivalents at the beginning of the period		1,622	10,935	2,496
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	26	10,935	2,496	16,236

Consolidated statement of changes in equity

		Attributable to equity shareholders of the parent							
	Notes	*Issued capital $000*	*Uniting of interest reserve $000*	*Revaluation reserve $000*	*Translation reserve $000*	*Retained earnings $000*	*Total reserves $000*	*Minority interests $000*	*Total equity $000*
At 31 December 2003		122	51,204	–	(5,091)	18,431	64,666	61,606	126,272
Profit for the period		–	–	–	–	80,943	80,943	(2,777)	78,166
Currency translation differences		–	–	–	459	–	459	302	761
Total income and expense for the year recognised directly in equity		**–**	**–**	**–**	**459**	**80,943**	**81,402**	**(2,475)**	**78,927**
Subsidiary share capital redemption	28	–	–	–	–	(4,000)	(4,000)	(2,636)	(6,636)
Distribution under the 50/50 tax ruling	38	–	–	–	–	(43,298)	(43,298)	–	(43,298)
Capital increase in subsidiary	2	–	3,085	–	–	–	3,085	5,497	8,582
Equity dividends paid by subsidiary undertakings to minority shareholders		–	–	–	–	–	–	(623)	(623)
Equity dividends paid by Ferrexpo AG		–	–	–	–	(108)	(108)	–	(108)
At 31 December 2004		122	54,289	–	(4,632)	51,968	101,747	61,369	163,116
Revaluation relating to previously held interest in Vostock Ruda LLC, upon acquisition of a controlling interest	4	–	–	2,453	–	–	2,453	775	3,228
Previously unrecognised share of losses recognised upon acquisition of a controlling interest in Vostock Ruda LLC	4					(1,448)	(1,448)	(447)	(1,895)
Profit for the period		–	–	–	–	105,836	105,836	15,098	120,934
Currency translation differences		–	–	–	4,818	–	4,818	3,183	8,001
Total income and expense for the year recognised directly in equity		**–**	**–**	**2,453**	**4,818**	**104388**	**111,659**	**18,609**	**130,268**
Items recognised directly in equity									
Subsidiary share capital redemption	28	–	–	–	–	(16)	(16)	(10)	(26)
Distribution under the 50/50 tax ruling	38	–	–	–	–	(38,792)	(38,792)	–	(38,792)
Capital increase in subsidiary	2	–	(26,444)	–	–	–	(26,444)	28,750	2,306
Equity dividends paid by subsidiary undertakings to minority shareholders		–	–	–	–	–	–	(962)	(962)
At 31 December 2005		122	27,845	2,453	186	117,548	148,154	107,756	255,910
Profit for the period		–	–	–	–	63,578	63,578	2,401	65,979
Total income and expense for the year recognised directly in equity		**–**	**–**	**–**	**–**	**63,578**	**63,578**	**2,401**	**65,979**
Items recognised directly in equity									
Distribution under the 50/50 tax ruling	38	–	–	–	–	(21,190)	(21,190)	–	(21,190)
Acquisition of minority interest through capital increase	4	–	–	–	–	–	–	(72,673)	(72,673)
Equity dividends paid by subsidiary undertakings to minority shareholders		–	–	–	–	–	–	(563)	(563)
Share issue in parent company	28	109,329	–	–	–	–	109,329	–	109,329
Reversal of revaluation relating to previously held interest in Vostock Ruda LLC, upon acquisition of a controlling interest		–	–	(2,453)	–	3,228	775	(775)	–
At 31 December 2006		109,451	27,845	–	186	163,164	300,646	36,146	336,792

Notes to the Consolidated Financial Information

Note 1: Corporate information

Organisation and operation

The consolidated historical information for Ferrexpo AG in respect of the three years ended 31 December 2006 was approved by the board of directors on 14 June 2007.

Ferrexpo AG is a private company incorporated in Switzerland. Ferrexpo AG's registered office is Bahnhofstrasse 13, 6340 Baar, Switzerland. Ferrexpo AG and its subsidiaries as of 31 December 2006 (the "Group") operate a mine and processing plant near Kremenchuk in Ukraine. The Group's operations are vertically integrated from iron ore mining through to iron ore concentrate and pellet production. The Group's mineral properties lie within the Kremenchuk Magnetic Anomaly and are currently being exploited at the Gorishne-Plavninsky and Lavrikovsky deposits. These deposits are being jointly mined as one mining complex.

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

		Equity interest owned at 31 December		
		2004	*2005*	*2006*
	Principal activity	*%*	*%*	*%*
Consolidated subsidiaries				
Ferrexpo Poltava GOK Corporation	Iron ore mining	15.8	60.3	85.9
Vostock Ruda LLC*	Iron concentrate processing	49.4	100.0	9.4
DP Ferrotrans	Trade, transportation services	100.0	100.0	100.0
United Energy Company LLC*	Oil and gas exploration	25.0	89.7	100.0
Ferrexpo UK Limited	Finance	100	100.0	100.0
Ferrexpo Services Limited	Management services and procurement	–	100.0	100.0
DP Truboprokat*	Production	100.0	Merged with DP Ferrotrans	–
DP Tele-Radio Company*	Broadcasting	100.0	–	–
VKO Kislorod*	Production	59.9	–	–
Dopomoga LLC*	Charity	58.8	19.0	19.0
Vidrodzhennya LLC*	Agriculture	67.9	–	–

* The Group's interest in these entities is held through Ferrexpo Poltava GOK Corporation.

On 24 May 2007, Ferrexpo plc acquired a 100 per cent. interest in Ferrexpo AG via a share exchange representing a combination of businesses under common control. The ultimate controlling party of Ferrexpo plc is The Minco Trust, whose beneficial interest in Ferrexpo plc is held through its controlling shareholding in Fevamotinico S.à r.l. The beneficiaries of The Minco Trust include Kostyantyn Zhevago.

A historic share purchase and sale transaction in Ferrexpo Poltava GOK Corporation shares, the amount of which following dilution now represents less than 25 per cent. of the issued share capital of Ferrexpo Poltava GOK Corporation, is the subject of an ongoing legal challenge that commenced in November 2005, and was initially dismissed by the Ukrainian Supreme Court in April 2006, but has recently been recommenced in a lower court. The plaintiff, a party to the disputed transaction, initiated legal proceedings in the Ukrainian courts seeking to invalidate the original share sale and purchase agreement. The plaintiff claims that the agreement was not executed in accordance with Ukrainian legislation. No remediation or damage has been claimed. In the event of the claim succeeding and being upheld on appeal and the issued share capital being transferred to the plaintiff, the Group will retain control of Ferrexpo Poltava GOK Corporation. Neither the Company, nor Kostyantyn Zhevago nor any of the Group's subsidiary undertakings are involved in the legal proceedings.

Management, having taken appropriate legal advice, believe that the claim is without merit and consider that there is a remote likelihood that the Group's ownership of the related interest in Ferrexpo Poltava GOK Corporation will be successfully challenged and that the Group will not suffer material financial costs in connection with this matter.

General economic conditions

The Ukrainian economy while deemed to be a market economy continues to display certain characteristics consistent with that of an economy in transition. These characteristics include, but are not limited to, low levels of liquidity in the capital markets, relatively high inflation and the existence of currency controls which cause the national currency to be illiquid outside of Ukraine. The stability of the Ukrainian economy will be significantly affected by the Government's policies and actions with regards to supervisory, legal, and economic reforms.

Whilst there have been improvements in the Ukrainian economic situation, such as an increase in gross domestic product and a reduced rate of inflation, Ukraine continues its economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Ukrainian economy is largely dependent upon these reforms and developments and the effectiveness of the economic, financial and monetary measures undertaken by the government.

The Group's operations and financial position in Ukraine will continue to be affected by political developments including the application of existing and future legislation and tax regulations in Ukraine. The likelihood of such occurrences and their effect on the Group is such that they could have a significant impact on the financial position and the results of its operations. The management of the Group do not believe that these contingencies, as related to its operations in Ukraine, are any more significant than those of similar enterprises in the country.

The Group's Ukrainian operations are heavily dependent on a secure and cost effective source of energy. Therefore the Group will be affected by any volatility in the supply arrangement of energy into the Ukraine from neighbouring countries.

Ore reserves and recoverability of fixed assets

The Group's operations are dependent upon the mining and processing of iron ore from deposits in the vicinity of the Group's processing facilities in the East-Ukraine regions. The long term economic viability of the Group is dependent upon the continuing availability of sufficient economically recoverable ore reserves.

Note 2: Summary of significant accounting policies

The consolidated financial statements of Ferrexpo AG and its subsidiaries has been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (EU). IFRS as adopted by the EU differs in certain respects from IFRS as issued by the International Accounting Standards Board (IASB). However, the consolidated financial statements for the years presented would be no different had the group applied IFRS as issued by the IASB.

The accounting policies used in preparing the consolidated historical financial information for the years ended 31 December 2004, 2005 and 2006 are set out below. These accounting policies have been consistently applied to all the periods presented.

The consolidated historical financial information has been prepared on a historical cost basis, except for post-employment benefits measured at fair value and available for sale financial instruments measured at fair value in accordance with the requirements of IAS 39 "Financial instruments: recognition and measurement". The consolidated historical financial information is presented in US Dollars thousands and all values are rounded to the nearest thousand except where otherwise indicated.

The Group's transition date to IFRS is 1 January 2003.

Basis of consolidation

The consolidated historical financial information comprises of the financial statements for Ferrexpo AG 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 AG's, using consistent accounting policies.

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

Business combinations

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

Subsidiaries acquired from entities under common control, such that the ultimate controlling party has not changed as a result of the transaction, are fully consolidated from the earliest period presented but not before the date that they came under common control and are accounted for using the pooling of interests method of accounting whereby net assets are pooled at their historic carrying value. The principal impact of this has been in the accounting for Ferrexpo AG's interest in Ferrexpo Poltava GOK Corporation. While Ferrexpo AG's interest in Ferrexpo Poltava GOK Corporation in 2004 was 15.8 per cent., it has been consolidated on the basis of 60.3 per cent. ownership under the pooling of interests method which equals its ownership at 31 December 2005, when control passed, with the minority interest amended accordingly and as a result:

- The acquisition on 15 December 2005 was accounted for using the pooling of interest method (note 4).
- The pooling method requires the comparative periods to be presented as if the company had always had a 60.3 per cent. interest in equity of Ferrexpo Poltava GOK Corporation.
- 100 per cent. of Ferrexpo Poltava GOK Corporation's net assets have been consolidated for all periods presented.

Subsequent increases in the interest of Ferrexpo Poltava GOK Corporation, following control passing, are accounted for using the parent extension concept method of accounting, under which the difference between the purchase price and the interest in the net assets acquired is accounted for as goodwill.

The table below outlines the accounting entries as a result of the pooling of interests method being applied.

	Attributable to equity shareholders of the Parent						
	Share capital $000	*Uniting of interest reserve $000*	*Translation reserve $000*	*Retained earnings $000*	*Total $000*	*Minority interests $000*	*Total equity $000*
Ferrexpo AG equity at 31.12.2003	122	–	–	1,781	1,903	–	1,903
Ferrexpo Poltava GOK Corporation equity at 31.12.2003	130,091	–	(8,467)	30,268	151,892	29	151,921
Total of Ferrexpo AG and Ferrexpo Poltava GOK Corporation equity at 31.12.2003	130,213	–	(8,467)	32,049	153,795	29	153,824
Uniting of interest accounting eliminations	(130,091)	51,204	3,376	(13,618)	(89,129)	61,577	(27,552)
Adjusted equity after uniting of interest accounting	122	51,204	(5,091)	18,431	64,666	61,606	126,272

Explanations of uniting of interest accounting eliminations:

- Share capital reflects the legal share capital of Ferrexpo AG.
- The uniting of interest reserve represents the difference between the initial investment in Ferrexpo Poltava GOK Corporation carried at cost and the newly consolidated net assets, less minority interests.

- Translation reserves have been apportioned between own equity and minority interests on a pro-rata basis.
- Retained earnings have been apportioned between own equity and minority interests on a pro-rata basis.
- Minority interests reflect the 39.7 per cent. interest in the equity of Ferrexpo Poltava GOK Corporation.

Subsequent chanes

- During 2004 the capital of Ferrexpo Poltava GOK Corporation was increased by a total amount of $13,839,000 which resulted in a credit to the uniting of interest reserve of $3,085,000 and a credit to minority interests of $5,497,000. The remainder of $5,257,000 represents the cash contribution made by Ferrexpo AG.
- During 2005 the capital of Ferrexpo Poltava GOK Corporation was increased by a total amount of $73,350,000 which resulted in a credit to the uniting of interest reserve of $26,444,000 and a credit to minority interests of $28,750,000. The remainder of $18,516,000 represents the cash contribution made by Ferrexpo AG.

The pooling of interests method of accounting has not been applied in accounting for the increase in Ferrexpo AG’s stake in Ferrexpo Poltava GOK Corporation in 2006 from 60.3 per cent. to 85.9 per cent. as control had already passed. The increase in the stake has been accounted for using the parent extension concept method of accounting as described above.

IFRSs and IFRIC Interpretations not yet effective

Ferrexpo AG has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

- IFRS 7 (including IAS 32 and IAS 30); Financial Instrument Disclosures (effective from 1 January 2007)
- IAS 1 Presentation of Financial Statements: Amendment – Capital disclosures (effective from 1 January 2007)
- IFRS 8 Operating Segments (effective from 1 January 2009)
- IFRIC 8 Scope of IFRS 2 (effective from 1 May 2006)
- IFRIC 9 Reassessment of Embedded Derivatives (effective from 1 June 2006)
- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (effective from 1 March 2007)

Ferrexpo AG expects that the adoption of the pronouncements listed above will have no significant impact on the Group’s financial statements in the period of initial application.

Important IFRS 1 first-time adoption assumptions

Property, plant and equipment

At the date of transition to IFRS, the Group used previous revaluations of property, plant and equipment as deemed cost.

Employee benefits

As at 1 January 2004, the Group recognised all cumulative actuarial gains and losses in equity.

Functional currency

Based on the economic substance of the underlying events 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. The Group has chosen the US Dollars as its presentation currency.

__Foreign currency translation__

Transactions in foreign currencies 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 balance sheet date and non-monetary assets and liabilities at the historic rate. Foreign exchange differences arising on translation are recognised in the income statement.

The following exchange rates have been applied:

Currency rates (US$1)	*31 Dec 2003*	*Average 2004*	*31 Dec 2004*	*Average 2005*	*31 Dec 2005*	*Average 2006*	*31 Dec 2006*
Ukrainian Hryvnia	5.332	5.319	5.305	5.124	5.050	5.050	5.050

If the functional currency of a subsidiary is different to the functional currency of the parent as at the reporting date, the assets and liabilities of this entity are translated into the parent's functional currency at the rate ruling at the balance sheet 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.

__Use of estimates__

The preparation of historical financial information in conformity with IFRS requires management to make estimates and assumptions that affect the amounts reported in the historical financial information and accompanying notes. These estimates are based on information available as at the date of authorising the historical financial information 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:

- Note 4 – Business combinations
- Note 14 – Income tax expense
- Note 16 – Property, plant and equipment
- Note 19 – Available for sale financial assets
- Note 33 – Defined benefit pension liability
- Note 34 – Provision for site restoration
- Note 35 – Deferred income tax
- Note 41 – Commitments and contingencies

During the year it was decided that a change in estimate was required for the useful economic life of certain items of property, plant and equipment.

__Investments in associates__

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

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

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

Financial instruments

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available for sale financial assets, as appropriate. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each reporting date. When financial assets are recognised initially, they are measured at cost, which is the fair value of consideration given or received including or net of 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 asset as financial assets at fair value through profit or loss.

Loans and receivables

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

Available for sale financial assets

All investments, except for investments in associates are available for sale. Available for sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as either loans and receivables, or held to maturity investments or financial assets at fair value through profit and loss. After initial recognition available for sale financial assets are measured at fair value with gains or losses being recognised directly in equity.

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 balance sheet date. For investments where there is no active market, the fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis and option pricing models.

Property, plant and equipment

Property, plant and equipment is stated at cost or deemed cost at the date of transition to IFRS (hereinafter referred to as "the cost") less accumulated depreciation and impairment losses. The cost of self constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. Property, plant and equipment items of the Group have been subject to a valuation as at 1 January 2003, the date of Group's transition to IFRS, performed by independent appraisers. The values of buildings and constructions were determined with reference to the market value. Buildings and constructions of a specialized nature were valued at their depreciated replacement cost. This fair value has been adopted by the Group as the deemed cost at the transition date to IFRS.

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

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

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

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

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

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

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

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

On acquisition the cost of property, plant and equipment is capitalised on the balance sheet.

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. During the year it was decided that a change in estimate was required for the useful economic life of certain items of property, plant and equipment. This adjustment has been accounted for prospectively.

Mining assets

Mining assets comprise of mine development costs incurred upon commencement of production, including mine stripping costs incurred in order to access the mineral bearing ore deposits prior to the commencement of production and are depreciated using a unit of production method based on the estimated economically recoverable reserves to which they relate.

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

Intangible assets

Goodwill

On the acquisition of a subsidiary or an associate the purchase consideration is allocated to the assets, liabilities and contingent liabilities on the basis of their fair value at the date of acquisition. Those mineral reserves and resources that are able to be reliably valued are recognised in the assessment of fair value on acquisition. Other potential reserves and resources and mineral rights for which, in the Directors' opinion, values cannot be reliably determined, are not recognised. When the cost of acquisition exceeds the fair value attributable to the Group's share of the identifiable net assets the difference is treated as purchased goodwill.

Goodwill is not amortised but rather tested annually for impairment. Goodwill is allocated to the cash-generating unit expected to benefit from the related business combination for the purpose of the impairment testing. Where the recoverable amount of the cash-generating unit is less than its carrying amount including goodwill an impairment loss is recognised in the income statement. An impairment loss in respect of goodwill is not reversed.

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

Other intangible assets

Other intangible assets, including mineral licences, which are acquired by the Group and which have finite useful lives, are stated at cost less accumulated amortisation and impairment losses. Intangible assets acquired as part of an acquisition of a business are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition, subject to the constraint that, unless the asset has a readily ascertainable market value, the fair value is limited to an amount that does not create or increase any negative goodwill arising on the acquisition.

Amortisation

Intangible assets, other than goodwill, primarily comprise mineral licence acquisition costs, which are amortised on a unit of production basis.

Impairment of assets

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

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

Borrowing costs

Borrowing costs are recognised as an expense when incurred in accordance with the benchmark accounting treatment under IAS 23.

Inventories

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

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Raw materials – cost on a first-in, first-out basis;

- Finished goods and work in progress – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

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

Trade and other receivables

Trade receivables and other receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. A provision is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at banks and in hand and short term deposits with an original maturity of three months or less.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown as a deduction from the proceeds.

Shares redemption liability

The Group's contractual obligation to purchase its own equity instruments gives rise to a financial liability for the present value of the redemption amount. When the financial liability is recognised initially under IAS 39, its fair value is reclassified from equity. Subsequently, the financial liability is carried as a long-term liability on the amortised cost basis until extinguished on conversion or redemption.

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. Amortized cost is calculated by taking into account any transaction costs and any discount or premium on settlement. Financial liabilities which do not have a fixed maturity are subsequently carried at fair value.

Interest bearing loans and borrowings

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

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/ or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or 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, and the difference in the respective carrying amounts is recognised in the income statement.

Financial instruments are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Impairment of financial assets

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

Assets carried at amortised cost

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

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument 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 discounted at the current market rate of return for a similar financial asset.

Available for sale financial assets

If an available for sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available for sale are not recognised in the income statement.

Provisions

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

Site restoration costs

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

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

Pension obligations and other employee benefits

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

In addition, the Group has a legal obligation to compensate the Ukrainian State Pension Fund for additional pensions paid to certain categories of the current and former employees of the Group. These obligations being unfunded are substantially similar to those typically existing under an unfunded defined benefit plan. Costs relating to this plan are accrued in the historical financial information using the projected unit credit method in respect of those employees entitled to such payments. Management uses actuarial techniques in calculating the liability related to this retirement obligation at each balance sheet date. Actual results could vary from estimates made to date.

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

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

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

The Group also makes contributions to the defined benefit pension fund for employees in the parent company.

Contingent liabilities

Contingent liabilities are not recognised in the historical financial information unless it is probable that an outflow of economic resources will be required to settle the obligation and it can be reasonably estimated. They are disclosed unless the possibility of an outflow of economic resources is remote.

Revenue recognition

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

Sale of goods including pellet sales and other sales

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

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

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

Rendering of services

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

Interest income

Revenue is recognised as interest accrues (using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Cost of sales and other expense recognition

The cost of sales that relates to the same transaction is recognised simultaneously with the respective revenue.

Taxes

Current income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected 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 balance sheet date.

Swiss tax 50/50 ruling

Under the Swiss tax 50/50 ruling a qualifying company can distribute a percentage of its profits free of tax. Ferrexpo AG, under its current ownership, qualifies to make such distributions.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet 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, 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 balance sheet 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 balance sheet 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 balance sheet date.

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

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

Value added tax

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

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

The net amount of VAT recoverable from, or payable to, the taxation authority is disclosed in the notes to the financial statements (note 24).

Events after the balance sheet date

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

Liability to minority participants

Under Ukrainian legislation minority participants in Limited Liability Companies (LLCs) have the unconditional right to redeem their interests at any time for cash equal to their proportionate share of the net asset value of the related entity determined under the local GAAP. Consequently, the minority interests in subsidiaries net assets cannot be classified as equity and are presented in the consolidated balance sheet as "Liability to minority participants".

The excess, and any further losses applicable to the minority, are allocated against the majority interest except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered.

Changes in ownership interests in subsidiaries

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

Note 3: Segment information

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segment information is presented in respect of the Group's business and geographical segments.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Primary reporting format – Business segments

The Group's activity is primarily the processing and sale of iron ore and for the purpose of the consolidated financial statements only one business segment is therefore identified as a reportable segment.

Secondary reporting format – Geographical segments

The Group operated in three distinct geographical segments for the processing and sale of iron ore for the three years ended 31 December 2006.

The Group's principal mining operations are based in Ukraine and Ferrexpo AG being based in Switzerland.

	Year ended 31 December 2006			
	Ukraine	*Switzerland*	*Unallocated*	*Total*
	$000	*$000*	*$000*	*$000*
Revenue				
Sales	468,321	467,700	7,917	943,938
Inter-segment sales	(388,711)	–	(7,917)	(396,628)
Sales to external customers	79,610	467,700	–	547,310
Other segment information				
Segment assets	611,058	391,616	62,048	1,064,722
Elimination				(357,806)
Total assets				706,916
Segment liabilities	248,840	160,385	60,258	469,483
Elimination				(99,359)
Total liabilities				370,124
Capital expenditure:				
Property, plant and equipment	53,993	297	59	54,349
Intangible fixed assets	156,423	–	–	156,423
Depreciation and amortisation	28,270	176	117	28,563

	Year ended 31 December 2005			
	Ukraine	*Switzerland*	*Unallocated*	*Total*
	$000	*$000*	*$000*	*$000*
Revenue				
Sales	419,310	455,985	3,630	878,925
Inter-segment sales	(311,878)	–	(3,630)	(315,508)
Sales to external customers	107,432	455,985	–	563,417
Other segment information				
Segment assets	559,689	136,241	113,896	809,826
Elimination				(213,230)
Total assets				596,596
Segment liabilities	288,265	48,693	112,659	449,617
Elimination				(108,931)
Total liabilities				340,686
Capital expenditure:				
Property plant and equipment	68,816	230	391	69,437
Intangible fixed assets	9,769	–	–	9,769
Depreciation and amortisation	32,189	91	42	32,322

	Year ended 31 December 2004			
	Ukraine	*Switzerland*	*Unallocated*	*Total*
	$000	*$000*	*$000*	*$000*
Revenue				
Sales	268,906	252,428	626	521,960
Inter-segment sales	(146,189)	–	(626)	(146,815)
Sales to external customers	122,717	252,428	–	375,145
Other segment information				
Segment assets	351,175	84,220	91,040	526,435
Elimination				(111,085)
Total assets				415,350
Segment liabilities	198,976	40,347	90,106	329,429
Elimination				(77,195)
Total liabilities				252,234
Capital expenditure:				
Property plant and equipment	36,779	138	9	36,926
Depreciation and amortisation	30,006	40	1	30,047

Elimination balances represent intercompany transactions.

Note 4: Business combinations and disposals

Acquisition of control in Ferrexpo Poltava GOK Corporation

On 15 December 2005 the company acquired an additional 44.5 per cent. of the voting shares in Ferrexpo Poltava GOK Corporation from entities under common control for $51,808,000, increasing the total Group's share in the net assets of Ferrexpo Poltava GOK Corporation to 60.3 per cent.. The net assets of Ferrexpo Poltava GOK Corporation have been pooled with those of Ferrexpo AG at their historic carrying value under the pooling of interests method of accounting for acquisitions as described in note 2 under business combinations.

The values of the identifiable assets and liabilities of Ferrexpo Poltava GOK Corporation as at 15 December 2005 were determined as follows:

	Values recognised on acquisition and historical carrying values
	$000
Property, plant and equipment	292,364
Intangible assets	7,056
Available-for-sale financial assets	34,654
Inventory	58,490
Trade and other receivable	14,172
Prepayments and other current assets	111,814
Taxes recoverable and prepaid	24,133
Short term deposits with banks	13,533
Cash and cash equivalents	1,178
	557,394
Liability to minority participants	(4,094)
Deferred tax liability	(4,779)
Interest bearing loans and borrowings	(209,891)
Trade and other payables	(44,714)
Defined employee benefit pension liability	(13,251)
Share redemption liability	(8,182)
Taxes payable	(1,596)
Provision for site restoration	(339)
	(286,846)
Value of net assets	270,548

Acquisition of minority interests in Ferrexpo Poltava GOK Corporation

On the following dates Ferrexpo AG acquired further shares and voting rights in its subsidiary Ferrexpo Poltava GOK Corporation:

25 April 2006	0.7%
26 July 2006	1.3%
22 August 2006	12.1%
11 September 2006	11.5%

As a result of the above transactions Ferrexpo AG now holds 85.9 per cent. of the shares in Ferrexpo Poltava GOK Corporation. Of the purchase price of $238,986,000, $72,673,000 was charged against the minority interests on the date of the acquisition and the balance was recorded as goodwill. Of the consideration paid, $10,651,000 related to a rights issue in Ferrexpo Poltava GOK Corporation, resulting in goodwill recognised of $155,577,000.

Acquisition of control in Vostock Ruda LLC

On 16 December 2005, the Group obtained control in its associate Vostock Ruda LLC, an unlisted company based in Zhelty Vody, Ukraine, through acquisition of a further 50.57 per cent. of its voting shares, increasing the total Group's share in the net assets of Vostock Ruda to 100 per cent. Vostock Ruda LLC is a company specialising in the developing of mining resources and producing iron ore concentrate.

Management estimated the fair value of the identifiable assets, liabilities and contingent liabilities for the preparation of the historical financial information. The values of the identifiable assets and liabilities of Vostock Ruda LLC determined as at the date of acquisition were:

	Values recognised on acquisition $000	Historical carrying value $000
Property, plant and equipment	12,722	12,722
Exploration rights	8,833	–
Inventory	311	311
Trade receivables	4,060	4,060
Other current assets	716	716
Cash and cash equivalents	37	37
	26,679	17,846
Deferred tax liability	(3,208)	(1,000)
Interest bearing loans and borrowings	(741)	(741)
Trade accounts payable	(19,378)	(19,378)
Provisions and accruals	(341)	(341)
	(23,668)	(21,460)
Value of net assets	3,011	(3,614)
Value of 50.57% of net assets	1,522	
Total consideration paid	1,522	
Consisting of:		
Cash paid	1,522	

The previously unrecognised share of losses of $1,448,000 in an associate were recognised in the Group's equity upon acquisition of the controlling interest in Vostock Ruda LLC.

The adjustment of $2,453,000 relating to the increase in the identifiable assets and liabilities in respect of the 49.4 per cent. interest previously held has been credited directly to equity.

If the acquisition had taken place at the beginning of 2005, the profit before tax of the Group would have included a loss for the year of $3,178,000.

Refer to note 38 for details of the subsequent disposal in 2006 of a 90.6 per cent. interest in Vostock Ruda LLC.

Acquisition of control in United Energy Company LLC

On 30 December 2005, the Group obtained control of its former associate United Energy Company ("UEC"), an unlisted company based in Komsomolsk, Ukraine, through the contribution of $30,495,000 (UAH 154,000,000) into the charter fund, increasing the Group's interest in the net assets from 25 per cent. to 89.7 per cent. at the same time diluting the interest in UEC held by an entity under common control of the beneficial owner of the Group from 75.0 per cent. to 10.3 per cent. As a result, the effective cost of this business combination was $3,149,000 (UAH 15,902,000) which is the minority share (10.3 per cent.) of the amount contributed.

The net assets of United Energy Company LLC have been pooled with those of Ferrexpo AG at their historic carrying value under the pooling of interests method of accounting for acquisitions as described in note 2 under business combinations.

Acquisition of minority interests in United Energy Company LLC

On 18 December 2006 Ferrexpo Poltava GOK Corporation acquired 10.3 per cent. of the voting rights in UEC. As a result of the transaction Ferrexpo Poltava GOK Corporation now holds 100 per cent. of the shares in UEC. The purchase price of $3,609,000 was offset against the minority interests on the date of the acquisition. This additional acquisition was accounted for under the parent extension concept method of accounting. Goodwill of $105,000 has been recognised.

Disposal of equity interest in Belotzerkovskaya Teploelectrotsentral

In 2005 the Group sold this 34.6 per cent. equity interest in Belotzerkovskaya Teploelectrotsentral to three entities under common control of the beneficial owner of the Group for cash proceeds of $19,216,000 (UAH 98,470,000) (note 38).

Note 5: Revenue

Revenue for the three years ended 31 December 2006 consisted of the following:

	Year ended 31 December		
	2004	*2005*	*2006*
	$000	*$000*	*$000*
Revenue from sales of ore pellets:			
Export	348,934	499,821	467,099
Ukraine	24,232	60,552	73,089
	373,166	560,373	540,188
Revenue from sales of services	–	925	3,158
Revenue from other sales	1,979	2,119	3,964
	375,145	563,417	547,310

During the year ended 31 December 2006 sales made to three customers accounted for approximately 46.5 per cent. of the net sales revenue (2005: 51.8 per cent., 2004: 68.1 per cent.).

Export sales by geographical destination for the three years ended 31 December 2006 were as follows:

	Year ended 31 December		
	2004	*2005*	*2006*
	$000	*$000*	*$000*
Austria	76,998	186,724	140,286
China	6,734	68,191	83,258
Slovakia	72,393	38,595	54,143
Serbia	33,433	33,944	64,015
Czech Republic	27,618	73,768	52,775
Russia	–	37,254	–
Bulgaria	13,600	20,022	15,587
Poland	69,572	15,140	15,571
Romania	42,904	12,240	23,838
Netherlands	–	3,703	–
Germany	287	3,267	4,183
Turkey	–	478	12,302
Italy	5,225	6,495	–
Other	170	–	1,141
	348,934	499,821	467,099

Note 6: Cost of sales

Cost of sales for the three years ended 31 December 2006 consisted of the following:

	Year ended 31 December		
	2004	*2005*	*2006*
	$000	*$000*	*$000*
Materials	57,542	119,411	78,705
Electricity	42,044	52,878	65,535
Personnel costs	29,095	38,329	46,231
Spare parts and consumables	22,087	30,367	27,072
Depreciation and amortisation	28,359	28,524	24,895
Fuel	12,677	20,443	25,798
Gas	12,195	13,790	20,806
Royalties and levies	3,938	4,777	7,678
	207,937	308,519	296,720

Material costs above included purchased iron ore pellets from 3rd parties in the sum of $8.8m in 2004 and $36m in 2005 (2006 $nil).

Note 7: Selling and distribution expenses

Selling and distribution expenses for the three years ended 31 December 2006 consisted of the following:

	Year ended 31 December		
	2004	*2005*	*2006*
	$000	*$000*	*$000*
Railway transportation	33,234	37,426	53,029
Other transportation	4,454	21,964	27,335
Agent fees	1,943	2,681	1,649
Custom duties	940	853	1,180
Advertising	–	249	1,096
Personnel cost	220	595	784
Depreciation	–	–	128
Other	822	1,362	1,175
	41,613	65,130	86,376

Note 8: General and administrative expenses

General and administrative expenses for the three years ended 31 December 2006 consisted of the following:

	Year ended 31 December		
	2004	*2005*	*2006*
	$000	*$000*	*$000*
Personnel costs	6,090	10,525	17,489
Buildings and maintenance	3,868	3,762	5,697
Taxes other than income tax and other charges	1,976	1,939	3,138
Social responsibility costs	736	1,808	1,028
Consulting and other professional fees	1,443	6,003	4,375
Depreciation and amortisation	616	1,247	2,192
Communication	466	1,289	2,083
Vehicles maintenance and fuel	319	615	598
Repair	647	591	468
Security	–	202	333
Research	–	–	1,583
Other	2,141	2,052	2,156
	18,302	30,033	41,140

Within buildings and maintenance above of $5,697,000 is an amount of $3,914,000 specifically relating to Vostock Ruda LLC. The company is not currently mining iron ore but costs are incurred to maintain the mining shafts in potentially working condition and these costs are expensed.

Note 9: 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 three years ended 31 December 2006 consisted of the following:

	Year ended 31 December		
	2004	*2005*	*2006*
	$000	*$000*	*$000*
Impairment of goodwill	–	296	–
Write-off of inventories	–	641	341
Impairment of VAT recoverable	–	552	–
Write-off of property, plant and equipment	590	202	814
Impairment of property, plant and equipment	–	–	729
Other impairment/(reversal)	(393)	–	321
	197	1,691	2,205

Note 10: Other income

Other income for the three years ended 31 December 2006 consisted of the following:

	Year ended 31 December		
	2004	*2005*	*2006*
	$000	*$000*	*$000*
Sale of surplus maintenance spares	548	1,113	1,532
Other income	452	493	1,051
	1,000	1,606	2,583

Note 11: Other expenses

Other expenses for the three years ended 31 December 2006 consisted of the following:

	Year ended 31 December		
	2004	*2005*	*2006*
	$000	*$000*	*$000*
Charitable donations	1,721	3,536	1,880
Loss on disposal of plant, property and equipment	707	1,523	601
Fines and penalties	435	479	1,758
Other	38	318	839
	2,901	5,856	5,078

Note 12: Net gain/(loss) from disposal of subsidiaries and associates

Gain/(loss) on disposal of subsidiaries and associates for the three years ended 31 December 2006 consisted of the following:

	Year ended 31 December		
	2004	*2005*	*2006*
	$000	*$000*	*$000*
Gain on disposal of subsidiaries	–	1,590	–
Loss on disposal of subsidiaries (note 38)	–	–	(3,524)
Loss on disposal of associates	–	(409)	–
Gain/(loss) on disposal of subsidiaries and associates	–	1,181	(3,524)

Note 13: Net financing expenses

Finance revenue and costs for the three years ended 31 December 2006 consisted of the following:

	Year ended 31 December		
	2004	*2005*	*2006*
	$000	*$000*	*$000*
Finance income			
Interest income	2,714	5,454	2,326
Net gain from trading with securities	–	135	–
Other finance revenue	193	94	–
	2,907	5,683	2,326
Finance expense			
Interest expense	(19,632)	(18,536)	(27,425)
Loss on early redemption or unwinding of promissory notes	(108)	(815)	–
Bank charges	(1,825)	(2,363)	(3,870)
Other finance costs	(1,022)	(1,199)	(1,360)
	(22,587)	(22,913)	(32,655)
Foreign exchange (loss)/gain	(234)	3,138	(3,784)
Net finance costs	(19,914)	(14,092)	(34,113)

Note 14: Income tax expense

Major components of income tax expense for the three years ended 31 December 2006 consisted of the following:

	Year ended 31 December		
	2004	*2005*	*2006*
	$000	*$000*	*$000*
Current income tax	11,896	28,270	16,371
Deferred income tax	(4,934)	(8,362)	(1,613)
	6,962	19,908	14,758

The Group's income was subject to taxation in Ukraine, Switzerland and the United Kingdom. During the year ended 31 December 2006 the corporate income tax was levied on taxable income less allowable expenses at the following rates:

– Ukraine 25% (2005: 25%, 2004: 25%)

– Switzerland 9.3% (2005: 9.4%, 2004: 9.0%)

– UK 30% (2005: 30%, 2004: 30%)

The effective income tax rate differs from the corporate income tax rates. The weighted average of the statutory rate was 9.2 per cent. for 2004, 15.4 per cent. for 2005 and 13.9 per cent. for 2006. This is calculated as the average of the statutory tax rates applicable in the countries in which the Group operates, weighted by the profit/(loss) before tax of the subsidiaries in the respective countries as included in the consolidated historical financial information.

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

A reconciliation between the income tax charged in the accompanying historical financial information and income before taxes multiplied by the weighted average statutory tax rate for the three years ended 31 December 2006 is as follows:

	Year ended 31 December		
	2004	*2005*	*2006*
	$000	*$000*	*$000*
Profit before tax	85,128	140,842	80,737
Notional tax computed at the weighted average statutory tax rate of 13.9 per cent. (2005: 15.4 per cent., 2004 9.2 per cent.)	7,840	21,745	11,186
50/50 Swiss tax ruling	(4,330)	(3,685)	(1,991)
(Recognition)/derecognition of deferred tax assets	(101)	694	791
Tax indexation of fixed assets	–	(820)	–
Tax losses expiring in current year	401	–	–
Tax losses brought forward and utilised	(3)	(13)	–
Expenses not deductible for tax purposes	2,600	2,312	4,759
Prior year items	555	(325)	13
Income tax expense	6,962	19,908	14,758

Note 15: Earnings per share and dividends paid and proposed

The earnings per share ("EPS") calculation has assumed that the number of ordinary shares issued pursuant to the share exchange agreements in relation to the acquisition of Ferrexpo AG by Ferrexpo plc have been in issue throughout 2004 and 2005 which is consistent with the pooling of interests method used to account for combinations of businesses under common control.

The directors believe that this pro-forma EPS provides a more meaningful comparison with the Group's ongoing business than using the statutory EPS which would only reflect shares issued based on the actual date of issue.

Basic EPS is calculated by dividing the net profit for the year attributable to ordinary equity shareholders of Ferrexpo AG by the pro-forma number of ordinary shares as defined above. As at 31 December 2006, Ferrexpo plc has no dilutive potential ordinary shares.

The following reflects the income and pro-forma share data used in the EPS computations:

	Year ended 31 December		
	2004	*2005*	*2006*
	$	*$*	*$*
Net profit attributable to equity shareholders of Ferrexpo AG	80,943,000	105,836,000	63,578,000
Number of shares			
Shares in issue at 31 December 2006	135,123,800	135,123,800	135,123,800
EPS – basic and diluted	0.5990	0.7833	0.4705

Dividends paid and proposed

	Year ended 31 December		
	2004	*2005*	*2006*
	$	*$*	*$*
Dividends proposed			
Final dividend proposed by parent company 2004 $0.54	108	–	–
Final dividend proposed by subsidiary to minority interest 2006 $0.01 (2005: $0.01; 2004: $0.01)	623	962	563
Total	731	962	563
Dividends paid during the year			
Final dividend paid by parent company proposed in 2004	–	–	108
Final dividend proposed in previous years to minority interest	102	246	178
Total	102	246	286

Note 16: Property, plant and equipment

As at 31 December property, plant and equipment comprised:

	Land $000	Mining assets* $000	Buildings $000	Plant & equipment $000	Vehicles $000	Fixtures and fittings $000	Assets under construction $000	Total $000
Cost:								
At 31 December 2003	–	6,735	102,875	103,939	38,968	747	6,644	259,908
Additions	–	–	–	–	–	147	36,779	36,926
Disposals	–	–	(532)	(1,920)	(1,331)	(13)	(461)	(4,257)
Transfer	2,209	6	5,255	14,800	8,429	402	(31,101)	–
Translation adjustment	–	33	506	511	192	4	33	1,279
At 31 December 2004	2,209	6,774	108,104	117,330	46,258	1,287	11,894	293,856
Additions	–	–	–	147	2,020	626	66,644	69,437
Acquisition of subsidiaries	–	–	8,296	2,080	16	26	2,306	12,724
Disposals	–	–	(1,200)	(1,265)	(2,207)	(211)	(58)	(4,941)
Disposal of subsidiary	–	–	(775)	(481)	(140)	(46)	(24)	(1,466)
Transfer	–	322	8,501	25,451	14,924	348	(49,546)	–
Translation adjustment	112	343	5,468	5,933	2,339	52	600	14,847
At 31 December 2005	2,321	7,439	128,394	149,195	63,210	2,082	31,816	384,457
Additions	–	–	–	–	–	364	53,985	54,349
Transfers	–	23	11,150	24,728	12,411	271	(48,583)	–
Disposals	–	–	(1,069)	(2,401)	(1,272)	(25)	(583)	(5,350)
Disposal of subsidiary	–	(138)	(9,523)	(7,065)	(34)	(144)	(675)	(17,579)
At 31 December 2006	2,321	7,324	128,952	164,457	74,315	2,548	35,960	415,877
Depreciation:								
At 31 December 2003	–	83	5,303	20,318	5,487	100	–	31,291
Depreciation charge	–	91	4,562	19,389	5,664	152	–	29,858
Disposals	–	–	(62)	(1,431)	(284)	(7)	–	(1,784)
Translation adjustment	–	1	38	149	41	1	–	230
At 31 December 2004	–	175	9,841	38,425	10,908	246	–	59,595
Depreciation charge	–	163	5,196	19,976	6,528	295	–	32,158
Disposals	–	–	(895)	(1,265)	(1,112)	(8)	–	(3,280)
Disposal of subsidiary	–	–	(62)	(291)	(125)	(30)	–	(508)
Translation adjustment	–	11	573	2,237	648	12	–	3,481
At 31 December 2005	–	349	14,653	59,082	16,847	515	–	91,446
Depreciation charge	–	164	5,444	16,329	5,937	541	–	28,415
Disposals	–	–	(621)	(1,684)	(1,185)	(16)	–	(3,506)
Impairment	–	–	–	–	–	–	729	729
Disposal of subsidiary	–	(116)	(1,385)	(953)	(21)	(75)	–	(2,550)
At 31 December 2006	–	397	18,091	72,774	21,578	965	729	114,534
Net book value at:								
31 December 2006	2,321	6,927	110,861	91,683	52,737	1,583	35,231	301,343
31 December 2005	2,321	7,090	113,741	90,113	46,363	1,567	31,816	293,011
31 December 2004	2,209	6,599	98,263	78,905	35,350	1,041	11,894	234,261
31 December 2003	–	6,652	97,572	83,621	33,481	647	6,644	228,617

* Mine assets constitute mine stripping costs which are accounted for under the Group's accounting policy outlined in note 2.

Deemed cost

For the purpose of the transition to IFRS in 2003, the directors commissioned a qualified valuer to conduct an independent appraisal of property, plant and equipment as of 1 January 2003 to determine their deemed cost at that date. The deemed cost of property, plant and equipment as of 1 January 2003 was determined with reference to market value or, for assets of a specialised nature, at their depreciated replacement cost.

Revision of economic useful life

At 31 December 2006, property, plant and equipment with a cost of $16.55million was fully depreciated (2005: $17.46 million, 2004: $4.60 million). At 31 December 2006, property, plant and equipment with a cost of $0.1 million was non-operational (2005: $0.6 million, 2004: $0.3 million).

During the year the Group reassessed the remaining useful economic life of specific items of property plant and equipment resulting in a $4.2 million reduction in depreciation during 2006, which included items that have been fully depreciated. The management of the Group believe this change in estimation technique is required to better apportion the cost of the asset over its useful life.

Note 17: Goodwill and other intangible assets

As at 31 December goodwill and other intangible assets comprised:

	Goodwill *$000*	*Other intangible assets* *$000*	*Total* *$000*
Cost:			
At 31 December 2003	–	638	638
Disposals	–	(271)	(271)
Translation adjustment	–	15	15
At 31 December 2004	–	382	382
Additions	–	640	640
Acquisitions of subsidiaries (note 4)	296	8,833	9,129
Disposals	–	(255)	(255)
Impairment (note 9)	(296)	–	(296)
Translation adjustment	–	19	19
At 31 December 2005	–	9,619	9,619
Additions	–	741	741
Acquisition of minority interest in subsidiary (note 4)	155,682	–	155,682
Disposals	–	(181)	(181)
Disposal of subsidiary (note 4)	–	(8,833)	(8,833)
At 31 December 2006	155,682	1,346	157,028
Accumulated amortisation and impairment:			
At 31 December 2003	–	436	436
Amortisation charge	–	189	189
Disposals	–	(450)	(450)
Translation adjustment	–	11	11
At 31 December 2004	–	186	186
Amortisation charge	–	164	164
Disposals	–	(6)	(6)
Translation adjustment	–	11	11
At 31 December 2005	–	355	355
Amortisation charge	–	148	148
Disposals	–	(9)	(9)
At 31 December 2006	–	494	494
Net carrying amount at:			
31 December 2006	155,682	852	156,534
31 December 2005	–	9,264	9,264
31 December 2004	–	196	196
31 December 2003	–	202	202

The major component of other intangible assets as at 31 December 2006 comprises licences in respect of the Group's mining operations. The amortisation charge for the year is allocated to production expenses and administrative expenses as appropriate.

Impairment of goodwill

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

The recoverable amount has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by the board covering a period of 20 years to 2026. The model is based only on the Group's current pit reserves and therefore does not include the mining of the Yeristovo reserve planned for 2011. The discount rate applied to cash flow projections is 8 per cent. in real terms.

The calculation of value in use is most sensitive to the sales price assumptions used in the model. The internal assumptions used by management have the 2007 prices flat in comparison to 2006, a 5 per cent. increase in 2008, a 7.5 per cent. decrease in 2009 and a further 10 per cent. fall in 2010, with prices remaining flat thereafter.

With regards to the assessment of value in use, management believes that no reasonably expected possible change in the above key assumption would cause the carrying value of the cash-generating unit to exceed its recoverable amount.

Due to the model's resulting recoverable amount in comparison to the carrying value of the cash-generating unit other assumptions are deemed insensitive.

Note 18: Investments in associates

As at 31 December investments in associates comprised:

		Ownership %			*Amount*		
	Principal activity	*2004*	*2005*	*2006*	*2004*	*2005*	*2006*
United Energy Company LLC (subsidiary in 2005 and 2006)*	Oil and gas exploration	25.0	89.7	100.0	1,001	–	–
Slavutich Ruda Ukraine**	Freight forwarding	30.0	19.0	1.0	521	–	–
TIS Ruda	Port development	–	–	49.9	–	–	16,950
					1,522	–	16,950

* In 2005 and 2006 United Energy Company LLC was accounted for as a subsidiary.

** In 2005 and 2006 Slavutich Ruda Ukraine was accounted for as an investment.

For the years ended 31 December 2004 and 2006 and periods then ended summarised financial information for associates was as follows:

	Total Assets		*Total liabilities*		*Revenue*		*Net Profit (loss)*	
	2004	*2006*	*2004*	*2006*	*2004*	*2006*	*2004*	*2006*
United Energy Company LLC	4,003	–	–	–	18	–	(5)	–
Slavutich Ruda Ukraine	4,552	–	2,814	–	3,663	–	524	–
TIS Ruda	–	28,662	–	762	–	–	–	–

There were no associates in 2005. The information above is for 100 per cent. of the associate named and not as a percentage based on Group ownership.

TIS Ruda had not commenced to trading at 31 December 2006.

Note 19: Available-for-sale financial assets

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

	% Ownership			*Carrying Value*		
	2004	*2005*	*2006*	*2004*	*2005*	*2006*
	$000	*$000*	*$000*			
Current						
Promissory notes available for sale	–	–	–	–	26	97
Investments available for sale – equity instruments:						
Poltava Avtogregatny Zavod	0.8%	–	–	1,498	–	–
Vostock Ruda	49.4%	100%	9.4%	–	–	1,354
				1,498	26	1,451
Non-current						
Promissory notes available for sale				–	–	14
Investments available for sale – equity instruments:						
LLC Atol	–	9.95%	9.95%	–	26,720	26,720
CJSC AMA	–	9.00%	9.00%	–	3,560	3,560
CJSC Amtek	–	9.00%	9.00%	–	4,250	4,250
First Investment Bank	1.11%	0.42%	0.32%	89	94	94
Slavutich-Ruda Ukrania Ltd	–	19.00%	1.00%	–	2	2
Dopomoga Ltd	–	19.00%	19.00%	–	1	1
				89	34,627	34,641

In 2005 the equity investment in Poltava Avtogregatny Zavod was sold to a related party.

The fair value of the unquoted equity investment in LLC Atol, CJSC AMA and CJSC Amtek, companies engaged in the exploration and development of oil and gas fields, is determined by management using a discounted cash flow projection, having taken into account the estimated value of reserves provided by an expert third party valuer. The principal assumptions used for the 2005 and 2006 valuation are as follows: (1) selling price per one thousand cubic meters of gas extracted of $150 average in 2007 with growth of 10 per cent. per year converging to $230 by 2012 and (2) a discount rate of 8 per cent. in real terms.

Note 20: Other non-current assets

As at 31 December other non-current assets comprised:

		At 31 December	
	2004	*2005*	*2006*
	$000	*$000*	*$000*
Prepayments for property, plant and equipment	2,965	951	618
Amounts owed by third parties	12,675	11,475	–
Amounts owed by related parties (note 38)	21,370	–	–
Other non-current assets	164	210	298
	37,174	12,636	916

Note 21: Inventories

As at 31 December inventories comprised:

	At 31 December		
	2004	*2005*	*2006*
	$000	*$000*	*$000*
Raw materials and consumables	25,791	36,206	36,116
Finished ore pellets	6,751	19,643	10,640
Work in progress	2,114	2,896	2,132
Other	475	58	49
Provision for slow moving and obsolete stock	(232)	(313)	(450)
	34,899	58,490	48,487

As at 31 December 2006 the rights to future proceeds from finished goods in the amount of $1,215,000 (2005: $18,305,000, 2004: $8,190,000 bank loans and $11,912,000 for other borrowings) were pledged as collateral for bank loans (note 30).

Stock is held at cost or fully provided for within the slow moving and obsolete stock provision above.

Note 22: Trade and other receivables

At 31 December trade and other receivables comprised:

	At 31 December		
	2004	*2005*	*2006*
	$000	*$000*	*$000*
Trade receivables			
Ore pellets	29,790	25,484	35,927
Materials	977	440	1,105
Services	–	3,760	1,223
Other	440	841	103
	31,207	30,525	38,358
Other receivables (note 38)	1,200	1,200	19,991
Allowance for uncollectability	(13)	(507)	(65)
	32,394	31,218	58,284

Note 23: Prepayments and other current assets

As at 31 December prepayments and other current assets comprised:

	At 31 December		
	2004	*2005*	*2006*
	$000	*$000*	*$000*
Prepayments to suppliers			
Electricity and gas	3,586	2,198	4,502
Materials and spare parts	6,089	1,966	1,753
Services	2,920	1,176	2,607
Advances provided to related party (note 38)	–	106,783	–
Other	338	178	280
	12,933	112,301	9,142
Other accounts receivable and prepaid expenses	1,720	659	7,996
Allowance for uncollectability	(209)	(1,252)	(20)
	14,444	111,708	17,118

Other accounts receivable and prepaid expenses of $7,996,000 include IPO costs of $7,767,000 for 2006.

Note 24: Income and other taxes recoverable and prepaid

As at 31 December taxes recoverable and prepaid comprised:

	At 31 December		
	2004	*2005*	*2006*
	$000	*$000*	*$000*
VAT receivable	14,524	18,922	42,129
Other taxes prepaid	–	–	360
Other taxes recoverable and prepaid	14,524	18,922	42,489
Income tax prepaid	2,570	5,255	1,424
	17,094	24,177	43,913

The VAT receivable arose from zero rate VAT exports and is due to be recovered from the Ukrainian State and Swiss Authorities.

Note 25: Short term deposits with banks

As at 31 December interest bearing term deposits with a maturity term of less than one year comprised:

			At 31 December		
	Interest		*2004*	*2005*	*2006*
Bank	*rate*	*Currency*	*$000*	*$000*	*$000*
Short term deposits held with related parties (note 38)	9.2%-16%	UAH	4,020	11,169	2,777
Short term deposits held with related parties (note 38)	12%	USD	4,751	1,164	5,164
Ukrainian bank	7%	USD	–	–	1,070
BNP Paribas	3.5%-4%	USD	3,150	5,410	–
Interest accrued with related parties (note 38)			373	1,200	2,032
			12,294	18,943	11,043

Note 26: Cash and cash equivalents

	At 31 December		
	2004	*2005*	*2006*
	$000	*$000*	*$000*
Cash at bank	1,939	1,521	14,718
Cash held with related parties (note 38)	8,992	972	1,515
Petty Cash	4	3	3
	10,935	2,496	16,236

As at 31 December 2006 cash at bank also included short term bank deposits which were interest bearing at 4.5 per cent. – 5.0 per cent. p.a. and have an original maturity of less than three months from the date of origination of $4,850,000.

Cash at bank as at 31 December 2005 included interest free current bank accounts.

As at 31 December 2004 cash at bank included short term bank deposits which were interest bearing at 12 per cent. p.a. and have an original maturity of less than three months from the date of origination of $9,447,000 (UAH 47,709,000).

Note 27: Assets classified as held for sale

Assets classified as held for sale at 31 December 2004 amounted to $18,550,000, relating to Belotzerkoyskaya Teploelectrotsentral. This was subsequently disposed of in 2005, refer to note 4.

Note 28: Share capital

	$000
Balance at 31 December 2004 and 2005	122
Issue of new shares on 24 August 2006	109,329
Balance at 31 December 2006	109,451

The authorised and fully paid share capital of Ferrexpo AG at 31 December 2006 was 135,123,800 ordinary shares at a par value of CHF1 paid for in cash, resulting in share capital of $109,451,000 per the balance sheet. At 31 December 2005 and 2004 the authorised and fully paid share capital of Ferrexpo AG was 200,000 ordinary shares at a par value of CHF1 resulting in share capital of $122,000 per the balance sheet.

The increase in share capital was required to fund investment in plant and machinery and the acquisition of shares in Ferrexpo Poltava GOK Corporation during the year to 31 December 2006.

Pursuant to a forward share purchase agreement with DCM DECOmetal International Trading GmbH, dated 14 January 2004, Ferrexpo Poltava GOK Corporation assumed the liability to purchase 9,886,503 of its own shares for a total consideration of $11,000,000 to be made by two equal instalments in November and December 2008. In 2005, the share purchase agreement was amended to include an additional 2,353,929 of Ferrexpo Poltava GOK Corporation's ordinary shares belonging to DCM DECOmetal International Trading GmbH (12,240,432 shares in total) for an additional consideration of $37,000.

