FERREXPO

SUPPLYING THE WORLD WITH IRON ORE PELLETS *for over* 35 YEARS

FERREXPO PLC
ANNUAL REPORT AND ACCOUNTS
2014

FERREXPO IS AN IRON ORE PELLET PRODUCER WITH MINES IN UKRAINE AND TRANSPORT AND SALES OPERATIONS THROUGHOUT THE WORLD.

Since Ferrexpo's IPO in June 2007, it has maintained a premium listing on the main market of the London Stock Exchange. The Group operates to high standards of corporate governance.

Ferrexpo is the largest exporter of iron ore pellets in the Former Soviet Union (the "FSU") and the fifth largest supplier of pellets to the global steel industry. As a result of the Group's large iron ore deposit, significant past investment into its operations and its established logistics infrastructure, the Group is an efficient and competitive producer of premium iron ore pellets on a delivered basis to its well regarded customer base around the world.

PREMIUM MAIN MARKET
LONDON STOCK EXCHANGE

ABOUT FERREXPO

Ferrexpo's resource base is one of the largest iron ore deposits in the world. As of 1 January 2015, the Group had 6.7 billion tonnes of JORC classified resources and, in addition, it had 13.1 billion tonnes of FSU classified resources. At today's production rates, Ferrexpo believes there are enough reserves for more than 50 years of production. The resource consists of nine magnetite mineral deposits, with an average iron content of 32%.

PROCESSING AND LOGISTICS

The mining and processing operations are located on the banks of the Dnieper River, next to the city of Komsomolsk, in the Poltava region of central Ukraine.

The ore mined is beneficiated into high grade concentrate, which is then fired into iron ore pellets. Ferrexpo currently sell two types of pellets which differ primarily due to the amount of iron content they contain – 65% Ferrexpo Premium Pellets ("FPP") and 62% Ferrexpo Basic Pellets ("FBP")

The Group's logistics infrastructure enables it to transport its pellets by rail, primarily with Ferrexpo's own rail cars, from the mines to the western border of Ukraine to connect with the European rail network and to the southern port of TIS-Ruda for seaborne shipments

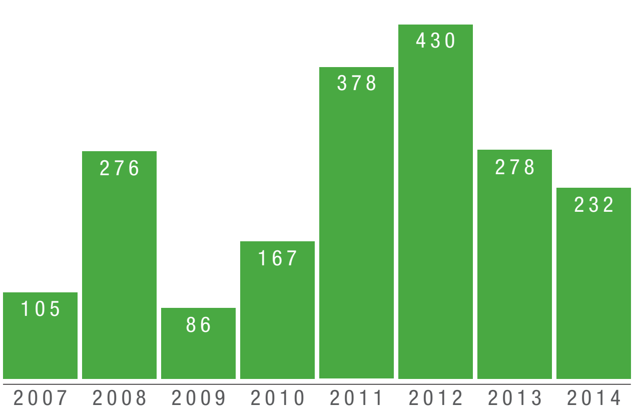
The significantly shorter shipping distance to both Europe and Asia from Ukraine, compared to our key Brazilian pellet producing peers, allows us to deliver pellets on a competitive basis to these markets.

GLOBAL CUSTOMER BASE

The Group is export-oriented, with virtually all of its sales made to a diversified customer base in Austria, China, Japan, Germany, Slovakia as well as other European and Asian countries. Ferrexpo has marketing offices in China, Japan, Singapore, Switzerland, the UAE and Ukraine, which are dedicated marketing and trading arms and manage the Ferrexpo's customer relationships.

Ferrexpo's approach is based on building long-term relationships with customers who produce high-quality steel and have a competitive advantage in their chosen markets. The Group enters into long-term supply contracts with such customers and this, combined with Ferrexpo's low cost base, facilitates a stable sales volume across various industry cycles and has allowed Ferrexpo to maintain positive operating cash flows since 2006.

CAPITAL INVESTMENT US$MILLION



US$2.0BN

We have invested approximately US$2 billion into our mining, and logistics operations since our IPO in 2007.

As of 31 December 2014, Ferrexpo completed a major programme of modernisation and expansion of its mining and logistics operations, which included an upgrade of the existing facilities and the development of FYM and its associated infrastructure. As a result Ferrexpo has 12 million tonnes of installed pelletising capacity

KEY STRENGTHS

+35yrs

Ferrexpo has been mining and processing high quality iron ore pellets for the global steel industry for over 35 years.

11.0Mtns

In 2014, the Group produced 11.0 million tonnes of pellets, a 2% increase compared to 2013.

Ferrexpo's business is well positioned due to the following key strengths:

- Producer of iron ore pellets, a premium product;
- Reliable and competitive cost producer on a delivered basis;
- Well invested asset base following a significant modernisation programme;
- High quality and diverse customer portfolio under long-term framework agreements;
- Integrated rail, port and shipping and barging capabilities;
- Significant resource base to support current production levels; and
- Strong corporate governance and experienced management team.

THE FERREXPO BUSINESS MODEL

Ferrexpo's vision is to continually grow the Group's output of iron ore by developing our substantial resources in a sustainable and environmentally sensitive manner whilst developing our people and allowing them to achieve their full potential.

OUR COMPETITIVE ADVANTAGES ACROSS THE IRON ORE VALUE CHANGE

DEVELOPMENT

LARGE BROWNFIELD RESOURCE

MINING

LOW COST PELLET PRODUCER

PROCESSING

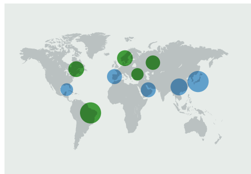
A HIGH QUALITY PRODUCT

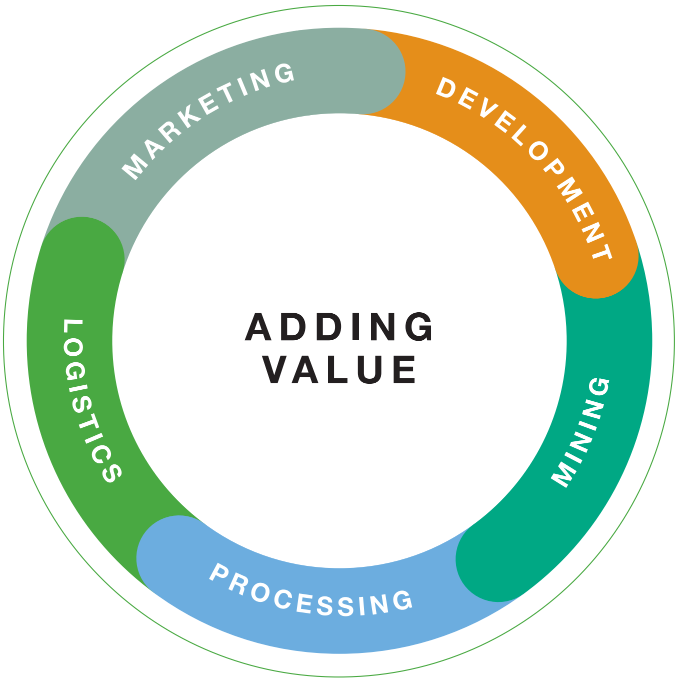
LOGISTICS

AN INTEGRATED SOLUTION

MARKETING

LONG-TERM CUSTOMER RELATIONSHIPS





UNDERPINNED BY

FINANCIAL DISCIPLINE

Ferrexpo targets prudent balance sheet ratios with net debt levels commensurate with the long-term iron ore price outlook and the risk profile of the business.

STRONG GOVERNANCE

Ferrexpo is dedicated to maintaining high standards of corporate governance throughout the Group, as well as instilling a culture of commitment and accountability in all employees.

FINANCIAL HIGHLIGHTS 2014

16%

INCREASE IN 65%FE PELLETS
65% Fe pellet volumes of 5.8 million tonnes
(2013: 65% Fe pellet 5.0 million tonnes)

2%

TOTAL PRODUCTION VOLUMES
Production volumes of 11.0 million tonnes
(2013: 10.8 million tonnes)

4%

SALES VOLUME
Sales volumes of 11.2 million tonnes
(2013: 10.7 million tonnes)

47%

IRON ORE PRICES
The 62% Fe CFR fines iron ore price to China declined 47% in 2014 to US$72/tonne
(31 December 2013: US$135/tonne)

US$1.4BN

REVENUE
Revenue declined by 12%
(2013: US$1.6BN)

23%

C1 CASH COST
The C1 cash cost declined 23% to US$46/tonne
(2013: US$60/tonne)

US$496M

EBITDA
EBITDA declined by 2%
(2013: US$506 millon)

30.39¢

DILUTED EARNINGS PER SHARE
Earnings per share declined by 32%
(2013: US44.69 cents)

For more information please visit our website ferrexpo.com

STRATEGIC REPORT

CORPORATE GOVERNANCE

FINANCIAL STATEMENTS

The future is in our hands
Ferrexpo believes that a successful business and a sustainable business are one and the same.

OVERVIEW OF BUSINESS MODEL

OPEN PIT MINING *with a* LONG-LIFE RESOURCE

Ferrexpo's significant resource base is situated along a single ore body, which allows for efficient expansion through brownfield developments. The development of the Yeristovo pit (FYM) was the first new open pit in the Former Soviet Union since Independence.

20.7

Mtns

OF IRON ORE PROCESSED IN 2014 AT FPM

9.3

Mtns

OF IRON ORE PROCESSED IN 2014 AT FYM

50yrs

AT TODAY'S PRODUCTION RATES, THE GROUP HAS ENOUGH RESERVES FOR MORE THAN FIFTY YEARS OF PRODUCTION

13.1 BT

FSU SOVIET CLASSIFIED RESOURCES

BROVARKOVSKOYE 4.0BT

MANUILOVSKOYE 3.4BT

KHARCHENKOVSKOYE 2.8BT

VASILIEVSKOYE 1.4BT

ZARUDENSKOYE 1.5BT

6.7 BT

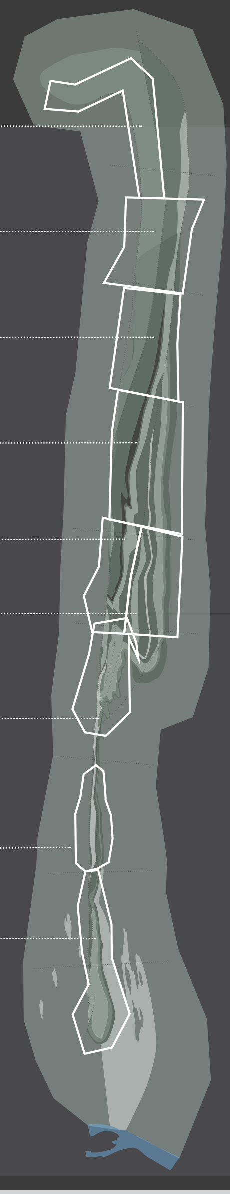
JORC CLASSIFIED RESOURCES

GALESCHINSKOYE 0.3BT

BELANOVSKOYE 1.7BT

YERISTOVSKOYE 1.2BT
MINE LIFE – 22 YEARS

GORISHNE-PLAVNINSKOYE & LAVRIKOVSKOYE 3.5BT
MINE LIFE – 23 YEARS



JORC Reserve Statements as at 1 January 2015

	Ore Reserves					
Deposit	Proved (million tonnes)	Fe grade total (% Fe tot)	Fe grade magnetite (% Fe mag)	Probable (million tonnes)	Fe grade total (% Fe tot)	Fe grade magnetite (% Fe mag)
Gorishne-Plavninskoye[1]	181	26	17	475	30	22
Lavrikovskoye[1]	34	31	21	88	32	23
Yeristovskoye[2]	242	34	27	418	32	25
JORC Reserves	**457**	**31**	**23**	**981**	**31**	**23**

1 The reserves estimates for the GPL deposits are those estimated in the report by Turgis Consulting (Pty) Ltd. dated 25 July 2008, less our estimates of the volume of ore mined from GPL deposits between 2008 and 31 December 2014 from the estimates stated in that report.
2 The reserves estimates for the Yeristovskoye deposits are based on a report by Royal Haskoning DHV (UK) Ltd. dated 20 September 2013 less our estimates of the volume of ore mined between September 2013 and 31 December 2014.

JORC Resource Statements as at 1 January 2015

	Measured			Indicated			Inferred		
Deposit (magnetite, unless stated otherwise)	Tonnage (million tonnes)	Fe grade total (% Fe tot)	Fe grade magnetite (% Fe mag)	Tonnage (million tonnes)	Fe grade total (% Fe tot)	Fe grade magnetite (% Fe mag)	Tonnage (million tonnes)	Fe grade total (% Fe tot)	Fe grade magnetite (% Fe mag)
Gorishne-Plavninskoye[1]	263	29	19	1,012	31	23	1,275	31	23
Lavrikovskoye[1]	95	31	21	682	30	22	174	29	20
Yeristovskoye[2]	247	34	27	558	33	26	364	30	23
Belanovskoye [2]	336	31	24	1,149	31	23	217	30	21
Galeschinskoye[2][3]	–	–	–	268	55	–	58	55	–
JORC Reserves	**941**	**31**	**23**	**3,669**	**33**	**22**	**2,088**	**31**	**22**

1 The resource estimates for the GPL deposits were calculated based on a review conducted by SRK in March 2008 less our estimates of the volume of ore mined from the GPL deposit between 2008 and 31 December 2014.
2 The resource estimates are based on a report by SRK (UK) dated 15 June 2007. The Mineral Resource estimate for Yeristovskoye has been depleted in line with the volume of ore mined between September 2013 and 31 December 2014).
3 Haematite deposit.

OVERVIEW OF BUSINESS MODEL

A LOW COST PRODUCER *with a* HIGH QUALITY PRODUCT

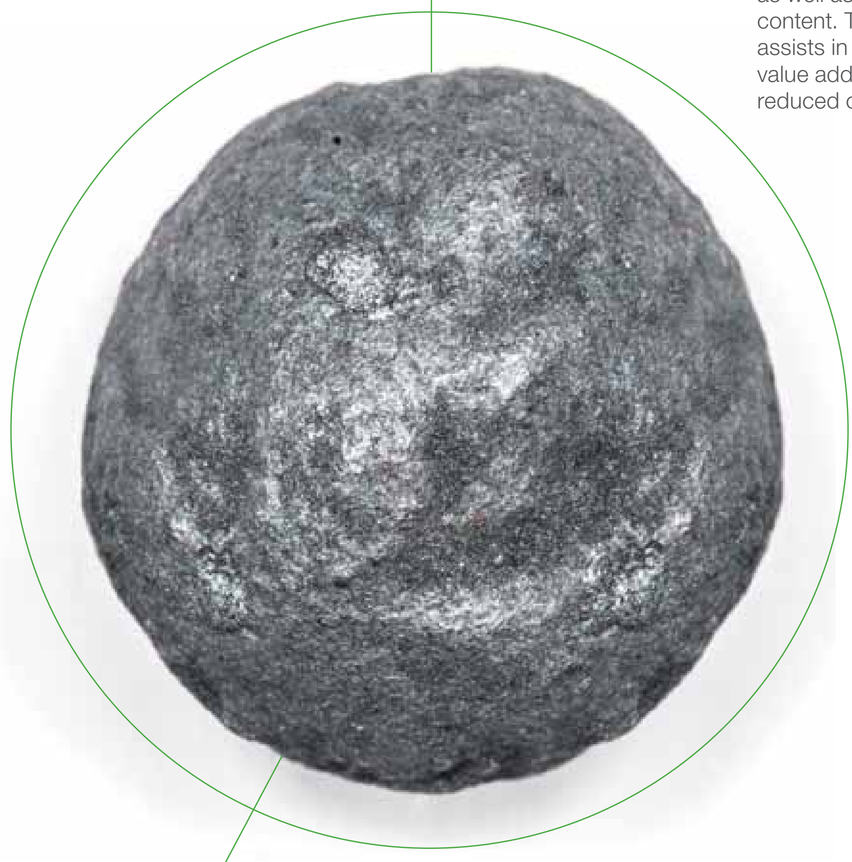
The quality of Ferrexpo's pellets and the reliability of its supply means the Group has supplied some of the world's leading steel producers for many decades.

53%

OF 2014 PRODUCTION

FERREXPO PREMIUM 65% FE PELLETS (FPP)

FPP are high grade pellets with low levels of alumina and phosphorus as well as high magnesium oxide content. This chemical composition assists in the production of high value added steel products at reduced costs.



47%

OF 2014 PRODUCTION

FERREXPO BASIC 62% FE PELLETS (FBP)

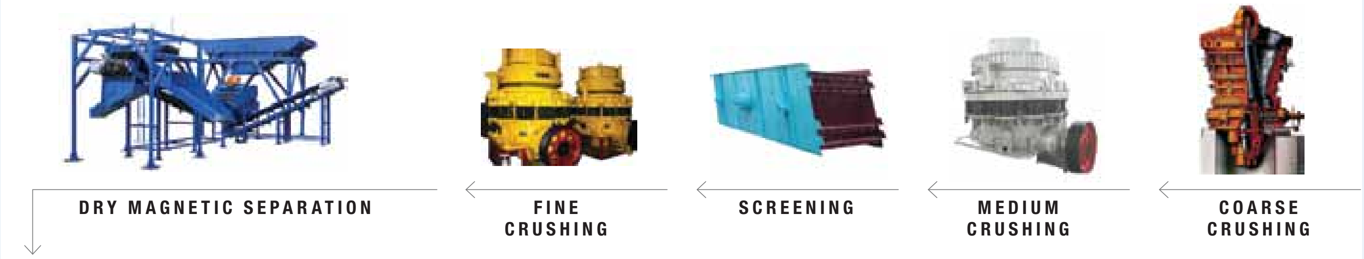
A high performance cost-effective feed for a blast furnace that can reduce the use of fluxes due to elevated silica levels. FBP's performance in the blast furnace has established a strong reputation, particularly when combined with our after sales service.

ORE EXTRACTION

Open cut, hard rock iron ore mining, using truck and shovel. Average Fe content of 31%.

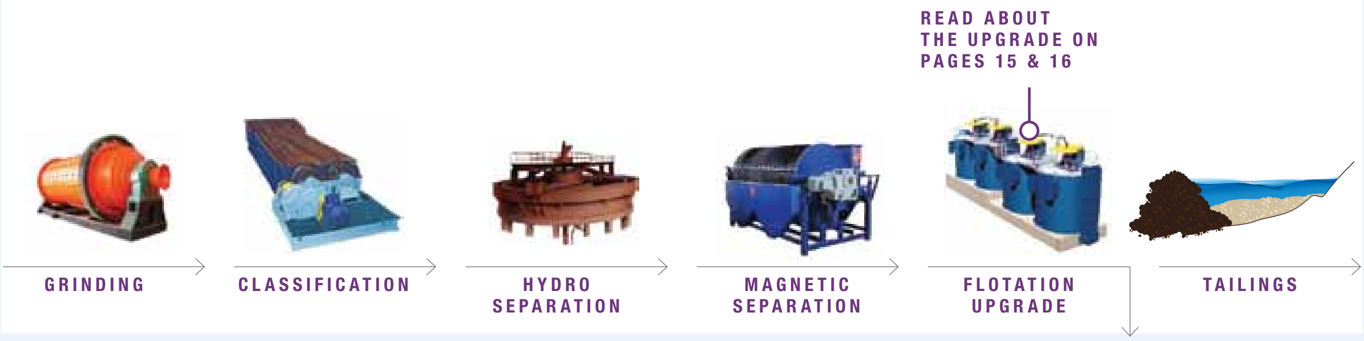
CRUSHING

The ore is crushed and screened to allow it to be upgraded through separation by two crushing plants.



BENEFICIATION

The ore is ground to produce concentrate which is then upgraded to 67% Fe content. Waste material removed to the tailings storage area.



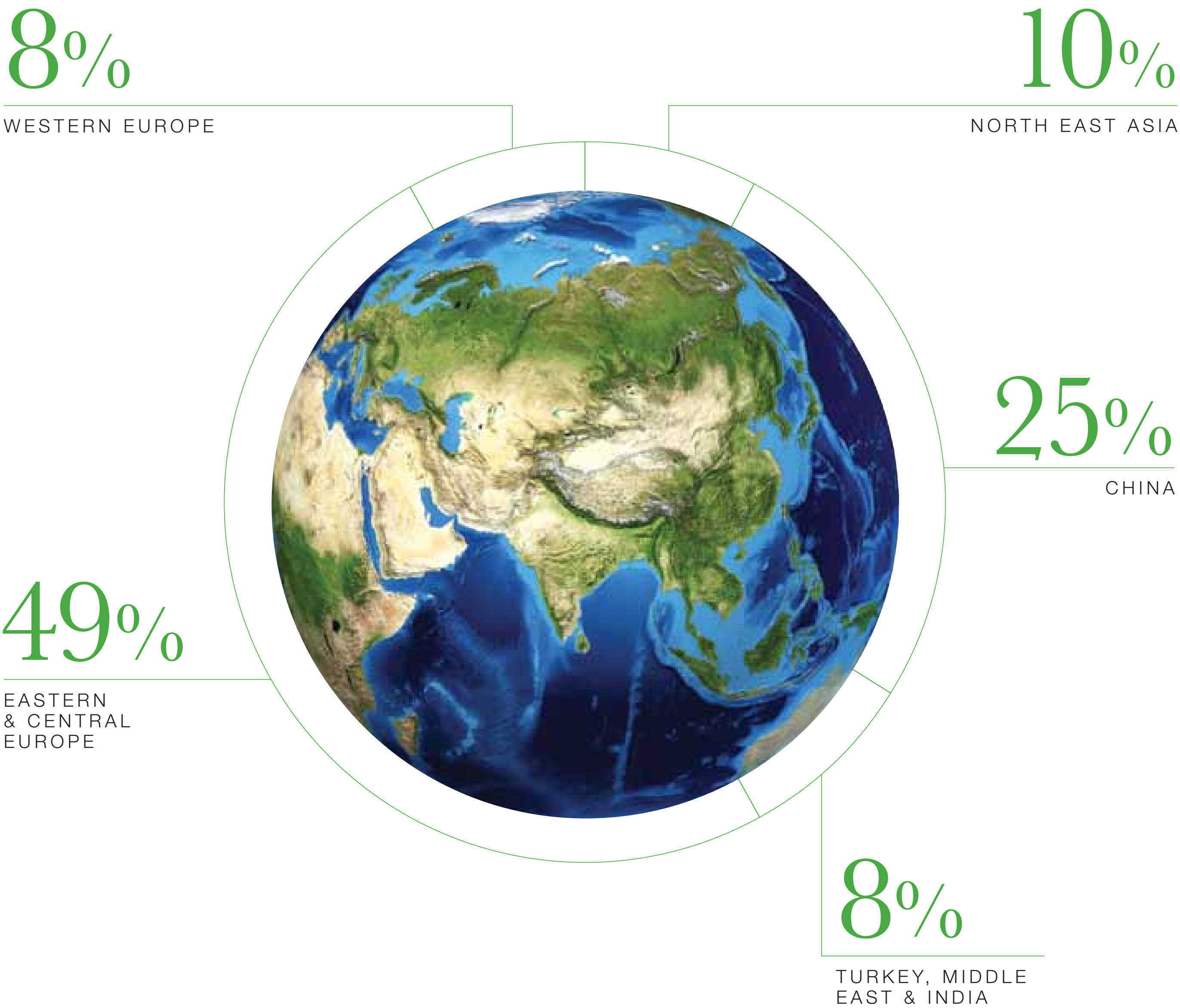
PELLETISING

Four kiln grate units which heat and form the materials into pellets of around 16mm.

OVERVIEW OF BUSINESS MODEL

A CENTRAL LOCATION *supplying a* PREMIUM CUSTOMER PORTFOLIO

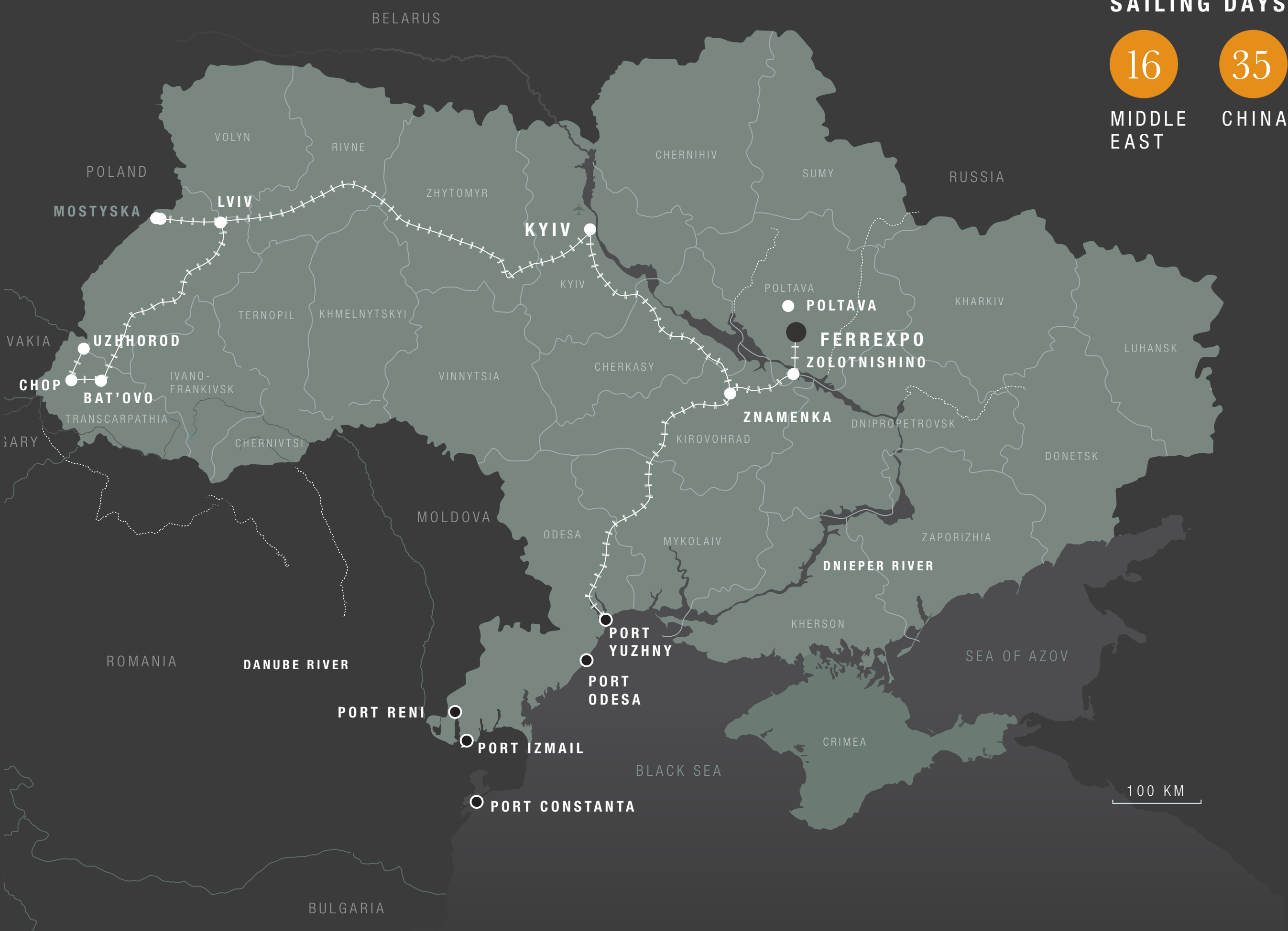
Well located to supply regional and seaborne markets.
% breakdown of sales by volume:



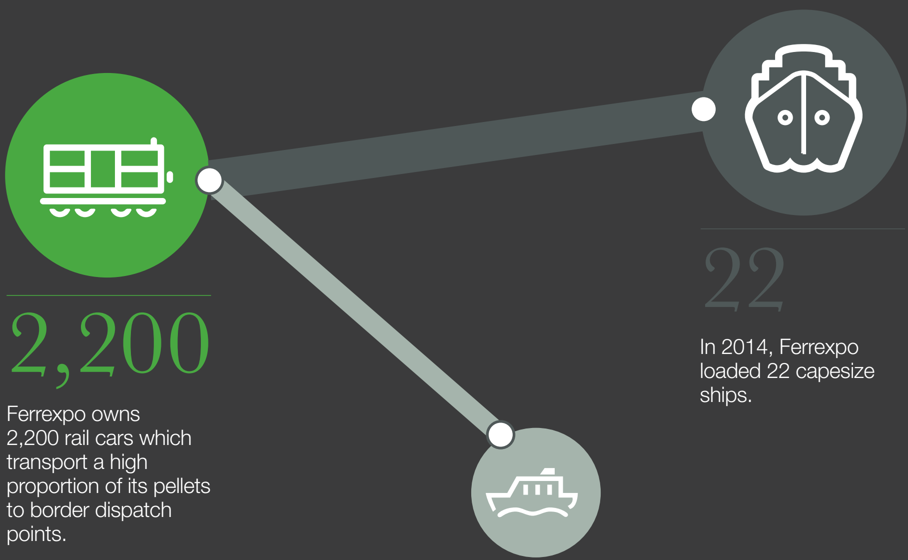
SAILING DAYS

16 MIDDLE EAST

35 CHINA



Ferrexpo exports 100% of its production and transports it by rail, predominantly using the Group's own rail cars, to the western border and to the southern port of Yuzhny for export.



2,200

Ferrexpo owns 2,200 rail cars which transport a high proportion of its pellets to border dispatch points.

22

In 2014, Ferrexpo loaded 22 capesize ships.

139

In 2014, Ferrexpo shipped approximately 1.1 million tonnes of pellets to customers in Europe using its 139 barges.

OVERVIEW OF BUSINESS MODEL

A RESPONSIBLE APPROACH *creating* LONG-TERM SUSTAINABILITY

Ferrexpo is committed to operating a sustainable and responsible business. The Group seeks to manage the business in a way that ensures returns to all stakeholders, including Ferrexpo's employees and the local communities in Ukraine.

30

iPads bought for the local school helping students to access updated information. Strong emphasis remains on developing high educational standards in Komsomohsk benefiting the region and the industry

Developing and selling a product in a global environment requires the highest standards of governance, transparency and ethical dealings with all stakeholders, including customers, suppliers, creditors and shareholders. Ferrexpo strategy is to operate to best international standards of governance and fairness.

COMMUNITY RELATIONS

Ferrepxo believes it is important to maintain a social licence to operate as it benefits greatly from having a thriving and well-educated local community, aiding the recruitment and retention of staff.

In 2014, the Group increased its community support donations. Examples of donations made include the purchase of medical equipment for hospitals, care for the elderly, heating and lighting equipment for local infrastructure and general repairs to schools and hospitals.

US$39M

community support donations in 2014.

EMPLOYEES

Ferrexpo's employees are essential to the sustainable success of the business. The Board is committed to safeguarding and developing the Group's employees. The Group has a well-established employment policy, which meets best practice standards and applies to the entire Group.

8,318

employees received training in 2014 related to health and safety, technical skills and functional training.

HEALTH AND SAFETY

Ferrexpo aims to be a leader in safety management within the CIS and to ensure that its systems are in line with international best practice.

Most regrettably there were three fatalities at the Group's operations in 2014. Ferrexpo enforces strict compliance with health and safety standards. The prevention of incidents and injuries to employees is the highest priority of the Board and management, who follow the principle that all accidents are avoidable.

0.47

LTI frequency rate for the Group's mining operations decreased to 0.47 representing the fourth successive year of improvement.

ENVIRONMENTAL STEWARDSHIP

Ferrexpo has pledged to manage its resources and facilities in a sensible manner, having regard for the natural and social environment in which it operates.

To this end continuous efforts are made to reduce dust, gas and effluent emissions by introducing new equipment and procedures.

–23%

average consumption of electricity consumed per tonne of pellets since 2005.

STRATEGIC FRAMEWORK

In accordance with its strategic objectives Ferrexpo believes it will be able to reduce business risk consistently, produce high quality earnings and deliver sustainable value to all stakeholders over the long term.

STRATEGIC PRIORITIES

A

Be a low cost, efficient producer

Improve cost efficiency continuously by increasing output and reducing consumption norms, developing further best operating practice and lowering delivery costs to European and Asian markets.

B

Develop the resource base

It is the Group's strategy to increase production over the medium to long term to 20 million tonnes of high quality iron ore product.

C

Improve the quality of output

Ferrexpo plans to increase the quality of its pellet output to 65% Fe by the end of 2015. It is currently ramping up production of 65% Fe pellets following the completion of its quality upgrade project.

D

Develop logistics capabilities

Develop, where appropriate, logistics capabilities adding to rail, port and shipping capability both within and outside Ukraine.

E

Develop the customer portfolio

Win new business by offering quality product, reliable supply and excellent customer service.

F

Train and develop the Group's employees

A skilled and motivated labour force will underpin innovation and business improvement, helping to develop the reserve base and sustain production for decades to come.