The present value of the redemption amount being equal to $6,636,000 (UAH 35,303,000) at the date of initial recognition was recorded as a liability (note 29) with a corresponding decrease in equity. The discount factor used in assessing the present value was 10.75 per cent.

Note 29: Shares redemption liability

In October 2003, JSC Poltava GOK sold a 15 per cent of its shares to DCM Decometal International Trading GmbH ("DCM") subject to a deferred obligation to repurchase these shares at a fixed price of US$11.0 million. The share redemption liability represents the present value in respect of this contractual obligation. The movement in the shares redemption liability comprised:

	$000
Balance as at 1 January 2004	–
Initial recognition of liability	6,636
Interest expense	707
Balance as at 31 December 2004	7,343
Interest expense	813
Additional portion of shares to be acquired	26
Balance as at 31 December 2005	8,182
Interest expense	880
Balance as at 31 December 2006	9,062

Note 30: Interest bearing loans and borrowings

	At 31 December		
	2004	*2005*	*2006*
	$000	*$000*	*$000*
Current			
Ukrainian banks*	29,601	66,281	73,781
Other banks	75,509	121,499	–
Other entities	3,495	3,202	7,411
Promissory notes	2,246	472	–
Interest accrued	587	835	51
	111,438	192,289	81,243
Non-Current			
Ukrainian banks*	12,570	43,076	43,708
Other banks	40,500	–	161,024
Other entities	3,987	786	–
Promissory notes	3,707	–	–
	60,764	43,862	204,732
	172,202	236,151	285,975

*Interest bearing loans and borrowings with Ukrainian banks include balances with entities under common control (refer note 38).

At 31 December 2004, 2005 and 2006 the effective interest rates, terms and currency splits for interest bearing loans and borrowings comprised:

		At 31 December 2006				
	Effective interest rate	*Within one year $000*	*1-2 years $000*	*2-3 years $000*	*3-4 years $000*	*Total $000*
Secured						
Bank loans, USD	Fixed 10%-11.75%	47,943	31,175	12,533	–	91,651
Bank loans, USD	Floating LIBOR+2.35% – 6.25%	25,114	15,818	17,115	128,091	186,138
Bank loans, EUR	Fixed 10%	724	–	–	–	724
Other loans, USD	Fixed 7.2%-8%	7,411	–	–	–	7,411
Accrued interest		51	–	–	–	51
		81,243	46,993	29,648	128,091	285,975

	Effective interest rate	At 31 December 2005 Within one year $000	1-2 years $000	2-3 years $000	3-4 years $000	Total $000
Secured						
Bank loans, UAH	Fixed 14.5% – 21%	6,025	–	–	–	6,025
Bank loans, USD	Fixed 10%-13.5%	84,123	7,945	4,404	–	96,472
Bank loans, USD	Floating LIBOR+3.25% – 9.5%	94,420	20,000	10,000	–	124,420
Bank loans, EUR	Fixed 12% – 14%	1,643	650	77	–	2,370
Bank loans, EUR	Floating EURIBOR +4.125%-7%	1,569	–	–	–	1,569
Accrued interest		813	–	–	–	813
		188,593	28,595	14,481	–	231,669
Unsecured						
Borrowings, USD	Fixed 8% – 10.75%	3,202	–	787	–	3,989
Promissory notes, UAH	54%	472	–	–	–	472
Accrued interest		22	–	–	–	22
		3,696	–	787	–	4,483
		192,289	28,595	15,268	–	236,152

	Effective interest rate	At 31 December 2004 Within one year $000	1-2 years $000	2-3 years $000	3-4 years $000	Total $000
Secured						
Bank loans, USD	Fixed 9.5%-16%	25,479	6,019	8,500	31,821	71,819
Bank loans, USD	Floating LIBOR +9.5% – 18%	79,508	6,730	–	–	86,238
Bank loans, UAH	Fixed 18%	123	–	–	–	123
Borrowings, USD	Fixed 8% – 14%	3,495	3,987	–	–	7,482
Accrued interest		550	–	–	–	550
		109,155	16,736	8,500	31,821	166,212
Unsecured						
Promissory notes, UAH	18.8%-54%	2,246	3,707	–	–	5,953
Accrued interest		37	–	–	–	37
		2,283	3,707	–	–	5,990
		111,438	20,443	8,500	31,821	172,202

Subsequent to 31 December 2005 the Group was in breach of its debt covenants in relation to the provision of financial information attached to the loan facilities with one of the banks and accordingly $36,500,000 of the long term portion of the facility (due within 1-3 years) was reclassified to current borrowings. A waiver of the breach was subsequently obtained from the bank.

At 31 December 2004, $13,450,000 of the long term portion of the facility (due within 1-2 years) was reclassified to current borrowings because the Group was in breach of its debt covenants attached to the loan facilities with one of the banks. A waiver of the breach was subsequently obtained from the bank.

As at 31 December 2006 the Ukraine bank loans are secured by: property, plant and equipment with a carrying amount of $127,872,000 (2005: $117,738,000, 2004: $88,139,000); rights to proceeds from future Ukraine sales of $nil (2005: $55,912,000, 2004: $486,000); finished goods with a carrying amount of $1,215,000 (2005: $41,523,000); other pledged inventories held by Ferrexpo Poltava GOK Corporation and future production of ore pellets of $nil (2005: $18,305,000, 2004: $8,190,000); and cash deposits provided by a related party of $nil (2005: $90,000), and also in 2004 by rights over future purchases of property, plant and equipment of $1,000,000. Secured Ukraine property, plant and equipment includes pellet production equipment, locomotives, mine transport equipment, excavators and crushing equipment. Non-Ukraine bank loans are secured by rights to proceeds from future export sales of $519,794,000 (2005: $98,309,000, 2004: $126,105,000).

In addition Ferrexpo AG has its self provided guarantees and indemnities, assigned its rights attached to specific third party export contracts for the supply of iron ore pellets, pledged bank balances and a pledge of its interest in the share capital in Ferrexpo Poltava GOK Corporation, the latter being subsequently released in March 2007.

As at 31 December 2006 the Group's major bank debt facility was a $275,000,000 pre-export finance facility with an unutilised amount of $110,000,000. The liquidity risk to the Group is to maintain certain financial covenants that are normal for this type of finance, including but not limited to Interest Cover ratios and Group Debt to EBITDA parameters.

The term loan and revolving credit facilities are guaranteed and secured. Ferrexpo AG has assigned the rights to revenue from certain sales contracts and Ferrexpo Poltava GOK Corporation has assigned all of its rights for ten export contracts for the pellets sales in 2007. In addition the Group has also pledged its bank account into which all proceeds from the sale of certain iron ore pellet contracts are received. Ferrexpo has pledged all its rights under certain contacts for the sale of iron ore pellets and its rights under certain related credit support documents.

Borrowings from Finance and Credit Bank

Included in the Ukrainian bank loans are interest bearing loans, denominated in USD and UAH, from Finance and Credit Bank, a related party (note 38), with a carrying value of $7,200,000 as at 31 December 2006 (2005: $18,035,000, 2004: $1,003,000).

Financial risk management objectives and policies

Treasury risk management is undertaken by the Group Treasurer and treasury department.

The Group's principal financial instruments comprise interest bearing loans and borrowings, cash and cash equivalents and short-term deposits. The Group has various other financial instruments, such as trade debtors and trade creditors, which arise directly from its operations.

In assessing the fair value of financial instruments, the Group uses a variety of methods and makes assumptions based on market conditions existing at the balance sheet date.

The face values of the financial assets and liabilities with a maturity of less than one year, less any estimated credit adjustments, are assumed to be their fair values. The fair value of financial liabilities with a maturity of more than one year is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

The Group has not entered into any material derivative transactions. It is the Group's policy not to trade in financial instruments. The Group's overall risk management programme focuses on the unpredictability and inefficiency of the Ukrainian financial markets and seeks to minimize potential adverse effects on the financial performance of the Group.

The main risks arising from the Group's financial instruments are; interest rate risk, liquidity risk and credit risk. Management reviews and agrees policies for managing each of these risks and they are summarised below.

Liquidity risk

The Group's objective is to maintain continuity and flexibility of funding through the use of credit terms provided by suppliers, bank loans and borrowings.

The Group analyses the ageing of its assets and the maturity of its liabilities and plans its liquidity depending on the expected repayment of various instruments. In the case of insufficient or excessive liquidity in individual entities, the Group allocates resources and funds among Group entities to achieve optimal financing of the business needs of each entity.

Credit risk

Financial instruments, which potentially subject the Group to significant concentrations of credit risk, consist principally of cash in bank, debt, trade accounts receivable and prepayments made.

A significant amount of the Group's cash is held with a Ukrainian bank related to the Group (note 38).

The Group does not require collateral in respect of financial assets. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. Most of the Group's sales are made to international metal traders with an appropriate credit history or on a prepayment basis.

The maximum exposure to credit risk is best represented by the carrying amounts of the financial assets. The Group has a high concentration of sales with a small group of counterparties, management does not believe there is a significant credit risk exposure as these counterparties have a strong financial reputation. The Group's credit risk exposure is monitored and analysed on a case-by-case basis, and the Group's management believes that the credit risk is appropriately reflected in the impairment allowances recognized against assets.

Foreign currency risk

The Group's US Dollar borrowings are managed so as to form a natural hedge against the Group's sales, the majority of which are US Dollar denominated. The mine operating costs are predominantly Ukrainian Hryvnia denominated which represents a foreign currency risk to the Group. However, since March 2005 the National Bank of Ukraine fixed the Ukrainian Hryvnia to US Dollar exchange rate at 5.05 effectively reducing this foreign currency risk to the Group. The Group continues to monitor its exposure to foreign currency risk.

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's interest bearing loans and other debt obligations. Management monitors the market interest rate with sufficient regularity in order to minimise the Group's exposure to interest rate risk.

Note 31: Trade and other payables

As at 31 December trade and other payables comprised:

	At 31 December		
	2004	*2005*	*2006*
	$000	*$000*	*$000*
Current trade payables			
Due for equipment	7,094	8,418	9,300
Materials and services	11,782	17,074	9,279
Other	4,536	11,081	94
	23,412	36,573	18,673
Letter of credit exercised by the bank	–	332	2,178
Dividends payable	527	1,296	641
	527	1,628	2,819
Trade and other payables, current	23,939	38,201	21,492
Non-current payables			
Due for equipment	4,790	5,680	10,462
Other	34	117	22
Trade and other payables, non-current	4,824	5,797	10,484

Payables for equipment comprised balances due to foreign suppliers for mining equipment denominated in USD and EURO with the following payment terms:

31 December 2006

Effective interest rate	*Within one year $000*	*1-2 years $000*	*2-3 years $000*	*3-4 years $000*	*4-5 years $000*	*More than five years $000*	*Total $000*
7.52% – 28.09%	9,300	3,602	3,243	1,593	1,304	720	19,762

31 December 2005

Effective interest rate	*Within one year $000*	*1-2 years $000*	*2-3 years $000*	*3-4 years $000*	*4-5 years $000*	*More than five years $000*	*Total $000*
7.00% – 12.94%	8,418	1,570	2,178	1,932	–	–	14,098

31 December 2004

Effective interest rate	*Within one year $000*	*1-2 years $000*	*2-3 years $000*	*3-4 years $000*	*4-5 years $000*	*More than five years $000*	*Total $000*
7.00 – 12.94%	7,094	2,891	1,826	73	–	–	11,884

Note 32: Liability to minority participants

At 31 December 2005, pursuant to Ukrainian legislation then in force and in compliance with the charter documents of Vostock Ruda LLC and United Energy Company LLC (2004: Vidrodzhennya LLC, Dopomoga LLC and VKO Kislorod LLC) the minority participants in these subsidiaries had the unconditional right to redeem their interests in those subsidiaries at any time for cash equal to their proportionate share of the asset value of the related entity. Consequently, the minority interests in these subsidiaries' net assets cannot be classified as equity and are presented in the consolidated balance sheet as "Liability to minority participants". There were no such minority participants at 31 December 2006.

During the years 2006, 2005 and 2004, the movement in the liability to minority participants was as follows:

	$000
Balance at 31 December 2003 and 31 December 2004	30
Acquisition of controlling interest in United Energy LLC (note 4)	3,566
Disposal of subsidiaries	(32)
Translation adjustment	2
Balance at 31 December 2005	3,566
Acquisition of 100 per cent. ownership in United Energy LLC (note 4)	(3,566)
Balance at 31 December 2006	–

Note 33: Defined benefit pension liability

The production companies of the Group have a legal obligation to compensate the Ukrainian state pension fund for additional pensions paid to certain categories of the employees and former employees who are eligible for early retirement benefits. The average age at which employees become eligible to receive benefits is 56.

In 2006 this defined benefit plan covered 4,317 people (2005: 4,761 people, 2004: 4,504 people).

There are no defined benefit plan assets.

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

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

	At 31 December		
	2004	*2005*	*2006*
	$000	*$000*	*$000*
Opening defined benefit obligation	9,757	11,407	13,538
Interest cost	986	1,184	1,269
Current service cost	783	1,004	1,894
Benefits paid	(551)	(936)	(1,681)
Actuarial loss	380	283	659
Scheme transfer on disposal of subsidiary	–	–	(233)
Foreign exchange translation adjustment	52	596	–
Closing defined benefit obligation	11,407	13,538	15,446
Unrecognised actuarial losses	(5)	(286)	(945)
Defined benefit liability at the end of the year	11,402	13,252	14,501
Classified as:			
Benefit liability – non-current	10,772	12,141	12,659
Benefit liability – current portion	630	1,111	1,842
	11,402	13,252	14,501
Benefit expense			
Current service cost	783	1,004	1,894
Interest cost	986	1,184	1,269
	1,769	2,188	3,163

Note 33: Defined benefit pension liability (continued)

	At 31 December		
	2004	*2005*	*2006*
	$000	*$000*	*$000*
Benefit liability			
Balance at beginning of the year	10,134	11,402	13,252
Benefits expense	1,769	2,188	3,163
Benefits paid	(551)	(936)	(1,681)
Scheme transfer on disposal of subsidiary	–	–	(233)
Foreign exchange translation adjustment	50	598	–
Balance at the end of the year	11,402	13,252	14,501
Experience adjustments arising on plan liabilities	380	283	659

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

	2004	*2005*	*2006*
Discount rate	10.0%	10.0%	10.0%
Retail price inflation	6.5%	6.5%	6.5%
Future benefit increase	8.5%	8.5%	8.5%
Female mortality rate (years)	75.06	75.06	75.06
Male mortality rate (years)	70.53	70.52	70.52

	2004	*2005*	*2006*
	$000	*$000*	*$000*
Unrecognised gain/(loss) at start of year	376	(5)	(286)
Gain on change in assumptions	–	572	–
Loss on experience on the liability	(380)	(855)	(659)
Foreign exchange translation adjustment	(1)	2	–
Unrecognised loss at the end of year	(5)	(286)	(945)

Note 34: Provision for site restoration

The costs of decommissioning open pit mines are based on the amounts determined by third party experts. The provision represents the discounted value of the estimated costs to decommission and restore the mines at the dates the deposits are expected to be depleted. The present value of the provision has been calculated using a discount rate of 10.75 per cent. per year. The liability becomes payable at the end of the useful life of the mine. Uncertainties in estimating these costs include potential changes in regulatory requirements, decommissioning and reclamation alternatives and the levels of discount and inflation rates.

	$000
Balance as at 31 December 2003	229
Accretion of liability	43
Balance as at 31 December 2004	272
Accretion of liability	53
Translation adjustment	14
Balance as at 31 December 2005	339
Accretion of liability	63
Balance as at 31 December 2006	402

Note 35: Deferred income tax

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

	At 31 December		
	2004	*2005*	*2006*
	$000	*$000*	*$000*
Deferred income tax assets			
Interest bearing loans and borrowings	–	1,408	6
Trade and other receivables	699	1,395	1,756
Trade and other payables and advance receivables	109	574	1,454
Accrued expenses	807	475	591
Defined benefit liability	407	–	–
Provision for site restoration	68	85	101
Other provisions and accruals	34	42	–
Other items	–	21	25
Investments in securities	29	1	–
Deferred income tax liabilities			
Inventories	(1,592)	(4,462)	(2,609)
Property, plant and equipment	(10,044)	(3,544)	(2,508)
Exploration rights	–	(2,208)	(71)
Advances and other current assets	–	(774)	(1,266)
Loans and borrowings	(564)	–	(14)
Trade and other payables and advance receivables	(21)	–	–
Prepayments and other assets	(1,606)	–	–
	(11,674)	(6,987)	(2,535)

The movement in the deferred income tax liabilities and assets are as follows:

	At 31 December		
	2004	*2005*	*2006*
	$000	*$000*	*$000*
Beginning of the year	16,537	11,674	6,987
Income statement credit	(4,934)	(8,362)	(1,613)
Exchange difference	71	467	–
Acquisition of subsidiary*	–	3,208	–
Disposal of subsidiary	–	–	(2,839)
End of the year	11,674	6,987	2,535

On acquisition of Vostock Ruda the deferred tax liability acquired of $3.2m above related to deferred tax liabilities in respect of exploration rights of $2.2m and property plant and equipment of $1.5m and a deferred tax asset of $0.5m in respect of other liabilities and accruals.

On disposal of the controlling interest in Vostock Ruda deferred tax liabilities relating to exploration rights of $2.2m and property plant and equipment and other liabilities and accruals of $0.6m have been derecognised and included as part of the net assets on disposal.

Deferred tax assets not recognised

Deferred tax assets have not been recognised in respect of the defined benefit liability and with respect to tax losses as uncertainties exist as to whether they may be offset against available tax profits in the future.

Unrecognised tax losses expire in the following years:

	At 31 December		
	2004	*2005*	*2006*
	$000	*$000*	*$000*
Expire in one year	–	437	–
	–	437	–

Unrecognised deferred tax assets comprised:

	At 31 December		
	2004	*2005*	*2006*
	$000	*$000*	*$000*
Defined benefit liabilities	2,444	3,312	3,625

Unrecognised deferred tax on investments in subsidiaries

The Group has not recognised all of the deferred tax liability in respect of the distributable reserves of its subsidiaries because it controls them and only part of the temporary differences are expected to reverse in the foreseeable future.

The gross temporary differences in respect of the undistributed reserves are:

	At 31 December		
	2004	*2005*	*2006*
	$000	*$000*	*$000*
Undistributed reserves	–	4,220	19,682

Note 36: Accrued liabilities and deferred income

As at 31 December accrued liabilities and deferred income comprised:

	At 31 December		
	2004	*2005*	*2006*
	$000	*$000*	*$000*
Accrued expenses	1,147	4,630	2,101
Accrued interest payable	223	1,116	98
Accrued employee costs	6,465	8,201	10,802
Advances from customers	7,148	6,000	4,985
	14,983	19,947	17,986

Note 37: Income taxes and other taxes payable

	2004	*2005*	*2006*
	$000	*$000*	*$000*
Income taxes payable	4,704	6,668	4,646
Other taxes payable	861	1,596	3,041
	5,565	8,264	7,687

Note 38: Related party disclosure

In the rapidly developing business environment of Ukraine, the Group's entities have frequently used nominees and other forms of intermediary companies in transactions. In 2006, the Group entered into transactions with companies acting on behalf of the beneficial owner of the Group which are disclosed below as transactions with entities under common control of the beneficial owner. These transactions are effected in this way to transfer and reallocate economic resources between companies of the Group or outside of the Group.

Management considers that the Group has appropriate procedures in place to identify and properly disclose transactions with the related parties and has disclosed all of the relationships identified and which it deemed to be significant.

The significant related party transactions undertaken by the Group are disclosed below in the following paragraphs. The remaining related party transactions are disclosed in the tables below.

Revenue, trade and other receivables

Trade and other receivables from related parties comprised balances due from entities under common control or other related parties for the supply of iron ore concentrate, ore pellets or other sales income and are non-interest bearing and payable within 5-30 days upon receipt of shipping documents or the invoice by the customers.

For the year ended 31 December 2006, the Group has not made any allowance for doubtful debts relating to amounts owed by related parties (2005 and 2004: Nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Interest bearing loans and borrowings, finance costs

During the year ended 31 December 2006 the Group received interest bearing loans from related parties in the amount of $224,421,000 (2005: $147,113,000) and repaid $216,607,000 (2005: $133,852,000, 2004: Nil).

As part of the disposal of Vostock Ruda loans totalling $19,347,741 to entities under common control were disposed of.

Prepayments and other current assets

At 31 December 2006 within other receivables of $19,991,000 is an amount of $14,857,000 owed by a company under common control for engineering design studies undertaken on its behalf.

During 2005 loans of $106,783,000 were made to entities under common control (translated cash impact at the average rate is $105,235,000). The loans had no stated maturity date and were interest free (note 23). These advances were not secured with any collateral. As of 31 December 2005, they were carried at the nominal amount paid. In September 2006, these advances were repaid to the Group.

Other loans to related parties repaid during the year

In 2006, the Group provided loans of $16,674,000 to companies under common control which were repaid during the year (2005: $28,230,000, 2004: $21,370,000 (note 20) both amounts totalling $49,600,000 were repaid in 2005). The loans accrued interest at between 3 per cent. – 9.125 per cent. (2005: 5 per cent., 2004: 5 per cent.).

At 31 December 2005 a loan of $12,675,000 (2004: $13,875,000) was outstanding to a group of companies that provided technical engineering services to a company under common control (note 20). Of the total loan balance, $11,475,000 was classified as a non-current asset and $1,200,000 as a current asset (2004: $12,675,000 non-current and $1,200,000 current). The loan was provided at commercial terms and was repaid in full on 26 July 2006.

During the year ended 31 December 2006 the Group repaid a loan of $4,500,000 as guarantor under the loan for an entity under common control. This entity than repaid the debt in full to the Group.

During 2006 loans of $14,345,000 were granted to the Group's associate of which $13,871,000 was repaid before the year end leaving a balance outstanding of $474,000.

Available for sale securities

During 2006 promissory notes of $2,301,000 were purchased from related parties. The promissory notes were settled before the year end. In addition the Group paid $818,000 of unpaid share capital for its investment in Vostock Ruda. Total cash paid to related parties for available for sale securities amounted to $3,119,000.

Cash and short term deposits placed with related parties, finance income

Cash and cash equivalents and short term deposits were placed with the Ukrainian bank, which is under common control (notes 25 and 26). Short-term deposits bear interest at 9.2 per cent.-16 per cent. per annum (2005: 12 per cent.-16 per cent., 2004: 12 per cent.-16 per cent.).

Business combinations

In 2006, the Group acquired the minority interest of UEC from an entity under common control for consideration of $3,609,000 increasing the Group's interest in the net assets to 100 per cent. (note 4).

In 2005, the Group obtained control of UEC through the contribution of UAH 154,000,000 ($30,495,000) into the charter fund, increasing the Group interest in the net assets from 25 per cent. to 89.7 per cent. at the same time diluting the interest in UEC held by an entity under common control from 81.0 per cent. to 10.3 per cent. (note 4).

During the year ended 31 December 2006 the Group acquired a further 25.6 per cent. of the voting rights in Ferrexpo Poltava GOK Corporation for a consideration of $238,986,000 from entities under common control (note 4).

Purchase of available for sale securities

In 2005, the Group acquired from an entity under common control interest in LLC Atol, CJSC AMA and CJSC Amtek for a combined consideration of UAH 174,379,000 ($34,530,000 at the closing rate and $34,030,000 at the average rate) paid in cash during the year (note 19).

In 2004, the Group acquired from related parties available for sale investments for UAH 15,451,000 ($2,905,000) and sold to related parties available for sale investments for UAH 2,651,000 ($498,000), with carrying value of UAH 2,527,000 ($475,000). In 2004, the Group acquired available for sale securities Belotzerkovskava Teploelectrostsental for consideration of $943,000 and Poltava Avtogregatny Zavod for $1,494,000 totalling $2,437,000 from entities under common control.

Disposal of control in Vostock Ruda

In 2006 the Group sold a 90.6 per cent. interest in its subsidiary Vostock Ruda to entities under common control for consideration of $9,474,000, resulting in a loss on disposal of $3,524,000. Of the total consideration, $4,338,000 was received during the year and $5,136,000 remains unpaid at the year end and is included in current assets within other receivables.

Disposal of interest in Belotzerkovskaya Teploelectrotsentral

2005 the Group sold its 34.6 per cent. equity interest in Belotzerkovskaya Teploelectrotsentral, which was classified as assets held for sale with carrying value of $18,550,000 (note 27) as at 31 December 2004, to three entities under common control with the Group for cash proceeds of $19,216,000 (note 4).

Distributions under 50/50 tax rulings

During the year the Group made a distribution totalling $21,190,000 (2005: $38,792,000, 2004: $43,298,000) under the 50/50 Swiss tax ruling to the ultimate beneficial owner. The ruling allows for a qualifying company to distribute a percentage of its profits free of tax.

Other related party transactions

Property plant and equipment costing $1,480,956 was acquired from related parties during 2006.

During 2006 the Group sold property plant and equipment to entities under common control, with a net book value of $110,000, for proceeds of $280,882.

During the year ended 31 December 2005 the Group rendered construction services to a related party for $6,801,000 and sold materials for $1,703,000, relating to the construction of equipment. In December 2005 the Group acquired equipment for $8,592,000. Before this equipment was purchased by the Group, a related party capitalised into the cost of equipment $473,000 of materials and services acquired from third parties. In 2004, the Group acquired from related parties property and equipment for $1,882,000.

In 2006 the Group provided guarantees of $11,582,000 (2005: Nil, 2004: $4,811,000) in favour of related parties.

Compensation to key management personnel

Key management personnel comprise members of the Executive Committee of Ferrexpo AG Directors. In 2006, total compensation to key management personnel included in administrative expenses amounted to $4,836,000 (2005: $2,382,000, 2004: $557,000). Within this figure compensation as short term employee benefits amounted to $4,794,000 (2005: $2,365,000, 2004: $557,000) and post employment benefits totalled $42,000 (2005: $17,000, 2004: nil).

Balances with entities under common control and other related parties as at 31 December consisted of the following:

At 31 December 2006	*Trade and other receivables $000*	*Cash and cash equivalents $000*	*Deposits with banks $000*	*Interest bearing loans and borrowings $000*	*Trade and other accounts payable $000*
Entities under common control	5,739	1,515	9,973	7,200	1,855
Associates	474	–	–	–	–
Other related parties	1,064	–	–	–	630
Total	7,277	1,515	9,973	7,200	2,485

At 31 December 2005	*Trade and other receivables $000*	*Cash and cash equivalents $000*	*Deposits with banks $000*	*Interest bearing loans and borrowings $000*	*Trade and other accounts payable $000*
Entities under common control	4,514	972	13,533	18,035	13,201
Other related parties	152	–	–	–	2,050
Total	4,666	972	13,533	18,035	15,251

At 31 December 2004	*Trade and other receivables $000*	*Cash and cash equivalents $000*	*Deposits with banks $000*	*Interest bearing loans and borrowings $000*	*Trade and other accounts payable $000*
Entities under common control	1,020	8,992	9,144	1,003	10,001
Other related parties	86	–	–	–	185
Associates	2	–	–	–	830
Total	1,108	8,992	9,144	1,003	11,016

Transactions with entities under common control, other related parties and associates in the three years ended 31 December 2006 consisted of the following:

Year ended 31 December 2006	*Revenue $000*	*Proceeds from other sales $000*	*Purchases of materials, gas and electricity $000*	*Purchased services $000*	*Finance income $000*	*Finance costs $000*
Entities under common control	2,825	407	5,002	1,821	1,303	1,996
Other related parties	–	1,885	11,198	3,059	2	–
Total	2,825	2,292	16,200	4,880	1,305	1,996

Year ended 31 December 2005	*Revenue $000*	*Proceeds from other sales $000*	*Purchases of materials, gas and electricity $000*	*Purchased services $000*	*Finance income $000*	*Finance costs $000*
Entities under common control	52,482	2,773	22,157	756	3,621	857
Other related parties	–	1,135	9,393	3,422	–	–
Associates	8,560	–	–	–	–	–
Total	61,042	3,908	31,550	4,178	3,621	857

Year ended 31 December 2004	*Revenue $000*	*Proceeds from other sales $000*	*Purchases of materials, gas and electricity $000*	*Purchased services $000*	*Finance income $000*	*Finance costs $000*
Entities under common control	25,145	801	2,590	187	417	671
Other related parties	727	45	3,776	334	–	–
Associates	–	18	–	2,019	–	–
Total	25,872	864	6,366	2,540	417	671

Note 39: Reconciliation of profit before income tax to net cash flow from operating activities

	At 31 December		
	2004	*2005*	*2006*
	$000	*$000*	*$000*
Profit before income tax	85,128	140,842	80,737
Adjustments for:			
Depreciation of property, plant and equipment and amortisation ofintangible assets	30,047	32,322	28,563
Interest expense	19,632	18,536	27,425
Interest income	(2,714)	(5,454)	(2,326)
Dividend income	–	(16)	(17)
Reversal of and allowance for doubtful receivables	(387)	–	183
Loss on disposal of property, plant and equipment	707	1,523	601
Write off and impairment losses	400	848	2,021
(Gains)/losses on disposal of investments available for sale	217	(121)	31
(Gains)/losses from disposal of subsidiaries and associates	–	(1,181)	3,524
Loss from settlements of financial instruments	108	815	–
Employee benefits	1,769	2,188	3,163
Foreign exchange gain	(180)	(5,327)	645
Operating cash flow before working capital changes	134,727	184,975	144,550
Changes in working capital			
(Increase)/decrease in trade accounts receivable and other receivables	(32,204)	11,790	(46,161)
(Increase)/decrease in inventories	(14,309)	(21,306)	9,237
Increase/(decrease) in trade and other accounts payable	14,808	10,958	(2,467)
Cash generated from operating activities	103,022	186,417	105,159
Interest paid	(15,893)	(16,665)	(28,119)
Income tax paid	(1,055)	(27,279)	(14,562)
Post employment benefits paid	(551)	(936)	(1,681)
Net cash flows from operating activities	85,523	141,537	60,797

Note 40: Employee benefits expense

	At 31 December		
	2004	*2005*	*2006*
	$000	*$000*	*$000*
Wages and salaries	29,115	42,811	56,178
Social security costs	10,055	15,724	18,373
Post employment benefits	393	866	1,916
Other employee costs	168	1,943	4,147
	39,731	61,344	80,614
Average number of employees	10,171	10,843	11,350

Note 41: Commitments and Contingencies

Commitments

As at 31 December the Group was committed to:

	At 31 December		
	2004	*2005*	*2006*
	$000	*$000*	*$000*
Capital commitments on purchase of property and equipment	–	9,152	11,111
Guarantees provided	–	9,554	12,185

Legal

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

Tax and other regulatory compliance

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

The uncertainty of inconsistent enforcement and application of Ukrainian tax laws, in particular relating to cross border transactions, creates a risk of substantial additional tax liabilities and penalties being claimed by the tax authorities. Such claims, if sustained, could have a material effect on the Group's financial position, results of operations and cashflows. Management believes that there are strong arguments to successfully defend any such challenge and does not believe that the risk is any more significant than those of similar enterprises in Ukraine. As it is not considered probable that a material claim will arise, no provision has been established in these financial statements.

Management has identified other tax issues within the various jurisdictions in which it operates totaling US$13 million as at 31 December 2006. In management's view it is unlikely that these tax claims will result in a future outflow of resources and consequently no provision is required in respect of these matters.

In addition, because a number of fiscal periods remain open to review by the tax authorities', there is a risk that transactions and interpretations that have not been identified by management or challenged in the past may be challenged by the authorities in the future, although this risk significantly diminishes with the passage of time. It is not practical to determine the amount of any such potential claims or the likelihood of any unfavourable outcome.

However, management believes that its interpretation of the relevant legislation is appropriate and that the Group has complied with all regulations and paid or accrued all taxes and withholdings that are applicable. Where the risk of outflow of resources is probable, the Group has accrued tax liabilities based on management's best estimate.

The Group is committed to the progressive implementation of international practices in the management and mitigation of its tax liability and compliance risks.

Note 42: Fair values of financial instruments

Set out below is the comparison by category of carrying amounts and fair values of all of the Group's financial instruments, that are carried in the consolidated balance sheet:

	Carrying amount			*Fair value*		
	2004	*2005*	*2006*	*2004*	*2005*	*2006*
	$000	*$000*	*$000*	*$000*	*$000*	*$000*
Financial assets						
Available for sale investments	1,587	34,653	36,092	1,587	34,653	36,092
Trade and other receivables	32,394	31,218	58,284	32,294	31,218	58,284
Short-term deposits with banks	12,294	18,943	11,043	12,294	18,943	11,043
Cash and cash equivalents	10,935	2,496	16,236	10,935	2,496	16,236
Financial liabilities						
Interest bearing loans and borrowings	172,202	236,151	285,975	173,425	236,625	285,975
Liability for shares redemption	7,343	8,182	9,062	7,343	8,182	9,062
Trade and other payables	28,763	43,998	31,976	28,763	43,998	31,976

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 43: Subsequent events

Between 11 January and 19 April 2007, Ferrexpo AG made payments under the 50/50 tax ruling to Kostyantyn Zhevago amounting to $5,000,000.

Subsequent to the year end, Ferrexpo AG entered into a share buy-back arrangement with its shareholder Collaton Limited under which Ferrexpo AG repurchased 5,178,877 shares of 1 CHF each in exchange for cash in a number of transactions which took place between 13 February and 18 May 2007. The total consideration to be paid under the arrangement is $64,055,329 of which $52,830,000 has been paid to date. The repurchased shares are held by Ferrexpo AG as treasury shares.

On 24 May 2007, Ferrexpo plc acquired a 100 per cent. interest in Ferrexpo AG.

The ultimate controlling party of Ferrexpo plc and Ferrexpo AG is The Minco Trust, whose beneficial interest in these companies is held through its controlling shareholding in Fevamotinico S.à r.l. The beneficiaries of The Minco Trust include Kostyantyn Zhevago.

On 14 June 2007, Ferrexpo AG agreed to sell 2,000,000 treasury shares in Ferrexpo AG to the Ferrexpo AG Listing Bonus Trust, a discretionary trust, to be used to pay listing bonuses due to directors and senior managers of the Group following Admission, for consideration based on the closing price of the Ordinary Shares on the first trading day following Admission.

Part VIII Historical financial information

Section C: Accountant's Report on Historical financial information on Ferrexpo plc

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The Directors
Ferrexpo plc
2-4 King Street
London SW1Y 6QL

15 June 2007

Dear Sirs

Ferrexpo plc

We report on the financial information set out in pages 180 to 181. This financial information has been prepared for inclusion in the prospectus dated 15 June 2007 of Ferrexpo plc on the basis of the accounting policies set out in Note 1. This report is required by Annex I item 20.1 of the Commission Regulation (EC)809/2004 and is given for the purpose of complying with that paragraph and for no other purpose.

Save for any responsibility arising under Prospectus Rule 5.5.3R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 23.1 of Annex I to the Commission Regulation (EC)809/2004, consenting to its inclusion in the prospectus.

Responsibilities

The Directors of Ferrexpo plc are responsible for preparing the financial information on the basis of preparation set out in Note 1 to the financial information.

It is our responsibility to form an opinion as to whether the financial information gives a true and fair view, for the purposes of the prospectus, and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of the prospectus dated 15 June 2007, a true and fair view of the state of affairs of Ferrexpo plc as at the dates stated and of its profits, cash flows and changes in equity for the periods then ended in accordance with the basis of preparation set out in Note 1 to the financial information and in accordance with IFRS.

Declaration

For the purposes of Prospectus Rule 5.5.3R (2)(f) we are responsible for this report as part of the prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the prospectus in compliance with item 1.2 of Annex I of the Commission Regulation (EC) 809/2004.

Yours faithfully

Ernst & Young LLP

Section D: Historical financial information on Ferrexpo plc

Balance sheet

		At 31 December	
	Notes	*2005*	*2006*
		£	*£*
Current Assets		2	2
Cash and cash equivalents		2	2
Total assets		2	2
Equity and liabilities			
Share capital	2	2	2
Equity attributable to ordinary shareholders		2	2
Total equity and liabilities		2	2

Cash flow statement

	Year ended 31 December 2005	*Year ended 31 December 2006*
	£	*£*
Cash flow from financing activities		
Proceeds from issuance of share capital	2	–
Net cash flows from financing activities	2	–
Increase in cash and cash equivalents for period	2	–
Cash and cash equivalents at start of period	–	2
Cash and cash equivalents at end of period	2	2

Statement in changes in equity

	Share capital
	£
Balance at incorporation	–
Issue of share capital on incorporation	2
At 31 December 2005 and 31 December 2006	2

Notes to the Financial Information

Note 1: Summary of significant accounting policies

Basis of preparation

Ferrexpo plc was incorporated on 22 April 2005. The first period of results presented in the historical financial information is for the period 22 April 2005 to 31 December 2005.

The financial statements for Ferrexpo plc for the period ended 31 December 2005 and year ended 31 December 2006 were prepared under UK GAAP. The historical financial information of Ferrexpo plc presented has been prepared in accordance with IFRS for the purposes of the prospectus. The historical financial information for Ferrexpo plc in respect of the period from 22 April 2005 to 31 December 2006 were approved by the board of directors on 14 June 2007.

The accounting policies used in preparing the historical financial information for the period ended 31 December 2005 and year ended 31 December 2006 are set out below. These accounting policies have been consistently applied to all the periods presented unless otherwise stated.

Cash and cash equivalents

Cash and short term deposits in the balance sheet comprise cash at banks and in hand and short term deposits with an original maturity of three months or less.

Share capital

Ordinary shares are classified as equity.

Note 2: Share capital

The authorised share capital for Ferrexpo plc at 31 December 2005 and 2006 was £50,000 divided into 50,000 shares of £1.00 each.

On incorporation, 2 ordinary shares of £1 each were issued at par for cash.

Note 3: Post balance sheet events

On 21 May 2007 Ferrexpo plc allotted and issued 49,998 ordinary shares in the Company at a par value of £1.00 each (£49,998 (US$98,620)) to Fevamotinico S.à r.l. for cash. Following such allotment, Ferrexpo plc's total issued and authorised share capital was subdivided into 500,000 ordinary shares of £0.10 each. The Company's authorised share capital was subsequently increased to £60,050,000 divided into 600,500,000 ordinary shares of £0.10 each.

On 24 May 2007, Ferrexpo plc allotted and issued 533,043,489 ordinary shares in the Company at a par value of £0.10 each (£53,304,349 (US$105,515,959)) to Fevamotinico S.à r.l. in exchange for 129,944,923 registered shares of CHF1 each in the capital of Ferrexpo AG. Pursuant to such transaction, Ferrexpo plc became the sole shareholder of Ferrexpo AG. The ultimate controlling party of Ferrexpo plc is The Minco Trust, whose beneficial interest in these companies is held through its controlling shareholding in Fevamotinico S.à r.l. The beneficiaries of The Minco Trust include Kostyantyn Zhevago.

Part IX

Unaudited pro forma financial information

SECTION A: UNAUDITED PRO FORMA BALANCE SHEET

The following pro forma balance sheet of the Group as at 31 December 2006 is prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and therefore does not represent the actual financial position of the Group. It is prepared to illustrate the effect on the consolidated balance sheet of the Group of the Global Offer, as if the Global Offer had taken place on 31 December 2006, and is based on the consolidated balance sheet of Ferrexpo AG at 31 December 2006 and the balance sheet of Ferrexpo plc at 31 December 2006 which have been extracted without material adjustment from the financial information set out in Section B and Section D respectively of Part VIII: "Historical Financial Information". The unaudited proforma balance sheet includes certain adjustments to reflect the restructuring of Ferrexpo plc as the holding company for the Group and the proposed Global Offer. Adjustments have been made in accordance with item 6 of Annex II of the Commission Regulation (EC) 809/2004.

		Adjustments			
US$'000	*Ferrexpo plc (Note 1)*	*Restructuring of Ferrexpo plc as holding company (Note 2)*	*Ferrexpo AG Group (Note3)*	*Global offer adjustment (Note 4)*	*Group Pro forma*
ASSETS					
Non-current assets					
Property, plant and equipment	–	–	301,343	–	301,343
Goodwill and other intangible assets	–	–	156,534	–	156,534
Investments in associates	–	–	16,950	–	16,950
Available for sale financial assets	–	–	34,641	–	34,641
Other non-current assets	–	–	916	–	916
	–	–	510,384	–	510,384
Current assets					
Inventories	–	–	48,487	–	48,487
Trade and other receivables	–	–	58,284	–	58,284
Prepayments and other current assets	–	–	17,118	–	17,118
Income taxes recoverable and prepaid	–	–	1,424	–	1,424
Other taxes recoverable and prepaid	–	–	42,489	–	42,489
Available for sale financial assets	–	–	1,451	–	1,451
Short term deposits with banks	–	–	11,043	–	11,043
Cash and cash equivalents	–	99	16,236	140,000	156,335
	–	99	196,532	140,000	336,631
TOTAL ASSETS	–	99	706,916	140,000	847,015

US$'000	Ferrexpo plc (Note 1)	*Adjustments* Restructuring of Ferrexpo plc as holding company (Note 2)	Ferrexpo AG Group (Note3)	Global offer adjustment (Note 4)	Group Pro forma
EQUITY AND LIABILITIES					
Equity attributable to equity shareholders of the parent					
Share capital	–	(3,836)	109,451	14,286	119,901
Reserves	–	3,935	191,195	125,714	320,844
	–	99	300,646	140,000	440,745
Minority interest	–	–	36,146	–	36,146
Total equity	–	99	336,792	140,000	476,891
Non-current liabilities					
Interest bearing loans and borrowings	–	–	204,732	–	204,732
Trade and other payables	–	–	10,484	–	10,484
Shares redemption liability	–	–	9,062	–	9,062
Defined benefit pension liability	–	–	12,659	–	12,659
Provision for site restoration	–	–	402	–	402
Deferred tax liability	–	–	2,535	–	2,535
	–	–	239,874	–	239,874
Current liabilities					
Interest bearing loans and borrowings	–	–	81,243	–	81,243
Trade and other payables	–	–	21,492	–	21,492
Accrued liabilities and deferred income	–	–	17,986	–	17,986
Defined benefit pension liability	–	–	1,842	–	1,842
Income taxes payable	–	–	4,646	–	4,646
Other taxes payable	–	–	3,041	–	3,041
	–	–	130,250	–	130,250
TOTAL LIABILITIES	–	–	370,124	–	370,124
TOTAL EQUITY AND LIABILITIES	–	99	706,916	140,000	847,015

Explanatory notes:

Notes:

1 The balance sheet of Ferrexpo plc as at 31 December 2006 has been extracted without material adjustment from Section D of Part VIII: "Historical Financial Information". As at 31 December 2006, Ferrexpo plc's assets and equity related to £2 of paid up share capital.

2 The allotment and issue to Fevamotinico S.à r.l. of 49,998 ordinary shares in the Company at a par value of £1.00 each (£49,998 (US$98,620)) for cash. Following such allotment, the Company's total issued and authorised share capital was subdivided into 500,000 ordinary shares of £0.10 each. The Company's authorised share capital was subsequently increased to £60,050,000 divided into 600,500,000 ordinary shares of £0.10 each. The allotment and issue to Fevamotinico S.à r.l. of 533,043,489 ordinary shares in the Company at a par value of £0.10 (£53,304,349 (US$105,515,959)) pursuant to the share exchange agreement in accordance with paragraph 14.11 of Part XI: "Additional Information". The adjustment includes a consolidating entry necessary to eliminate the share capital in relation to the combined companies under the pooling of interests method of accounting (of US$109,451,000).

	(US$000)
Allotment and issue of shares to Fevamotinico S.à r.l.	99
Allotment and issue of shares to Fevamotinico S.à r.l. in exchange for shares in Ferrexpo AG	105,516
Elimination of share capital of combined companies	(109,451)
	(3,836)

3 The consolidated balance sheet of Ferrexpo AG as at 31 December 2006 has been extracted without material adjustment from Section B of Part VIII: "Historical Financial Information".

4 Net proceeds to the Company of the Global Offer:

	(US$000)
Global Offer proceeds to the Company	200,000
Offer expenses	(60,000)
Net proceeds to the Company of the Global Offer	140,000

The Global Offer gross proceeds of US$200 million are based on 72,527,361 Ordinary Shares being issued by the Company under the Global Offer each at an offer price of £1.40 based on a nominal value of £0.10 (£7,252,736 (US$14,285,714)) and a premium of £1.30 (£94,285,569 (US$185,714,286)) to its nominal value. Offer expenses are the estimated fees and expenses incurred in connection with the Global Offer of US$60 million relating principally to investment banking, underwriting, legal and accounting fees and management bonuses. Offer expenses have been extracted without material adjustment from paragraph 19.1 of Part XI: "Additional Information". The exchange rate used was £1: US$1.9697.

5 No account has been taken of any trading or other transactions since 31 December 2006.

Impact on Earnings

The Directors believe that, had the Global Offer occurred at the beginning of the last financial period, the consolidated income statement would have been affected. Assuming that a portion of the net offer proceeds are applied to reduce the borrowings of the Group, the impact would be to reduce finance costs associated with bank loans. Additional finance income would also be generated from interest earned on increased cash deposits arising from any unutilised net offer proceeds. A reduction in finance costs and additional finance income would result in an increased taxation charge. This statement should not be taken to mean that the earnings per share of the Group will necessarily match or exceed the historical reported earnings per share of the Group and no forecast is intended or implied.

SECTION B: ACCOUNTANT'S REPORT ON UNAUDITED PROFORMA FINANCIAL INFORMATION

ERNST & YOUNG

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The Directors
Ferrexpo plc
2-4 King Street
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15 June 2007

Dear Sirs

We report on the pro forma financial information (the "Pro Forma Financial Information") set out in Part IX: "Unaudited Pro forma Financial Information" of the prospectus dated 15 June 2007, which has been prepared on the basis described in the notes to the pro forma balance sheet, for illustrative purposes only, to provide information about how the transaction might have affected the financial information presented on the basis of the accounting policies adopted by Ferrexpo plc in preparing the financial information for the period ended 31 December 2006. This report is required by item 20.2 of Annex I of the Commission Regulation (EC) 809/2004 and is given for the purpose of complying with that item and for no other purpose.

Save for any responsibility arising under Prospectus Rule 5.5.3R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 23.1 of Annex I to the Commission Regulation (EC) 809/2004.

Responsibilities

It is the responsibility of the directors of Ferrexpo plc to prepare the Pro Forma Financial Information in accordance with item 20.2 of Annex I of the Commission Regulation (EC) 809/2004.

It is our responsibility to form an opinion, as required by item 7 of Annex II of the Commission Regulation (EC) 809/2004, as to the proper compilation of the Pro Forma Financial Information and to report that opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro Forma Financial Information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the directors of Ferrexpo plc.

ERNST & YOUNG

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro Forma Financial Information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of Ferrexpo plc.

Opinion

In our opinion:

(a) the Pro Forma Financial Information has been properly compiled on the basis stated; and

(b) such basis is consistent with the accounting policies of Ferrexpo plc.

Declaration

For the purposes of Prospectus Rule 5.5.3R (2)(f) we are responsible for this report as part of the prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the prospectus in compliance with item 1.2 of Annex I of the Commission Regulation (EC) 809/2004.

Yours faithfully

Ernst & Young LLP

Part X

Major shareholders and the Relationship Agreement

Major shareholders

The sole current beneficial shareholder of the Company is Fevamotinico S.à r.l. One of the Non-executive Directors has interests in Fevamotinico S.à r.l. as described in "Additional information – Directors' and others' interests" in paragraph 5 of Part XI.

Immediately following Admission, Fevamotinico S.à r.l. will own 74.9 per cent. of the issued ordinary share capital of the Company if the Manager's Option is not exercised and 73.1 per cent. of the issued ordinary share capital of the Company if the Manager's Option is fully exercised and will be regarded as the controlling shareholder of the Company. Fevamotinico S.à r.l., the Selling Shareholder, is selling 79,570,571 Existing Ordinary Shares (assuming no exercise of the Manager's Option), pursuant to the Global Offer and, if the Manager's Option is exercised, a maximum of 90,217,426 Existing Ordinary Shares.

The following table shows the beneficial shareholding of Fevamotinico S.à r.l. as it is currently and as it will be immediately following Admission.

Shareholder	*Number of Existing Ordinary Shares*	*Percentage of Existing capital*	*Number of Ordinary Shares Following the Global Offer Assuming no Exercise of the Manager's Option*	*Percentage of the Enlarged Share Capital Assuming no Exercise of the Manager's Option*	*Number of Ordinary Shares Following the Global Offer Assuming Full Exercise of the Manager's Option*	*Percentage of the Enlarged Share Capital Assuming Full Exercise of the Manager's Option*
Fevamotinico S.à r.l.[1]	533,543,489	100	453,972,918	74.9	443,326,063	73.1

(1) Legal title to one Ordinary Share is held on trust by Ian Pellow on behalf of Fevamotinico S.à r.l.

Following Admission, Fevamotinico S.à r.l. will not have any voting rights which will be different to any other shareholder's voting rights, and its shares in the Company rank pari passu in all respects with all other Existing Ordinary Shares and the New Ordinary Shares.

The following table shows the indirect holding of Ordinary Shares of The Minco Trust, Fevamotinico S.à r.l.'s ultimate beneficial owner as it is currently and as it will be immediately following Admission.

Beneficial Owner	*Number of Existing Ordinary Shares*	*Percentage of Existing capital*	*Number of Ordinary Shares Following the Global Offer Assuming no Exercise of the Manager's Option*	*Percentage of the Enlarged Share Capital Assuming no Exercise of the Manager's Option*	*Number of Ordinary Shares Following the Global Offer Assuming Full Exercise of the Manager's Option*	*Percentage of the Enlarged Share Capital Assuming Full Exercise of the Manager's Option*
The Minco Trust[1]	533,543,489	100	453,972,918	74.9	443,326,063	73.1

(1) The beneficiaries of The Minco Trust include Kostyantyn Zhevago.

Save as disclosed in Part X of this Prospectus, in so far as is known to the Company, there is no other person who at 14 June 2007 (being the latest practicable date prior to the publication of this Prospectus) is, directly or indirectly, interested in 3 per cent. or more of the issued share capital of the Company, or of any other person who can, will or could, directly or indirectly, jointly or severally, exercise control over the Company.

Relationship Agreement

Fevamotinico S.à r.l., Kostyantyn Zhevago, The Minco Trust and the Company have entered into an agreement (the "Relationship Agreement") which will, conditional on Admission, regulate the ongoing relationship between them to ensure that the Group is capable of carrying on its business independently of Fevamotinico S.à r.l., and Kostyantyn Zhevago (as a Non-executive Director), and to ensure that transactions and relationships between the Group, Fevamotinico S.à r.l., and Kostyantyn Zhevago are at arm's length and on a commercial basis. The Relationship Agreement shall continue for so long as (a) the Ordinary Shares are listed on the Official List of the Financial Services Authority and traded on the London Stock Exchange and (b) Fevamotinico S.à r.l. or Kostyantyn Zhevago control directly or indirectly a shareholding of at least 24.9 per cent. in the Company.

Under the Relationship Agreement, the Company, Fevamotinico S.à r.l., The Minco Trust and Kostyantyn Zhevago agree, *inter alia*:

(a) that the Company shall have its own management and that the Company shall operate and make decisions for the benefit of all of the Shareholders (including Fevamotinico S.à r.l.,) as a whole and independently of Fevamotinico S.à r.l., and Kostyantyn Zhevago at all times;

(b) to ensure that the Company is capable, at all times, of carrying on its business independently of Fevamotinico S.à r.l., and Kostyantyn Zhevago;

(c) that all transactions and relationships between Fevamotinico S.à r.l., and Kostyantyn Zhevago and/or any of their associates and any member of the Group (as the case may be) shall be on terms which are at arm's length and on a commercial basis;

(d) there shall at all times be a majority of Directors independent of Fevamotinico S.à r.l., and Kostyantyn Zhevago (and who are therefore not a director or officer of Fevamotinico S.à r.l. or an employee of either of them and free from any business or other relationship, association or interest with either of them) (the "Independent Directors") on the Board;

(e) that the quorum for all board meetings of the Company shall include one non-executive director who is an Independent Director and one non-executive director who is a Representative Director (being Kostyantyn Zhevago or his nominee as a representative of Fevamotinico S.à r.l.);

(f) Fevamotinico S.à r.l. will vote so that any Independent Director will (insofar as may be necessary to ensure that there continues to be a majority of Independent Directors on the Board) be replaced by a new executive or non-executive director, as the case may be, who is also an Independent Director;

(g) unless the Independent Directors agree otherwise, only the Independent Directors shall vote on any resolutions of the Board to approve any aspect of the Company's involvement in or enforcement of any arrangements, agreements or transactions with Fevamotinico S.à r.l., and Kostyantyn Zhevago and/or any of their associates and any member of the Group (as the case may be) (subject to the provisions of (c) above);

(h) that Fevamotinico S.à r.l. undertakes to, and Kostyantyn Zhevago undertakes to procure, so far as he has power to do so (by giving appropriate directions to The Minco Trust or otherwise), that Fevamotinico S.à r.l. shall exercise its voting rights or other rights in favour of the Company being managed in accordance with the Listing Rules, Prospectus Rules and Disclosure and Transparency Rules and the principles of good governance set out in the Combined Code;

(i) that Fevamotinico S.à r.l. undertakes to, and Kostyantyn Zhevago undertakes to procure, so far as he has power to do so (by giving appropriate directions to The Minco Trust or otherwise), that Fevamotinico S.à r.l. shall observe the provisions in the Articles;

(j) that Fevamotinico S.à r.l. shall have the same voting rights as all other Shareholders;

(k) that Fevamotinico S.à r.l. undertakes not to, and Kostyantyn Zhevago undertakes to procure, so far as he has power to do so (by giving appropriate directions to The Minco Trust or otherwise), that Fevamotinico S.à r.l. shall not exercise its voting rights to requisition, approve or vote in favour of any amendment to the constitutional documents of the Company which would be inconsistent with, conflict with or undermine, the terms of the Relationship Agreement;

(l) that each party will keep confidential any information which it acquires in connection with the Relationship Agreement and subject to customary exceptions shall not disclose or make use of such information for any purpose whatsoever other than for the purposes of properly performing its obligations under the Relationship Agreement;

(m) that Kostyantyn Zhevago represents and warrants that he does not currently directly or indirectly (whether through Fevamotinico S.à r.l. or otherwise), own or have any form of ownership interest in any company, business, business operation or other entity or enterprise which is involved in the mining, processing, distributing, selling, supplying or dealing in iron ore and which is carried on in whole or in substantial part within Ukraine (a "Ukrainian Iron Ore Company") at the date of this Agreement, other than (i) through the Company or any other member of its Group; (ii) through LLC Vostock Ruda, or any other enterprise which owns and operates the Nova iron ore mine and concentrator; or (iii) where iron ore is produced as a by-product or is ancillary but is not the primary, material or substantial part of the relevant business and is therefore agreed by the parties not to be a direct competitor of the Company or any member of its Group;

(n) that for a period of two years following Admission, Fevamotinico S.à r.l., and Kostyantyn Zhevago each agree that:

    (i) Kostyantyn Zhevago shall not, directly or indirectly, become a direct competitor of the Company or the Group (save as provided for in paragraph (m)(ii) and (iii) above),

    (ii) Kostyantyn Zhevago and/or Fevamotinico S.à r.l. will give the Company the first right of refusal to enter into any transaction with, invest in or acquire any interest in any Ukrainian Iron Ore Company (other than transactions where the production of iron ore is simply a by-product or is ancillary but is not the primary, material or substantial part of the business) such that it would be a direct competitor of the Company or any member of its Group (each a "Competing Transaction") in preference to any other party.

    The Company shall be given a period of six months to resolve to proceed with any Competing Transaction that is offered to it or decline to do so. If the Company elects not to proceed with a Competing Transaction, or is unable to complete a Competing Transaction within a period of 12 months of the Competing Transaction having been offered to it, each of Fevamotinico S.à r.l., and Kostyantyn Zhevago shall have fulfilled its obligations under paragraph (ii) above (and in the case of Kostyantyn Zhevago, any separate but similar obligations he may have as a director) provided, however, that Kostyantyn Zhevago shall remain bound by the undertaking at paragraph (i) in relation to such Competing Transaction;

(o) that Fevamotinico S.à r.l., and Kostyantyn Zhevago shall not solicit for employment any senior executive of the Group, or materially increase the limited amount of time which the Company has permitted the Executive Directors to spend on other business interests connected with Kostyantyn Zhevago and his associates; and

(p) that Fevamotinico S.à r.l., and Kostyantyn Zhevago undertake not to, and each procure that their associates shall not do, cause or authorise to be done anything which will or may impair, damage, devalue or otherwise be detrimental to the reputation or goodwill associated with the Company, any form of intellectual property registered or owned by any member of the Group and the Ferrexpo brand or bring the Company or any member of its Group or the Ferrexpo brand into disrepute.

Share Purchase Agreement with DCM

DCM currently holds 10.6 per cent. of the issued shares of Ferrexpo Poltava. DCM's s entire 10.6 per cent. interest in Ferrexpo Poltava is subject to a deferred share purchase agreement entered into between DCM and Ferrexpo Poltava on 14 January 2004, as supplemented by a 2005 addendum (the "Share Purchase Agreement"), whereby DCM agreed to sell and Ferrexpo Poltava agreed to buy 12,240,432 shares of Ferrexpo Poltava (the "DCM Shares") at a price of US$11,037,000, payable in two instalments on 20 November 2008 and 20 December 2008. The DCM Shares are to be transferred to Ferrexpo Poltava five banking days (as defined in the Share Purchase Agreement) after payment. The DCM Shares comprised 15 per cent. of Ferrexpo Poltava's shares as of the date of the Share Purchase Agreement, and have been diluted by further share issues by Ferrexpo Poltava to 10.6 per cent. as of the date of this Prospectus.

Part XI

Additional information

1. Incorporation and activity

1.1 The Company was incorporated and registered in England and Wales under the name Ferrexpo plc as a public company limited by shares under the Companies Act 1985 (the "Act") on 22 April 2005 with registered number 5432915.

1.2 The Company's registered office is 2-4 King Street, London, SW1Y 6QL, United Kingdom. The telephone number is +44 (0)20 7389 8300.

1.3 The Company's principal place of business is Bahnhofstrasse 13, CH-6340, Baar, Switzerland. The telephone number is +41 41 769 3660.

1.4 The principal legislation under which the Company operates, and pursuant to which the Ordinary Shares have been created, is the Act and the regulations made thereunder.

1.5 The business of the Company, and its principal activity, is to act as the ultimate holding company of the Group.

1.6 By a resolution of the Directors dated 1 June 2007, Ernst & Young LLP, whose address is 1 More London Place, London SE1 2AF, United Kingdom were appointed as the first auditors of the Company.

2. Information concerning the Ordinary Shares

The history of the ordinary share capital of the Company as at the date of this document is as follows:

2.1 The Company's share capital upon incorporation on 22 April 2005 was £50,000 divided into 50,000 ordinary shares with a nominal value of £1.00 per share, two of which were issued to Ian Pellow and Philippa Keith, respectively, as subscribers to the Memorandum.

2.2 On 27 July 2006, Philippa Keith transferred her one £1.00 ordinary share in the capital of the Company to Nayana Bharti.

2.3 On 21 May 2007, Nayana Bharti transferred her one £1.00 ordinary share in the capital of the Company to Fevamotinico S.à r.l.

2.4 On 21 May 2007, Fevamotinico S.à r.l. acquired beneficial title to the one £1.00 ordinary share in the Company held by Ian Pellow. Ian Pellow holds this share on trust for Fevamotinico S.à r.l.

2.5 On 21 May 2007, 49,998 ordinary shares of £1.00 each in the Company were issued fully paid up for cash to Fevamotinico S.à r.l.

2.6 By ordinary and special resolutions passed on 21 May 2007, it was resolved:

(a) that each issued and each authorised but unissued ordinary share of £1.00 in the capital of the Company be subdivided into 500,000 Ordinary Shares of 10 pence each in the capital of the Company;

(b) that the authorised share capital of the Company be increased from £50,000 to £60,050,000 by the creation of 600,000,000 Ordinary Shares of 10 pence each;

(c) that, in substitution for all existing authorities, the directors be generally and unconditionally authorised for the purpose of section 80 of the Act to exercise all the powers of the Company to allot relevant securities (within the meaning of that section) up to an aggregate nominal amount of £60,000,000 for a period expiring 5 years from the date of this resolution save that the Company may before expiry of this authority make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired; and

(d) that, subject to the passing of the resolution referred to in paragraph 2.6(c) above, the directors be generally empowered pursuant to section 95 of the Act to allot equity securities (within the meaning of section 94(2) of the Act) for cash pursuant to the authority conferred by the resolution referred to in paragraph 2.6(b) above as if section 89(1) of the Act did not apply to the allotment, provided that the power conferred by this resolution will expire five years from the date of this resolution save that the Company may before expiry of this power make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement notwithstanding that the power conferred by this resolution has expired.

2.7 On 1 June 2007, Ian Pellow transferred legal title to nine Ordinary Shares of 10 pence each in the capital of the Company to Fevamotinico S.à r.l. so that he remained the holder of legal title to one Ordinary Share in the Company on trust for Fevamotinico S.à r.l.

2.8 By ordinary and special resolutions passed on 14 June 2007 it was resolved:

(a) that the Company adopt the new Articles (as summarised in paragraph 4 of this Part XI);

(b) that the authorised share capital of the Company be increased from £60,050,000 to £80,000,000 by the creation of 199,500,000 ordinary shares of 10 pence each ranking equally in all respects with the existing Ordinary Shares;

(c) that, in substitution for all existing authorities, the directors be generally and unconditionally authorised for the purpose of section 80 of the Act to exercise all the powers of the Company to allot relevant securities (within the meaning of that section) up to an aggregate nominal amount of £20,202,362 for a period expiring at the conclusion of the next annual general meeting or on 31 July 2008, whichever is the earlier, save that the Company may before expiry of this authority make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement notwithstanding that the authority conferred by the resolution has expired;

(d) that the directors be generally empowered pursuant to section 95 of the Act to allot equity securities (within the meaning of section 94(2) to section 94(3A) of the Act) for cash pursuant to the authority referred to in paragraph 2.8(c) above as if section 89(1) of the Act did not apply to the allotment, provided that the power conferred by the resolution:

(i) will expire at the conclusion of the next annual general meeting or on 31 July 2008, whichever is the earlier, save that the Company may before expiry of this power make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement notwithstanding that the power conferred by the resolution has expired; and

(ii) is limited to:

(A) the allotment of up to 72,527,361 ordinary shares of 10 pence each in the Company pursuant to the Global Offer;

(B) an allotment of equity securities in connection with a Rights Issue. For the purpose of the resolution, a "Rights Issue" means an offer of securities open for acceptance for a period fixed by the directors, to holders of ordinary shares made in proportion (as nearly as practicable) to their respective existing holdings of ordinary shares but subject to the directors having a right to make such exclusions or other arrangements as they consider necessary or expedient in relation to fractional entitlements or legal or practical problems arising in any overseas territory, by virtue of the shares being represented by depositary receipts or by the requirements of any regulatory body or stock exchange; and

(C) the allotment (otherwise than pursuant to (A) or (B) above) of equity securities for cash having, in the case of relevant shares, a nominal amount or, in the case of other equity securities, giving the right to subscribe for or convert into relevant shares having a nominal amount not exceeding in aggregate £3,030,354, and the power conferred by the resolution shall also apply to a sale of treasury shares, which is an allotment of equity securities by virtue of section 94(3A) of the Act;

(e) that subject to and conditional upon Admission, the Company be generally and unconditionally authorised to make one or more market purchases (within the meaning of section 163(3) of the Act) of ordinary shares of 10 pence each in the capital of the Company provided that:

(i) the maximum aggregate number of ordinary shares authorised to be purchased is 60,607,085 (representing less than 15 per cent. of the issued ordinary share capital of the Company following Admission);

(ii) the minimum price (excluding stamp duty and expenses) which may be paid for an ordinary share is 10 pence;

(iii) the maximum price (excluding stamp duty and expenses) which may be paid for an ordinary share so purchased is an amount equal to the higher of 5 per cent above the average of the middle market quotations shown for an ordinary share in the London Stock Exchange Daily Official List on the five business days immediately preceding the day on which that ordinary share is purchased and the amount stipulated by Article 5(1) of the Buy-back and Stabilisation Regulations 2003; and

(iv) the authority conferred by the resolution shall, unless varied, revoked or renewed prior to such time, expire at the conclusion of the next annual general meeting or on 31 July 2008, whichever is the earlier, save that the Company may before the expiry of this authority make a contract to purchase ordinary shares which will or might be executed wholly or partly after the expiry of this authority and may make a purchase of ordinary shares in pursuance of such contract as if the authority conferred by the resolution had not expired.

2.9 Since incorporation, there have been no material changes in the capital of the Company or the number and classes of shares of which such capital is composed, other than those set out in "– Information concerning the Ordinary Shares" in this paragraph 2 of Part XI.

2.10 The authorised, allotted, called up and fully paid share capital of the Company immediately prior to the publication of this Prospectus, and as it will be immediately following the Global Offer are as follows:

Ordinary shares of 10 pence each	*Authorised*		*Issued*[(1)]	
	Number	*Amount (£)*	*Number*	*Amount (£)*
At present	800,000,000	80,000,000	533,543,489	53,354,349
Following the Global Offering	800,000,000	80,000,000	606,070,850	60,607,085

(1) Issued fully paid or credited as fully paid.

2.11 The authorised but unissued share capital of the Company immediately following Admission will be £19,392,915, equivalent to approximately 24.2 per cent. of the authorised ordinary share capital of the Company.

2.12 Save as disclosed in this Prospectus and in this paragraph 2, there has been no change in the amount of the issued share or loan capital of the Company and no material change in the amount of the issued share or loan capital of any subsidiary undertaking of the Company (other than intra-group issues by wholly-owned subsidiaries) within three years of the date of this Prospectus.

2.13 The Ordinary Shares are issued in registered form and will be capable of being held in uncertificated form. The Company's share register is maintained by Lloyds TSB Registrars. No temporary documents of title have been or will be issued. Applications have been made for the Ordinary Shares issued and to be issued pursuant to the Global Offer to be admitted to the Official List and to trading on the London Stock Exchange's market for listed securities and no application has been or is being made for their admission to listing or trading on any other stock exchange or securities market.

2.14 Save as disclosed in this Part XI:

(a) no share or loan capital of the Company has, within three years prior to the date of this Prospectus, been issued or agreed to be issued, or is now proposed to be issued, fully or partly paid, either for cash or for a consideration other than cash, to any person;

(b) no commissions, discounts, brokerages or other special terms have been granted by the Company in connection with the issue or sale of any share or loan capital;

(c) no share or loan capital of any member of the Group is under option or agreed conditionally or unconditionally to be put under option; and

(d) the Company has no outstanding convertible debt securities, exchangeable debt securities or debt securities with warrants.

2.15 The provisions of section 89 of the Act (which confer on shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash other than by way of allotment to employees under an employees' share scheme as defined in section 743 of the Act) apply to the authorised but unissued share capital of the Company (in respect of which the Directors have authority to make allotments pursuant to section 80 of the Act as referred to in sub-paragraph 2.8(c) above) except to the extent such provisions have been disapplied as referred to in sub-paragraph 2.8(d) above. In addition, the Company will be subject to the continuing obligations of the Listing Rules with regard to the issue of shares for cash.

3. Summary of the memorandum of association

The memorandum of association of the Company provides that the Company's objects are, amongst other things, to carry on business as a general commercial company and to do all such other things as may be deemed incidental or conducive to the attainment of the Company's objects or any of them. The Company's objects are set out in full in clause 4 of the Memorandum, which is available for inspection at the address specified in "Documents Available for Inspection" in paragraph 20 of Part XI.

4. Summary of the articles of association

The Articles were adopted by a special resolution of the Company passed on 14 June 2007 and include provisions to the following effect:

4.1 *Allotment of shares*

Subject to the provisions of the Companies Acts and any relevant authority given by the Company in general meeting, the board is generally and unconditionally authorised to allot, grant options over, or otherwise dispose of the unissued shares of the Company, or rights to subscribe for or convert any security into shares, to such persons, at such times and on such terms as the board may decide except that no share may be issued at a discount. Subject to the Articles and the provisions of the Companies Acts, the Company may issue any shares which are to be redeemed, or which at the option of the holder or the Company are liable to be redeemed.

4.2 *Power to attach rights*

Subject to the provisions of the Companies Acts and without prejudice to any rights attached to any existing shares, any share may be issued with, or have attached to it, such rights or restrictions as the Company may by ordinary resolution determine, or, subject to and in default of such determination, as the board may determine.

4.3 *Right to certificate*

Every member (except a person in respect of whom the Company is not required by law to issue a certificate) is entitled within the time specified by the Companies Acts and without payment to one certificate for all the shares registered in his name.

4.4 ***Voting rights***

Subject to the provisions of the Companies Acts and to special rights or restrictions as to voting attached to any class of shares by and to any suspension or abrogation of voting rights pursuant to the Articles, at a general meeting every member present in person has on a show of hands one vote and every member present in person or by proxy has on a poll one vote for every share of which he is the holder.

Unless the Board otherwise determines, no member is entitled to vote at a general meeting or at a separate meeting of the holders of any class of shares, either in person or by proxy, or to exercise any other right or privilege as a member in respect of any share held by him unless and until all calls or other sums presently due and payable by him in respect of that share together with all costs, charges and expenses incurred by the Company by reason of the non-payment have been paid to the Company.

If a member appearing to be interested in shares had been issued with a notice pursuant to section 793 of the Companies Act 2006 (requiring disclosure of interest in shares) and has failed in relation to any shares (for the purpose of this paragraph, "default shares") to give the Company the information thereby required within 14 days from the service of the notice, the member shall not be entitled in respect of the default shares to be present or to vote (either in person or by proxy) at a general meeting or at a separate meeting of the holders of a class of shares or on a poll.

4.5 ***Provisions governing transfers of shares***

A 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 instrument of transfer must be executed by or on behalf of the transferor and (in the case of a partly-paid share) the transferee. The transferor of a share is deemed to remain the holder until the transferee's name is entered in the register.

A member may transfer all or any of his uncertificated shares using a relevant system in such manner provided for, and subject as provided in, the Regulations and the rules of any relevant system.

The board may, in its absolute discretion and without giving a reason, refuse to register the transfer of a certificated share which is not fully paid or the transfer of a certificated share on which the Company has a lien.

The board may, in its absolute discretion and without giving a reason, refuse to register the transfer of a certificated share or a renunciation of a renounceable letter of allotment unless all of the following conditions are satisfied:

(a) it is in respect of only one class of shares;

(b) it is in favour of (as the case may be) a single transferee or renouncee or not more than four joint transferees or renouncees;

(c) it is duly stamped (if required); and

(d) it is delivered for registration to the office or such other place as the board may decide, accompanied by the certificate for the shares to which it relates (except in the case of a transfer by a recognised financial institution where a certificate has not been issued, or in the case of a renunciation) and such other evidence as the board may reasonably require to prove the title of the transferor or person renouncing and the due execution by him of the transfer or renunciation or, if the transfer or renunciation is executed by some other person on his behalf, the authority of that person to do so.

4.6 ***Dividends***

Subject to the provisions of the Companies Acts and the Articles, the Company may by ordinary resolution declare a dividend to be paid to the members according to their respective rights and interests, but no dividend may exceed the amount recommended by the board. Subject to the provisions of the Companies Acts, the Company may pay interim dividends.

Except as otherwise provided by the rights attached to, or the terms of issue of, shares, a dividend shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is declared and paid, but no amount paid up on a share in advance of a call may be treated for the purpose of the Articles as paid up on the share; and dividends shall be apportioned and paid proportionately to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid.

The board may deduct from a dividend or other amounts payable to a person in respect of a share amounts due from him to the Company on account of a call or otherwise in relation to a share.

Any unclaimed dividend, interest or other amount payable by the Company in respect of a share may be invested or otherwise made use of by the board for the benefit of the Company until claimed. A dividend unclaimed for a period of 12 years from the date it was declared or became due for payment is forfeited and ceases to remain owing by the Company.

The board may, with the prior authority of an ordinary resolution of the Company, direct that payment of a dividend may be satisfied wholly or in part by the distribution of specific assets and in particular of paid-up shares or debentures of another company.

Where any difficulty arises in regard to such distribution, the board may settle it as it thinks fit. In particular, the board may:

(a) issue fractional certificates (or ignore fractions);

(b) fix the value for distribution of such assets or any part thereof and determine that cash payments may be made to any members on the footing of the value so fixed, in order to adjust the rights of members; and

(c) vest any such assets in trustees on trust for the persons entitled to the dividend.

Subject to the provisions of the Companies Acts, the board may, with the prior authority of an ordinary resolution of the Company, allot to those holders of a particular class of shares who have elected to receive them further shares of that class or ordinary shares in either case credited as fully paid instead of cash in respect of all or part of a dividend or dividends specified by the resolution, subject to any exclusions, restrictions or other arrangements the board may in its absolute discretion deem necessary or expedient to deal with legal or practical problems under the laws of, or the requirements of a recognised regulatory body or a stock exchange in, any territory.

Unless the board otherwise determines, the payment of any dividend or other money that would otherwise be payable in respect of shares will be withheld, and the Company shall have no obligation to pay interest on it, if such shares represent at least 0.25 per cent. of the nominal value of the issued share capital of their class and the holder, or any other person appearing to be interested in those shares, has been issued with a notice under section 793 of the Companies Act 2006 and has failed to supply the information required by such notice within 14 days. Furthermore such a holder shall not be entitled to elect to receive shares instead of a dividend.

4.7 ***Disclosure of interest in shares***

The provisions of chapter 5 of the Disclosure and Transparency Rules shall apply to the Company and are deemed to be incorporated into the Memorandum.

Pursuant to chapter 5 of the Disclosure and Transparency Rules, any person acquiring an interest of 3 per cent. or more of the issued Ordinary Shares must disclose such holding to the Company. As provided by chapter 5, a person has a notifiable interest in the share capital of the Company when he has a direct or indirect interest in holdings of 3 per cent. or more of the issuer's total voting rights and capital in issue, or holds financial instruments which formally entitle him to acquire 3 per cent. or more of the issuer's total voting rights and capital in issue.

Where notice is served by the Company in accordance with section 793 of the Companies Act 2006 as incorporated into the Memorandum and Articles (a "Section 793 notice") on a member, or another person whom the Company knows or has reasonable cause to believe to be interested in shares held by that member, and the member or other person has failed in relation to any shares (the "default shares") to give the Company the information required within 14 days following the date of service of the Section 793 notice, whereupon the following sanctions apply, unless the board otherwise decides.

(a) the member shall not be entitled in respect of the default shares to be present or to vote (either in person or by proxy) at a general meeting or at a separate meeting of the holders of a class of shares or on a poll or to exercise other rights conferred by membership in relation to the meeting or poll; and

(b) where the default shares represent at least 0.25 per cent. in nominal value of the issued shares of their class:

    (i) a dividend (or any part of a dividend) or other amount payable in respect of the default shares shall be withheld by the Company, which has no obligation to pay interest on it; and

    (ii) no transfer of any of the default shares shall be registered unless the transfer is an excepted transfer (e.g. a transfer pursuant to a takeover offer for the Company) or the member is not himself in default in supplying the information required and the member proves to the satisfaction of the board that no person in default in supplying the information required is interested in any of the shares the subject of the transfer or registration of the transfer is required by any relevant system.

Where the sanctions in (i) above apply in relation to any shares they shall cease to have effect and any dividends withheld under (ii) shall become payable if the shares are transferred by means of an excepted transfer but only in respect of the shares transferred or at the end of the period of seven days following receipt by the Company of the information required by the notice and the board being fully satisfied that such information is full and complete.

4.8 *Winding up*

On a voluntary winding up of the Company the liquidator may, on obtaining any sanction required by law, divide among the members (excluding any member holding shares as treasury shares) in kind the whole or any part of the assets of the Company, whether or not the assets consist of property of one kind or of different kinds, and vest the whole or any part of the assets in trustees upon such trusts for the benefit of the members as he, with the like sanction, shall determine. For this purpose the liquidator may set the value he deems fair on a class or classes of property, and may determine on the basis of that valuation and in accordance with the then existing rights of members how the division is to be carried out between members or classes of members. Any such division may be otherwise than in accordance with the existing rights of the members, but if any division is resolved otherwise than in accordance with such rights, the members shall have the same rights of dissent and consequential rights as if such resolution were a special resolution passed in accordance with section 110 of the Insolvency Act 1986. The liquidator may not, however, distribute to a member without his consent an asset to which there is attached a liability or potential liability for the owner.

4.9 *Variation of rights*

Subject to the provisions of the Companies Acts, the rights attached to a class of shares may be varied or abrogated (whether or not the Company is being wound up) either with the consent in writing of the holders of at least three-fourths of the nominal amount of the issued shares of that class (excluding any share of that class held as treasury shares) or with the sanction of an extraordinary resolution passed at a separate meeting of the holders of the issued shares of that class. The board may convene a meeting of the holders of any class of shares whenever it thinks fit and whether or not the business to be transacted involves a variation or abrogation of class rights.

The necessary quorum for such a meeting shall be two persons entitled to vote and holding or representing by proxy not less than one-third in nominal value of the issued shares of the class (excluding any shares of that class held as treasury shares), but so that at any adjourned meeting one holder entitled to vote and present in person or by proxy shall be a quorum.

Every holder of shares of the class, present in person or by proxy, may demand a poll. Each such holder shall on a poll be entitled to one vote for every share of the class held by him. If at any adjourned meeting of such holders such quorum as aforesaid is not present, not less than one person holding shares of the class who is present in person or by proxy shall be a quorum.

Subject to the terms of issue of or rights attached to any shares, the rights or privileges attached to any class of shares shall be deemed not to be varied or abrogated by the creation or issue of any new shares ranking pari passu in all respects (save as to the date from which such new shares shall rank for dividend) with or subsequent to those already issued or by the reduction of the capital paid up on such shares or by the purchase or redemption by the Company of its own shares in accordance with the provisions of the Companies Acts and the Articles.

4.10 ***Alteration of share capital***

The Company may from time to time by ordinary resolution increase its share capital, consolidate or sub-divide all or any of its share capital, and cancel any shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled.

Subject to the provisions of the Companies Acts, the Company may by special resolution reduce its share capital, any capital redemption reserve, any share premium account or any other undistributable reserve in any way. The Company is empowered to purchase its own shares.

There are no provisions or conditions in the Memorandum and Articles governing changes in the share capital of the Company which are more stringent than required by law.

4.11 ***General meetings and extraordinary general meetings***

Any general meeting of the Company, other than an annual general meeting, shall be called an extraordinary general meeting. The board shall convene, and the Company shall hold, general meetings as annual general meetings in accordance with the provisions of the Companies Acts. The board may convene an extraordinary general meeting whenever it thinks fit.

An annual general meeting and any extraordinary general meeting at which a special resolution is to be proposed or (subject to the provisions of the Companies Acts) at which some other resolution of which special notice under the Companies Acts has been given to the Company shall be called by not less than 21 clear days' notice. All other extraordinary general meetings shall be called by not less than 14 clear days' notice. The notice shall specify the place, day and time of the meeting, the general nature of the business to be transacted if the meeting is convened to consider a special or extraordinary resolution, the intention to propose the resolution as such, and the right of a member entitled to attend and vote to appoint one or more proxies. The notice shall be given to the members (other than any who, under the Articles or of any restrictions imposed on any shares, are not entitled to receive notice from the Company), to the directors and to the auditors. The accidental omission to give notice to, or the non-receipt of notice by, any person entitled to receive the same shall not invalidate the proceedings at the meeting. A shorter notice period can be approved by agreement of shareholders holding 95 per cent. of all shares in issue, or all shareholders in the case of an annual general meeting.

Two members present in person or by proxy and entitled to vote shall constitute a quorum for all purposes. If a quorum is not present within ten minutes (or such longer time not exceeding 30 minutes as the chairman decides to wait) after the time fixed for the start of the meeting or if there is no longer a quorum present at any time during the meeting, the meeting, if convened by or on the requisition of members, is dissolved. In any other case it stands adjourned to such other day (being not less than 14 nor more than 28 days later) and at such other time and/or place as may have been specified for the purpose in the notice convening the meeting. Where no such arrangements have been specified, the meeting stands adjourned to such other day (being not less than 14 nor more than 28 days later) and at such other time and/or place as the chairman (or, in default, the board) decides.

The chairman (if any) of the board or, in his absence, the deputy chairman (if any) shall preside as chairman at a general meeting. If there is no chairman or deputy chairman, or if at a meeting neither is present and willing and able to act within five minutes after the time fixed for the start of the meeting or neither is willing and able to act, the directors present shall select one of their number to be chairman. If only one director is present and willing and able to act, he shall be chairman. In default, the members present in person and entitled to vote shall choose one of their number to be chairman.

Without prejudice to any other power which he may have under the provisions of the Articles or at common law, the chairman may take such action as he thinks fit to promote the orderly conduct of the business of the meeting as specified in the notice of meeting and the chairman's decision on matters of procedure or arising incidentally from the business of the meeting shall be final, as shall be his determination as to whether any matter merits such action.

At a general meeting, all resolutions shall be decided on a show of hands unless a poll is demanded by the chairman of the meeting, or not less than five members present in person or by proxy and entitled to vote, or by any member or members representing one-tenth of total voting rights of all members or holding one-tenth of all shares in issue.

The right of a member to participate in the business of any general meeting shall include, without limitation, the right to speak, vote on a show of hands, vote on a poll, be represented by a proxy and have access to all documents which are required by the Act or the Articles to be made available to the meeting.

Each director shall be entitled to attend and speak at a general meeting and at a separate meeting of the holders of a class of shares or debentures whether or not he is a member.

The chairman may invite any person to attend and speak at any general meeting of the Company where he considers that this will assist in the deliberations of the meeting.

The chairman may, with the consent of a meeting at which a quorum is present (and shall, if so directed by the meeting) adjourn a meeting from time to time and from place to place or for an indefinite period.

Without prejudice to any other power which he may have under the provisions of the Articles or at common law, the chairman may, without the consent of the meeting, interrupt or adjourn a meeting from time to time and from place to place or for an indefinite period if he decides that it has become necessary to do so in order to:

(a) secure the proper and orderly conduct of the meeting;

(b) give all persons entitled to do so a reasonable opportunity of speaking and voting at the meeting; or

(c) ensure that the business of the meeting is properly disposed of.

The board may make any arrangement and impose any restriction it considers appropriate to ensure the security of a meeting including, without limitation, the searching of a person attending the meeting and the restriction of the items of personal property that may be taken into the meeting place. The board may authorise one or more persons, who shall include a director or the secretary or the chairman of the meeting, to:

(a) refuse entry to a meeting to a person who refuses to comply with these arrangements or restrictions; and

(b) eject from a meeting any person who causes the proceedings to become disorderly.

4.12 ***Returned communications***

If on two consecutive occasions a notice to a member has been returned undelivered, such member shall not be entitled to receive notices from the Company unless they have given the Company a new registered address or a postal address within the United Kingdom at which notices may be served or has informed the Company of an address for service by electronic communication.

4.13 ***Untraced shareholders***

Subject to the Companies Acts, the Company may sell any shares in the Company registered in the name of a member remaining untraced for 12 years who fails to communicate with the Company following advertisement of an intention to make such a disposal. Until the Company can account to the member, the net proceeds of sale may either be employed in the business of the Company or invested in whatever investments as the board sees fit, in either case at the discretion of the Board. The proceeds will not carry interest.

4.14 ***Non-United Kingdom shareholders***

There are no limitations in the Articles on the rights of non-United Kingdom shareholders to hold, or to exercise voting rights attached to, the ordinary shares. However, if a member (or, in the case of joint holders, the person first named in the register) has a registered address outside the United Kingdom but has notified the Company of an address in the United Kingdom at which notices or other documents may be given to him, or an address to which notices may be given by electronic communication, he is entitled to have notices given to him at that address, but otherwise no such member or person is entitled to receive a notice or other document from the Company.

4.15 ***Appointment of directors***

Directors may be appointed by ordinary resolution or by the board. A director appointed by the board holds office only until the next following annual general meeting of the Company and is then eligible for election by shareholders. Unless otherwise determined by ordinary resolution of the Company, the directors shall be not less than two in number. The number of directors (other than alternate directors) shall not be subject to a maximum.

4.16 ***Retirement of directors***

At every annual general meeting, a minimum of one-third of the directors shall retire from office, save that if their number is not three or any multiple of three then the minimum number required to retire shall be the number nearest to and less than one-third. Each director must retire from office at the third annual general meeting of the Company after the annual general meeting in which he was elected.

4.17 ***No retirement on account of age***

No person is incapable of being appointed a director by reason of his having reached the age of 70 or another age. No director is required to vacate his office because he has reached the age of 70 or another age.

4.18 ***Removal of directors by ordinary resolution***

The Company may by ordinary resolution remove a director before the expiry of his period of office and may appoint another person who is willing to act to be a director in his place.

4.19 ***Remuneration of directors***

Unless otherwise decided by the Company by ordinary resolution, the Company shall pay to the directors such amount of aggregate fees as the board decides not exceeding £5,000,000 per annum. The board may arrange for part of a fee payable to a director to be provided in the form of fully-paid shares in the capital of the Company. The amount of the fee payable in this way shall be at the discretion of the board and shall be applied in the purchase or subscription of shares on behalf of the relevant director. A director who, at the request of the board, goes or resides abroad, makes a special journey or performs a special service on behalf of the Company may be paid such reasonable additional remuneration (whether by way of salary, percentage of profits or otherwise) and expenses as the board may decide. A director is entitled to be repaid all reasonable travelling, hotel and other expenses properly incurred by him in the performance of his duties as director.

Any fees payable pursuant to this Article shall be distinct from any salary, renumeration or other amounts payable to a Director pursuant to any other provisions of the Articles.

4.20 ***Indemnification of directors***

Subject to the provisions of the Companies Acts, every director may be indemnified out of the assets of the Company against any liability incurred by or attaching to him in connection with any negligence, default, breach of duty or breach of trust by him in relation to the Company; and any other liability incurred by or attaching to him in the actual or purported execution and/or discharge of his duties and/or the exercise or purported exercise of his powers and/or otherwise in relation to or in connection with his duties, powers or office. Such indemnity may extend to all costs, charges, losses, expenses and liabilities.

4.21 ***Board meetings***

Subject to the Articles, the board may meet for the despatch of business, adjourn and otherwise regulate its proceedings as it thinks fit. Board meetings shall take place in Switzerland.

4.22 ***Permitted interests of directors and voting***

Subject to the provisions of the Companies Acts and provided he has disclosed to the board the nature and extent of any direct or indirect interest, a director, notwithstanding his office:

(a) may enter into or otherwise be interested in a contract, arrangement, transaction or proposal with the Company or in which the Company is otherwise interested either in connection with his tenure of an office or place of profit or as seller, buyer or otherwise;

(b) may hold another office or place of profit with the Company (except that of auditor or auditor of a subsidiary of the Company) in conjunction with the office of director and may act by himself or through his firm in a professional capacity to the Company, and in that case on such terms as to remuneration and otherwise as the board may decide either in addition to or instead of remuneration provided for by another article;

(c) may be a director or other officer of, or employed by, or a party to a contract, transaction, arrangement or proposal with or otherwise interested in, a company promoted by the Company or in which the Company is otherwise interested or as regards which the Company has a power of appointment; and

(d) is not liable to account to the Company for a profit, remuneration or other benefit realised by such contract, arrangement, transaction, proposal, office or employment and no such contract, arrangement, transaction or proposal is avoided on the grounds of any such interest or benefit.

(e) A director may not vote on or be counted in the quorum in relation to a resolution of the board or of a committee of the board concerning a contract, arrangement, transaction or proposal to which the Company is or is to be a party and in which he has an interest which is, to his knowledge, a material interest (otherwise than by virtue of his interest in shares or debentures or other securities of or otherwise in or through the Company), but this prohibition does not apply to a resolution concerning any of the following matters:

   (i) the giving of a guarantee, security or indemnity in respect of money lent or obligations incurred by him or any other person at the request of or for the benefit of the Company or any of its subsidiary undertakings;

   (ii) the giving of a guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part, either alone or jointly with others, under a guarantee or indemnity or by the giving of security;

(iii) a contract, arrangement, transaction or proposal concerning an offer of shares, debentures or other securities of the Company or any of its subsidiary undertakings for subscription or purchase, in which offer he is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which he is to participate;

(iv) a contract, arrangement, transaction or proposal to which the Company is or is to be a party concerning another company (including a subsidiary undertaking of the Company) in which he is interested (directly or indirectly) whether as an officer, shareholder, creditor or otherwise (a "relevant company"), if he does not to his knowledge hold an interest in shares (as that term is used in the Companies Acts) representing one per cent or more of either any class of the equity share capital of or the voting rights in the relevant company;

(v) a contract, arrangement, transaction or proposal for the benefit of the employees of the Company or any of its subsidiary undertakings (including any pension fund or retirement, death or disability scheme) which does not award him a privilege or benefit not generally awarded to the employees to whom it relates; and

(vi) a contract, arrangement, transaction or proposal concerning the purchase or maintenance of any insurance policy for the benefit of directors or for the benefit of persons including directors.

A director may not vote on or be counted in the quorum in relation to a resolution of the board or committee of the board concerning his own appointment as the holder of an office or place of profit with the Company or any company in which the Company is interested. Where proposals are under consideration concerning the appointment (including, without limitation, fixing or varying the terms of appointment or its termination) of two or more directors to offices or places of profit with the Company or any company in which the Company is interested, such proposals shall be divided and a separate resolution considered in relation to each director. In such case each of the directors concerned (if not otherwise debarred from voting under the Articles) shall be entitled to vote (and counted in the quorum) in respect of each resolution except that concerning his own appointment.

If a question arises at a meeting as to the materiality of a director's interest (other than the interest of the chairman of the meeting) or as to the entitlement of a director (other than the chairman) to vote or be counted in a quorum and the question is not resolved by his voluntarily agreeing to abstain from voting or being counted in the quorum, the question shall be referred to the chairman and his ruling in relation to the director concerned is conclusive and binding on all concerned.

If a question arises at a meeting as to the materiality of the interest of the chairman of the meeting or as to the entitlement of the chairman to vote or be counted in a quorum and the question is not resolved by his voluntarily agreeing to abstain from voting or being counted in the quorum, the question shall be decided by resolution of the directors or committee members present at the meeting (excluding the chairman) whose majority vote is conclusive and binding on all concerned.

For the purposes of the article regarding directors' interests, the interest of a person who is for the purposes of the Companies Acts connected with a director is treated as the interest of the director.

Subject to the provisions of the Companies Acts, the Company may by ordinary resolution suspend or relax the provisions of the article regarding directors' interests and voting to any extent or ratify any contract, arrangement, transaction or proposal not properly authorised by reason of a contravention of the article regarding directors' interests and voting.

4.23 ***Power to award pensions***

The board may exercise all the powers of the Company to provide pensions or other retirement or superannuation benefits and to provide death or disability benefits or other allowances or gratuities (by insurance or otherwise) for a person who is or has at any time been a director of the Company or any of its subsidiaries or predecessors in business or associated companies, or the specific relatives or dependants of such person.

4.24 ***Borrowing powers***

The board may exercise all the powers of the Company to borrow money and to mortgage or charge all or part of the undertaking, property and assets (present or future) and uncalled capital of the Company and, subject to the provisions of the Companies Acts, to issue debentures and other securities, whether outright or as collateral security for a debt, liability or obligation of the Company or of a third party. The board shall restrict the borrowings of the Company and shall exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiary undertakings so as to ensure (as regards subsidiary undertakings, to the extent possible) that the aggregate principal amount outstanding in respect of moneys borrowed by the group does not at any time without the previous sanction of an ordinary resolution of the Company exceed a sum equal to three times the adjusted capital and reserves (as defined in the Articles).

5. Directors' and others' interests

5.1 The Directors and members of Senior management, their functions within the Company and brief biographies are set out in Part II "Information on the Group – Directors and senior management".

5.2 As at 14 June 2007 (being the latest practicable date prior to printing of this document), in so far as known to the Company, the interests of each Director and Senior Manager, including those of any connected person (within the meaning of section 346 of the Act and the provisions of the Disclosure and Transparency Rules), the existence of which is known to, or could with reasonable diligence be ascertained by, that Director or Senior Manager whether or not held through another party, in the share capital of the Company together with any options in respect of such capital were as follows.

	Number of Existing Ordinary Shares	*Percentage of Existing Capital*	*Number of Ordinary Shares Following the Global Offer Assuming no Exercise of the Manager's Option*	*Percentage of the Enlarged Share Capital Assuming no Exercise of the Manager's Option*	*Number of Ordinary Shares Following the Global Offer Assuming Full Exercise of the Manager's Option*	*Percentage of the Enlarged Share Capital Assuming Full Exercise of the Manager's Option*
Director:						
Kostyantyn Zhevago[(1)]	533,543,489	100	453,972,918	74.9	443,326,063	73.1

(1) Mr Zhevago is interested in these shares by reason of being a beneficiary of The Minco Trust, which is the sole shareholder of Fevamotinico S.à r.l., owning 533,543,489 Ordinary Shares.

Raffaele (Lucio) Genovese, a Non-Executive Director, has applied for and been allocated 285,714 Ordinary Shares in the Global Offer at the Offer Price. Save as set out in this paragraph 5, none of the Directors have any interests in the share or loan capital of the Company or any of its subsidiaries.

5.3 No Director is or has been interested, directly or indirectly, in any transaction which is or was unusual in its nature or conditions or significant in relation to the business of the Group and which has been effected by the Company during the current or immediately preceding financial year or which was effected by the Company during an earlier financial year and which remains in any respect outstanding or unperformed.

5.4 There are no loans or guarantees outstanding which have been granted or provided by the Company or any of its subsidiary undertakings to or for the benefit of any of the Directors.

5.5 The Company is aware of the following person (other than members of the administrative, management or supervisory bodies) who at 14 June 2007 (being the latest practicable date prior to the publication of this Prospectus) directly or indirectly has an interest in three per cent. or more of the issued Ordinary Share capital of the Company (being a notifiable interest pursuant to section 793 of the Companies Act 2006):

Shareholder	*Number of Existing Ordinary Shares*	*Percentage of Existing Capital*	*Number of Ordinary Shares Following the Global Offer Assuming no Exercise of the Manager's Option*	*Percentage of the Enlarged Share Capital Assuming no Exercise of the Manager's Option*	*Number of Ordinary Shares Following the Global Offer Assuming Full Exercise of the Manager's Option*	*Percentage of the Enlarged Share Capital Assuming Full Exercise of the Manager's Option*
Fevamotinico S.à r.l	533,543,489	100	453,972,918	74.9	443,326,063	73.1

5.6 As disclosed in paragraph 5.2 of this Part XI of this Prospectus, Mr Zhevago has an indirect interest in the Ordinary Shares of the Company by reason of his being a beneficiary of The Minco Trust, which is the sole shareholder of the above shareholder.

5.7 In so far as is known to the Company, no person other than that holding the interest referred to above is interested in three per cent. or more of the Company's capital (being a notifiable interest pursuant to section 793 of the Companies Act 2006). Save as disclosed in paragraphs 5.2 and 5.5 of this Part XI, the Company is not aware of any persons who, directly or indirectly, jointly or severally, exercise or could exercise control of the Company.

5.8 The Selling Shareholder is Fevamotinco S.à r.l. The Selling Shareholder's address and the number of shares being offered by it pursuant to the Global Offer are as follows:

Shareholder	*Shareholder Address*	*Shares to be Offered (assuming no exercise of the Manager's Option)*	*Shares to be Offered (assuming full exercise of the Manager's Option)*
Fevamotinoco S.à r.l.	12, rue Guillaume Schneider, L-2522 Luxembourg, Grand-Duchy of Luxembourg	79,570,571	90,217,426

5.9 None of the Company's major shareholders have or will have different voting rights attached to the Ordinary Shares they hold in the Company.

5.10 Save for their capacities as persons beneficially interested in Ordinary Shares, as summarised above, none of the Directors or Senior Managers have any conflicts of interest between their duties to the Company and their private interests or other duties. Their terms of engagement, and the lock-up arrangements to which they are subject are summarised in paragraph 6 below.

6. Directors' terms of service contracts and appointment

6.1 The terms of the Directors' service contracts are summarised below:

Name	*Position*	*Date of Contract*	*Notice Period*	*Current Salary/Fees*
Executive Directors				
Michael Oppenheimer	Chief Executive Officer	1 June 2007	3 months from the employee and 12 months from the Company	US$750,000 rising to US$850,000 upon Admission
Dennis McShane	Director of finance and strategic development	1 June 2007	3 months from the employee and 12 months from the Company	£225,000

Each of the Directors can be contacted at the Company's principal place of business at Bahnhofstrasse 13, CH-6340, Baar, Switzerland.

The employing company for each of the Directors named above is Ferrexpo.

(a) On 1 June 2007 the Company entered into a service agreement (the "Agreement") with Michael Oppenheimer (the "Executive"), in substitution of any previous agreements relating to the employment of the Executive (save in respect of his bonus). The Agreement provides for the Executive to act as chief executive officer of the Company at a salary of US$750,000 per annum (rising to US$850,000 per annum upon Admission) and a bonus of up to 150 per cent. of his annual salary, plus an annual award of the Company's shares up to 100 per cent. of his annual salary. The Agreement can be terminated on giving not less than 3 months' notice from the Executive and 12 month's notice from the Company. Under the Agreement, the Executive is entitled to 25 working days' paid holiday per year. The Company will provide the executive with US$275,000 as a housing allowance per annum, US$5,000 per annum for professional tax advice, as well as directors' and officers' insurance, IPO insurance, tax equalisation, medical insurance, life insurance and permanent health insurance.

(b) On 1 June 2007 the Company entered into a service agreement (the "Agreement") with Dennis McShane (the "Executive"), in substitution of any previous agreements relating to the employment of the Executive. The Agreement provides for the Executive to act as director of finance and strategic development at a salary of £225,000 per annum and a bonus of up to 150 per cent. of his annual salary, plus an annual award of the Company's shares up to 100 per cent. of his annual salary. The Executive is required to make 70 per cent. of his work capacity, as well as all of his experience and knowledge available to the Company. The Executive may make up to 30 per cent. of his work capacity available to Kostyantyn Zhevago's other businesses. The Agreement can be terminated on giving not less than 3 months' notice from the Executive and 12 month's notice from the Company. Under the Agreement, the Executive is entitled to 25 working days' paid holiday per year. The Company will provide the Executive with CHF120,000 as a housing allowance per annum, £3,000 per annum for professional tax advice, a minimum of 10 per cent. of his annual salary paid into a pension scheme, a CHF30,000 relocation allowance and directors' and officers' insurance policy.

6.2 The terms of the Non-executive Directors' appointments are summarised below:

Non-executive Directors	*Position*	*Date of Contract*	*Duration of term*	*Current Fees*
Michael Abrahams	Chairman	14 June 2007	3 years	US$350,000
Kostyantyn Zhevago	Non-executive Director	14 June 2007	3 years	US$120,000
Raffaele (Lucio) Genovese	Non-executive Director	14 June 2007	3 years	US$120,000
Wolfram Kuoni	Non-executive Director	14 June 2007	3 years	US$120,000
Ihor Mitiukov	Non-executive Director	14 June 2007	3 years	US$120,000

(a) Pursuant to a letter of appointment dated 14 June 2007, the Company appointed Michael Abrahams to the office of chairman and non-executive director (the "Appointment") with effect from that date. The term of the Appointment is for three years. Continuation of the Appointment is contingent on satisfactory performance and re-election at future annual general meetings. The Appointment may also be terminated by either party giving not less than three months' notice in accordance with the Articles and immediately in certain prescribed circumstances. The total period of the appointment will not be greater than nine years without shareholder approval. Mr Abrahams shall receive from the Company fees of US$350,000 per annum and reimbursement for all reasonable expenses incurred in the proper performance of his duties pursuant to the appointment.

(b) Pursuant to a letter of appointment dated 14 June 2007, the Company appointed Kostyantyn Zhevago to the office of non-executive director (the "Appointment") with effect from that date. The term of the Appointment is for three years. Continuation of the Appointment is contingent on satisfactory performance and re-election at future annual general meetings. The Appointment may also be terminated by either party giving not less than three months' notice in accordance with the Articles and immediately in certain prescribed circumstances. The total period of the appointment will not be greater than nine years without shareholder approval. Mr Zhevago shall receive from the Company fees of US$120,000 per annum and reimbursement for all reasonable expenses incurred in the proper performance of his duties pursuant to the appointment.

(c) Pursuant to a letter of appointment dated 14 June 2007, the Company appointed Raffaele (Lucio) Genovese to the office of non-executive director (the "Appointment") with effect from that date. The term of the Appointment is for three years. Continuation of the Appointment is contingent on satisfactory performance and re-election at future annual general meetings. The Appointment may also be terminated by either party giving not less than three months' notice in accordance with the Articles and immediately in certain prescribed circumstances. The total period of the appointment will not be greater than nine years without shareholder approval. Mr Genovese shall receive from the Company fees of US$120,000 per annum and reimbursement for all reasonable expenses incurred in the proper performance of his duties pursuant to the appointment.

(d) Pursuant to a letter of appointment dated 14 June 2007, the Company appointed Wolfram Kuoni to the office of non-executive director (the "Appointment") with effect from that date. The term of the Appointment is for three years. Continuation of the Appointment is contingent on satisfactory performance and re-election at future annual general meetings. The Appointment may also be terminated by either party giving not less than three months' notice in accordance with the Articles and immediately in certain prescribed circumstances. The total period of the appointment will not be greater than nine years without shareholder approval. Mr Kuoni shall receive from the Company fees of US$120,000 per annum and reimbursement for all reasonable expenses incurred in the proper performance of his duties pursuant to the appointment.

(e) Pursuant to a letter of appointment dated 14 June 2007, the Company appointed Ihor Mitiukov to the office of non-executive director (the "Appointment") with effect from that date. The terms of the Appointment is for three years. Continuation of the Appointment is contingent on satisfactory performance and re-election at future annual general meetings. The Appointment may also be terminated by either party giving not less than three months' notice in accordance with the Articles and immediately in certain prescribed circumstances. The total period of the appointment will not be greater than nine years without shareholder approval. Mr Mitiukov shall receive from the Company fees of US$120,000 per annum and reimbursement for all reasonable expenses incurred in the proper performance of his duties pursuant to the appointment.

Non-executive Directors are subject to confidentiality undertakings without limitation in time; they are not entitled to receive any compensation on the termination of their appointment. As soon as practicable after Admission Mr Genovese, Mr Kuoni and Mr Mitiukov are entitled to receive an award of Ordinary Shares in the Company to the value of US$120,000 (calculated based on the closing price on the first day of trading). The Ordinary Shares will vest in two equal portions on the first and second anniversaries of Admission. As soon as practicable after Admission Mr Abrahams is entitled to receive US$1,000,000 in the form of an award of Ordinary Shares (calculated based on the closing price on the first day of trading). The shares will vest in three equal portions on the first, second and third anniversaries of Admission.

6.3 Other than as disclosed in paragraph 6.1 above, no service contract is existing or proposed between the Company or any of its subsidiaries and any Director other than contracts of service expiring or determinable within one year without payment of contractual compensation to the Director.

6.4 There is no arrangement under which any Director has waived or agreed to waive future emoluments nor has there been any waiver of emoluments during the financial year immediately preceding the date of this Prospectus.

6.5 The aggregate amount payable to the Directors and Senior Managers under the arrangements (including salaries, fees, bonus payments and benefits in kind) from members of the Group in respect of the financial year ending 31 December 2006 was approximately US$4.9 million (including the maximum amount of the bonus payable to certain Directors) and was broken down as follows:

Name	*Salary or fees*	*Benefits in kind*
	US$	
Mykola Petrovych Goroshko	35,388	32,109
Viktor Viktorovych Lotous	38,784	34,200
Dennis McShane	427,251	938,865
Michael Oppenheimer	756,779	2,074,267
Simon Wandke	162,500	428,082
David Webster	–	–

Save as disclosed, no compensation or emoluments were paid or payable by the Group to the Directors and Senior Managers for that period.

6.6 It is estimated that the aggregate amounts payable to the Directors and Senior Managers under the arrangements in force at the date of this Prospectus (including salaries, fees, bonus payments, benefits in kind and pension contributions) from the members of the Group in respect of the financial year ending 31 December 2007 will be approximately US$30 million (including the maximum amount of the listing bonus that is payable to Senior Managers and Directors as detailed in sub-paragraph 6.7 below).

6.7 Mykola Petrovych Goroshko, Viktor Viktorovych Lotous, Simon Wandke and David Webster are entitled to receive one-time fees of US$250,000, US$250,000, US$600,000 and US$670,000 respectively for services rendered in relation to the initial public offering payable in cash and/or Ordinary Shares. Upon Admission, Michael Oppenheimer is entitled to an award of cash and/or shares in the Company to the value of 0.50 per cent. of the market capitalisation upon Admission, subject to a minimum award of Ordinary Shares to the value of US$5,000,000 (calculated based on the closing price on the first day of trading), irrespective of the market capitalisation upon Admission. Upon Admission, Dennis McShane is entitled to an award of cash and shares in the Company to the value of US$5 million (comprising US$1 million in cash and US$4 million in shares). Mr McShane is also entitled to a one-time award of US$3 million in cash in recognition of his past contribution to the Group. In addition, if, on Admission, the market capitalisation of the Company exceeds a certain threshold, Mr McShane will receive an award of shares in the Company to the value of 0.3 per cent. of the excess of the market capitalisation over such threshold.

6.8 The companies and partnerships of which the Directors and Senior Managers have been a member of the administrative, management or supervisory bodies or partners at any time in the previous five years prior to the date of this Prospectus (excluding the Company and its subsidiaries and also excluding subsidiaries of the companies listed below) are as follows:

Name of Director or Senior Manager	*Current directorships and partnerships*	*Previous directorships and partnerships*
Michael Abrahams	Amteus plc Bagendon Nominees Limited Hunt Staff Benefit Society Kingston Communications (Hull) plc M.D. Abrahams & Co. Limited Prudential Staff Pension Limited The London Clinic The MediaBuzz Holdings Limited	Minorplanet Systems plc
Raffaele (Lucio) Genovese	Alpha Investment Partners Limited Armajaro Commodites Limited Crossbow Advisors AG Mach HiTech AG Nage Capital Management AG Nage Finance Limited Nage Resources AG	Incentive Asset Management AG Taj Investments Limited
Mykola Petrovych Goroshko	None	None
Wolfram Kuoni	Aspermont Capital AG Baltimore Trade Corporation Durango Portfolio Switzerland AG Fact Corporation HCR AG Kami Corporation KUONI Attorneys at Law Lorimi Union AG Nakita Corporation Quickstep Financial Corporation	Leuenberger AG Weinwelt AG
Viktor Viktorovych Lotous	None	None
Dennis McShane	None	Ferrexpo Petroleum Holdings (Cyprus) Limited
Ihor Mitiukov	ISFP Management Limited	None
Michael Oppenheimer	None	BHP Billiton Limited The Broken Hill Proprietary Company Limited Ferrexpo Petroleum Holdings (Cyprus) Limited International Columbia Resources Corporation Richards Bay Coal Terminal Company Limited
David Webster	None	Vorskla Stahl AG ProMet Engineers
Simon Wandke	None	Destra Consulting Group LLC
Kostyantyn Zhevago	CJSC Bank Finance & Credit Vorskla Steel Holdings Cyprus Limited	None

Save as set out above, none of the Directors or Senior Managers have any business interests, or perform any activities, outside the Group which are significant with respect to the Group.

6.9 None of the Directors nor any of the Senior Managers has:

(a) had any convictions in relation to a fraudulent offence;

(b) been declared bankrupt or has entered into any individual voluntary arrangements;

(c) been a director, shareholder or senior manager of any company within a 12-month period preceding any receivership, compulsory liquidation, creditors voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with such company's creditors generally or any class of creditors of such company;

(d) been a partner of any partnership within a 12-month period preceding any compulsory liquidation, administration or partnership voluntary arrangement of such partnership;

(e) held assets which have been the subject of a receivership;

(f) been a partner of any partnership within a 12-month period preceding any receivership of the assets of such partnership;

(g) been the subject of any official public incrimination and/or sanctions by a statutory or regulatory authority (including a designated professional body); or

(h) been disqualified by a court from acting as a director of any company or from acting in the management or conduct of the affairs of any company.

7. Pensions

The Group does not have a pension scheme open to all employees of the Group.

7.1 Ferrexpo AG contributes to a mandatory insurance scheme for all of its employees as required by Swiss law. This scheme is administered by a third party and covers death in service benefit, disability benefit and a defined salary insurance scheme.

7.2 Ferrexpo UK contributes between five and ten per cent. of certain employee salaries to employee pension schemes for its UK employees.

7.3 Ferrexpo Poltava contributes to mandatory Ukrainian State administered pension schemes for its employees. These schemes comprise a defined contribution scheme and a defined benefit scheme. The defined contribution scheme is administered by the Ukrainian State Pension Fund. Ferrexpo Poltava contributes approximately 37.5 per cent. of each employee's salary to this scheme. The defined benefit scheme covers employees working in hazardous conditions who are entitled to retire before the normal state retirement date under Ukrainian law. The Ukrainian State Pension Fund initially pays pensions to eligible employees at the statutory rates and is reimbursed in respect of such payments by Ferrexpo Poltava.

8. Underwriting Agreement

On 15 June 2007, the Company, JPMorgan Cazenove, the Underwriters, the Directors, Kostyantyn Zhevago and the Selling Shareholder entered into the Underwriting Agreement pursuant to which JPMorgan Cazenove and Deutsche Bank have agreed to procure subscribers for, or failing which the Underwriters will acquire, the Ordinary Shares to be made available under the Global Offer at the Offer Price.