G

Maintain a social licence to operate

In order to succeed as a large business operating in a major town, Ferrexpo aims to be a major asset to its country of operation.

H

Evaluate relevant investment opportunities

Ferrexpo will evaluate opportunities which are potentially value accretive to the Group and that can reduce operating risk

I

Maintain appropriate credit metrics and sufficient financial liquidity

Ferrexpo's financial strategy includes principally funding capital expenditures out of operating cash flows, maintaining sufficient liquidity to service short term debt and retaining competitive credit metrics.

J

Maintain high standards of corporate governance

Developing and selling a product in a global environment, to world class customers, requires the highest standards of governance, transparency and ethical dealings with all stakeholders.

RISKS

Risks relating to operating in Ukraine

Political and Legal
Ukrainian Banking Sector
Ukrainian Currency
Ukrainian PPI
Ukrainian VAT
Ukrainian Taxes
Counterparty risk

Related strategic priorities
A B E I J

Risks relating to the Group's operations

Iron ore prices and markets
Mining risks and hazards
Reliance on state monopolies
Logistics

Related strategic priorities
A B C D G

Risks relating to the Group's strategy

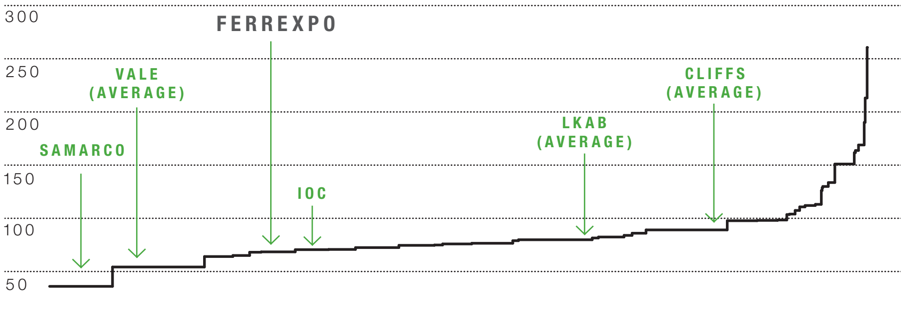
Expansion capital investment
Government approvals of expansion
Investment opportunities

Related strategic priorities
A B C D

KEY PERFORMANCE INDICATORS

Business cost curve, pellets

US$ per tonne



Reduce the C1 Cash Cost of Production

23% reduction in C1 cost to US$46 per tonne in 2014

These costs are based on the concept of business costs. These include not just the site operating costs of the mining operation, but also the realisation costs associated with transporting products to market, sales and marketing expenses, plus the financing of inventories, goods in transit, and receivables. In addition and of particular importance in iron ore, business costs include any discount or premium that may be associated with product quality compared with the benchmark product. The concept of business costs permits a direct comparison among different products produced in different locations.

Related strategic priority

A

Crude Ore Mined

Million tonnes

	2012	2013	**2014**
FPM	29.8	30.2	**29.4**
FYM	1.1	9.2	**12.3**
Total	30.9	39.4	**41.7**

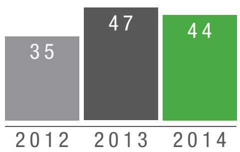
Pellet output increased 2% to 11 million tonnes (2013: 10.8 million tonnes)

Related strategic priorities

A B

Capital Investment to improve the Quality of the product

US$ million



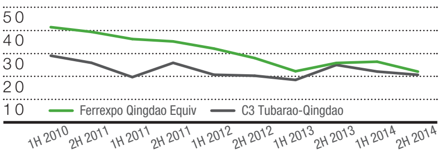
Project completed as of 31 December 2014 16% increase in 65% FPP to 5.8 MT (2013: 5.0 MT)

Related strategic priority

C

Reduce Seaborne Freight Costs in line with C3

US$ per tonne

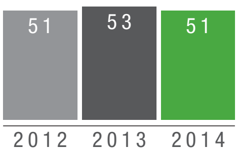


Related strategic priorities

A D

New Markets

% of sales to non-traditional markets



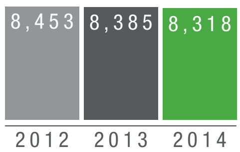
In 2014, new long-term contracts were signed with two steel mills who are top five steel producers globally.

Related strategic priority

E

Trained Employees and Contractors

Number



Related strategic priority

F

Reduced Lost-Time Injury Frequency Rate

LTIFR

	2013	**2014**
Mining operations	0.58	**0.47**
Barging operations	12.80	**9.08**
Total Group	1.07	**0.86**

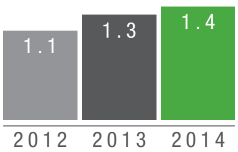
2013 numbers have been restated to include the Group's barging activities as well as re-instatement of contractor hours worked at the mining operations.

Related strategic priority

G

Maintained Low Net Debt to EBITDA

Net debt to EBITDA x



Related strategic priority

G

Maintain High Standards of Corporate Governance

Numbers of meetings

	2013	**2014**
Board[1]	5	**5**
Audit Committee	5	**4**
Remuneration Committee	3	**3**

1 This does not include an annual site visit

Related strategic priority

J

See page 52 for performance remuneration related to the Chief Financial Officer. Relevant KPIs are production, development projects and the Lost-Time Injury Frequency Rate.

PROGRESS AGAINST STRATEGY

STRATEGIC PRIORITY	WHAT WE SAID WE'D DO IN 2014
A Be a low cost, efficient producer	• Reduce costs through increased production volumes
B Develop the Group's resource base	• Extract nine million tonnes of ore from FYM • Increase pellet output to an annualised rate of 12 million tonnes • Continuation of mine life extension at FPM • Continuation of drilling programme at FBM
C Improve the quality of the Group's output	• Commission two flotation sections • Commission the new tailings handling facility • Complete engineering design for a new hydraulic press filtration plant
D Develop the Group's logistics capabilities	• Increase capacity at the Group's seaborne port terminal • Lower distribution costs by utilising more cost-effective and reliable distribution channels to customers • Reduce reliance on state-owned rail cars
E Develop the Group's customer portfolio	• Agree new long-term contracts with premium steel mills • Maintain a diverse customer base across Europe and Asia
F Train and develop the Group's employees	• Train and develop the workforce • Improve employee and contractor safety • Address high potential hazards in the workplace
G Maintain a social licence to operate	• Maintain the trend of lower emissions per tonne of pellets • Support the community implementing new initiatives • Realise improvements in health and safety
H Evaluate relevant investment opportunities	• Make relevant investments that de-risk or diversify the Group's operations
I Maintain appropriate credit metrics and sufficient financial liquidity	• Manage the debt profile through low cost and long dated maturities • Maintain strong credit metrics
J Maintain high standards of corporate governance	• Enhance diversity and balance of knowledge and experience, in line with the UK Corporate Governance Code of 2012 • Communicate and develop the Group's CSR

WHAT WE DID	WHAT WE AIM TO DO IN 2015
• Increased production volumes by 2% ✓ • The C1 cash cost of production decreased by US$14 per tonne ✓ • BIP initiatives in 2014 have helped reduce the C1 cost by US$8.2 per tonne since 2006 ✓	• To reduce costs through increased production volumes • Improve operating efficiencies in mining and processing
• Mine nine million tonnes of ore from FYM ✓ • Pellet output increased to annualised rate of 11.5 MT in November 2014, 12 MT run rate achieved in January 2015 ✓ • Continued mine life extension at FPM ✓ • Continued drilling programme at FBM ✓	• Mine approximately 14 million tonnes of FYM ore • Continue mine life extension at FPM • Implementation and standardisation of global best practise in mining and production
• Commissioned flotation sections ✓ • Commissioned the new tailings handling facility ✓ • Completed design for hydraulic press filtration ✓	• Produce a higher amount of 65% Fe FPP in 2015 • End the 2015 year on a run rate of 100% 65% FFP output • Optimise press filtration design
• Shipped a record 6.3 MT through the Group's seaborne port terminal in Yuzhny with further capacity available ✓ • Lowered distribution costs due to hryvnia devaluation and through structural improvements in operations ✓ • Reduced transhipping cost through better utilisation and management of the transhipment vessel ✓ • Shipped 82% of total sales volume via own rail cars ✓	• Continue to de-bottleneck and increase utilisation of the Group's seaborne port terminal • Realise reduced distribution costs as a result of the structural improvements to distribution channels completed by the end of 2014 • Continue the purchasing program for new rail cars as required to meet the growth in production volume
• Finalised new long-term contracts with premium steel mills. ✓ • Maintained a diverse customer base between Europe and Asia. ✓	• Finalise new long-term contracts with premium steel mills • Maintain a diverse customer base between Europe and Asia
• Trained 8,318 employees ✓ • Most regrettably there were three fatalities in 2014 ✗ • Identified and eliminated high potential hazards in the workplace ✓	• Elimination of fatal accidents risk • Improve workforce productivity & engagement • Manage people input costs & headcount • Improve leadership & managerial competence • Upgrade people management processes & systems
• Emissions per tonne increased due to ramp up of volume ✗ • Supported the community through new initiatives ✓ • Ongoing improvements in health and safety performance excluding fatalities, heightened focus on eliminating high risk hazards ✗	• Further reduce consumption of key inputs such as electricity and gas, and reduce emissions per tonne • Support the community through various initiatives • Focus on complete elimination of fatalities
• Continued to evaluate relevant investment opportunities that could de-risk or diversify the Group's operations ✓	• To continue to evaluate relevant investment opportunities that could de-risk or diversify the Group's operations
• Low cost long dated bank debt drawndown to enhance liquidity ✓ • Net debt to EBITDA of 1.4x ✓	• Continue to manage the liability profile of the Group's debt • Ensure liquidity ratios are within acceptable levels through the low point of the iron ore price cycle
• The appointment of Bert Nacken further enhances the Board's mining knowledge and experience ✓ • In 2014, the Group centralised and integrated its approach to and development of CSR ✓	• To continue the Board refreshment programme whilst enhancing diversity • Roll out a revised code of conduct including updated anti-bribery and conflict of interest policy • Deliver key CSR actions

2014 PERFORMANCE REVIEW

2014 has proved to be a challenging but successful year for Ferrexpo.

Michael Abrahams CBE DL, Chairman

Kostyantin Zhevago, Chief Executive Officer

Chris Mawe, Chief Financial Officer

Against a backdrop of a dramatic fall in iron ore prices and significant political upheaval in Ukraine, where the Group's mining facilities are located, Ferrexpo has successfully:

- Increased pellet production and improved product quality
- Completed the quality and capacity upgrade projects on time and below budget
- Increased production of ore from the Yeristovo mine
- Improved the efficiency of its mining, processing and pelletising operations, reducing costs in constant currency
- Moved all customers to a sustainable index linked pricing mechanism
- Agreed further long-term contracts with premium international steel mills

In addition, Ferrexpo has seen an improvement in its margins compared to 2013, when the benchmark iron ore price was on average 28% higher at US$135 per tonne compared to an average of US$97 per tonne in 2014, as a result of:

- Improved pellet premiums
- Local currency devaluation
- Higher production
- Lower freight costs

Significant investment over the past five years has resulted in increased production and lower costs in constant currency. In 2014, the Company reached annualised installed capacity of 12 million tonnes, a 30% increase compared to 2007 the year of the Group's IPO. Ferrexpo's improved position on the global cost curve for pellets is as a result of this investment programme, along with the weaker local currency, and is supporting margins and competitiveness in the current low iron ore price environment.

The Group's mining operations are in the Poltava region of central Ukraine, 425 kilometres to the North West of the conflict in the East of the country.

Results

Ferrexpo is pleased to report a good set of results reflecting the strength of the assets and the business model. EBITDA for the year ended 31 December 2014 was only slightly lower than 2013 at US$496 million (2013: US$506 million). Significantly lower iron ore prices were mostly offset by the positive factors described above.

In 2014, Ferrexpo Poltava Mining (FPM) became the single largest producer and exporter of iron ore pellets in the Former Soviet Union producing a record 11 million tonnes of pellets, a 2% increase compared to 2013. The Group increased the average quality of its production delivering a 16% increase in the output of 65% Fe Ferrexpo Premium Pellets (FPP). FPP represented approximately 53% of total production in 2014 (2013: 46%), reflecting ramp up following the commissioning of two new flotation and fine grinding units in 2014.

The Group now operates from two mines. This has significantly extended its mining capability and production flexibility.

During the month of December 2014, production was reduced by 144 thousand tonnes of pellets due to disruptions in electricity supply. Ferrexpo's production facilities and its export routes are currently operating at full capacity and one million tonnes of pellets were produced in January 2015, a new record for the Group.

Ferrexpo continued to develop its long standing marketing strategy of targeting and strongly supporting key steel producers around the world. Ferrexpo developed its position as a key exporter of pellets to the global steel industry increasing sales volumes to Japan and Germany by 40% compared to 2013.

QUALITY UPGRADE PROJECT IN THE BENEFICIATION PLANT

In order to increase the amount of premium 65% Fe pellets, FPM has installed two new flotation units and ten Metso vertimills. Installation of the Metso vertimills can be seen in the picture to the right.

US$496M

EBITDA 2014
(2013: US$506M)

During the past years, the industry has been characterised by an increase in the supply of lower grade iron ore fines. The major Australian iron ore producers again increased their supply in 2014, reaching an inflection point in the iron ore price cycle. As a result of this increased supply, the benchmark price for 62% Fe fines CFR China declined by 47% from US$135 per tonne as of 1 January 2014 to US$72 per tonne as of 31 December 2014. The average price was 28% lower at US$97 per tonne compared to an average of US$135 per tonne in 2013. The average price for the two months ended February 2015 declined further to US$65 per tonne.

Ferrexpo is a producer of iron ore pellets which sell at a premium to iron ore fines and lump. Incremental additions of pelletising capacity have not grown at the same rates as for iron ore fines and, as a result, average pellet premiums increased in 2014.

During the year Ferrexpo was able to improve sales mix and moved all customers to index pricing. As a result of this and higher pellet premiums, Ferrexpo was able to materially offset the effect of the 47% decline in the industry's benchmark price, a testament to the strong business model the Group has developed.

Revenue

Total revenue for the period decreased by 12% to US$1,388 million compared to US$1,581 million in 2013. This reflected a 28% reduction in the average China CFR Platt's 62% Fe fines price.

Ferrexpo's net realised DAP/FOB price, in contrast, fell by only 18% compared to the Platts 62% Fe fines price. The lower sales price was compensated, in part, by higher sales volumes increasing 5% to 11.2 million tonnes. The Group's marketing arm also achieved an increase in the premium paid for iron ore pellets compared to iron ore fines and moved all long-term contract pricing to relevant iron ore indexes (2013: 60% linkage), further offsetting the underlying fall in price. All of the Group's revenue is in US Dollars.

Operating Profit from Continuing Operations before Adjusted Items

Operating profit from continuing operations before adjusted items increased to US$409 million in 2014 compared to US$401 million in 2013. The margin was 29%, an increase of 4% compared to 2013. The strong performance was achieved in light of significantly lower selling prices. The Group's cost base benefited from a lower C1 cost of production, which reduced by US$14 per tonne compared to 2013, and lower transportation

2014 PERFORMANCE REVIEW CONTINUED

costs, both as a result of the weaker local currency as well as efficiency improvements. The Hryvnia devaluation also resulted in a non-cash operating foreign exchange gain of US$76 million.

EBITDA

Ferrexpo believes EBITDA (Earnings before Interest Depreciation Tax and Amortisation) is a useful measure for evaluating the Group's ability to generate cash as well as its operating performance. EBITDA for the year reduced modestly by 2% to US$496 million (2013: US$506 million) reflecting lower depreciation compared to the prior year. See Note 3 to the accounts.

Ferrous Resources

Due to the lower iron ore price environment, Ferrexpo has fully impaired its investment in Ferrous Resources resulting in a non-cash charge of US$84 million. The Company is currently looking at opportunities to unlock value in this investment.

Interest and Tax

Finance expense was US$69 million (2013: US$66 million). The increase reflected the drawdown of debt facilities during the period, principally held as additional cash liquidity, which was considered necessary given the volatile operating environment in 2014.

As of 31 December 2014, gross debt was US$1.3 billion compared to US$1.0 billion as of 31 December 2013. Net new facilities of US$300 million were drawn, demonstrating the strength of the business amid a difficult environment in Ukraine.

The average cost of Group debt for the period was 4.85% compared to an average of 5.15% in 2013. The reduction in the average cost of debt reflected lower rates on the new facilities compared to the average interest rate in the prior year.

The headline Group taxation charge increased to 28% (2013: 14%). The increase was as a result of impairment charges and higher charitable donations, both of which were non-deductible for taxation purposes. Eliminating these, the tax charge was 18%. This was higher than 2013 as a result of an increased proportion of profits earned in Ukraine and a higher level of disallowed costs. The tax paid is now in line with Ukraine's statutory tax rate. As in the prior year, the majority of tax paid by the Group is inside Ukraine.

There is a requirement in Ukraine for exporters to prepay a certain percentage of VAT refunds in the form of corporate profit tax (CPT). In 2014, this reduced to an average of 28% (2013: 50%). CPT paid under this arrangement is in excess of the tax due, resulting in a prepaid CPT balance. The devaluation of the local currency during the year reduced this prepaid tax balance expressed in US Dollars by US$57 million. At the year-end, US$73 million of CPT had been prepaid (31 December 2013: US$88 million). The US$57 million loss on devaluation was recorded in the translation reserve.

Full details on pre-paid corporate profit tax are disclosed in Note 15 to the accounts.

Currency

Ferrexpo prepares its accounts in US Dollars. The functional currency of the Ukrainian operations is the hryvnia. During the year the hryvnia devalued from UAH7.99 per US Dollar as of 31 December 2013 to UAH15.8 per US Dollar as of 31 December 2014. The average rate during the year was UAH11.9 per US Dollar. Balances at the year-end are converted at the prevailing rate. This has resulted in a reduction in the net assets of the Group by US$1,206 million and has been reflected in the

QUALITY UPGRADE PROJECT IN THE BENEFICIATION PLANT

During the year the Group commissioned two new flotation units (which can be seen in the picture to the right). The flotation units upgrade the iron content of the concentrate so that FPM can increase the output of 65% Fe pellets.

translation reserve. Since the year end, the hryvnia has further devalued by 76% to a UAH27.8 per US Dollar as of 28 February 2015. This will result in reduced operating costs and corresponding reductions in the net assets of the Group expressed in US Dollars. For further information please see the section on Ukraine on page 26.

Cash Flows

Net cash flows from operating activities were US$288 million. The strong performance compared to 2013 (US$233 million) reflected receipt of VAT receivables from prior years.

In 2014, the Group received ten VAT re-payments, which amounted to US$141 million, all of which were subject to an average 28% prepayment of the refund as corporate profit tax. During the year, the Group sold VAT bonds, received in part as lieu of long outstanding VAT obligations with a face value of US$135 million for US$97 million (22% discount to face value in local currency). Due to the devaluation of the hryvnia, a US$117 million loss on remaining VAT balances was also incurred which was recorded in the translation reserve. In total, VAT losses as a result of the hryvnia devaluation and the loss on sale of the VAT bonds, amounted to US$156 million in 2014.

The Ukrainian gross VAT balance as of 31 December 2014 was US$73 million (31 December 2013: US$318 million).

Full details of the movement on VAT is included in Note 23 to the accounts.

Investment

During 2014, the Group completed its investment programme to improve the quality and quantity of pellet output to 65% Fe and 12 million tonnes respectively. US$235 million was spent on capital projects in the existing and new mines as well as on the Group's logistics infrastructure in 2014 (2013: US$278 million). For further information see Capital Investment on page 22.

Debt and Liquidity

Ferrexpo has continued to maintain its financial discipline. Net debt to EBITDA remained healthy at 1.4x (1.3x as of 31 December 2013). At the period end, Ferrexpo had net debt of US$678 million (2013: US$639 million). Had the Group been able to recoup its prior year VAT balances on time (see above), net debt would have been US$156 million lower.

As a result of the losses on VAT and the reduced iron ore price outlook for the coming years, the current amortization profile of the Company's debt facilities did not optimally match the net cash flow generation of the business taking into account its inherent operational risks.

To remedy the situation based on the current outlook, on 23 February 2015, the Company extended US$161 million of its US$500 million Eurobond due for repayment in April 2016 equally into April 2018 and April 2019 and prepaid US$54 million of the outstanding liability at par value. This helps to better match the liability profile of the business with forecast cash flows.

The business operates a significant liquidity buffer to ensure that it can continue to operate in a volatile commodity price and country environment. The Group will therefore be looking to further manage the liability profile of its debt should opportunities arise. Management believe the Company has sufficient cash flows and liquid resources to meet its debt repayment obligations as they fall due and the accounts have been drawn up on a going concern basis, however attention is drawn to the risks facing the business on pages 26 to 31.

For further information also see Financial Management on page 25.

Market Environment

The 47% price decline in the benchmark iron ore price in the calendar year 2014 primarily reflected a significant increase in supply from three of the major iron ore producers, namely Rio Tinto, BHP Billiton and Fortescue. Together these producers increased exports of all iron ore products by 85 million tonnes in calendar year 2014 (100% basis).

The increase in supply of iron ore exports between 2000 and 2014 has principally come from the production of iron ore fines, as can be seen from the following table.

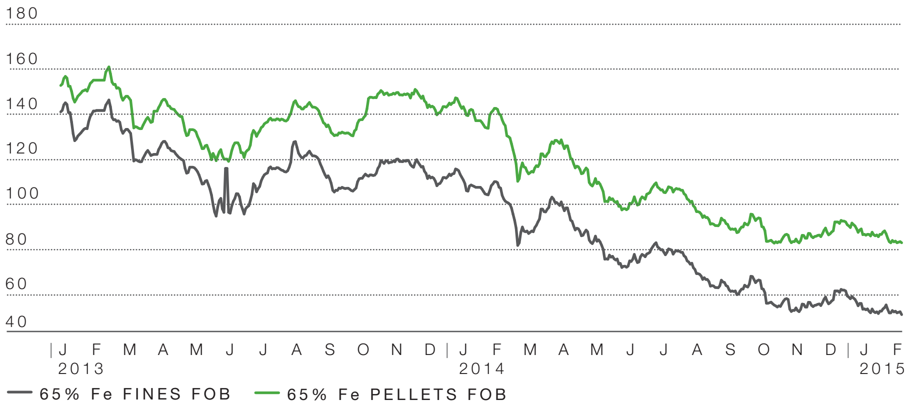
Exports of iron ore (Mt)

	2000	2014	Increase (Mt)	Proportion of increase
Pellets	106	**144**	*+38*	*4%*
Lump	93	**207**	*+114*	*12%*
Sinter Fines	265	**1,016**	*+751*	*78%*
Pellet feed	18	**73**	*+55*	*6%*
Total	**482**	**1440**	**+958**	
Avg world GDP growth (2000–2014)				3.7%

Source: IMF

The four largest producers – Rio Tinto, BHP Billiton, Fortescue (all in Australia) and Vale in Brazil – together account for over 60% of the world export market and have increased their exports by a combined 729 million tonnes or 321% since 2000. With a slowdown in demand from China in 2014 this significant increase in supply, with the largest single year increase seen in 2014, eventually culminated in the significant decline of the benchmark iron ore price. The iron content of the new supply from Rio Tinto and BHP Billiton has been between 61% Fe to 62% Fe. The increase in supply from Fortescue (approximately

Iron ore pellets trade at a premium to fines



Source: Platts/Metal Bulletin

2014 PERFORMANCE REVIEW CONTINUED

146 million tonnes since 2000) has an average iron content of approximately 58%.

By contrast, total pellet exports have only increased by 38 million tonnes or 36% since 2000, reflecting the capital intensive nature of establishing pellet operations and the high barriers to entry.

Ferrexpo believes that the increase in comparatively lower grade iron ore products in relation to pellets has driven an increase in the premium paid for higher quality iron units in 2014, which has become relatively more limited in supply.

The graph on page 17 shows that iron ore pellets trade at a premium to iron ore fines.

Pellet Production

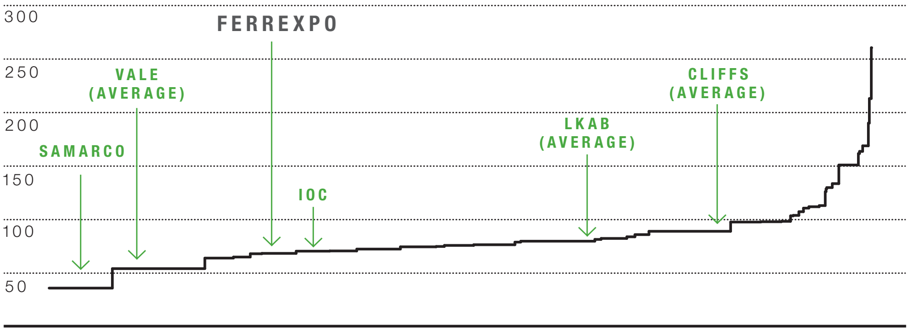
Pellet production for the seaborne market comes from seven principal suppliers including Ferrexpo.

CRU believe the largest pellet exporters in 2014 were as follows in the table below.

Pellet exports (million tonnes)	2014
Vale (Brazil)	26.8
Samarco (Brazil)	23.2
LKAB (Sweden)	17.0
Metalloinvest (Russia)	13.9
Ferrexpo (Ukraine)	11.0
Rio Tinto (IOC) (Canada)	8.3
Cliffs Natural Resources (USA)	6.0
Total Exports	**143.7**
% of top seven exporters	74%

The 2014 cost curve, as can be seen above, highlights the weighted average business costs for Samarco, Vale, LKAB, Ferrexpo, IOC and Cliffs Natural Resources. Of these producers, according to CRU, the two Brazilian operations were the lowest cost, followed by Ferrexpo. The estimates are based on the average currency exchange rates for the full year and therefore only partially reflect the further devaluation of the Ukrainian hryvnia that took place during 2014 and in 2015. According to CRU, it is likely that the relative cost position of Ferrexpo has improved over the course of 2014 and this will have been further improved due to the devaluation in February 2015. Labour and other hryvnia-denominated components of cost have become relatively cheaper, although the devaluation may lead to significant inflation in future years.

Business cost curve, pellets
US$ per tonne



Source: CRU Iron Ore Cost Model 2014

In 2014, Vale completed construction of new pelletising capacity of 8.3 million tonnes per annum and Samarco added another 7.5 million tonnes per annum. It is expected that at least half of this production will go to the Middle East steel market to produce direct reduced iron for use in electric arc furnaces and as such not compete in the traditional blast furnace steel market. Overall, CRU expects Brazilian pellet exports to increase by 17 million tonnes from an estimated 48 million tonnes in 2014 to 65 million tonnes by 2018. No other significant increase in pellet supply is expected.

Industry Outlook

Following significant supply additions to the global iron ore market in 2014, further additions are expected in the coming 12 months. Rio Tinto, BHP and Vale have announced that they expect to produce an additional 65 million tonnes in calendar year 2015 (consisting of 35 million tonnes, 20 million tonnes and 10 million tonnes respectively). Further iron ore supply is expected from Anglo American's 25 million tonnes per annum Minas Rio project in Brazil, which shipped its first iron ore to the international market in 4Q14, and Hancock Prospecting's 55 million tonne per annum Roy Hill project in Australia, which is expected to commence production in September 2015. While some high cost supply has exited the market, and more may follow, the Group expects that 2015 will witness another year of price pressure as excess supply of iron ore units outweighs demand and higher cost producers take time to exit the market.

Marketing

Despite the significant fall in iron ore prices during 2014, average pellet premiums remained robust. The annual long-term contract premium paid for iron ore pellets in the key markets of Western Europe and North East Asia increased significantly, from US$28 per tonne in calendar year 2013 to US$38 per tonne in calendar year 2014. Average Chinese spot market pellet premiums for 65% Fe pellets also increased from approximately US$21 per tonne for the year ended 2013 to over US$27 per tonne for the year ended 2014 (source: Chinese spot market pellet premium derived from the Metal Bulletin 65% Pellet Index).

In 2014, the Group improved its pricing realisations as it completed the move to sustainable index based pricing for all long-term contracts over a full year of sales, for the first time. As a result of the higher pellet premiums, improved pricing terms and favourable customer mix, Ferrexpo's average realised price outperformed the benchmark fines price by 10% declining by 18% compared to a 28% decline for the 62% Fe fines benchmark price.

Sales are priced compared to the index using several different quotation periods in line with market practice. These quotation periods are negotiated at the start of each long-term contract and can be monthly, quarterly in arrears or current quarter.

Total sales volumes in 2014 were 11.2 million tonnes, a 4% increase compared to 2013 (10.7 million tonnes). Sales of FPP increased 14% to 5.7 million tonnes from 5 million tonnes in 2013, a record for the Group, while sales of FBP declined 7% to 5.4 million tonnes (2013: 5.8 million tonnes) as the Group focused

REFURBISHMENT OF PELLET LINE

Ferrexpo has a well invested asset base. Since its IPO in 2007, the Group has spent approximately US$2 billion on modernisation of its mining and production facilities as well as on the development of FYM, the first new open pit in the Former Soviet Union since independence, and on improving the quality and quantity of its pellet output.

In the 2Q of 2014 the Group completed a scheduled refurbishment of pellet line number three.

The overall modernisation of the Group's facilities is helping to improve consumption norms and reduce consumption of key inputs such as electricity, gas and grinding media.

2014 PERFORMANCE REVIEW CONTINUED

on increasing output of its premium product in line with its Quality Upgrade Programme ("QUP"). Demand from the Group's customers was strong throughout the period with long-term contracts performing at or above base volume levels.

The Group sells in a variety of markets targeting premium steel mills who themselves supply premium customers. The table below shows the breakdown of sales volumes by key regions.

	Year ended 31.12.2014	Year ended 31.12.2013
Eastern and Central Europe	**49%**	47%
China	**25%**	27%
North East Asia	**10%**	8%
Western Europe	**8%**	5%
Turkey	**8%**	13%
Total sales volume (million tonnes)	**11,167**	10,689

The Group's fastest growing markets were Germany and Japan, where sales volumes increased by 58% and 28% respectively. In 2014, new long-term contracts were signed with two steel mills who are top five steel producers globally and produce sophisticated flat steel products requiring premium iron ore inputs. 91% of sales were made under long-term framework agreements (2013: 83%) while 9% of sales were on a spot basis (2013: 17%). In addition, market development activity continued with first cargoes shipped to new customers in Western Europe, North East Asia and Turkey.

Selling and Distribution

Total selling and distribution expenses decreased by 7%, or US$24 million, to US$312 million for the year ended 31 December 2014, compared to US$336 million in 2013.

CFR sales made up the vast majority of Ferrexpo business to non-traditional markets during 2014. CFR deliveries to the Far East, Turkey and Germany saw a 4% increase in volumes year-on-year. International freight costs for CFR sales amounted to US$123 million (2013: US$114 million). Ferrexpo's long-term sales contracts in 2014 which do not utilise physical ocean freight were worked back to a FOB equivalent price using the Baltic Exchange C3 freight prices (Capesize route from Tubarao to Qingdao). This key index price declined slightly to US$20.64 per tonne in 2014 compared to US$20.97 in 2013, and Ferrexpo capesize loadings were unchanged against 2013 levels at 22 vessels. By year-end, the cost of international shipping on the C3 route dropped dramatically to approximately US$14.5 per tonne following the 65% fall in crude oil price to US$54 per barrel as of 31 December 2014. The freight outlook for 2015 remains weak supporting FOB net-back prices.

Short haul deliveries helped push throughput from the Group's loading facilities at Yuzhny TIS-Ruda on the Ukrainian Black Sea to a record volume of 6.3 million tonnes (awaiting advice on 2013 equivalent) with CFR shipments to Romania (which can connect with the Group's barging fleet on the Danube River) and Croatia broadening the Group's logistics options to traditional markets.

Distribution costs incurred in delivering pellets to the Ukrainian border for export decreased by 6% to US$145 million (2013: US$154 million). Rail tariff inflation was 5% in 2014, however, rail costs were significantly reduced in Dollar terms due to the devaluation of the hryvnia during the year, 100% of rail costs are incurred in local currency. The Group also receives tariff discounts from the Ukrainian rail authorities for the Group using its own rail wagons of 3% to 6% depending on the route. As of 31 December 2014, the Group owned 2,200 rail cars. Another 300 rail cars were ordered in February 2014 and were due for delivery in the second half of the financial year 2014. As a consequence of the ongoing conflict in eastern Ukraine, only 25 rail cars were delivered in 2014. Due to the uncertainty surrounding the delivery of the remaining rail cars, the Group has recorded a provision of US$8 million as of 31 December 2014.

Ferrexpo owns and operates barges which deliver iron ore and other products through Europe via inland waterways. Deliveries are principally made via the Danube River. The Group's barging operations delivered 1.1 million tonnes of iron ore via 139 barges to customers in Central Europe in 2014 (2013: 1.5 million tonnes).