The Underwriting Agreement contains, amongst others, the following further provisions:

8.1 the Company has appointed JPMorgan Cazenove to act as Global Co-ordinator in connection with the Global Offer and JPMorgan Cazenove and Deutsche Bank as Joint Bookrunners to the Global Offer;

8.2 JPMorgan Cazenove will act as Stabilising Manager. The Option Shareholder has granted to the Stabilising Manager the Manager's Option pursuant to which the Stabilising Manager may purchase, or procure purchasers for, up to 10,646,855 additional Ordinary Shares (the "Option Shares", being equal in number to approximately 7 per cent. of the total number of Ordinary Shares to be issued or sold in the Global Offer before any exercise of the Manager's Option) at the Offer Price for the purposes of covering over-allocations, if any, in connection with the Global Offer and short positions resulting from stabilisation transactions. The Manager's Option may be exercised from the date of publication of the Offer Price for a period of 30 calendar days thereafter, provided that it may only be exercised to the extent that Ordinary Shares have been over-allotted;

8.3 the obligations of JPMorgan Cazenove and Deutsche Bank to use reasonable endeavours to procure subscribers and purchasers for or, failing which, of the Underwriters to subscribe for or purchase Ordinary Shares pursuant to the Underwriting Agreement, are subject to certain conditions including, amongst others, Admission occurring by not later than 8.00 a.m. on 20 June 2007 (GMT) or such later time and/or date as JPMorgan Cazenove and the Underwriters may agree with the Company and the representations and warranties set out in the Underwriting Agreement continuing to be accurate on each of the date of the Underwriting Agreement, Admission and the closing of the Manager's Option. JPMorgan Cazenove and the Underwriters may terminate the Underwriting Agreement in certain circumstances prior to Admission, including the occurrence of certain material changes in the condition (financial or otherwise) of the Group and certain changes in market and economic conditions (as more fully set out in the Underwriting Agreement);

8.4 the Company has agreed, and the Selling Shareholder has acknowledged, that the Company will pay the Global Co-ordinator, on behalf of itself and the Underwriters, a combined management, underwriting and selling commission equal to 2.5 per cent. of the aggregate gross proceeds of the Global Offer in respect of any Ordinary Shares issued or sold by them (including in respect of any Option Shares sold pursuant to the exercise of the Manager's Option). The Company may also, at its discretion, and the Selling Shareholder has acknowledged that the Company may, pay to the Global Co-ordinator, on behalf of itself and the Underwriters, a sum equal to 1 per cent. of the aggregate proceeds of the Global Offer in respect of any Ordinary Shares issued or sold by them (including in respect of any Option Shares sold pursuant to the exercise of the Manager's Option), as a discretionary fee;

8.5 the Company has agreed to pay or cause to be paid and/or reimburse or cause to be reimbursed (together with any related value added tax) certain costs, charges, fees and expenses of or in connection with, or incidental to, amongst other things, the Global Offer and/or Admission. The Company has agreed to pay or cause to be paid (together with any related value added tax) certain costs, charges, fees and expenses incurred by it in connection with, or incidental to, amongst other things the Global Offer, the issue of the New Ordinary Shares and the sale of the Sale Shares pursuant to the Global Offer and the Manager's Option. In addition, the Company has, in certain circumstances, agreed to pay and/or reimburse the stamp duty or stamp duty reserve tax arising out of or in connection with the arrangements that are the subject of the Underwriting Agreement and/or the Manager's Option;

8.6 the Company has undertaken, subject to certain exceptions which are set out in "The Global Offer and related matters – Dealing arrangements – Lock-up arrangements", in the Underwriting Agreement, among other things, not to directly or indirectly, offer, issue, lend, sell or contract to sell, issue options in respect of, or otherwise dispose of, directly or indirectly, or announce an offering or issue of, any Ordinary Shares (or any interest therein or in respect thereof) or any other securities exchangeable for or convertible into, or substantially similar to, Ordinary Shares or enter into any transaction with the same economic effect as, or agree to do, any of the foregoing for a period of 18 months after Admission, without first obtaining the consent of the Global Co-ordinator;

8.7 the Non-executive Directors have agreed, save in respect of the Sale Shares in relation to the Global Offer and subject to the exceptions set out below, not to offer or sell any Ordinary Shares for a period of 18 months after Admission. The Selling Shareholder, Michael Oppenheimer and Dennis McShane have each agreed, save in respect of the Sale Shares in relation to the Global Offer and subject to the exceptions set out below, not to offer or sell any Ordinary Shares for a period of 18 months, 12 months and 6 months, respectively, after Admission. These undertakings are subject to the following exceptions:

(a) accepting a general offer made to all holders of issued and allotted Ordinary Shares for the time being made in accordance with the City Code on terms which treat all such holders alike;

(b) the provision of an irrevocable commitment or undertaking to accept such an offer;

(c) a sale to an offeror or potential offeror during an offer period (within the meaning of the City Code);

(d) disposing of Ordinary Shares in accordance with any order made by a court with competent jurisdiction;

(e) selling or disposing of Ordinary Shares pursuant to an offer by the Company to purchase its own Ordinary Shares which is made on identical terms to all holders;

(f) transferring or disposing of Ordinary Shares pursuant to a compromise or arrangement between the Company and its creditors;

(g) not taking up any rights granted in respect of a rights issue or other pre-emptive share offering by the Company;

(h) transferring or disposing of Ordinary Shares upon the death of a Director to his personal representatives;

(i) transferring or disposing of shares to another nominee or person where beneficial ownership is retained; and

(j) in the case of the Selling Shareholder and Kostyantyn Zhevago, the ability to pledge their shareholding in the Company (subject to certain further restrictions on the enforcement of any such pledge in favour of the Global Coordinator and the Underwriters).

8.8 the Company, the Selling Shareholder, Kostyantyn Zhevago, the Directors, Mykola Goroshko and Viktor Lotous have given certain representations and warranties in relation to the Company and its business and assets to JPMorgan Cazenove and the Underwriters. Kostyantyn Zhevago and the Selling Shareholder have given representations and warranties in relation to the Sale Shares which the Selling Shareholder has agreed to sell. In addition, the Company, the Directors, the Selling Shareholder, Kostyantyn Zhevago, Mykola Goroshko and Viktor Lotous have given certain indemnities, standard for a document of this type, to JPMorgan Cazenove and the Underwriters.

9. Property, plant and equipment

The Group's material existing tangible fixed assets, other than its mines, the licences of which are summarised in Table 2-3 of "Part XII – Technical report", are summarised below.

Asset	*Location*	*Ownership Basis*
Primary concentrating plant (comprising primary and secondary crushers, grinding mills and dry magnetic separator)	Ferrexpo Poltava Facility, Komsomolsk, Ukraine	Land plot owned pursuant to Sale and Purchase Agreement No. 2588/75 of 23 December 2004 and State Act No. 236838 of 5 August 2005 Land tax amounted to UAH 314,981.91 for 2006 Crushing plant facility located on site owned by Ferrexpo Poltava
Secondary concentrating plant (two separate complexes comprising grinding mills, wet magnetic separators, flotation and re-grinding line)	Ferrexpo Poltava Facility, Komsomolsk, Ukraine	Land plot owned pursuant to Sale and Purchase Agreement No. 2588/75 (details as above) Concentrating plant integrated property complex located on site owned by Ferrexpo Poltava
Pelletising plant (comprising rotary kiln and four pelletising lines)	Ferrexpo Poltava Facility, Komsomolsk, Ukraine	Land plot owned pursuant to Sale and Purchase Agreement No. 2587/75 of 23 December 2004 and State Act No. 236823 of 4 July 2005 Land tax amounted to UAH 63,767.02 for 2006 All material production facilities located on site owned by Ferrexpo Poltava

Asset	*Location*	*Ownership Basis*
Tailings facilities	Ferrexpo Poltava Facility, Komsomolsk, Ukraine	Land granted for use pursuant to the State Act of Permanent Use 1-PL No. 002758 of 20 June 2001 Land tax amounted to UAH 6,668,155.66 for 2006 All tailings facilities located on site constructed by Ferrexpo Poltava; title currently being formalised

10. The Group

10.1 The Company is the holding company of a group of companies whose principal business is iron ore mining, processing through to iron ore concentration and pellet production.

10.2 The principal subsidiaries and associated undertakings of the Company on Admission are set out in the following table. Unless otherwise specified, each of these companies is wholly-owned by a member of the Group:

Company	*Proportion of Capital Held (percentage)*[(1)]	*Country of Incorporation*	*Registered Office Address*	*Nature of Business*
Ferrexpo AG	100	Switzerland	Bahnhofstrasse 13, 6340 Baar, Switzerland	Trade
Ferrexpo UK Limited	100	United Kingdom	2-4 King Street, London SW1Y 6QL	Finance
Ferrexpo Poltava GOK Corporation	85.9	Ukraine	16 vul. Budivel'nykiv, Komsomolsk, Poltava Oblast, 39802 Ukraine	Iron ore mining
DP Ferrotrans	100	Ukraine	8 Strutinskoho street, Kyiv, 01014, Ukraine	Trade, transportation services
LLC United Energy Company	100	Ukraine	16 vul. Budivel'nykiv, Komsomolsk, Poltava Oblast, 39802 Ukraine	Energy
LLC TIS-Ruda	49.9	Ukraine	50 Chapayeva street, Vizirka Village, Kominternivsky district, Odessa Oblast, 67543, Ukraine	Port services

(1) Proportion of share capital held equal to proportion of voting power held unless specified otherwise.

11. CREST

Any shares in the Company may be issued, held, registered, converted to, transferred or otherwise dealt with in uncertificated form and converted from uncertificated form to certificated form in accordance with the CREST Regulations and practices instituted by the operator of the relevant system. Any provisions of the Articles shall not apply to any uncertificated shares to the extent such provisions are inconsistent with:

(a) the holding of shares in uncertificated form;

(b) the transfer of the title to shares by means of a relevant system; or

(c) any provision of the CREST Regulations.

Subject to the CREST Regulations and facilities and requirements of the relevant system the Board may, in its absolute discretion, determine the manner in which conversion of certificated shares into uncertificated shares may be made.

The Articles contain other provisions in respect of transactions with the shares in the Company in uncertificated form and generally provide for the modifications of certain provisions of the Articles so that they can be applied to transactions with shares in the Company in uncertificated form.

12 City Code on Takeovers and Mergers

As an English public limited company, with its securities admitted to trading on a regulated market, the Company will be subject to the UK City Code on Takeovers and Mergers (the "City Code"). Accordingly, the Company's shareholders are entitled to the protections afforded by the City Code.

Under Rule 9 of the City Code when (i) a person acquires an interest in shares which (taken together with shares in which he and persons acting in concert with him are interested) carry 30 per cent. or more of the voting rights of a company subject to the City Code, or (ii) any person who, together with persons acting in concert with him, is interested in shares which in the aggregate carry not less than 30 per cent. of the voting rights of a company, but does not hold shares carrying more than 50 per cent. of the voting rights of the company subject to the City Code, and such person, or any persons acting in concert with him, acquires an interest in any other shares which increases the percentage of the shares carrying voting rights in which he is interested, then in either case, that person together with the persons acting in concert with him, is normally required to extend offers in cash, at the highest price paid by him (or any persons acting in concert with him) for shares in the company within the preceding 12 months, to the holders of any class of equity share capital whether voting or non-voting and also to the holders of any other class of transferable securities carrying voting rights. Offers for different classes of equity share capital must be comparable.

Mr Zhevago, The Minco Trust and Fevamotinico S.à r.l. (being the "Concert Party") are acting in concert for the purposes of Rule 9 of the City Code. Following Admission, the Concert Party will hold 74.9 per cent. of the issued ordinary share capital and voting rights of the Company (assuming no exercise of the Manager's Option).

Shareholders should therefore note that the Concert Party will control in excess of 50 per cent. of the Ordinary Shares in issue immediately after Admission. Accordingly, the Concert Party, for so long as the members for the Concert Party continue to be treated as acting in concert, may be able to increase its aggregate interests in shares in the Company without incurring any further obligation under Rule 9 of the City Code to make a general offer to all shareholders of the Company to acquire their Ordinary Shares. However, individual members of the Concert Party will not be able to increase their percentage interests in Ordinary Shares through a Rule 9 threshold (i.e. to result in a member having an interest in shares carrying 30 per cent. or more of the voting rights of the Company when previously the percentage was below 30 per cent.; or to result in the increase of a holding that is 30 per cent. or more but not exceeding 50 per cent.) without the consent of the Takeover Panel.

13. Taxation

The Swiss tax authorities have confirmed that, on the assumption that the affairs of the Company are conducted as the Directors intend, they will regard the Company as a resident of Switzerland for the purposes of Swiss taxation law and application of the Switzerland/UK Double Taxation convention. UK HM Revenue and Customs has indicated that, based on the proposed location and structure of management as described to it by the Directors, and on the assumption that the affairs of the Company are conducted as the Directors intend and on the basis of the Swiss ruling noted above, it will not regard the Company as resident in the UK for purposes of UK taxation law. The Directors intend to conduct the Company's affairs as described to HM Revenue and Customs. Accordingly, assuming the affairs are so conducted, the Company should be treated as resident in Switzerland for tax purposes. This position will, however, be reviewed from time to time and it is possible that the Company could in the future become resident for the purposes of taxation in the UK or elsewhere. Notwithstanding the above, on the basis that the Company is incorporated in England and Wales, the Company is technically subject to the UK controlled foreign company rules. However, the Company has obtained confirmation from HM Revenue and Customs that the motive test exclusion applies so that the Company will not be subject to the operation of the controlled foreign company rules (with the exception that the Company will still have to comply with certain administrative procedures set out under these rules). This clearance will last for five years and only applies to those companies that form part of the Company at the date the clearance was given. HM Revenue and Customs have assured the Company that extending the clearance beyond the initial five years and/or to newly acquired or incorporated entities will not present difficulties provided the Group continues to operate and to be structured as it currently is and provided that there is no change in law.

This description of the taxation consequences is written on the basis that the Company is and remains resident in Switzerland and will therefore be subject to the Swiss tax regime and not (save in respect of any UK source income) the UK tax regime. Dividends paid by the Company will, on this basis, be regarded as Swiss dividends rather than UK dividends. Since the Company is incorporated in England and Wales, however, the UK stamp duty and stamp duty reserve tax regimes will be relevant to transfers of Ordinary Shares.

All potential investors (wherever resident) are referred to "– Swiss taxation" below and "– United Kingdom Taxation – UK Stamp Duty and Stamp Duty Reserve Tax (SDRT)" and "– United Kingdom inheritance tax".

If potential investors are in any doubt as to their tax position or if they require more detailed information than that outlined below, they should consult an appropriate professional adviser immediately.

The following paragraphs relate to the current taxation regimes in the United Kingdom and Switzerland.

13.1 *UK taxation*

The following paragraphs are based on current UK tax legislation and HM Revenue and Customs practice at the date of this Prospectus. The summary set forth below is intended as a general guide for certain classes of investor and does not purport to constitute a comprehensive analysis of the tax consequences under UK law of the acquisition, ownership and sale of Ordinary Shares. It is not intended to be, nor should it be considered, legal or tax advice. Shareholders who are in any doubt as to their tax position, or who are subject to tax in a jurisdiction other than the UK, should obtain their own tax advice.

Except where indicated, the summary only covers the principal UK tax consequences of holding Ordinary Shares for Shareholders (a) who are resident or (in the case of capital gains tax) ordinarily resident in (and only in) the UK for tax purposes (although it should be noted that special rules, which are not covered, apply to such holders of Shares who are not domiciled in the UK) and (b) who do not have a branch or agency or permanent establishment in Switzerland with which the holding of Ordinary Shares is connected. In addition, the summary (a) only addresses the tax consequence for Shareholders who are beneficial owners and hold the Ordinary Shares as capital assets, and does not address the tax consequences which may be relevant to certain other categories of Shareholders, for example, dealers in securities or holders of Ordinary Shares who have (or are deemed to have) acquired their Ordinary Shares by virtue of an office or employment and (b) assumes that the Shareholder is not a company which either directly or indirectly controls 10 per cent. or more of the voting power of the Company.

Taxation of chargeable gains

UK residents

A disposal of Ordinary Shares by an individual Shareholder who is resident or ordinarily resident in the UK may give rise to a chargeable gain or an allowable loss for the purposes of capital gains tax. An individual Shareholder who ceases to be resident or ordinarily resident in the UK for a period of less than five years and who disposes of the Ordinary Shares during that period of temporary non-residence may, under anti-avoidance legislation, be liable to capital gains tax on his or her return to the UK (subject to available exemptions or reliefs).

A disposal of Ordinary Shares by a corporate Shareholder which is resident in the UK may give rise to a chargeable gain or an allowable loss for the purposes of corporation tax.

Non-UK residents

An individual Shareholder who is not resident or ordinarily resident in the UK will not be liable for capital gains tax on capital gains realised on the disposal of his or her Ordinary Shares unless that Shareholder carries on a trade, profession or vocation in the UK through a branch or agency in the UK and the Ordinary Shares were acquired, used in or for the purposes of the branch or agency or used in or for the purposes of the trade, profession or vocation carried on by the Shareholder through the branch or agency.

A corporate Shareholder which is not resident in the UK will not be liable for corporation tax on capital gains realised on the disposal of its Ordinary Shares unless it carries on a trade in the UK through a permanent establishment in the UK and the Ordinary Shares were acquired, used in or for the purposes of the establishment or used in or for the purposes of the trade carried on by the corporate Shareholder through the permanent establishment.

Taxation of dividends

A UK resident Shareholder, or a holder of Ordinary Shares who carries on a trade, profession or vocation in the United Kingdom through a branch or agency or a permanent establishment and has used, held or acquired the Ordinary Shares for the purposes of such trade, profession or vocation or such branch, agency or permanent establishment, will generally, depending upon the holder's particular circumstances, be subject to UK income tax or corporation tax (as the case may be), on the gross amount of any dividends paid by the Company on the Ordinary Shares, before deduction of any Swiss withholding tax.

The paragraphs entitled "Swiss taxation – Withholding tax on dividends and other distributions and "Swiss taxation-Reclaim procedures and rates for UK resident Shareholders" below contain information on the Swiss withholding tax which will be deducted from dividends paid by the Company, and the procedure under which a UK resident Shareholder may claim a refund of part of that withholding tax. A credit for Swiss withholding tax would generally be given against any UK tax liability in respect of the dividends. A UK resident individual Shareholder who is liable to UK income tax at no more than the basic rate will be liable to income tax on the dividend income at the dividend ordinary rate (10 per cent. in 2007-2008). A UK resident individual Shareholder who is liable to UK income tax at the higher rate will be subject to income tax on the dividend income at the dividend upper rate (32.5 per cent. in 2007-2008). It is expected that a new regime concerning the taxation of non-UK source dividends received by individuals resident in the United Kingdom will be introduced in the next tax year.

Stamp duty and stamp duty reserve tax ("SDRT")

Except in relation to issues to depository and clearance services (to which special rules apply) no United Kingdom stamp duty or SDRT will arise on the issue by the Company of the New Ordinary Shares.

Transfers of Ordinary Shares or of rights to Ordinary Shares will be liable to *ad valorem* stamp duty normally at the rate of 0.5 per cent. of the actual consideration paid, rounded up to the nearest multiple of £5. A charge to SDRT, normally at the rate of 0.5 per cent. of the consideration, arises, in the case of an unconditional agreement to transfer Ordinary Shares or rights to Ordinary Shares, on the date of the agreement and, in the case of a conditional agreement, on the date the agreement becomes unconditional. However, where an instrument of transfer is executed and duly stamped before the expiry of a period of six years beginning with the date of that agreement (or the date on which the agreement becomes unconditional, as the case may be), the SDRT charge is cancelled to the extent that the SDRT has not been paid and if any of the SDRT has been paid, a claim may be made for its repayment.

Where Ordinary Shares are issued or transferred (a) to, or to a nominee for, a person whose business is or includes the provision of clearance services or (b) to, or to a nominee or agent for, a person whose business is or includes issuing depositary receipts, stamp duty or SDRT will be payable at the higher rate of 1.5 per cent. of the amount or value of the consideration payable or, in certain circumstances, the value of the Ordinary Shares (rounded up to the next £5 in the case of stamp duty). This liability for stamp duty or SDRT will strictly be accountable by the depositary or clearance service operator or their nominee, as the case may be, but will, in practice, generally be reimbursed by participants in the clearance service or depositary receipt scheme. Clearance services may opt, provided certain conditions are satisfied, for the normal rate of stamp duty or SDRT (0.5 per cent. of the consideration paid) to apply to issues or transfers of Ordinary Shares into, and to transactions within, such services instead of the higher rate of 1.5 per cent. generally applying to an issue or transfer of Ordinary Shares into the clearance service and the exemption from stamp duty and SDRT on transfer of Ordinary Shares whilst in the service.

Under the CREST system for paperless share transfers, no stamp duty or SDRT will arise on a transfer of Ordinary Shares into the system unless such a transfer is made for a consideration in money or money's worth, in which case a liability to SDRT (usually at a rate of 0.5 per cent.) will arise. Paperless transfers of Ordinary Shares within CREST will be liable to SDRT rather than stamp duty.

The statements in this paragraph summarise the current position and are intended as a general guide only. Special rules apply to agreements made by, amongst others, intermediaries and certain categories of person may be liable to stamp duty or SDRT at higher rates.

The sale of Ordinary Shares by the Selling Shareholder under the Global Offer will give rise to a liability to stamp duty and/or SDRT as described above. The Selling Shareholder will meet the liability to stamp duty and/or SDRT of purchasers of Ordinary Shares at the normal rate that will arise on such sale under the Global Offer.

The UK stamp duty and/or SDRT charges summarised above are in addition to any Swiss securities issue and/or transfer tax which may become chargeable in the circumstances described under "Swiss taxation – Securities issue and transfer tax" below.

United Kingdom inheritance and gift taxes

The Ordinary Shares will be assets situated in the UK for the purposes of UK inheritance tax. A gift of such assets by, or the death of, an individual holder of such assets may (subject to certain exemptions and reliefs) give rise to a liability to UK inheritance tax even if the holder is neither domiciled in the UK nor deemed to be domiciled there under certain rules relating to long residence or previous domicile. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and particular rules apply to gifts where the donor reserves or retains some benefit.

Special rules also apply to close companies and to trustees of settlements who hold Ordinary Shares bringing them within the charge to inheritance tax. Shareholders should consult an appropriate professional adviser if they make a gift of any kind or intend to hold any ordinary shares through trust arrangements.

13.2 ***Swiss taxation***

Prospective investors in Ordinary Shares should note that this paragraph 13.2 deals only with Swiss taxation. As the Company is incorporated in England and Wales, sales and transfers of Ordinary Shares will, regardless of the tax residence of the transferor or transferee, the place of execution of any transfer documentation, and the exchange on which the sale occurs, be subject to UK stamp duty or stamp duty reserve tax (as summarised at paragraph 13.1 of this Part XI) in addition to any applicable Swiss securities issue and transfer tax (summarised below).

Income tax on dividend distributions

For an individual resident in Switzerland and holding Ordinary Shares as a private or business asset, dividends and similar distributions of the Company will be subject to Swiss federal, cantonal and municipal taxes. A Swiss corporate entity that owns at least 20 per cent. of the capital of the Company or Ordinary Shares with a market value of at least CHF2 million may qualify for the participation exemption. Dividends and similar distributions received which qualify for the participation exemption, after certain expense allocations as defined by the applicable legislation, should be tax exempt, but it should be noted that the dividends will be subject to Swiss withholding tax (see "Withholding tax on dividends and other distributions" below).

A non-resident holder, who does not hold the Ordinary Shares in connection with the conduct of a trade or business, in Switzerland through a permanent establishment or fixed place of business, should not be liable for any Swiss federal, cantonal or municipal income taxes on dividends or other distributions paid in respect of Ordinary Shares merely as a result of holding the Ordinary Shares other than the withholding tax to be withheld by the Company from such dividends or other distributions (see "– Withholding tax on dividends and other distributions" below).

Capital gains on disposals of Ordinary Shares

A Swiss resident individual who holds Ordinary Shares as a private asset will generally not be subject to any Swiss federal, cantonal or municipal income taxation on gains realised upon the sale or other disposal of Shares. Private gains realised upon a repurchase of Ordinary Shares by the Company or an entity held directly or indirectly by the Company may, however, be re-characterised as taxable income if certain conditions are met. Book gains realised on Ordinary Shares held as a business asset of a Swiss resident or by a Swiss resident securities dealer in accordance with the applicable case law are included in the taxable income of such person.

Capital gains realised by a Swiss corporation owning at least 20 per cent. of the capital of the Company may be exempt under the participation exemption subject to conditions. Any such corporation should take its own professional advice on its tax position in respect of its holding of Ordinary Shares.

A non-resident holder of Ordinary Shares should generally not be subject to any Swiss federal, cantonal or municipal taxation on gains realised upon a sale or other disposal of Ordinary Shares unless the Ordinary Shares so disposed of can be attributed to a permanent establishment or fixed place of business maintained by such person within Switzerland. Gains realised upon a repurchase of Ordinary Shares by the Company or an entity held directly or indirectly by the Company may, however, be re-characterised as a triggering event for Swiss withholding tax purposes if certain conditions are met.

Wealth and capital taxes

Individual holders of Ordinary Shares resident in Switzerland or otherwise subject to Swiss taxation holding the shares as a private asset will generally be subject to annual net wealth tax on these assets. The annual net wealth tax of individual holders of Ordinary Shares resident in Switzerland or otherwise subject to Swiss taxation holding these as a business asset may be affected to the extent that a gain has been crystallised. Similarly the annual capital tax of corporations may be affected to the extent that a gain on the shareholding has been reflected in their accounts.

Securities issue and transfer tax

The issue of Ordinary Shares of a Swiss legal entity is generally subject to a 1.0 per cent. one-time capital duty (issuance stamp tax on the creation of shares in a Swiss corporation). The tax is payable by the issuer. In the case at hand, the Ordinary Shares will be issued by a UK legal entity being managed and controlled in Switzerland. Accordingly, provided that certain conditions are met, it may be possible that the issue of Ordinary Shares could be exempt from capital duty.

Any subsequent sale of Ordinary Shares will be subject to Swiss securities transfer tax, currently 0.3 per cent. if the seller is either a Swiss bank or another Swiss securities dealer, as defined in the Swiss Federal Stamp Duty Law, or if such sale or transfer occurs through or with a Swiss bank or another Swiss securities dealer. Additionally, the sale of Ordinary Shares through or by a member of SWX may be subject to a stock exchange levy at the usual rates.

The Swiss securities transfer tax charges summarised above are in addition to the UK stamp duty and/or SDRT which will arise on sales or transfers of Ordinary Shares regardless of the tax residence of the transferor or transferee, the place of execution of any transfer documentation, or the exchange on which the sale occurs.

For further information on those UK charges, please see "– UK taxation – Stamp duty and stamp duty reserve tax ("SDRT")" above.

Withholding tax on dividends and other distributions

Dividends paid and similar cash distributions or distributions in kind made by the Company to a holder of Ordinary Shares (including dividends on liquidation and stock dividends) will be subject to a Swiss federal withholding tax at the rate of 35 per cent. The withholding tax on dividends must be withheld by the Company from the gross distribution and paid to the Swiss Federal Tax Administration.

The withholding tax on dividends will be fully refundable for – or as the case may be fully creditable against the income tax liability of – a Swiss resident recipient of a distribution if he is the beneficial owner of the Ordinary Shares at the time of the payment and if he duly reports the gross distribution received on his tax return.

A recipient of a distribution of the Company who is not a resident of Switzerland for tax purposes and does not hold the Ordinary Shares in connection with the conduct of a trade or business in Switzerland through a permanent establishment or a fixed place of business and qualifies as a resident of a country which is either a party to the Swiss – EU Savings Directive or which maintains a bilateral treaty for the avoidance of double taxation with Switzerland may be entitled to a full or partial refund of withholding tax under the provisions of the Directive or the applicable treaty, as described below in relation to UK resident shareholders. However, such non-resident shareholders should be aware that the rate of recoverable Swiss withholding tax and procedures for claiming treaty refunds (and the time frame required for obtaining a refund) may differ from country to country and may therefore differ from those described below. Such non-resident shareholders should consult their own tax advisers regarding the procedures for claiming any refund of the Swiss withholding tax under an applicable treaty.

Reclaim procedures and rates for UK resident Shareholders

Provided the UK Shareholders meet the requirement of art 15(1) of the Swiss-EU Savings Directive, the Company may file Form 823C before the distribution of the Company falls due and apply for the application of the notification procedure. Form 823C, duly completed and signed, must be sent to the Inspector of Taxes in the United Kingdom to whom the claimant makes his income tax return. After having Form 823C signed by the Inspector of Taxes, the Corporation will send Form 823C to the Federal Tax Administration of Switzerland CH-3003 Berne. The Company may only apply for the notification procedure provided the UK recipient of the distribution of the Company is an entity eligible to benefit from the EU Savings Directive, holds at least 25 per cent. of the capital of the Company for a minimum period of two years and is subject to income taxes in the UK.

Otherwise, three copies of Swiss tax Form 86, duly completed and signed, must be sent to the Inspector of Taxes in the United Kingdom to whom the claimant makes his income tax return (or to the Inspector of Taxes for the district in which the claimant resides, if he has not made such a return) no later than the 31st of December of the third year following the calendar year in which the dividend became due. Rights to repayment arising in one calendar year must be claimed in a single claim. Two copies of the forms will be sent by the Inspector of Taxes to the Federal Tax Administration of Switzerland CH-3003 Berne.

The claim must be accompanied by evidence of deduction of Swiss withholding tax. In general, a certificate of deduction, signed bank voucher or credit slip will satisfy this requirement. However the Swiss administration reserves the right to request further evidence and information.

The claim form may be filed by a representative on behalf of the beneficial owner, provided that the representative is formally authorised by a power of attorney (which must be attached to the form).

UK resident shareholders (other than corporations which control at least 25 per cent. of the voting power of the Company) that are eligible for double taxation treaty benefits may reclaim four sevenths of the 35 per cent. withholding tax on dividends, leaving a net Swiss tax cost of 15 per cent.

UK resident corporations which control at least 25 per cent. of the voting power of the Company that are eligible for double taxation treaty benefits may reclaim six sevenths of the 35 per cent withholding tax on dividends, leaving a net Swiss tax cost of 5 per cent.

HM Revenue & Customs and the Swiss Federal Tax Administration and announced on their websites on 31 January 2006 and 4 September 2006, respectively, that agreement had been reached at official level on a proposed protocol to the UK-Switzerland double taxation treaty. However, it cannot be known at present when the necessary legal steps to bring such protocol into effect with be taken and what amended terms and conditions it may contain.

14. Material contracts

The following are all of the contracts, other than contracts entered into in the ordinary course of business, that have either been entered into by the Company or members of the Group within the two years immediately preceding the date of this Prospectus or are expected to be entered into prior to the Global Offer and are, or may be, material or have been entered into at any time by the Company and/or members of Group and which contain provisions under which the Company and/or a member of the Group has an obligation or entitlement that is material to the Group as at the date of this Prospectus:

14.1 *ABN Amro, BNP Paribas and Société Générale loan facility*

On 27 December 2006, Ferrexpo UK and Ferrexpo entered into a US$275 million pre-export finance facility with ABN AMRO Bank N.V., BNP Paribas (Suisse) S.A. and Société Générale as arrangers, BNP Paribas (Suisse) S.A. as agent and security trustee and certain financial institutions as lenders (the "Facilities Agreement"). The Facilities Agreement provides for a US dollar denominated term loan facility in an aggregate principal amount of US$200 million and a US$ dollar denominated revolving credit facility in an aggregate principal amount of US$75 million. The loans may be borrowed by Ferrexpo UK and/or Ferrexpo and/or (with the permission of the lenders) any subsidiary company of Ferrexpo. The only borrowers to date are Ferrexpo UK and Ferrexpo. The loans are to be used to refinance certain existing financial indebtedness of Ferrexpo UK, Ferrexpo and Ferrexpo Poltava and/or to finance the working capital requirements of the Ferrexpo Group in connection with the production and export of iron ore pellets. The revolving credit facility is available for drawing until 28 November 2008 (being the date falling one month before the Final Repayment Date). The "Effective Date" is 28 December 2006. The "Final Repayment Date" is the date falling forty-eight months after the Effective Date. The term loan facility is repayable in thirty-three (33) equal monthly instalments staring on the last day of April 2008.

The maximum aggregate principal amount of revolving loans which may be outstanding at any one time must be reduced in the five months prior to the Final Repayment Date by US$12,500,000 per month, so that on the Final Repayment Date there are no revolving credit facility outstandings.

At the option of each lender, if Kostyantyn Zhevago, being the individual who (directly or indirectly) ultimately controlled Ferrexpo, Ferrexpo UK and/or Ferrexpo Poltava on 27 December 2006, ceases to do so (by ceasing to own share capital carrying the right to exercise more than 51 per cent. of the votes in such companies), then that lender is entitled to demand repayment of its participation in the outstanding loans. In addition, at any time, Ferrexpo and/or Ferrexpo UK may voluntarily cancel and/or prepay amounts of the loans (subject to minimum amounts) without the payment of a fee and subject only to payment of break funding costs.

Amounts advanced under both the term loan and the revolving credit facilities bear interest at a floating rate of 2.35 per cent. per annum over LIBOR (plus any mandatory costs associated with syndication in the European markets). If Ferrexpo or Ferrexpo UK fails to pay any amount payable under the Facilities Agreement on time, the overdue amount bears interest at a rate of an additional 2 per cent. per annum over the usual interest rate. A commitment fee is payable on the revolving credit facility at variable rates (depending on the utilisation level of the revolving credit facility). A fee equal to 1.05 per cent. per annum on each lender's available commitment under the revolving credit facility is payable by Ferrexpo and Ferrexpo UK for any period where less than one-third of the aggregate revolving credit facility commitments have been utilised; where the utilisation for a period is between greater than one-third but less than two-thirds, the applicable fee rate is 0.95 per cent. per annum and where the utilisation for a period is greater than two-thirds, the applicable fee rate is 0.8 per cent. per annum. In addition, the Facilities Agreement provides for the payment of customary agency, arrangement and underwriting fees.

The term loan and revolving credit facilities are guaranteed and secured. In particular:

(a) Ferrexpo Poltava has provided an unlimited financial and performance suretyship covering all of Ferrexpo's and Ferrexpo UK's obligations under the Facilities Agreement (and related financing documents) pursuant to a suretyship agreement with BNP Paribas (Suisse) SA (the "Security Trustee") dated 22 December 2006;

(b) Ferrexpo has pledged its bank account held with BNP Paribas (Suisse) S.A. (the "Collection Account") into which all proceeds from the sale of iron ore pellets under certain contracts are required to be paid;

(c) Ferrexpo Poltava has assigned all of its rights under ten export contracts with Ferrexpo for the export of pellets in 2007 pursuant to an assignment agreement with the Security Trustee dated 22 December 2006; and

(d) Ferrexpo has assigned all its rights under ten export contracts with Ferrexpo Poltava for the export of pellets in 2007, certain contacts for the sale of iron ore pellets and its rights under certain related credit support documents and insurance policies pursuant to an assignment agreement with the Security Trustee dated 22 December 2006.

In addition, the Facilities Agreement makes provision for any new holding company of Ferrexpo ("HoldCo") which acquires the shares of Ferrexpo Poltava from Ferrexpo to provide a guarantee of the obligations of Ferrexpo or Ferrexpo UK under the Facilities Agreement (and related financing documents).

The Facilities Agreement contains negative covenants and restrictions applicable to Ferrexpo, Ferrexpo UK, Ferrexpo Poltava and HoldCo (the "Obligors"), including, among others, and subject to certain agreed exceptions, limitations on, or prohibitions against, the incurrence or assumption of further external financial indebtedness, security interests, investments and the giving of credit, dispositions of assets or subsidiary interests, mergers and certain fundamental changes in the nature of their businesses. In addition, no member of the Group (as defined for purposes of the loan, being Ferrexpo or any of its subsidiaries) may declare a dividend or distribution or make any payment in respect of a shareholder loan if the total of such payments by all Group members (as so defined) in any financial year would exceed fifty per cent. of the consolidated net profits of the Group. It is contemplated by, and permitted under the Facility Agreement (subject to fulfilment of certain conditions and the provision of certain documents and securities) that Ferrexpo may reorganise its trading activities by transferring its trading activities to another company or by Ferrexpo transferring all or part of its shareholding in Poltava to a new holding company of Ferrexpo. In addition, the Facilities Agreement requires the Group (as so defined) to maintain specified financial ratios and contains events of default customary for pre-export financing facilities.

14.2 ***Industrial Investment Bank multicurrency facility***

On 16 January 2007, Ferrexpo Poltava entered into a multicurrency revolving loan facility agreement (the "Multicurrency Agreement") with CJSC Commercial Bank Industrial Investment Bank (the "Lender"). The Multicurrency Agreement provides for multicurrency term loan facility in an aggregate amount US$35 million. The maximum amount available under the loan facility is reduced by US$25 million from 1 November 2009 and by US$15 million from 1 December 2009. The final repayment date is 15 December 2009. The Multicurrency Agreement bears interest at the rate of nine per cent per annum for advances in US dollars and euros and 15 per cent per annum for advances in Hryvnia. The loan facility was granted for working capital purposes, including payments for energy, equipment, raw materials and salaries. Ferrexpo Poltava is required to notify the Lender of the occurrence of certain events and the Lender has the right to withhold further advances and/or to accelerate the loan if Ferrexpo Poltava takes a decision to undergo re-organisation or winding up. Ferrexpo Poltava's obligations are secured by pledges of Ferrexpo Poltava's pelletising and concentrator plants, including the land plots on which they are situated, vehicles and equipment and property rights under contracts entered into with Ferrexpo.

14.3 ***Eximbank revolving loan facility***

On 11 August 2006, Ferrexpo Poltava entered into a revolving loan facility (the "Revolving Loan Facility") with Eximbank (the "Lender"). The Revolving Loan Facility provides for a US dollar denominated term loan facility in an aggregate amount not exceeding US$1.5 million. The final repayment date is 7 August 2009. The amount advanced bears interest at the rate of 4.64 per cent. per annum over of LIBOR for US dollar loans but not less than 10.25 per cent. per annum. The loan facility was granted for working capital purposes. The Revolving Loan Facility agreement contains negative covenants, including, among others, in respect of the failure to notify any changes in Ferrexpo Poltava's constituent documents, reorganisation, liquidation, the establishment of new legal entities, the incurrence of external financial indebtedness or the creation of security interests or the distribution of profits to third parties without the written consent of the Lender and in respect of the commencement of any criminal investigation of Ferrexpo Poltava's management or shareholders or the freezing of its bank accounts. Under the Revolving Loan Facility agreement, the Lender has the right to accelerate the loan in the event of a breach by Ferrexpo Poltava of any of the terms upon giving ten days' notice. Ferrexpo Poltava's obligations are secured by a pledge of vehicles.

14.4 ***Eximbank non-revolving loan facility***

On 9 February 2007, Ferrexpo Poltava entered into a non-revolving loan facility (the "Non-Revolving Facility") with Eximbank (the "Lender"). The Non-Revolving Facility agreement provides for a US dollar denominated term loan facility in an aggregate amount not exceeding US$3,684,750. The final repayment date is 9 February 2012. The amount of US$2,210,850 advanced bears interest at the rate of 3.73 per cent. per annum over CIRR for US dollar loans. The amount of US$1,473,900 advanced bears interest at the rate of 2.1 per cent. per annum over of LIBOR for US dollar loans. The loan facility was granted to finance the cost of purchasing equipment. The Non-Revolving Facility agreement contains negative covenants, including, among others, in respect of failure to notify changes in its constituent documents, shareholders holding 10 per cent. or more of its charter capital, related parties or officials, liquidation, initiation of bankruptcy proceedings, or any decrease in its assets by more than 50 per cent. and in respect of the commencement of any criminal investigation of Ferrexpo Poltava's management or shareholders or the freezing of its bank accounts. Under the Non-Revolving Facility agreement, the Lender has the right to accelerate the loan in the event of a breach by Ferrexpo Poltava of any of the terms upon giving ten days' notice. Ferrexpo Poltava's obligations are secured by a pledge of vehicles.

14.5 ***Industrialbank loan facility***

On 11 October 2006, Ferrexpo Poltava entered into a loan facility agreement (the "Facility Agreement") with Commercial Bank Industrialbank (the "Lender"). The Facility Agreement provides for a US dollar denominated term loan facility in an aggregate amount not exceeding US$17.3 million. The final repayment date is 25 June 2008. The loan facility was granted to finance payments under import contracts, purchases of Hryvnia in the interbank currency market and for working capital purposes. The amount advanced under the Facility Agreement bears interest at the rate of nine per cent per annum. The loan facility is secured by a pledge of equipment.

14.6 *OTP loan facilities*

Ferrexpo Poltava has entered into four loan facilities (the "Loan Facilities") with OTP Bank (the "Lender").

(a) The first Loan Facility agreement dated 6 September 2005 provides for a US dollar denominated loan facility in an aggregate amount not exceeding US$10 million. The final repayment date is 6 September 2007. The Loan Facility was granted for working capital purposes and to finance the purchase of equipment and vehicles.

(b) The second Loan Facility dated 28 February 2006 provides for a US dollar denominated loan facility in an aggregate amount not exceeding US$5 million. The final repayment date is 28 August 2007. The loan facility was granted for working capital purposes and to finance the purchase of equipment and vehicles.

(c) The third Loan Facility dated 21 July 2006 provides for a US dollar denominated loan facility in an aggregate amount not exceeding US$10 million. The final repayment date is 20 July 2009. The loan facility was granted for working capital purposes and to finance obligations under letters of credit.

The amounts advanced under each of the above Loan Facilities bear interest at the rate of 5.35 per cent. over one month LIBOR for advances in US dollars and 5.35 per cent. over one month EURIBOR for advances in euro. Each Loan Facility contains restrictive covenants under which Ferrexpo Poltava may not amend its constituent documents without the prior consent of the Lender. All of the above Loan Facilities are secured by pledges of equipment and vehicles.

(d) On 7 February 2007, Ferrexpo Poltava entered into a fourth loan facility (the "Revolving Loan Facility") with OTP Bank (the "Lender"). The Revolving Loan Facility provides for a US dollar denominated revolving loan facility in an aggregate amount not exceeding US$25 million on all four Loan Facilities. The Revolving Loan Facility is fully repayable on 8 February 2010. The amount advanced bears interest at the rate of 9 per cent. per annum for advances in US dollars and euro. Ferrexpo Poltava secured its obligations under the Revolving Loan Facility agreement by way of a pledge of vehicles and equipment. Ferrexpo Poltava is obliged to ensure that for the term of the agreement, the aggregate amount of collateral constitutes no less than 73.46 per cent. of the amount borrowed. The Facility Agreement contains negative covenants, including among others, and subject to certain agreed exceptions, prohibitions against the incurrence or assumption of further financial indebtedness and creation of security interests.

14.7 *Finance and Credit multicurrency revolving loan facility*

On 19 April 2007 Ferrexpo Poltava entered into a multicurrency revolving loan facility agreement (the "Multicurrency Facility Agreement") with Bank Finance and Credit (the Lender"). The Multicurrency Facility Agreement provides for a Hryvnia, US dollar and euro denominated term loan facility in an aggregate amount not exceeding UAH50,500,000. The final repayment date is 16 April 2010. The loan facility was granted for working capital purposes. The amount advanced in Hryvnia under the Multicurrency Facility Agreement bears interest at the rate of sixteen per cent per annum and from nine to twelve per cent per annum for amounts advanced in US dollars and euros. Under the Multicurrency Facility Agreement, the Lender has the right to accelerate the loan in the event of a breach by Ferrexpo Poltava of the terms specified therein, including failure to notify changes in its constituent documents or a change of owners of the Borrower, upon giving one day's notice. The loan facility is secured by a pledge of property rights under contract entered into with OJSC Dniprovskiy Metallurgical Plant.

14.8 *Underwriting Agreement*

The Underwriting Agreement dated 15 June 2007 among the Company, the Sponsor, the Underwriters, the Directors, Kostyantyn Zhevago and the Selling Shareholder for the underwriting of the Global Offer and described in paragraph 8 of this Part XI.

14.9 ***The Relationship Agreement***

The Relationship agreement dated 15 June 2007 among the Company, Fevamotinico S.à r.l., The Minco Trust and Kostyantyn Zhevago managing the continuing relationship among the parties and ensuring that the Company is capable of carrying on its business independently of Fevamotinico S.à r.l. and Kostyantyn Zhevago. See "Major shareholders and the Relationship Agreement" in Part X.

14.10 ***Share Purchase Agreement with DCM***

Pursuant to a share purchase agreement dated 14 January 2004, as supplemented by a 2005 addendum, DCM agreed to sell and Ferrexpo Poltava agreed to buy 12,240,432 shares of Ferrexpo Poltava (the "DCM Shares") at a price of US$11,037,000, payable in two instalments on 20 November 2008 and 20 December 2008. The DCM Shares are to be transferred to Ferrexpo Poltava five banking days after payment. The DCM Shares comprised 15 per cent. of Ferrexpo Poltava's shares as of the date of the share purchase agreement, and have been diluted as a result of subsequent capital increases by Ferrexpo Poltava in which DCM did not participate, to 10.6 per cent. as of the date of this Prospectus.

14.11 ***Share Exchange Agreement***

On 24 May 2007, the Company entered into and completed a share exchange agreement with its shareholder, Fevamotinico S.à r.l., pursuant to which it issued 533,043,489 ordinary shares of 10 pence each (the "Consideration Shares") in consideration for the transfer to it of 129,944,923 registered shares of CHF1 each in the capital of Ferrexpo (the "Transferred Shares") by Fevamotinico S.à r.l.. Pursuant to such transaction, the Company became the sole shareholder of Ferrexpo as of such date. The share exchange was made on the basis that the aggregate par value of the Consideration Shares was equal to the aggregate par value of the Transferred Shares at the rate of exchange applicable as of the date of the share exchange agreement.

15. Working capital

In the opinion of the Company, taking account of the Group's existing banking facilities and the net proceeds to be received by the Company from the offering of New Ordinary Shares as part of the Global Offer, the working capital available to the Group is sufficient for the Group's present requirements, that is for at least the next 12 months following the date of publication of this Prospectus.

16. Litigation

16.1 Other than as described below, no member of the Group is or has been involved in any governmental, legal or arbitration proceedings which may have or have had during the 12 months prior to the date of this Prospectus a significant effect on the financial position or profitability of the Group, nor, so far as the Directors are aware are any such proceedings pending or threatened by or against any member of the Group.

16.2 In November 2005, one of the sellers from whom certain nominee companies controlled by Kostyantyn Zhevago purchased a 40 per cent. stake in JSC Poltava GOK in 2002 initiated legal proceedings in the Ukrainian courts seeking to invalidate the share sale and purchase agreement pursuant to which those shares were sold (the "2002 SPA"), together with an ancillary agreement, claiming that the agreements were not executed in compliance with certain formal requirements of Ukrainian securities legislation. The shares were subsequently sold on to other companies controlled by Kostyantyn Zhevago and the initial buyers were wound up. The claims succeeded at first instance and on appeal but were dismissed and the proceedings terminated without further right of appeal by the Supreme Court of Ukraine in April 2006. In September 2006 and January 2007, the Supreme Court subsequently ordered that, as a result of the refusal of the commercial arbitration court of the Ukrainian Chamber of Commerce to adjudicate the matter, the claims should be re-examined by the court of first instance. In March 2007, the Donetsk regional court ruled (once again) to declare the 2002 SPA invalid. This ruling is purely declaratory and no order for restitution of the shares was sought or granted. The claim was upheld on appeal by the Donetsk Appellate Court in April 2007 and is now subject to appeal to the Higher Commercial Court of Ukraine. Management, having taken appropriate legal advice, believes that the claims are without merit and that if the lower courts were to rule that the share sale and purchase agreement is invalid and the Supreme Court were to uphold such a decision, it is unlikely that the claimant would be able to recover the shares. Moreover, as the initial 40 per cent. shareholding has been diluted to less than 25 per cent. of Ferrexpo Poltava's current issued share capital as a result of additional capital increases, even if the proceedings were ultimately adjudicated in favour of the claimants and they were able to obtain the shares, management does not believe that the claimants would be in a position to block decisions by the general meeting of shareholders. No member of the Group is party to the legal proceedings. Having taken professional advice, the Directors do not currently expect that the Group will suffer a material liability in connection with this matter and accordingly no provision has been made in the accounts in respect of this claim. There can be no assurance, however, that the claim will not succeed. See "Risk factors – Risks relating to the Group's operations – Title to the Group's mineral properties or production facilities, or to any privatised company acquired by the Group, may be challenged". See also "Risk factors – Risks relating to the Group's operations – The Group's competitors or other third parties may seek to hinder or prevent the Offering" with respect to other actions that might be taken against the Group or any connected person.

16.3 Ferrexpo Poltava is currently disputing several tax claims by the local tax authorities following tax audits for the fiscal year 2005 and part of 2006. The claims relate, among other things, to payments of corporate profits tax, VAT, environmental payments and other taxes and duties. The aggregate amount claimed by the tax authorities including alleged underpayments of tax and duties and an allegedly overstated VAT refund together with applicable fines and penalties is approximately UAH 65.5 million (approximately equivalent to US$13 million). Ferrexpo Poltava disputes the basis on which the tax authorities are claiming these amounts and is currently disputing certain of the claims in the Ukrainian courts. See "Risk factors – Risks relating to the Group's operations – Ferrexpo Poltava is in dispute with the Ukrainian tax authorities"

17. Significant change

There has been no significant change in the financial or trading position of the Group since 31 December 2006, the date to which the historical financial information in Part VIII was prepared (save for the increase in the Group's total indebtedness to US$312.4 million as at 30 April 2007 as described in Part VII: "Operating and financial review – Capitalisation and indebtedness statement" and an additional draw-down of US$10 million under an existing loan facility on 29 May 2007).

18. Consents

18.1 Ernst & Young LLP has given and has not withdrawn its written consent to the inclusion in this Prospectus of its reports and references to it in the form and context in which they appear and has authorised the contents of its reports for the purposes of paragraph 5.3.3R(2)(f) of the Prospectus Rules and item 23.1 of the Commission Regulation (EC) 809/2004.

18.2 SRK has given and has not withdrawn its written consent to the inclusion in this Prospectus of its reports and references to it in the form and context in which they appear and has authorised the contents of its reports for the purposes of paragraph 5.3.3R(2)(f) of the Prospectus Rules and item 23.1 of the Commission Regulation (EC) 809/2004.

19. General

19.1 The maximum total costs and estimated expenses of or incidental to the preparation of this document, the Global Offer and Admission (including issue costs, commissions, registration fees, professional fees and the costs of printing and distribution) payable by the Company are estimated to amount to approximately £30.5 million (exclusive of VAT). Net proceeds accruing to the Company from the Global Offer, after settling fees, commissions and expenses, are expected to amount to approximately £71.1 million.

19.2 Each of the Directors is, or may be deemed to be, a promoter of the Company.

19.3 No Ordinary Shares have been marketed to, nor are available for purchase in whole or in part by, the public in the United Kingdom or elsewhere in conjunction with the Global Offer. This document does not constitute an offer or the solicitation of an offer to the public in the United Kingdom to subscribe for or purchase any securities in the Company or any other entity.

19.4 There are no arrangements in existence under which future dividends are to be waived or agreed to be waived.

19.5 The information sourced from AME, the Parliament of Ukraine, the State Committee of Statistics of Ukraine and the National Bank of Ukraine has been accurately reproduced and, as far as the Company is aware and has been able to ascertain from information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. Where third-party information has been used in this Prospectus, the source of such information has been identified.

20. Documents available for inspection

Copies of the following documents are available for inspection during normal office hours on any weekday (Saturdays, Sundays and public holidays excepted) from the date of publication of this Prospectus until 14 days following Admission at the offices of Baker & McKenzie LLP at 100 New Bridge Street, London EC4V 6JA:

(a) the memorandum and articles of association of the Company;

(b) the reports from Ernst & Young LLP which are set out in Part VIII "Historical financial information" and Part IX "Unaudited pro forma financial information;

(c) the consent letters referred to in "Consents" in paragraph 18 of this Part XI;

(d) the consolidated financial statements of Ferrexpo AG for the year ended 31 December 2005 prepared in accordance with IFRS;

(e) the service agreements of the Executive Directors and the letters of appointment of the Non-executive Directors;

(f) the report from SRK in "Technical report" in Part XII; and

(g) this Prospectus.

Part XII

Technical report

A MINERALS EXPERT REPORT ON THE MINING ASSETS OF THE FERREXPO GROUP

Report Prepared for:

Ferrexpo plc
2-4 King Street
St James'
London SW1Y 6QL
United Kingdom

Report Prepared by

SRK Consulting
Engineers and Scientists

JUNE 2007

BS/EN/ISO 9001 EQA UKAS QUALITY MANAGEMENT

Health & Safety Systems Citation Approved Registered Member www.citation.co.uk

THE QUEEN'S AWARDS FOR ENTERPRISE: INTERNATIONAL TRADE

A MINERALS EXPERT REPORT ON THE MINING ASSETS OF THE FERREXPO GROUP

Report Prepared for

Ferrexpo plc
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Project Number: 2757

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JUNE 2007

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Our Ref: *U2757 CPR VER17.DOC*

15th June 2007

The Directors
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The Directors
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The Directors
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125 London Wall
London EC2Y 5AJ
United Kingdom

A MINERALS EXPERT REPORT ON THE MINING ASSETS OF THE FERREXPO GROUP

1. INTRODUCTION

1.1 Background

SRK Consulting (UK) Limited ("SRK") is a subsidiary of the international group holding company, SRK Global Limited (the "SRK Group"). SRK has been commissioned by the directors of Ferrexpo AG ("Ferrexpo" or the "Company") to prepare a Minerals Expert Report ("MER") on the mining assets (the "Mining Assets") of the Ferrexpo Group (the "Group").

SRK understands that this MER will be included as part of the prospectus (the "Prospectus") to be published in connection with a global offering of shares and admission of ordinary shares of the Company to the Official List of the United Kingdom Listing Authority (UKLA) and the admission of such shares to trading on the London Stock Exchange plc's market for listed securities.

SRK has been informed that the Company does not have any other material mining assets other than those referenced in this MER. All entries, including text, tables and other data, are quoted for the Mining Assets and are not on an attributable basis.

1.2 Requirement and Structure of the MER

SRK has prepared this MER in accordance with the recommendations of the Committee of European Securities Regulation and the guidelines of Chapter 19 of the Listing Rules (as in effect prior to 1st July 2005) published by the Financial Services Authority ("FSA").

SRK Consulting (UK) Ltd.

Registered in England and Wales

Reg. No. 1575403

Registered Address:
21 Gold Tops,
Newport,
Gwent.
NP9 4PG

Offices in:
Africa
Asia
Australia
North America
South America
United Kingdom

In accordance with Chapter 19 the Competent Person (the "CP") responsible for the MER is SRK. Also in accordance with Chapter 19.13 the MER has been prepared under the direction of an individual who satisfies the criteria for a CP as outlined in Chapter 19.12 (Section 1.5).