Mining and Production

In 2014, pellet production from own ore, increased 2% to 10.7 million tonnes compared to 10.5 million tonnes in 2013. Approximately one third of the pellets produced, or 3.4 million tonnes, were from FYM ore as the mine completed its ramp up in 2013. Including third party materials, total pellet production increased 2% to 11 million tonnes (2013: 10.8 million tonnes). This represented record production for the Group, however, production was constrained in the second quarter of 2014, due to a scheduled refurbishment of pellet line number three, and from reductions in electricity supply in December 2014, which resulted in the loss of 144 kilotonnes of production.

Total production of 65% Fe pellets increased by 16%, to 5.8 million tonnes, compared to 5 million tonnes in 2013. Following the completion of FPM's quality upgrade programme as of 31 December 2014 we expect to produce an increasing amount of 65% Fe pellets in 2015, once ramp up is finished in the first quarter of 2015.

FPM successfully integrated FYM ore into its production facilities and completed a major modernisation and refurbishment programme of its production facilities whilst increasing output. As result it has increased its output capacity by approximately one third compared to 2007. The processing and pelletising facilities can now produce one million tonnes of pellets per month. This level of output was achieved in January 2015.

In 2015, the Group is aiming to optimise output from the FPM and FYM pits so that it can maximise production and minimise costs per tonne.

Health and Safety

Most regrettably there were three fatalities during the period, two at FPM and one at FBM. These incidents were due to breaches of existing risk control measures designed to prevent accidents. Following these tragic events Ferrexpo has strengthened its focus with ensuring compliance of existing standards whilst reviewing leading practice in order to implement the highest standards in all operating areas. The prevention of all incidents and injuries to employees is the highest priority of the Board and management, who follow the principle that all accidents are avoidable.

Areas that Ferrexpo is specifically focusing on within health and safety include:

- Significant risk controls and reporting culture
- Review and implementation of best practice safety standards
- Continued implementation of behavioural based safety programme

The lost-time injury frequency rate ("LTIFR") at FPM (including contractors) decreased to 0.49 per million man hours in 2014 (2013: 0.60 per million man hours). FYM experienced no lost time injuries during the period. Since its inception FYM has experienced only one lost time injury. Ferrexpo's total LTIFR in Ukraine was 0.47 per million man hours compared to 0.58 per million man hours in 2013. LTIFR for the Group's barging operation, DDSG, including leased crews, was 9.08 per million man hours worked (2013: 12.80 per million man hours worked). The difference in LTIFR between the mining and barging operations principally reflects the lower hours worked at the barging operations compared to the mining operations.

LTIFR	2014	2013
Mining operations	0.47	0.58
Barging operations	9.08	12.80
Total Group	**0.86**	1.07

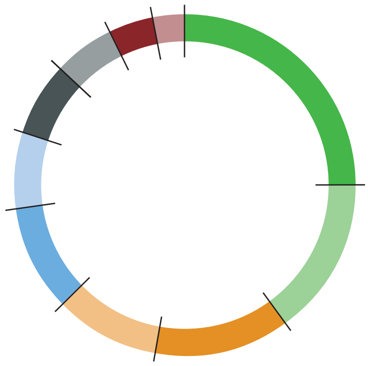
2013 numbers have been restated to include the Group's barging activities as well as re-instatement of contractor hours worked at the mining operations.

Production Costs

The C1 cash cost of production from own ore[1] improved by US$14 per tonne to US$45.9 per tonne in 2014 compared to US$59.8 per tonne in 2013. The 23% reduction per tonne was largely driven by a 97% fall in the value of the hryvnia per US Dollar from UAH 7.8 per US Dollar to UAH15.8 per US Dollar by year end. The Group also benefited from a 15% decline in gas prices and improved consumption norms due to higher production volumes and positive contribution from FYM ore. This was offset by increased royalty payments following an increase in royalty rates for iron ore miners. The mining royalty increased between two and three times, in local currency, depending on the grade of the iron ore product. The Group also experienced local electricity price inflation of 14%.

The following table shows the % breakdown of the Group's cost base by category:

C1 Cash Costs



- Electricity – 25%
- Gas – 15%
- Fuel – 13%
- Materials – 10%
- Personnel – 10%
- Grinding bodies – 7%
- Maintenance – 7%
- Spares – 6%
- Royalities – 4%
- Explosives – 3%

1 The C1 cash cost of production per tonne is defined as the cash costs of production of pellets from own ore divided by production volume of own ore, and excludes non-cash costs such as depreciation, pension costs and inventory movements, costs of purchased ore, concentrate and production cost of gravel.

Production Statistics

(000't unless otherwise stated)	2014	2013	Change %
Iron ore processed from FPM & FYM	**29,957**	30,599	(2.1%)
Average Fe content	33.38%	32.26%	3.5%
Concentrate produced ("WMS")	**13,726**	13,195	4.0%
Weighted average Fe content %	62.7%	62.8%	(0.2%)
Pellets produced from FPM & FYM	**10,670**	10,466	2.0%
Higher grade	5,544	4,725	17.3%
Average Fe content %	64.9%	64.9%	(0.1%)
Lower grade	5,126	5,741	(10.7%)
Average Fe content %	62.2%	62.2%	–
Purchased concentrate	405	401	1.0%
Average Fe content %	65.8%	65.9%	(0.2%)
Pellets produced from purchased concentrate	**351**	347	1.0%
Higher grade	259	263	(1.6%)
Average Fe content %	64.9%	64.9%	0.1%
Lower grade	92	84	9.1%
Average Fe content %	62.2%	62.2%	–
Total pellet production	**11,021**	10,813	1.9%
Pellet sales volume	11,167	10,689	4.5%
Gravel output	1,819	2,281	(20.3%)
Total Group stripping volume (million m^3)	49,697	49,208	1.0%

Business Improvement Programme

The BIP aims to increase process efficiencies and reduce consumption norms in the production process thereby reducing the cash cost of production by up to 2% per annum.

Specific focus areas include increasing plant throughput, increasing mobile mining fleet utilisation, de-bottlenecking processing activities, and improving process control.

As gas and electricity represent approximately 40% of the cash cost of production, a major focus of the BIP is to identify and implement material energy savings projects in the mining and processing operations.

For the year ended 31 December 2014, FPM reduced its average consumption per tonne in electricity, gas and grinding bodies by 23%, 24% and 31% respectively, compared to 2005 which was the year before the BIP was initiated.

2014 PERFORMANCE REVIEW CONTINUED

The average C1 cost for the year ended 31 December 2014 was US$45.9 per tonne and it is estimated that the cumulative productivity gains since the inception of the BIP are approximately US$8.2 per tonne of pellets. As such, the BIP has reduced the C1 cost of production by 18% using 2014 average prices.

Consumption norms	2014	2005	% change
Electricity kWh/t	**159.2**	205.5	(23%)
Gas m³/t	**16.8**	22	(24%)
Grinding bodies kg/t	**4.4**	6.4	(31%)

Resource Savings under BIP since inception in 2006

Resource	Savings
Power (million kWh)	155
Steam (Gcal)	14,333
Grinding media (tonnes)	3,499
Diesel fuel (million litres)	4.23
Gas (th. m³)	19,186
Lining (tonnes)	165
Haul truck tyres (pcs)	80
Ancillary fleet tyres (pcs)	205
Bentonite (tonnes)	257

The Group undertook 36 BIP projects in 2014.

Examples of some of the initiatives are:

Power consumption reduction

- Use of dewatering wells in the north-eastern part of the FPM pit reduced the power required to pump water from intermediate levels compared to from the pit floor. Savings for the year amounted to 3,275 thousand kWh of electricity.
- Installation of a level control system in the magnetic hydro-separators within the beneficiation plant as well as installation of controllers to manage rotation more effectively enabled automation of the process. This initiative extended component life and achieved reductions in power consumption of 5,891 thousand kWh.

Diesel fuel reduction

- Installation of an automated fleet control system with GPS navigators allowed for optimization of the mobile mining fleet. This reduced fuel consumption by 456 kilo litres per year. The GPS also reduced the travel distance of the fleet increasing tyre life and saving 205 tyres.

Reduced grinding media consumption

- Optimization of beneficiation plant grinding mills rotation and grinding media addition from the installing new mill gears with a lower gear ratio has resulted in a drop in the consumption of grinding media by 620 tonnes per annum whilst maintaining the same level of grinding to ensure product quality.

Environmental Impact

As in 2013, the Group is pleased to report there were no incidents regarding emissions or discharges that exceed permissible environmental limits during the year.

Gas Emissions

Emissions in tonnes	2014	2013
Total gas emissions	**6,474**	5,815
Of which:		
Nitrogen dioxide	**3,755**	2,762
Carbon monoxide	**2,391**	2,107
Sulphur dioxide	**328**	946
Total solid emissions	**6,087**	5,828
Total emissions	**12,561**	11,643

Please note 2013 numbers have been restated to include sulphur dioxide and solid emissions from FYM.

The increase in emissions is due to a 2% increase in Group pellet production volumes and a 6% increase in waste material compared to 2013. The increase in waste material reflects the continued development of the new FYM pit resulting in additional volumes of overburden and waste rock.

CO_2 Emissions

The table below shows the Group's carbon intensity ratio which is in line with 2013. FPM, FYM, FBM and the barging operations collected information on greenhouse gas emissions created by solid, liquid, and gaseous fuels, as well as refrigerants, explosives, purchased steam and electricity.

	2014	2013
CO_2 emissions	**2,356,907**	2,282,614[1]
Pellets produced (kt)	**11,021**	10,813
Intensity ratio	**0.21**	0.21

1. 2013 restated to include barging operations.

CO_2 emissions directly generated by the operations were 0.43 million tonnes in 2014 compared to 0.39 million tonnes in 2013. Emissions generated from indirect sources were 1.93 million tonnes in 2014 compared to 1.90 million tonnes in 2013. The 2013 numbers have been restated to include the Group's barging operations.

Capital Investment

As of 31 December 2014, Ferrexpo has substantially completed its investment programme to increase the quality and quantity of its pellet output.

The Group has spent approximately US$2 billion since its IPO in 2007 developing additional iron ore mining capacity at FYM as well as executing a major modernisation of FPM's mining and production facilities to increase the beneficiation and pelletising capacity to 12 million tonnes per annum of output.

Capital investment in 2014 amounted to US$235 million, 15% below 2013 (US$278 million). The reduction reflects the phasing and completion of the Group's programme to upgrade the existing FPM facilities and the development of the FYM pit and the associated infrastructure.

As of 31 December 2014, these programmes were substantially completed, with the final sections of the flotation facilities at FPM expected to be commissioned in the first quarter of 2015 at a cost of approximately US$3 million.

As a result, in 2015, the Group expects to reach production of 12 million tonnes of pellets per annum with an increased volume of higher grade 65% Fe pellets. The Group expects to produce only 65% Fe pellets in 2016, however, depending on the relative economics of lower grade pellets these may also be produced from time to time. The increase in volume, combined with higher average iron content of the pellets, should enable Ferrexpo to further expand its high quality customer base and achieve higher pricing and margins compared to the 62% Fe pellet product.

Sustaining capital expenditure required to maintain this level of output will depend on the cycle of maintenance capital for FPM's production facilities, and is estimated to be in the range of US$50 million to US$100 million annually. If appropriate, capital investment could include small scale, high return projects that will incrementally increase production capacity.

NEW APARTMENTS

As part of Ferrexpo's employee housing programme it constructed a modern 212 apartment block. Qualifying employees receive a low interest mortgage so that they can purchase a flat while Ferrexpo acts as the guarantor.

Under this programme, employees who have two children are entitled to a 5% reduction in the principal of their outstanding mortgage, while employees who have three children receive a 10% reduction.

Furthermore after each five year consecutive period of employment with the Group, the employee receives a 10% reduction in the principal of their outstanding mortgage.

2014 PERFORMANCE REVIEW CONTINUED

The next phase of investment at FYM will be commenced at an appropriate time in accordance with the Group's overall strategy. This phase will principally involve additional stripping works, following which the Group will have mining capacity in excess of its processing capabilities. Subject to appropriate economics and funding, Ferrexpo will construct a ten million tonne per annum concentrator. This will be supplied by FYM ore which at full capacity, following further investment, can yield approximately ten million tonnes of pellet equivalent output in the form of high quality 67% Fe concentrate.

In the current low priced iron ore market environment, however, Ferrexpo is not pursuing any significant new growth projects until appropriate gearing levels are reached.

Capital expenditure breakdown:

US$ million	2014	2013
FPM	**136**	149
Sustaining (incl. logistics)	43	67
Capacity upgrade project	37	20
Mine life extension	12	15
Quality upgrade project	44	47
FYM	**73**	100
Stripping and infrastructure	62	98
Concentrator	11	2
FBM, other deposits	9	9
Logistics	17	20
Total	**235**	278

CSR

Ferrexpo is the largest employer in the Poltava region of Ukraine. Approximately 99% of the Group's employees are based in Ukraine, representing 9,541 people. Given the fragile state of Ukraine's economy and the ongoing conflict in the east of the country, leading to much social upheaval, the Group increased its support for local and regional communities during this difficult period. As a result, community support donations increased from US$10 million in 2013 to US$39 million in 2014. The majority of the spend was used to support local and regional public organisations whose finances were under strain. Examples of donations made include the purchase of medical equipment for hospitals, care for the elderly, heating and lighting equipment for local infrastructure and general repairs to schools and hospitals. Future community support spending will be subject to iron ore pricing and the Group's ability to fund such spend along with its other commitments.

People

Ferrexpo is pleased to report that it continues to maintain a good relationship with its workforce and that there was no labour related disruption to production during the year. There have been no significant industrial actions or labour disputes at FPM since its privatisation in 1995, or at FYM since its inception.

In 2014, the Group employed on average 9,658 staff and 1,927 contractors (2013 average: 9,696 staff and 2,220 contractors). Ferrexpo expects to employ fewer contractors in 2015, as it has completed its investment programmes at FPM and FYM and any further significant investment is on hold in the current low price iron ore environment.

Average personnel costs at the Group's Ukrainian operations accounted for 10% of the cash cost of production per tonne of pellets (2013: 11%). In 2014, the Group experienced wage inflation of 12% in local currency.

Ferrexpo believes it is important to attract, retain and develop skilled workers. In 2014, approximately 70% of the local workforce underwent training initiatives, principally related to safety and professional training.

The Board would like to express its sincere appreciation to all of the Group's employees, especially in Ukraine, for their contribution to this strong set of results and for their continued dedication during a challenging time in the country and in the iron ore industry.

In November 2014, Jim North joined the Company as Group Chief Operating Officer. Jim was previously Chief Operating Officer of London Mining. Prior to this he held a variety of senior operational management roles with Rio Tinto, BHP Billiton and Mount Isa Mines, in Africa, South America and Australia.

Ukraine

In 2014, GDP growth in Ukraine declined by 7.5% while foreign currency reserves as of 31 December 2014 were approximately two months of import cover at about US$6 billion. The Ukrainian hryvnia devalued by 97% from UAH 7.99 per US Dollar to UAH15.8 per US Dollar in 2014.

On 5 February 2015, the National Bank of Ukraine ceased interventions in the foreign exchange market and the hryvnia devalued by 45% to approximately UAH24 per US Dollar, and is currently trading around the UAH23 per US Dollar level. The Board of Ferrexpo notes this recent fall in the value of the hryvnia. Ferrexpo continues to hold liquidity inside Ukraine amounting to approximately US$160 million for daily operating activities in a mix of local currency and US Dollars to cover operating costs and capital investment.

This recent devaluation has put further strain on the Ukrainian banking sector. The Board is aware of liquidity constraints inside the banking system both in local and in hard currency. Ferrexpo is not experiencing any difficulties in making or receiving payments and at the current time the Board is not looking to significantly reduce the level of cash held locally or to review its banking relationships until the situation stabilises.

The National Bank of Ukraine is undertaking measures to stabilise the banking sector including the provision of liquidity and the requirement for shareholders of certain banks to inject new capital following the recent sharp devaluation in the currency.

In order to ensure that Ferrexpo's operations remain as far as possible unaffected by the recent troubles, the Board continues to hold funds required for operations in Ukraine with Ferrexpo's long-standing transactional bank, Bank Finance & Credit. This bank, which is controlled by Ferrexpo's CEO and majority shareholder Kostyantin Zhevago, has recently received liquidity support from the National Bank. The Board continues to monitor the situation closely.

On 12 February 2015, the IMF announced a new four year loan package of approximately US$17.5 billion to Ukraine. This is expected to help stabilise the country's balance of payments and financial system.

Dividends

Ferrexpo aims to maintain stable and sustainable dividend payments throughout the business cycle. The prospects of the Company remain sound following the completion of over US$2 billion of investment since its IPO in 2007. The Group operates in a premium sector of the iron ore market with a first-class customer portfolio and has a competitive low cost base. In light of Ferrexpo's continued strong financial performance in 2014, the Board is maintaining total dividends for the year in line with 2013 at US 13.2 cents per ordinary share (1H 2014/1H 2013 interim dividend: 3.3 US cents per ordinary share).

In accordance with this, a final ordinary dividend of US 3.3 cents per share is being proposed (2013 final ordinary dividend: US 3.3 cents per ordinary share), as well as a special dividend of US 6.6 cents, as paid in the previous two years. The Group will target to maintain dividends at this level in future. The total average annual dividend yield for the Group has been 4.7% since 2012.

Payment of the final ordinary dividend will be made on 29 May 2015 to shareholders on the register at the close of business on 1 May 2015. The dividend will be paid in UK Pounds Sterling with an election to receive US Dollars.

The special dividend will be paid on 27 March 2015 to shareholders on the register at the close of business on 20 March 2015 and will amount to US$38 million, bringing the total final ordinary and special dividend to US$58 million. (2013: US$58 million).

Financial Management

As described under results, on 23 February 2015, the Company extended the maturity of US$160 million of its US$500 million Eurobond due in April 2016 equally into April 2018 and April 2019 and prepaid US$54 million of the outstanding liability at par value. This has improved the liability profile of the business. For further information please see http://www.ferrexpo.com/investor-relations/news/press-releases.

As of 31 December 2014, the Group held cash of US$627 million (31 December 2013: US$390 million) and net debt of US$678 million (31 December 2013: US$639 million).

The Group will continue to proactively manage its debt repayment schedule and it aims to progressively reduce its absolute debt levels.

Corporate Governance and Board

The Board of Ferrexpo remains committed to maintaining high standards of governance and integrity throughout the Group, and being compliant with the UK Corporate Governance Code and all the relevant regulations and guidelines. In 2014, initiatives included the establishment of an Executive Compliance Committee which is responsible for compliance risk assessment and management throughout the Group.

As reported last year, the Board has begun the task of refreshing its membership, and has appointed external recruitment consultants to search for suitable candidates who can provide the necessary diversity and balance, including the appointment of a female Director. The Group is seeking a replacement for the Chairman, Michael Abrahams, who is planning to retire at the Group's AGM in 2016. In August 2014, Bert Nacken joined the Board in succession to Lucio Genovese, and the Board hopes to make further appointments in due course. The Board would like to thank Lucio for the contribution he has made as a Non-executive Director over the past seven years, especially as Chairman of the Remuneration Committee.

Bert Nacken previously spent 34 years at Billiton and then BHP Billiton, working in various operational and management roles throughout the world, notably as President of the Cerro Matoso ferro-nickel operation in Colombia (1997–2001), as President of the Minera Escondida copper mine in Chile (2004–2007), and most recently as the Chief Operating Officer of BHP Billiton Western Australia Iron Ore (2009–2011). Since 2011 he has worked as a mining consultant.

Ferrexpo's principal shareholder and CEO, Kostyantin Zhevago, holds 50.3% of the shares in the Company, and his interests remain aligned with those of the other shareholders. His relationship with the Company is governed by a relationship agreement that is fully compliant with the requirements of the recently revised Listing Rules.

Outlook

Iron ore pricing is likely to remain subdued and Ferrexpo, along with the general consensus of market observers, expects the average 62% Fe CFR China benchmark price to be materially below 2014. The significant investments the Group has made over the past several years totalling US$2 billion is resulting in higher production volumes, increased quality and lower costs in constant currency. The Group's cost base is also benefiting from lower energy costs and the devaluation of the Hryvnia, although this may be offset be inflation in future periods. While strong pellet premiums and reduced freight rates are helping to partially offset lower benchmark pricing. As a result, the Group expects to remain profitable and strongly competitive in the world pellet market as one of the lowest cost producers.

Ukraine currently holds approximately two months of foreign currency reserves and has a very weak banking and financial system. Failure to secure continued financial support in March 2015 from the IMF could disrupt currency flows and the availability of operational financial assets held in country as well as potentially disrupt VAT refunds. The Group believes it has made all necessary plans to ensure smooth and continued operations.

The Company's operations in Ukraine are remote from the current conflict area. The situation generally, however, remains uncertain and subject to change.

The current year has started well both in production and sales. In January 2015, Ferrexpo produced a record one million tonnes of pellets, while in February all of the Group's output was in the form of premium 65% Fe pellets, another record for the Group. Sales volumes continue to be at or above base contract levels.

Ferrexpo's performance in 2014 demonstrated the resilience and strength of its business and gives the Board confidence in its ability to deliver further profitability when external conditions improve.

PRINCIPAL RISKS

The list of the principal risks and uncertainties facing the Group's business that follows below is based on the Board's current understanding. Due to the very nature of risk it cannot be expected to be completely exhaustive. New risks may emerge and the severity or probability associated with known risks may change over time.

We have indicated how our principal risks would impact our ability to deliver against our strategy.

- A To be a low cost producer
- B Develop its resource base
- C Improve the quality of its output
- D Develop its logistics capabilities
- E Develop its customer portfolio
- F Train and develop the Group's employees
- G Maintain a social licence to operate
- H Evaluate relevant investment opportunities
- I Maintain financial discipline
- J Maintain high standards of corporate governance

RISKS RELATING TO OPERATIONS IN UKRAINE

POLITICAL AND LEGAL (SEE NOTE 34 IN THE ACCOUNTS)

Possible Impact

Recent civil conflict, political instability and ongoing military action in parts of the Donetsk and Luhansk regions of Ukraine have negatively impacted the economy and relations with the Russian Federation resulting in recent Ukraine sovereign risk rating downgrades by all credit agencies.

Ukraine has a large external debt refinancing requirement in 2015 and 2016, while foreign reserves were reported at US$5.6 billion as of 1 March 2015. The country currently holds approximately two months of foreign currency reserves and has a very weak banking and financial system.

Failure to secure continued financial support in March 2015 from the IMF could disrupt currency flows and the availability of operational financial assets held in country.

In addition, escalating geopolitical tensions have had an adverse effect on the Ukrainian financial market. The ability of local companies and financial institutions to obtain funding from the international capital markets has been hampered as a result of decreased appetite for Ukrainian credit exposure. Any continuing or escalating military action in eastern Ukraine could have a further adverse effect on the economy.

The current situation in Ukraine, could also affect the ability of Ferrexpo to obtain financing or re-financing or the ability of Ferrexpo to use its cash held in Ukraine or the Government's ability to meet its payment obligations to Ferrexpo on amounts due, such as VAT refunds. For further information see the going concern paragraph in the Directors' Report.

Other risks could include a weak judicial system that is susceptible to outside influence, and can take an extended period of time for the courts to reach final judgment. The Group faces a legal claim over a shareholding in FPM. The case has been running for more than seven years in Ukraine. On 16 February 2015, the High Commercial Court of Ukraine rejected the case of the claimants and upheld the decisions of the Commercial Courts of the first and second instances, reconfirming the validity of the SPA. The claimants have a right of appeal to the Supreme Court of Ukraine but after taking legal advice, the Board believes that any appeal that the claimants bring will be without merit and that the SPA will remain valid.

Mitigation

- The Group holds significant liquidity on and offshore to ensure smooth operations should the economic weakness of the country disrupt the financial system.
- At the time of writing, Ferrexpo's operations remain largely unaffected by the civil conflict in the east of Ukraine. The Group experienced a minor electricity shortage in December due to lack of coal availability from the conflict zone for electricity generation. Ferrexpo is monitoring the situation and has contingency plans in place to purchase natural gas or heavy duty fuel on behalf of a local power station to generate emergency electricity should a shortfall occur again. The electricity vulnerability is mostly a winter concern when overall demand for electricity is high.
- Ukraine relies on Russia to supply approximately 15% of its gas requirements. In 2014, Ferrexpo sourced some natural gas from Slovakia.

Associated Strategic Priorities A B D E I

UKRAINIAN BANKING SECTOR

Possible Impact

The Ukrainian banking sector is considered weak and undercapitalised according to credit rating agencies. The substantial devaluation of the hryvnia since 1 January 2014 has required many banks to inject new capital. The devaluation of the hryvnia has also weakened confidence in the banking sector causing large outflows of deposits and the need for liquidity support from the National Bank of Ukraine. Also see Ukrainian Currency Risk.

As of 31 December 2014, Ferrexpo had c.US$627 million in cash and cash equivalents, of which c.US$160 million was held in Ukraine to shield operations from disruptions. The liquidity held in Ukraine can fund up to three months of operating and capital expenditures at current exchange rates and liquidity outside Ukraine is sufficient for eight months. The Group's Ukrainian liquidity is held in Bank Finance and Credit, which is controlled by Kostyantin Zhevago, the Chief Executive Officer and the ultimate beneficial owner of 50.3% of Ferrexpo's shares. Bank Finance and Credit is subject to these risks facing the Ukrainian banking sector following the devaluation to date in 2015. For further details see Note 38 to the accounts, Related Party Transactions.

Mitigation

- The vast majority of the Group's financial transactions and cash flows originate in Ukraine and flow through the banking system. The Group regularly reviews its banking relationship, and the stability, service and reliability of its partners, in the context of the overall banking sector within the country. To date, the Group has not experienced unusual disruptions to its banking service.

Associated Strategic Priorities A B D E H I J

UKRAINIAN CURRENCY

Possible Impact

Fluctuations in the Group's operational currency can impact its profitability and the book value of its assets.

During the year the hryvnia devalued from UAH7.99 per US Dollar as of 31 December 2013 to UAH15.8 per US Dollar as of 31 December 2014. The average rate during the year was UAH11.9 per US Dollar. Balances at the year-end are converted at the prevailing rate. The devaluation has significantly reduced the Group's cash cost of production, however, it has also reduced the net assets of the Group as of 31 December 2014 by US$1,206 million compared to 31 December 2013 (for further information see Statement of Other Comprehensive Income).

On 5 February 2015, the National Bank of Ukraine ceased interventions in the foreign exchange market and the hryvnia devalued by 45% to UAH23.1 per US Dollar, and is currently trading around the UAH23.0 per US Dollar level and has traded in a range between 15.7 and 30.0 to date in 2015. For further detail of the impact of the hryvnia on the economy please see Ukrainian Banking Sector risk.

Mitigation

- The Group's revenue is all received in US Dollars while approximately 55% of the Group's cost to deliver a tonne of pellets to border dispatch points are in Hryvnia. Ferrexpo benefits from a devaluation through lower costs, although the benefits may be eroded over time due to inflation.
- The accounting value of the fixed assets in Ukraine reduce due to a devaluation, however, this has no effect on the underlying ability of the assets to generate future cash flows.

Associated Strategic Priority I

UKRAINIAN PRODUCER PRICE INFLATION ("PPI")

Possible Impact

As approximately 55% of the Group's cost to produce and deliver a tonne of pellets to border dispatch points for export are in hryvnia, the Group is exposed to local cost inflation.

Following the substantial devaluation of the hryvnia in 2014 and in the first two months of 2015, the Group expects inflation to increase significantly over the next few years. In 2015, the Group anticipates that most of the local costs will still be lower in US Dollar terms but that this situation will likely reverse over time and could lead to hyperinflation.

Mitigation

- The Group's BIP has achieved continuing efficiency improvements and cost reductions over many years. Since inception of BIP in 2006, the cash cost of production has reduced by US$8.2 per tonne of pellets. The Group also has a consistent track record of producing at full capacity to achieve maximum overhead absorption and is set to expand production output in 2015.

Associated Strategic Priorities A B D

PRINCIPAL RISKS CONTINUED

- A To be a low cost producer
- B Develop its resource base
- C Improve the quality of its output
- D Develop its logistics capabilities
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- J Maintain high standards of corporate governance

UKRAINIAN VAT RECEIVABLE (SEE NOTE 23 IN THE ACCOUNTS)

Possible Impact

As nearly all of the Group's output is exported, it does not collect substantial amounts of VAT on local sales (which could otherwise be offset against VAT incurred on purchases of goods and services). The Ukrainian government refunds the outstanding balance of VAT, although not always on a timely basis and repayment can be dependent on the overall health of the government's finances. See political and legal risk, particularly surrounding IMF support for the country.

The late repayment of VAT results in increased working capital, which must be funded from operating cash flows and debt. As Ukrainian VAT balances are in local currency the balances in US Dollar terms are exposed to the devaluation of the UAH.

In 2014, Ferrexpo received VAT bonds as payment for outstanding balances prior to 2014. The Group subsequently sold these bonds for US$97 million cash which reflected a discount to par value of 22%. Due to the devaluation of the hryvnia during 2014, a US$117 million loss on VAT was incurred which was recorded in the translation reserve, which together with the US$39 million loss of the sale of VAT bonds resulted in a total loss on VAT of US$156 million.

The VAT balance as of 31 December 2014 was US$73 million (31 December 2013: US$318 million). The Group did not receive VAT repayments in November and December of 2014, however, it has received VAT repayments in January and February 2015. Full details of the movement on VAT is included in Note 23 to the accounts.

Mitigation

- The Group maintains an open dialogue with the government and operates to best international standards, ensuring the validity of the VAT claims.
- Ferrexpo also plans working capital requirements and available liquidity to ensure that there is sufficient headroom. It reduces capital investment as far as possible to ensure non-payment is mitigated.

Associated Strategic Priorities A B D I

UKRAINIAN TAXES

Possible Impact

As part of an ongoing agreement with the majority of industry players in Ukraine, the tax authorities have been remitting regular VAT refunds in 2014 in exchange for the pre-payment of corporate profit tax in respect of future periods. This can result in significant amounts of taxation being paid in advance of the profits being earned, which as a result of falling prices, increasing costs, changes in tax legislation or financial difficulties experienced by the country, may not result in the Group recovering or being able to offset these amounts against future profits. In 2014, Ferrexpo paid US$40 million in this respect resulting in a year-end balance of US$73 million (2013: US$88 million).

Mitigation

- The Group takes regular advice on tax matters from Ukraine tax experts and complies with all known requirements. The Group maintains a transparent and open relationship with local, regional and national tax authorities.

Associated Strategic Priorities A B D I

COUNTERPARTY RISK (SEE NOTES 34 AND 38 IN THE ACCOUNTS)

Possible Impact

The Group operates in Ukraine which has a weak country credit profile as defined by international credit rating agencies. Financial instability of the Group's counterparties, including its major suppliers, the government, local banks which operate in a weak banking sector, can absorb high amounts of working capital, or result in material financial loss.

Counterparty risk could also lead to lower sales volumes, delays in projects and interruption of production or financial loss in the event of a default by counterparties and adversely affect its future financial results.

In February 2014, 300 rail cars were ordered for delivery in the second half of the year. As a consequence of the ongoing conflict in eastern Ukraine, where the rail cars are manufactured, only 25 rail cars were delivered in 2014, and a prepayment amounting to US$8 million was impaired. For further information see Related Party Disclosure Note 38.

Poor relations with the Russian Federation can impact the ability of Ukrainian companies to import oil and gas from Russia as well as have a general negative impact on Ukrainian GDP growth.

As a result of the annexation of Crimea by the Russian Federation, certain Russian individuals and organisations were sanctioned by the European Union, the United States and other countries. This could have a negative impact on Ferrexpo if any of these individuals or organisations were customers or suppliers to the Group.

Mitigation

- The financial strength of all of the Group's counterparties is subject to regular and thorough review. The results of these reviews are used to determine appropriate levels of exposures consistent with benefits obtained, and available alternatives in context of the Group's operations, in order to mitigate the potential risk of financial loss. To date, the Group has not experienced any financial losses from transactions with its counterparties.
- The Group develops its supplier base in order to avoid excessive dependence on any supplier, actively encouraging a diversity of supply where reasonable and practical.
- The Group does not sell any of its product into Russia or have any financial arrangements with Russian banks.

Associated Strategic Priorities A B D E I J

RISKS RELATING TO THE GROUP'S OPERATIONS

IRON ORE PRICES AND MARKET

Possible Impact

Fluctuations in iron ore prices as well as in demand have negatively impacted the financial results of the Group in 2014. The benchmark price for 62% Fe fines CFR China declined 47% from US$135 per tonne as of 1 January 2014 to US$72 per tonne as of 31 December 2014. The average price was 28% lower at US$97 per tonne compared to an average of US$135 per tonne in 2013. The average price for the two months ended February 2015 declined further to US$65 per tonne. There continues to be a risk associated with lower iron ore prices, however, the price is now trading from a lower base and the Group's costs have been significantly reduced in 2014.