Chapter 19 contains definitions of proven and probable reserves and measured and indicated resources which do not comply exactly with any of the current internationally accepted resource and reserve reporting standards. SRK has therefore classified the resources and reserves given in this MER in accordance with the 2004 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the "JORC Code"). SRK considers that the Proved and Probable categories of Ore Reserves defined by the JORC Code are essentially the same as the proven and probable categories defined in Chapter 19 and that the Measured and Indicated categories of Mineral Resources defined by the JORC Code are essentially the same as those defined in Chapter 19. Chapter 19 makes no mention of the Inferred category of Mineral Resources however this is an established definition in international reporting codes for Mineral Resources, such as the JORC Code.

This MER has been structured on a technical discipline basis into sections on Geology, Mineral Resources and Ore Reserves, Mining Engineering, Mineral Processing, Tailings Management, Infrastructure, Occupational Health and Safety and Environmental Management. The reports then concludes with sections presenting SRK's Ore Reserve valuation and the basis of this as well as a discussion on the risks and opportunities to which the Company is exposed.

1.3 Verification, Validation and Reliance

This MER is dependent upon technical, financial and legal input. The technical information as provided to, and taken in good faith by SRK, has not been independently verified by means of re-calculation. SRK has however:

- Conducted a review and assessment of all material technical issues likely to influence the future performance of the Mining Assets, which included the following:
  - inspection visits to the mining operations, processing facilities, surface structures and associated infrastructure, undertaken in 2005, 2006 and 2007;
  - discussion and enquiry following access to key on-mine and corporate personnel between July 2005 and April 2007;
  - an examination of historical information and results made available by the Company in respect of the Mining Assets;
  - a review and where considered appropriate by SRK, modification of the Company's estimates and its classification of Mineral Resources and Ore Reserves as at 1 January 2007; and
  - a review and where considered appropriate by SRK, modification of the Company's production forecasts contained in the Company's Business Plan (the Business Plan).
- Satisfied itself that such information is both appropriate and valid for valuation as reported herein.
- Undertaken all necessary investigations to ensure compliance with both Chapter 19 and the JORC Code in terms of the level of disclosure.

SRK has placed reliance on the Company that the following information provided by the Company to SRK is both valid and accurate for the purpose of compiling this MER:

- All technical information;
- Taxation logic used in the valuation of the Company's reserves; and
- That the legal ownership of all mineral and surface rights has been verified and that no significant legal issue exists which would affect the likely viability of a project and/or the Mineral Resources and Ore Reserves as reported herein.

Finally, SRK has relied upon distribution costs and Poltava pellet price projections as provided to it by the Company for its valuation of the Company's Ore Reserves. SRK understands that the Company has made its projections having considered market projections provided to it by AME Consulting Pty Limited ("AME").

1.4 Limitations, Reliance on Information, Declarations, Consent and Copyright

1.4.1 *Limitations*

The Company has confirmed to SRK that to its knowledge the information provided by the Company was complete and not incorrect, misleading or irrelevant in any material aspect. SRK has no reason to believe that any material facts have been withheld.

The achievability of the Business Plan, budgets and forecasts are neither warranted nor guaranteed by SRK. The forecasts as presented and discussed herein have been proposed by the Company's management and adjusted where appropriate by SRK, and cannot be assured. They are necessarily based on economic assumptions, many of which are beyond the control of the Company. Future cash flows and profits derived from such forecasts are inherently uncertain and actual results may be significantly more or less favourable than presented here.

1.4.2 *Reliance on Information*

SRK's opinion and valuation of the Company's reserves is effective at 1 January 2007 and is based on information provided by the Company throughout the course of SRK's investigations, which in turn reflect various technical-economic conditions prevailing at the date of this report. In particular, the valuation of the Ore Reserves is based on expectations regarding Poltava pellet and concentrate prices provided to it by the Company and presented in Section 12 of this report and exchange rates prevailing at the date of this report. SRK understands that the Company has made its projections having considered market projections provided to it by AME. These and the underlying Technical Economic Parameters (TEPs) can change significantly from those assumed over relatively short periods of time. Should these change materially, the valuation of the Company's Ore Reserves could be materially different.

1.4.3 *Declarations*

SRK will receive a fee for the preparation of this MER in accordance with normal professional consulting practice. This fee is not contingent on the outcome of the listing and SRK will receive no other benefit for the preparation of this report. SRK does not have any pecuniary or other interests that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Mineral Resources, Ore Reserves and the valuation of the Company's Ore Reserves.

SRK does not have, at the date of this report, and has not had within the previous two years, any shareholding in or other relationship with the Company or the Mining Assets and consequently considers itself to be independent of the Company.

In this MER, SRK provides assurances to the Directors of the Company that the TEPs, including production profiles, operating expenditures and capital expenditures, of the Mining Assets as provided to SRK by the Company and reviewed and where appropriate modified by SRK are reasonable, given the information currently available.

This report includes technical information, which requires subsequent calculations to derive subtotals, totals and weighted averages. Such calculations may involve a degree of rounding and consequently introduce an error. Where such errors occur, SRK does not consider these to be material.

For the purposes of prospectus Rule 5.5.3R(2)(f), SRK is responsible for this report as part of the Prospectus and declares that it has taken all reasonable care to ensure that the information contained in this report is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with item 1.2 of Annex 1 of the prospectus Rules.

1.4.4 *Consent and Copyright*

SRK consents to the issuing of this report in the form and content in which it is to be included in the Prospectus.

Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of SRK regarding the form and context in which it appears.

Copyright of all text and other matter in this document, including the manner of presentation, is the exclusive property of SRK. It is a criminal offence to publish this document or any part of the document under a different cover, or to reproduce and/or use, without written consent, any technical procedure and/or technique contained in this document. The intellectual property reflected in the contents resides with SRK and shall not be used for any activity that does not involve SRK, without the written consent of SRK.

1.5 Qualification of Consultants

The SRK Group comprises over 600 staff, offering expertise in a wide range of resource and engineering disciplines. The SRK Group's independence is ensured by the fact that it holds no equity in any project. This permits the SRK Group to provide its clients with conflict-free and objective recommendations on crucial judgment issues. The SRK Group has a demonstrated track record in undertaking independent assessments of resources and reserves, project evaluations and audits, MERs and independent feasibility evaluations to bankable standards on behalf of exploration and mining companies and financial institutions worldwide. The SRK Group has also worked with a large number of major international mining companies and their projects, providing mining industry consultancy service inputs.

This MER has been prepared based on a technical and economic review by a team of consultants and associates sourced from the SRK Group's offices in Europe and South Africa over an 18 month period. These consultants and associates are specialists in the fields of geology, resource and reserve estimation and classification, underground and open pit mining, rock engineering, iron ore processing and pelletising, hydrogeology and hydrology, tailings management, infrastructure, environmental management and mineral economics.

The individuals listed below have provided input to this MER and have extensive experience in the mining industry and are members in good standing of appropriate professional institutions.

- Michael Armitage, MIMMM, CGeol, CEng, PhD;
- Mark Campodonic, GradIMMM, FGS, MSc;
- John Miles, MIMMM, CEng
- John Willis, MSMME, BSc;
- Mark Dodds-Smith, CBiol, PhD;
- Nicholas Fox, GradIMMM, ACA, MSc;
- Adriaan Meintjies, PrEng, MSAICE, MSc;

In accordance with Chapter 19.13, the CP who has supervised the production of this MER is Dr Michael Armitage, MIMMM, CGeol, CEng, PhD, who is the Managing Director of SRK. Dr Armitage is a mining geologist with over 20 years experience in the mining industry and has been responsible for the reporting of Mineral Resources and Ore Reserves on various properties internationally during the past 10 years. He also has a significant amount of experience in Russia and the Former Soviet Union ("FSU") having managed the preparation of several due diligence studies and MERs on behalf of companies with projects in these countries and also investment institutions seeking to finance projects in these countries.

2. MINING ASSETS

2.1 Introduction

This section gives an overview of the Company and its Mining Assets including historical development, location and property descriptions and operating results (where applicable). The location of the Mining Assets are shown in Figure 2-1.

The primary Mining Assets of the Company are managed by a Ukrainian subsidiary of the Company, Ferrexpo Poltava GOK Corporation ("Poltava GOK"), in which the Company holds an 85.8 per cent. stake. Poltava GOK operates the open-pit iron ore mine, concentrating and pelletising operation ("Poltava").

The Company also has a 9.4 per cent. stake in another Ukranian company, Vostok-Ruda Limited ("Vostok – Ruda"), which operates the underground iron ore mine and concentrating operation ("Nova").

This MER reports on Poltava only as this is the only asset covered by the current Business Plan. SRK understands that Nova is currently under care and maintenance and is scheduled to be disposed of.

SRK notes that all the resource and reserve statements in this document and also the ore reserve valuation relate to the Mining Assets as a whole rather than the Company's share in these.

2.2 Corporate Structure and Strategy

2.2.1 *Corporate Structure*

The Company intends to become a public listed company, the primary listing of which will be on the London Stock Exchange. The Group currently has offices located in London (United Kingdom), Baar (Switzerland), Kiev, Komsomolsk and Zhovty-Vody (Ukraine).

In the proposed post listing structure the Company's Mining Assets will be owned and operated by its subsidiary Poltava GOK.

Poltava GOK currently has one operating surface iron ore mine with associated iron ore concentration and pelletising facilities ("Poltava").

2.2.2 *Strategy*

The Group's current strategy is driven by servicing global iron-ore pellet markets and commercialising its undeveloped iron ore resources. Its aim is to grow its share of the global pellet market and to develop a globally competitive Ukrainian iron ore operation from its Poltava base.

This initially involves maximising production from the existing open pit and beneficiation and pelletising plants and subsequently increasing production through the opening of a new pit and the de-bottlenecking and expansion of the existing processing plants. Specifically, the Company envisages:-

- Continued mining from the current Poltava open-pit;
- the development of the Yeristovskoe open pit;
- improvements to the infrastructure in general and also the construction of a third concentrator to produce some 3.5Mtpa of concentrate from the Yeristovskoe ore;
- optimisation and improvements to the two existing concentrators and four pellet plants to increase the output from the latter to some 16Mtpa of pellets;
- ongoing evaluation of other mining options; and
- third party ore and concentrate purchases as justified.

A pre-feasibility study is currently being produced by Worley Parsons Europe Limited (Worley Parsons) to assess the upgrading and expansion of the existing process facilities at Poltava and the establishment of the new Yeristovskoa pit. While this report has yet to be concluded Worley Parsons has provided the Company with a Preliminary Project Definition Report which details the results of the work completed as of March 2007 and confirmed to the Company that this is a pre-feasibility study level document.

Finally, in 2006 the Company engaged GPR Dehler (GPR Dehler) to review the Mining Assets as currently operated and to determine the extent to which theses could be optimised both in terms of management and operating practices and equipment utilisation. Following an initial report which concluded that significant improvements could be made the Company then requested GPR Dehler to implement actions plans to achieve these goals which are now underway.

The Business Plan for Poltava upon which the resource and reserve statements and valuation given in this report are based is based on the Worley Parsons study, the historical data available for the existing pit and plants and the improvements envisaged by the Company as a result of the GPR Dehler initiatives.

2.3 Overview of Poltava

2.3.1 *Introduction*

Poltava is located on the north-south trending Kremenchug anomaly. Nine iron ore deposits have been identified in total though all production to date has been from a single open pit which has exploited two of these, namely Gorishne-Plavninskoe and Lavrikovskoe.

In addition to the open pit, the Poltava operation comprises dry and wet magnetic separation, flotation and pelletising processing facilities and the associated infrastructure required to operate these. Table 2-1 gives summary details of the primary infrastructure currently servicing Poltava. Poltava is currently the only producing mining operation within the Group and in 2006 produced all of the Group's saleable product (iron ore pellets).

Table 2-1: Poltava Infrastructure

Operating Area	Infrastructure	Detail
Orebody Access	Gorishne-Plavninskoe / Lavrikovskoe Open-pit	The open-pit is currently approximately 5.5km (north-south) by 1.5km (east-west) and reaches a depth below surface of up to 300m. The pit contains an in-pit crusher and conveyor system with a capacity of approximately 7Mtpa and is serviced by 90-120t trucks and tracked rolling stock.
Primary Concentrating	Comminution and Magnetic Separation Plant	Two separate complexes each with capacities of approximately 10Mtpa comprising primary and secondary crushers, grinding mills and dry and wet magnetic separators.
Secondary Concentrating	Flotation Plant	Single flotation and re-grinding line with capacity of 8Mtpa.
Pelletising	Pelletising Facilities	Four lines of pelletising each with a current capacity of 2.5Mtpa.
Tailings Facilities	Dam Compartment I-II	Currently at capacity with extension planned.
	Dam Compartment III	Current and long-term facility.

The planning process at Poltava is based on a detailed one year budget and the high-level long term Business Plan which extends to 2035.

2.3.2 *Location*

Poltava is located near the town of Komsomolsk, 25km southeast of the town of Kremenchug and 320km southeast of Kiev, and is accessed via good tarred roads from the main road between Kremenchug and Komsomolsk. It is connected to the main rail network in Ukraine and is also situated on the banks of the Dnipro River, the largest river in Ukraine which flows into north Ukraine from Belarus and provides navigable access to the Black Sea port of Yuzhny.

The topography is predominantly flat and Poltava is between 65 and 68m above sea level. The main land-use in the area is agricultural with a number of small agricultural villages and isolated farms scattered across the region.

The town of Komsomolsk was established adjacent to the mine to support the mining operation and supporting industries and Poltava remains the principal source of employment for the inhabitants.

2.3.3 *History*

Exploration of the Kremenchug anomaly dates back to 1950s. Construction of the Poltava complex began in 1960, the first ore was mined in 1963 and the first iron ore concentrate was produced in 1970. Pellet production was introduced in 1977 and has been ongoing continuously since.

Poltava was explored, constructed and operated by the state during the time when Ukraine was part of the Soviet Union. State ownership continued following Ukrainian independence in 1991 and in 1995 the entity was restructured as an open joint stock company ("JSC Poltava GOK") which was subsequently renamed Ferrexpo Poltava GOK Corporation. In 1995, however, the Ukrainian State Property Fund ("SPF") resolved to privatise Poltava GOK and in 1996, in accordance with an agreed share distribution plan, 5.68 per cent. of the shares in JSC Poltava GOK were sold to management and employees on preferential terms. In October 1996, the Government also sold 42 per cent. of the shares to three companies in three tranches by way of non-commercial tender. Further tranches were sold in 1996 and 1997 and in 2001 the SPF declared that the privatisation process had been successfully completed. Between 1996 and 2003, through a series of commercial share transactions, Ferrexpo gradually increased its stake in JSC Poltava GOK to its current holding of 85.8 per cent..

Total iron ore production from Poltava in 2006 was approximately 26.5 million tonnes ("Mt") producing 9.7 Mt of concentrate and, from this, some 8.5 Mt of pellets.

The selected historical operating and financial statistics as reported in Table 2-2 have been extracted from more detailed information as reported by Poltava GOK in its un-audited management accounts.

Table 2-2: Poltava Historical Operating and Cost Statistics

Statistics	Units	2004	2005	2006
Mining				
– Iron Ore	**('000 t)**	**21,747**	**23,341**	**26,507**
– Overburden	('000 m^3)	9,409	13,051	13,707
– Stripping Ratio	(m^3_{ob} :t_{ore})	0.4	0.6	0.5
Concentrate				
– Produced from own ore	('000 t)	7,909	8,314	9,695
– Purchased externally	('000 t)	629	709	451
Total Concentrate to Pellet Plant	**('000 t)**	**8,538**	**9,023**	**10,146**
Pelletising				
– 62% Fe	('000 t)	6,582	6,381	5,429
– 65% Fe	('000 t)	785	1,376	3,121
Total Pellets Produced	**('000 t)**	**7,367**	**7,757**	**8,550**
Operating Costs				
Cash Costs (excluding purchased ore)	(US$/t pellets)	30.64	40.43	41.33

2.3.4 *Basis of Business Plan*

The Business Plan prepared by the Company incorporates ongoing mining at the existing pit until 2026; the establishment of a new pit to exploit the Yetistovskoye orebody from 2011, the establishment of a new pit to exploit the Belanovskoye orebody from 2024 and the closure of the existing pit in 2026. It also envisages the total mill feed increasing from 28Mt in 2007 to 56Mt by the end of 2014 and pellet production from 9.4Mt to 16Mt over the same period.

The SRK Ore Reserve Valuation presented in this report is based on the above but excludes the revenues and costs associated with mining ore from Belanovskoe reflecting SRK's opinion that further work is required to be done before this could be reported as a reserve and valued alongside the ore from Yeristovskoe and the existing pit. As a result while the SRK valuation assumes a mill feed of 56Mt in 2016 this then reduces from 2022 onwards as production from the existing pit is reduced.

While there is potential for mining at Poltava to continue for many years into the future, both the Business Plan and the SRK model end in 2035 reflecting the proportion of the resource upon which technical studies have been completed to date to sufficiently demonstrate their potential to be reported as reserves.

2.3.5 *Mining Asset Management/staff*

While Poltava is managed and operated by an experienced team of workers, the work processes and management systems are characteristic of those in the FSU and though very focused on production there are significant improvements that can be made to maximise efficiency. SRK is confident that the existing staff if sufficiently trained will be able to implement the improvements currently being introduced by GPR Dehler sufficient to achieve the production forecasts and improved operating practices assumed for the SRK valuation.

2.4 Mining Title Law and Taxation

2.4.1 *Introduction*

SRK has not reviewed the various agreements (regulatory or third party) relating to mineral rights, surface freeholds, mining authorisations, prospecting licences, exploration licences, claims or other such tenements or titles from a legal perspective. Consequently SRK has relied on advice by the Company to the effect that the Company is entitled to mine all material falling within their respective mineral rights and/or mining rights and that all necessary statutory mining authorisations and permits are in place.

Details relating to relevant environmental permits are included in Section 10 of this MER.

2.4.2 *Ukrainian Legislation*

The principal legislative acts governing mining activity in Ukraine are:

- the Code of Ukraine on the Subsurface (the "Subsurface Code"); and
- the Law on Mining in Ukraine.

The Subsurface Code sets out the established procedure for obtaining the necessary licenses and permits for companies (and/or individuals) seeking to engage in the mining of minerals in Ukraine. The procedure is dependent on whether a company plans to commence the exploration of an unexplored mineral deposit or the development of an explored one.

In the former case, such companies must obtain a license for the exploration of mineral deposits under the Law of Ukraine No. 1775-III "Licensing of Certain Entrepreneurial activities" (the "Licensing Law") dated 1 June 2000 and must undertake exploration and bear all associated expenses.

In the latter case, when the deposit has already been explored and registered in the State Balance of Mineral Reserves by the GKZ, the mining company is obliged to reimburse the state for the exploration of the deposit by purchasing a "geological information package". The purchase price of this geological information package varies depending on the deposit.

Subsurface use rights are granted in the form of a license, which can be issued for five types of activities, two of which pertain to exploration and mining as outlined below:

- geological exploration of mineral deposits, including the scientific and industrial development of deposits (up to 5 years); and
- extraction of minerals (up to 20 years).

Separate licenses are required for the extraction of uranium ores, precious metals and precious stones, organogenic precious stones, and/or semiprecious stones.

The applicable legislation provides that the subsurface use rights, as a rule, be granted on a competitive basis through tenders. Nonetheless, a bidder, having explored the mineral deposits at its own cost and wishing to carry on with the extraction of the explored mineral deposits may obtain the permit without competitive bidding.

The conditions for use of natural resources must be set in an agreement between the winner of the tender and the authorised government agency. The winner of the tender must launch exploration operations within 2 years of the issuance of the special permit (180 days for oil and gas deposits exploration).

Under the applicable Ukrainian legislation, article 28 of the Subsurface Code provides for the payment of the following dues for subsurface use:

- subsurface use payments;
- fees for exploration performed at the expense of the state budget;
- fees for the issuance of licenses; and
- excise duty.

Under the Subsurface Code, subsurface use payments may be levied as one-time and/or regular payments, which are determined on the basis of the relevant environmental and economic conditions. In particular, the fees for exploration performed by the State will depend on the economic and geographical conditions and the size of the particular subsurface area, the type of minerals, the duration of the works, the level of the exploration completed and the degree of risk. The amounts of the payments for the extraction of minerals are calculated based on the geological features of the deposits and the conditions of their development.

2.4.3 *Ferrexpo Group Mining Title and Subsurface Use Payments*

The Group's Mining Licenses are summarised in Table 2-3.

In summary, the Company holds Mining Licenses covering some 3,915 Ha of ground and exploration licenses covering some 5,003 Ha of ground.

Table 2-3: Ferrexpo Mining and Exploration Licenses

Deposit	Registration No.	Period (Years)	Expiry Date	License Type	Area (Ha)
Poltava					
Lavrikovskoe / Gorishne-Plavninskoe	1012	20	Jul 2017	Extraction – Iron Ore	1383.96
Yeristovskoe	2768	10	Aug 2012	Extraction – Iron Ore	587.05
Galeschinskoe	3571	12	Dec2016	Extraction – Iron Ore	954.50
Belanovskoe	3572	20	Dec 2024	Extraction – Iron Ore	989.80
Vasilevskoe	2659	5	Dec 2009	Exploration – Iron Ore	1,729.60
Brovarskoe	2661	5	Dec 2009	Exploration – Iron Ore	1,101.10
Kharchenskovskoe	2681	5	Dec 2009	Exploration – Iron Ore	1,218.10
Manuilovskoe	2682	5	Dec 2009	Exploration – Iron Ore	954.50

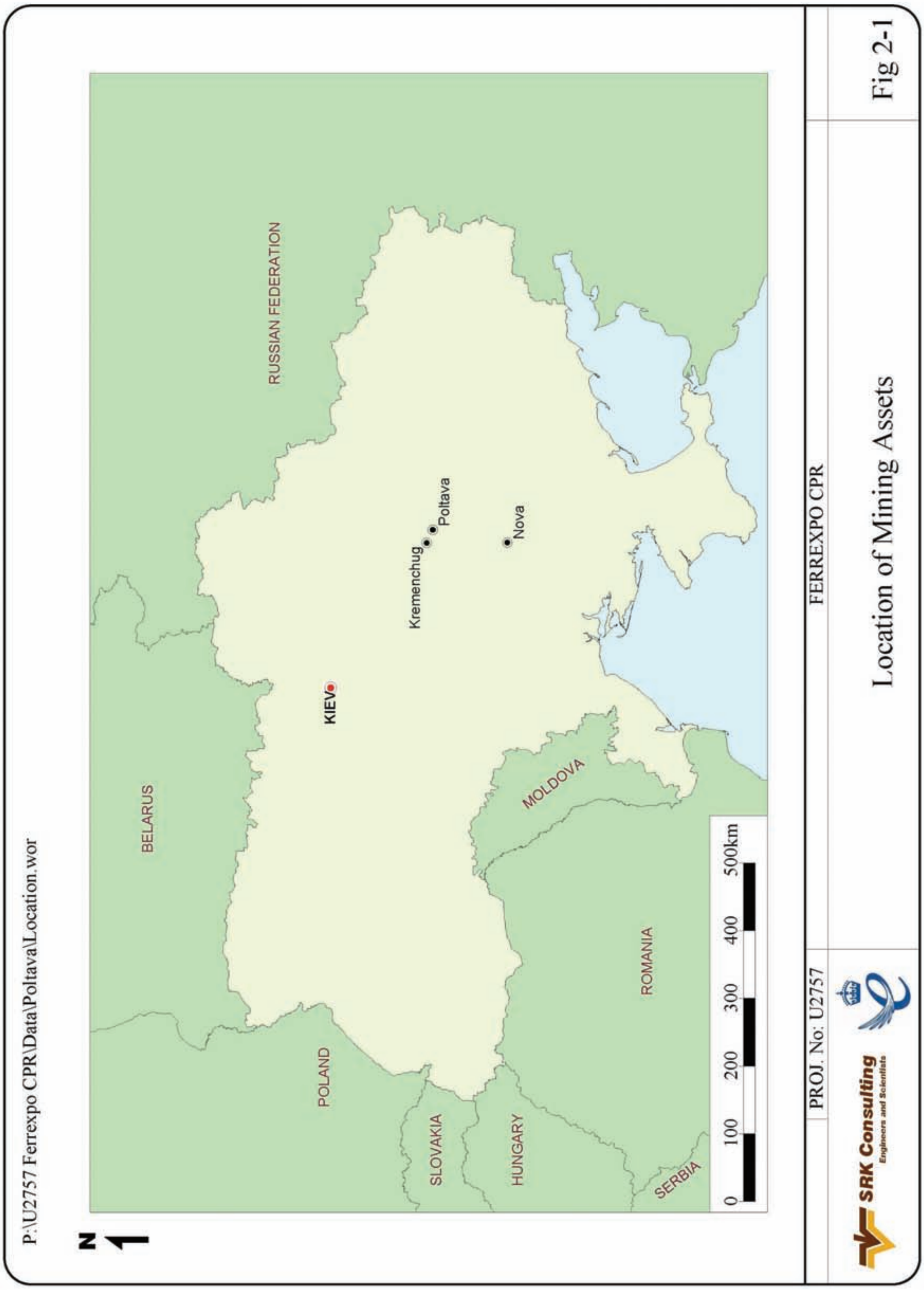
At Poltava ongoing subsurface use payments are made to the State based on the following unit rates per tonne of ore mined:

- UAH 0.90/t ore mined for subsurface use; and
- UAH 0.25/t ore mined for exploration performed at the expense of the State budget.

These are expected to continue in the future for all Poltava deposits and are accounted for in the Business Plan.

While the above licences all expire during the course of the Business Plan these have been issued for fixed terms in compliance with the norm in Ukraine and should be extended assuming the Company remains in compliance with the licence requirements.

Figure 2-1: Location of the Mining Assets



3. GEOLOGY

3.1 Introduction

This section describes the geology of the Mining Assets, gives a brief summary of the regional geology of Ukraine where the Mining Assets are located, summarises the nature and geometry of the orebodies being, or planned to be mined, their structural complexity and the variability of the mineralisation within these; and finally comments on the potential for the discovery of additional resources following any further exploration.

3.2 Regional Geology

There are over 50 known significant iron ore deposits in Ukraine located predominantly within the limits of the Ukrainian Shield. In terms of genetic features, age of formation and tectonic position these are generally grouped into five mineral districts: Krivoy Rog, White Lake, Kremenchug, Sea of Azov and Kerch. The first four of these districts form the Great Krivoy Rog metallogenic belt ("Great Krivoy Rog"), over 95 per cent. of the iron ore deposits identified within which are banded iron formations ("BIF").

The Mining Assets are located within the Krivoy Rog and Kremenchug districts which cover an area of approximately 1,200km north-south by 1 to 50km east-west. The Krivoy Rog and Kremenchug districts consist of three major syncline structures: Krivoy Rog (Saksagan), Yellow River and Galeshyna (Kremenchug). Individual deposits are separated from each other either by anticlines or combination of anticlines and compression faults.

The deposits themselves are largely BIFs and occur in large synclinoriums made up metamorphosed Precambirian sediments, termed the Krivoy Rog series. The Krivoy Rog series is comprised of three successions (Lower, Middle and Upper) and has a total thickness of up to 5km. The BIFs occur in the Middle succession and comprise a series of bands separated by metamorphosed schist horizons. All of the orebodies delineated to date occur in individual compressed synclines and/or anticlines and have been further disrupted by faulting and secondary folding.

3.3 Deposit Geology

3.3.1 *Introduction*

The Poltava deposits themselves are located in the north-south striking Kremenchug basin which is a narrow trough valley some 200km long which varies from several hundreds metres up to 5km wide.

Nine deposits have been delineated to date and explored to various degrees though to date only two of these, Gorishne-Plavninskoe and Lavrikovskoe (or "GPL"), have been mined both from the current open-pit at Poltava. A pre-feasibility level study has, however, been recently completed to demonstrate the potential for open pit mining of Yeristovskoe and some preliminary scoping study level work has been completed at Belanovskoe.

While the above four deposits have been explored extensively over some 30 years and contain reserves that were approved by the GKZ, the other five deposits are all further to the north, are less well explored and although one contains reserves approved by the GKZ they are not currently planned to be exploited as part of the Business Plan. The surface geology, location of all nine deposits and the license boundaries are presented in Figure 3-1.

3.3.2 *Local Geology*

The stratigraphic subdivisions of the BIFs in the Kremenchug basin are summarised in Table 3-1. These formations belong to the Precambrian metamorphic rocks of the Krivoy Rog series, which form a north-south trending band whose extents are limited by ancient plagiogranites and migmatites of the Dneprovsk and Krivoy Rog-Zhitomir complexes from the west and east respectively.

The orebodies are generally tabular and steeply dipping (>75º) and are hosted within banded ferruginous quartzites, which is typical of BIF. The majority of the orebodies lie along the eastern limb of a north-south striking syncline, the nose of which outcrops in the southern extent of the current pit. The syncline, which is tight in form, is bounded to the east and west by regional scale faults that show evidence of large-scale thrust faulting with a strike slip component, and contain remnant fragments of ironstone, and are the primary control on the location of the orebodies. In addition to these, minor faulting occurs within the ironstones resulting in some repetition and thickening.

The overlying rocks and sediments are generally of Cenozoic age, and comprise mainly sands and clays. Some of the deposit areas are covered by more competent rock types which require blasting prior to removal. The thickness of the cover gradually increases from south to north and ranges from 20m in the south up to 630m in the north.

The mineralogy of the orebodies and the magnetite grain sizes are very important with regards to processing and the ability to separate the magnetite from the host rock quartzites. The K_2^2 ironstone is relatively coarse grained (1-2mm magnetite grain size) in comparison with the other orebodies and therefore the liberation process easier. Finer grained orebodies (0.05mm magnetite grain size) are much more difficult to process and generally require further grinding and flotation to achieve high grade concentrates (see Section 6).

Table 3-1: Stratigraphic Sub-divisions of the BIFs in the Kremenchug Basin

Statigraphic Suite	Ore package Type	Thickness (m)	Deposit stratigraphic sub-divisions								
K_2^{10} (5th schist)	$K_2^{10}3$ $K_2^{10}2$ $K_2^{10}1$	50-100									
K_2^{9} (5th BIF)		45-50									
K_2^{8} (4th schist)		100							Kharchenkovskoe		
K_2^{7} (4th BIF)		200-450									
K_2^{6} (3rd Schist)		3-40									
K_2^{5} (3rd BIF)	$K_2^{5}3$ $K_2^{5}2$ $K_2^{5}1$	60-300					Galeschinskoe	Vasilevskoe			
K_2^{4} (2nd Schist)		50-150				Belanovskoe				Manuilovskoe	Brovarskoe
K_2^{3} (2nd BIF)	$K_2^{3}4$ $K_2^{3}3$ $K_2^{3}2$ $K_2^{3}1$	15-40 166-240 60-150 10		Lavrikovskoe	Yeristovskoe				Kharchenkovskoe		
K_2^{2} (1st BIF)	$K_2^{2}3$ $K_2^{2}2$ $K_2^{2}1$	19-25 32-95 21-35	Gorishne-Plavninskoe								
K_2^{1} (1st Schist)	$K_2^{1}3$ $K_2^{1}2$ $K_2^{1}1$	16-88 71 43									

The K_2^2 orebody is generally the most continuous and has better geological and grade continuity. In general the total and magnetite iron content increases from south to north by approximately 2-3 per cent., along with an increase in mineral grain sizes, aiding the liberation of the iron minerals.

Deep drilling has confirmed the continuation of most of the iron deposits to vertical depths of up to and in excess of 1km. The limits of the reported resources, however, are based on preliminary economic overburden stripping ratios calculated at the time the resources were estimated.

3.3.3 *Gorishne-Plavninskoe Deposit*

The Gorishne-Plavninskoe deposit comprises of two orebodies of magnetite and cummingtonite-magnetite quartzite (K_2^2 and K_2^3) which dip between 70 and 85° to the west.

The K_2^2 orebody is characterised by average total iron content ("Fe_{tot}") of 35.1 per cent. and average magnetite iron content ("Fe_{mag}") of 28.5 per cent.. The thickness of the orebody varies from 86-185m with an average of 150m over a strike length of some 3.2km.

The K_2^3 orebody is characterised by average grades of 26.9 per cent. Fe_{tot} and 17.7 per cent. Fe_{mag} while its thickness varies from 50 to 250m with an average of 115m over a strike length of some 3.0km.

The maximum depth of intersection of the deposit is 622m and the thickness of the overlying sedimentary strata ranges between 20-38m. The depth of the deposit according to geophysical data is more than 1.5km.

3.3.4 *Lavrikovskoe Deposit*

The Lavrikovskoe deposit comprises of two orebodies of magnetite and cummingtonite-magnetite quartzite (K_2^2 and K_2^3) and is a northern continuation of the Gorishne-Plavninskoe deposit. The orebodies generally dip between 70-85°.

The K_2^2 orebody is characterised by average grades of 35.2 per cent. Fe_{tot} and 27.2 per cent. Fe_{mag}. The thickness of the orebody varies from 41-113m with an average of 83m over a strike length of some 4.5km.

The K_2^3 orebody is characterised by average grades of 29.1 per cent. Fe_{tot} and 18.5 per cent. Fe_{mag}. The thickness of the orebody varies from 23-71m with an average of 43m over a strike length of some 4.5km.

The maximum depth of intersection of the deposit is 778m. The thickness of the overlying sedimentary strata ranges between 38-50m. The depth of the deposit according to geophysical data is more than 1.5km.

Figure 3-2 is an example cross section through the Gorishne-Plavninskoe and Lavrikovskoe pit.

3.3.5 *Yeristovskoe Deposit*

The Yeristovskoe deposit comprises of three orebodies of magnetite and cummingtonite-magnetite quartzite (K_2^2, K_2^3 and K_2^5) and is a northern continuation of the Lavrikovskoe deposit.

The Yeristovskoe deposit is 4.8km long and 0.3 to 0.7km wide. The orebody is fault limited on its western flank and to the east by granites and migmatites that form an intrusive contact against the BIF. Internally, the orebody is complicated by a series of steep faults that strike in a north to north east direction.

The K_2^2 orebody is characterised by average grades of 34.6 per cent. Fe_{tot} and 26.4 per cent. Fe_{mag}. The thickness of the ore body averages 48m over the strike length of some 3.5km.

The K_2^5 orebody is characterised by average grades of 34.3 per cent. Fe_{tot} and 27.5 per cent. Fe_{mag}. The thickness of the ore body averages 210m over the strike length of some 3.5km.

The K_2^3 orebody is characterised by average grades of 26.3 per cent. Fe_{tot} and 16.4 per cent. Fe_{mag}. The thickness of the orebody varies from 20-120m with an average of 56m over a strike length of some 3.5km.

The maximum depth of intersection of the deposit is 500m. The thickness of the overlying sedimentary strata ranges between 50 and 80m. The depth of the deposit according to geophysical data is more than 2.0km. As already commented a pre-feasibility study has already been completed which demonstrates the economics of establishing an open pit to exploit this orebody.

Figure 3-3 is an example cross section through Yeristovskoe.

3.3.6 *Belanovskoe Deposit*

The Belanovskoe deposit comprises of four orebodies of magnetite and cummingtonite-magnetite quartzite (K_2^2, K_2^3, K_2^5 and K_2^7).

The K_2^2 orebody is characterised by average grades of 34.5 per cent. Fe_{tot} and 26.0 per cent. Fe_{mag}. The thickness of the K_2^2 averages some 11m over the strike length of some 5.0km.

The K_2^5 orebody is characterised by average grades of 30.0 per cent. Fe_{tot} and 21.2 per cent. Fe_{mag}. The thickness of the K_2^5 averages some 65m over the strike length of some 4.5km.

The K_2^7 orebody is characterised by average grades of 30.2 per cent. Fe_{tot} and 20.8 per cent. Fe_{mag}. The thickness of the K_2^7 averages some 140m over the strike length of some 2.0km.

The K_2^3 orebody is characterised by average grades of 27.0 per cent. Fe_{tot} and 16.0 per cent. Fe_{mag}. The thickness of the ore body ranges between 90-180m and averages 125m over the strike length of some 2.5km.

The maximum depth of intersection of the deposit is 925m, with an average depth of exploration down to 500m. The thickness of the overlying sedimentary strata ranges between 80-120 metres. According to geophysical data, the deposit extends to a depth of more than 2.0km.

Preliminary investigations have suggested that this orebody may be amenable to open pit mining but these are not yet sufficiently advanced for this to be reported as a reserve and therefore included in SRK's base case valuation presented in this report.

3.3.7 *Galeschinskoe Deposit*

The Galeschinskoe deposit is situated to the northeast of the Belanovskoe deposit and is characterised by the presence of the K_2^2 orebody along with more than 40 deposits of rich martite and hydrohematite.

While the iron content of these orebodies is very high in comparison with the other deposits along the Kremenchug anomaly, it is tectonically more complex than any of the other deposits with cross cutting faults that displace the orebodies and in places result in variations of the thickness of the deposits.

The deposits have a strike length of between 150-2,950m with the thicknesses ranging from 2-74m and vertical extents from 245m down to more than 1.5km. Fe_{tot} in different profiles varies from 51.4-63.7 per cent., with an average of 60.5 per cent. Fe_{tot}.

The Galeschinskoe deposit has a different geometry and is mineralogically different to the other deposits in that it comprises mainly haematite, and therefore will not be amenable to magnetic processing technology.

The maximum depth of intersection of the ore body is 1.5km. The thickness of the overlying sedimentary strata ranges between 120-200m. According to geophysical data, the mineralisation extends to a depth of more than 2.0km and it is considered as an underground rather than an open pit mining target.

3.3.8 *Northern Deposits*

This section briefly describes the other four iron deposits identified along the Kremenchug belt, from south to north, namely Vasilevskoe, Kharchenskovskoe Manuilovskoe and Brovarskoe. All of these represent potential underground, rather than open pit, mining targets.

The Vasilevskoe deposit comprises of three orebodies of magnetite and cummingtonite-magnetite quartzite (K_2^2, K_2^3 and K_2^7) comprising average grades of Fe_{tot} 34 per cent., 33.7 per cent. and 33.6 per cent., and grades of Fe_{mag} of 25.3 per cent., 27.0 per cent. and 28.2 per cent. respectively. The thicknesses and strike lengths for the different orebodies within the deposit are 130m over 5km, 90m over 4.5km, and 450m over 5.5km, respectively. The thickness of the overlying sedimentary strata ranges between 200-360m and according to geophysical data, the depth of the deposit is more than 3.0km, with resources estimated down to depths of 1.5km.

The Kharchenkovskoe deposit comprises of two orebodies of magnetite and cummingtonite-magnetite quartzite (K_2^2 and K_2^7) with average grades of Fe_{tot} 37.5 per cent. and 34.8 per cent., and Fe_{mag} 32.0 per cent. and 25.7 per cent., respectively. The respective thicknesses and strike lengths for the different orebodies within the deposit are 130m over 2.3km and 500m over 4.5km respectively. The thickness of the overlying sedimentary strata ranges between 360-410m. According to geophysical data, the depth of the deposit is more than 3.0km, with resources estimated down to depths of 1,500m.

The Manuilovskoe deposit is comprised of two orebodies of magnetite and cummingtonite-magnetite quartzite (K_2^2 and K_2^7) with average grades of Fe_{tot} 36.4 per cent. and 37.5 per cent., and Fe_{mag} of 32.5 per cent. and 29.6, respectively. The respective thicknesses and strike lengths for the different orebodies within the deposit are 1,000m over 5.0km and 250m over 4.0km respectively. The thickness of the overlying sedimentary strata ranges between 410 and 530m. According to geophysical data, the depth of the deposit is more than 3.0km, with resources estimated down to depths of 1,500m.

The Brovarskovsoe deposit comprises two orebodies of magnetite and cummingtonite-magnetite quartzite (K_2^2 and K_2^7) with average grades of Fe_{tot} 38.6 per cent. and 32.8 per cent., and Fe_{mag} of 32.5 per cent. and 19.8 per cent. respectively. The respective thicknesses and strike lengths for the different ore types within the deposit are 760m over 6.0km and 140m over 4.0km respectively. The thickness of the overlying sedimentary strata ranges between 530 and 630m. According to geophysical data, the depth of the rock mass deposition is more than 3.0km, with resources estimated down to depths of 1,500m.

3.4 SRK Comments

The nine deposits along the Kremenchug basin have been explored in sufficient detail to gain a good understanding on the geological controls of the deposit. Other than Belanovskoye, the geological continuity of the various orebodies delineated to date is good.

The mineralogical differences in the Galeschinskoe deposit to all of the other deposits means that different processing techniques would be required to recover the relatively high iron content mineralisation.

The northerly plunging nature of the deposits in the Kremenchug basin results in deposits that are potentially extractable by open-pit methods in the south where the overburden thickness is some 30m to the perceived limit of open-pit extraction in the middle of the belt at the Belanovskoe deposit where there is some 100m of overburden. Further north the deposits are deemed to be potentially extractable by underground methods up to the Brovarkoskoe deposit where there is some 580m of overlying strata.

In SRK's opinion there is little further potential at Poltava other than the orebodies described above.

Figure 3-1: Surface Geology of the Poltava Deposits and Licence Boundaries

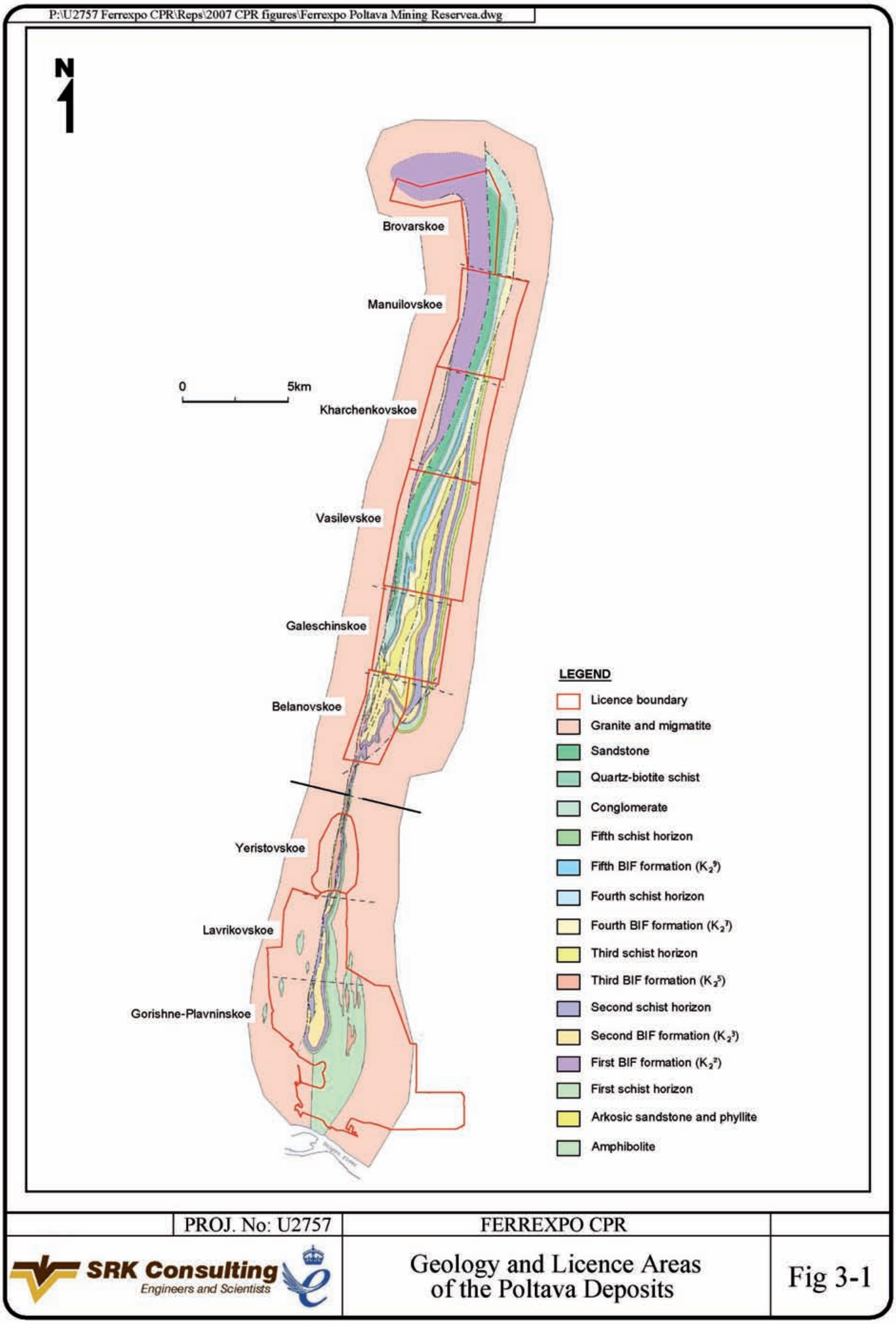


Figure 3-2: Example Cross Section through the Gorishne-Plavninskoe and Lavrikovskoe Pit

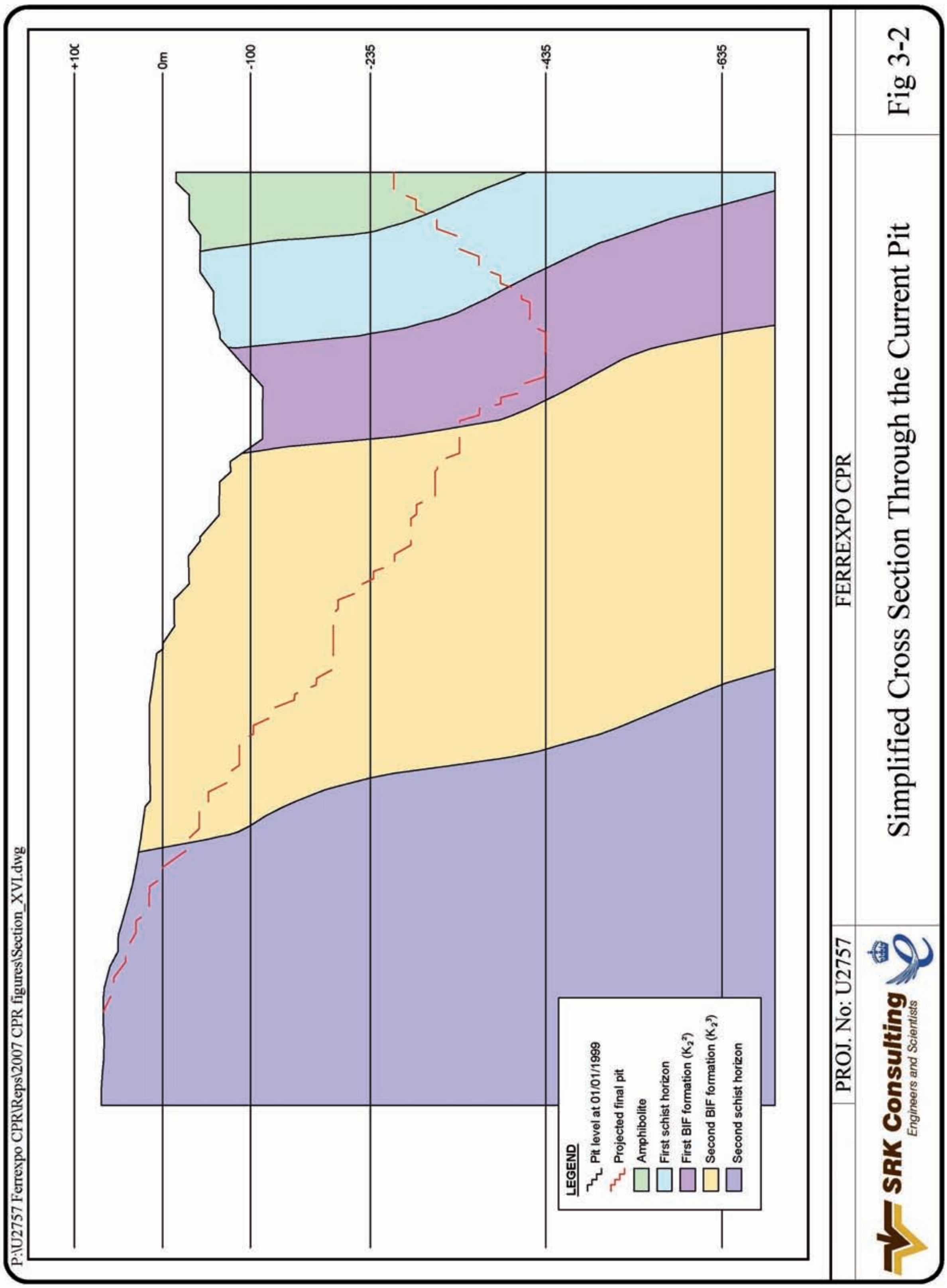
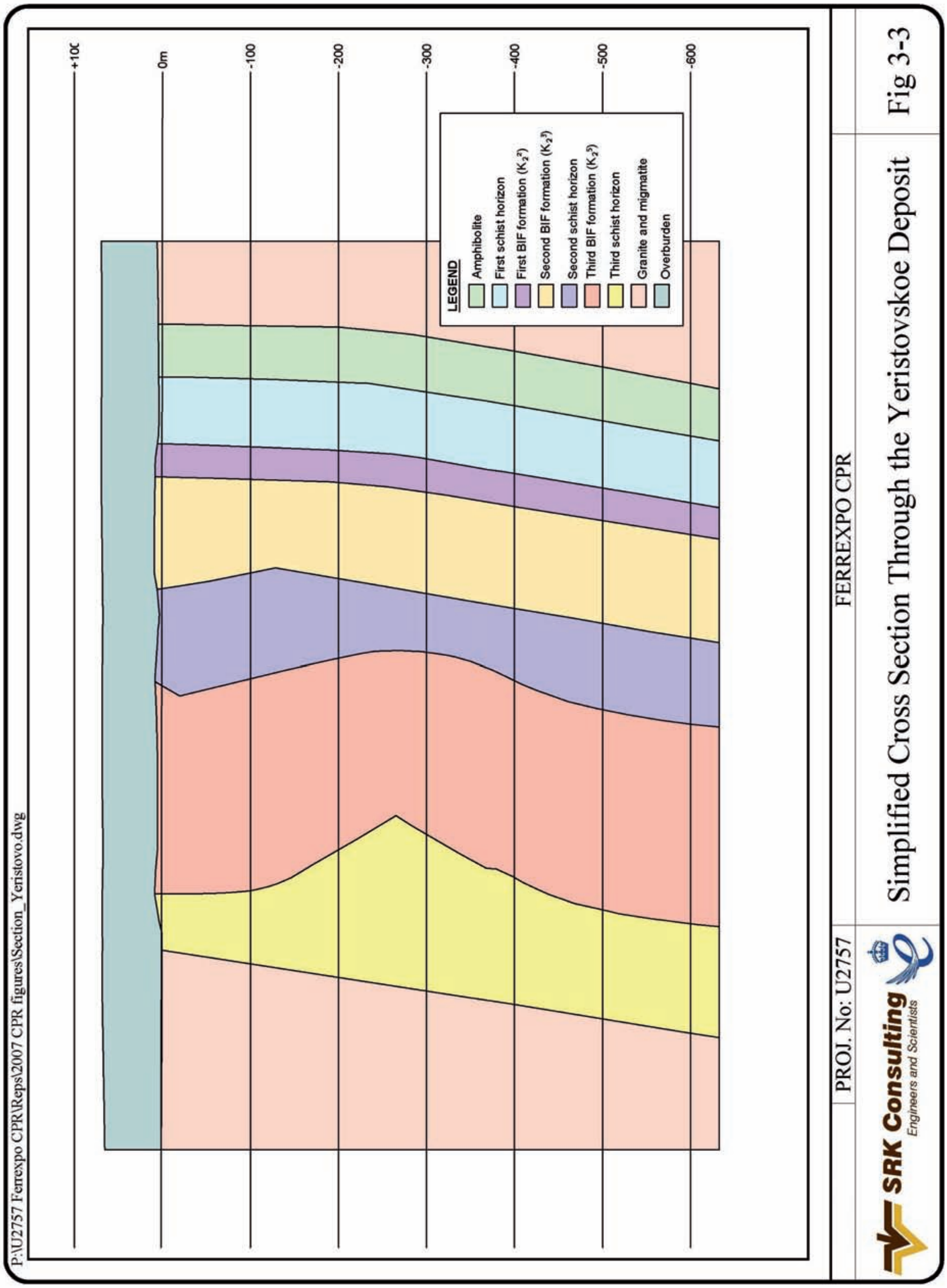


Figure 3-3: Example Cross Section through the Yeristovskoe Deposit



4. MINERAL RESOURCES AND ORE RESERVES

4.1 Introduction

This section summarises the methods used by the Company to estimate and classify its resource and reserve estimates for the Mining Assets in accordance with GKZ guidelines. It also gives SRK's comments and opinions on the reasonableness of these estimates and presents SRK's re-classification of these estimates in accordance with the JORC Code.

SRK has not recalculated the resource or reserve estimates given here. SRK has, however, undertaken sufficient check calculations and where appropriate, made necessary adjustments to the estimates prepared by the Company to derive the audited estimates presented herein.

4.2 Mineral Resource Estimation Methodology

4.2.1 *Exploration History*

The Company's' deposits have been explored from the 1940s to the present day and in accordance with the guidelines set out by the GKZ. This work has largely been carried out by state run enterprises primarily the Kiev Geology Trust (subsequently renamed the Ukrainian Geology Trust) and the Kremenchug Exploration Company, a subsidiary of the Ministry of Geology of Ukraine. A summary of the exploration completed on the orebodies for which SRK has reported resource estimates is given in Table 4-1 below. The levels of exploration range from grass roots through to production/grade control drilling.

Table 4-1: Poltava Deposits Drilling Information

Deposit	Drillholes (No.)	Drilling (m)	Samples (No.)
Lavrikovskoe	145	41,900	5,600
Gorishne-Plavninskoe	384	79,600	14,600
Yeristovskoe	228	63,100	7,100
Belanovskoe	224	84,800	11,400
Galeschinskoe	321	168,500	21,500
Vasilevskoe	11	5,800	700
Brovarskoe	17	65,600	3,700
Kharchenskovskoe	24	20,500	1,700
Manuilovskoe	81	65,600	3,700

4.2.2 *Drilling/Sampling Procedures*

The drill grid spacing generally required for material to be reported using the different GKZ categories is given below in Table 4-2. This has been used as the guideline at Polatva though in some cases the spacing has been reduced where the individual orebody geometries are more complicated.

Table 4-2 Drill Grid Spacing Required for GKZ Estimates

Deposit Group	Structural & Morphological Types of Ore Bodies	Type of Excavation	Distance between intersections of following reserve categoriesore bodies by excavations (m) for the following reserve categories					
			A		B		C_1	
			along strike	down dip	along strike	down dip	along strike	down dip
1	Large horizontal or gently dipping bodies of consistent thickness and ore quality	Boreholes	200	200	400	400	800	800
2a	Large folded bodies or tabular- and lens-shaped bodies disturbed by disjunctive faulting with relatively complex structure and consistent ore quality	Boreholes	–	–	100-300	100-200	400-600	200-400
2B	Large and medium-sized ore bodies of a lens, stock, pillar and chimney shape with complex structure or inconsistent ore quality	Boreholes	–	–	75-150	50-100	150-300	100-200
3	Medium and small-sized ore bodies of a lens, vein and pillar shape of complex configuration with extremely variable thickness and ore quality	Boreholes	–	–	–	–	50-100	50-100

There is no remaining core at site from any of the drilling campaigns. Following detailed geological logging, the core was halved by hand cutting with one-half used for chemical analysis and the other half used for metallurgical testing relating to the concentrating and processing characteristics of the ore. Sampling of the drill core was undertaken using changes of lithology types, on lengths of between 0.5-10m, averaging approximately 5m. Samples were crushed and ground to 0.074mm before analysis.

Historically state run laboratories were used for the analysis of the samples. The current laboratory at Poltava uses the same methodology as the state laboratories and is currently seeking accreditation in the European Union.

The laboratory can analyse for the following elements using wet chemistry techniques; Fe total, Fe magnetite, Fe in oxidation phase, mineralogical phase analysis, phosphorous, sulphur, titanium, manganese, aluminium, calcium, magnesium and silica. The majority of the analysis undertaken is referred to as "express analysis" mainly comprising of Fe magnetite, Fe total, Fe concentrate grade and Fe tailings grade.

The quality control procedures at the current laboratory and those reportedly undertaken in the past include; internal sample duplicate checks, the introduction of standards and external laboratory checks with other laboratories operating in Ukraine.

As no drill core is available for inspection, SRK has not been able to independently verify the underlying sampling and assay data. SRK was, however, able to observe the geology and orebody first hand in the case of Lavrikovskoe and Gorishne-Plavninskoe and considering the extensive and well-documented geological exploration and evaluation work undertaken SRK is confident that the quality control procedures used have been appropriate and that the resulting assays are sufficiently robust to support the resource estimates as reported.

4.2.3 *Geological Modelling and Grade and Tonnage Estimation*

All of the resource estimates produced by the Company have been derived using standard GKZ documented procedures as summarised below though Yeristovskoe has also been modelled using modern computerised methods. The standard GKZ approved approach comprised:-

- The drawing of parallel vertical cross-sections along the exploration drilling lines.
- Hard copy geological interpretation on the above cross-sections which were then used to create geological long-sections along the strike length of each orebody.
- The delineation of a series of panels on each cross-section, and corresponding blocks on the long sections, based upon ore type, minimum mining width, total Fe and magnetite Fe and the potential for the block to be either exploited by open pit or underground methods.
- The calculation of areas for each panel as delineated on each cross section and block volumes based on these and a mathematical formula for calculating the volume of a cut-pyramid for blocks between cross-sections, and the mathematical formula for calculating the volume of a prism for edge blocks.
- The derivation of block tonnages based on the following density assumptions:-
  - Gorishne-Plavninskoe and Lavrikovskoe: K_2^2 3.4 t/m3, K_2^3 3.3 t/m^3 (determined from a total of 647 samples);
  - Yeristovskoe: K_2^2 3.35 t/m^3, K_2^3 3.15 t/m^3, K_2^5 3.35 t/m^3 (determined from a total of 612 samples); and
- The derivation of block grades using the length weighted grade of the BIF interval for each of the boreholes intersecting each block (Fetot and Femag).
- The summation of all of the above and the reporting of these using the GKZ reporting guidelines.

While the above methodology can introduce bias into the estimation process if samples are not distributed evenly within the blocks or if there are outlier values present, the samples in this case do tend to be distributed reasonably evenly within the blocks, there is little grade variability and SRK considers the resulting estimates to be unbiased.

The specific parameters/criteria used to define the panels and blocks were:

- A minimum ore thickness of 10m (2m for Galeschinskoe).
- A maximum allowable waste inclusion of 10m (4m for Galeschinskoe),
- A minimum magnetic iron grade allowed within block outline:
  - Gorishne-Plavinskoe & Lavrikovskoe - K_2^2 = 19.5 per cent., K_2^3 = 15 per cent.,
  - Yeristovskoe – K_2^2 = 21 per cent., K_2^5 = 21 per cent., and K_2^3 = 14 per cent.,
- A minimum block grade to be “on-balance”:
  - Gorishne-Plavinskoe & Lavrikovskoe - K_2^2 = 16 per cent., K_2^3 = 14 per cent.,
  - Yeristovskoe – 12 per cent. for all ore types.
- In addition, the breakeven cut-off grades have been provided for Yeristovskoe and Galeschinskoe, with values of 14 per cent. Femag and 46 per cent. Fetot respectively.

For the Kremenchug deposits, following the blocking stage, data was compiled relating to the geotechnical parameters and economic calculations for the calculation of economic overburden waste to iron ore striping ratios, in order to generate provisional pit slopes. The geotechnical parameters were calculated using geotechnical testwork data, which are summarised in the GKZ Reserve documents. The economic parameters used to calculate the economic stripping ratios are not documented in the GKZ documents, but were calculated during the production of the Russian Feasibility studies ("TAO" document).

The pit-shells generated using the stripping ratio and geotechnical parameters are then used to separate those resources within the shell, "on-balance" and those outside of the shell, "off-balance". In addition, the quality of the blocks is also considered based upon the parameters described above, in order to also categorise unfavourable and below cut-off grade blocks lying within the pit shell as "off-balance".

4.2.4 ***Yeristovskoe Geological Modelling and Grade and Tonnage Estimation***

As commented above, Yeristovskoe has been modelled electronically by the Company using up to date mining software, in this case Micromine. Specifically, the Company:-

- Imported the collar, survey, lithology and assay files into the Micromine software and validated this to remove or fix standard errors such as duplicate drill holes, missing coordinates and incorrect intervals.
- Interpreted geological domains for the three separate orebodies known to be present (K_2^2, K_2^3 and K_2^5) and also for overburden and fault surfaces as required.
- Completed both a classical statistical analysis of the orebodies and a geostatistical analysis on samples composited to 5m intervalsl.
- Interpolated the sample grades into a 3D block model using an Ordinary Kriging algorithm and then validated this using an Inverse Distance Weighting (IDW) algorithm.

While SRK has some minor concerns with regards the representivity of the downhole variograms created, SRK is confident that the processes used to model, estimate and validate the Yeristovskoe deposit were carried out to a good standard and that the resulting estimates should be unbiased.

4.2.5 ***Classification***

The Russian system of classification of reserves consists of seven categories reflecting increasing levels of reliability and depth of study. These are, in decreasing order of confidence; A, B, C1, C2, P1, P2 and P3. In common with other internationally accepted reporting systems, these categories are assigned based on the geological complexity of the orebody being assessed, and the quantity and quality of the exploration data collected. The Russian system is, however, both more complex and more rigid than its western counterparts.

In general, A and B resources for deposits such as those managed by the Company require relatively close spaced drilling at a spacing of 400m or less and/or underground development, C1 resources require drilling at a spacing of no more than 800m while C2 resources can be based on a wider spacing and/or extrapolation from C1 resource areas. P1 resources are often based on sparse sampling data or extrapolation beyond C2 resources, P2 resources are commonly based on geochemical or geophysical exploration and P3 resources are based on 'favourable geological environments' and are intended to give an indication of the prospectivity of an area.

Given that the geological and structural complexity of the iron ore deposits at Poltava are considered to be low, the consistent distribution of the mineralisation throughout the orebodies and the quantity and quality of the data on which the resource estimates are based, SRK considers that, in this case, A and B reserves are equivalent to the Measured Resource category as defined by the JORC Code, C1 reserves to the Indicated Resource category and C2 reserves to the Inferred Resource category. In some instances P1 reserves are also converted to the Inferred category although this is dependent on the level of understanding of geological and grade continuity of the particular deposit and also the deposit must be demonstrated to be potentially economic.

Table 4-3 below is a summary of the GKZ approved resources for the Mining Assets where sufficient work has been completed to demonstrate that these have the potential to be mined.

Table 4-3: Company GKZ Approved Resources

BIF Summary

GKZ Category	A&B			C1			C2		
Deposit	Tonnage (Mt)	Grade Fe(tot) %	Grade Fe(mag) %	Tonnage (Mt)	Grade Fe(tot) %	Grade Fe(tot) %	Tonnage (Mt)	Grade Fe(tot) %	Grade e(mag) %
Gorishne-Plavninskoe	239	30%	22%	845	33%	25%	51	34%	28%
Lavrikovskoe	86	34%	25%	394	33%	24%	13	27%	17%
Yeristovskoe	268	34%	27%	565	33%	26%	–	–	–
Belanovskoe	336	33%	24%	1,291	31%	21%	37	30%	20%
Total	**929**	**33%**	**25%**	**3,095**	**32%**	**24%**	**101**	**32%**	**24%**

Furnace Fe Ore Summary

GKZ Category	A&B		C1		C2	
Deposit	Tonnage (Mt)	Grade Fe(tot) %	Tonnage (Mt)	Grade Fe(tot) %	Tonnage (Mt)	Grade Fe(tot) %
Galeschinskoe	–	–	325	59%	29	59%
Total	**–**	**–**	**325**	**59%**	**29**	**59%**

4.3 Ore Reserve Estimation

4.3.1 *Modifying Factors*

Although the Company only reports "*in situ*" resource estimates on an annual basis, modifying factors of dilution and losses are used to convert *in situ* resources to Run-of-Mine ("RoM") tonnages and grades for the purpose of production scheduling.

Following a study by a technical institute in 2005 the modifying factors shown in Table 4-4 below were estimated for each of the orebodies being mined in the existing pit.

Table 4-4 Technical Institute Recommended Modifying Factors

Deposit	Dilution (%)	Losses (%)
K_2^2	2.5	2.5
K_2^3	3-3.5	3-3.5
K_2^5	3.0	3.0

Historical reconciliation factors measured over the previous four years are shown below in Table 4-5.

Table 4-5 Historical Losses and Dilution

Percentage Factors	2004 (%)	2005 (%)	2006 (%)
Dilution			
K_2^2 – Gorishne-Plavninskoe	1.0	0.7	0.7
K_2^2 – Lavrikovskoe	n/a	n/a	n/a
K_2^2 – Total	1.0	0.7	0.7
K_2^3 – Gorishne-Plavninskoe	1.7	0.4	1.2
Losses			
K_2^2 – Gorishne-Plavninskoe	0.8	1.2	1.2
K_2^2 – Lavrikovskoe	n/a	n/a	n/a
K_2^2 – Total	0.8	1.2	1.2
K_2^3 – Gorishne-Plavninskoe	1.4	0.8	1.6

As is clear from the above two tables the actual results for dilution and losses are significantly lower than the factors estimated by the institute. As there is some grade in dilution the overall effect of the loss and dilution is that both the tonnage sent to the process facilities and the contained metal are historically within 0.5 per cent. of that in the resource.

Given the above, while the Ore Reserve reported below for the existing pit incorporate the above loss and dilution assumptions, no losses or dilution have been incorporated at Yeristovskoe.

4.3.2 *Selective Mining Units*

The selective mining unit ("SMU") is effectively assumed to be the GKZ reserve blocks (which are generally more than 100m long along strike). However, at Poltava following grade control sampling, more detailed mining blocks are outlined and used for short-term planning down to less than 50m in plan and 12m vertical corresponding to the bench heights.

4.3.3 *Grade Control and Reconciliation*

The grade control procedures in place at the existing pit comprise:-.

- Surveying of the planned mining block (generally 50m in plan, 12m deep corresponding to bench height);
- Blasthole drilling (250mm diameter, 5x5m spacing for K_2^2 and 5.5x5.5m spacing for K_2^3) and limited cored drilling (59mm diameter, 25-30m spacing), used to provide a bench composite sample for express analysis. For a large block this would comprise of 100 holes with 10-12 holes cored and sampled. No samples are collected from the blasthole drilling;
- Down hole geophysical surveying of all blast holes. These surveys are used to estimate the Fe total and Fe magnetite grades using correlations between geophysical properties and grades;
- Channel/grab sampling across surface of exposed benches with express analysis of samples;
- Sampling of the feed material into the crushing plant using a Russian HB-5 device which measures the magnetic susceptibility of the ore running across the belt every second, and using formulae to calculate the magnetic iron content; and
- Grade control on the processing plant is conducted on lump ore by measuring grade in the laboratory almost every hour. The total number of samples analysed per day is as follows: 16 express analyses, for each of the 13 sections, totalling 208 measurements per day.

Using the information from these procedures the geologists produce a plan for each mining block using the survey data, including the observed geology and the relationship between the different ore grades/types and the results of all of the analyses described above.

The tonnage and grade of the mining block is then estimated using the survey information and length weighted average grades. The mined block grade and tonnage is then compared to data collected at the primary crushers and the tailing facilities.

This process is used to monitor monthly production and to assist in short-term mine planning with respect to the required ore feed grade requirements.

4.4 SRK Mineral Resource and Ore Reserve Statements

The tables in this section present SRK's statements of Mineral Resources and Ore Reserves according to the terms and definitions in the JORC Code.

In presenting the Mineral Resource and Ore Reserve statements the following apply:

- Measured and Indicated Mineral Resources are inclusive of those Mineral Resources modified to produce Ore Reserves.

- Ore Reserves are based on the pit outlines derived by technical institutes as described above. Although these pit outlines appear to be reasonable they have not been optimised to reflect the economic projections in the Business Plan;
- The Mineral Resource and Ore Reserve Statements are dated as at 1 January 2007;
- While the Ore Reserves are quoted in terms of RoM grades and tonnage as delivered to the metallurgical plants and are therefore fully diluted and account for mining extraction; no modifying factors have been applied to the Mineral Resources for conversion to Ore Reserves based on the historical data presented above;
- All Mineral Resources and Ore Reserves are quoted as 100 per cent. and not attributable with respect to ownership.
- Ore Reserve statements include only Measured and Indicated Mineral Resources modified to produce Ore Reserves and planned for extraction in the Business Plan.
- All of the Ore Reserve at Yeristovskoe has been classed as Probable reflecting the fact that this deposit has to date only been the subject of a pre-feasibility study level of assessment.

The following tables present SRK's audited Mineral Resource and Ore Reserve statements for each asset in turn and also a summary statement for all the assets combined.

Table 4-6: SRK Audited Mineral Resource and Ore Reserve Statement for Gorishne-Plavninskoe: 1 January 2007

Gorishne-Plavninskoe

Ore Reserve Category					**Mineral Resource Category**				
		Tonnage (Mt)	**Grade Fe(tot) %**	**Grade Fe(mag) %**			**Tonnage (Mt)**	**Grade Fe(tot) %**	**Grade Fe(mag) %**
Proved					**Measured**				
	- K_2^2	101	33%	26%		- K_2^2	101	35%	28%
	- $K_2^3 3$	139	27%	17%		- $K_2^3 3$	139	27%	18%
Subtotal		**239**	**30%**	**21%**	**Subtotal**		**239**	**30%**	**22%**
Probable					**Indicated**				
	- K_2^2	84	33%	26%		- K_2^2	586	35%	29%
	- $K_2^3 3$	76	27%	17%		- $K_2^3 3$	259	27%	18%
Subtotal		**160**	**30%**	**22%**	**Subtotal**		**845**	**33%**	**25%**
Total Reserves		**399**	**30%**	**21%**	**Total**		**1,085**	**32%**	**25%**
					Inferred				
						- K_2^2	51	34%	28%
						- $K_2^3 3$	-	-	-
					Subtotal		**51**	**34%**	**28%**

Table 4-7: SRK Audited Mineral Resource and Ore Reserve Statement for Lavrikovskoe: 1 January 2007

Lavrikovskoe

Ore Reserve Category					Mineral Resource Category				
		Tonnage (Mt)	Grade Fe(tot) %	Grade Fe(mag) %			Tonnage (Mt)	Grade Fe(tot) %	Grade Fe(mag) %
Proved					**Measured**				
	- K_2^2	20	33%	26%		- K_2^2	68	35%	27%
	- $K_2^3 3$	18	27%	17%		- $K_2^3 3$	18	29%	19%
Subtotal		**38**	**30%**	**22%**	**Subtotal**		**86**	**34%**	**25%**
Probable					**Indicated**				
	- K_2^2	21	33%	26%		- K_2^2	239	35%	27%
	- $K_2^3 3$	33	27%	17%		- $K_2^3 3$	156	29%	19%
Subtotal		**53**	**29%**	**21%**	**Subtotal**		**394**	**33%**	**24%**
Total Reserves		**92**	**30%**	**21%**	**Total**		**480**	**33%**	**24%**
					Inferred				
						- K_2^2	-	-	-
						- $K_2^3 3$	13	27%	17%
					Subtotal		**13**	**27%**	**17%**

Table 4-8: SRK Audited Mineral Resource and Ore Reserve Statement for Yeristovskoe: 1 January 2007

Yeristovskoe

Ore Reserve Category					Mineral Resource Category				
		Tonnage (Mt)	Grade Fe(tot) %	Grade Fe(mag) %			Tonnage (Mt)	Grade Fe(tot) %	Grade Fe(mag) %
Proved					**Measured**				
	- K_2^2, K_2^5	–	–	–		- K_2^2, K_2^5	268	34%	27%
	- K_2^3 3	–	–	–		- K_2^3 3	–	–	–
Subtotal		**–**	**–**	**–**	**Subtotal**		**268**	**34%**	**27%**
Probable					**Indicated**				
	- K_2^2, K_2^5	632	34%	30%		- K_2^2, K_2^5	495	34%	27%
	- K_2^3 3	–	–	–		- K_2^3 3	70	27%	17%
Subtotal		**632**	**34%**	**30%**	**Subtotal**		**565**	**33%**	**26%**
Total Reserves		**632**	**34%**	**30%**	**Total**		**833**	**34%**	**26%**
					Inferred				
						- K_2^2	–	–	–
						- K_2^3 3	–	–	–
					Subtotal		**–**	**–**	**–**

Table 4-9: SRK Audited Mineral Resource and Ore Reserve Statement for Belanovskoe: 1 January 2007

Belanovskoe

Ore Reserve Category	Tonnage (Mt)	Grade Fe(tot) %	Grade Fe(mag) %	Mineral Resource Category	Tonnage (Mt)	Grade Fe(tot) %	Grade Fe(mag) %
Proved				**Measured**			
- K_2^2, K_2^5 & K_2^7	–	–	–	- K_2^2, K_2^5 & K_2^7	270	35%	26%
- K_2^3 3	–	–	–	- K_2^3 3	66	27%	15%
Subtotal	**–**	**–**	**–**	**Subtotal**	**336**	**33%**	**24%**
Probable				**Indicated**			
- K_2^2, K_2^5 & K_2^7	–	–	–	- K_2^2, K_2^5 & K_2^7	810	33%	24%
- K_2^3 3	–	–	–	- K_2^3 3	481	27%	16%
Subtotal	**–**	**–**	**–**	**Subtotal**	**1,291**	**31%**	**21%**
Total Reserves	**–**	**–**	**–**	**Total**	**1,627**	**31%**	**22%**
				Inferred			
				- K_2^2, K_2^5 & K_2^7	26	31%	22%
				- K_2^3 3	12	27%	16%
				Subtotal	**37**	**30%**	**20%**

Table 4-10: SRK Audited Mineral Resource and Ore Reserve Statement for Galeschinskoe: 1 January 2007

Galeschinskoe

Ore Reserve Category	Tonnage (Mt)	Grade Fe(tot) %	Grade Fe(mag) %	Mineral Resource Category	Tonnage (Mt)	Grade Fe(tot) %	Grade Fe(mag) %
Proved				**Measured**			
- K_2^2	–	–	–	- K_2^2	–	–	–
Subtotal	**–**	**–**	**–**	**Subtotal**	**–**	**–**	**–**
Probable				**Indicated**			
- – K_2^2	–	–	–	- K_2^2	325	59%	–
Subtotal	**–**	**–**	**–**	**Subtotal**	**325**	**59%**	**–**
Total Reserves	**–**	**–**	**–**	**Total**	**325**	**59%**	**–**
				Inferred			
				- K_2^2	29	59%	–
				Subtotal	**29**	**59%**	**–**

Table 4-11: SRK Audited Mineral Resource and Ore Reserve Statement Summary: 1 January 2007

BIF Summary

Ore Reserve Category				**Mineral Resource Category**			
	Tonnage (Mt)	**Grade Fe(tot) %**	**Grade Fe(mag) %**		**Tonnage (Mt)**	**Grade Fe(tot) %**	**Grade Fe(mag) %**
Proved				**Measured**			
Gorishne-Plavninskoe	239	30%	21%	Gorishne-Plavninskoe	239	30%	22%
Lavrikovskoe	38	30%	22%	Lavrikovskoe	86	34%	25%
Yeristovskoe	–	–	–	Yeristovskoe	268	34%	27%
				Belanovskoe	336	33%	24%
Subtotal	**278**	**30%**	**21%**	**Subtotal**	**929**	**33%**	**25%**
Probable				**Indicated**			
Gorishne-Plavninskoe	160	30%	22%	Gorishne-Plavninskoe	845	33%	25%
Lavrikovskoe	53	29%	21%	Lavrikovskoe	394	33%	24%
Yeristovskoe	632	34%	30%	Yeristovskoe	565	33%	26%
				Belanovskoe	1,291	31%	21%
Subtotal	**845**	**33%**	**27%**	**Subtotal**	**3,095**	**32%**	**24%**
Total Reserves	**1,123**	**32%**	**26%**	**Total**	**4,025**	**32%**	**24%**
				Inferred			
				Gorishne-Plavninskoe	51	34%	28%
				Lavrikovskoe	13	27%	17%
				Yeristovskoe	–	–	–
				Belanovskoe	37	30%	20%
				Subtotal	**101**	**32%**	**24%**

Furnace Fe Ore Summary

Ore Reserve Category			**Mineral Resource Category**		
	Tonnage (Mt)	**Grade Fe(tot) %**		**Tonnage (Mt)**	**Grade Fe(tot) %**
Proved			**Measured**		
			Galeschinskoe	–	–
Subtotal	**–**	**–**	**Subtotal**	**–**	**–**
Probable			**Indicated**		
			Galeschinskoe	325	59%
Subtotal	**–**	**–**	**Subtotal**	**325**	**59%**
Total Reserves	**–**	**–**	**Total**	**325**	**59%**
			Inferred		
			Galeschinskoe	29	59%
			Subtotal	**29**	**59%**

4.5 SRK Comments

SRK considers the geometry of the orebodies defined at Poltava to be generally well understood and defined by the current drilling intersections. While SRK has reclassified the resource estimates to produce the audited Mineral Resource statement given here, SRK considers tonnage and grade estimates reported by the Company to have been derived in a systematic and professional manner.

SRK has reported mineral resource estimates for the Gorishne-Plavninskoe, Lavrikovskoe, Yeristovskoe, Belanovskoe and Galeschinskoe deposits reflecting SRK's confidence that these have both been sufficiently well explored to enable tonnages and grades to be estimated to a reasonable degree of confidence and sufficiently well assessed to confirm that they are potentially economic in accordance with the requirements of the JORC Code. All of these are potential open pit targets other than the Galeschinskoe deposit which is a potential underground target.

The Company has four other projects, namely the Manuilovskoe, Vasilievskoe, Kharchenkovskoe and Brovarkovskoe deposits, where exploration has been completed but where either the continuity of the mineralisation or their potential to be exploited economically is yet to be confirmed. The Group has reported resource estimates for these in accordance with the GKZ Classification which total approximately 14,000 million tonnes of *in situ* material. While the majority of this (some 11,000Mt) remains in the P categories, and is therefore at a very early stage of exploration, it is clear that the Company has good potential to operate for a significant period beyond that assumed by the current Business Plan and SRK's valuation.

5. MINING ENGINEERING

5.1 Introduction

The following section includes discussion and comment on the mining engineering related aspects of the Mining Assets. Specifically comment is given on the mine planning process, mining methods and geotechnical and hydrogeological assumptions made.

5.2 Existing Open Pit Mining - Gorishne-Plavninskoe and Lavrikovskoe Deposits

5.2.1 *Introduction*

The Gorishne-Plavninskoe and Lavrikovskoe (GPL) orebodies are being mined by a single open pit which is now some 5.8km along strike, 1.5km wide and 300m deep in the southern end, and 160m deep in the northern end. The mine currently produces some 28Mt of ore per annum which is scheduled to increase to 29Mt per annum by 2011 and to maintain this till 2022. Although preliminary studies are underway to assess the potential for continuing mining beyond this time, the current Business Plan assumes that production then gradually reduces over the following four years before the pit closes in 2026.

5.2.2 *Mining Method*

Mining is carried out using conventional electric drill rigs for the drilling and blasting of ore and waste, electric rope shovels loading either 90-120t haul trucks, or 105t rail mounted wagons. Ore is hauled either to in-pit reloading stations, for reloading into rail wagons, or is hauled to an in-pit crusher complex. The ore is then conveyed to the surface installations for reloading into rail wagons for transport to the process plant.

Waste is hauled by truck either to the in-pit crusher or in-pit reloading stations or in-pit temporary waste dumps. Waste is also hauled by rail wagons to the surface waste dump facilities. Waste is dumped and re-handled by shovels and bull dozers to maintain the dump profile.

The inter bench slope heights are referred to as 30m, however in the current pit four interim benches of 12m make up an overall bench of 48-50m;

5.2.3 *Mining Equipment*

Mobile Mining Equipment

The mine operates 48 electric rope shovels, 34 of which are used within the pit itself on face and re-loading duties.

The haul trucks range in age from relatively new to 12 years old and consist of a mixed fleet of BelAZ, Caterpillar and Komatsu trucks with a capacity of 90-120t. There are 62 trucks in the fleet with approximately 55 in use at any one time.

Mine Support Equipment

The existing pit operates a large fleet of mining support vehicles. These include explosive carriers, personnel transporters, graders, tracked and tyred bulldozers, water carts, re-fueling vehicles, cranes, equipment tractors and special material handling devices.

Rail Mining Equipment

The earthmoving mining fleet is complemented by a fleet of track-bound rolling stock. A network of approximately 250km of rail is being utilized. In total there are some 56 locomotives and 246 wagons, approximately 200 of which are in use at any one time. A train normally comprises a locomotive pulling 12 wagons, each of 105t capacity.

Approximately 34 locomotives are used in direct support of pit operations while 17 are used for other service applications. Locomotives include a mixture of diesel and electric powered units. All equipment is reported as being serviceable and all wagons are less than 20 years old.

Production planning for the rail network is carried out in detail in conjunction with the mining department. Daily, weekly and longer-term transport plans are prepared detailing the number of trains required and overall production tonnages.

Fixed Plant

Fixed plant includes that required for power and water reticulation, in-pit crushing and re-loading at the secondary crusher.

Power reticulation is in accordance with acceptable norms. Main HT reticulation is 11kV and is routed on either fixed or mobile pylons according to pit requirements and specific locality. The power supply appears to be in good condition with outages reported as infrequent.

Water is reticulated in pipes and stored near loading point for use in watering down guns. Dry drilling is practiced by drill rigs. Water usage appears to be well controlled.

The in-pit crushing station consists of a tip, apron feeder, jaw crusher, bridge mounted conveyor belt, spreader conveyor and stockpile. Two trucks can tip simultaneously into the bin, providing good flexibility and reducing queuing. The installation is nine years old and appears well maintained. The rated capacity of the plant is 1,500tph suggesting an effective capacity of approximately 7Mtpa. An additional in-pit crushing system is currently being installed and estimated to be complete in May 2007. This will increase the capacity by 50 per cent.

Productivity Improvements

A productivity improvement project is currently being undertaken at Poltava facilitated by GPR Dehler. The project commenced in November 2006 and plans to improve productivities and utilisation of the equipment employed at the mine as well as improvements to the various management and maintenance systems. A number of project teams have been established and the processes and efficiency improvements required are in the process of being defined in more detail. An analysis of the current operation by GPR Dehler indicates that there is room for significant improvement in equipment utilisation and business practice. Estimates of the likely improvements have been incorporated in the Business Plan, in terms of increased production and reductions in equipment complements and unit operating costs, and following a review by SRK have to some degree also been incorporated into SRK's Ore Reserve valuation given in Section 11.

5.2.4 *Dewatering*

The southern pit limit pit is located some 2km from the Dnipro River. Geologically, the weathered surface materials are effective aquifers and water is carried in jointing and fissures in the deeper unweathered horizons.

The pit walls appear to be dry, and the pit makes very little obvious water. The pit walls are being effectively dewatered by a network of underground drives and drainage holes, draining to a vertical shaft located on the south-eastern side of the pit. This shaft was originally developed for underground mining purposes, but has never been used for this purpose. From the shaft the water is pumped to the tailings dam, for future re-use in the plant. There are four pipelines with suitable pump trains to pump 1,300m^3/hr of water from the shaft and there are intermediate pump stations within the shaft. Additional pumps supplement the shaft pumping capacity up to a total of 2,500m^3/hr for the pit. Only one third of the installed pumps are typically required at any one time to control water ingress.

This system has worked well to date and there are currently two options for future pit dewatering as the current pit deepens. One is to deepen the shaft (from -240m to -335m) and to extend the system of tunnels underneath the pit as the pit is deepened. The other option is to use pump sumps in various parts of the pit for ongoing future pit dewatering. The decision will only be made once planned engineering design work has been completed although the second system is currently favoured.

There are suitable storm water trenches around the pit circumference to divert storm water from entering the pit. However given that the topography is very flat there is a risk that the River Dnipro could flood the open pit. This risk is managed in the following ways: a hydro-electrical scheme is used to manage the level of water within the Dnipro River and Poltava GOK monitors water level controls at the river intake location on an ongoing basis.

5.2.5 *Geotechnics*

The condition of the slopes appears to be good. The overall slope angles are relatively shallow due to the rail mining method and the access that is required to each mining level. Originally the open pit was designed to a depth of 700m though the current plan is to mine to a depth of 500m.

In the Business Plan the slope angles have recently been steepened. In all cross-sections of the open pit inter bench slope angles and not overall slope angles are referred to. The following points are based on a 1998 report on which the current slope angles are based:

- The inter bench slope heights are referred to as 30m, however in the current pit four interim benches of 12m make up an overall bench of 48-50m;
- On the southern side with unfavourable joint dipping conditions, the recommended safe slope angle is 30°; and
- On the other pit slopes, the recommended slope angles prior to 2006 were 35-40°.

A test section of 500m in length on the eastern side of the open pit is underway where an inter bench slope angle of 50-55° for a bench of approximately 50m height is being trialled. It appears from the recent Turgis Consulting (Pty) Ltd (Turgis) report that the test section has worked well and that on the basis of the test section performance the decision has been taken by the Company to steepen the slopes.

The steeper pit slopes will allow the pre-stripping volumes to be reduced and an additional 110Mt of ore to be mined. From the site observations the 50° slope angles on the 50m high bench is stable, but no survey records were available to confirm this visual observation.

The increased pit slope angles will lead to a reduced slope factor of safety and increased probability of failure. While SRK believes that this slope angle should be achievable, SRK has recommended that the Company introduces a formal slope programme of monitoring using radar and laser scanning techniques to determine any effects.

5.2.6 *Mine Planning*

Mine planning occurs on a short-term monthly and annual basis together with a longer term strategic plan which forms the basis of the Business Plan.

A detailed mining plan which supports the budget is produced annually, usually being approved during February. This detailed budget forms the basis of all long-term operating cost assumptions used in the Business Plan.

A long term mining plan for the GPL pit was completed in 2005 by the Institute Ukrgiproruda (Kharkov) in collaboration with the Poltava mining department. This study took an elapsed time of 18 months to prepare and was based on project costs and iron pellet prices as at 2003. While this plan could be further optimised to reflect current operating costs and prices, and while this has the potential to improve the economics of this, it is this plan which forms the basis of the long term Business Plan to 2026 for the current pit inclusive of increased production rates and increased slope angles as already discussed.

The final pit has been planned to a depth of 500m. This is within the original Project Plan for the GPL pit which planned to mine to a final pit depth of approximately 700m.

The original plan was prepared by the institute using manual planning methods. Pit designs have been digitised in 3-D, although this appears to be mainly for presentation and volume calculation purposes.

In the institute plan the technical criteria of maximum average stripping ratio of $0.6m^3/t$ has been applied. However due to an increase in final depth (from 420m to 500m) the average stripping ratio over the life of mine has increased to $0.79m^3/t$. Although a computerised geological model has been produced this has not yet been verified and has not been used in the planning process, therefore conventional pit optimisation methodology has not been applied. The current pit limit is therefore not determined by specified economic criteria.

Rail haulage systems are planned to be carried down to -100mRL (the rail is currently installed to -66mRL) and an additional conveyor line with additional crusher is planned to the existing installation. These systems will be used for waste haulage as well as ore.

Waste has been dumped inside the existing pit, as temporary waste dumps. These will require to be moved in order to establish the final pit. SRK was informed that there is approximately $25Mm^3$ of waste currently dumped in-pit and this volume has been included in the mining schedules and to determine the equipment requirements for the Business Plan. Equipment loading productivity is assumed to be 40 per cent. higher for reloading in-pit waste dumps.

Detailed planning work was done to assess the equipment requirements and mining cost by considering the waste dump locations, haulage distances, rail track extensions etc. The estimation of mining equipment replacement capital was based on the normal consideration of depreciation and the current state of the fleets.

5.2.7 *SRK Comments*

All equipment seen appeared to be in a well maintained and good condition. The amount of equipment is sufficient to support current requirements and the mine is well placed to introduce additional equipment in accordance with mining utilisation needs.

The feasibility study undertaken by the institute is to a high technical standard, however it is not based on current economic considerations. SRK recommends that optimisation of the GPL pit should be undertaken once the digital geological model for the GPL deposits has been completed. Use of a pit optimisation software package would enable investigation of the sensitivity of the final pit (reserves) to the key parameters of commodity price, mining costs and slope angles and also increase flexibility in the mine planning process. SRK understands that this process is already underway.

SRK considers that the increase in production rate in the Business Plan compared to the feasibility study is achievable, although the equipment size is constrained in the current pit by existing shovel capacities and bucket size, existing haulroad widths and ramp design and existing workshop facilities. The business improvement project facilitated by GPR Dehler has been structured in a logical manner and is currently resourced to identify various areas of operational and information flow improvement.

SRK would expect Poltava to bring in additional outside skills and experience to supplement the GPR Dehler and mine project teams in order to realise the improvements in specialist areas of the mining and maintenance sections.

5.3 Proposed Open Pit Mining – Yeristovskoe Deposit

5.3.1 *Introduction*

The Yeristovskoe deposit is located some 3km north of the currently operating GPL pit and is overlain by 70m of soft overburden. A feasibility study for the mining of the deposit was completed by the Institute Ukrgiproruda (Kharkov) in 2005 and a further study by Turgis that has focused on the pit optimisation, mine design and mining methods was completed January 2007. The geotechnical and pit dewatering aspects as well as the geological resource and metallurgical and process inputs used by Turgis were provided by Poltava or its consultants. Reliance has also been placed on experience from the existing GPL pit in terms of the selection of certain of the equipment and design parameters.

A large scale open pit mining method has been selected with initial operations focused on the pre-stripping of the overburden. Although Yeristovskoe will be a new stand-alone pit, due to the proximity to the GPL pit, certain facilities and services can be shared. It is likely that the mining will be contractor operated and Poltava has entered into a memorandum of understanding with DTP Terrassement (DTP), a specialised mining and construction company. The mine design and planning has been based on a nominal ore production rate of 25Mtpa.

5.3.2 *Mining Method and Layout*

The deposit comprises a sequence of three separate parallel orebodies that extend along strike for some 3,500m and dip steeply at some 80-90°. The deposit is considered to be a northern continuation of the GPL Lavrikovskoe deposit. The pit optimisation has been based on a contribution from the K_2^5 and K_2^3 orebodies although the K_2^2 orebody is also extracted during mining. The K_2^5 orebody is some 210m in horizontal width whilst K_2^2 and K_2^3 average some 48m and 56m in horizontal width respectively but this varies considerably. A number of different mining method and equipment options have been considered for the ore, waste and overburden material types. A conventional truck and shovel method with drill and blast has been selected for the mining of the ore and waste whilst the soft overburden is planned to be stripped using back-hoe excavators in conjunction with moveable conveyors as well as dragline excavators. The waste will be taken to the existing waste dump to the north of the GPL pit and to a new waste dump site located between the GPL pit and Yeristovskoe. The responsibility for the waste dump aspects of the project is with Poltava although no specific investigation for the addition of the Yeristovskoe material to the existing waste dumps has been undertaken. Ore will be delivered to a primary crusher facility adjacent to the pit and conveyed some 9.2km to the process facility. This primary crusher and conveyor system are included as part of the mining capital and operating cost estimates.

The relatively thick and homogenous ore does not require any significant selectivity and the 10m bench height that has been selected was derived according to productivity and equipment requirements. The magnetite rich ore is also visually distinctive compared to the quartzite, meta-sandstones and quartz-carbonate waste rocks. The ore is relatively hard with a compressive strength of some 160MPa whilst the waste varies in strength from 50MPa to 160MPa from schist to quartzite respectively. All ore and waste will need to be drilled and blasted. The mine design is based on an ore and waste density of 3.3t/m^3 and 3.1t/m^3 respectively. The soft overburden comprises clays and sands and has been confirmed through drilling to be amenable to 'free digging'. The presence of water is however an issue with regards to excavation and consequently back-hoe excavators have been selected initially as the most appropriate equipment for mining with flitch heights of 5m. A density for the soft overburden of 2.6t/m^3 has been used in the calculations. The material will still need to be dewatered ahead of excavation.

The drill and blast design is based on 250mm holes for both ore and waste with emulsion explosive as the base charge provided on a contract 'in-the-hole' basis. A burden and spacing of 5m by 6m is planned for holes drilled 12.5m that includes sub-drill of 2.5m. The design powder factor is some 0.97kg/m^3 for both ore and waste. Electric powered rotary drill rigs have been selected for the project. The load and haul equipment for the ore and waste is based on 15m^3 electric face shovels coupled with 140t rigid frame diesel powered haul trucks. Ramps of 30m width including a safety berm and drain are planned to be installed at a gradient of 8 per cent. on both the east and west walls of the pit. The last 120m of pit depth will however be accessed by a single ramp. For pre-stripping of the overburden 5m^3 back-hoe excavators are planned to tip directly onto a moveable conveyor equipped with a feed chute. A dragline is also planned to be introduced to supplement the back-hoe excavators during the pre-stripping with a second dragline introduced once pre-stripping has been completed. It is possible that the dragline will also load onto a moveable conveyor but likely that this material will need to be re-handled. The in-pit conveyors will be directed, via a transfer conveyor, to a main overland conveyor for transport to the waste dump. Two systems comprising of four moveable conveyors and one transfer conveyor have been outlined.

The climatic conditions allow mining operations to continue throughout the year and weather related stoppages are not considered significant. The blast holes are currently planned to be sampled by taking five 2m samples for each hole although the number of samples may in practice be reduced once the required mining selectivity can be demonstrated. There are no grade categories to separately mined and stockpiled for blending purposes.

5.3.3 *Pit Dewatering*

The hydrogeological investigation for the project has been undertaken by Poltava and is based on its experience from the existing operation as well as specific investigation of Yeristovskoe. The hydrogeological conditions are influenced by the presence of aquifers and adjacent rivers: the Psel River flows some 3km west of Yeristovskoe; and the Dnipro River some 6km to the south of the deposit. The sand overburden is considered to be saturated to the full depth whilst water is likely to access the deeper ore and waste through joints and fracture. An impervious upper clay layer separates clean surface originating water from the saline water below. Poltava has provided a plan for the dewatering of the pit through a combination of dewatering boreholes, surface canals and in-pit pumping.

Mining from the adjacent GPL pit has caused the original lakes and ponds on the surface of Yeristovskoe deposit to drain. The water table is currently some 3m below surface. Poltava plan to install a canal system that encompasses the final pit outline of the open-pit to collect surface run-off and snow melt. The discharge from this will be directed to drain to the Dnipro River to the south. A series of dewatering holes are planned to be installed around the pit on 110m centre spacing and to various depths of 33m (11 holes), 50m (43 holes) and 85m (15 holes) below surface. This system is designed to pump some 30,000m^3/day of ground water. An in-pit pumping system comprising sumps and pumps is to be installed for an operating and design capacity of some 20,000m^3/day and 50,000m^3/day respectively. The in-pit system is designed to handle the saline water from the dewatering system, estimated at 20 per cent. of the total dewatering requirement which must be treated before being discharged.

5.3.4 *Geotechnical Aspects*

The geotechnical design criteria for the Yeristovskoe pit are the responsibility of Poltava who has relied upon the experience and investigations at the current operation. No specific geotechnical drilling and investigation has, it is understood by SRK, been conducted on the Yeristovskoe deposit. Reliance has been placed on the similarities in the geology and rock types between the two deposits for the various geotechnical parameters used in the Yeristovskoe design.

Historically the design slope angle in the unweathered GPL waste rock has been some 35° but this has recently been steepened. The increase in slope angle at GPL was investigated and tested by Poltava with the assistance of outside research institutes and consultants. The results of this investigation are contained in the Novotec-2 Project Report, dated 2006. The final recommendation in this report was for the steepening of the west slope of the GPL final pit to between 41-46° and of the east slope to between 45-48°. An average slope parameter of 46° has been selected as the most appropriate slope angle for the design of the Yeristovskoe open-pit based on these findings. A slope angle of 20° is used for the soft overburden to a depth of 70m below surface. This is also supported by experience at the GPL pit.

5.3.5 *Pit Optimisation and Mine Design*

The geological resource block model (block model) for Yeristovskoe that has been used by Turgis for the pit optimisation and mine design was developed for Ferrexpo by Micromine (Pty) Ltd (Micromine). The Micromine model was imported into the Datamine Mine 2-4D environment and a Datamine model was created for further use with the software's optimisation and design packages. Turgis audited the conversion process by generating and comparing the various process statistics for the two models which were the same. It was therefore concluded that the model had not be corrupted or altered in any manner and was suitable as a basis for the pit design. The block model has a parent cell size of 50m x 40m by 10m.

A number of pit optimisations were run at different slope angles and production rates and the pit shell with the highest NPV, at a discount rate of 10 was selected for the detailed mine design. This pit shell contains some 615Mt of ore (K_2^5 and K_2^2 only) and 1,290Mt of overburden and waste rock for an overall stripping ratio of 2.1. The average iron ore grade is 27.3 per cent.. The depth of the optimised pit is 480m below surface including the 70m of surface overburden.

Due to the limited geotechnical and mine parameters available and the relatively simple orebody geometry and geology there are limited modifications made to the optimised pit shell in establishing a design pit. The dual access ramps are incorporated in the design pit which due to the long strike length of the excavation does not materially flatten the slopes.

5.3.6 *Mine Planning and Scheduling*

The design pit has been separated into four pit stages with Stage 1 targeting the earliest ore production at the south of the excavation. The Stage 1 pit has a dimension of 1.4km in length by 0.9km in width and has a depth of 190m. The subsequent stage pits progress mining to the north and their limits were determined in order to maintain even stripping ratios. The final pit dimension is some 5.4km by 1.2km to a depth of 480m below surface. Ore is planned to be mined concurrently from two stage pits concurrently whilst Stage 3 pit contains over 50 per cent. of the total ore planned to be mined. There is no material difference in the ore grades between the different stages.

A nominal ore production rate of 27Mtpa has been accepted for mine scheduling purposes. The scheduling was undertaken using Mine 2-4D with a principal block size of 100m x 50m x 10m although ore blocks and waste blocks were separated. The ore grades were obtained from the underlying block model. The results were transferred to Excel for the determination of the equipment requirements and associated productivities and costs. All three material types: K_2^5; K_2^2 and including the lower grade K_2^3 have been scheduled for mining and processing.

Pre-stripping of the soft overburden is planned to total some 135Mt over the first four years of the operation before ore production commences. Overburden stripping then continues at a rate that is compatible with the ore and waste mining requirements for a further 10 years. A second dragline is planned to be introduced after the pre-stripping has been completed with the number of excavator units consequently reduced. All of the soft overburden is planned to be removed in the first 14 years. Ore and waste mining commences in Year 5 and the production build-up to 27Mtpa of ore is planned to take three years. This production rate is maintained for the life of the project and results in a maximum drop down rate of 28m per year which is considered to be within industry norms.

There are considered to be opportunities to improve the project economics through waste filling of the mined areas, introduction of in-pit crushing and higher ore production rates later in the life of the project.

5.3.7 *Mining Equipment*

The mining equipment planned for Yeristovkoe as described above principally comprises 140t rigid frame haul trucks coupled with $15m^3$ electric shovels for all ore and waste mining with smaller $5m^3$ back-hoe excavators in conjunction with mobile conveyors and draglines planned for the 'free dig' overburden. All ore and waste below the soft overburden will need to be drilled and blasted and electric rotary drills are planned. The productivity, equipment complements and associated operating and capital costs are based on specific equipment types for the principal earthmoving equipment. The equipment complements and efficiencies planned at full production for the principal equipment types are summarised as follows:

Description[(1)]	Units[(2)]	Availability (%)	Utilisation (%)
Electric shovels	5	85	85
Excavators	5	80	80
Dragline	2	95	90
Trucks	28	85	85
Electric drills	10	80	80
Bull dozers	8	85	85

(1) Excludes support equipment such as graders, water trucks, maintenance equipment, etc.

(2) Required at full production equivalent to 120Mtpa of material mined.

5.3.8 *SRK Comments*

The conventional truck and shovel mining method selected for Yeristovkoe with drilling and blasting is considered appropriate by SRK and compatible with the nature of the orebody and surrounding waste rock. A combination of back-hoe excavators and moveable conveyors as well as draglines has been selected for the pre-stripping of the soft overburden although this may be complicated by the large number of units needed to meet the production objectives. Poltava and its consultants are likely to consider other options and SRK considers that if the dewatering programme is adequately installed and the water table is kept below the current workings that the technical risk of such equipment for the type of material is low.

The mine design has been developed from a pit optimisation exercise which was used to identify the most optimum final pit outline (pit shell) based on various technical and economic assumptions. The scheduling of the ore and waste has been undertaken using computerised methods. The three ore types are separately scheduled according to an overall ore production rate of some 27Mtpa. The pit optimisation, mine design and the ore and waste scheduling aspects of the study are considered by SRK to be to a pre-feasibility study level of confidence.

The work completed by Turgis has focused on the mine design, mining methods, scheduling and associated operating and capital costs of the project. A number of aspects such as the geological resource block model, geotechnical design, dewatering, waste dump design have been the responsibility of Poltava. The information and documentation completed on these aspects needs to upgraded and incorporated with the Turgis work to form a stand-alone pre-feasibility study document for the project. In the absence of such a document and supporting appendices SRK has relied upon the existence of the adjacent GPL pit that is well established and mining essentially the same deposit as support for certain of the assumptions used for Yeristovkoe. A site plan also needs to be developed for the project to reflect the spatial location of the final pit and the supporting infrastructure such as roads, power and water supply, drainage canals, waste dumps, etc.

The key technical risks are considered, by SRK, to be associated with the dewatering and its interface with the pre-stripping as well as the adequacy of the pre-stripping planning and its impacts on associated timing and costs. In terms of the dewatering design objectives these have not, as yet, been incorporated into the production schedule in order to demonstrate that the dewatering is advanced of the mining. Further work is also required to finalise the plans for the pre-stripping aspects of the operation so as to ensure the appropriate integration of the different equipment units such as excavators, draglines and conveyors.

In summary, while SRK considers that certain aspects of the project are not yet at pre-feasibility study level, the majority of the key technical assumptions are at this level and the mining method and design parameters are to a certain extent supported by experience from the currently operating GPL pit.

6. MINERAL PROCESSING

6.1 Introduction

This section includes discussion and comment on the mineral processing aspects associated with the Mining Assets. Specifically, detail and comment are given on the process metallurgy and engineering aspects relating to plant capacity, recoveries, metal accounting and operating expenditure.

The Poltava processing facilities comprise a crushing plant, concentrating plant and a pelletising plant and process all of the ore extracted from the current pit. In addition purchased concentrate from other sources is also currently processed at the pelletising plant. The crushing and concentrating plants comprise of two almost identical complexes each dedicated to one of the two orebodies (K_2^2 and K_2^3) currently mined at Poltava and comprise of crushing, dry magnetic separation, milling and wet magnetic separation sections. Before pelletising a portion of the primary concentrate is treated in a single flotation section while the remainder reports directly to the pelletising plant.

In the Business Plan a new processing complex similar to those already operating at Poltava and including a flotation section is planned for construction by 2011 to treat ore from the Yeristovskoe deposit. An additional flotation plant is also planned to be constructed during 2007-8 so that there will be a separate flotation section in each of the three processing complexes.

6.2 Crushing and Concentrating Plant

Approximately one-third of the mined ore is currently crushed in the in-pit crusher. This helps to reduce truck haulage distances to the rail spur that circles the perimeter of the pit. A second, smaller in-pit crusher is currently being installed next to the existing unit. Figure 6-1 is a schematic flowsheet of the crushing and concentrating plant.

The two ore types (K_2^2 and K_2^3) are processed in the same way through separate complexes. The main crushing process consists of three stages, comprising gyratory and cone crushers and a screen reducing the size of the material to approximately 86 per cent. -20mm.

The product of the tertiary crushing stage undergoes a first step of upgrading by dry magnetic separation. The rejects of this dry magnetic separation process (approximately 5 per cent. and 15 per cent. by weight of the K_2^2 and K_2^3 ores respectively) are sold as aggregate (gravel) for road construction. The coarse (+10mm) magnetic fraction from this stage is further crushed in a series of Barmac crushers ahead of milling.

The two ore types are then processed in similar separate complexes (K_2^2 through P2 and K_2^3 through P1). Both complexes comprise of several grinding stages by rod mills (P1 only) and ball mills and concentration in two stages of wet low intensity magnetic separation. Although P2 only has five lines of milling and magnetic separation compared to 8 in P1, the mills in P1 are smaller and the overall capacities of the two complexes are similar at approximately 10Mtpa. The capacity is however dependent on the type and hardness of the material processed and the degree of upgrading required for the product.

A portion of the final magnetic concentrate is further upgraded by reverse (cationic) flotation in the flotation section of P2. Flotation is conducted on a blend of the K_2^2 and K_2^3 concentrates – the amount and blend ratio of concentrate that undergoes flotation is dependent on the products required for pelletising. The final products from the concentrating plant are two grades of concentrate: high-grade (67 per cent. Fe) and low-grade (64 per cent. Fe).

As the Fe grade of each ore type processed is relatively consistent the mass recovery to the concentrate and the operating costs are very much dependent on the ratio of the two ore types processed and the ratio of the two product types required.

6.3 Pelletising Plant

The two types of concentrate are separately filtered using disc filters and subsequently transformed into two grades of blast furnace grade pellets. 67 per cent. Fe concentrate produces 65 per cent. Fe pellets and 64 per cent. Fe concentrate produces 62 per cent. Fe pellets.

There are four operating lines within the Allis-Chalmers Grate-Kiln pellet plant each with a design capacity of 3Mtpa but due to low utilisation they currently operate at a capacity of approximately 2.5Mtpa. The fourth line was recently refurbished and only began operating again in October 2005 following several years of non-operation.

Figure 6-2 is a schematic flowsheet of each line of the pelletising plant. The filtered concentrates are mixed with bentonite and flux in a Pekay mixer before entering a balling drum where the pellets are formed. The pellets then enter a 44m long travelling grate where they are dried and pre-hardened. The travelling grate is zoned in an updraft section and a short downdraft section, followed by a preheat section before entering a rotary kiln (length 47m diameter 6.7m). The pellets are then cooled on a 20m diameter annular cooler.

Following production the cold compression strength and the tumble strength of the pellets are monitored.

6.4 Historical Performance

Table 6-1 below gives some historical performance statistics for the Poltava processing facilities for the last three years.

Table 6-1: Historical Performance of Poltava Processing Facilities

Statistics	Units	2004	2005	2006
P1 – K_2^3 Ore				
- Mined Ore Processed	('000 t)	10,790	12,173	13,618
- Ore to Concentrator	('000 t)	9,358	10,412	11,456
- Concentrate Produced	('000 t)	3,394	3,798	4,108
- Mass Yield	(%)	36.3	36.5	35.9
P2 – K_2^2 Ore				
- Mined Ore Processed	('000 t)	10,787	11,168	12,930
- Ore to Concentrator	('000 t)	10,111	10,224	12,028
- Concentrate Produced	('000 t)	4,515	4,516	5,587
- Mass Yield	(%)	44.6	44.2	46.4
Flotation (P2)				
- Concentrate to Flotation	('000 t)	4,604	4,904	5,093
- Concentrate Produced	('000 t)	4,226	4,493	4,418
- Mass Yield	(%)	91.8	91.6	86.7
Final Concentrate Produced				
- 67%	('000 t)	**855**	**1,272**	**3,392**
- 64%	('000 t)	**6,716**	**6.631**	**5,628**
Total	('000 t)	**7,571**	**7,903**	**9,020**
Pellet Production				
- 65%	('000 t)	**785**	**1,376**	**3,121**
- 62%	('000 t)	**6,582**	**6,381**	**5,429**
Total	('000 t)	**7,367**	**7,757**	**8,550**

6.5 Processing Testwork – Yeristovkoe Deposit

Although some metallurgical testwork was undertaken during the initial exploration of the Yeristovkoe deposit in the 1970s the results of this work are not readily available. Poltava-GOK therefore drilled additional boreholes in 2005 for this purpose.

Samples of K_2^5 ore were taken from the boreholes and combined to make a single composite sample and the following tests were undertaken under the supervision of ProMet of Australia:-

- Bond Rod Mill Work Index (single closing size) – completed
- Bond Ball Mill Work Index (three closing sizes) – completed
- HPGR testwork – not completed
- “Diagnostic” magnetic separation test at a fine crush size (nominal 80 per cent. -32µm) – completed
- “Diagnostic” magnetic separation tests at a series of grind sizes (P80s 500µm to 20µm) – completed
- Laboratory magnetic separation tests at larger scale (5kg) and at several grind / regrind sizes – not completed
- Scouting flotation tests at three grind sizes (80 per cent. -45µm, 32µm and 25µm) - completed

From this testwork the following conclusions were reached:

- the hardness of the Yeristovskoe K_2^5 ore is intermediate between the K_2^2 and K_2^3 ore types, and does not vary significantly with fine grind size (Bond Ball Mill Work Index);
- the diagnostic magnetic separation test produced a magnetite concentrate grade of 65.1 per cent. Fetot with a mass yield of 89.0 per cent. and a SiO2 content of 7.7 per cent.;
- the magnetic separation tests at varying grind sizes showed a systematic decrease in silica grade / rejection of non-magnetics with decreasing grind size, however the low SiO2 level achieved in the initial test could not be reproduced. Some “cementing” of the magnetic product was observed in these tests, however this discrepancy was not resolved; and
- Flotation produced a product with a SiO2 content less than 5 per cent. at a grind size of 80 per cent. -32mm – this SiO2 level corresponds to the higher grade (65 per cent. Fe) pellet.