Mitigation

- Ferrexpo has a competitive cost base which has enabled it to produce at full capacity and remain profitable throughout past commodities cycles.
- Ferrexpo has a well invested asset base which together with its low cost base ensures its resilience in a low price environment.
- The Group has an established, broad customer base and logistics infrastructure which can service regional and seaborne markets. This provides flexibility should a particular region experience a decline in demand.

Associated Strategic Priorities B D E F I

PRINCIPAL RISKS
CONTINUED

- A To be a low cost producer
- B Develop its resource base
- C Improve the quality of its output
- D Develop its logistics capabilities
- E Develop its customer portfolio
- F Train and develop the Group's employees
- G Maintain a social licence to operate
- H Evaluate relevant investment opportunities
- I Maintain financial discipline
- J Maintain high standards of corporate governance

MINING RISKS AND HAZARDS

Possible Impact

Mining risks and hazards may result in employee and contractor fatalities as well as material mine or plant shutdowns or periods of reduced production. Such events could damage the Group's reputation and operating results.

Mitigation

- Safety, environmental and operational performance is regularly and rigorously reviewed throughout the organisation including the COO, the Executive Committee and the Board.
- Through its capital investment programme Ferrexpo has and is modernising its mining and production facilities which is improving safety, environmental and operational performance.
- All accidents are fully investigated and lessons are drawn and implemented.
- Appropriate safety training is regularly provided to employees.
- Employee remuneration is linked to safety performance.

Associated Strategic Priorities A B E G I

RELIANCE ON STATE MONOPOLIES

Possible Impact

The Group purchases certain goods and services from state-owned enterprises, and changes in the related tariffs affect the Group's cost base. Availability of services can also be limited, which could affect the Group's ability to produce and deliver pellets.

During December 2014, Ferrexpo experienced reductions in the supply of electricity during certain times of the day. This resulted in the loss of 144 thousand tonnes of pellet production. To date, these disruptions have not continued in January or February 2015.

The supply of gas to Ukraine predominantly comes from Russia. The recent geopolitical tension has increased the risk of disruption to supply.

Other areas of reliance on state monopolies include railway tariffs and availability of rail wagons, supply of gas and electricity and associated tariffs, and mining royalties.

Mitigation

- The factors affecting the Group's future cost structure are closely managed.
- Cost reduction initiatives are planned and reported to the Board.
- Since inception of BIP in 2006, it has reduced the C1 cash cost by US$8.2 per tonne of pellets.
- The Group has purchased its own rail wagons to reduce reliance on state-owned rail cars.
- Ferrexpo has contingency plans in place to purchase natural gas or heavy duty fuel on behalf of a local power station to generate emergency electricity should there be an electricity shortfall in 2015 (see Political and Legal risk on page 26).
- Ferrexpo has begun to diversify its sources of gas supply and in 2014 purchased some natural gas from Slovakia.
- To date, the Group has not experienced any material supply disruption of key inputs since its IPO in 2007.
- Ferrexpo actively looks to invest in areas to reduce reliance on state monopolies, subject to funding availability.

Associated Strategic Priorities A B D E I

LOGISTICS

Possible Impact

The Group's logistics capability is dependent on services provided by third parties and state-owned organisations, mainly in relation to rail and port services. Logistical bottlenecks may affect the Group's ability to distribute its products on time, impacting customer relationships.

As at 31 December 2014, Ferrexpo owned 2,200 rail cars. Another 300 rail cars were ordered in February 2014 and were due for delivery in the second half of the financial year 2014. As a consequence of the ongoing conflict in eastern Ukraine, no rail cars were delivered and there is uncertainty about the timing of delivery of these rail cars.

Mitigation

- The Group continues to invest in its logistics facilities in order to ensure available capacity, better service its customers, lower costs and to reduce reliance on third-party providers. Beside considerable investment in the rail car fleet over recent years, Ferrexpo owns 139 barges operating on the Danube/Rhine River corridor. It also owns a 48.6% in the port of TIS Ruda which guarantees the Group independent access to the seaborne markets avoiding reliance on the state port.

Associated Strategic Priorities D E I

RISKS RELATING TO THE GROUP'S STRATEGY

EXPANSION CAPITAL INVESTMENT

Possible Impact
The Group's growth depends on its ability to upgrade existing facilities and develop its iron ore resource base. For any major capital project there is a risk of insufficient controls, cost overruns, shortage of required skills, and unexpected technical problems affecting the time taken to complete the project and the return on the capital invested.

Mitigation
- The Group has established strict procedures to control, monitor and manage this expenditure which is regularly reviewed by the Investment and Executive Committee and the Board.

Associated Strategic Priorities A B D E I

GOVERNMENT APPROVALS OF EXPANSION

Possible Impact
The Group does not yet have all the governmental approvals required to develop future deposits. Although all approvals that have been applied for have been granted, there is no guarantee that others will be granted in the future.

Mitigation
- Ferrexpo maintains an open and proactive relationship with various governmental authorities and is fully aware of the importance of compliance with local legislation and standards.
- The Group monitors and reviews its commitments under its various mining licences in order to ensure that the conditions contained within the licences are fulfilled or the appropriate waivers obtained. Ferrexpo maintains strict compliance with the Ukrainian mining code and execution of work in accordance with the project design through active engagement of Ukrainian and international legal advisers.

Associated Strategic Priorities B D E

INVESTMENT OPPORTUNITIES

Possible Impact
Ferrexpo evaluates and, if it believes appropriate, enters into net present value opportunities which it believes are potentially value accretive to the Company and can reduce future operating risk.

There is a risk that Ferrexpo may make acquisitions or investments, which may not be accretive to earnings or otherwise meet its operational or strategic expectations. In addition such an investment or acquisition may divert management's attention away from ongoing business activities.

Due to the lower iron ore price environment, Ferrexpo fully impaired its investment in Ferrous Resources in the third quarter of 2014, resulting in a non-cash charge of US$84 million. The Company is currently looking at opportunities to unlock value in this investment.

Mitigation
- Management has procedures in place to ensure any potential investment opportunity undergoes thorough due diligence and meets strict financial criteria. All investment decisions are approved by the Board.

Associated Strategic Priorities A B D H

CORPORATE SOCIAL RESPONSIBILITY

Jim North,
Group COO and Chairman of the CSR Committee

'The safety of our people is fundamental to our business and we are committed to focusing our efforts on further improving our safety standards. While our Lost-time Injury Frequency Rate (LTIFR) continues to fall, the tragic loss of three of our colleagues during the year is a reminder that we must never be complacent. The Board and management are determined to achieve a target of zero harm for all employees and ensure they return home safely after each shift.'

2014 SUMMARY

Health and Safety

- Regrettably, three fatalities in 2014 (2013: one)
- Focus remains on eliminating fatality risk from the business whilst continuing to improve near miss reporting and behavioural based safety programme
- LTIFR for the mining division has decreased to 0.47 (2013: 0.58)
- Total LTIFR now includes the Group's barging activities
- Total LTIFR decreased to 0.86 vs. 1.07 in 2013 (restated), reflecting solid progress

Community

- Community support remains a top priority given the difficult circumstances in Ukraine
- Community support donations of US$39 million (2013: US$10 million)
- Strong emphasis on developing high educational standards in Komsomolsk to ensure the area retains and attracts talented people

Employees

- Largest employer in Poltava region
- 95% unionised workforce resulting in sound working relationship with employees
- No industrial stoppages or significant grievances in 2014 (in line with 2013)
- Low voluntary employee turnover averaging 4% year-on-year

Environment

- No reportable environmental incidents
- FBM undertook baseline audits on air and water quality as well as completed a baseline health study of the surrounding communities
- General environmental impact approved by local council for FYM concentrator and FBM mine paving way for future development
- In line with requirements a CO_2 emissions statement has been included on page 37
- Average consumption per tonne in electricity, gas and grinding media reduced by 20%, 25% and 20% respectively since 2005

Health and Safety

Goals

The Group's health and safety objective is to prevent fatalities and work related injuries to our employees and contractors. To realise this objective the Group continues to focus on developing a culture of safe production which is recognised as cost-effective, and leads to improved workplace conditions and safe work behaviour of our workforce.

The objective, set in 2009, of achieving the best mining safety record in Ukraine is supported by targets including a continual reduction in the lost-time injury frequency rate ("LTIFR") and zero fatalities.

Strategy

Strategy	Progress
• Elimination of fatalities, serious injuries and health impairment through implementing significant risk control procedures	↓
• Implement effective health protection and safe work place systems to achieve international standards of safety excellence	→
• Development of safety culture that ensures we create a workplace without risk of serious injury or health impairment to our workforce	→

Policies

Our list of our policies is on our website at http://www.ferrexpo.com/responsibility/policies

Performance

Most regrettably there were three fatalities at the Group's operations in 2014. Two of the fatalities involved people coming into contact with HV overhead electrical systems. The third involved maintenance activity when a contractor was crushed between a load being moved by a crane and a stationary object. The state regulator (Labour Safety) investigated the incident and issued a number of findings and recommendations. The system for Contractor Safety Supervision has been modified in order to address areas of weakness. The elimination of fatal risk from our operations is the highest priority of the Board and management, who follow the principle that all accidents are preventable.

During the year, Ferrexpo continued to reinforce the effective management of workplace safety and to assess health risks related to the Group's operations. Behaviour based safety training programmes concentrated on addressing significant hazards in the workplace and unsafe behaviour of individuals. The link between safety performance and employee remuneration continues to be operated.

In 2014, health and safety training was provided to 4,073 employees at the Group's operations, accounting for 21% of the Group's training spend.

Ferrexpo's injury and safety statistics were as follows:

	2014	2013
LTIFR[1]	**0.86**	1.07
Fatal accidents	**3**	1
Total accidents	**19**	23

1 LTIFR – number of work-related lost time injuries per million man hours

2013 has been restated to include the Group's barging activities as well as full inclusion of all contractor hours worked at the mining entities.

The number of lost days decreased due to lower severity of injuries and improved rehabilitation enabling an earlier return to work.

Ferrexpo has been able to achieve consistent reductions in the LTIFR at its mining operations over the past several years.

SEE PAGES 20 AND 21 IN THE PERFORMANCE REVIEW FOR ADDITIONAL DETAIL.

CASE STUDY
FPM MEDICAL UNIT

FPM pays close attention to the improvement of working conditions as well as to the general health of its employees. Employees undergo medical examinations and receive medical treatment at the Company's multi-field medical unit which is equipped with modern laboratory and diagnostic equipment. Special attention is paid to cardiovascular screening. Any cardio abnormalities detected are subject to follow-up actions and monitoring.

In order to prevent cardiovascular diseases amongst the employees and local citizens, FPM has established a partnership with the Heart Institute in Kyiv. The partnership is aimed at increasing the accessibility of special cardiac care and at raising awareness of preventative treatment. FPM employees and local citizens (including children) suffering from cardiac anomalies receive free examinations and medical advice from the specialists of the cardiac clinic.

Cooperation between the FPM medical unit and the Heart Institute will continue in 2015.

Contractor Safety

The Group has implemented financial penalties for contractors that do not adhere to Ferrexpo's safety standards and requirements. There is a requirement as part of the contract tender and award process to ensure that contractors' safety systems are compliant with the Group's standards.

CASE STUDY
FPM LABOUR SAFETY

FPM's increased focus on the safety of its workforce includes improving the standard of personal protective equipment. About 500 FPM artisans will now be equipped with clothing that has better protective properties than previous workwear. New clothes are 52% cotton and 48% flax and have excellent hydroscopic properties and improved air permeability. Protective patches used in the previous work clothes have been replaced with hi-tech material making clothes lighter and refractive. Before the new work clothes were introduced extensive field testing was undertaken.

CORPORATE SOCIAL RESPONSIBILITY CONTINUED

Significant Risk Controls

Elimination of fatalities from the business is the highest priority activity, further development and implementation of fatal risk controls will be undertaken in 2015.

The operations continue to eliminate significant risks at the site, focusing on contact with energy, surface mobile equipment, working at heights and lifting. Ferrexpo's goal is to provide safe systems of work to international standards.

The Group's objective is to create a culture within the business that ensures our workplaces operate without risk of serious injury to our people.

CASE STUDY
FPM SERALYZER

The charity fund of FPM was established to address the needs of the Komsomolsk community. In 2014 funds were provided for the purchase of a biochemical automatic analyzer (seralyzer) DS-261 for the local medical unit. With the use of this device biochemical blood analysis is performed quickly allowing for detection of a variety of health problems. The major advantage of the device is that it provides fast accurate test results.

The high-productive analyzer can peform up to 260 tests per hour. Performance checks and accuracy of the analysis is carried out every day using reference serum which eliminates the possibility of error. At present almost all basic tests which are usually performed at large biochemical centres can be completed in the clinical diagnostic laboratory.

Employees

Our Goals

Ferrexpo's human resources (HR) strategy is aligned to the Group's ambition to transform the business into a world leading (single) commodity producer through sustained growth to create long-term shareholder value. This remains the Group's aim, irrespective of commodity cycles and global economic conditions.

Ferrexpo is aware of the increasing demand for staff with mining expertise in the CIS countries and elsewhere, and is constantly looking for ways to motivate and retain employees by involving a greater number of staff in its employee development programmes and by ensuring compensation packages remain competitive.

In 2014, the Group employed on average 9,658 staff and 1,927 contractors. Approximately 27% of the Group's total workforce are female, as can be seen from the table below. Overall 22% of all Ferrexpo's managers are women.

Number of Employees

	Female	Male	Total
Employees	2,599	7,059	9,658
% of workforce	27%	73%	–
Directors of Ferrexpo plc	0	8	8
Exco members	0	8	8
Managerial employees	224	805	1,029

FOR FURTHER INFORMATION ON EMPLOYEES SEE THE PERFORMANCE REVIEW ON PAGE 24 AND NOTE 32 OF THE ACCOUNTS ON PAGE 130.

Strategy

Short-term (1–2 years)	Progress
• Provide for leadership succession through the execution of talent management and succession planning	↑

Medium-term (3–5 years)	Progress
• Integrate long-term workforce planning and recruitment systems and achieve international benchmark productivity and engagement	↑

Long-term (5 years+)	Progress
• Improve leadership and first line manager competence through employee training and development programmes to improve the efficiency of the Group's operations	→

Performance

Ferrexpo seeks to create an environment that encourages the Group's employees to give of their best and to develop rewarding careers within the Group. The Group operates policies to ensure that the workplace is free from discrimination and harassment for all employees and contractors. In addition to basic legal compliance, Ferrexpo requires high standards of ethical conduct and fair labour practice, and provides for freedom of association and the right to a safe and healthy work environment. Ferrexpo's commitment to the human and labour rights principles of the UN Global Compact is integrated into the overall policy.

Ferrexpo's strategic goal to increase employee and contractor skills training in support of operational excellence was ongoing during 2014. The Group provides technical training for all employees and contractors consistent with their duties and responsibilities. In particular, investment was made in health and safety training, job related skills training and other general functional training. Training takes the form of basic and specialised training, retraining and refresher training courses, both internally and externally.

Number of Employees and Contractors Trained

	2014			2013		
	Employees	Contractors	Total	Employees	Contractors	Total
Corporate	3	–	–	–	–	–
FPM	6,191	442	6,633	6,909	680	7,589
FYM	1,537	–	1,537	742	–	742
FBM	145	–	145	54	–	54
Total	7,876	442	8,318	7,705	680	8,385

CASE STUDY
FPM TRAINING CENTRE

In 2014, the training and development policy for employees was revised at FPM. The policy encompasses two components. Firstly, a compulsory educational component where participants receive a State-recognised certificate and secondly, a further education component composed of skills and functional training. The compulsory education component is coordinated by the FPM training centre which is acknowledged as being one of the best training centres in the mining industry within Ukraine. The facilities of the centre permit training to be provided to around 1,000 people at a time. The centre conducts training in various trades, advanced certificate courses, and safety training. Personnel development is coordinated by the Recruitment and Internal Communications department. In 2014, the centre also initiated a Ferrexpo training camp involving 40 members of the FPM Management Board and heads of department. The focus of this training camp is to improve the people management and organizational change management skills of senior line leaders who were identified with potential for more senior positions in five to ten years. The training camp included a number of lectures by the famous business coach Andrey Rozhdestvenskiy.

In late 2014, elections were held at FPM by the representative labour union resulting in the re-election of the current union leadership. The relationship between management and the union remains good and the collective agreement to govern the relationship will be renegotiated in the course of 2015. There has been no major industrial action or labour dispute at the Company's Ukrainian operations since its privatisation in 1995.

Community

Our Goals

- Community access to senior leadership to ensure Ferrexpo partners with stakeholders and develops its CSR policy.
- Provide expertise and services to sustain and/or improve community infrastructure.
- Participate in the development of modern cultural and social programmes and activities in the local area.
- Work with local town and village councils to understand expectations.
- Focus CSR activities to deliver maximum value and contribute to the social, economic and institutional development of local communities.
- Employ qualified local residents when filling vacancies.

Strategy

Short-term (1–2 years)	Progress
• Contribute to the development, education and skills of the local population • Support the modernisation of local community infrastructure, services and sporting facilities. • Develop and maintain the local labour pool • Work with local communities to designate land for mining infrastructure • Engage regularly, openly and honestly with people affected by Ferrexpo's operations and consider their views and concerns in the Group's decision making	↑

Medium-term (3–5 years)	Progress
• Align the growth of the operations with city planning processes for rural and urban living	↑

Progress Long-term (5 years+)	Progress
• Work jointly with local communities to create new infrastructure, social programmes, and leisure facilities and activities • Develop partnerships that foster sustainable development of host communities, enhance benefits from the Group's operations and contribute to poverty alleviation	↑

Community Context and Expenditure

Identifying stakeholders is the first step in building a good engagement policy. The Group's engagement strategy is based on its overall socio-economic development plans and corporate social investment programmes. Each of the Group's operations engages with different partners and stakeholders while balancing social and business objectives.

CORPORATE SOCIAL RESPONSIBILITY
CONTINUED

Ferrexpo is the largest employer in the Poltava region of Ukraine. Given the fragile state of Ukraine's economy and the ongoing conflict in the east of the country, leading to much social upheaval, the Group has increased its support for local and regional communities during this difficult period. As a result, community support donations increased from US$10 million in 2013 to US$39 million in 2014.

The donations were made for the benefit of the local community and included the purchase of medical equipment for hospitals and primary health care, social care for the elderly, heating and lighting equipment for local infrastructure, computer equipment for schools, and the improvement of children's playgrounds and sports facilities.

Environment

Strategy

Short-term (1–2 years)	Progress
• Keep controlled emissions (dust, gas and effluent) below permitted limits and reduce further where possible	➡
Medium-term (3–5 years)	**Progress**
• Adapt production techniques so as to minimise use of inputs and minimise waste	➡
Progress Long-term (5 years+)	**Progress**
• Increase productive output while reducing the impact on the environment through new processes and technology	➡

As in 2013, the Group is pleased to report there were no reportable environmental incidents.

Gas Emissions

Emissions in tonnes	2014	2013
Total gas emissions	**6,474**	5,815
Of which:		
Nitrogen dioxide	**3,755**	2,762
Carbon monoxide	**2,391**	2,107
Sulphur dioxide	**328**	946
Total solid emissions	**6,087**	5,828
Total emissions	**12,561**	11,643

Please note 2013 numbers have been restated to include sulphur dioxide and solid emissions from FYM.

The increase in emissions is due to a 2% increase in Group pellet production volumes and a 6% increase in waste material compared to 2013. The increase in waste material reflects the continued development of the new FYM operation resulting in additional volumes of overburden as can be seen from the table below.

Waste volumes in million m^3	2014	2013
Total Overburden	**122.9**	114.3
Of which:		
Waste Rock	**87.5**	80.1
Covering/Mantle Rock	**35.4**	34.2
Total Processing Tailings	**18.6**	19.5
Total Waste	**141.5**	133.8

Ferrexpo places strong emphasis on creating a nurturing learning environment for the schools in Komsomolsk, to ensure that the area retains and attracts the next generation of future employees. This includes equipping schools with modern teaching equipment and insulating buildings and replacing windows to prevent energy loss. As a result temperatures inside are not lower than 21 degrees C.

MODERN CLASSROOMS

CO_2 Emissions

The table below shows the Group's carbon intensity ratio which is in line with 2013. FPM, FYM, FBM and the barging operations collected information on greenhouse gas emissions created by solid, liquid, and gaseous fuels, as well as refrigerants, explosives, purchased steam and electricity.

	2014	2013
CO_2 emissions	**2,356,907**	2,282,614 (restated to include the barging operations)
Pellets produced kt	**11,021**	10,813
Intensity ratio	**0.2139**	0.2111

The methodology for the calculation of CO_2 for the Group's primary iron ore operations was based on energy volumes reported, and multiplied by the stated factors as follows:

- Liquid, solid, gaseous fuels, refrigerants, purchased Heat & Steam (DEFRA 2013 Factors as per their UK website).
- Purchased Electricity (European Bank for Reconstruction and Development – Development of the electricity carbon emission factors for Ukraine – Baseline Study for Ukraine, Final Report 14 October 2010).
- Blasting Explosives (Australian Government Department of Climate Change – National Greenhouse Accounts ("NGA") Factors – January 2008).

CO_2 emissions directly generated by the operations were 0.43 million tonnes in 2014 compared to 0.39 million tonnes in 2013. Emissions generated from indirect sources were 1.93 million tonnes in 2014 compared to 1.90 million tonnes in 2013. The 2013 numbers have been restated to include the Group's barging operations.

In 2014, FPM spent approximately US$5 million (2013: US$7 million) on the implementation of environmental protection measures. Additionally, US$7 million (2013: US$10 million) was spent on environmental monitoring and maintenance activities and other related activities. Charges payable under emissions regulations totalled US$5 million (2013: US$6 million).

Business Improvement Programme (BIP)

Since 2006, FPM has implemented a number of measures within the BIP aimed at cost reduction, optimization of technological processes, efficient utilization of production equipment as well as optimal selection of spare parts and materials.

CASE STUDY
ENVIRONMENTAL PROTECTION

FPM's environmental department has planted macrophytes (common reed grass) on the tailings dams where water-air flora doesn't naturally grow. The common reed grass grows quickly and is resistant to waste waters. The plant has a positive influence on the oxygen balance of the pond and thus speeds up the purification process. Stems of the plants provide a favourable environment for the development of various microorganisms which play an active role in decomposing organic compounds. Just one hectare of thick-set reed grass can accumulate up to six tonnes of various minerals.

FYM's Service Centre is heated with used oils from FYM & FPM machinery.

CASE STUDY
FYM HEATING SUBSTITUTION

Instead of standard electrical heating, the FYM Service Centre is equipped with an up-to-date "Viessmann Vitoplex" Boiler Plant. The plant was commissioned in December 2014 and enables waste oil from FYM and FPM (and FBM in future) machinery to be recycled and used as heating fuel. The technology uses advanced filters which enables Ferrexpo's operations to reuse the waste oil with the lowest possible emissions. It is estimated that in the course of 2015 the saving on heating costs will amount to approximately US$64,000 or 1.0 mio KwH.

As a result of the programme, FPM has managed to reduce production costs by up to 2% per year since inception.

Each year employees from various business areas, in conjunction with employees from the BIP department, develop organizational and technical measures, so called mini-projects, designed to optimize the operational performance. During 2014, FPM implemented 39 mini-projects. Since inception of the BIP savings of approximately US$8.2 per tonne of pellets have been achieved.

Since August 2014 employees of the BIP department have been involved in a project focusing on operational efficiency planning which aims to improve operational control, enable the sustainable use of resources and reduce capital and current costs. At the same time, work is in progress related to organization and control of the pilot testing of new types of equipment and materials.

FOR FURTHER INFORMATION ON BIP PLEASE SEE PAGES 21 AND 22 OF THE PERFORMANCE REVIEW.

Biodiversity

The Group is committed to minimising the impacts of the operations on the environment and contributing to biodiversity.

Environmental Management Systems (EMS) have been implemented at FPM and FYM, aligned with ISO 14001. The cornerstone of the EMS is continual improvement of the Group's performance relative to environmental protection.

An environmental strategy review will be conducted in 2015 to identify areas where improvements should be made. The review will include objectives, programmes, and targets for protecting and restoring native ecosystems and species in degraded areas based on the biodiversity risk profile of each operation. This approach recognises that biodiversity and ecosystem degradation are issues of global significance that will have long reaching, negative effects for society if not addressed in an effective way.

Programmes arising from the review will be integrated with the on-site EMS at each operation. As part of the review, the Group will also look to enhance the already well-established working relationships it has with those who are impacted by or who have an interest in the decisions of the Company. This includes land owners, affected communities, governments, regulators, international, regional and local NGOs, investors, the science and finance communities and our managers and employees. This will help inform us when defining our priorities and actions, focusing on the biodiversity elements that have the highest conservation significance.

In the course of 2014, Ferrexpo identified that some of its operational areas are located in an Important Bird Area (IBA). In the course of 2015, the Group will seek to establish a formal partnership with leading global and regional conservation NGOs, to help us shape an appropriate response, including methodologies and tools, to manage this important biodiversity challenge.

BOARD OF DIRECTORS

Michael Abrahams CBE DL
Non-executive Chairman

Date of Appointment

14 June 2007

Other Appointments

Chairman of the Prudential Staff Pension Scheme since 1991.

Background and Experience

Michael Abrahams has long and varied experience as a chairman and director of quoted and unquoted companies since 1968.

- Chairman, The London Clinic, 1996–2012
- Chairman, KCOM Group plc, 1999–2009
- Deputy chairman, Prudential plc, 1990–2000

Committee Membership

He is a member of the Nominations and CSR Committees.

Oliver Baring
Senior Independent
Non-executive Director

Date of Appointment

1 December 2007

Other Appointments

Non-executive chairman of Sumin Resources Limited since 2014 and of First Africa Holdings Limited since 2000, and a member of the Advisory Council of Sentient Resources Fund since 2000.

Background and Experience

Oliver Baring is a well-respected member of the investment community with particular expertise in mining.

- Non-executive director, BlackRock World Mining Trust plc, 2005–2014
- Chairman, Mwana Africa plc, 2005–2013
- Until 2010 at UBS Warburg: latterly as head of the International Mining Group (with responsibility for Africa and Europe), and previously as head of the mining equity sales team with responsibility for its coverage and sales activities; a partner in Rowe and Pitman before its merger with SG Warburg.

Committee Membership

He is Chairman of the Nominations and Remuneration Committees and a member of the Audit Committee.

Wolfram Kuoni
Independent
Non-executive Director

Date of Appointment

14 June 2007

Other Appointments

Founder and senior partner of Kuoni Attorneys-at-Law, Zurich, Switzerland since 2005, and also serves on a number of boards of directors of companies in various European and other jurisdictions.

Background and Experience

Wolfram Kuoni is the head of a Swiss law firm and has wide-ranging experience originally in the banking sector.

- Senior partner, Kuoni Attorneys-at-Law, since 2005
- Various positions and assignments within UBS Investment Banking (Zurich and New York), 2000–2005, including: – head of the European export and project finance team – originating and structuring cross-border acquisitions and equity capital markets transactions

Member of the Zurich Bar
Doctor of Law (Zurich)
MBA (INSEAD)

Committee Membership

He is Chairman of the Audit Committee and a member of the Remuneration and Nominations Committees.

Christopher Mawe FCA
Chief Financial Officer

Date of Appointment

7 January 2008

Other Appointments

None.

Background and Experience

Chris Mawe has substantial experience gained in senior financial roles in the mining industry in the UK and continental Europe, together with operational and managerial experience in the engineering industry.

- Finance director, UK Coal plc, 2004–2007
- Finance director, Carclo plc, 1999–2004
- Finance director of various large subsidiaries of IMI plc, 1992–1999

Chartered Accountant, Coopers & Lybrand, 1991
First-class honours degree in Engineering, 1987

Committee Membership

None.

Ihor Mitiukov
Independent
Non-executive Director

Date of Appointment

14 June 2007

Other Appointments

Senior advisor and head of country for Ukraine, Morgan Stanley since 2008 and General Director of the Financial Policy Institute (a Ukrainian NGO) since 2002.

Background and Experience

Since Ukraine became independent, Ihor Mitiukov has occupied many senior positions in finance and government that give him unrivalled breadth of experience.

- Ambassador of Ukraine to the United Kingdom, 2002–2005
- Minister of Finance, Ukraine 1997–2001
- Special Representative (with Vice-Prime Minister credentials) to the European Union, 1995–1997
- Vice-Prime Minister of Ukraine for Banking and Finance, 1994–1995
- Deputy Governor, National Bank of Ukraine, 1994

PhD in Economics from the Institute of Economy, Academy of Sciences, Ukraine, 1985

Committee Membership

He is a member of the Audit, Remuneration and Nominations Committees.

Bert Nacken
Independent
Non-executive Director

Date of Appointment

1 August 2014

Other Appointments

Independent mining consultant.

Background and Experience

Bert Nacken is a mining engineer with experience of worldwide mining operations acquired over a 34-year career with BHP Billiton and Billiton International Metals, including:

- COO, Western Australian Iron Ore, 2009–2011
- Vice-president, Resources and Business Optimisation, 2007–2009
- President, Minera Escondida (copper), Chile, 2004–2007
- President and COO, American nickel operations and Colombia country manager, 2002–2004
- President Cerro Matoso (ferro-nickel), Colombia, 1997–2001
- Posts in Shell/Billiton Research BV in the Netherlands, the USA and Indonesia, 1976–1997

PhD in Chemistry, University of Aachen, Germany 1976

Committee Membership

He is a member of the Remuneration Committee.

Miklos Salamon
Non-executive Director

Date of Appointment

27 March 2009

Other Appointments

Non-executive director of Gem Diamonds.

Background and Experience

With a career spanning more than 30 years, including at a senior level with BHP Billiton, Mike Salamon has extensive knowledge of the mining and extractive industries.

- Non-executive director, Central Rand Gold, 2007–2014
- Non-executive director, Minera Las Ceniza, 2011–2013
- Executive chairman, New World Resources plc, 2007–2012
- Managing director, AMCI Capital, 2007–2012
- Executive director, BHP Billiton, 2003–2006
- Chairman of Operating Committee, BHP Billiton, 2001–2006
- Executive director, Billiton plc, 1997–2001
- Previous experience in the coal industry with Gencor Ltd, Shell Group and Anglo American

MBA, London Business School, 1981
Degree in Mining Engineering, Witwatersrand, 1975

Committee Membership

None.

Kostyantin Zhevago
Chief Executive Officer

Date of Appointment

Appointed as a Non-executive Director on 14 June 2007 and as Chief Executive on 1 November 2008. He has been the controlling shareholder of Ferrexpo since IPO in June 2007

Other Appointments

None.

Background and Experience

Kostyantin Zhevago has substantial management and investment experience gained over a 25-year business career in Ukraine.

- Non-executive director, New World Resources plc, 2008–2014
- Member of Parliament, Ukraine, since 1998
- Chairman of the management board and deputy chairman of the supervisory board, Bank Finance & Credit, Ukraine, 1996–2000

Degree in international economics from the Kiev National Economic University, Kiev, 1996

Committee Membership

He is a member of the Nominations and CSR Committees.

EXECUTIVE COMMITTEE

Nikolay Goroshko
General Director, FYM

Nikolay became Acting Group Chief Financial Officer in April 2007, and Chief Commercial Officer in charge of the Group's Growth Projects in December 2007.

A graduate of the Kiev National Economic University, specialising in Industrial Planning.

Jason Keys
Group Chief Marketing Officer

Jason has significant industry experience in the European and Asian iron ore markets. He was previously global marketing manager for Iron Ore at BHP Billiton for five years, and for the 12 years prior to that he held senior sales and marketing roles within BHP Billiton Coal and Rio Tinto Coal and Iron Ore.

Certified Professional Accountant; Bachelor of Commerce degree from the University of Western Australia.

Nikolay Kladiev
Chief Financial Officer, FPM

Nikolay spent several years as an audit manager with Ernst & Young and CFO of a large Russian factory.

Chartered Accountant (UK); Masters in International Economic Relations from the Kiev National Economic University.

Viktor Lotous
Chief Operating Officer and Head of Managing Board, FPM

Viktor became Chief Engineer in 1997 and General Director and Chief Operating Officer in April 2007.

A graduate of Kryvy Rih Mining and Ore Institute, and of the Kiev National Economic University, specialising in Finance.

Christopher Mawe FCA
Chief Financial Officer

See previous page for details.

Jim North
Group Chief Operating Officer

Jim was COO of London Mining plc before joining Ferrexpo in November 2014. He has wide-ranging operational mining experience at a senior level with Rio Tinto, BHP Billiton and Mount Isa Mines in Africa, South America and Australia covering commodities including iron ore, coal, base metals and aluminium.

Advanced Diploma in Metallurgy; Degree in Business Administration.

Greg Nortje
Group Head of Human Resources

Greg joined Ferrexpo in January 2014. He previously held a variety of international Human Resource leadership positions with Anglo American and BHP Billiton.

Advanced management qualifications from the University of Stellenbosch Business School and the Gordon Institute of Business Science; Bachelor of Arts degree and post graduate Diploma in Education from the University of the Witwatersrand.

Kostyantin Zhevago
Chief Executive Officer

See previous page for details.

CORPORATE GOVERNANCE REPORT

Chairman's Statement

The Ferrexpo Board is committed to and actively engaged in ensuring good corporate governance practices and culture within the organisation. In its management of the affairs of the Group the Board develops and ensures the application of the Group's policies and procedures, which are developed to the highest standards. This commitment stems from recommendations of the UK Corporate Governance Code ("the Code") and a conviction that good governance adds value to the business and is important in sustaining the Company's success over the longer term. Good corporate governance, in the Board's view, helps to generate shareholder value and, through careful attention to stakeholder interests, maintains the social licence to operate.

As detailed in this report, the Directors' Report and the reports of the various Committees, the Group has implemented an effective corporate governance framework and has established Board and Executive Committees, internal procedures and Group policies which are considered appropriate for the proper management of the Group and good governance of Ferrexpo as an international business. The Board and management of the Group have a policy of conducting all business affairs in a fair and transparent manner and of maintaining high ethical standards in dealings with all relevant parties.

The aim is to ensure that the Board discharges effectively its duty to the shareholders by challenging and holding to account the executive management, as well as advising and assisting them. This means that the balance of skills and experience on the Board and its Committees is critical. The report of the Nominations Committee describes how we are maintaining this balance, and enhancing diversity throughout the current period of Board refreshment.

Michael Abrahams
Chairman

Information Pursuant to the EU Takeover Directive

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

Statement of Compliance (In Accordance with Listing Rule 9.8.6R)

During the year to 31 December 2014 the Company complied with all relevant provisions of the 2012 UK Corporate Governance Code (the "Code" which is available at www.frc.org.uk), to which it is subject.

The Code establishes principles of good governance in five areas: **Leadership, Effectiveness, Accountability, Remuneration,** and **Relations with Shareholders**. This report explains how these principles were applied, with the exception of those relating to Directors' remuneration which are included in the Remuneration Report on pages 50 to 65.

The Group's auditor has reviewed those parts of this statement which it is required to review under the Listing Rules of the Financial Conduct Authority.

Leadership and Effectiveness

The Board

The Board is composed of a Non-executive Chairman: Michael Abrahams; two Executive Directors: Kostyantin Zhevago, Chief Executive Officer ("CEO"), and Christopher Mawe, Chief Financial Officer ("CFO"); and five Non-executive Directors. Oliver Baring is the Senior Independent Director. The other Non-executive Directors are Wolfram Kuoni, Ihor Mitiukov, Bert Nacken and Mike Salamon.

Biographical details of the Directors at the date of this report are set out on pages 38 and 39, and details of their membership of Board Committees are set out on pages 44 to 46. A summary of the roles of the Chairman, the CEO and the Senior Independent Director is set out below.

The structure and business of the Board are designed to ensure that the Board focuses its attention on the strategy, management, governance and control issues which are its ultimate responsibility. The Board has a formal schedule of matters which sets out the matters requiring Board approval and specifically reserved to it for decision (such as approving the Group strategy and budget, annual and long-term capital expenditure plans, and contracts for more than a certain monetary amount). The Board is responsible for setting the Group's objectives and policies, providing effective leadership and control required for a public company and for approving the Group strategy, budgets, business plans and major capital expenditure. It also monitors financial performance and critical business issues. Major project approvals, contract awards and key policies and procedures also require the approval of the Board.

CORPORATE GOVERNANCE REPORT CONTINUED

Certain aspects of the Board's responsibilities have been delegated to appropriate Committees to ensure compliance with the Companies Act 2006, FCA Listing Rules and the Code. It is the responsibility of the CEO and the Executive Committee to manage the day-to-day running of the Group. The Board is supported by the Executive Committee which meets approximately monthly. All of the information that is submitted to the Board by management is reviewed and approved by the Executive Committee.

All Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The Company Secretary is also responsible for advising the Board on governance issues and for ensuring, with the Chairman, that information reaches Board members in a timely fashion, so that they are alerted to issues and have time to reflect on them properly before deciding how to address them. Directors have the right to request that any concerns they have are recorded in the appropriate committee or Board minutes.

The Board met five times during the reporting period. Attendance by Directors at Board meetings and Board Committee meetings is shown on pages 45 and 46. All Board meetings are held in Switzerland.

How the Board Operates

Chairman, CEO and Senior Independent Director

The roles of the Chairman and CEO are held by different individuals. The division of responsibilities between the Chairman and CEO has been clearly established in writing and agreed by the Board.

The Chairman is responsible for leadership of the Board, ensuring its effectiveness, setting its agenda and ensuring effective communication with shareholders. The Chairman also ensures that there is a constructive relationship between the Executive and Non-executive Directors. From time to time the Chairman holds meetings with the Non-executive Directors without the Executive Directors present.

Mr Abrahams's other current responsibilities are set out in the biographical notes on page 38. There has been no increase in those commitments during the reporting period.

The role of the CEO is to provide leadership of the executive team, to develop proposals for the Board to consider, and to oversee and implement Board-approved actions. Mr Zhevago has no other directorships of quoted companies.

The Senior Independent Director, Oliver Baring, in conjunction with the other independent Non-executive Directors, assists in communications and meetings with shareholders concerning corporate governance matters. He also chairs the Nominations Committee, the Committee of Independent Directors and the Remuneration Committee. At least once a year, the Senior Independent Director meets the Non-executive Directors, without the Chairman present, to evaluate the Chairman's performance. The Senior Independent Director is available to discuss with shareholders any issues that the Chairman has been unable to resolve to shareholders' satisfaction.

All Non-executive Directors

The Non-executive Directors, acting either as the Board or as one of its Committees (see below), approve budgets; discuss and contribute to strategic proposals and approve strategy; monitor the integrity, consistency and effectiveness of financial information, internal controls and risk management systems; monitor management's execution of strategy against agreed targets and determine their remuneration accordingly; and monitor executive succession planning (for Board succession planning, see Nominations Committee Report below).

Time Commitment

The role of a Non-executive Director is an increasingly demanding one; the Non-executive Directors of Ferrexpo would normally expect to spend two days a month, on average, on Ferrexpo's affairs, and in the case of the Senior Independent Director, the Committee Chairmen and in particular the Chairman of the Board, considerably more than that.

Board Balance and Independence

The Board considers that its membership of two Executive Directors, a Non-executive Chairman and five Non-executive Directors, four of whom are deemed by the Board to be independent, is of an appropriate size and structure to manage the Group in an effective and successful manner. It also considers that no single Director can dominate or unduly influence decision making. The Relationship Agreement with Kostyantin Zhevago specifically deals with decision making. More details are given below.

The Board has carefully considered the guidance criteria on independence of Non-executive Directors under the Code. In the opinion of the Board, all the Non-executive Directors bring independence of judgement and character to the Board and to the Board Committees on which they sit. The Board considers that, with the exception of Mike Salamon who until September 2012 represented a significant shareholder, all of the Non-executive Directors as at the date of this report are independent of the Group within the terms of provision B.1.1. of the Code.

Wolfram Kuoni is also a Non-executive Director of Ferrexpo AG. The Board believes, in the light of the supervisory and non-executive nature of his duties, that Mr Kuoni remains independent in character and judgement, as defined by provision B.1.1 of the Code.

Kostyantin Zhevago is a beneficiary of The Minco Trust which owns 100% of Fevamotinico S.a.r.l., the major shareholder in the Group. Consequently he, The Minco Trust and Fevamotinico S.a.r.l. (collectively "the Controlling Shareholder", see below) have entered into a Relationship Agreement with the Company to ensure that the Group is capable of carrying on its business independently, that transactions and relationships between the Group, Fevamotinico S.a.r.l., The Minco Trust and Mr Zhevago are at arm's length and on normal commercial terms, and that there shall be at all times a majority of Directors independent of Fevamotinico S.a.r.l., The Minco Trust and Mr Zhevago on the Board (the "Relationship Agreement"). This Relationship Agreement complies fully with the UK Listing Rules as amended in November 2014. The Board monitors compliance with the Relationship Agreement through the Committee of Independent Directors (see under "Conflicts of Interest" below).

Statement of Compliance with UK Listing Rules, Rule 9.8.4(14)

- Ferrexpo has entered into a Relationship Agreement with its Controlling Shareholder, as required by LR 9.2.2A R (2)(a).
- Ferrexpo has complied with the independence provisions contained in the Relationship Agreement during 2014.
- So far as Ferrexpo is aware, the Controlling Shareholder and its associates have also complied with the independence provisions during 2014.
- So far as Ferrexpo is aware, the procurement obligation set out in LR 9.2.2B R (2)(a) (which requires the Controlling Shareholder to procure the compliance of the "non-signing Controlling Shareholders" (in this case, the other beneficiaries of The Minco Trust) and their associates with the independence provisions) has also been complied with during 2014.

Conflicts of Interest

A procedure is in place to deal with Directors' conflicts of interest and the recording, reporting and, where appropriate, approval of related party transactions and review of relevant disclosures. This procedure is in line with published guidance, the Company's Articles of Association and the provisions in section 175 of the Companies Act 2006 on conflicts of interest. Schedules of a Director's actual or potential conflicts and related party transactions have been compiled based on disclosures made by the Director. These are updated and reviewed on a regular basis by the Executive Committee, the Executive Related Party Matters Committee ("ERPMC") (which is composed of certain members of the Executive Committee and other members of senior management) and the Committee of Independent Directors ("CID"). Any changes to the schedules are noted at the beginning of the next Board meeting. The CID has delegated authority to carefully consider and (if deemed appropriate in the circumstances) approve on behalf of the Board transactions where there is a risk of a conflict of interests. This procedure operates effectively, and the Group undertakes to follow emerging best practice in this area.

The Board has established the CID to consider and, if appropriate, approve related party transactions and transactions where there is a risk of a conflict of interest to the extent foreseen within Chapter 11 of the Listing Rules (whether in relation to Mr Zhevago or any other Director), and to consider any matters referred to it concerning the operation of the Relationship Agreement and ensure that decisions are taken objectively in the Company's interest. This Committee also oversees anti-bribery compliance matters on behalf of the Board.

Appointments to the Board and Re-election

Under its terms of reference the Nominations Committee is responsible for leading the process for appointments to the Board. The process for election and re-election of Directors is set out in the Directors' Report on page 66.

Information and Professional Development

Directors receive briefing notes and reports for their consideration in advance of each Board meeting, including reports on the Group's operations to ensure that they are up to date on the latest developments and are able to make fully informed decisions. These notes and reports take into account the factors set out in section 172 of the Companies Act 2006 (Directors' duty to promote the success of the Company), which are considered by the Executive Committee when making any proposals and recommendations to the Board. Decisions made by the Board are set within the framework of the Directors' statutory duty to promote the success of the Company for the benefit of its members as a whole.

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

All Directors may take independent professional advice at the expense of the Group in the furtherance of their duties. On appointment, all Directors are advised of their duties, responsibilities and liabilities as a Director of a public listed company. In addition, an appropriate induction programme is provided to each Director upon appointment, taking into consideration the individual qualifications and experience of the Director.

Performance Evaluation

The annual performance evaluation of the Board and its Committees is normally carried out internally by the Chairmen of these bodies. In line with the Code, an externally-facilitated assessment takes place once every three years. The first externally facilitated evaluation was conducted in 2013 and was reported on in the 2013 Annual Report.

The conclusion of the 2014 evaluation process was that the Board, its committees, and each Director continued to function effectively during the year, and no particular areas were identified as needing improvement. The mixture of skills and experience on the Board and the committees was considered to be appropriate.

CORPORATE GOVERNANCE REPORT CONTINUED

As part of the 2014 evaluation process, the action points arising from the 2013 external evaluation were followed up; see the table below.

Theme	Actions taken/to be taken	Actions taken in 2014
Succession planning	A Board renewal strategy has been formulated and agreed and is in the process of being implemented.	A new Non-executive Director joined the Board on 1 August 2014 and underwent an induction programme. Further appointments are expected over the next few months.
CSR Committee	Review of operation of the Corporate Safety and Social Responsibility Committee (the "CSR Committee") in order to ensure maximum effectiveness.	See under "CSR Committee" on page 46.
Governance policies and procedures	Continue to review and update governance policies and procedures in line with best practice.	This process has continued in 2014.

Proposals for Next Year's Evaluation

The evaluation in 2015 will be carried out internally. It is proposed to review the action points highlighted from the 2014 evaluation to ensure they have been addressed.

The Senior Independent Director and the other Non-executive Directors have evaluated, and will continue to monitor, the performance of the Chairman.

Board Committees

The Board has a number of Committees consisting of certain Directors, and in the case of the Executive Committee and CSR Committee, certain senior managers, to which specific responsibilities have been delegated and for which written terms of reference have been agreed. The terms of reference of the Audit, Remuneration, Nominations and CSR Committees are available for inspection on the Group's website at www.ferrexpo.com. Membership of the various Committees, including the Chairman of each Committee, is shown below.

The Board periodically reviews the membership of its Committees to ensure that Committee membership is refreshed and balanced and diversity maintained. This was last done in 2012, and will be reviewed again in 2015 in the light of the changes to the Board. Following the retirement from the Board of Lucio Genovese in 2014, Bert Nacken joined the Remuneration Committee and Oliver Baring became its Chairman. The current membership of the Board Committees is set out in the table opposite.

	Audit Committee	Remuneration committee	Nominations Committee	CSR Commitee	Independent Directors Committee
M Abrahams			✓	✓	✓
O Baring	✓	✓	✓		✓
W Kuoni	✓	✓	✓		✓
C Mawe					
I Mitiukov	✓	✓	✓		✓
B Nacken		✓			✓
M Salamon					
K Zhevago			✓	✓	

The Group provides the Committees with sufficient resources to undertake their duties, including access to the Company Secretary.

Tables of attendance of members of the Board and its principal Committees at meetings during the financial period, together with a summary of the terms of reference are set out opposite.

Board

Five Board meetings were held during the year.

Board members		Attendance record
M Abrahams	Non-executive Chairman	5/5
K Zhevago	Chief Executive Officer	5/5
C Mawe	Chief Financial Officer	5/5
O Baring	Senior Independent Non-executive Director	5/5
L Genovese (until August 2014)	Independent Non-executive Director	4/4
W Kuoni	Independent Non-executive Director	5/5
I Mitiukov	Independent Non-executive Director	5/5
B Nacken (from August 2014)	Independent Non-executive Director	1/1
M Salamon	Non-executive Director	5/5

Audit Committee

Four Audit Committee meetings were held during the year.

Committee members		Attendance record
W Kuoni	Chairman	4/4
O Baring		4/4
L Genovese (until August 2014)		3/3
I Mitiukov		4/4

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

Remuneration Committee

Three Remuneration Committee meetings were held during the year.

Committee members		Attendance record
L Genovese*	Chairman	2/2
O Baring*	Chairman	3/3
W Kuoni		3/3
I Mitiukov		3/3
B Nacken*		1/1

* O Baring succeeded L Genovese as Chairman upon his retirement from the Board on 1 August 2014. B Nacken joined the Committee on 26 November 2014.

The Remuneration Committee meets at least twice a year, as required by its terms of reference, and is responsible for reviewing and approving all aspects of remuneration for the Executive Directors and members of the Executive Committee. Further details concerning the Remuneration Committee are set out in the Remuneration Report on pages 50 to 65.

CORPORATE GOVERNANCE REPORT CONTINUED

Nominations Committee

One Nominations Committee meeting was held during the year.

Committee members		Attendance record
O Baring	Chairman	1/1
M Abrahams		1/1
W Kuoni		1/1
I Mitiukov		1/1
K Zhevago		1/1

Nominations Committee Report

The Nominations Committee meets at least once a year, as required by its terms of reference. The role of the Nominations Committee is to identify and nominate, for the approval of the Board, candidates to fill Board vacancies, having due regard to the need for appropriate balance and diversity (including of gender) on the Board.

In accordance with the Corporate Governance Code, non-executive membership of the Board should not extend beyond nine years in an independent capacity. The Committee is therefore searching for new Directors to replace the existing Directors as they gradually retire. This process has so far led to the appointment of Bert Nacken, a mining expert with broad experience of operational management at a senior level. At the same time Lucio Genovese retired from the Board.

Executive search consultants were used in the search. After consulting the Nominations Committee about the skills and experience required, the consultants drew up a long list of candidates from which a short list were chosen to be invited for interview by the Nominations Committee. The preferred candidate was then interviewed by each member of the Board before being finally appointed.

The executive search consultants used in relation to the appointment of Bert Nacken were Spencer Stuart, who have no other connection with the company.

The appointment of Bert Nacken, in addition to Mike Salamon who has served on the Board for several years, brings further mining knowledge and experience, which is highly relevant as Ferrexpo pursues its strategy under difficult financial and political conditions.

It is intended that the diversity of the Board should be enhanced during the Board refreshment process. The Committee also bears in mind the importance of gender diversity when proposing appointments, and plans to appoint a female Director to the Board within the next year.

For diversity in the workplace, see “Employees” in the Strategic Report on page 34.

Corporate Safety and Social Responsibility (“CSR”) Committee

One CSR Committee meeting was held during the year.

Committee members		Attendance record
J North	Chairman	1/1
M Abrahams		1/1
V Lotous		1/1
G Nortje		1/1
K Zhevago		1/1

The CSR Committee’s role is to formulate and recommend to the Board the Group’s policy on corporate safety and social responsibility issues as they affect the Group’s operations. In particular it focuses on ensuring that effective systems and standards, procedures and practices are in place in the Group. The CSR Committee is responsible in conjunction with the Executive Committee for reviewing management’s investigation of incidents or accidents that occur in order to assess whether policy improvements are required. After a review of its operation, it has been agreed that the Committee will meet more frequently in 2015.

Further details concerning the activities overseen by the CSR Committee are set out in the Corporate Responsibility section of the Strategic Report on pages 32 to 37.

Committee of Independent Directors (“CID”)

Four CID meetings were held during the year.

Committee members		Attendance record
O Baring	Chairman	4/4
M Abrahams		4/4
L Genovese (until 1 August 2014)		3/3
W Kuoni		4/4
I Mitiukov		4/4
B Nacken (from 1 August 2014)		1/1

The CID is composed of the Senior Independent Director (Oliver Baring), the Chairman of the Board, and the three other Independent Directors. The Committee considers and, if appropriate, authorises on behalf of the Board related party transactions within the terms of Chapter 11 of the Listing Rules of the Financial Conduct Authority and otherwise ensures compliance with Chapter 11 and with the Relationship Agreement entered into between Fevamotinico S.a.r.l., Mr Zhevago, The Minco Trust and the Company. The CID holds delegated authority to consider and, if appropriate, authorise transactions where there is a risk of a conflict of interest of any member of the Board under the relevant section of the Companies Act 2006. The CID keeps under review the authorisation and approval process relating to such transactions (which have previously been reviewed in detail by the ERPMC (see “Conflicts of Interest” above)) and satisfies itself that Related Party Transactions have been properly conducted on an arm’s length basis (and, if not in the normal course of business, have been approved by UKLA), and that no disclosures have been omitted or misstated in the financial statements.

The Committee’s terms of reference also cover the oversight of anti-bribery procedure implementation.

Executive Committee

The Executive Committee is a key decision making body of the Group. Its members are detailed on page 40. It is responsible for managing and taking all material decisions relating to the Group apart from those that are reserved for the entire Board. It meets regularly during the year. No meetings are held in the United Kingdom. It is the responsibility of the Executive Committee to ensure its duties are at all times set in the context of the requirements of the Schedule of Matters Reserved for the Board. The Board has delegated to the Executive Committee responsibility for the execution of Board-approved strategies for the Group, for ensuring that appropriate levels of authority are delegated to senior management, for the review of organisational structures and for the development and implementation of Group policies.

Accountability and Audit

Financial Reporting

The Board is aware of its responsibility to present a fair, balanced and understandable assessment of the Group's financial position and prospects. This assessment is provided in the Strategic Report contained in this Annual Report. Statements of the respective responsibilities of the Directors and auditors are set out on pages 70 to 78.

Audit Committee Report

The Code recommends that all members of the Audit Committee are independent Non-executive Directors, and that at least one member should have recent and relevant financial experience. The Audit Committee complies with these requirements, and all members of the Audit Committee are considered to possess appropriate knowledge and skills. Wolfram Kuoni, an independent Non-executive Director, is Chairman of the Audit Committee. The terms of reference of the Audit Committee and attendance by members at its meetings are outlined on page 45.

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

- Reviewing with Ernst & Young, the external auditors, the annual and interim financial statements and associated documents and the preliminary results statement, ensuring that all material information was properly and clearly disclosed.
- Reviewing with Ernst & Young the scope of the audit work proposed for 2014 and audit fees.
- Reviewing the risk matrix at each meeting, and discussing with the Head of Internal Audit the internal audit plan and the findings of the internal audit reviews conducted during the year.
- Reviewing the Group's internal controls and risk management systems.
- Reviewing the investigation of complaints made under the Group's whistle-blowing arrangements.
- Reviewing the effectiveness of the external auditors, the quality of their auditing work, their independence and the non-audit services they provided, and considering whether to recommend their reappointment.

A statement on the Board's position regarding the Group as a going concern is contained in the Directors' Report on page 69.

In 2014 the significant issues addressed by the Committee in connection with the preparation of the Financial Statements were Ukrainian VAT receivable and the likely timing of its repayment, the timing of repayment of the asset related to prepaid corporate income tax in an environment of reducing liability to that tax, the effect of the sharp devaluation of the Hryvnia in 2014 in terms of the accounting treatment of foreign exchange gains and losses, impairment testing (with reference to the valuation of Ferrexpo's investment in Ferrous Resources), the availability of cash held in Ukraine with a Related Party financial institution, the reporting of Related Party Transactions, and in the context of the substantial increase in community support donations in 2014, the process by which the funds comprised in those donations were allocated and controlled. In considering these matters, the Committee took into account the regular financial and internal audit reports made to the Board throughout the year, as well as discussing the issues with management and the Auditors at intervals through the year, and detailed disclosure is given in Note 4 to the Financial Statements on pages 86 to 88 of the significant areas of uncertainty in which estimates and critical judgements had to be made. In order to satisfy itself that the accounting for these issues was reasonable and appropriate, and that disclosure in the Financial Statements was suitable and clear in each case, the Committee reviewed the papers setting out the principles and procedures followed by the Auditors and the responses of management, and questioned and debated them with management and the Auditors at the Committee's meetings. These discussions were also informed by the Committee members' own expertise, particularly with regard to the economic and financial situation in Ukraine. At the end of this process, the Committee was satisfied with the accounting treatment and disclosure of each issue and with management's exercises of critical judgement as disclosed in Note 4.

Related Party Transactions are covered by the Committee of Independent Directors procedure described on page 43. The Audit Committee noted the auditors' work in checking the disclosures in the financial statements.

The Board has asked the Committee to state whether it considers the 2014 Annual Report, taken as a whole, to be fair, balanced and understandable. The Committee confirms that it considers this to be the case and that the Annual Report enables shareholders to form an accurate impression of Ferrexpo's business model, strategy, and performance. In reaching this conclusion the Committee notes that the factual content of the Annual Report has been carefully checked internally, and that the document has been reviewed by senior management in order to ensure consistency and overall balance; the Committee also takes into account its own knowledge of Ferrexpo's strategy and performance.

Internal Control and Risk Management

The Board has overall responsibility for the Group's system of internal control, which includes risk management and reviewing its effectiveness. The system of internal control is designed to identify, evaluate and manage significant risks associated with the achievement of the Group's objectives. Because of the limitations inherent in any system of internal control, this system is designed to meet the Group's particular needs and the risks to which it is exposed, rather than eliminate risk altogether. Consequently it can only provide reasonable, and not absolute, assurance against material misstatement or loss.

The Board has delegated its responsibility for reviewing the effectiveness of these controls to the Audit Committee. The Audit Committee reviews these systems on an annual basis. The day-to-day responsibility for managing risk and the maintenance of the Group's system of internal control is collectively assumed by the Executive Committee. Key risk and control issues are reviewed regularly by the Executive Committee.

CORPORATE GOVERNANCE REPORT CONTINUED

On behalf of the Board, the Executive Committee has established a process for identifying, evaluating and managing the significant risks faced by the Group. This process was followed throughout 2014 and up to the date of approval of this Annual Report. The Group has also adopted a risk-based approach in establishing the Group's system of internal control and in reviewing its effectiveness. To assist in managing key internal risks, it has established a number of Group-wide procedures, policies and standards and has set up a framework for reporting matters of significance.

Full details of the Group's policy on risk and uncertainties are set out in Note 30 to the financial statements on pages 114 to 123. See also the Principal Risks section of the Strategic Report on pages 26 to 31 and Appendix 1 – Subsidiary Risks on pages 141 and 142.

The Board has, through the Executive Committee and the Audit Committee, reviewed the effectiveness of the Group's system of internal controls.

As a result of the continual review of internal control procedures, several key elements have been established within the Group to ensure a sound system of internal control which is described in detail below.

These include:
- Regular review of risk and identification of key risks at the Executive Committee which are reviewed by the Audit Committee and by the Board.
- The establishment during 2014 of an Executive Compliance Committee ("ECC") (an executive sub-committee) which meets regularly and is charged with ensuring compliance with laws, regulations, and ethical standards on behalf of the Executive Committee or Audit Committee, as appropriate. This Committee enquires into the ownership of potential trade counterparties deemed to be "high risk"; and oversees the management of conflicts of interests and general compliance activities (including under the Bribery Act).
- Clearly defined organisational and reporting structure and limits of authority for transaction and investment decisions, including any with related parties.
- Clearly defined information and financial reporting systems, including regular forecasts and an annual budgeting process with reporting against key financial and operational milestones.
- Investment appraisal underpinned by the budgetary process, where capital expenditure limits are applied to delegated authority limits.
- An Investment Committee (an executive sub-committee) meets regularly to approve capital expenditures within limits delegated by the Executive Committee and the Board.
- The Financial Risk Management Committee ("FRMC") (an executive sub-committee) reviews financial information and management accounts, and meets regularly.
- Clearly defined treasury policy monitored and applied in accordance with pre-set limits for investment and management of the Group's liquid resources including a separate treasury function.
- Internal audit by an in-house internal auditor based in Ukraine (see below) who monitors, tests and improves internal controls operating within the Group at all levels and reports directly to the CFO and the Audit Committee.
- A standard accounting manual is used by the finance teams throughout the Group, which ensures that information is gathered and presented in a consistent way that facilitates the production of the consolidated financial statements.
- A framework of transaction and entity level controls to prevent and detect material error and loss.
- Anti-fraud measures through an independent department operating in the Group's key operating subsidiaries.
- A whistle-blowing policy is in place under which staff may in confidence, via an independent, secure website, raise concerns about financial or other impropriety.
- During 2014 a Cyber Diagnostic Assessment was performed by the Group's auditors Ernst & Young following the British Government's guidance on cyber security for business. No material weaknesses were discovered.

Treasury
Details of the Group treasury policy are referred to in the Strategic Report on page 17, and in the notes to the financial statements on pages 114 to 123.

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

Internal Audit
A Group-wide internal audit function has been established, and operated during 2014 using an experienced internal auditor based in Ukraine but independent of operational management, who reported directly to the CFO and the Audit Committee.

An internal audit programme for 2012–2014, approved by the Audit Committee, focused on the areas of risk identified by the risk reviews carried out on an ongoing basis by the Executive Committee and the Board. The Committee reviewed the progress of this plan with the auditors and the Head of Internal Audit periodically during the year, and were satisfied with the rigour of the audit projects and with management's response.

Auditor Independence and Assessment of Audit Process Effectiveness
The Audit Committee and Board place great emphasis on the independence and objectivity of the Group's external auditors, Ernst & Young, when performing their role in the Group's reporting to shareholders.

The effectiveness of the audit process and the overall performance, independence and objectivity of the auditors are reviewed annually by the Audit Committee, taking into account the views of management, and the outcome of this review is relayed to the relevant partners of Ernst & Young. This review takes the form of an assessment (using a questionnaire) of the auditors' performance under various headings: the robustness of the audit, the quality of delivery, and the calibre of the audit team. In assessing the effectiveness of the audit process, the Committee also took note of the information regarding quality assurance processes contained in Ernst & Young's 2014 report to the Committee on independence, and the outcome of the FRC's Audit Quality Inspection of the firm, published in May 2014. The Audit Committee also has regular discussions with the external auditors, without management being present.

The Audit Committee has approved separate policies in respect of the provision of non-audit services and employment of former employees of the auditors. These policies ensure that the external auditors are restricted to providing only those services which do not compromise their independence. The policy on the provision of non-audit services prohibits the use of the auditors for the provision of transaction or payroll accounting, outsourcing of internal audit and valuation of material financial statement amounts. Any assignment that is proposed to be given to the auditors above a value of US$500,000 must first be approved by the Audit Committee. The auditors are also expected to provide to the Audit Committee information about policies and processes for maintaining independence and monitoring compliance with relevant current requirements, including those regarding the rotation of audit partners and staff, the level of fees that the Group pays in proportion to the overall fee income of the firm, and other regulatory requirements. The Committee reviewed these arrangements during the year and believes that they are still appropriate.

Fees for audit-related and non-audit-related services performed by the external auditors are shown in Note 9 to the financial statements on page 92.

Recommendation on Reappointment of Auditors

The Committee considered whether Ernst & Young should be proposed for reappointment by the shareholders at the 2015 Annual General Meeting, or whether the audit should be put out to tender as a matter of policy. The Committee has reviewed the performance of Ernst & Young during the year and, taking into account their general satisfaction with the auditors and the rotation of audit partners in 2012, the Committee agreed to recommend to the Board that Ernst & Young should be proposed for reappointment for another year. Ernst & Young were appointed as auditors to the Company in June 2007, prior to the Listing in London. Under EU regulations that will enter force in 2016, an audit tender will be required in 2017 and a change of audit firm not later than 2027.

Implementation of Requirements of UK Bribery Act 2010

The Board has delegated responsibility for implementing the Group Policy on Bribery and Corruption and monitoring its effectiveness to the CFO, who reports to the CID at its meetings and makes any recommendations arising from the meetings to the full Board. The anti-bribery compliance officer is supported in this task by the Executive Compliance Committee (see under "Internal Control and Risk Management" above) and a compliance officer. Training is given within the Group as appropriate, and is refreshed periodically, including at Board level.

Relations with Shareholders

The Board attaches great importance to effective communication with shareholders. Executive Directors and senior executives have frequent discussions with institutional shareholders on a range of issues affecting the Group's performance, which include meetings following the announcement of the annual and interim results. The Chairman, the CEO, the CFO, and the Head of Investor Relations meet major shareholders and analysts regularly to discuss performance, strategy and governance, and the Non-executive Directors are available for discussions with shareholders if required.

J.P. Morgan Cazenove, the Group's brokers, also provide regular reports to the Board on changes to the shareholdings of the Group's major investors. Information about the views of major investors is provided to the Board on a regular basis by the CEO, the CFO and the Head of Investor Relations.

The Board uses the Annual General Meeting ("AGM") each year to communicate with shareholders and welcomes their participation. The Chairmen of the Audit, Remuneration and Nominations Committees normally attend the AGMs and are ready to answer questions from shareholders, as required. Notice of the AGM and related papers are sent to shareholders at least 20 working days before the meeting. The voting results of the AGM are available on the Company's website following the meeting.

Information on matters of interest to investors can be found on the Group's website at www.ferrexpo.com.

The Board approved this report on 10 March 2015.

REMUNERATION REPORT

Introduction
This Report has been prepared by the Remuneration Committee (the "Committee") on behalf of the Board in accordance with the requirements of the Listing Rules of the UK Listing Authority, Schedule 8 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and the UK Corporate Governance Code.

Summary Statement
A Statement to Shareholders from the Chairman of the Committee
On behalf of the Board, I am pleased to introduce the Directors' Remuneration Report for the year ended 31 December 2014.

As in 2013, this report is split into two distinct sections. The first (Part A), which is not subject to audit, sets out Ferrexpo's remuneration policy for Executive and Non-executive Directors which was approved by shareholders at the 2014 AGM, and is reproduced in full for ease of reference and in order to provide context to the decisions taken by the Committee during the year. The second (Part B) reviews how the Company's remuneration policy was implemented in 2014, and will be subject to an advisory vote at the forthcoming AGM. The sections subject to audit are highlighted throughout.