Subsequent to the above Poltava has now collected a further 10t bulk sample from Yeristovskoe plus additional samples from both orebodies exposed in the existing pit which will be submitted to Promet to enable further testwork to be completed prior to the finalisation of the designs for the new processing facilities.

6.6 Business Plan Projections

The Business Plan projections relating to the processing facilities at Poltava comprise of continuation of the treatment of the two ore types in the GPL pit at the two current complexes and treatment of the K_2^5 from the Yeristovkoe pit in a new processing complex to be constructed by 2011. In addition a new flotation section will be constructed in the existing P1 Concentrator.

Currently, in the final upgrading stage to produce the higher grade concentrate at 67 per cent. Fe, the two different ore type concentrates are mixed in equal proportions prior to flotation. However when each processing complex has its own flotation section each ore type will be floated separately. It is therefore difficult to use historical data to project mass and Fe recoveries.

The Business Plan has been developed based on required quantities of the two pellet qualities. All of the K_2^2 and K_2^5 ore will be floated to produce concentrate for the production of the 65 per cent. Fe pellets. All K_2^3 concentrate will be floated to produce lower-grade concentrate for the 62 per cent. Fe pellets.

At Poltava theoretical mass and Fe recoveries have been derived for each processing stage and each ore type based on interpretation of historical data and the processing testwork results outlined above.

The Business Plan currently incorporates some treatment of minor quantities of purchased ore from external sources.

In the Business Plan, the concentrates are planned to be ground finer than is currently the case as the majority of the concentrate will undergo flotation in order to achieve the higher volumes of high-grade concentrate required. Poltava-GOK is therefore planning to introduce verti-mills (tower mills) into the flotation process and use press filters rather than the currently used vacuum filters.

The capacity of each of the four pelletising lines is projected to be increased from the current 2.5Mtpa up to 4Mtpa.

The operating cost projections in the Business Plan are based on the 2007 budget for the current processing complexes but incorporate a 1 per cent. annual cost reduction in specific areas over the full life of the plan. The SRK Ore Reserve Valuation given in section 13 of this report incorporates some of these for reductions up to the point at which these reduce the costs by between 10 and 15 per cent. in real terms over the life of the plan. The specific assumptions made for the valuation are given in Section 11 of this report. For the new processing complex the unit cash operating costs are projected to be approximately US$11/t of ore.

6.7 Proposed Plant Modifications/Additions

A study has been undertaken by Worley Parsons, in conjunction with ProMet Engineers and Metso Minerals, on the plant modifications and additions required to achieve the Business Plan projections.

The proposed modifications / additions are summarised below:

- Existing Concentrators – the aim is to increase throughput slightly, and to increase final concentrate quality, such that a higher proportion of the higher grade pellet product can be produced. This is to be achieved by:
  - Installing an initial wet LIMS separation stage following the first stage of grinding. Such a stage was part of the initial plant design, but is not currently installed.
  - Recommissioning grinding line No.6 in Concentrator P2. One of the ball mills in this line is currently used as a regrind mill ahead of flotation. This modification should result in an increase in throughput for this concentrator of 20 per cent..
  - Installing a concentrate regrind. Testwork indicates that a relatively fine grind size (P80 25µm) will improve silica rejection. This modification is proposed for both concentrators, in conjunction with adding an additional magnetic separation stage after the regrind stage.
  - Installing a flotation circuit in Concentrator P1. This concentrator processes the higher silica K23 ore. Including a flotation stage in this concentrator is projected to reduce the concentrate silica level by approximately 2 per cent..
- New No.3 Concentrator – to treat approximately 27.4Mtpa of Yeristovkoe ore to produce approximately 10Mtpa of concentrate (on a dry basis). The main processing stages are:
  - Crushing to a nominal top size of 32mm.
  - Further crushing using High Pressure Grinding Rolls (HPGR) in closed circuit, to a nominal top size of 3mm
  - Magnetic separation of the HPGR circuit product
  - Two stages of grinding, to target P80s of 60µm and 25µm, with magnetic separation following each grinding stage.
  - Flotation of the final magnetic concentrate for silica rejection.

- Thickening and Filtration – in conjunction with the upgrade of the pelletising plant from the current nominal 9.5Mtpa to 16Mtpa, plus an additional concentrate export facility with a capacity of 3.5Mtpa. Modifications include:
  - Adding flocculant dosing capability to the existing thickeners
  - Installing a new thickener for the No.3 Concentrator
  - Replacing the existing vacuum disc filters with plate-and-frame pressure filters. These will be required both to handle the finer proposed concentrate grind size, and to produce pellet plant feed at the lower target moisture level of 8-9 per cent.
  - Installing a dedicated filter plant for the concentrate export facility
- Pellet Plant – increasing throughput from the current nominal 9.5Mtpa to 16Mtpa. Modifications include:
  - Replacing the mixers (currently five mixers for each of the four production lines) with a single mixer per production line. The additive addition system will also be replaced.
  - Replacing two of the five balling drums (per production line) with larger drums, changing the angle of inclination of the remaining drums, and increasing the speed of some of the disc feeders
  - Replacing the roller screens and roller feeders
  - Including oversize breakers onto all of the balling circuits
  - Replacing the conveyors as appropriate
  - Adding a heat recuperation system to the Grate-Kiln-Cooler (GKC) system. No changes are proposed to the size of the GKC system; the proposed changes are to improve the operation and energy efficiency of the system, thereby increasing its availability and utilisation
  - Refurbishing / replacing worn components in the GKC system, and modifications to the type and form of the grate and cooler refractories
  - Modifying the product storage and handling systems to cater for the likely different product blend.

6.8 SRK Comments

The Poltava processing facilities are considered to be in reasonably good condition considering their age, and are reasonably well maintained.

Although SRK considers that the forecast production in the Business Plan is achievable it recommends that further testwork is undertaken on the different ore types in order to enable blending of the different concentrates and ore types and optimisation for required production.

SRK notes that presentation of historical production data and projected throughputs are generally unclear and not split into the different stages of concentration. Clear historical information is essential to enable the process to be optimised.

The recommendations regarding the existing concentrators were made in conjunction with a limited amount of laboratory testwork, conducted on the same lines as described above for the Yeristovkoe K_2^5 ore. Samples were taken from several points around the plants, and composited over a ten day period. As such, these samples can be considered to be representative of typical plant feed. While the testwork was conducted at a relatively low level, i.e. laboratory tests, considering that the resulting recommendations concern modifications to an existing operation, the level of testwork undertaken is considered to be appropriate to the level of study. While no flotation testwork was conducted, particularly on the K_2^3 ore, the proposed decrease in silica content is based on "typical" performance, and is considered to be adequate at this stage.

The mills proposed for the final (fine) grinding stage are tower mills, which are proposed to be operated in open circuit. These mills are usually configured to operate in closed circuit, and particularly considering the high silica coarse fraction noted in the current plant samples, these mills should be configured to operate in closed circuit. Alternatively, the use of IsaMills (noted as an alternative in the ProMet report) would not require closed circuit operation, as these mills perform an internal classification function.

Overall, SRK therefore considers that the modifications and additions proposed for the existing two concentrators are in general likely to result in the plants meeting the target operating parameters.

The testwork conducted to date on ore from Yeristovkoe, particular with regard to the magnetic separation behaviour of the ore, has essentially generated the "theoretical" separation behaviour of the ore. The observed difference between the initial finely ground sample test and those from the varying grind tests reinforces this concern; this behaviour should in our opinion be investigated more fully and at a larger scale. SRK considers that further testwork should be done on this ore as part of the current pre-feasibility study.

In addition, the magnetic separation behaviour at coarse sizes, i.e. at the size corresponding to the proposed HPGR product, has not been investigated at all. Laboratory-scale HPGR testwork is also required in order to obtain confidence in the size of HPGRs selected for the proposed plant.

The proposed flowsheet for the Yeristovkoe ore appears to be appropriate to an ore of this general description, and generally represents a conventional best practice approach. However, the first ball mill stage is shown as operating with a dewatering / scalping cyclone, but is otherwise configured in open circuit. Again, considering the concerns raised in the ProMet reports about high silica levels in the coarse size fractions of the final concentrate, and considering that both the HPGR section ahead of it, and the second ball mill stage following it, are operating in closed circuit, this grinding section should also be configured to operate in closed circuit.

The second stage of ball milling is designed to produce a product P80 of 25μm using ball mills. However, this fine a product size is generally considered to be outside the normal operating range of conventional ball mills. Achieving this fine a product would require the use of stirred mills, such as proposed for the existing concentrators, i.e. tower mills or IsaMills.

SRK agrees that the proposed replacement of the existing disc filters with plate-and-frame filters will be necessary. The use of pressure filtration will almost certainly be required due to the fine product size, and in order to reduce the concentrate moisture level. The latter requirement is an important part of improving the performance of the pellet plant.

The proposed modifications to the pellet plant were based on an inspection by Metso Minerals of only one of the four production lines. In its report, Metso Minerals has assumed that the configuration and condition of the other three lines are similar to that of Line 1, and that the proposed modifications will be both required and applicable to the three other lines. For the current level of study, SRK considers that this assumption is justified.

The proposed changes to the balling circuits in the pellet plant involve both replacing some of the equipment with higher capacity units in order to increase the overall throughput (e.g. the balling drums), replacing some small units with a few number of higher capacity units, to improve availability and throughput (i.e. the mixers), and better control of oversize and undersize materials. These changes are endorsed, and appear likely to achieve the target increased throughput in this part of the pellet plant.

The GKC section of the plant has the nameplate capacity to accommodate the proposed increase in production, however the plant availability is currently low. The modifications proposed to the GKC system are mainly designed to improve the energy efficiency of the plant, and thereby to help improve the availability of this section of the plant.

However, the Metso Minerals report notes that a significant change in maintenance philosophy and practices will be required in order to achieve the increased throughput target. The plant currently operates with a target operating availability of 290 days per year, although the operating records for Line 1 for 2005 showed 254 operating days. However, Metso Minerals consider, based on their review, that an operating availability of 280-290 days per annum is realistic under the current operating and maintenance regime.

The 2007 maintenance budget calls for an average of three shutdowns, of average duration 26 days, per production line for the year. Allowing for a small amount of unscheduled downtime (5 days per year), achieving 330 days of operation per year per production line will necessitate reducing planned maintenance activities from the current target to 30 days per year.

Metso Minerals suggest that such a regime could be achieved by conducting two shutdowns per production line per year, one of 10 days duration and the other of 20 days duration, noting however that this will necessitate operating continuously for a period of 165 days between planned shutdowns. Metso Minerals consider that the ability of the Poltava operation to make the changes necessary to achieve this method of operation represents a significant risk to achieving the target throughput. Significant changes would be required to maintenance management systems, further training would be required, and the company would need to make a commitment to material quality and the use of specialist external (i.e. outside of the Ukraine as necessary) maintenance contractors rather than rely exclusively on the in-house labour force and local contractors.

The work currently being undertaken on site by GPR Dehler will be instrumental in realising the changes in management and maintenance systems that will be required in order to achieve the productivity gains required in the pelletising plant.

The metallurgical qualities of pellets are generally considered to be more important than the physical properties, as the metallurgical parameters influence greatly the efficiency of the reduction process in the blast furnace. Currently Poltava-GOK only tests the physical properties of the pellets. SRK would recommend that samples of the pellets are analysed by an internationally accredited laboratory for the metallurgical properties and eventually that a metallurgical test laboratory should be established at Poltava to routinely analyse the pellets produced.

The pelletising of external sources of concentrate has been undertaken historically and there is no technical reason why this cannot continue, however SRK cannot comment on the availability of suitable material.

Although the operating costs in the Business Plan have been projected at a high-level SRK considers them to be achievable. SRK would, however, recommend that further work is done in order to assess the cost implications of processing new ore types and in particular of producing higher-grade products, which require significant additional grinding.

Figure 6-1: Schematic Flowsheet of Poltava Crushing and Concentrating Plant

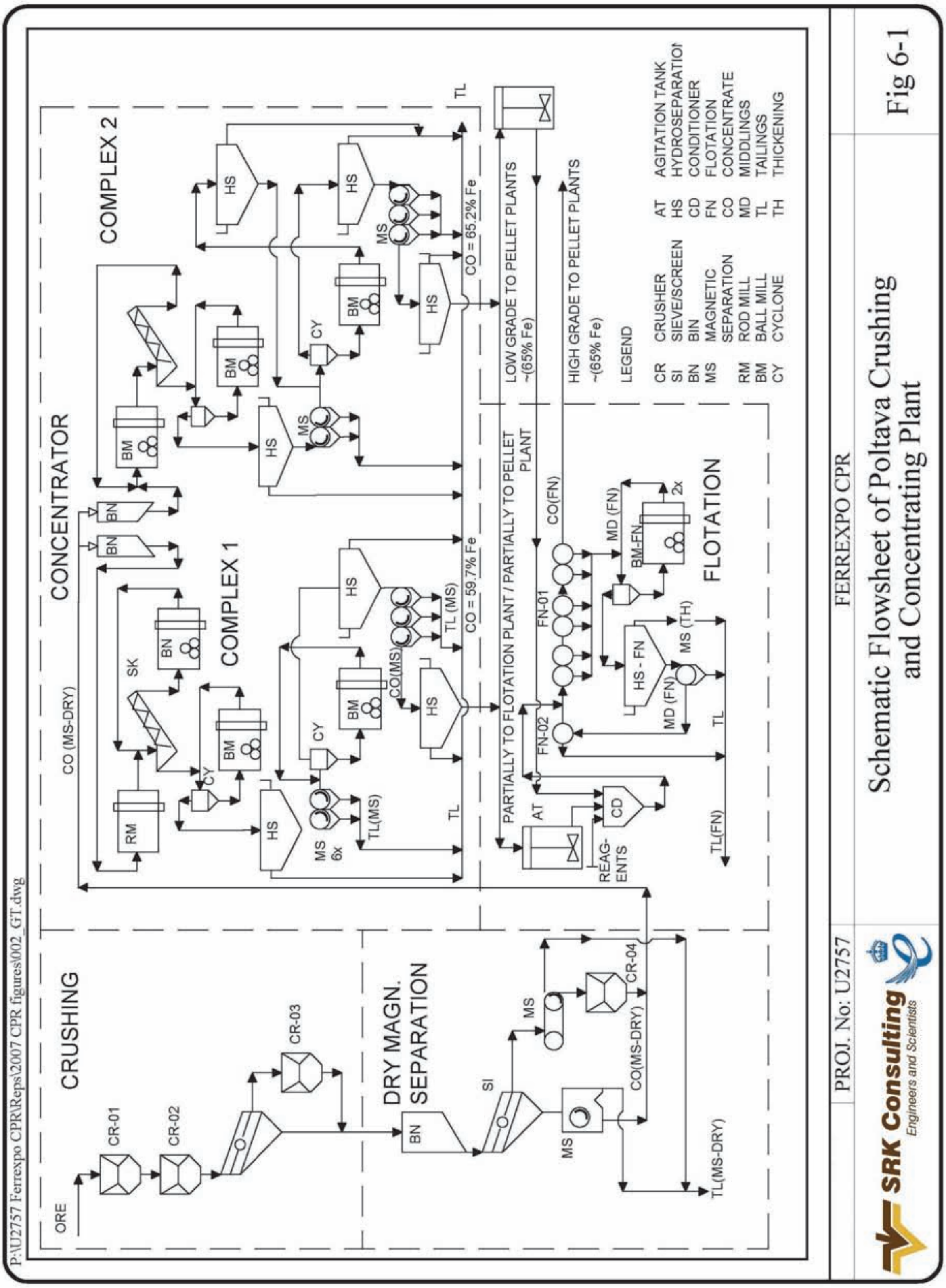
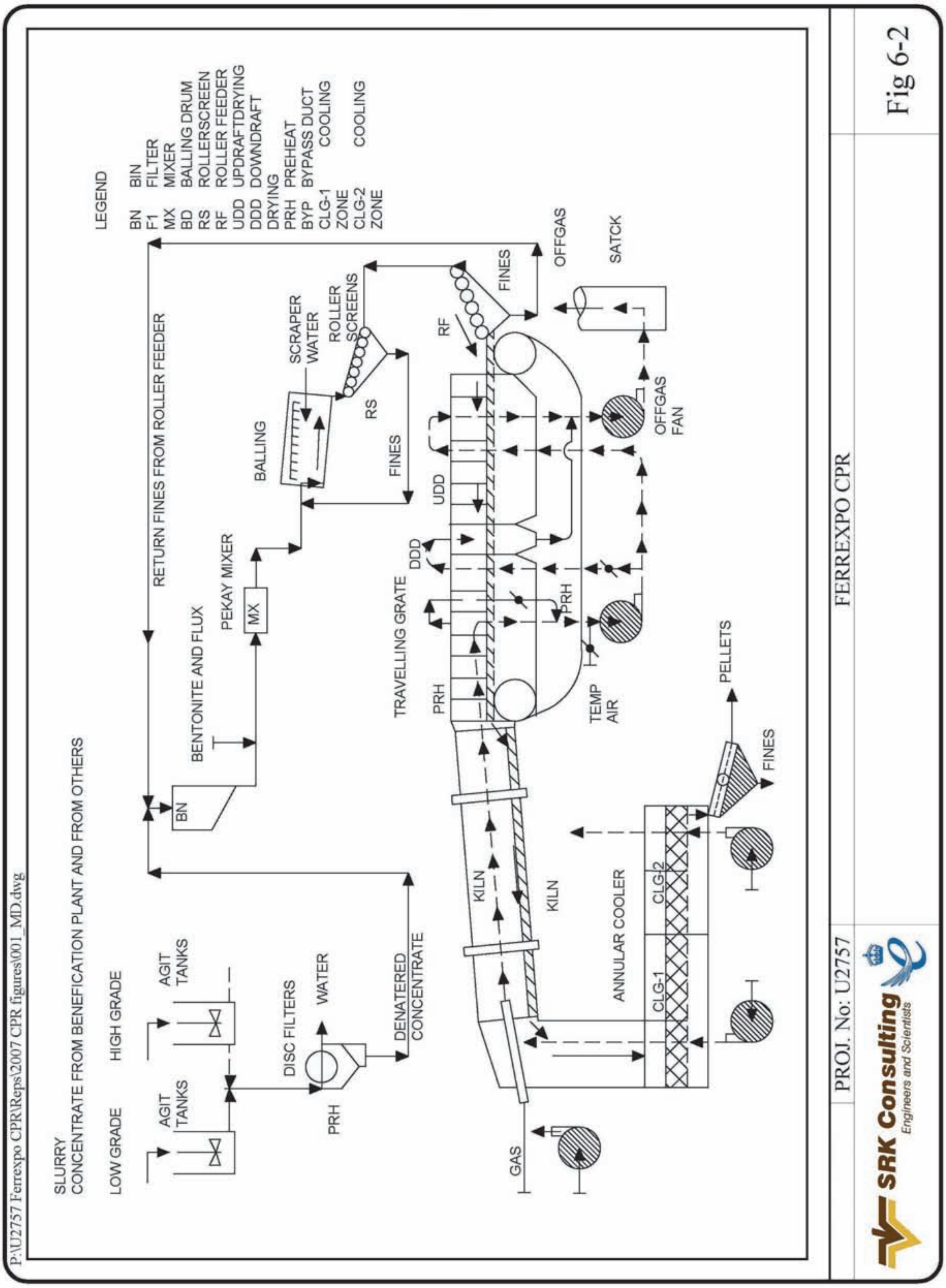


Figure 6-2: Schematic Flowsheet of Poltava Pelletising Plant



7. TAILINGS MANAGEMENT

7.1 Introduction

This section includes discussion and comment on the tailings engineering aspects associated with the Mining Assets. Specifically, detail and comment is focussed on the design, construction, geotechnical integrity, remaining capacity and management practices governing the Tailings Storage Facilities ("TSF").

7.2 Poltava Tailings Facilities

7.2.1 *Current Facilities*

The TSF at Poltava comprises a single dam located on the flood plains of the Dnipro River and on the northern slope of Dneprodzerginsks water basin. The southern and western boundaries of the dam are formed by the banks of the Dnipro River, the eastern boundary by the banks of the Kobeljachek River and the western boundary by the current open-pit and an industrial area.

The tailings facility comprises three compartments covering a total area of 1,468 hectares ("Ha") and the design, construction and extension of the tailings facility is undertaken by a Ukrainian technical institute, Ukrgiproruda, and its contractor.

The current tailings facility consists of three sections and was developed in three phases from 1974 to 1979. It is currently filled to a height of 89m with approval to increase this to 129m. With the current rate of tailings production this facility has the capacity to store the tailings expected to be produced from the existing pit. The additional tailings from Yeristovksoe will require additional annual and total storage capacity and allowance for this has been made in the development capital estimate to purchase 750 hectares of land and construct the fourth tailings section.

Approximately 4.1Mm^3 of water is stored on top of the tailings dam. This area where the water is stored close to the location of the water siphons can be considered the return water dam area of the TSF.

The embankment wall construction comprised the placement of a 1m thick waste rock cover over a coarse tailings starter wall, the coarse tailings being excavated from the nearby basin of the tailings dam. Waste rock was railed from the open pit.

In the last few years, there has been a substantial increase in grinding of the concentrate and subsequently the tailings have become finer (the previous tailings grind targets were 90 per cent. passing 50 micron). The finer grind has affected both the consolidation and the permeability properties of the tailings. Also the finer grind tailings are not a suitable source of coarse tailings material for embankment wall construction.

7.2.2 *Future Projections*

The increase in production in the Business Plan results in an increase of tailings output to 11.6Mtpa. To impound this quantity of tailings an annual volume of some 9.1Mm^3 per annum is required and for the volume of the return water dam area, where settling takes place, 4.1Mm^3 is required. This represents more than doubling the annual tailings tonnage.

This would result in a substantial increase in rate of rise and this will have to be accounted for in the design of the future tailings dam embankment impoundment wall lifts.

Currently the technical institute Ukrgiproruda has proposed raising the original part of the dam that was closed in early 1980s and recommissioning this up to a level of 129m (compared to previous plan of 89m) based on known technology and experience. This will ensure a large excess of capacity for the tailings material projected to be produced in the Business Plan.

A programme of activities has been developed by Poltava and Ukrgiproruda in order to implement this increase. The most significant of these can be summarised as:

- ongoing design work for the tailings pumps and pipelines and for the ongoing embankment construction activities; and
- the current elevation of the tailings dam necessitates that the tailings pumps must be upgraded to allow continual pumping of tailings to higher pumping heads.

In the Worley Parsons pre-feasibility report, mention is made to further decrease the tailings grind to 80 per cent. passing 25 microns. This will be a very fine tailings grind. The recent decrease in grind size to 80 per cent. passing 50 microns necessitates a change in wall design and construction. The current proposal consists of the formation of an external waste rock wall and formation of an edge paddock wall system comprising waste rock. This would then be filled with tailings where the fines and excess water is allowed to flow to the main tailings dam basin. The edge paddock will be approximately 100m wide. Therefore, if the proposed grind is 80 per cent. passing 25 microns, then significantly more attention will have to be given to the re-design of the entire tailings storage facility. The specific aspects that will need to be addressed include:

- the strength properties of the finer grind tailings;
- the consolidation and permeability of the finer grind tailings.
- The impacts on wall building and operations of the facilities. This will probably require a redesign of the transportation and the placement of the tailings products. The wall building design will have to be reviewed from basic principles as well as the effectiveness of the existing drainage systems.
- The length of piping given that the circumference of the facility is much longer than the current allowances of 3.5 km and 500m of piping on the dam only.

There are currently ten tailings delivery lines and the projected increased tailings tonnage will necessitate a review of the required tailings pump trains and pipelines together with tailings thickening requirements. The current tailings pulp density is low with a solids to water ratio of approximately 1:30 by volume and 1: 10 by mass.

7.3 SRK Comments

At Poltava the current TSF is in a good condition and bi-annual inspections are undertaken by a team of external experts to assess the current condition of the complex.

The projected increase in production in the Business Plan will impact significantly on the current TSF in the future and significant design work and ongoing improvements are required to achieve the increased production levels as well as the optimal provision of engineering facilities.

This proposal for the alternative embankment construction due to the finer grind appears feasible. However it requires further investigation to ensure that it can accommodate the increased tailings tonnage, which will have a significant effect on the consolidation time of the tailings within the tailings dam edge paddocks. In SRK's opinion a review may indicate that there is a requirement for tailings thickening so that the tailings bleeding and consolidation time can be reduced to meet the rate of rise requirements. If thickening is required this will also have an impact on the upgrading of the tailings pumps and pipelines.

SRK suggests that one solution to reduce volume of water to be pumped to the TSF when the tonnage is increased would be to:

- retain the current return water system;
- provide a thickening solution designed to pump the tailings at a density where the return water and the water pumped with the tailings remains the same; and
- provide a tailings pumping and pipeline solution to pump the above-mentioned project from the thickener.

SRK concurs that the programme of 75 activities presented should be implemented. Ongoing monitoring of the TSF is essential to ensure long term stability and also in terms of environmental aspects, such as seepage and dust monitoring. A number of specific project activities are planned in this regard, although final proposals are not yet available for evaluation and review.

The Poltava capital cost estimates are not well defined ahead of two years into the future. More design work is also required to more specifically define the capital cost items. This is encapsulated within the proposed program of 75 activities up to 2020. One of the focus areas of future design activities is that the method of tailings dam construction will probably be changed to use construction materials more cost effectively. Different construction materials attract different tariffs from government. The program of activities will be updated on an annual basis to take account activities in the past year.

8. INFRASTRUCTURE

8.1 Introduction

This section includes discussion and comment on the infrastructure and related aspects of the Mining Assets. Specifically, detail and comment is focused on the additional infrastructure requirements necessary for the execution of the Business Plan.

Engineering infrastructure at the Mining Assets includes a wide range of operating technology, which varies in age and extent of mechanisation.

Surface infrastructure includes process facilities, office blocks and training centres, workshops and stores, change houses and accommodation. There are also a number of services and supply centres. These include compressed air supply stations and repair and maintenance workshops for trucks, rolling stock and other fixed equipment. Engineering surface facilities include mechanical, fabrication and electrical workshops, garages, carpentry workshops, and mine stores. Most critical spares are available on site.

The Mining Assets are located in well-populated areas and have good access by road and rail networks. Both sites have adequate power and water supply for their current requirements, sourcing power from the Ukrainian national power grid.

8.2 Infrastructure Requirements

The major "greenfields" expansion is the development of the Yeristovskoe pit and associated concentrator. However, from an infrastructure viewpoint, these developments can be considered to be "brownfield" due to their close geographical proximity to the existing Poltava operations.

The Worley Parsons report considers the development of the site infrastructure needs in detail. For many site services, such as water and waste disposal, the new plant areas will tap into the existing services with little difficulty.

The largest items of infrastructure for the new developments are power and communications. The new and upgraded facilities will increase the overall project power requirements by approximately 190MW (215MW peak) to a total power demand of 440MW. The increased power requirements are incremental, with the total load only required as of 2012.

The existing main site transformer station contains sufficient transformer capacity for the additional load, although a new 250MVA transformer has been installed in the substation but has not yet been connected.

Negotiations are well advanced with the regional power authority for the supply of the additional power requirement for the site. No costs have been allocated for this "external" supply.

The existing electrical distribution system is not capable of taking the increased loads, and much of the existing switchgear is nearing the end of its useful life. Therefore, the Business Plan considers the installation of a new High Voltage (150kV) distribution system for the Yeristovskoe mine and process plant, and replacement of switchgear where necessary in parts of the existing plant that will require significant power upgrades – in particular the concentrators and pelletising plant.

The expected power load for the new Yeristovoskoe mine are 49MW, with 106MW for the Yeristovoskoe concentrator. The additional power requirements for the existing concentrator are 7.0MW for P1 and 5.5MW for P2. The additional power requirement for the pelletising plant is estimated at 11MW for the (total) thickening and filtration sections, and 6.4MW for the pellet plants proper. A nominal 5MW has been allowed for additional power requirement for the materials handling (pellets) section, and 2MW for the export concentrator loading facility.

Development of the Yeristovskoe pit will require the relocation of an access road and power line supplying neighbouring villages.

In general, control systems have been assumed to be incorporated into each plant section as required by the specific equipment. An allowance has been made for the entire site to be interconnected by fibre optic cable, and for the provision of appropriate communications equipment – phone, fax, LAN.

8.3 SRK Comments

The Business Plan capital estimates for Infrastructure, particularly for power, appear to have been well researched by Worley Parsons, working in liaison with the local Infrastructure providers. SRK therefore consider that these estimates are appropriate for the level of study.

9. OCCUPATIONAL HEALTH AND SAFETY

9.1 Introduction

This section includes discussion and comment on the occupational health and safety related aspects associated with the Mining Assets. Current and historical occupational health and safety statistics are presented with discussion on the more significant measures in progress to deal with identified risks, including risk management and occupational health and safety measures.

9.2 Health and Safety Management in Ukraine

Health and safety management in Ukraine follows conventional Russian-style practice. Safe working practices are developed for each activity and incorporated within the project design; appropriate training is scheduled for each employee and a systematic programme of inspections is managed to monitor compliance. Such practice in health and safety management is broadly compatible in theory with the approach adopted internationally. However, poor application and enforcement, combined with an adverse "safety culture" within the country as a whole, often results in actual practices on site that do not currently conform in all areas with current international practice, especially with respect to:

- Training;
- Provision of safety equipment, including personal protective equipment;
- Safety inspections; and
- Enforcement of safe working practices

In recent years, health and safety practice has also deteriorated as some operations in Ukraine have faced financial constraints and planned equipment maintenance and replacement has not occurred. Current regulations in Ukraine require that annual expenditure on health and safety must not fall below 0.5 per cent. of the total value of the company's sales; as the value of the Company's sales increases, this should ensure a steady flow of investment in health and safety.

9.3 Health and Safety Statistics

9.3.1 *Recordable Accidents*

Industrial accidents in Ukraine are categorised as either "light", "medium", "serious" or "fatal" according to criteria established by Federal laws dating from the Soviet era (the detail underlying the classification was changed slightly in 2005 but the principles remained unchanged). The criteria for a "serious" accident are determined principally by the medical nature of the trauma with a number of specific traumas, especially those likely to result in a long-term reduction in "working ability", being considered "serious". Less serious traumas being categorised as "medium" and all other traumas are by default considered as "light".

Accidents involving more than one person ("group accidents") are also recorded separately. However, incidents that do not result in a medical trauma requiring treatment are not usually recorded unless there is an associated disruption to production, in which case the incident is recorded under regulations covering breaks in production ("industrial safety") rather than occupational health and safety.

All accidents are investigated to determine the cause and identify appropriate remedial action. Light accidents are usually investigated internally, whereas serious, fatal and group accidents are investigated by an external authority. The accident reports contain details of each accident (date, time, location, branch, area of working, personal details of worker, type of accident, job description, details of accident, name of reporting person etc.). Investigations routinely identify poor working practices, failure to follow instructions and "personal carelessness" as the causes. Additional training is usually proposed as part of the investigation.

Compensation is payable to the victims of accidents (or their families). Individual workers contribute to a statutory insurance fund which is responsible for paying the compensation; occasionally the employer may also make an additional voluntary payment to the victim or their family.

9.3.2 *Historical Data*

Table 9-1: Summary of Recordable Accidents

Mining Asset	Statistic	2004	2005	2006
Poltava				
	Fatal Accidents	3	2	1
	Group Accidents	0	0	0
	Total Accidents	24	24	14
	Frequency[1]	2.38	2.23	1.34
	Seriousness[2]	25.1	22.9	39.8
	Lost Days	603	549	557

Notes:

1 Coefficient of accident frequency is calculated in accordance with approved Ukrainian practice and represents the number of recorded accidents per 1000 employees.

2 Coefficient of the seriousness of accidents calculated in accordance with approved Ukrainian practice and represents the average number of lost working days per recorded accident.

The six fatalities recorded at Poltava since 2003 comprised three within the mining operations, one in the crusher unit and two electrical maintenance engineers.

9.4 Industrial Diseases

There have been thirteen recorded cases of industrial diseases since 2003 (one in 2003, three in 2004, three in 2005 and six in 2006); all cases are associated with prolonged exposure to elevated dust concentrations. Recorded industrial diseases include emphysema, fibrosis of the lung and silicosis, all of which can be caused by exposure to particular forms of dust (although there are also other possible causes for some of these diseases). Nevertheless, many of the individuals involved have worked within the plant area, where exposure to elevated dust concentrations is acknowledged (although the individuals have also worked in other areas of operation so the source of the problem cannot be easily defined); most have worked at Poltava for over 20 years.

Improvements to dust control systems are part of a long term package of measures designed to improve the working environment. There are, however, likely to be continuing risks associated with potential exposure to elevated levels of dust within the working environment.

9.5 Financial Implications

Total expenditure on health & safety in 2005 and 2006 was US$2.06M (0.47 per cent. of sales) and US$2.41M (0.50 per cent. of sales) respectively. Approximately 35 per cent. of this budget is allocated to consumables (clothing, food etc.), 35 per cent. to capital investments, 25 per cent. to maintenance of medical facilities and 5 per cent. to administration.

As already commented, under Ukrainian law, health & safety budgets should be at least 0.5 per cent. of the value of sales. Consequently, as the value of sales increases, expenditure on health & safety will be required to increase proportionately.

Under the Ukrainian system, compensation payments for accidents and industrial diseases are made from a national insurance fund, to which all workers must contribute based on their salary level and job description. The operating company has no direct responsibility for compensation payments (although additional payments are sometimes made by companies at the discretion of management; in 2005-6 these additional payments amounted to some US$13,000).

9.6 SRK Comments

Operations at Poltava shows characteristics of the poor health and safety practices that are common in former countries of the FSU. The management at Poltava has implemented a number of initiatives designed to improve the standard of health and safety and the recent data suggest a steady reduction in the frequency of recorded accidents. The incidence of industrial diseases will, at least in part, reflect a combination of historical working conditions and an aging workforce. Nevertheless, the management acknowledges that more work is required in this area and the development of a formal Health & Safety Management System provides a sound basis for long-term improvements.

In 2006, Poltava-GOK implemented an initiative to develop a health and safety management system consistent with the requirements of the internationally accepted standard OHSAS 18000. This system was externally audited in March 2007 and accreditation under the UkrSEPRO system is expected to be obtained in Q2 2007. This initiative, which includes a greater emphasis on aspects such as risk assessment and training, should further improve the general level of health and safety.

10. ENVIRONMENTAL MANAGEMENT

10.1 Introduction

This section includes discussion and comment on the environmental and social related aspects associated with the Mining Assets. Specifically, information and discussion is included on the following: legislation and permitting in Ukraine; compliance with local regulations, key environmental and social issues and the costs associated with permitting, environmental management practices or planned improvements.

10.2 Environmental Regulation in Ukraine

Environmental regulation of mining operations in the Ukraine is based on the system developed in the FSU. Although there have been a number of new regulations introduced in recent years, the basic approach remains unchanged. Two distinct regulatory procedures exist: one procedure deals with proposed developments and covers project planning and construction, whilst the other procedure deals with operating projects.

10.2.1 *Proposed Developments*

Prior to the 1980s, the formal system of environmental regulation was not well developed, although environmental and social considerations were taken into account during project design and development.

Since the 1980s, however, new projects, including major developments of existing operations, have required an Environmental Impact Assessment ("EIA") similar, although not identical, in scope to the EIA process that exists within the European Union. The EIA report is usually prepared as part of the technical and economic feasibility study (often by the same specialist institute) and is subject to scrutiny by a number of statutory consultees before final approval. The EIA report provides the basis against which a number of separate permits covering aspects such water usage, changes of land-use etc. are obtained (the number and type of permits being dependent upon the characteristics of the project and its location).

10.2.2 *Operating Projects*

All operating mines are required to have permits for water usage (including wastewater discharges), air emissions and waste disposal. These permits, which are issued by the local offices of the Ministry of Ecology and Natural Resources, are based initially on the predictions made in the original EIA; where no original EIA exists or where the operation has changed in someway (such as an increase in production) the permits are based on the findings of technical studies prepared by the applicant.

The permits are renewable periodically; individual permits are usually issued for 1-7 years. Minor changes to the permits at renewal time are usually achieved through negotiation with the Ministry; requests for more significant changes to permits, such as those required as a consequence of increased production, are usually supported by a new technical study that details the need for, and potential impacts of, the changes.

The primary purpose of the permits is to provide the basis for a series of fees payable by the operation. A fee based on actual emissions, discharges and waste arisings and calculated in accordance with statutory norms is paid each year. Emissions, discharges and waste arisings below the limit specified in the permit are charged at a standard, usually very modest, unit rate. Direct comparison of the permitted limits with international emission and discharge standards is rarely possible since the permitted limits are often expressed as a maximum loading (e.g. tonnes per annum) rather than as a concentration.

Exceedances of the permitted limits do not necessarily constitute a breach of the permit conditions nor do they necessarily result in an adverse environmental impact; minor exceedances of the permitted limits merely incur an additional fee based on a higher unit rate.

Environmental protection is ensured through the application of a number of nationally defined Maximum Admissible Concentrations ("MAC") of parameters in the receiving environment (air, soil, water etc.). The Ukrainian MACs are generally at least as stringent as the corresponding European and international standards. Exceedances of permitted limits that also exceed the MAC in the receiving environment can result in legal action and claims for compensation against the operator.

10.3 Poltava

10.3.1 *Environmental and Social Context*

Poltava is located in an area of predominantly flat agricultural land close to the Dnipro River, one of the largest European river systems and an important transport artery for Ukraine, Belarus and Russia. A number of small agricultural villages and isolated farms are scattered across the region.

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 supporting industries (transport, power etc.); Poltava mine remains the principal source of employment in the town. A local nature reserve has been established around an area of lakes and forest some 3km from the mine.

The land close to the Dnipro River has been settled since pre-historic times and numerous historical trading settlements were established at strategic points along the river. As a consequence, the area has a rich archaeological and cultural heritage with sites ranging from pre-historic burial mounds through medieval sites to some of more recent history (the area was the location of a number of very significant military campaigns from the 18th century through to World War II). The town of Komsomolsk is reported to be located on the site of a medieval settlement.

10.3.2 *Environmental Permitting*

The existing mining operations at Poltava were established in the 1970s and, consequently, pre-date the former Soviet system of EIA. Nevertheless, in accordance with current regulations, the operation does require a series of operating permits covering water usage, atmospheric emissions and waste disposal.

As of February 2007, the following permits were in force:

- Permit (No. 2877) for water usage (valid until September 2008), which specifies limits for water abstraction and the quantity and quality of discharge water.
- Permits (Nos. 530023 & 530806) for emissions for atmosphere from “stationary sources” (valid until November 2007), which specify the maximum quantity (not concentration) of emissions from the operations.
- Permit (No 23017) for waste disposal (valid until December 2007), which specifies limits for the quantities of all types of waste generated on-site, including waste rock and tailings, and identifies the required disposal option for each waste type.
- Permits for the safe transport, storage and use of acids in mineral processing (validity ranges from 2007 – 2009 for different acids).

No other environmental permits are currently required for the existing operations.

The planned development of the Yeristovskoe deposit requires an EIA, which has been completed and submitted to the Ministry of Ecology and Natural Resources for approval. Resolutions of the local village authorities, the Komosomolsk city authorities and the Ukrainian Council of Ministers, approving the development were received in 2006. The details operating permits are currently under negotiation.

10.3.3 *Key Issues and Risks*

Water Management

Poltava uses some 370Mm^3 of water each year, much of which is recycled through the tailings facility, although approximately 4Mm^3 is abstracted from a combination of the local river and the municipal potable water supply.

The TSF also receives the treated effluent from Komsomolsk’s sewage treatment plant. This situation originates from the 1970s when the mine and the town were managed as a single organisation and is not unusual in the FSU.

Excess water from the TSF is passed through an extensive reedbed treatment system (commissioned in 2002 and designed primarily to reduce the concentration of nitrates and ammonia from the sewage effluent) prior to discharge to surface water. The quality of the discharged water is generally good.

Storm water from the site is treated in a new treatment plant (commissioned in late 2005 and designed to remove suspended solids and oil products) prior to discharge to surface water. The new treatment plant is expected to remedy problems identified with the discharge of previously untreated storm water.

Tailings Management

There has been a major problem with dust blow from the exposed tailings surface in the past that gave rise to a number of complaints from local residents. In the late 1990s Poltava-GOK initiated a programme of environmental improvements, including re-vegetation of the surface of the older TSF and active dust control on the operational TSF. This programme is reported to have been successful and no recent complaints have been received. There is, however, no monitoring data that directly confirm the effectiveness of the measures that have been implemented. Further discussion on the management of the TSF is included in Section 7.

Waste Rock Management

The GPL open-pit has generated some 500Mm^3 of waste rock that is deposited in two dumps (the east and the west dumps). There is no indication that run-off from the waste rock is problematic and abandoned areas of the rock dumps have been successfully re-vegetated. Waste rock from future operations, including the proposed Yeristovskoe pit will also be deposited on these two dumps or will be used to back-fill part of the GPL pit.

Archaeological and Cultural Heritage

The development of the proposed Yeristovskoe pit will destroy a number of important archaeological sites, primarily Bronze Age burial mounds. The authorities have endorsed the approach of identifying and excavating each affected site. The resultant documentation and all archaeological finds will be deposited in the local museum. A programme of archaeological researches and excavations of the sites, commissioned by Poltava-GOK with regulatory approval, has been implemented.

Resettlement and Compensation

The development of the proposed Yeristovskoe pit will require the resettlement of 27 households, most of whom lease their property from the village authorities (although there are two owner-occupiers). The exact timing of the resettlement and the amount of compensation to be paid has yet to be determined as resettlement will proceed gradually over the next 10 years as new land is required for the pit development. Some families have already been resettled in anticipation of the start of pre-stripping.

Resettlement compensation is negotiated directly between the Company and the individual households. Poltava-GOK has budgeted an average of US$100,000 compensation per household, which represents many times the market value of the properties involved. Compensation is payable by the Company either in cash or by the acquisition/construction of a replacement property, or by a combination of these. In the event that a compensation package cannot be agreed, the Company may resort to the courts to enforce a "compulsory purchase"; however, such recourse is rare since the legal process is time consuming and the final compensation package is invariably much less than that available through direct negotiation.

Mine Closure and Rehabilitation

In 2005 Poltava GOK developed a closure and rehabilitation plan for the existing GPL pit and associated waste rock dumps. Rehabilitation of the rock dumps is scheduled to begin in 2025 and of the partially back-filled existing open pit in 2055. The site will be restored primarily to forestry with an area of open-water remaining in part of the open-pit.

There is no requirement in Ukraine for the preparation of closure plans for the TSF, plant site or associated infrastructure and no guidance exists as to how such sites should be rehabilitated in future.

The large site area and the nature of the plant site suggest that final closure and rehabilitation will be a significant undertaking. The uncertainty over the closure strategy that will be required on the plant site increases the potential risks, although planned closure is not expected to occur in the foreseeable future.

Environmental Monitoring and Management

The environmental department at Poltava is managed by an experienced environmental professional (formerly employed in the local office of the Ministry of Ecology and Natural Resources). The department's primary responsibility is to ensure that all necessary permits are in place, to undertake monitoring in accordance with the regulatory requirements and to supervise the implementation of an agreed programme of environmental improvements.

The existing monitoring and management programme is designed solely to meet the current statutory requirements and falls some way short of the standards routinely implemented internationally. Some monitoring is undertaken internally, some is carried out under contract by external organisations and some by statutory authorities; many of the results of the external and statutory monitoring are not routinely reported to the company unless a problem is detected. Three inspections by regulatory authorities were conducted in 2006; one breach of environmental regulation was reported.

The department has recently adopted an initiative to develop a full Environmental Management System (EMS) in accordance with ISO 14001, although this initiative is in its infancy. Development of the EMS was started in 2006 and external auditing and certification under the UkrSEPRO system are expected to be completed in the 3rd quarter of 2007.

10.3.4 *Financial Implications*

Poltava has made annual payments in accordance with the requirements of the operating permits of US$0.45M, US$0.48M and US$1.47M in 2004, 2005 and 2006 respectively. Although payments at a similar level to 2006 can be expected in the near future, should emissions, discharges or waste arisings increase then payments can be expected to rise proportionately.

Actual expenditure on environmental management, monitoring and ongoing environmental improvements in 2004, 2005 and 2006 were US$1.7M, US$5.4M and US$5.2M respectively.

In addition, capital expenditure on environmental improvements totalled US$4.9M in 2005 and US$3.5M in 2006. The major cost items in this programme have included: construction of a storm water treatment plant, reconstruction of the surface water drainage system at the rail transport facility and stabilisation and dust control on the TSF. The existing management has done much to improve the standard of environmental protection; although budgeted plans at a similar cost level can be expected for a few more years, in the long term major capital expenditures associated with environmental improvements should decrease. The costs associated with the compensation payable to households that require resettlement has been included within the land acquisition costs for the relevant sites.

Poltava provides support to local cultural, educational, sporting and social projects. The cost of this support in 2006 was US$4.7M (planned cost for 2007 is US$4.4M).

The cost of closure and rehabilitation of the existing open-pit and rock dumps has been estimated by Poltava-GOK at US$1.5M. No estimates have been made by Poltava for the TSF, plant site and associated infrastructure. SRK considers that the total closure and rehabilitation liability to meet current obligations under Ukrainian law is likely to be a minimum of US$5M and, depending on the closure requirements for the plant site, may be up to US$20M; the comparable liability to meet current international good practices could reach US$100M.

10.4 SRK Comments

Despite the deficiencies in the existing programme of environmental monitoring and management, Poltava is not in itself unduly problematic from an environmental perspective and the implementation of an ISO 14001 based environmental management system demonstrates the Company's commitment to improve the general standard of environmental monitoring and management.

SRK considers that the total closure and rehabilitation liability under current Ukrainian law is likely to be US$5-20M; this could rise to US$100M if conformity to current international good practices was sought. While in practice it is unlikely that the operation would be closed in the foreseeable future, the SRK Ore Reserve Valuation allows for US$100M for closure which is assumed to be expended over the last four years of the Business Plan.

11. TECHNICAL ECONOMIC PARAMETERS

11.1 Introduction

The following section includes discussion and comment on the technical-economic parameters (TEPs) in the Poltava Business Plan. Specifically, comment is included on the basis of projections, production schedules, operating costs and capital expenditures. These have been compiled into TEPs on an annual basis to derive the revenue and cost inputs necessary to generate the cash flows used to derive the Ore Reserve valuation presented in Section 13.

11.2 Basis of Technical Economic Parameters

The Ore Reserve valuation presented in Section 13 is based on the Business Plan, the resulting production profiles and associated revenue streams from pellet sales, operating costs and capital expenditure profiles as provided to SRK by the Company, and reviewed and adjusted where appropriate by SRK. The generation of a Business Plan requires substantial technical input and detailed analysis and is critically dependent upon assumptions of the long-term commodity prices and sustained operating expenditure, potential expansion and/or reduction in the Mineral Resource and Ore Reserve and the return on capital expenditure programmes.

The basis of forward projections of operating costs for mature mining operations are generally based on the previous financial year's performance, with certain modifications for inflation, projected improvements in productivity and other cost-reduction initiatives. In the case of Poltava all future costs have been estimated based on the 2007 budget costs but are also modified in the future to reflect projected improvements in productivity and other cost-reduction initiatives proposed by the Company.

The projected capital costs comprise a combination of costs presented in the Worley Parsons report for the new projects and ongoing/sustaining capital as estimated by Poltava for the existing facilities. While SRK has accepted the distribution cost assumptions provided by the Company in good faith; where warranted, following its independent review and post discussions with the Company, it has adjusted the operating costs to account for future operating conditions (i.e. volume changes and tonnage contribution from various ore sources and mining methods) and taking cognisance of its view on any productivity initiatives as considered by the Company.

Specifically, with regards to the productivity improvements, whereas the Business Plan includes annual cost savings on all operating costs of 2 per cent. between 2008 and 2010 inclusive and then 1 per cent. annually thereafter, the SRK valuation incorporates these up to the point at which the cumulative reductions in the crushing costs reach 20 per cent. (which is in 2024); the reductions in the concentrating, flotation and pelletising costs reach 11 per cent. (which is in 2011) and the reductions for mining activities in the existing pit reach 7 per cent. (which is in 2011). The SRK valuation does not however incorporate any cost savings for the mining at Yeristovskoe or for the new processing facilities as the costs for these have been derived by Worley Parsons assuming good international operating practice.

In addition to the above, however, both the Business Plan and the SRK valuation assume specific cost savings on pelletising based on reduced gas, electricity and bentonite consumption as a result of project capital expenditure. Finally the SRK valuation also includes closure costs on the assumption that this may be required to be completed to meet accepted International Standards.

TEP's include:

- Pellet, concentrate and gravel sales;
- Mining, processing, overheads and distribution operating costs;
- Environmental and closure costs;
- Capital expenditure.

SRK's ore reserve valuation is a valuation of the reserve and not the company and as such takes no account of:

- VAT movements;
- Working capital movements;
- Loan and interest assumptions.
- Any residual value in the plant and facilities at the end of the Business Plan.

In addition to the above, the SRK Financial Model does not include any revenues or costs resulting from the projected production from the Belanovskoe deposit though SRK has derived processing and administration costs for the period when this was projected to be producing by the Business plan costs on the assumption that the plant will be operating at capacity with fixed costs apportioned accordingly. SRK notes that the Company does intend to determine the feasibility of developing Belanovskoe and has already scheduled significant improvements in the infrastructure and plants which have been included in the Business Plan, and allowed for in SRK's reserve valuation, which assume this study will be positive. Should this not be the case some of this expenditure may not be committed and the Business Plan and valuation presented here would therefore change.

The key forecasted TEPs assumed for SRK's valuation are that:-

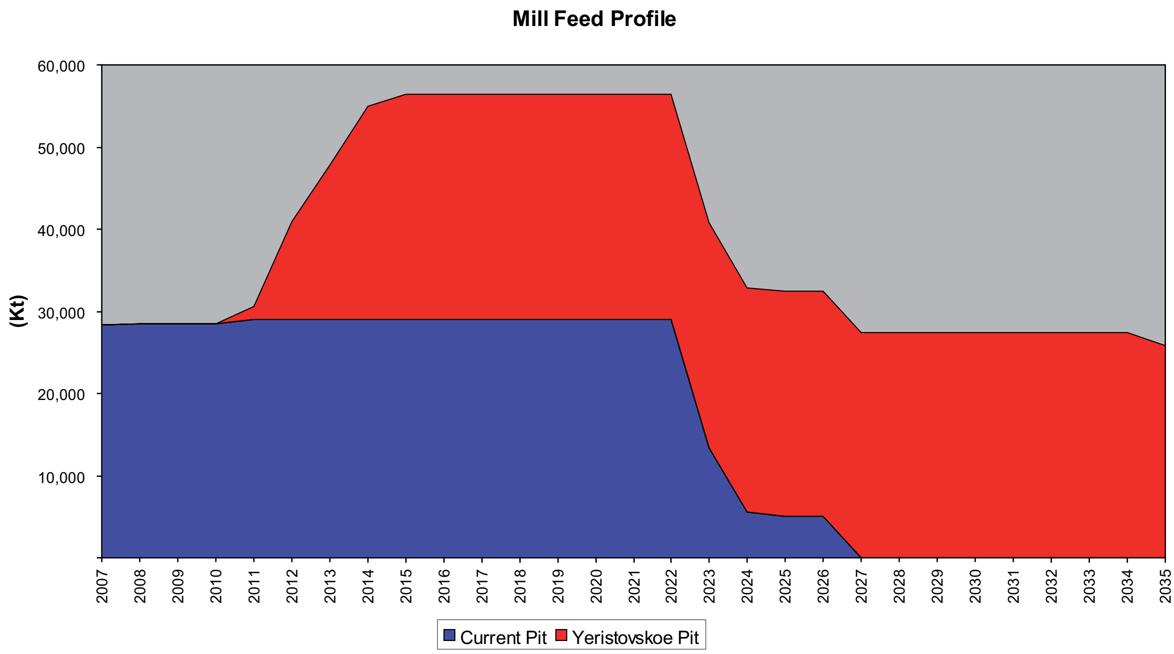
- The operation will increase combined 65 per cent. and 62 per cent. pellet production from 9.4Mt per annum to 16Mt per annum by the end of 2014 but that this will then reduce to 10.5Mt per annum in 2026 when production from the existing pit is currently scheduled to finish.
- The mine will commence producing concentrate in 2013 and this will build up to a rate of 3.9Mt per annum in 2015 and continue until 2026 at which point only pellets will be produced.
- That the total operating cost per annum inclusive of distribution costs will increase in real terms from US$448M in 2007 to US$730M in 2015 before reducing to US$411.2Mm in 2028.
- That the total capital expenditure over the life of the Business Plan will be some US$3,604M of which some US$2,623M will be expended between 2007 and 2013 some US$2,309M of which is for development capital to achieve the envisaged increase in pellet and concentrate production rate.

Table 11-1 below gives a breakdown of the development and sustaining capital expenditure split by major project while Figure 11-1 shows the production profile over the life of the Business Plan.

Table 11-1: Development and Sustaining Capital Expenditure Split by Project

	Total (US$m)	Period
Development		
Mining - Current pit development	33.3	2007-2010
Mining - Other deposits development	9.6	2007-2009
Mining - Yersitovskoe pit development	620.9	2007-2013
Proccesing - Current crushing & DMS upgrade	1.3	2007
Processing - Current concentrator No. 1 & 2 upgrade	128.3	2007-2010
Processing - Yeristovskoe crushing & concentrator	456.5	2008-2013
Processing - Yeristovskoe filter facility	72.3	2010-2013
Processing - Yeristovskoe 4th section tailings	87.6	2008-2013
Pelletising - concentrate thickening upgrade	0.1	2009-2010
Pelletising - filtration plant	92.5	2007-2010
Pelletising - mixing & balling area	67.7	2007-2011
Pelletising - heat recouping system	234.3	2007-2011
Infrastructure - Yeristovskoe power supply	112.3	2007-2011
Infrastructure - Brownfileds power supply	58.6	2007-2010
Infrastructure - pellet handling plant logistics	78.0	2007-2012
Infrastructure - concentrate handling plant logistics	30.3	2008-2013
Infrastructure - general logistics	62.7	2007-2015
Infrastructure - site piping	30.0	2008-2011
Infrastructure - general site development	65.5	2007-2011
Infrastructure - construction camp	67.3	2008-2013
Total development capital	**2,309.2**	
Sustaining		
Mining - Current pit	254.4	2007-2026
Mining - Yeristovskoe pit	398.9	2015-2035
Processing - Current crushing & concentrating	293.6	2007-2026
Processing - Yeristovskoe crushing & concentrating	17.5	2013-2035
Processing - Yeristovskoe filter facility	2.8	2013-2035
Processing - Yeristovskoe 4th section tailings	3.8	2013-2035
Pelletising – Plant	129.4	2007-2035
Infrastructure - existing facilities	175.6	2007-2035
Infrastructure - IT & computer equipment	19.7	2007-2035
Total sustaining capital	**1,295.2**	
Total capital expenditure	**3,604.4**	

Figure 11-1: Mill Feed Profile



11.3 Special Factors

SRK has included its view on the achievement of the Poltava Business Plan and the appropriateness of the Ore Reserve statement when presenting technical and financial data in this CPR and SRK considers these projections to be achievable.

In all likelihood many of the identified risks and/or opportunities will have an impact on the cash flows as presented in Section 13, some positive and some negative. The impact of one or a combination of risks and opportunities occurring cannot be specifically quantified to present a meaningful assessment. SRK has however provided sensitivity tables for single and twin parameters. The sensitivity range covers the anticipated range of accuracy in respect of commodity prices, operating expenditures and capital expenditure projections.

11.3.1 *General Risks and Opportunities*

The Mining Assets are subject to certain inherent risks, which apply to some degree to all participants of the FSU iron ore mining and processing industry. These include:

- Commodity Price Fluctuations;
- Exchange Rate Fluctuations;
- Inflation Rate Fluctuations;
- Country Risk: Specific country risk including political and economic stability in the longer term as indicated by the International Country Risk Grade ("ICRG");
- Legislative Risk: Specifically changes to future legislation (tenure, mining activity, labour, health and safety and environmental) within Ukraine;
- Environmental Liability Risk: The inability of the Mining Assets to fund the balance of their environmental liabilities from estimated operating cashflows, should operations cease prior to that expected;
- Mining Risks: Specifically Ore Reserve estimate risks, uninsured risks, industrial accidents, labour disputes, unanticipated ground water conditions, human resource management, and safety performance; and

- Project Risks: Specifically technical risks associated with projects for which technical studies have been completed but for which future production rates have not been achieved.

11.3.2 *Specific Operational Risks*

The key specific risks that have not been allowed for in the SRK valuation include:-

- The uncertainty relating to the increased slope angles proposed in the existing pit which will be subject to ongoing monitoring as these are introduced.
- The fact that the work completed on the Yeristovskoye deposit and also the planned modifications to the processing facilities is currently at pre-feasibility study stage and the assumptions have therefore yet to be proved to a feasibility study level and the development plans are therefore yet to be approved by the Company. Uncertainties still remain notably in relation to the projected process recoveries, geotechnical assumptions, water management, plant design and the assumed capital and operating costs. It remains a possibility therefore that these projects will not be implemented and that production will continue from the existing pit alone.
- The assumption that the proposed improvements to efficiencies and equipment utilisation envisaged by the Company based largely on the work being undertaken by GPR Dehler will yield the savings in operating costs assumed by SRK.

11.3.3 *Operational Specific Opportunities*

The key specific opportunities that have not been included in the SRK valuation include:-

- The significant resource at Lavrikovskoe, Gorishne-Plavninskoe, Belanovskoe and Galeschinskoe that has not yet been subject to sufficient technical work to convert this to a reserve and has not therefore been included in SRK's reserve valuation and also the potential that exists in the deposits further north.
- The potential to extend the existing open pit which is currently undergoing a preliminary assessment by Turgis.
- The potential to reduce operating costs further through the operational improvements currently being introduced by the Company only some of which have been included in SRK's valuation.
- The potential to reduce the projected capital costs of the proposed plant modifications and expansions which currently include large contingencies following feasibility study assessment.

12. COMMODITY PRICES

Table 12-1 presents the relevant forecast commodity prices (in US$/t) for the two types of iron ore pellets, concentrate and gravel produced at Poltava. Essentially it has been assumed that the ratio between the price obtained for Poltava pellets and concentrate will remain constant over the life of the Business Plan at the ratio between the current price for Tubarao pellets and that negotiated for Poltava products in 2007. The Poltava pellet and concentrate prices were provided to SRK by the Company. SRK understands that the Company has made its projections having considered market projections provided to it by AME. The forecasted prices are all in real terms. The assumed exchange rate for 2007 is 5.1:1 (US$:UAH).

Table 12-1 Forecast Commodity Prices

	Units	2006 (Actual)	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Commodity Prices																	
Poltava																	
65% pellets (weigthed average)	(US$/t)	65.88	80.46	75.82	71.15	66.40	63.90	58.47	70.86	74.50	73.03	73.26	73.80	74.33	74.87	75.41	75.41
62% pellets (weigthed average)	(US$/t)	59.60	70.23	66.81	63.46	60.24	58.43	53.27	62.08	65.00	63.59	63.27	63.73	64.19	64.66	65.12	65.12
67% concentrate sold	(US$/t)	–	61.30	58.44	55.71	52.09	50.65	46.92	49.58	51.68	50.73	51.05	51.37	51.69	52.01	52.33	52.33

13. RESERVES VALUATION

13.1 Introduction

The following section presents discussion and comment on the valuation of the Company's Ore Reserves. Specifically, comment is included on the methodology used to generate the cash flow model.

13.2 Methodology

The valuation of the reserves presented is based on the application of Discounted Cash Flow ("DCF") techniques to the post-tax pre-finance cash flow developed for Poltava based on the 29 year Business Plan from 2007-2035 and the TEPs (Section 11). All figures are presented in real terms.

In generating the cash flow model and deriving the NPV, SRK specifically, has:

- Incorporated the commodity price forecasts as reflected in Table 12-1;
- Used a WACC which reflects the country in which the Mining Assets are located, the fact that the existing pit is operating and has been subject of detailed feasibility studies and also the pre-feasibility study status of the work completed to date on the development of the Yeristovskoe pit and associated processing facilities and infrastructure;
- Relied upon the Company for all accounting inputs as required for the generation of the cash flow model in respect of depreciation and taxation, which is assumed at 25 per cent. on all taxable profits in the Ukraine, which relates to products sold within the Ukraine, and 12 per cent. on all taxable profits in Switzerland, which relate to profits on products exported from Ukraine;
- Reported an NPV for Poltava as at January 1, 2007 which is based on a DCF valuation of the post-tax pre-finance cash flow model; and
- Performed sensitivity analyses to ascertain the impact of discount factors, commodity prices, total operating costs and capital expenditures.

SRK considers that the valuation of the plant and equipment is included in the NPV valuation of the reserves and a separate valuation has not been undertaken.

13.3 Cash Flow Projections

Table 13-1 presents the post-tax pre-finance real cash flows for Poltava. The cash flows presented include adjustments made by SRK as a result of the findings during its review and mainly relate to changes in operating costs and the inclusion of a closure fund at the end of the cash flow period.

Note that these tables are not financial statements (Income Statements; Cash Flow Statements; and Balance Sheet Statements) and no account is taken of movements in working capital at the Company level, or deferrals of tax liabilities between accounting periods, as may be the case in the generation of such financial statements.

Table 13 – 1: Poltava FM in US$ Real Terms

	Units	Total	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
PRODUCTION																
MINING																
Current Pit																
Waste	('000 t)	**826,978**	40,795	46,623	52,451	58,279	58,279	58,279	58,279	58,279	58,279	58,279	58,279	58,279	58,279	58,279
Ore	('000 t)	**490,787**	28,387	28,500	28,500	28,500	29,000	29,000	29,000	29,000	29,000	29,000	29,000	29,000	29,000	29,000
Grade	(%)	**29.87%**	29.81%	29.96%	29.96%	29.96%	30.02%	30.02%	30.02%	30.02%	30.02%	30.02%	30.02%	30.02%	30.02%	30.02%
Contained Fe	('000 t)	**146,584**	8,461	8,539	8,539	8,539	8,705	8,705	8,705	8,705	8,705	8,705	8,705	8,705	8,705	8,705
Yeristovskoe Pit																
Waste	('000 t)	**1,306,814**	1,300	32,900	46,940	53,963	59,020	71,508	103,011	93,024	88,110	88,613	88,116	88,141	88,549	79,467
Ore	('000 t)	**632,160**	–	–	–	–	1,533	11,977	18,797	25,961	27,400	27,400	27,400	27,400	27,400	27,400
Grade	(%)	**33.62%**	0.00%	0.00%	0.00%	0.00%	33.60%	33.60%	33.68%	33.68%	33.69%	33.66%	33.64%	33.66%	33.61%	33.62%
Contained Fe	('000 t)	**212,557**	–	–	–	–	515	4,024	6,330	8,743	9,231	9,222	9,218	9,223	9,210	9,212
Belanovo Pit																
Waste	('000 t)	**–**	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Ore	('000 t)	**–**	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Grade	(%)	**0.00%**	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Contained Fe	('000 t)	**–**	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Total Mining																
Waste	('000 t)	**2,133,792**	42,095	79,524	99,391	112,242	117,299	129,787	161,290	151,303	146,389	146,892	146,395	146,420	146,828	137,746
Ore	('000 t)	**1,122,947**	28,387	28,500	28,500	28,500	30,533	40,977	47,797	54,961	56,400	56,400	56,400	56,400	56,400	56,400
Grade	(%)	**31.98%**	29.81%	29.96%	29.96%	29.96%	30.20%	31.06%	31.46%	31.75%	31.80%	31.79%	31.78%	31.79%	31.76%	31.77%
Contained Fe	('000 t)	**359,141**	8,461	8,539	8,539	8,539	9,220	12,729	15,035	17,448	17,936	17,927	17,923	17,928	17,915	17,917
PROCESSING																
Current Pit																
Ore																
Ore	('000 t)	**490,787**	28,387	28,500	28,500	28,500	29,000	29,000	29,000	29,000	29,000	29,000	29,000	29,000	29,000	29,000
Grade	(%)	**29.87%**	29.81%	29.96%	29.96%	29.96%	30.02%	30.02%	30.02%	30.02%	30.02%	30.02%	30.02%	30.02%	30.02%	30.02%
Contained Fe	('000 t)	**146,584**	8,461	8,539	8,539	8,539	8,705	8,705	8,705	8,705	8,705	8,705	8,705	8,705	8,705	8,705
Yeristovskoe Pit																
Ore	('000 t)	**632,160**	–	–	–	–	1,533	11,977	18,797	25,961	27,400	27,400	27,400	27,400	27,400	27,400
Grade	(%)	**33.62%**	0.00%	0.00%	0.00%	0.00%	33.60%	33.60%	33.68%	33.68%	33.69%	33.66%	33.64%	33.66%	33.61%	33.62%
Contained Fe	('000 t)	**212,557**	–	–	–	–	515	4,024	6,330	8,743	9,231	9,222	9,218	9,223	9,210	9,212
Belanovo Pit																
Ore	('000 t)	**–**	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Grade	(%)	**0.00%**	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Contained Fe	('000 t)	**–**	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Total Mill Feed																
Ore	('000 t)	**1,122,947**	28,387	28,500	28,500	28,500	30,533	40,977	47,797	54,961	56,400	56,400	56,400	56,400	56,400	56,400
Grade	(%)	**31.98%**	29.81%	29.96%	29.96%	29.96%	30.20%	31.06%	31.46%	31.75%	31.80%	31.79%	31.78%	31.79%	31.76%	31.77%
Contained Fe	('000 t)	**359,141**	8,461	8,539	8,539	8,539	9,220	12,729	15,035	17,448	17,936	17,927	17,923	17,928	17,915	17,917
COMMODITY SALES																
65% pellets	('000 t)	**284,314**	3,550	3,800	4,500	5,800	7,000	8,500	10,000	10,000	10,000	12,000	12,000	12,000	12,000	12,000
62% pellets	('000 t)	**89,212**	5,900	6,200	6,200	6,200	6,000	6,500	6,000	6,000	6,000	4,000	4,000	4,000	4,000	4,000
67% concentrate	('000 t)	**35,120**	–	–	–	–	–	–	328	3,328	3,931	3,866	3,866	3,866	3,866	3,866
Gravel	('000 t)	**30,053**	1,181	1,755	1,755	1,755	1,770	1,770	1,770	1,770	1,770	1,770	1,770	1,770	1,770	1,770
Overall Recovery	(%)	**67.4%**	**69.7%**	**70.1%**	**73.8%**	**74.9%**	**74.0%**	**73.5%**	**71.3%**	**61.4%**	**59.7%**	**60.1%**	**60.1%**	**60.1%**	**60.1%**	**60.1%**
COMMODITY PRICES																
Weighted average																
65% pellets	(US$/t)	**74.19**	80.46	75.82	71.15	66.40	63.90	58.47	70.86	74.50	73.03	73.26	73.80	74.33	74.87	75.41
62% pellets	(US$/t)	**63.20**	70.23	66.81	63.46	60.24	58.43	53.27	62.08	65.00	63.59	63.27	63.73	64.19	64.66	65.12
67% concentrate	(US$/t)	**51.71**	–	–	–	–	–	–	49.58	51.68	50.73	51.05	51.37	51.69	52.01	52.33
Gravel	(US$/t)	**2.24**	2.24	2.24	2.24	2.24	2.24	2.24	2.24	2.24	2.24	2.24	2.24	2.24	2.24	2.24
CASHFLOW – REAL TERMS																
Revenue																
65% pellets	(US$m)	**21,094.7**	285.6	288.1	320.2	385.1	447.3	497.0	708.6	745.0	730.3	879.1	885.6	892.0	898.4	904.9
62% pellets	(US$m)	**5,637.8**	414.4	414.2	393.4	373.5	350.6	346.2	372.5	390.0	381.6	253.1	254.9	256.8	258.6	260.5
67% concentrate	(US$m)	**1,816.1**	–	–	–	–	–	–	16.3	172.0	199.4	197.3	198.6	199.8	201.1	202.3
Gravel	(US$m)	**67.3**	2.6	3.9	3.9	3.9	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Other	(US$m)	**82.4**	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8
Total revenue	(US$m)	**28,698.3**	**705.5**	**709.1**	**720.4**	**765.4**	**804.7**	**850.1**	**1,104.2**	**1,313.9**	**1,318.1**	**1,336.3**	**1,345.9**	**1,355.4**	**1,364.9**	**1,374.5**
Operating Costs																
Mining Current	(US$m)	**1,740.9**	100.6	103.1	103.1	105.1	112.9	113.1	113.2	113.1	113.5	113.5	113.6	113.7	113.8	113.8
Mining Yeristovskoe	(US$m)	**2,134.7**	–	–	–	–	1.7	18.6	50.1	80.6	103.6	101.0	101.0	104.1	106.9	108.1
Processing Current	(US$m)	**3,141.5**	241.0	251.4	258.8	310.0	322.5	200.2	142.2	140.6	139.1	141.1	141.0	140.8	140.7	140.5
Processing Yersitovskoe	(US$m)	**4,418.5**	–	–	–	–	15.5	100.2	133.7	174.7	182.7	182.9	182.9	182.9	182.9	182.9
Distribution	(US$m)	**3,274.3**	71.9	71.8	77.2	88.8	97.7	116.7	129.1	153.6	158.8	157.3	157.3	157.3	157.3	157.3
G&A	(US$m)	**1,013.1**	34.3	31.8	32.2	32.2	32.0	32.1	32.0	32.2	32.1	32.0	31.9	31.8	31.8	31.7
Total operating costs	(US$m)	**15,723.1**	**447.9**	**458.1**	**471.4**	**536.1**	**582.4**	**580.8**	**600.3**	**694.7**	**729.7**	**727.8**	**727.7**	**730.6**	**733.4**	**734.4**
Tax	(US$m)	**1,548.4**	**44.5**	**39.4**	**25.5**	**12.4**	**13.3**	**14.5**	**19.2**	**20.0**	**25.7**	**71.8**	**78.7**	**85.4**	**91.4**	**94.7**
Capital Costs																
Development – mining	(US$m)	**663.8**	24.8	83.3	127.9	103.6	69.5	119.5	135.1	–	–	–	–	–	–	–
Development – processing	(US$m)	**746.1**	5.5	51.0	142.8	234.1	106.7	167.4	38.7	–	–	–	–	–	–	–
Development – pelletising	(US$m)	**394.6**	8.0	93.7	161.3	75.5	56.2	–	–	–	–	–	–	–	–	–
Development – infrastructure	(US$m)	**524.3**	23.3	63.4	178.0	131.1	59.2	24.6	17.6	8.6	8.6	0.5	0.5	0.5	0.5	0.5
Sustaining – mining	(US$m)	**653.3**	18.0	17.0	25.4	27.2	22.6	27.2	22.6	31.3	29.4	37.9	14.5	10.2	44.8	47.1
Sustaining – processing	(US$m)	**317.3**	10.3	15.3	15.3	15.3	14.1	15.3	16.3	16.3	15.1	16.3	16.3	16.3	15.1	16.3
Sustaining – pelletising	(US$m)	**129.4**	6.7	5.4	8.7	8.7	8.5	8.5	2.2	2.2	2.8	2.8	3.0	3.0	3.5	3.5
Sustaining – infrastructure	(US$m)	**175.6**	4.8	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1
Total capital costs	(US$m)	**3,604.4**	**101.3**	**335.1**	**665.4**	**601.6**	**342.8**	**368.5**	**238.6**	**64.5**	**62.0**	**63.6**	**40.5**	**36.1**	**70.0**	**73.5**
Net Cashflow	(US$m)	**7,822.4**	**111.8**	**(123.6)**	**(441.9)**	**(384.7)**	**(133.8)**	**(113.8)**	**246.1**	**534.6**	**500.7**	**473.1**	**499.0**	**503.2**	**470.2**	**471.9**

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
PRODUCTION															
MINING															
Current Pit															
Waste	22,729	16,901	6,411	–	–	–	–	–	–	–	–	–	–	–	–
Ore	29,000	29,000	13,400	5,500	5,000	5,000	–	–	–	–	–	–	–	–	–
Grade	30.02%	30.02%	28.59%	27.57%	27.00%	27.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Contained Fe	8,705	8,705	3,831	1,516	1,350	1,350	–	–	–	–	–	–	–	–	–
Yeristovskoe Pit															
Waste	51,148	27,330	26,507	26,915	28,073	28,434	25,090	24,704	17,844	17,581	18,466	18,096	10,765	3,185	14
Ore	27,400	27,400	27,400	27,400	27,400	27,400	27,400	27,400	27,400	27,400	27,400	27,400	27,400	27,400	25,892
Grade	33.62%	33.63%	33.63%	33.62%	33.60%	33.61%	33.61%	33.61%	33.61%	33.61%	33.60%	33.60%	33.60%	33.60%	33.60%
Contained Fe	9,212	9,215	9,214	9,212	9,207	9,208	9,208	9,208	9,208	9,209	9,206	9,206	9,206	9,206	8,700
Belanovo Pit															
Waste	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Ore	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Grade	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Contained Fe	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Total Mining															
Waste	73,877	44,231	32,918	26,915	28,073	28,434	25,090	24,704	17,844	17,581	18,466	18,096	10,765	3,185	14
Ore	56,400	56,400	40,800	32,900	32,400	32,400	27,400	27,400	27,400	27,400	27,400	27,400	27,400	27,400	25,892
Grade	31.77%	31.77%	31.97%	32.61%	32.58%	32.59%	33.61%	33.61%	33.61%	33.61%	33.60%	33.60%	33.60%	33.60%	33.60%
Contained Fe	17,917	17,920	13,044	10,728	10,557	10,558	9,208	9,208	9,208	9,209	9,206	9,206	9,206	9,206	8,700
PROCESSING															
Current Pit															
Ore															
Ore	29,000	29,000	13,400	5,500	5,000	5,000	–	–	–	–	–	–	–	–	–
Grade	30.02%	30.02%	28.59%	27.57%	27.00%	27.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Contained Fe	8,705	8,705	3,831	1,516	1,350	1,350	–	–	–	–	–	–	–	–	–
Yeristovskoe Pit															
Ore	27,400	27,400	27,400	27,400	27,400	27,400	27,400	27,400	27,400	27,400	27,400	27,400	27,400	27,400	25,892
Grade	33.62%	33.63%	33.63%	33.62%	33.60%	33.61%	33.61%	33.61%	33.61%	33.61%	33.60%	33.60%	33.60%	33.60%	33.60%
Contained Fe	9,212	9,215	9,214	9,212	9,207	9,208	9,208	9,208	9,208	9,209	9,206	9,206	9,206	9,206	8,700
Belanovo Pit															
Ore	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Grade	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Contained Fe	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Total Mill Feed															
Ore	56,400	56,400	40,800	32,900	32,400	32,400	27,400	27,400	27,400	27,400	27,400	27,400	27,400	27,400	25,892
Grade	31.77%	31.77%	31.97%	32.61%	32.58%	32.59%	33.61%	33.61%	33.61%	33.61%	33.60%	33.60%	33.60%	33.60%	33.60%
Contained Fe	17,917	17,920	13,044	10,728	10,557	10,558	9,208	9,208	9,208	9,209	9,206	9,206	9,206	9,206	8,700
COMMODITY SALES															
65% pellets	12,000	12,000	11,500	10,500	10,500	10,500	10,527	10,527	10,527	10,527	10,527	10,527	10,527	10,527	9,948
62% pellets	4,000	4,000	2,500	1,300	1,206	1,206	–	–	–	–	–	–	–	–	–
67% concentrate	3,866	3,866	273	140	29	29	0	0	0	0	0	0	0	0	–0
Gravel	1,770	1,770	1,002	465	450	450	–	–	–	–	–	–	–	–	–
Overall Recovery	**60.1%**	**60.1%**	**71.3%**	**72.3%**	**72.9%**	**72.9%**	**74.3%**	**74.3%**	**74.3%**	**74.3%**	**74.3%**	**74.3%**	**74.3%**	**74.3%**	**74.3%**
COMMODITY PRICES															
Weighted average															
65% pellets	75.41	75.41	75.58	75.97	75.97	75.97	75.96	75.96	75.96	75.96	75.96	75.96	75.96	75.96	76.22
62% pellets	65.12	65.12	64.66	63.28	63.28	63.28	–	–	–	–	–	–	–	–	–
67% concentrate	52.33	52.33	52.33	52.33	52.33	52.33	52.33	52.33	52.33	52.33	52.33	52.33	52.33	52.33	52.33
Gravel	2.24	2.24	2.24	2.24	2.24	2.24	–	–	–	–	–	–	–	–	–
CASHFLOW – REAL TERMS															
Revenue															
65% pellets	904.9	904.9	869.2	797.7	797.7	797.7	799.6	799.6	799.6	799.6	799.6	799.6	799.6	799.6	758.3
62% pellets	260.5	260.5	161.7	82.3	76.3	76.3	–	–	–	–	–	–	–	–	–
67% concentrate	202.3	202.3	14.3	7.3	1.5	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(0.0)
Gravel	4.0	4.0	2.2	1.0	1.0	1.0	–	–	–	–	–	–	–	–	–
Other	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8
Total revenue	**1,374.5**	**1,374.5**	**1,050.2**	**891.2**	**879.4**	**879.4**	**802.5**	**802.5**	**802.5**	**802.5**	**802.5**	**802.5**	**802.5**	**802.5**	**761.1**
Operating Costs															
Mining Current	74.0	69.1	29.4	8.1	7.0	7.0	–	–	–	–	–	–	–	–	–
Mining Yeristovskoe	98.7	89.0	88.7	91.3	97.3	99.9	97.7	92.8	86.0	88.4	92.9	94.4	84.1	77.5	80.3
Processing Current	142.3	142.4	64.5	29.3	26.6	26.6	–	–	–	–	–	–	–	–	–
Processing Yersitovskoe	182.9	182.9	194.8	195.2	195.6	195.6	195.7	195.7	195.7	195.7	195.7	195.7	195.7	195.7	184.9
Distribution	157.3	157.3	108.3	93.4	92.4	92.4	91.8	91.8	91.8	91.8	91.8	91.8	91.8	91.8	86.7
G&A	31.6	31.4	31.1	31.1	31.0	31.0	30.9	30.9	30.8	30.7	30.6	55.6	55.5	55.4	55.3
Total operating costs	**686.8**	**672.1**	**516.8**	**448.3**	**450.0**	**452.5**	**416.1**	**411.2**	**404.2**	**406.6**	**411.1**	**437.4**	**427.1**	**420.5**	**407.2**
Tax	**108.0**	**111.9**	**75.8**	**57.9**	**56.2**	**57.2**	**48.1**	**50.0**	**51.4**	**49.6**	**50.6**	**45.5**	**49.4**	**52.5**	**47.8**
Capital Costs															
Development – mining	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Development – processing	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Development – pelletising	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Development – infrastructure	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Sustaining – mining	62.7	6.2	11.5	14.1	11.5	14.2	27.0	44.5	60.6	4.5	8.1	9.3	1.6	1.5	0.8
Sustaining – processing	15.1	16.3	15.1	16.3	15.1	16.3	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Sustaining – pelletising	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Sustaining – infrastructure	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1
Total capital costs	**88.4**	**33.2**	**37.2**	**41.0**	**37.2**	**41.1**	**38.6**	**56.1**	**72.3**	**16.2**	**19.8**	**21.0**	**13.2**	**13.2**	**12.5**
Net Cashflow	**491.3**	**557.3**	**420.4**	**343.9**	**336.0**	**328.7**	**299.6**	**285.2**	**274.6**	**330.0**	**321.1**	**298.5**	**312.9**	**316.4**	**293.6**

13.4 Valuation and sensitivity

The following section presents the NPVs derived from the cash flow for Poltava.

The various NPV tables include the following:

- NPVs at a range of discount factors;
- NPV sensitivity to sales revenue, total working costs and capital expenditure derived from single parameter sensitivity analysis; and
- NPV sensitivity to sales revenue and total working costs derived from twin parameter sensitivity.

Table 13-2: Poltava NPV in US$ at Various Real Discount Rates

Discount Rate	NPV (US$m)
8%	1,921.8
10%	1,370.1
12%	972.3
14%	682.0

Figure 13-1: Poltava Single Parameter Sensitivity at a 12 per cent. Discount Rate

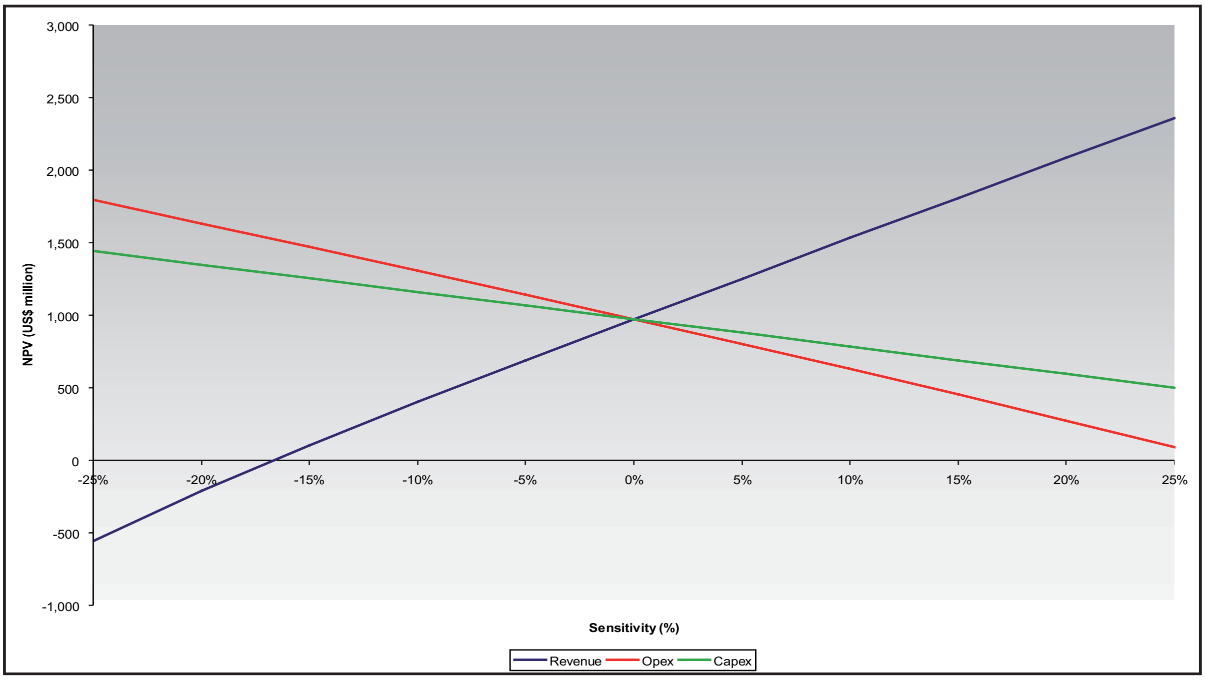


Table 13-3: Revenue and Operating Cost Twin Parameter Sensitivity at 12 per cent. Discount Rate

NPV (US$m)		Sales Revenue Sensitivity				
		-20%	**-10%**	**0%**	**10%**	**20%**
	-20%	516.1	1,078.7	1,632.5	2,181.8	2,730.0
Operating	**-10%**	167.6	744.4	1,305.0	1,857.6	2,406.6
Costs	**0%**	(208.4)	401.1	972.3	1,531.3	2,082.8
Sensitivity	**10%**	(636.8)	38.3	632.3	1,199.5	1,756.9
	20%	(1,068.1)	(377.1)	275.4	862.0	1,426.4

Table 13-4: Revenue and Capital Cost Twin Parameter Sensitivity at 12 per cent. Discount Rate

NPV (US$m)		**Sales Revenue Sensitivity**				
		-20%	**-10%**	**0%**	**10%**	**20%**
		-20%	*-10%*	*0%*	*10%*	*20%*
	-20%	168.2	777.7	1,348.9	1,907.9	2,459.4
Capital	**-10%**	(20.1)	589.4	1,160.6	1,719.6	2,271.1
Costs	**0%**	(208.4)	401.1	972.3	1,531.3	2,082.8
Sensitivity	**10%**	(396.7)	212.8	784.0	1,343.0	1,894.5
	20%	(585.0)	24.5	595.7	1,157.7	1,706.2

Table 13-5: Operating and Capital Cost Twin Parameter Sensitivity at 12 per cent. Discount Rate

NPV (US$m)		**Sales Revenue Sensitivity**				
		-20%	**-10%**	**0%**	**10%**	**20%**
	-20%	2,009.1	1,681.6	1,348.9	1,008.9	652.0
Capital	**-10%**	1,820.8	1,493.3	1,160.6	820.6	463.7
Costs	**0%**	1,632.5	1,305.0	972.3	632.3	275.4
Sensitivity	**10%**	1,444.2	1,116.7	784.0	444.0	87.1
	20%	1,255.9	928.4	595.7	255.7	(101.2)

13.5 Summary

In summary SRK has derived a value for the Company's Ore Reserves of some US$970M assuming a discount rate of 12 per cent. and based on a Business Plan that continues through to 2035. At a discount rate of 8 per cent. this value increases to some US$1,920M while at a discount rate of 14 per cent. this reduces to US$680M. This value is based on Poltava pellet and concentrate price assumptions and distribution costs provided by the Company. SRK understands that the Company has made its projections having considered market projections provided to it by AME. SRK has reviewed all other technical aspects of the existing and planned operations covered by the Business Plan, made adjustments to the assumptions therein where considered appropriate and is confident that this represents a reasonable reflection of this.

14. ADDITIONAL VALUE

The valuation presented above is based on a mine life that ends in 2035 and which exploits the existing pit and the Yeristovskoe pit only as these are the two assets where the work done to date is to at least pre-feasibility study level.

In addition to the above, the Company holds the rights to a significant resource as defined by the JORC Code of some 3,100Mt contained within extensions to the current pit (1,000Mt), extensions to Yeristovskoe (200Mt), Belanovskoe (1,600Mt) and Galeschinskoe (300Mt).

Some preliminary, scoping study level, work has been completed at Belanovskoe and into extending the current pit to exploit the remainder of Gorishne-Plavinskoe and Lavrikovskoe but no material technical work has been done at Galeschinskoe which represents an underground rather than an open pit target.

The Business Plan review by SRK assumes that Belanovskoe will be developed. If this was included in SRK's valuation using the same assumptions as used by the Business Plan this has the potential to add significantly to the valuation derived by SRK. Further, the Company is also in the process of investigating the feasibility of extending the life of the current pit. While this work remains at a relatively early stage certainly this study is justified by the information available to date. Both projects together clearly have the potential to add significantly to the value of the Company.

In summary, while the SRK valuation is based on the Ore Reserve Statements given in this report, there is an additional resource as defined by the JORC Code of some 3,000Mt which represents a significant asset to the Company and which has the potential to extend the currently projected mine life for many years beyond that covered by the current Business Plan.

15. CONCLUDING REMARKS

SRK considers the Mineral Resource and Ore Reserve statements given in this report and the valuation to be a reasonable reflection of the Mining Assets as these stand today given the metal price assumptions provided by the Company. SRK understands that the Company has made its projections having considered market projections provided to it by AME.

The existing operation at Poltava has a long operating history, established operating procedures and markets and appropriate infrastructure facilities to support ongoing operations for many years to come. The Business Plan and SRK Ore Reserve Valuation presented in this report however assumes both that the existing operation will be optimised and improved and that an additional deposit, Yeristovskoe, will be developed and brought into full production over the next eight years along with the required infrastructure to support this. The valuation is therefore dependent upon the development of several new construction and development projects over this period. This report also discusses the potential that exists in other deposits and also for the further extension of the existing open pit itself though these have not been included in SRK's valuation.

SRK considers the work done by the Company and its consultants to assess the feasibility of developing Yeristovskoe and also in implementing revised procedures at the existing pit to date to have been professionally and competently carried out and the projects as proposed to be developed by the Company to be technically feasible. Notwithstanding this, most of these projects are subject to ongoing studies, are currently at pre-feasibility study level and therefore require further work before they can be approved.

While SRK has made various recommendations for work which it considers should be carried out to ensure that the projects are appropriately designed and constructed, SRK is confident that this work can be carried out in good time and is unlikely to materially effect the conclusions given here.

For and on behalf of SRK Consulting (UK) Ltd

Dr Mike Armitage
Managing Director

Nick Fox
Resource Geologist

Appendix

Glossary of Technical Terms

Anomalous	Samples that differ significantly from all the others in a group or population.
Anticline	A 'n' shaped fold or structure in stratified rocks with the oldest rocks in the centre.
Back-hoe excavators	A piece of excavating equipment consisting of a digging bucket on the end of an articulated arm.
Balling drums	Machine use for the conversion of fine mineral ores into easy to handle agglomerates or balls for further processing.
Banded iron formations	Sedimentary rocks that are typically bedded or laminated, and composed of at least 25 per cent. iron and layers of chert, chalcedony, jasper or quartz.
Basin	A general region with an overall history of subsidence and thick sedimentary accumulation.
Blasting	The controlled use of explosives to excavate or remove rock.
Cenozoic	The geological era between 66Ma and the present.
Channel sampling	A means of taking a sample from a rock face by collecting the cuttings from a small channel.
Clays	A term used to describe minerals that are typically less than 2µm (micrometres) in diameter.
Closure plans	Procedures for site closure and rehabilitation once mining has ceased.
Concentrate	Metal ore once it has been through milling and concentration so that it is ready for chemical processing or smelting.
Concentrator	Processing facility which receives ore from the mine and separates out concentrate, the remaining material being tailings.
Cummingtonite	An iron magnesium silicate mineral of the amphibole group.
Deposit	An anomalous occurrence of a specific mineral or minerals within the Earths crust.
Dewatering	Removing of water from the soil or from an enclosure.
Dilution	Mixing of economic grade material with non-economic grade/waste material in the mining process.
Discount factors	The factor that translates the cash flows in future years into present value terms.
Discounted Cash Flow	The cash flow with the discount factor applied.
Dragline excavators	Heavy equipment used to excavate material. A dragline consists of a large bucket which is suspended from a boom.
Drill core	A solid, cylindrical sample of rock produced by diamond drilling.

Diamond drilling	The act or process of drilling boreholes using bits inset with diamonds as the rock-cutting tool.
Environmental Impact Assessment	A multi-disciplinary study which evaluates the effect on the environment of large construction or development project.
Fault	A fracture or a fracture zone along which there has been displacement of the two sides relative to one another parallel to the fracture. The displacement may be a few inches or many miles.
Filtration	Process of separating usually valuable solid material from a liquid.
Flocculant	Chemical added to cause suspended particles in a liquid to bond together into flocs.
Flotation	A means of separating one type of mineral from another using reagents after milling, commonly separating sulphide minerals from silicate minerals.
Flux	Substance used to promote the melting of another substance to which it is added.
Folding	A bending or buckling in any pre-existing structure in a rock as result of deformation.
Free digging	Material which can be excavated without the need for blasting with explosives.
Geological continuity	Geological features such as rock type, structures and mineralisation that can be demonstrated to be continuous between locations.
Geophysical data	Data from the branch of geology that studies the physics of the Earth, using the physical principles underlying such phenomena as seismic waves, heat flow, gravity, and magnetism.
GKZ	Governmental body responsible for reviewing resource and reserve estimates on behalf of the government.
Grab sampling	Samples collected from surface outcrops, mine dumps etc., Used in connection with examination of the characteristic minerals in the deposit rather than for valuation.
Granite	A medium to coarse grained plutonic igneous rock usually light coloured and consisting largely of quartz and feldspar.
Grass roots	Early stages of exploration including activities such as mapping and geochemical sampling.
Grinding	Further reduction, after crushing, of size of mined rocks by mechanical action.
Haematite	An oxide mineral of iron (Fe2O3).
HPGR	High Pressure Grinding Rolls.
Hydrohematite	A mineral consisting of a mixture of the two minerals haematite and goethite.

Indicated Mineral Resource	An 'Indicated Mineral Resource' is that part of a Mineral Resource for which quantity, grade or quality, densities, shape and physical characteristics, can be estimated with a level of confidence sufficient to allow the appropriate application of technical and economic parameters, to support mine planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough for geological and grade continuity to be reasonably assumed.
Inferred Mineral Resource	The part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability.
Intrusive	Rocks that while molten, penetrated into or between other rocks, but solidified before reaching the surface.
Iron ore	Rocks and minerals from which metallic iron can be extracted.
Iron-ore pellet	Dried and hardened agglomerate of iron ore concentrate, whose physical properties are well suited for transportation and downstream processing in a blast furnace.
Joint	A fracture in a rock between the sides of which there is no observable relative movement.
LIMS separation	Low Intensity Magnetic Separation metallurgical technique, used to concentrate highly magnetic minerals, particularly magnetite.
Losses	Used to describe the reporting of valuable product to the non-value process stream (i.e. the tailings).
Ma	Million years.
Magnetic separation	Process which separates two or more products by the variance in their magnetic behaviour.
Magnetite	A magnetic greyish black iron mineral: (Fe_2O_4).
Martite	A variety of hematite.
Mass yield	The proportion of the feed mass that reports to the concentrate stream.
Measured Mineral Resource	A 'Measured Mineral Resource' is that part of a Mineral Resource for which quantity, grade or quality, densities, shape, physical characteristics are so well established that they can be estimated with confidence sufficient to allow the appropriate application of technical and economic parameters, to support production planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from

	locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough to confirm both geological and grade continuity.
Metallurgical testwork	Studies pertaining to the metal content of a rock and the extraction of such metals.
Metamorphosed	Rocks which are changed by a process of heat and pressure within the earth.
Migmatites	A highly complex rock with a banded appearance thought to be formed by partial melting under very high temperatures and pressures.
Mineral Resource	A concentration or occurrence of material of intrinsic economic interest in or on the Earth's crust in such a form and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral Resources are sub-divided, in order of increasing geological confidence, into Inferred, Indicated and Measured categories.
Mixers	Device for combining more than one input material to produce a homogenous product.
MVA	Megavolt ampere.
MW	Megawatts.
Nameplate capacity	Design capacity.
NPV	Net Present Value.
Open-pit	Surface mining in which the ore is extracted from a pit or quarry. The geometry of the pit may vary with the characteristics of the ore body.
Ore Reserve	The economically mineable part of a Measured or Indicated Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of and modification by realistically assumed, mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Ore Reserves are sub-divided in order of increasing confidence into Probable Ore Reserves and Proved Ore Reserves.
Orebody	A continuous mass of mineralisation estimated to be economically mineable. The volume of rock containing the mineral resource.
Overburden	Material of any nature, consolidated or unconsolidated, that overlies a deposit of useful materials.
Pellet plants	Processing facility that takes as its input iron concentrate and produces iron ore pellets.

Pit optimisation	The process of determining the optimal pit size which can be developed based on specific technical and economic parameters.
Plagiogranites	A light coloured igneous rock with high feldspar content.
Plunging	The inclination of a fold axis, measured in the vertical plane.
Precambrian sediments	From the period of time from the formation of the Earth (4,500Ma) to about 590Ma.
Pre-feasibility Study	A geological, technical and economic study to determine whether a deposit can be exploited.
Press filters	Solid-liquid separation devices that use high pressure "squeezing" to achieve separation.
Primary crusher	Equipment that reduces the run of mine rock to a smaller size for processing.
Probable Ore Reserve	The economically mineable part of an Indicated, and in some cases Measured Mineral Resource. It includes diluting materials and allowances for losses which may occur when material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of and modification by realistically assumed, mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could be reasonably justified;
Production / grade control drilling	Close spaced drilling performed during mining to assess the grade of material about to be mined.
Proved Ore Reserves	The economically mineable part of a Measured Mineral Resource. It includes diluting materials and allowances for losses which may occur when material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of and modification by realistically assumed, mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could be reasonably justified.
Quartzites	A metamorphic rock comprised of recrystallised quartz.
Return water	Process water that is recycled to the process facility, such as from a tailings dam.
Roller feeders	Device for presenting a material, typically undried (i.e. soft) agglomerates, to a subsequent process stage, using a series of rotating (i.e. driven) rollers aligned perpendicular to the material flow, and usually configured to provide a downward slope. The gap between the rollers is smaller than the smallest size of the material being fed.
Roller screens	Screening device, typically for undried (i.e. soft) agglomerates, consisting of a series of rotating (i.e. driven) rollers aligned perpendicular to the material flow. The gap between the rollers represents the screen aperture.

Sands	Generic term for ground material typically greater than 200µm in size.
Schist	A metamorphic rock defined by the well developed parallel orientation of more than 50 per cent. of the minerals present.
Scoping Study	An early stage review of a project to assess the viability of different options.
Sedimentary	Rock formed at the earth's surface from solid particles, whether mineral or organic, which have been moved from their position of origin and re-deposited.
Slope angles	In surface mining, the overall angle/dip of the pit slope from the pit bottom to the surface.
Strata	Layer of rock.
Stratigraphy	The sequence or layers of rocks
Stripping ratio	The unit amount of overburden/waste that must be removed to gain access to a unit amount of ore or mineral material.
Syncline	A U-shaped fold or structure in stratified rocks, with youngest rocks in the centre.
Synclinoriums	A basin shaped fold system.
Tailings	Fine ground wet waste material produced from ore after economically recoverable metals or minerals have been extracted.
Tailings Storage Facility	An impoundment such as a dam which allows slurried tailings to be deposited, usually as the final disposal method. The solid matter settles out and the water which accumulates on top is removed during the life of the mine. Once stable, the tailings impoundment can be rehabilitated.
Thickening	A process whereby a chemical compound is used to thicken a water/solids mixture.
Tubarao pellets	Iron ore pellet price benchmark, refers to the Tubarao pellet plant of CVRD, Brazil.
Vacuum filters	Solid-liquid separation devices that use vacuum to achieve separation.
WACC	Weighted Average Cost of Capital (see discount rate).
Waste dump	Area where waste rock is disposed of.
Wet chemistry techniques	Analytical methods involving techniques based on the liquid phase, for ores this generally requires dissolving the solid material in a suitable liquid phase, eg acid.

Part XIII

Definitions and glossary of technical terms

Glossary of general terms

The following definitions apply throughout this Prospectus unless the context requires otherwise:

"Act"	the Companies Act 1985 of England and Wales (as amended)
"Admission"	the admission of the Ordinary Shares to the Official List and to trading on the London Stock Exchange's main market for listed securities in accordance with paragraph 7.1 of the Listing Rules and paragraph 2.1 of the Admission and Disclosure Standards of the London Stock Exchange
"AMC"	the Ukrainian Anti-monopoly Committee
"AME"	AME Consulting Pty Limited
"Articles"	the articles of association of the Company which have been adopted conditional upon Admission and are described in "Additional information – Summary of the articles of association" in paragraph 4 of Part XI
"BF"	blast furnace
"Board"	the board of directors of the Company
"BOF"	basic oxygen furnace
"CESR"	the Committee of European Securities Regulation
"CIF"	carriage, insurance and freight
"CIS"	the Commonwealth of Independent States
"City Code"	the UK City Code on Takeovers and Mergers
"Combined Code"	the Combined Code on Corporate Governance published by the Financial Reporting Council in June 2006
"Companies Act 2006"	the Companies Act 2006 of England and Wales
"Companies Acts"	every statute (including any orders, regulations or other subordinate legislation made under it) from time to time in force concerning companies registered in England and Wales in so far as it applies to the Company
"Company"	Ferrexpo plc, a public company incorporated in England and Wales with limited liability
"CREST"	the system for the paperless settlement of trades in listed securities, of which CRESTCo Limited is the operator
"CREST Regulations"	The Uncertificated Securities Regulations 2001
"CVRD"	Companhia Vale do Rio Doce
"DAF"	delivered at frontier

"DCM"	DCM Decometal International Trading GmbH
"Deutsche Bank"	Deutsche Bank AG, London Branch
"Directors"	the Executive Directors and Non-executive Directors as listed in "Information on the Group – Directors and senior management" in Part II
"Disclosure and Transparency Rules"	the disclosure rules and transparency rules made by the FSA under Part VI of FSMA
"ECHR"	the European Court of Human Rights
"EEA"	the European Economic Area
"Enlarged Share Capital"	the issued share capital of the Company as enlarged by the issue of the New Ordinary Shares
"Environmental Law"	the law of Ukraine No. 1264-XII on environmental protection, dated 25 June 1991
"EU"	European Union as established by the Treaty on European Union
"Exchange Act"	the US Securities Exchange Act of 1934, as amended
"Executive Committee"	the executive committee of the Company's Board
"Executive Directors"	the executive directors of the Company
"Existing Ordinary Shares"	existing Ordinary Shares of 10 pence each in the Company held by the Selling Shareholder immediately prior to Admission
"FATF"	the Financial Action Task Force on Money Laundering
"Ferrexpo"	Ferrexpo AG, a company incorporated in Switzerland with limited liability
"Ferrexpo AG Group"	Ferrexpo AG and its subsidiaries, including Ferrexpo Poltava
"Ferrexpo Poltava"	Ferrexpo Poltava GOK Corporation, a company incorporated under the laws of Ukraine
"Fevamotinico S.à r.l."	Fevamotinico *Société à responsabilité limitée*, a company incorporated with limited liability in Luxembourg
"Ferrexpo Poltava Facility"	the open-pit mine and associated production facilities owned and operated by the Group in the Poltava region of Ukraine
"Ferrexpo UK"	Ferrexpo UK Limited, a private company incorporated in England and Wales with limited liability
"Finance and Credit Bank"	CJSC Commercial Bank Finance and Credit
"Financial Services Authority"	the Financial Services Authority acting in its capacity as the competent authority for the purposes of Part VI of the FSMA and in the exercise of its functions in respect of the admission to the Official List otherwise than in accordance with Part VI of the FSMA
"FOB"	free on board
"FSMA"	the Financial Services and Markets Act 2000, as amended

"FSU"	the former Union of Soviet Socialist Republics
"GDP"	gross domestic product
"Global Co-ordinator"	JPMorgan Cazenove Limited
"Global Offer"	the offering of Ordinary Shares being made available to institutional and certain other investors described in Part V
"Group"	the Company and its subsidiaries, including Ferrexpo Poltava (following the share exchange agreement that was completed on 24 May 2007, or the Ferrexpo AG Group prior to the completion of such share exchange)
"HSEC"	health, safety, environment and community committee of the Board
"IFRS"	International Financial Reporting Standards, as adopted by the EU
"IMF"	the International Monetary Fund
"IOC"	Iron Ore Company of Canada, an affiliate of Rio Tinto
"Joint Bookrunners"	JPMorgan Cazenove and Deutsche Bank
"JPMorgan Cazenove"	JPMorgan Cazenove Limited
"JPMorgan"	J.P. Morgan Securities Ltd.
"Land Code"	the land code of Ukraine, dated 25 October 2001
"Licensing Law"	the law of Ukraine No. 1775-III on licensing of certain entrepreneurial activities, dated 1 June 2000
"Listing Rules"	the rules relating to admission to the Official List of the Financial Services Authority, made in accordance with s.73A(2) of FSMA
"LKAB"	Luossavaara Kiirunavaara AB
"LTIP"	the long term incentive plan
"London Stock Exchange"	London Stock Exchange plc
"Manager's Option"	the option to be granted by the Option Shareholder to the Stabilising Manager (on behalf of the Underwriters) to require the Option Shareholder to sell Existing Ordinary Shares amounting to up to 7 per cent. of the total number of Ordinary Shares in the Global Offer at the Offer Price to cover over-allotments in connection with the Global Offer and to cover short positions resulting from such over-allotments and stabilising transactions
"Memorandum"	the memorandum of association of the Company adopted on 31 March 2005 described in "Additional information – Summary of the memorandum of association" in paragraph 4 of Part XI
"Model Code"	the model code on Directors' dealings in securities as set out in Annex 1 to chapter 9 of the Listing Rules
"NBU"	the National Bank of Ukraine

"NERC"	the National Electricity Regulatory Commission of Ukraine
"New Ordinary Shares"	the 72,527,361 new Ordinary Shares of 10 pence each in the Company to be issued pursuant to the Global Offer
"Non-executive Directors"	the non-executive directors of the Company
"NSDC"	National Security and Defence Council
"OECD"	Organisation for Economic Cooperation and Development
"Offer Price"	the price at which each Ordinary Share is to be issued or sold under the Global Offer
"Official List"	the official list of the Financial Services Authority for the purposes of Part VI of the FSMA
"OH&S"	occupational health and safety
"Option Shares"	the 10,646,855 Existing Ordinary Shares proposed to be sold by the Option Shareholder pursuant to the Manager's Option
"Option Shareholder"	Fevamotinico S.à r.l.
"Order"	Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended
"Ordinary Shares"	ordinary shares of 10 pence each in the Company
"Pig iron"	Crude iron obtained directly from the blast furnace and cast in moulds
"Prospectus"	this document relating to the Company and the Ordinary Shares prepared in accordance with the Listing Rules and the Prospectus Rules
"Prospectus Rules"	the rules made by the Financial Services Authority, for the purposes of Part VI of the FSMA in relation to offers of securities to the public and admission of securities to trading on a regulated market
"Qualified Investors"	has the meaning given to it by Article 2(l)(e) of the Prospectus Directive (Directive 2003/71/EC)
"Regulation S"	Regulation S under the Securities Act
"Regulations"	the Uncertificated Securities Regulations 2001, as amended from time to time
"Relationship Agreement"	the relationship agreement entered into among the Selling Shareholder, Kostyantyn Zhevago, The Minco Trust and the Company
"Sale Shares"	the 79,570,571 Ordinary Shares proposed to be sold by the Selling Shareholder pursuant to the Global Offer (assuming no exercise of the Manager's Option)
"SPF"	the Ukrainian State Property Fund
"SRK"	SRK Consulting (UK) Limited
"SEC"	the US Securities and Exchange Commission

"Securities Act"	the US Securities Act of 1933, as amended
"Selling Shareholder"	Fevamotinico S.à r.l.
"Senior Managers"	Mykola Petrovych Goroshko, Viktor Viktorovych Lotous, Simon Wandke and David Webster
"Shareholders"	holders of Ordinary Shares of the Company
"Sponsor"	JPMorgan Cazenove
"Stabilisation Regulation"	Commission Regulation No. 2273/2003 of 22 December 2003 relating to exemptions for buy-back programmes and stabilisation of financial instruments
"Stabilising Manager"	JPMorgan Cazenove
"Subsurface Code"	the code of Ukraine on the subsurface, dated 27 July 1994
"The Minco Trust"	the discretionary trust which owns 100 per cent. of the Selling Shareholder
"TIS-Ruda Terminal"	the new berth at Port Yuzhniy being developed by LLC TIS-Ruda, a Ukrainian enterprise
"Trust"	the employee discretionary trust established by the Company or one of its subsidiaries
"UAU LLC"	UAU Limited Liability Company
"UEC"	LLC United Energy Company
"UN"	United Nations
"Underwriters"	JPMorgan and Deutsche Bank
"Underwriting Agreement"	the underwriting agreement entered into among, *inter alia*, the Company, the Sponsor and the Underwriters as further described in "Additional information – Underwriting Agreement" in paragraph 8 of Part XI
"United Kingdom" or "UK"	the United Kingdom of Great Britain and Northern Ireland
"United States" or "US"	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia
"UK GAAP"	generally accepted accounting practice in the United Kingdom
"US GAAP"	US generally accepted accounting principles
"Vorskla Steel"	the Vorskla Stahl AG group of companies
"WTO"	the World Trade Organisation

Glossary of technical terms

The following definitions shall apply to the technical terms used herein:

"BF"	blast furnace
"BF/BOF"	blast furnace/basic oxygen furnace
"concentrate"	material which has been processed to increase the percentage of the valuable mineral to facilitate transportation and downstream processing
"DR"	direct reduction
"fluxes"	limestone, dolomite, or other substances used in iron and steel-making which react with undesirable impurities
"FSU Classification"	the classification system and estimation methods for reserves and resources established by FSU and last revised in 1981
"iron ore concentrate"	product of the flotation process with an enriched iron content
"JoRC Code"	2004 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves
"kg"	kilogramme
"kt"	kilotonnes
"kw"	kilowatt
"kWh"	kilowatt hour
"m^3"	cubic metre
"mm"	millimetre
"Mt"	million tonnes
"Mtpa"	million tonnes per annum
"mineral"	a natural, inorganic, homogeneous material that can be expressed by a chemical formula
"open pit"	surface mining in which the ore is extracted from a pit or quarry
"ore"	a mineral or mineral aggregate containing precious or useful minerals in such quantities, grade and chemical combination to make extraction economic
"overburden"	The waste rock overlying and surrounding an ore body which in open-pit mining has to be removed to allow mining of the ore.
"plant"	fixed or moveable equipment required in the process of processing the ore
"probable reserves"	those measured and/or indicated mineral resources which are not yet "proved", but of which detailed technical and economic studies have demonstrated that extraction can be justified at the time of the determination and under specified 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
"refining"	the final process of upgrading the metal quality
"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
"slag"	solid waste matter left when metal has been separated from ore by smelting
"sinter"	an aggregate which is normally produced from relatively coarser fine iron ore and other metallurgical return wastes used as an input/raw material in blast furnaces
"slurry"	suspension of solids in a liquid
"smelting"	thermal process whereby molten metal is liberated from a concentrate, with impurities separating into a lighter slag
"spot price"	the current price of a metal for immediate delivery
"strip ratio"	the ratio between the volume of overburden compared to the tonnage of ore mined
"t" or "tonne"	metric tonne, equivalent to 2,204.62 pounds
"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