The Company performed well in 2014 under difficult conditions, completing its key investment projects and further increasing output, sales and product quality, while reducing costs and developing its customer base. The Committee believes that this performance is fairly reflected in executive remuneration outcomes for the year, as set out in this report taking into consideration the comments regarding Mr Zhevago (the "CEO") below.

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

The remuneration of Mr Zhevago and Mr Mawe (the "Executive Directors") is disclosed in local currency and allows year-on-year comparison, uninfluenced by exchange rate fluctuations on notional translation into US Dollars. Mr Mawe's (the "CFO") salary remains unchanged for the year commencing 1 January 2015. No significant changes were made to the implementation of the remuneration policy during the year. In light of recent changes to the UK Corporate Governance Code, the Committee intends to review its policy for malus and clawback provisions during the next financial year. As stated above, it is in the interests of shareholders to align the incentives of the executives and the shareholders, and the Board continues to review the structure and level of remuneration afforded through share options and ownership in relation to variable and fixed pay.

Oliver Baring
Chairman of the Remuneration Committee

PART A: POLICY SECTION

Committee

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

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

Key Principles of the Remuneration Policy

Ferrexpo's remuneration policy is designed to help attract, motivate and retain talented executives to help drive the future growth and performance of the business. The policy aims to:

- align executive and shareholder interests;
- link a high proportion of remuneration to performance;
- reward based on a balanced portfolio of performance measures (e.g. relative Total Shareholder Return ("TSR") outperformance of sector peers, annual business priorities, financial and operational targets and individual performance); and
- provide competitive rewards assessed against the relevant market to attract, motivate and retain talented executives.

In determining the Company's remuneration policy, the Committee takes into account the particular business context of the Group, the industry segment, the geography of its operations, the relevant talent market for each executive, the location of the executive and remuneration in that local market and best practice guidelines set by institutional shareholder bodies. The Committee will continue to give full consideration to the principles set out in the UK Corporate Governance Code in relation to Directors' remuneration and to the guidance of investor relations bodies.

This section of the report sets out the remuneration policy for Directors, which shareholders approved at the 2014 AGM. The report below is as disclosed in the 2013 Directors' Remuneration Report save for the following minor changes:

- References to financial years have been updated where appropriate.
- Pay scenario charts have been updated to reflect 2015 salary levels.
- External appointments table has been updated.

Executive Director Policy Table

This section of our report summarises the policy for each component of Executive Director remuneration, which has applied from the date of the 2014 AGM in respect of payments to both current and future Executive Directors (but see also "Remuneration policy for new appointments" below). The Chief Executive takes a salary of US$240,000 per year which is all paid to charity (net of applicable income taxes) with no performance related pay as described earlier in this report, and his incentive is derived entirely from his shareholding in the Company. The Board considers this large shareholding in the business to be a significant factor in aligning the performance of the CEO with other shareholders' interests, and is satisfied that this structure is appropriate. At the current time, most of these policies below are therefore not applicable to the current CEO other than those related to benefits and pensions and apply exclusively at the current time to the CFO. The principles below are however also considered as a framework and applied where appropriate to the members of the Executive Committee.

REMUNERATION REPORT CONTINUED
PART A: POLICY SECTION

Purpose and link to strategy	Operation	Opportunity	Performance metrics
Fixed Pay			
Base Salary To attract and retain talent by ensuring base salaries are competitive in the market in which the individual is employed.	Base salaries are reviewed annually, with reference to the individual's role, experience and performance; business performance; salary levels for equivalent posts at relevant comparators; cost of living and inflation; and the range of salary increases applying across the Group.	Base salary increases are applied in line with the outcome of the review which will not exceed 5% p.a. or if higher the applicable RPI in any year. Increases above this level may be applied where appropriate to reflect changes in the scale, scope and responsibility attaching to the role and market comparability.	Business and, where relevant for current Executive Directors, individual performance are considerations in setting base salary.
Pension To provide retirement benefits.	Executive Directors will as appropriate be offered membership of a scheme which complies with relevant legislation. Where necessary, additional pension entitlements will be provided.	The employer contribution will be a percentage of pensionable salary and associated benefits (excluding variable pay) at a level that complies with local statutory requirements.	Not performance related.
Benefits Competitive in the market in which the individual is employed.	Benefits are paid to comply with local statutory requirements and as applicable to attract or retain executives of a suitable calibre. They include life insurance, and medical insurance. Where appropriate, additional benefits may be offered including, but not limited to, allowances for accommodation, relocation, tax advice and legal advice.	Benefits values vary by role and eligibility and cost are reviewed periodically. Increases to the existing benefits will not normally exceed applicable inflation. Increases above this level may be applied where appropriate to reflect changes in role, scope, location and responsibility.	Not performance related.
Variable Pay			
Short-Term Incentive Plan ("STIP") To focus management on delivery of annual business priorities which tie into the long-term strategic objectives of the business which include but are not limited to developing the reserve base, increasing production, reducing costs, reducing the risk profile of the business, expanding the customer portfolio, expanding geographically.	Targets are set at the start of the year against which performance is measured. The Committee determines the extent to which these have been achieved. The Committee can exercise discretion to adjust the formulaic outcome within the limits of the plan for factors outside of management control where it believes the outcome is not truly reflective of performance or in line with overall Company performance. The STIP does not at present contain clawback provisions.	Maximum opportunity of 150% of salary.	Performance related. Performance measures can include financial, non-financial and personal achievement criteria measured over one financial year. Details of the performance measures and weightings for the STIP in 2015 are set out in Part B under "STIP framework for 2015". The Committee has discretion to make changes in future years to reflect the evolving nature of the strategic imperatives that may be facing the Company.
Long-Term Incentive Plan ("LTIP") To motivate participants to deliver appropriate longer term returns to shareholders by encouraging them to see themselves not just as managers, but as part-owners of the business.	The LTIP framework was approved by shareholders at the 2008 AGM. To the extent that an LTIP award vests, this will include the applicable dividends on the shares earned during the vesting period. The LTIP does not at present contain clawback provisions.	The LTIP provides for annual awards of performance shares and options up to an aggregate limit of 200% of salary in normal circumstances. This limit may be exceeded in exceptional circumstances but will not exceed 300% of salary. The threshold opportunity is 20% of maximum.	Vesting of LTIP awards is subject to the Company's relative TSR against a comparator group over a period of at least three years and continued employment. In addition, for any shares to vest, the Committee must be satisfied that the recorded TSR is a fair reflection of Ferrexpo's underlying business performance. Details of the performance targets for the LTIP are set out in Part B under "LTIP granted in 2014". The Committee reviews the LTIP performance conditions, in advance of granting each LTIP cycle. Over the life of this policy relative TSR will be retained as a performance measure and will have a weighting of at least 50%.

Rationale for Performance Measures

The STIP is based on performance categories that are key to delivering on our long-term strategy. Performance measures are set at the beginning of the financial year to reflect business priorities and other corporate objectives, and can include financial, non-financial and personal achievement criteria.

Performance targets are set at such a level as to be stretching but achievable, with regard to the particular strategic priorities and economic environment in a given performance period. The STIP target is based on the annual budget approved by the Board. Where appropriate, the Committee sets a performance zone (Threshold to Stretch) around the Target, which it considers provides an appropriate degree of "stretch" challenge and an incentive to outperform. The Committee believes that using multiple targets for the purposes of the STIP provides for a balanced assessment of performance over the year.

For the LTIP, the Committee believes that relative TSR is the most objective external measure of the Company's success over the longer term. Relative TSR helps align the interests of Executive Directors with shareholders by incentivising share price growth and, in the Committee's view, provides an objective measure of long-term success. The Committee has discretion to review the comparator index if any of the constituent companies is affected by corporate events such as mergers and acquisitions. The Committee also reviews the constituents and their weightings prior to the start of each LTIP cycle in order to ensure that they remain appropriate. Details of the comparator group will be set out in Part B of the Remuneration Report for the year immediately following the year in which the grant is made.

Share Ownership Guidelines

With effect from the grant of 2010 LTIP awards (which vested in 2013), Executive Directors and members of the Executive Committee are encouraged, in line with the growing practice among FTSE 250 companies, to build up a holding of shares of equivalent value to a year's base salary (in the case of Executive Directors) or six months' base salary (for other members of the Executive Committee). Executives will be encouraged to retain their vested LTIP shares on an after-tax basis until the applicable guideline level is achieved.

Remuneration of Senior Executives Below the Board

The policy and practice with regard to the remuneration of senior executives below the Board is consistent with that of the Executive Directors.

Senior executives participate in the LTIP with the same performance measures applied as for the CFO. Long-term incentive awards may be granted to participants below the Board without performance conditions, for example, if it is considered necessary to attract executives of the appropriate calibre.

Payments Resulting from Existing Awards

The Executive Director concerned is eligible to receive payment resulting from the vesting of any award made prior to the approval and implementation of the remuneration policy detailed in this report.

Non-executive Director Policy Table

This section of our report summarises the policy for each component of Non-executive Director remuneration.

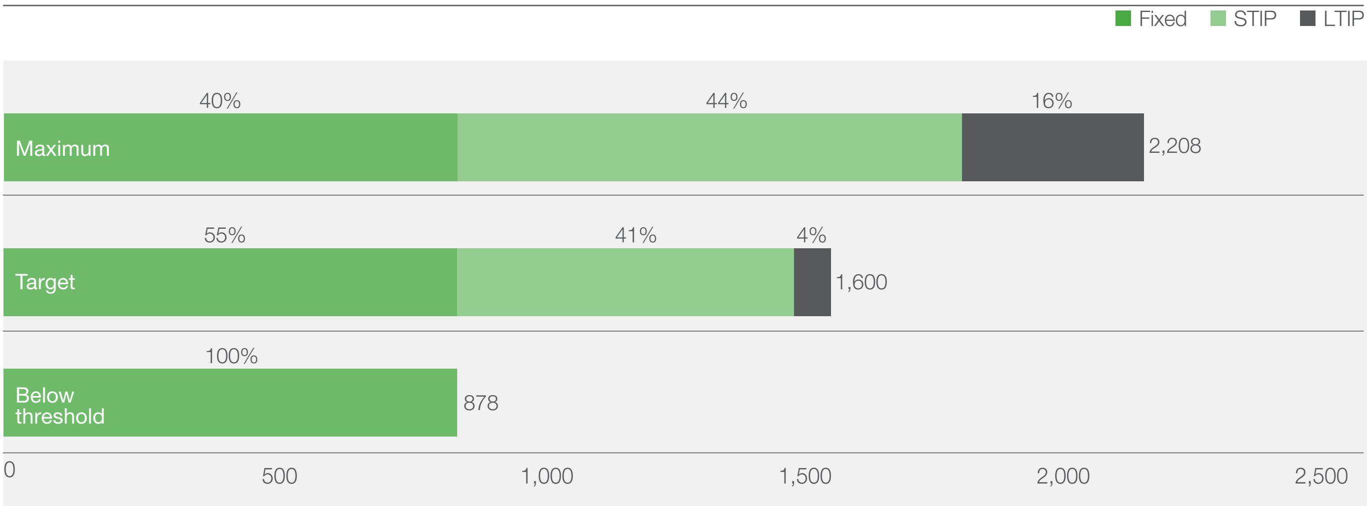
Purpose and link to strategy	Operation	Opportunity	Performance metrics
Fees			
To attract and retain talent by ensuring fees are market competitive and reflect the time commitment required of Non-executive Directors in different roles.	Annual fee for the Chairman. Annual base fee for Non-executive Directors. Additional fees are paid to the Senior Independent Director and the Chairmen of the Committees as well as for representation on subsidiary Boards, where appropriate, to reflect additional responsibility. Fees are reviewed from time to time, taking into account the time commitment, responsibilities, and fees paid by comparable companies, and also taking into consideration geography and risk profile.	Non-executive Director fees increases are applied in line with the outcome of the review. The maximum aggregate fees, per annum, for all Non-executive Directors allowed by the Company's Articles of Association is £5,000,000.	Not performance related.

Additional fees may be payable to Non-executive Directors in exceptional circumstances, e.g. if there is a material increase in time commitment. Non-executive Directors are not eligible to participate in any incentive plans, or receive benefits or any additional elements of remuneration to that stated above.

REMUNERATION REPORT CONTINUED
PART A: POLICY SECTION

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

CFO (CHF000s)



In illustrating potential reward opportunities the following assumptions have been made:

Scenario	STIP	LTIP	Fixed pay
Maximum	Maximum STIP (150% of salary)	Performance warrants full vesting[1]	Base salary, pension, and benefits as at 1 January 2015
Target	On target STIP (100% of salary)	Performance warrants threshold vesting (20%)[1]	
Below threshold	No STIP payable	Threshold not achieved (nil)	

1 Excludes increase in value arising from share price growth.

Potential reward opportunities illustrated above are based on the policy which will apply in 2015, applied to the base salary in force at 1 January 2015. For the STIP, the amounts illustrated for the CFO are those potentially receivable in respect of performance for 2015. For the LTIP awards, it should be noted that the LTIP awards do not normally vest until the end of three years following the beginning of the year in which they were granted. The LTIP award opportunity for the CFO is assumed to be of similar monetary value as in 2014.

Remuneration Policy for New Appointments
The Committee’s approach to setting remuneration for new Executive Directors is to ensure that the Company’s pay arrangements are in the best interests of Ferrexpo and its shareholders. To do this, the Company takes into account internal pay levels, the external market, location of the executive and remuneration received at the previous employer. The Committee reserves discretion to offer appropriate pension and benefit arrangements, which may include the continuation of benefits received in a previous role. Variable pay awards (excluding any potential “buy-out” awards, described below) for a newly appointed Executive Director will be as described in the policy table, subject to the same maximum opportunities. Different performance measures may be set initially for the STIP and LTIP awards, taking into account the responsibilities of the individual, and the point in the financial year at which he or she joined, and subject to the rules of the plan. The rationale will be clearly explained in each case.

In addition, the Committee may make an award in respect of a new appointment to “buy out” existing incentive awards forfeited on leaving a previous employer. In such cases the compensatory award would typically be on a like-for-like basis with similar time to vesting, performance measures and likelihood of the targets being met. The fair value of the buy-out award would not be greater than the awards being replaced. To facilitate such a buy-out the Committee may grant a bespoke award under the Listing Rules exemption available for this purpose.

In cases of appointing a new Executive Director by way of internal promotion, the Group will honour any contractual commitments made prior to his or her promotion to Executive Director.

In every case, the Board will pay both the appropriate but also the necessary rate of pay to attract an executive who in the view of the Board will contribute to shareholder value.

The approach to setting Non-executive Director fees on appointment is in line with the approach taken for the fee review set out in the Non-executive Director policy table earlier in this report, and will also take into account fee levels for existing Non-executive Directors.

Details of Executive Directors' Service Contracts

The Executive Directors are employed under contracts of employment with Ferrexpo AG, a Group company (the "employer"). The Committee sets notice periods for the Executive Directors at 12 months or less, which reduces the likelihood of having to pay excessive compensation in the event of poor performance.

The principal terms of the Executive Directors' service contracts (which have no fixed term) not otherwise set out in this report are as follows: save in circumstances justifying summary termination, Mr Zhevago's service contract with the employer is terminable on not less than six months' notice to be given by the employer or by Mr Zhevago, and Mr Mawe's service contract with the employer is terminable on not less than twelve months' notice to be given by the employer or not less than six months' notice to be given by Mr Mawe.

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

Under the service contracts, the Executive Directors are entitled to 25 working days' paid holiday per year.

The Executive Directors' service contracts contain a provision exercisable at the option of the employer to pay an amount on early termination of employment equal to the respective notice period. If the employer elects to make such a payment (which in practice it will do if the speed and certainty afforded by this provision are thought to be in the best interests of shareholders), the Executive Director will be entitled under his contract to receive all components of his base salary, accrued but untaken holiday and expenses for the extent of the notice period, including for Mr Mawe a pro-rated performance-related payment under the STIP (where the employer terminates employment), which reflects the practice in the Group at the time when Mr Mawe was appointed. Mr Mawe's entitlement to a pro-rated performance-related payment where the employer terminates his employment will not be replicated in the service contracts of future Executive Directors. In addition to the contractual rights to a payment on loss of office, any employee including the Executive Directors may have additional statutory and/or common law rights to certain additional payments, for example in a redundancy situation.

Policy for Loss of Office Payments

The following principles apply when determining payments for loss of office for the Executive Directors and any new Executive Directors.

The employer will take account of all relevant circumstances on a case by case basis including (but not limited to): the sums stipulated in the service contract (including base salary during his or her notice period, accrued but untaken holiday, and allowances/benefits but excluding STIP, save in the case of Mr Mawe); whether the Executive Director has presided over an orderly handover; the contribution of the Executive Director to the success of the Company during his or her tenure; and the need to compromise any claims that the Executive Director may have. The Company may, for example, if the Committee considers it to be necessary:
- enter into agreements with Executive Directors which may include the provision of legal fees or the settlement of liabilities in return for a single one-off payment or subsequent payments subject to appropriate conditions;
- terminate employment other than in accordance with the terms of the contract (bearing in mind the potential consequences of doing so); or
- enter into new arrangements with the departing Executive Director (for example, consultancy arrangements).

If the individual is considered a "good" leaver (e.g. for reasons of death, ill-health, injury or disability; his employing company ceasing to be a member of the Group; the business (or part) of the business in which he is employed being transferred to a transferee which is not a member of the Group; or any other reason which the Committee in its absolute discretion permits) any outstanding LTIP awards will be pro-rated for time and performance conditions will be measured. The Committee retains discretion to alter these provisions (as permitted by the relevant plan rules) on a case-by-case basis following a review of circumstances, in order to ensure fairness to both shareholders and participants. In considering the exercise of discretion as set out above, the Committee will take into account all relevant circumstances which it considers are in the best interests of the Company for example, ensuring an orderly handover, performance of the executive during his tenure as Director, performance of the Company as a whole and perception of the payment amongst the shareholders, general public and employee base.

In the event of a change of control, the vesting period under the LTIP ends and awards may be exercised or released to the extent to which the performance conditions have, in the Committee's opinion, been achieved up to that time. Pro-rating for time applies but the Committee has discretion to allow awards to be exercised or released to a greater or lesser extent if it considers it appropriate having regard to the circumstances of the transaction and the Company's performance up to the date of the transaction.

REMUNERATION REPORT CONTINUED
PART A: POLICY SECTION

It is the Committee's policy to review contractual arrangements prior to new appointments in the light of developments in best practice. The Executive Directors' service contracts are available to view at the Company's registered office.

External Appointments

It is the Board's policy to allow the Executive Directors to accept directorships of other quoted companies, provided that they have obtained the consent of both the Chairman of the Board and which should be notified to the Board. No external directorships of quoted companies are currently held by Executive Directors.

Details of Non-executive Directors' Letters of Appointment

Neither the Chairman nor any of the Non-executive Directors has a service contract with the Company; however, each has entered into a letter of appointment with the Company. The Non-executive Directors are each appointed for an initial period of three years, and their appointments may then be renewed on a three-yearly basis, subject to re-election when appropriate by the Company in general meeting; in 2011 the Company adopted the practice of annual re-election of all Non-executive Directors. Unless otherwise determined, neither the Company nor the Director concerned may give less than three months' notice of termination of the appointment. The key terms of current letters of appointment are as follows:

Non-executive Director	Position	Date of appointment	Date of re-election
M Abrahams	Chairman	14 June 2007	Annual re-election
O Baring	Non-executive Director	1 December 2007	Annual re-election
W Kuoni	Non-executive Director	14 June 2007	Annual re-election
I Mitiukov	Non-executive Director	14 June 2007	Annual re-election
M Salamon	Non-executive Director	27 March 2009	Annual re-election
B Nacken	Non-executive Director	1 August 2014	Annual re-election

Employee Context

In making remuneration decisions, the Committee also considers the pay and employment conditions throughout the Group. Prior to the annual pay review and throughout the year, the Committee receives reports from the CEO setting out the circumstances surrounding, and potential changes to, broader employee pay. The CEO consults as appropriate with key employees and the relevant professionals throughout the Group. This forms part of the basis for determining increases in Executive Director and senior executive remuneration which also takes into consideration factors detailed earlier in this report.

Consideration of Shareholder Views

The Committee takes into consideration views expressed by shareholders regarding remuneration, either at the AGM, one-to-one or group meetings and shareholder events or otherwise by considering these views at the relevant Committee meetings which are subsequently reported to and if appropriate considered by the Board as a whole. The Committee takes shareholder feedback into careful consideration when reviewing remuneration and regularly reviews the Directors' remuneration policy in the context of key institutional shareholder guidelines and best practice. It is the Committee's policy to consult with major shareholders prior to making any major changes to its executive remuneration structure. Details of shareholder consultations carried out during the year are included below in Part B of this Remuneration Report.

PART B: REMUNERATION IN 2014

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

Committee Membership in 2014

The Committee comprises four independent Non-executive Directors. Lucio Genovese was the Chairman of the Committee until his retirement from the Board on 1 August 2014 when he was succeeded by Oliver Baring. The other members are Wolfram Kuoni, Ihor Mitiukov and Bert Nacken (appointed on 26 November 2014). The Committee met three times during the year. Attendance at meetings by individual members is detailed in the UK Corporate Governance Report on page 45. A summary of the topics discussed at each meeting in 2014 is detailed below:

- Review of remuneration of Executive Directors and members of the Executive Committee (see page 40), including STIP outcomes and targets.
- LTIP policy and performance and the Company's performance compared to its peers.
- General market considerations surrounding executive remuneration packages and structure.
- Performance evaluation of the Committee.

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

Advisers

The Committee retains Kepler Associates to provide advice on remuneration policy, with particular emphasis on the structure of long-term incentives for senior management and the provision of annual benchmark reports on executive and non-executive remuneration. Kepler Associates is a member of the Remuneration Consultants Group and adheres to its code of conduct. Other than advice to the Committee no other services were provided by Kepler Associates to the Group. The fees paid to Kepler Associates in respect of work carried out in 2014 totalled £37,500 based on time and materials. The advice of the remuneration consultants is considered to be objective and independent based on the professional qualifications, reputation and expertise of the company involved.

The CEO and the Group Head of Human Resources provide guidance to the Committee on remuneration packages of senior executives employed by the Group (but not in respect of their own remuneration).

Single Total Figure of Remuneration – Audited

The table below sets out in a single figure for each currency of payment the total remuneration received by each Executive Director for the year ending 31 December 2014 and the prior year.

	K Zhevago (CEO)		C Mawe (CFO)	
All figures shown in currency of payment	**2014**	2013	**2014**	2013
1 Salary	**US$ 240,000**	US$ 240,000	**CHF 651,525**	CHF 638,750
2 Benefits	**US$ nil**	US$ nil	**CHF 167,790**	CHF 168,000
3 STIP	**–**	–	**CHF 752,518**	CHF 767,689
4 LTIP	**–**	–	**£nil**	£52,486
5 Pension	**CHF 2,904**	CHF 2,685	**CHF 58,589**	CHF 52,219
Total	**US$ 240,000 plus CHF 2,904**	US$ 240,000 plus CHF 2,685	**CHF 1,630,422 –**	CHF 1,626,658 plus £52,486
6 Total (single currency)	**US$ 243,173**	US$ 242,896	**CHF 1,630,422**	CHF 1,704,646

The figures have been calculated as follows:
1 Base salary: amount earned for the year.
2 Benefits: the taxable value of benefits received in the year (accommodation allowance).
3 STIP: this is the total bonus earned on performance during the year. Further details are provided on pages 52, 54, 59 and 60.
4 LTIP: the market value of shares that vested on performance to 31 December of the relevant year (2014: 0% vested on performance; 2013: 22.9% vested on performance). The market value is based on the share price on the respective dates of vesting: 31 December 2013 of 191.0 pence. Further details are provided on pages 52, 54 and 60 to 62.
5 Pension: Valued in accordance with sections 230 to 232 of the Finance Act 2004 for cash balance arrangement schemes. Other formulae (such as 20 times the increase in the value of accrued benefit over the year) are not considered appropriate since this is not a classic Defined Benefit scheme (see "Pensions and other Benefits" below), and for expatriate staff the pension is repaid as a lump sum on leaving the country.
6 Average exchange rates: 2014 – US$1 = CHF0.9153, CHF1 = £0.663; 2013 – US$1 = CHF0.9272, CHF1 = £0.673.

REMUNERATION REPORT CONTINUED
PART B: REMUNERATION IN 2014

The table below sets out in a single figure for each currency of payment the total remuneration received by each Non-executive Director for the year ending 31 December 2014 and the prior year.

All figures shown in currency of payment, US$000	M Abrahams		O Baring[1]		L Genovese[2]		W Kuoni[3]		I Mitiukov		M Salamon		B Nacken[4]	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Fees	**500**	500	**227**	200	**151**	230	**265**	265	**150**	150	**150**	150	**62.5**	–
Total	**500**	500	**227**	200	**151**	230	**265**	265	**150**	150	**150**	150	**62.5**	–

1 Oliver Baring receives a fee of US$150,000 p.a. as a Non-executive Director and additional fees US$40,000 p.a. for his role as Chairman (from 1 August 2014) of the Remuneration Committee, and of US$60,000 p.a. in total (increased from US$40,000 in July 2013) for his roles as Senior Independent Director, Chairman of the Nominations Committee and Chairman of the Committee of Independent Directors.
2 Lucio Genovese retired from the Board on 1 August 2014. He continues to receive a fee of US$40,000 p.a. for his role as a Non-executive Director of Ferrexpo AG.
3 Wolfram Kuoni receives a fee of US$150,000 p.a. as a Non-executive Director and additional fees of US$40,000 p.a. for his role as Chairman of the Audit Committee and US$75,000 for his role as a Non-executive Director and as Chairman of Ferrexpo AG.
4 Bert Nacken joined the Board on 1 August 2014.

Implementation of Remuneration Policy
Salary
Base salaries are reviewed annually, with reference to the individual's role, experience and performance; business performance; salary levels at relevant comparators; and the range of salary increases applying across the Group. During the year the Committee considered pay levels against international mining comparators and other FTSE-listed companies of similar size with executives based in similar geographic locations. Following this review the Committee decided not to increase salaries in 2015. Mr Zhevago's salary, which he donates to Ukrainian charities, also remained unchanged at US$240,000.

Executive Director	Position	Base salary at: 1 January 2015	Base salary at: 1 January 2014	Increase
K Zhevago	CEO	**US$240,000**	US$240,000	0%
C Mawe	CFO	**CHF651,525**	CHF651,525	0%

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

	Normal retirement date	Increase in value for 2014 less Director's contribution (CHF000)	**Total cash value at end of 2014 (CHF000)**
K Zhevago	7.1.39	3	**33**
C Mawe	31.1.27	59	**484**

No additional benefit is receivable should an Executive Director retire early.

Mr Zhevago is entitled to, but in 2014 made no claim in respect of, furnished accommodation in Switzerland (and elsewhere in Europe if necessary for the performance of his duties), and up to US$5,000 for professional tax advice. Ferrexpo AG provides Mr Mawe with CHF167,790 of accommodation allowance per annum which is subject to periodic review in line with CPI inflation.

Pension and other benefits will operate as set out in the Executive Director Remuneration Policy set out earlier in the report.

2014 STIP Outcome – Audited

The Company, as a single product producer of Iron Ore Pellets with a focused customer portfolio, sets its performance targets to ensure that the CFO and senior executives are motivated to enhance shareholder value in the short term but also in the long term. As such, these targets are specific and include both financial and operational measures which by their nature are commercially sensitive.

Key performance targets for 2014 were set at the start of the year for the CFO and senior executives and were weighted to reflect the contribution of the CFO to the achievement of that target. Targets during the year related to financial performance, operational performance, safety (behavioural safety initiatives and improvements in lost-time accident statistics), and project performance, as well as personal targets relating to operational and corporate development objectives. Financial and operational targets were adjusted, as in previous years, to take account of market and raw material cost price developments and mining plans as appropriate, to the extent that these were not under the direct control of management. Adjustments were at the full discretion of the Committee. The level of achievement against each of the targets for FY2014 as determined by the Committee for the CFO is summarised below.

KPI	Measures/target	Weighting for CFO	FY2014 assessment	Max bonus as % of salary	Actual bonus as % of salary
Financial	EBITDA	17.5%		26.25%	18.8%
	NOPAT				7.5%
Operational	Production/11.3 million tonnes	22.5%		33.75%	14.2%
	Sales volume/10.7 million tonnes				8.9%
CSR and safety	LTIFR[1] Improvement >1%	10.0%		15.0%	7.5%
	Fatalities /zero				0%
Development projects	Schedule, quality, cost	10.0%		15.0%	8.8%
Personal and governance	Personal KPIs	40.0%		60.0%	49.8%
Total		**100%**		**150%**	**115.5%**

1 LTIFR – number of work-related lost time injuries per million man hours (not including contractors).

Target STIP opportunity (as a percentage of salary) may be varied as appropriate to take account of changes in role, responsibility or scope.

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

The Committee considered the CFO's personal performance, as well as Financial, Production, CSR and project performance, during 2014. Taking his overall performance and taking into account specific commercially sensitive targets the Committee awarded a bonus of 115.5% of salary to the CFO.

REMUNERATION REPORT CONTINUED

STIP Framework for 2015

The STIP framework for 2015 is in line with the principles of the Remuneration Policy and 2014 framework. CSR, projects and personal KPIs continue to be set as in previous years. Mr Mawe's 2015 STIP opportunity is 150% for maximum performance, and 100% of salary for target performance. The measures and weightings for the STIP in 2015 are shown in the table below. Due to commercial sensitivity, details of performance targets will be disclosed in arrears and in certain instances will be aggregated. The CEO does not participate in the STIP.

KPI	Weighting for CFO
Financial (EBITDA, NOPAT)	17.5%
Operational (Production, sales volume)	22.5%
CSR and safety	10.0%
Personal, cost reduction initiatives, governance	50.0%
Total	**100%**

2012 LTIP Award Vesting – Audited

The performance period for the 2012 LTIP awards ended on 31 December 2014. The 2012 LTIP rewarded TSR outperformance of a tailored comparator group, as set out on page 61. Under the 2012 LTIP, 20% of maximum would vest for TSR performance in line with the Index, with full vesting for TSR outperformance of 8% p.a. The constituents of the comparator group are set out on page 61.

Ferrexpo's TSR performance relative to the weighted index was assessed by Kepler Associates. From 1 January 2012 to 31 December 2014, Ferrexpo underperformed Index TSR resulting in 0% of the 2012 LTIP awards vesting.

The Committee has considered the Company's overall performance and determined that the recorded TSR outperformance was a fair reflection of Ferrexpo's underlying performance over the performance period and has therefore determined, in accordance with the rules of the plan that 0% of the 2012 LTIP awards vested.

LTIP Granted in 2014 – Audited

The 2014 LTIP grant to Mr Mawe is outlined below.

	Date of grant	Number of shares	Face value (£)	Face value (% salary)	Vesting for minimum performance (% of maximum)	End of performance period
C Mawe	22.04.2014	130,000	£231,400[1]	54%[1]	20%	31.12.2016

1 Based on average share price for the last three months of 2013, 178 pence and average 2014 exchange rate of CHF1=£0.663.

The Committee reviewed the constituents of the comparator index and their weightings prior to the grant of 2014 LTIP awards and dropped ENRC (as it delisted in 2014), MMX Mineracao e Metalicos and Northern Iron (as these companies are no longer considered to be relevant comparators), and added Assore. The constituents of the Index for the last three cycles are summarised in the table below:

		2012	2013	**2014**
Focused iron ore miners	Weighting	40%	40%	**50%**
African Minerals			✓	✓
Assore				✓
Atlas Iron		✓	✓	✓
China Vanadium		✓		
Cliffs		✓	✓	✓
Fortescue Metals		✓	✓	✓
Gindalbie Metals		✓		
Kumba Iron Ore		✓	✓	✓
MMX Mineracao		✓	✓	
Mount Gibson		✓	✓	✓
Northern Iron		✓	✓	
Global diversified miners	Weighting	50%	50%	**40%**
Anglo American		✓	✓	✓
BHP Billiton		✓	✓	✓
Rio Tinto		✓	✓	✓
Vale		✓	✓	✓
Xstrata/Glencore[1]		✓	✓	✓
Single commodity/emerging market miners	Weighting	10%	10%	**10%**
African Rainbow Minerals		✓	✓	✓
Alcoa		✓	✓	✓
Alumina		✓	✓	✓
Aluminium Corp of China		✓	✓	✓
Antofagasta		✓	✓	✓
Boliden		✓	✓	✓
Eramet		✓	✓	✓
ENRC		✓	✓	
First Quantum Minerals		✓	✓	✓
Freeport McMoRan		✓	✓	✓
Industrias Penoles		✓	✓	✓
Katanga Mining		✓	✓	✓
Kazakhmys		✓	✓	✓
KGHM Polska Miedz		✓	✓	✓
Lundin Mining		✓	✓	✓
Norilsk		✓	✓	✓
OZ Minerals		✓	✓	✓
Peabody Energy		✓	✓	✓
Teck Cominco		✓	✓	✓
Vedanta Resources		✓	✓	✓

1 Glencore replaced Xstrata from 2014.

REMUNERATION REPORT CONTINUED

TSR is calculated on a common currency basis to ensure that comparisons with international comparators listed overseas are fair, with a TSR share price averaging period of six months to help improve the comparison of the management long-term incentive in relation to potential short-term movements in Ferrexpo's share price or the share price of comparator companies.

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

Dividends will accrue on performance shares over the vesting period and be paid on shares that vest.

LTIP framework for 2015

This Directors Remuneration Report is published prior to the grant date of awards under the LTIP, which are normally made in April. It is the Committee's intention to grant LTIP awards in 2015 that in value terms are in line with the structure used in 2014. The Committee reviewed the TSR comparator group and decided to drop the single commodity/emerging market miners component from the comparator group, and increase the weighting on the focused iron ore miners commensurately (from 50% to 60%), to increase the weighting on our closest comparators, improve the relevance of the benchmark and aid simplicity. Details of these awards will be set out in the next year's annual report on remuneration.

Non-executive Directors (Including the Chairman)

The Non-executive Directors' fees are reviewed each year in light of the time commitment and level of involvement that Non-executive Directors are required to devote to the activities of the Board and its Committees, market practice, and surveys by Kepler Associates. Fees payable for 2015 are:

Role	Annual fee
Chairman fee	US$500,000
Non-executive Director base fee	US$150,000
Committee Chairman fee	US$40,000
Senior Independent Director fee	US$60,000

The Chairman's fee and the Non-executive Directors' fees were last increased in 2011; the Senior Independent Director ("SID") fee was increased from US$40,000 on 1 July 2013 (the SID also chairs the Nominations Committee and Committee of Independent Directors for which he receives no separate fee).

Directors' Shareholdings – Audited

Total interests of the Directors in office (and connected persons) as at 31 December 2014:

	At 31 December 2014	At 31 December 2013
K Zhevago[1]	**296,077,944**	296,077,944
C Mawe	**235,510**	208,496
M Abrahams	**52,190**	176,848
O Baring	**20,130**	20,130
W Kuoni	**30,928**	29,841
I Mitiukov	**34,249**	33,046
M Salamon	**100,000**	100,000
B Nacken	**0**	–

1 Mr Zhevago is interested in these shares as a beneficiary of the Minco Trust, which is the ultimate shareholder of Fevamotinico S.a.r.l., which owns 296,077,944 shares in the Company.

Executive Directors and members of the Executive Committee are encouraged to build up a holding of shares of equivalent value to a year's salary (in the case of Executive Directors) or six months' salary (for other members of the Executive Committee). Executives will be encouraged to retain their vested LTIP shares on an after tax basis until the applicable guideline level is achieved. As at 10 March 2015, being a date not more than one month prior to the date of notice of AGM, the Executive Directors' shareholdings are as follows:

	Shareholding requirement (% salary)	Owned outright	Subject to performance[1]	Current shareholding[2] (% salary)	Guideline met?
K Zhevago	100%	296,077,944	–	–	Yes
C Mawe	100%	235,510	380,000	29%	No

1 Performance awards are nil-cost options. Further details of shares subject to performance are provided below.
2 Based only on shares owned outright at 31 December 2014 and share price of 53 pence.

Details of LTIP awards held by Mr Mawe (which are subject to performance) are provided below.

	At 1 January 2014	Granted (2014 award)	Exercised	Lapsed	**Total at 31 December 2014**	Price on date of award (pence)	Date from which exercisable	Expiry date
C Mawe	120,000[1]		27,480	92,520	**0**	341	01.01.2014	07.08.2021
	120,000[2]				**120,000**	275	01.01.2015	22.04.2022
	130,000				**130,000**	169	01.01.2016	22.04.2023
		130,000			**130,000**	155	01.01.2017	22.04.2024
Total					**380,000**			

1 This award has vested 22.9% under the TSR performance condition described above. At the date of vesting (31 December 2013) the market price of a share was 191 pence.
2 This award has lapsed under the TSR performance condition described above.

There have been no changes in the interests of the Directors from the end of the period under review to 10 March 2015. Total outstanding (i.e. awarded but not yet vested) awards granted under the LTIP from its inception in 2008 until the end of 2014 are equivalent to 0.31% of issued share capital.

Exit Payments Made in Year – Audited

No payments for loss of office were paid to or receivable by any Director or former Director in the financial year.

Payments to past Directors – Audited

Except as disclosed in respect of Lucio Genovese in Note 2 to the table on page 58, no payments were made to past Directors in the year.

Percentage Change in CEO Remuneration Compared to Other Employees

The table below sets out the percentage increase in salary, taxable benefits, and annual bonus for the CEO between 2013 and 2014 compared to that for other employees.

	CEO	Other employees[1]
Salary	0%	2.0%
Taxable benefits	0%	0%
Annual bonus	n/a	10.4%

1 Refers to senior executives.

REMUNERATION REPORT CONTINUED

Relative Importance of Spending on Pay

The table below shows Ferrexpo's dividend and total employee pay expenditure (this includes pension and variable pay, including STIP and fair value of LTIP, but not social security) for the financial years ended 31 December 2013 and 31 December 2014, and the percentage change. The decrease in the remuneration figure reflects the devaluation of the hryvnia during 2014.

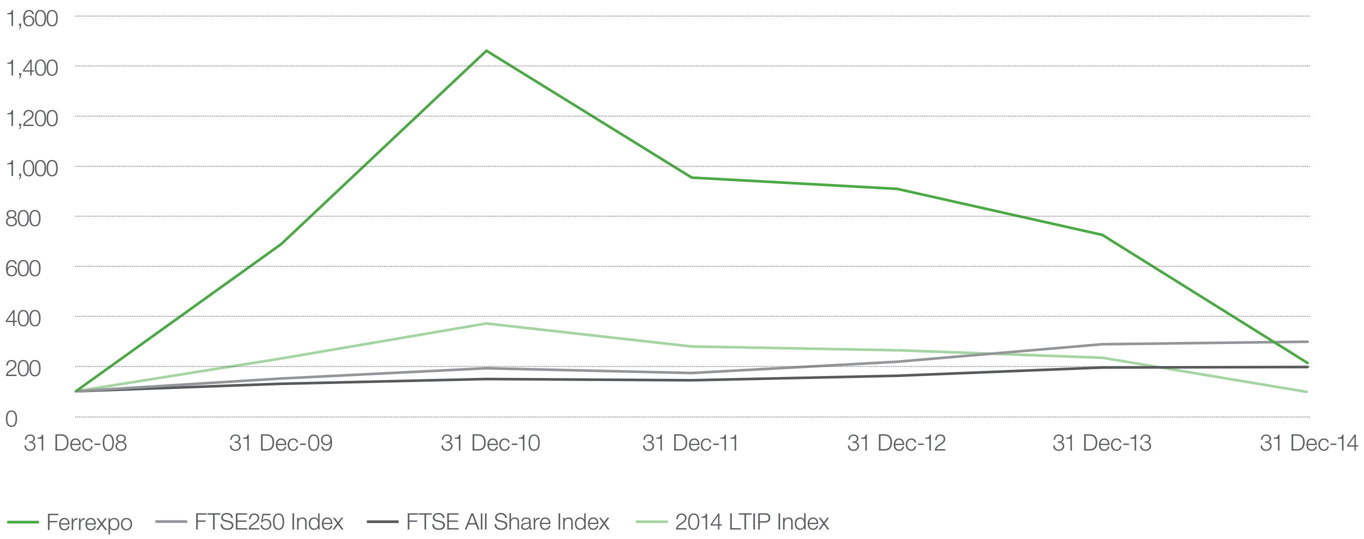
US$ million	**2014**	2013	Year-on-year change
All-employee remuneration	**71**	85	–16.5%
Distributions to shareholders[1]	**77**[2,3]	78[2]	0%

1 Includes dividends and share buybacks.
2 Includes special dividends of US$38.7 million paid in 2014 and 2015 in respect of 2013 and 2014.
3 Assumes final dividend for 2014 is approved at the 2015 AGM.

Comparison of Company Performance and Executive Director Pay

The graph below shows the value, at 31 December 2014, of £100 invested in Ferrexpo's shares on 31 December 2008 compared with the current value of the same amount invested in the FTSE 250 and All-share indices or in the shares of the LTIP comparator group. The FTSE 250 and All-share indices are chosen because Ferrexpo was a constituent member of the FTSE 250 for most of the period.

Historical TSR Performance



US$000	2009	2010	2011	2012	2013	**2014**
K Zhevago						
Single figure total remuneration	322	341	348	291	243	**243**
STIP vesting (% max)	K Zhevago did not participate in the STIP or the LTIP.					
LTIP vesting (% max)						

Statement of Shareholder Voting

The following table shows the results of the binding vote on the Remuneration Policy and advisory vote on the 2013 Annual Report on Remuneration at the 2014 AGM.

	For		Against		Withheld
	No.	%	No.	%	No.
Remuneration Policy	530m	99.8%	1.2m	0.2%	2.9m
2013 Annual Report on Remuneration	531m	99.9%	0.6m	0.1%	2.9m

Shareholder Consultation

As no major changes to the Executive Director remuneration structure were considered in 2014, there was no formal consultation of shareholders.

Other transactions involving Directors are set out in Note 34 (related parties) to the financial statements. This report was approved by the Board on 10 March 2015.

Signed on behalf of the Board

Oliver Baring
Chairman of the Remuneration Committee

DIRECTORS' REPORT

The Directors present their report to shareholders for the financial year ended 31 December 2014, which they are required to produce by law.

Introduction
For the purposes of the disclosures required under the Disclosure and Transparency Rules and the Listing Rules of the UKLA, cross references are made where appropriate to other sections of the Annual Report.

The Company was incorporated under the name Ferrexpo plc as a public company limited by shares on 22 April 2005. Ferrexpo plc listed on the London Stock Exchange in June 2007 and is a member of the FTSE All-Share index.

Directors' Duties
The duties of Directors are set out in sections 170 to 177 of the Act. The duties that are specifically referred to in the Corporate Governance Report on pages 41 to 49 include the duties under section 172 (to promote the success of the Company), section 175 (to avoid conflicts of interest), section 176 (not to accept benefits from third parties), and section 177 (to declare any interests in existing or proposed transactions or arrangements with the Company).

Dividends
Results for the year are set out in the Consolidated Income Statement on page 79.

The Directors recommend a final dividend of 3.3 US cents per Ordinary Share. Subject to shareholders approving this recommendation at the Annual General Meeting ("AGM"), the dividend will be paid in UK Pounds Sterling on 29 May 2015 to shareholders on the register at the close of business on 1 May 2015. Shareholders may receive UK Pounds Sterling dividends by direct bank transfer, provided that they have notified the Company's registrars in advance. Shareholders may also elect to receive dividends in US Dollars (the procedure for this is set out in the Notice of the AGM).

In recognition of the progress made by the business in 2014, the Directors have also announced a special dividend of 6.6 US cents per share, amounting to US$39 million, for payment on 27 March 2015 to shareholders on the register at the close of business on 20 March 2015. The dividend will similarly be paid in UK Pounds Sterling with an election to receive US Dollars.

Directors
The Directors of the Company who served during the year were:
- Michael Abrahams
- Oliver Baring
- Lucio Genovese (retired 1 August 2014)
- Wolfram Kuoni
- Chris Mawe
- Ihor Mitiukov
- Bert Nacken (appointed 1 August 2014)
- Mike Salamon
- Kostyantin Zhevago

In compliance with the UK Corporate Governance Code all of the Directors will retire at the forthcoming AGM and, being eligible, will offer themselves for re-election.

Further details about the Directors and their roles within the Group are given in the Directors' biographies on pages 38 and 39. Details of the remuneration of the Directors, their interests in shares of the Company and their service contracts are contained in the Remuneration Report on pages 50 to 65.

Appointment and Replacement of Directors
Directors may be elected by the shareholders (by ordinary resolution) or appointed by the Board. A Director appointed by the Board holds office only until the next following AGM and is then eligible for election by the shareholders.

Powers of the Directors
Subject to the Company's Articles, the Act and any directions given by special resolution, the business of the Company will be managed by the Board who may exercise all the powers of the Company.

Directors' and Officers' Insurance
The Company maintains Directors' and Officers' Liability Insurance in respect of legal action that may be brought against its Directors and Officers.

Directors' Indemnity Provision
During the period under review, the Group had in force a qualifying third-party indemnity provision in favour of one or more of the Directors of Ferrexpo plc against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Act.

Disclosures required by statute
Employees
Information on the Group's employment policies can be found in the Strategic Report on pages 34 and 35. Employee numbers are stated in Note 32 to the financial statements. The Group employs fewer than 250 staff in the United Kingdom and so does not disclose its policies on employee involvement or employing disabled people. However, it will give fair consideration to applications for employment from disabled people.

Greenhouse Gas Emissions
The disclosures concerning greenhouse gas emissions are in the Strategic Report on page 37.

Political Donations
The Group made no political donations during the year.

Financial Instruments
Information on financial instruments is in Note 30 to the financial statements.

Disclosures required by the Listing Rules 9.8.4

These disclosures are set out in this Annual Report as follows:

		Page
Capitalised interest and tax relief (LR 9.8.4 R(1))	See Financial Statements Note 17.	102
Contracts of significance (LR 9.8.4R (10))	See Financial Statements Note 38. Transactions with OJSC Ukrzakordongeologia and FC Vorskla are considered to be contracts of significance under the Listing Rules.	133
Details of waivers of dividends by shareholders (LR 9.8.4R (12) and (13))	The employee benefit trust contains three million Ferrexpo ordinary shares for satisfying existing and future awards under management incentive schemes. A dividend waiver is in place in respect of these shares.	–
Relationship Agreement with controlling shareholder (LR 9.8.4 R (14))	Corporate Governance Report	43

Share Capital and Rights Attaching to the Company's Shares The Company has a single class of Ordinary Shares of 10 pence each.

Subject to applicable statutes and other shareholders' rights, shares may be issued with such rights and restrictions as the Company may by ordinary resolution decide, or (if there is no such resolution or so far as it does not make specific provision) as the Board may decide. At each AGM, the Board proposes to put in place annual shareholder authority for the Company's Directors to allot new shares in accordance with the Institutional Investor Guidelines.

Details of the issued share capital of the Company are shown in Note 35 to the financial statements.

Variation of Rights

Subject to the provisions of the Act, the rights attached to a class of shares may be varied or abrogated either with the consent in writing of the holders of at least three-quarters of the nominal amount of the issued shares of that class (excluding any shares of that class held as treasury shares) or with the sanction of a special resolution passed at a separate meeting of the holders of the issued shares of that class validly held in accordance with the Articles.

Transfer of Shares

Any share in the Company may be held in uncertificated form and, subject to the Articles, title to uncertificated shares may be transferred by means of a relevant system. Registration of a transfer of an uncertificated share may be refused in the circumstances set out in the Uncertificated Securities Regulations 2001 and where, in the case of a transfer to joint holders, the number of joint holders to whom the uncertificated share is to be transferred exceeds four.

Subject to the Articles, any member may transfer all or any of his certificated shares by an instrument of transfer in any usual form or in any other form which the Board may approve. The Board may decline to register a transfer of a certificated share if it is not in the approved form. The Board may also decline to register any transfer of any share which is not a fully paid share. The Board may decline to register a transfer of any of the Company's certificated shares by a person with a 0.25% or greater interest if such a person has been served with a notice and has failed within 14 days to provide the Company with information concerning interests in those shares required to be provided under the Act, unless the transfer is shown to the Board to be pursuant to an arm's length sale.

Repurchase of Shares

Subject to authorisation by shareholder resolution, the Company may purchase its own shares in accordance with the Act. Any shares which have been bought back may be held as treasury shares or cancelled immediately upon completion of the purchase.

The Company was given authority to make market purchases of up to approximately 10% of its existing Ordinary Share capital by a resolution passed on 22 May 2014. This authority will expire at the conclusion of the Company's 2015 AGM. A special resolution to renew the authority will be proposed at the forthcoming AGM. Details of the resolution renewing the authority to purchase Ordinary Shares are set out in the notice of AGM enclosed with this report.

The Company did not make use of the authority mentioned above during 2014.

DIRECTORS' REPORT CONTINUED

Dividends and Distributions

Subject to the provisions of the Act, the shareholders may by ordinary resolution, from time to time, declare dividends not exceeding the amount recommended by the Board. The Board may pay interim dividends and also any fixed rate dividends whenever the financial position of the Group, in the opinion of the Board, justifies their payment.

Under the Company's Articles, the Board may withhold payment of all or any part of any dividends or other monies payable in respect of the Company's shares from a person with a 0.25% or greater interest (as defined in the Articles) if such person has been served with a notice under section 793 of the Companies Act 2006 and has failed within 14 days to provide the Company with information concerning interests in those shares required to be provided under the Act.

Voting

At a general meeting of the Company, every member has one vote on a show of hands and on a poll, one vote for each share held. Under the Act, members are entitled to appoint a proxy or proxies to exercise all or any of their rights to attend, speak and vote at a general meeting. A member that is a corporation may appoint one or more individuals to act on its behalf at a general meeting as a corporate representative.

Restrictions on Voting

No member is entitled to vote at any general meeting in respect of any shares held by him if any call or other sum outstanding in respect of that share remains unpaid. Currently, all issued shares are fully paid. In addition, subject to the Articles no member shall be entitled to vote if he has failed to provide the Company with information concerning interests in those shares required to be provided under the Act.

Shares Held in the Employee Benefit Trust ("EBT")

The trustees of the Company's EBT may vote or abstain from voting on shares held in the EBT as they think fit and in doing so may take into account both financial and non-financial interests of the beneficiaries of the EBT or their dependants.

Deadline for Voting Rights

The Articles provide a deadline for submission of proxy forms of not less than 48 hours before the meeting. The Directors will also specify in the notice of any general meeting a time, being not more than 48 hours before the meeting, by which a person must be entered in the register of members in order to have the right to attend and vote at the meeting The Directors may decide, at their discretion, that no account should be taken of any day that is not a working day when calculating the 48-hour period.

Substantial Shareholdings

As at 31 December 2014, the Company had been advised, in accordance with the Disclosure and Transparency Rules, of the following notifiable interests in its voting rights.

Name of shareholder	Ordinary Shares	Number of voting rights	% of the Company's total voting rights at date of notification
Fevamotinico S.a.r.l.[1]	296,077,944	296,077,944	50.30%
Wigmore Street Investments No. 3 Ltd[2]	140,456,035	140,456,035	23.86%

1 Fevamotinico S.a.r.l. is a wholly-owned subsidiary of The Minco Trust of which Kostyantin Zhevago is a beneficiary.
2 CERCL Holdings Limited is the ultimate parent undertaking and indirect controller of Wigmore Street Investments No. 3 Ltd, which holds 140,456,035 shares through its nominee Lynchwood Nominees Ltd.

Significant Agreements – Change of Control

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

There are no circumstances connected with any other significant agreements to which the Company is a party that would take effect, alter or terminate upon a change of control following a takeover bid, except those referred to below:

LTIP

The rules of the Company's LTIP set out the consequences of a change of control of the Company on employee rights under the plan. Generally, such rights will vest on a change of control to the extent that the performance conditions have been satisfied and on a time pro rated basis, subject to the discretion of the Remuneration Committee. Participants will become entitled to acquire shares in the Company, or in some cases, to the payment of a cash sum of equivalent basis.

Bank Loan Facility

Under the US$420 million revolving pre-export finance facility with ING Bank N.V., Uni Credit Bank AG, Société Générale and other banks entered into in September 2011 and the US$350 million revolving pre-export finance facility with Deutsche Bank and other banks entered into in September 2013, if Kostyantin Zhevago ceases to own directly or indirectly at least 30% of the issued and allotted share capital of the Company, or any person (other than Kostyantin Zhevago) becomes the beneficial owner of the shares in the Company carrying more than 50% of the voting rights normally exercisable at a general meeting, then the lenders are not obliged to fund a drawdown.

Corporate Bonds Due 2016 and 2019

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

Relationship Agreement

Details of the Relationship Agreement entered into between Fevamotinico S.a.r.l., Kostyantin Zhevago, The Minco Trust and the Company can be found in the Corporate Governance Report (pages 42 and 43). The Relationship Agreement ceases to apply if the holding of Fevamotinico S.a.r.l., The Minco Trust or Mr Zhevago individually or collectively falls below 24.9% of the issued share capital of the Company and they are no longer a controlling shareholder for the purposes of the UK Listing Rules.

Events Since the Balance Sheet Date

Information on events since the balance sheet date is provided in Note 39 to the financial statements.

Policy on Derivatives and Financial Instruments

The Group does not hold any derivative financial instruments. Group policy on financial instruments is set out in Note 30 to the financial statements.

Directors' Responsibilities in Respect of the Annual Report and Accounts

The Statement of Directors' Responsibilities is on page 70.

Risk Management Policies

Full details of the Group's policy on risk and uncertainty and an overview of the Group's exposure to credit, liquidity and market risks are set out in Note 30 to the financial statements. Further references to risk are made in the Risks section on pages 26 to 31, in the Appendix on Subsidiary Risks on page 141, and in the Internal Control and Risk Management section of the Corporate Governance Report on pages 47 and 48 which provides a summary of the internal control procedures put in place by the Board to identify key risks and review risk management and its effectiveness.

Going Concern

The Group's business activities, together with the risk factors likely to affect its future development, performance and position are set out on pages 14 to 31. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Performance Review on pages 14 to 31. In addition, Note 30 of the Notes to the Consolidated Financial Statements on pages 114 to 123 sets out the Group's objectives, policies and processes for managing its capital; its financial risk management objectives and details of its financial instruments; its exposure to credit risk, liquidity risk as well as currency risk and interest rate risk.

The Group continues to generate positive free cash flow in the current iron ore price environment. Taking into account the Group's low cost of production, its premium iron ore product together with its high quality customer base, its available reserve base and increased production capacity following the completion of the recent growth projects along with the current level of liquidity, the Directors are of the view that the Group is a going concern and the consolidated financial statements have been drawn up on this basis.

Corporate Governance Statement

The Disclosure and Transparency Rules (DTR 7.2) require certain information to be included in a corporate governance statement set out in a company's Directors' Report. In common with many companies, Ferrexpo has an existing practice of issuing, within its Annual Report, a Corporate Governance Report that is separate from its Directors' Report. The information that fulfils the requirements of DTR 7.2 is located in Ferrexpo's Corporate Governance Report on pages 41 to 49 (and is incorporated into this Directors' Report by reference), with the exception of the information referred to in DTR 7.2.6, which is located in this Directors' Report.

Statement on Disclosure of Information to Auditors

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditors are unaware, and that each Director has taken all reasonable steps to make himself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Amendments to Articles of Association

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

AGM

The AGM of the Company will be held at 11.00am on Thursday 21 May 2015 at The Dorchester, Park Lane, London W1K 1QA. A separate letter from the Chairman summarising the business of the meeting and the Notice convening the AGM will be sent to shareholders with this Annual Report.

Auditors

Having reviewed the independence and effectiveness of the auditors, the Audit Committee has recommended to the Board that the existing auditors, Ernst & Young LLP, be reappointed. Ernst & Young LLP have indicated their willingness to continue in office, and an ordinary resolution reappointing them as auditors and authorising the Directors to set their remuneration will be proposed at the 2015 AGM.

Pages 1 to 37 inclusive consist of the Strategic Report and pages 66 to 69 inclusive consist of the Directors' Report. These reports have been drawn up and presented in accordance with, and in reliance upon, applicable English company law and any liability of the Directors in connection with these reports shall be subject to the limitations and restrictions provided by such law.

The Strategic Report and the Directors' Report were approved by the Board on 10 March 2015.

For and on behalf of the Board

Michael Abrahams
Chairman

Christopher Mawe
Chief Financial Officer

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Statement by the Directors under the UK Corporate Governance Code

The Directors are responsible for preparing the Annual Report and the Group and Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Parent Company and of their profit or loss for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable IFRS have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. Under applicable law and regulations the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance statement that comply with that law and those regulations. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. The Board considers that the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy.

Responsibility Statement of the Directors in Respect of the Annual Report and Accounts

We confirm on behalf of the Board that to the best of our knowledge:

(a) the financial statements give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole; and

(b) the Strategic Report and the Directors' Report includes a fair review of the development and performance of the undertakings included in the consolidation as a whole, and the principal risks and uncertainties that they face.

For and on behalf of the Board

Michael Abrahams
Chairman

Christopher Mawe
Chief Financial Officer

10 March 2015

FINANCIAL CONTENTS

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FERREXPO PLC

Ken Williamson
Senior statutory auditor, Ernst & Young LLP

We present our audit report on the Group and Company financial statements (as defined below) of Ferrexpo plc, which comprise the Group primary statements and related notes set out on pages 79 to 136 and the Company primary statements and related notes set out on pages 137 to 140.

Our opinion

In our opinion, Ferrexpo plc's financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2014 and of the Group profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statement has been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Overview

Materiality	• Overall Group materiality of US$16.5 million which represents approximately 5% of adjusted profit before tax. • Profit before tax, adjusted for the impairment charge, provides us with a consistent year on year basis for determining materiality and the most relevant performance measure to the stakeholders of the entity.
Audit scope	• We performed an audit of the complete financial information of four components and audit procedures on specific balances, where we consider the risk of material misstatement to be higher, for a further three components. • The seven reporting components where we performed audit procedures accounted for 98% of the Group's adjusted profit before tax and 94% of the Group's revenue (with 73% and 94% of these measures covered by full scope audits). • For the remaining 25 components in the Group we have performed limited procedures appropriate to respond to the risk of material misstatement. • We have obtained an understanding of the entity-level controls of the Group which assists us in identifying and assessing risks of material misstatement due to fraud or error, as well as assisting us in determining the most appropriate audit strategy.
Areas of focus	• Completeness of related party transactions • Political and economic disturbances in Ukraine • Taxation in Ukraine • Devaluation of the Ukrainian Hryvnia (UAH) • Charitable donations
What has changed	• Changes in our scope since the 2013 audit include a reduction in scope regarding two of the Group's logistics entities which are no longer considered significant based upon our risk criteria. • We have increased our focus on the impact of the devaluation of the Ukrainian Hryvnia due to the evolving situation in Ukraine while the focus on the Group's investment in Ferrous Resources has reduced as a result of the full impairment of the asset. • Given the significant increase in charitable donations during the year we have increased our focus and performed additional procedures in this area.

Our application of materiality

The scope of our work is influenced by materiality. We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

As we develop our audit strategy, we determine materiality at the overall level and at the individual account level (referred to as our "performance materiality").

MATERIALITY	PERFORMANCE MATERIALITY	REPORTING THRESHOLD
US$16.5m	**US$12.3m**	**US$0.8m**

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate could reasonably be expected to influence the economic decisions of the users of the financial statements.

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. In assessing whether errors are material, either individually or in aggregate, we consider qualitative as well as quantitative factors.

Based on our professional judgement, we determined materiality for the financial statements as a whole to be US$16.5 million (2013: US$15.3 million).

How we determined materiality:

STARTING BASIS	Profit before tax of US$254.3 million (as included in the Consolidated Income Statement)
ADJUSTMENT	Add back impairment charge of US$82.4 milllion (as included in note 13) for the investment in Ferrous Resources to determine adjusted profit before tax
MATERIALITY	Take 5% of the adjusted profit before tax

Rationale for basis

We believe that profit before tax, adjusted for the impairment charge, provides us with a consistent year-on-year basis for determining materiality and the most relevant performance measure to the stakeholders of the entity. We have adjusted profit before tax to add back the impairment charge recognised during the year on the investment in Ferrous Resources as we consider this to be a non-recurring item and historically there has not been a significant impairment charge recognised by the Group.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessment, together with our assessment of the Group's overall control environment, our judgement was that overall performance materiality (i.e. our tolerance for misstatement in an individual account or balance) for the Group should be 75% (2013: 75%) of materiality, namely US$12.3 million (2013: US$11.4 million). Overall performance materiality can be set at either 50% or 75% of materiality. For the year ended 31 December 2014 we have selected 75%, as this is not an initial audit nor does our past experience indicate a higher risk of misstatements. Our objective in adopting this approach was to ensure that total detected and undetected audit differences in all accounts did not exceed our planning materiality level.

Audit work on individual components is undertaken using a percentage of our total performance materiality. This percentage is based on the size of the component relative to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year the range of performance materiality allocated to components was US$0.8 million to US$9.0 million.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of US$0.8 million (2013: US$0.8 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FERREXPO PLC CONTINUED

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to given an opinion on the consolidated and parent company financial statement under International Standards on Auditing (UK and Ireland). We take into account the size, risk profile, changes in the business environment and other factors when assessing the level of work to be performed at each entity.

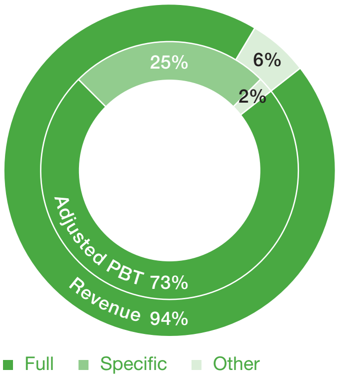
The Group has centralised processes and controls over the key areas of our audit focus with responsibility lying with Group management for the majority of judgemental processes and significant risk areas. We have tailored our audit response accordingly and thus for the majority of our focus areas audit procedures were undertaken directly by the Group team with testing undertaken by the component team limited to the verification of model inputs and other routine processes.

Responsibility for focus areas was split across the relevant components in Ukraine, Switzerland and the UK with the Primary Team maintaining an appropriate level of involvement throughout the audit cycle.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts, we selected seven out of 32 components covering entities within Ukraine, Switzerland and the UK, which represent the principal business units within the Group.

Of the seven components selected we performed an audit of the complete financial information of four components (full scope components in Ukraine and Switzerland), which were selected based on their size or risk characteristics. For the remaining three selected components (specific scope components in Ukraine and the UK) we performed audit procedures on specific accounts within the component that we considered had the potential for the greatest impact on the amounts in the Group financial statements either because of the size of these accounts or their risk profile.

The seven reporting components where we performed audit procedures accounted for 98% of the Group's adjusted profit before tax and 94% of the Group's revenue. A further breakdown of the size of these components compared to key metrics of the Group is provided below.



In addition to full scope audits, specific audit procedures were undertaken on certain accounts within three further subsidiaries based in Ukraine and the UK. The extent of audit work on these three entities was based on our assessment of the risks of material misstatement and of the materiality of the Group's business operations in that subsidiary. These subsidiaries were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above.

The audit work for the seven in scope subsidiaries was executed at levels of materiality applicable to each individual entity, which was lower than Group materiality.

For the remaining components, we determined that there were no significant balances in excess of performance materiality in these entities. We performed other procedures, including analytical review, testing of consolidation journals and intercompany eliminations and foreign currency translation recalculations to respond to any potential significant risks of material misstatement to the Group Financial Statements.

Changes from the prior year

Our scope allocation in the current year is broadly consistent with 2013 in terms of overall coverage of the Group and the number of full and specific scope entities. However we have made some changes in the identity of components subject to full and specific scope audit procedures. Changes in our scope since the 2013 audit include a reduction in scope regarding two of the Group's logistics entities which are no longer considered significant based upon our risk criteria.

Involvement of component teams

In establishing our overall approach to the Group audit we determined the type of work that needed to be undertaken at each of the components by us, as the Group engagement team or by component auditors from other EY global network firms operating under our instruction. Of the seven components selected, audit procedures were performed on two of these directly by the Group team. For the remaining five components, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

During the current year's audit cycle, visits were undertaken by the Group team (including audit partners) to component teams in Ukraine and Switzerland. These visits involved discussing the audit approach with the component team and any issues arising from their work. The Group audit team interacted regularly with the component teams where appropriate during various stages of the audit, reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate audit evidence for our opinion on the Group financial statements.

Our assessment of focus areas

We identified the following risks and focus areas that had the greatest effect on the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. This is not a complete list of all the risks or focus areas identified in our audit.

Details of why we identified these issues as areas of focus and our audit response are set out in the table below. This is not a complete list of all the procedures we performed in respect of these areas. The arrows in the table indicate whether we consider the financial statement risk associated with this focus area to have increased, decreased or stayed the same compared to 2013.

Changes from the prior year

Our audit approach and assessment of areas of focus changes in response to changes in circumstances affecting the Group's business and impacting the Group financial statements. Since the 2013 audit we have made the following changes to our areas of focus:

- As a result of the impairment of the investment in Ferrous Resources we have removed this as a focus area of our audit.
- Historically the most material and subjective area in the financial statements relating to taxation was the valuation and classification of VAT balances. With the reduction in the outstanding VAT balances (due to receipt of bonds and cash) and the increase in prepaid corporation tax our focus has increased in relation to the prepaid corporation tax.
- There has been an increase in audit focus on charitable donations as a result of the significant increase in these amounts during the year.

Area of focus	How our audit addressed the area of focus
Completeness of related party transactions Refer to the Group Audit Committee report on page 47 and the disclosures of related parties in Note 38 of the Group Financial Statements	**Risk Direction:** ⟷
The completeness of related party transactions is a key area of focus due to the high volume and nature of transactions that the Group enters into. There is a risk of undisclosed related party transactions as well as the risk that these transactions are not transacted on an arms length basis when disclosed as such.	In addressing this area of focus, audit procedures were performed by component teams in Ukraine and Switzerland and the UK Group engagement team. We understood and verified management's process for identifying related parties and recording related party transactions. We have assessed management's controls in relation to the assessment and approval of related party transactions and verified management's disclosures in respect of the transactions are correct. We have tested the completeness of the data, traced transactions to source data and obtained fairness opinions for any transactions outside the normal course of business as defined by the listing rules. We have assessed management's evaluation that the transactions are at an arm's length basis by reviewing a sample of tender documentation and comparing the related party transaction price to those quoted by comparable companies. Throughout the performance of our audit we remained alert for any evidence of related party transactions that had not been disclosed. Based on the audit procedures completed we are satisfied that the related party transactions and balances are appropriately disclosed in the Annual Report and Accounts

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FERREXPO PLC
CONTINUED

Area of focus	How our audit addressed the area of focus
Political and economic disturbances in Ukraine Refer to the Group Audit Committee report on page 47 and refer to Strategic Report on page 1	**Risk Direction:** ⬆
The current geopolitical situation remains an important area of focus for the Group and our audit. Continuing escalation of political and economic tension between the US, EU and Russia has resulted in an economic slowdown and deterioration of liquidity in the banking sectors of Russia and Ukraine and depreciation of national currencies in Russia and Ukraine. The deterioration in liquidity may impact the Group's ability to obtain finance in the future and therefore cast doubt over the Group's ability to continue as a going concern. Operational restrictions could impact the profitability of the Group's operations and lead to asset impairments. The devaluation of the Hryvnia during the year has had a significant impact on the Group's operations and the carrying value of its assets. We focused on this area because of the potential operational and financial impact on the Group.	In addressing this area of focus, audit procedures were performed by the component team in Ukraine and the UK Group engagement team. We inquired of management about the potential impact on financing and the operational activities of the Group in the foreseeable future. We investigated existing loan agreements for force majeure and material adverse change clauses to verify debt maturities were accurately recorded in the financial statements and had not been impacted by the geopolitical situation. Through enquiries of management and review of available documentation we have investigated and considered the liquidity of cash held in Ukrainian institutions. As part of our impairment work we challenged management assumptions used in impairment models in respect of Ukrainian operations. Areas such as country risk premium used in the discount rate calculation were agreed to third party data where applicable. We assessed the processes and controls management have to prevent illegal transactions being undertaken with countries subject to sanction or embargo. We have audited management's assessment of going concern and we are satisfied that the Group has access to sufficient sources of funds to meet its liabilities over the next twelve months and that the disclosures in the consolidated financial statements in relation to going concern are appropriate. From the evidence obtained we agreed with management's assessment of the situation as disclosed in the Principal Risks section on page 26 of the Annual Report and Accounts. However, given the uncertainty involved, the matter is not without risk.
Taxation in Ukraine Refer to the Group Audit Committee report on page 47, the Strategic Report on page 1, and the disclosures of taxation in Note 15 of the Group Financial Statements	**Risk Direction:** ⬌
Due to the significant balance outstanding for both the Ukrainian VAT receivable and prepaid corporation tax debtor in addition to the uncertainty regarding the recoverability of the balance, this has been considered a key area of focus for the audit. The gross amount of Ukrainian VAT claimed by the Group and outstanding at 31 December 2014 is US$72.8 million. The prepaid corporation tax balance is US$73.5 million at 31 December 2014. In 2014, the Ukrainian VAT receivable balance has significantly decreased due to the devaluation of the Ukrainian Hryvnia and the settlement of historic VAT balances in Government bonds, which the Group has converted to cash. Management has classified the vast majority of the balance as a current asset as they expect to receive the remaining balance outstanding within one year either through monthly refunds of VAT or a further issuance of bonds. Management continue to pre-pay corporation tax in Ukraine as part of an arrangement with the tax authorities to receive VAT refunds. Management has classified the prepaid corporation tax balance as a non-current asset due to the uncertainty regarding the timing of the recovery of the balance.	In addressing this area of focus, audit procedures were performed by the component team in Ukraine and the UK Group engagement team. We have tested the validity of the amounts claimed from the Ukrainian government, including verifying the Government bond certificates and those amounts currently in dispute. We challenged management's assumptions relating to the recoverability, classification and measurement of the balances through enquiries of management and corroboration to supporting internal and external documentation. For the prepaid corporation tax, we have verified the payments to support from the tax authorities and bank statements. We have assessed the recoverability of the balances including consideration of the ability and likelihood of the Ukrainian entities generating future taxable profits. We have performed audit procedures on management's calculation of taxable profit generated across the Group and ensured any tax charge is only offset against the prepaid balances where appropriate.

Area of focus	How our audit addressed the area of focus
Devaluation of the Ukrainian Hryvnia (UAH) Refer to the Group Audit Committee report on page 47, the Strategic Report on page 1, and the disclosures of foreign exchange in Note 12 of the Group Financial Statements	**Risk Direction:** ↑
During 2014, the UAH devalued against the US Dollar, with a closing rate of UAH 15.8 to the US Dollar as of 31 December 2014, representing a 97% devaluation in the currency. The translation reserve has changed by US$1,105 million (after tax effect) including a loss of US$610 million on intercompany loans classified as net investments through Other Comprehensive Income. The devaluation has given rise to significant operating gains of US$76.4 million and non-operating foreign exchange losses of US$14.8 million in the consolidated income statement. Given the significant movements in the consolidated financial statements and impact on the net assets of the Group, we consider this to be a key area of focus.	In addressing this area of focus, audit procedures were performed by the component team in Ukraine and the UK Group engagement team. We assessed the classification of the net investments in foreign operations at 31 December 2014. As part of our audit procedures we performed substantive testing on both the unrealised and realised foreign exchange movements recognised in the local Ukrainian subsidiaries' income statements in relation to the devaluation noting no significant issues. We have also performed audit procedures on movements in the translation reserve and the foreign exchange impact on the Statement of Financial Position. We have tested exchange gains/losses for the period and assessed the Group's adjustments arising on the translation of foreign operations noting no material inconsistencies. We have enquired and discussed with management the current and deferred tax treatment of foreign exchange movements taken through equity to determine whether the treatment adopted is reasonable. We have read and considered how the impact of the devaluation on the performance and position of the Group is disclosed in the Strategic Report and financial statements.
Charitable donations Refer to the Group Audit Committee report on page 47, the Strategic Report on page 1, and the disclosures in Note 11 of the Group Financial Statements	**Risk Direction:** ↑
During the year the value of Community Support Donations has increased from US$10.1 million for the year to 31 December 2013 to US$39.1 million for the year to 31 December 2014. Given the significant increase in the amount of charitable donations and the importance of transparent reporting of such expenditure we have performed additional procedures in this area.	We have obtained the audited financial statements including the external audit reports issued by a local Ukraine audit firm on the charities that received over 80% of the total donations in the period. Our component team met with a representative from the local audit firm to understand the procedures they conducted. We have enquired and discussed with management the approval process for the charitable expenditure.

What we have audited

The Group and Parent Company financial statements of Ferrexpo plc for the year ended 31 December 2014 which comprise:

Group
- the Consolidated Income Statement
- the Consolidated Statement of Comprehensive Income
- the Consolidated Statement of Financial Position
- the Consolidated Statement of Cash Flows
- the Consolidated Statement of Changes in Equity
- the related Notes 1 to 39

Company
- the Separate Parent Company Balance Sheet
- the related Notes 1 to 7

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FERREXPO PLC CONTINUED

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 41 to 49 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 70, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement (included on page 66 of the Annual Report) that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.

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

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the Directors' Statement, set out on page 69, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

Ernst & Young LLP
Ken Williamson (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
10 March 2015

1. The maintenance and integrity of the Ferrexpo plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

CONSOLIDATED INCOME STATEMENT

US$000	Notes	Year ended 31.12.14	Year ended 31.12.13
Revenue	6	**1,388,285**	1,581,385
Cost of sales	5/7	**(647,960)**	(773,221)
Gross profit		**740,325**	808,164
Selling and distribution expenses	8	**(311,514)**	(335,718)
General and administrative expenses	9	**(48,642)**	(54,839)
Other income	10	**9,094**	6,662
Other expenses	11	**(57,014)**	(23,457)
Operating foreign exchange gains	12	**76,372**	622
Operating profit from continuing operations before adjusted items		**408,621**	401,434
Under-recovery and write-down of VAT receivable	23	**(6,790)**	(36,421)
Write-offs and impairment losses	13	**(83,534)**	(854)
Share of profit from associates	37	**4,878**	3,551
Losses on disposal of property, plant and equipment		**(4,825)**	(8,492)
Profit before tax and finance from continuing operations		**318,350**	359,218
Finance income	14	**19,250**	2,372
Finance expense	14	**(68,472)**	(65,953)
Non-operating foreign exchange (losses)/gains	12	**(14,846)**	9,755
Profit before tax		**254,282**	305,392
Income tax expense	15	**(70,442)**	(41,608)
Profit for the year from continuing operations		**183,840**	263,784
Profit attributable to:			
Equity shareholders of Ferrexpo plc		**178,316**	261,984
Non-controlling interests		**5,524**	1,800
Profit for the year from continuing operations		**183,840**	263,784
Earnings per share:			
Basic (US cents)	16	**30.46**	44.76
Diluted (US cents)	16	**30.39**	44.69

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

US$000	Notes	**Year ended 31.12.14**	Year ended 31.12.13
Profit for the year		**183,840**	263,784
Items that may subsequently be reclassified to profit or loss:			
Exchange differences on translating foreign operations		**(1,205,667)**	(437)
Income tax effect	15	**80,394**	–
Net losses on available-for-sale investments		**–**	(138)
Income tax effect		**–**	30
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods		**(1,125,273)**	(545)
Reclassification to profit or loss relating to available-for-sale investments impaired		**(712)**	–
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement gains on defined benefit pension liability		**1,649**	498
Income tax effect		**(195)**	(58)
Net other comprehensive income not being reclassified to profit or loss in subsequent periods		**1,454**	440
Other comprehensive loss for the year, net of tax		**(1,124,531)**	(105)
Total comprehensive (loss)/income for the year, net of tax		**(940,691)**	263,679

Total comprehensive (loss)/income attributable to:			
Equity shareholders of Ferrexpo plc		**(926,422)**	261,888
Non-controlling interests		**(14,269)**	1,791
		(940,691)	263,679

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

US$000	Notes	As at 31.12.14	As at 31.12.13
Assets			
Property, plant and equipment	17	**926,433**	1,533,819
Goodwill and other intangible assets	18	**60,468**	117,086
Investments in associates	37	**8,569**	20,546
Available-for-sale financial investments	30	**46**	82,778
Inventories	20	**81,987**	58,303
Other non-current assets	19	**18,211**	34,575
Income taxes recoverable and prepaid	15	**73,782**	54,242
Other taxes recoverable and prepaid	23	**1,519**	78,281
Deferred tax assets	15	**32,358**	37,612
Total non-current assets		**1,203,373**	2,017,242
Inventories	20	**124,722**	180,863
Trade and other receivables	21	**87,226**	102,498
Prepayments and other current assets	22	**21,057**	25,073
Income taxes recoverable and prepaid	15	**–**	33,233
Other taxes recoverable and prepaid	23	**71,982**	182,863
Cash and cash equivalents	28	**626,509**	390,491
		931,496	915,021
Assets classified as held for sale		**26**	106
Total current assets		**931,522**	915,127
Total assets		**2,134,895**	2,932,369
Equity and liabilities			
Issued capital	35	**121,628**	121,628
Share premium		**185,112**	185,112
Other reserves	35	**(1,452,988)**	(347,326)
Retained earnings		**1,855,690**	1,753,200
Equity attributable to equity shareholders of Ferrexpo plc		**709,442**	1,712,614
Non-controlling interests		**8,159**	22,428
Total equity		**717,601**	1,735,042
Interest-bearing loans and borrowings	5/29	**1,056,253**	928,196
Defined benefit pension liability	25	**28,557**	53,154
Provision for site restoration	26	**2,345**	2,871
Deferred tax liabilities	15	**841**	2,031
Total non-current liabilities		**1,087,996**	986,252
Interest-bearing loans and borrowings	5/29	**248,374**	101,043
Trade and other payables	24	**32,351**	50,001
Accrued liabilities and deferred income	27	**34,191**	35,508
Income taxes payable	15	**5,898**	12,554
Other taxes payable	23	**8,484**	11,969
Total current liabilities		**329,298**	211,075
Total liabilities		**1,417,294**	1,197,327
Total equity and liabilities		**2,134,895**	2,932,369

The financial statements were approved by the Board of Directors on 10 March 2015.

Kostyantin Zhevago
Chief Executive Officer

Christopher Mawe
Chief Financial Officer

CONSOLIDATED STATEMENT OF CASH FLOWS

US$000	Notes	Year ended 31.12.14	Year ended 31.12.13
Profit before tax		**254,282**	305,392
Adjustments for:			
Depreciation of property, plant and equipment and amortisation of intangible assets		**82,269**	99,645
Interest expense	14	**64,166**	60,466
Under-recovery and write-down of VAT receivable	23	**6,790**	36,421
Interest income	14	**(19,250)**	(2,372)
Share of profit from associates	37	**(4,878)**	(3,551)
Movement in allowance for doubtful receivables	11	**8,011**	661
Loss on disposal of property, plant and equipment		**4,825**	8,492
Write-offs and impairment losses	13	**83,534**	854
Site restoration provision	26	**1,180**	503
Employee benefits	25	**6,531**	8,654
Share-based payments	31	**530**	1,266
Operating foreign exchange gains	12	**(76,372)**	(622)
Non-operating foreign exchange (losses)/gains	12	**14,846**	(9,755)
Operating cash flow before working capital changes		**426,464**	506,054
Changes in working capital:			
Decrease in trade and other receivables		**5,395**	27,485
Increase in inventories		**(96,554)**	(88,482)
Decrease in trade and other accounts payable		**(11,083)**	(29,489)
Decrease/(increase) in VAT recoverable and other taxes prepaid [1]	23	**86,950**	(12,516)
Cash generated from operating activities		**411,172**	403,052
Interest paid		**(61,307)**	(57,037)
Income tax paid	15	**(58,077)**	(108,321)
Post-employment benefits paid		**(3,340)**	(4,768)
Net cash flows from operating activities		**288,448**	232,926
Cash flows from investing activities			
Purchase of property, plant and equipment	17	**(232,809)**	(270,534)
Proceeds from sale of property, plant and equipment and intangible assets		**5,322**	910
Purchases of intangible assets	18	**(1,711)**	(7,268)
Acquisition of subsidiary/purchase of available-for-sale investment	30	**(17)**	(82,382)
Interest received		**2,376**	2,090
Dividends from associates		**2,755**	–
Net cash flows used in investing activities		**(224,084)**	(357,184)
Cash flows from financing activities			
Proceeds from borrowings and finance		**392,515**	26,279
Repayment of borrowings and finance		**(119,009)**	(19,308)
Arrangement fees paid		**(3,580)**	(10,643)
Dividends paid to equity shareholders of Ferrexpo plc		**(76,904)**	(77,882)
Dividends paid to non-controlling shareholders		**–**	(1)
Net cash flows from financing activities		**193,022**	(81,555)
Net increase/(decrease) in cash and cash equivalents		**257,386**	(205,813)
Cash and cash equivalents at the beginning of the year		**390,491**	596,560
Currency translation differences		**(21,368)**	(256)
Cash and cash equivalents at the end of the year	28	**626,509**	390,491

1 The movement in the current year includes the effect of VAT receivable balance amounting to US$97,067 thousand recovered through VAT bonds. See also Note 23.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

US$000	Issued capital (Note 35)	Share premium (Note 35)	Uniting of interest reserve (Note 35)	Treasury share reserve (Note 35)	Employee benefit trust reserve (Notes 31 and 35)	Net unrealised gains reserve (Note 35)	Translation reserve (Note 35)	Retained earnings	Total capital and reserves	Non-controlling interests (Note 36)	Total equity
		Attributable to equity shareholders of Ferrexpo plc									
At 1 January 2013	**121,628**	**185,112**	**31,780**	**(77,260)**	**(7,808)**	**820**	**(295,588)**	**1,568,077**	**1,526,761**	**20,637**	**1,547,398**
Profit for the year	–	–	–	–	–	–	–	261,984	261,984	1,800	263,784
Other comprehensive (loss)/income	–	–	–	–	–	(108)	(428)	440	(96)	(9)	(105)
Total comprehensive (loss)/income for the year	–	–	–	–	–	(108)	(428)	262,424	261,888	1,791	263,679
Equity dividends paid to shareholders of Ferrexpo plc	–	–	–	–	–	–	–	(77,301)	(77,301)	–	(77,301)
Share-based payments (Note 31)	–	–	–	–	1,266	–	–	–	1,266	–	1,266
At 31 December 2013	**121,628**	**185,112**	**31,780**	**(77,260)**	**(6,542)**	**712**	**(296,016)**	**1,753,200**	**1,712,614**	**22,428**	**1,735,042**
Profit for the year	–	–	–	–	–	–	–	178,316	178,316	5,524	183,840
Other comprehensive (loss)/income	–	–	–	–	–	(712)	(1,105,480)	1,454	(1,104,738)	(19,793)	(1,124,531)
Total comprehensive (loss)/income for the year	–	–	–	–	–	(712)	(1,105,480)	179,770	(926,422)	(14,269)	(940,691)
Equity dividends paid to shareholders of Ferrexpo plc	–	–	–	–	–	–	–	(77,280)	(77,280)	–	(77,280)
Share-based payments (Note 31)	–	–	–	–	530	–	–		530	–	530
At 31 December 2014	**121,628**	**185,112**	**31,780**	**(77,260)**	**(6,012)**	**–**	**(1,401,496)**	**1,855,690**	**709,442**	**8,159**	**717,601**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Corporate information

Ferrexpo plc (the "Company") is incorporated in the United Kingdom, which is considered to be the country of domicile, with its registered office at 2–4 King Street, London, SW1Y 6QL, UK. Ferrexpo plc and its subsidiaries (the "Group") operate two mines and a processing plant near Kremenchug in Ukraine, an interest in a port in Odessa and sales and marketing activities around the world including offices in Switzerland, Dubai, Japan, China, Singapore and Ukraine. The Group also owns logistics assets in Austria which operates a fleet of vessels operating on the Rhine and Danube waterways and an ocean going vessel which provides top off services and operates on international sea routes. The Group's operations are vertically integrated from iron ore mining through to iron ore concentrate and pellet production and subsequent logistics. The Group's mineral properties lie within the Kremenchug Magnetic Anomaly and are currently being extracted at the Gorishne-Plavninskoye and Lavrikovskoye ("GPL") and Yeristovskoye deposits.

The majority shareholder of the Group is Fevamotinico S.a.r.l. ("Fevamotinico"), a company incorporated in Luxembourg and ultimately owned by The Minco Trust, of which Kostyantin Zhevago, the Group's Chief Executive Officer, is a beneficiary. At the time this report was published, Fevamotinico held 50.3% (2013: 50.3%) of Ferrexpo plc's issued share capital.

Note 2: Basis of preparation

The consolidated financial statements of Ferrexpo plc and its subsidiaries have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

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

The detailed accounting policies are included in the disclosure notes to the specific financial statement accounts.

Basis of consolidation

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

Subsidiaries acquired are fully consolidated from the date the Group obtains effective control. Similarly, subsidiaries disposed of are deconsolidated from the date on which the Group ceases to hold effective control. A change in the ownership interest of a subsidiary without obtaining or losing control is accounted for as an equity transaction.

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

Business combinations

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

Functional and presentational currencies

Based on the economic substance of the underlying business transactions and circumstances relevant to the parent, the functional currency of the parent has been determined to be the US Dollar, with each subsidiary determining its own functional currency based on its own circumstances. The Group has chosen the US Dollar as its presentational currency. The functional currency of Ukrainian subsidiaries, which is where the Group's main operations are based, is the Ukrainian Hryvnia.

Foreign currency translation

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

For presentation of the Group's consolidated accounts, if the functional currency of a subsidiary is different to the presentational currency as at the reporting date, the assets and liabilities of this entity are translated into the presentational currency at the rate ruling at the reporting date and the income statement is translated using the average exchange rate for the period based on the officially published rates by the National Bank of Ukraine ("NBU"). The foreign exchange differences arising are taken directly to a separate component of equity. On disposal of a foreign entity the deferred cumulative amount of exchange differences recognised in equity relating to the particular foreign operation is recognised in the income statement.

Note 3: New accounting policies

The accounting policies and methods of computation adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013 except for the adoption of new amendments and improvements to IFRSs effective as of 1 January 2014, noted below:

Standards adopted affecting reported results, financial position or disclosures
IFRS 12 Disclosure of involvement with other entities
The new standard covers the disclosures that were previously required in consolidated financial statements under IAS 27 *Consolidated and separate financial statements* as well as those included in IAS 31 *Interests in joint ventures* and IAS 28 *Investments in associates*. The new standard became mandatory in the EU for financial years beginning on or after 1 January 2014. A number of additional disclosures are required by this new standard in respect of the judgement required to determine that the Group has control over these entities and the information on which entities accumulated non-controlling interests. See Note 36 for further information.

Standards and interpretations adopted with no effect on reported results, financial position or disclosures
IFRS 10 Consolidated financial statements
The new standard provides additional guidance to assist in the determination of which entities are controlled and are required to be consolidated. This standard replaces the portion of IAS 27 *Consolidated and separate financial statements* that addresses the accounting for consolidated financial statements. The new standard became mandatory in the EU for financial years beginning on or after 1 January 2014. The new standard did not have an impact on the financial position or performance of the Group.

IFRS 11 Joint arrangements
The new standard replaces IAS 31 *Interests in joint ventures* and SIC 13 *Jointly-controlled entities – non-monetary contributions by ventures*. The standard defines contractually agreed sharing of control of an arrangement and the accounting for joint operations and joint ventures. The new standard became mandatory in the EU for annual periods beginning on or after 1 January 2014. The new standard did not have an impact on the financial position or performance of the Group.

IAS 32 Financial instruments: presentation – offsetting financial assets and financial liabilities
The amendment clarifies existing application issues relating to the offset of financial assets and financial liabilities requirements. The amendment became effective for financial years beginning on or after 1 January 2014 with retrospective application. The amendment did not have an impact on the financial position or performance of the Group.

IAS 36 Impairment of assets – recoverable amount disclosures
The amendment to the standard was issued in May 2013 and became effective for financial years beginning on or after 1 January 2014. The amendment removes the requirement to disclose recoverable amounts when there has been no impairment or reversal of impairment. Further to that, the disclosure requirements have been aligned with those under US GAAP for impaired assets. The amendment did not have an impact on the financial position or performance of the Group.

IAS 39 Financial instruments: recognition and measurement – novation of derivatives and continuation hedge accounting
The amendment to the standard was issued in June 2013 and provides guidance in respect of the continuation of hedge accounting if a hedging derivative was novated. The amendment became effective for the financial years beginning on or after 1 January 2014 and did not have an impact on the financial position or performance of the Group.

New standards and interpretations not yet adopted
The Group has elected not to early adopt the following revised and amended standards, which are not yet mandatory in the EU.

The list below includes only standards and interpretations that could have an impact on the consolidated financial statements of the Group.

IFRS 9 Financial instruments
The complete standard has been issued in July 2014 including the requirements previously issued and additional amendments. The new standard replaces IAS 39 and includes a new expected loss impairment model, changes to the classification and measurement requirements of financial assets as well as to hedge accounting. The new standard becomes effective for financial years beginning on or after 1 January 2018. The Group will assess the impact on its consolidated financial statements.

IFRS 15 Revenue from contracts with customers
The new standard was issued in May 2014 and establishes the principles for the disclosure of useful information in the financial statements in respect of contracts with customers. The new standard becomes mandatory for financial years beginning on or after 1 January 2017. The effect from the additional disclosure requirements will be assessed and disclosure will be made once the Group has fully assessed the impact of applying IFRS 15.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Note 3: New accounting policies continued

IFRS 11 Joint arrangements – acquisition of interests in joint operations
The amendment was issued in May 2014 and provides guidance in respect of the accounting for acquisitions in interests of joint operations. The amendment becomes mandatory for financial years beginning on or after 1 January 2016. The Group does not expect an impact on its consolidated financial statements from this amendment.

IAS 1 Presentation of Financial Statements – disclosure initiative
The amendment was issued in December 2014 and includes a number of smaller projects aiming to improve the presentation and disclosure principles and requirements in existing standards. The amendment becomes mandatory for financial years beginning on or after 1 January 2016. The Group does not expect a significant impact on its consolidated financial statements arising from the application of this amendment.

IAS 16 Property, plant and equipment and IAS 38 Intangible assets – clarification of acceptable methods of depreciation and amortisation
The amendment to the two standards was issued in November 2013 and becomes effective for financial years beginning on or after 1 January 2016. The amendment clarifies the pattern to be applied in case of revenue-based amortisation methods for tangible and intangible assets. The Group does not apply revenue-based amortisation methods and does thus not expect an impact on its consolidated financial statements.

IAS 19 Employee benefits – defined benefit plans: employee contributions
The amendment to the standard was issued in November 2013. Whilst the IASB implementation date is for financial years beginning on or after 1 July 2014, the amendment becomes mandatory in the EU at the latest for annual periods beginning on or after 1 February 2015. The amendment provides guidance in respect of the accounting for employee contributions set out in the formal terms of a defined benefit plan. The Group does not expect a significant impact on its consolidated financial statements from this amendment.

IAS 27 Separate financial statements – equity method
The amendment to the standard was issued in August 2014 and becomes effective for financial years beginning on or after 1 January 2016. The amendment allows the use of the equity method to account for investments in subsidiaries, associates and joint ventures in an entity's separate IFRS financial statements if local regulation requires using the equity method. This amendment applies only to the separate financial statements of the parent entity and is irrelevant for the consolidated financial statements of the Group.

IFRIC 21 Levies
The new interpretation clarifies when to recognise a liability for a levy imposed by governments (including government agencies and similar bodies) in accordance with laws and regulations. The IASB implementation date is for periods beginning on or after 1 January 2014 whereas the interpretation becomes mandatory in the EU at the latest for annual periods beginning on or after 17 June 2014. Income taxes in accordance with IAS 12, fines and other penalties and liabilities arising from trading schemes are not covered by this interpretation. The Group does not expect a significant impact on its consolidated financial statements from this new interpretation.

Note 4: Use of estimates and critical judgements

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates are based on information available as at the date of authorising the consolidated financial statements for issue. Actual results, therefore, could differ from those estimates. In particular, information about significant areas of estimation, uncertainty and critical judgements made by management in preparing the consolidated financial information are described in the following notes:

Estimates

Fair value of financial instruments

Where the fair value of financial assets and liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including discounted cash flow models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are required in establishing fair values. These estimates include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. During the financial year 2014, an impairment of an available-for-sale investment in the amount of US$82,382 thousand has been recorded based on a discounted cash flow model applied by the Group taking into account uncertainties in respect of the current operational activity and the future development of the mining operation. Further details are provided in Note 30.

Defined benefit pension liability

The valuation for defined benefit superannuation schemes requires management to make judgements as to the nature of benefits provided by each scheme and thereby determine the classification of each scheme. For defined benefit schemes, management is required to make annual estimates and assumptions about future returns on classes of scheme assets, future remuneration changes, employee attrition rates, administration costs, changes in benefits, inflation rates, exchange rates, life expectancy and expected remaining

Note 4: Use of estimates and critical judgements continued

periods of service of employees. In making these estimates and assumptions, management considers advice provided by external advisers, such as actuaries. At 31 December 2014, the carrying amount of defined benefit pension liability was US$28,557 thousand (2013: US$53,154 thousand). Detailed disclosure is made in Note 25.

Provision for site restoration

The Group's accounting policy for the recognition of site restoration provisions requires significant estimates and assumptions such as requirements of the relevant legal and regulatory framework, the magnitude of possible contamination, and the timing, extent and estimated future costs of required closure and rehabilitation activity. These uncertainties may result in future actual expenditure differing from the amounts currently provided. At 31 December 2014, the carrying amount of the provision for site restoration amounted to US$2,345 thousand (2013: US$2,871 thousand). See also Note 26 for further information.

Judgements

Impairment testing

Assessing the Group's non-current operating assets for impairment requires a signficiant amount of judgement. The determination of fair value and value-in-use requires management to make estimates and assumptions about expected production and sales volumes, commodity prices (considering current and historical prices, price trends and related factors), reserves, operating costs, closure and rehabilitation costs and future capital expenditure. These estimates and assumptions are subject to risk and uncertainty; hence there is a possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances, some or all of the carrying value of the assets may be impaired and the impairment would be charged against the income statement. The total of property, plant and equipment amounted to US$926,433 thousand as of 31 December 2014 (2013: US$1,533,819 thousand). See also Note 17 for further information.

As outlined in Note 18 the impairment testing of goodwill is based on significant judgements and assumptions made by management when performing the annual impairment testing of these non-current assets. Changes to be made to these assumptions may alter the results of the impairment testing, the impairment charges recorded in the income statement and the resulting carrying values of the non-current assets tested. The carrying amount of the goodwill amounted to US$50,009 thousand as of 31 December 2014 (2013: US$98,415 thousand). Related disclosures are also made in Note 18.

Capitalised stripping costs

Overburden and other mine waste materials have to be removed prior to the production of the mine in order to gain access to the iron ore body. These activities are referred to as pre-production stripping costs and are capitalised under assets under construction. The pre-production stripping costs are capitalised based on calculations which require the use of judgement and estimates in terms of estimated tonnage of overburden and waste material to be removed during the lifetime of the mine and the expected recoverable reserves that can be extracted. The change of the mine plan (life and design) in the future may result in changes to the expected stripping ratio (waste to mineral reserves ratio) and require adjustment of the capitalised pre-production stripping costs. Production stripping costs are capitalised when the stripping activities in the production phase of a mine result in improved access to components of the ore body.

An important area of judgement is the distinction between the pre-production and production phase of a mine together with the identification of the components of the ore body and the allocation of the production stripping costs to the components of the ore body or the inventory produced. At 31 December 2014, the carrying amount of capitalised pre-production stripping costs included in assets under construction amounted to US$85,698 thousand (2013: US$77,380 thousand). No production stripping costs are capitalised as at this date (2013: nil). See also Note 17 for further information.

Lean and weathered ore

Iron ore of various grades is currently being extracted at the Group's two operating mines Gorishne-Plavninskoye and Lavrikovskoye ("GPL ") and Yeristovskoye. The Group has one processing plant at FPM. In order to maximise the operational efficiency and output of the processing facility, management determines the optimal mix and grade of ore to be delivered to the processing facility from each mine. During the financial years 2013 and 2014, the dominant grade of ore used for processing was of higher grade and ore of lower iron content or more difficult to process was stockpiled to be processed in subsequent periods. As at 31 December 2014, the Group had stock of lean and weathered ore extracted by FPM and FYM totalling US$81,987 thousand (2013: US$58,303 thousand). It is the Group's intention to process the stockpiled lean and weathered ore. Based on the Group's current processing plans it is not expected that the volume of lean and weathered ore stockpiled will be processed within the next year. As a consequence, the entire balance is classified as non-current in the Group's consolidated statement of financial position for the financial year ended 31 December 2014.

As at 31 December 2014, the lean and weathered ore is valued at cost and the calculated net realisable value for both is above the expected cost if converted into pellets or concentrate. As a result of the continued devaluation of the UAH, the carrying value of the extracted and stockpiled ore is expected to fall further. A potential trigger for any future impairment would be any change to the Group's plans in respect of the construction of a processing plant at FYM or the completion of the capacity upgrade programme at FPM.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Note 4: Use of estimates and critical judgements continued

Taxes recoverable

The Group has limited domestic sales within Ukraine and exports the majority of its products so that VAT paid on purchases of goods and capital equipment cannot be fully offset from VAT on domestic sales. Consequently, the Group relies on timely refunds to be made by the Ukrainian government tax authority. As at 31 December 2014, US$12,905 thousand (2013: US$148,155 thousand) were overdue and US$3,578 thousand (2013: US$101,977 thousand) in the process of being considered by the Ukrainian court system in several different cases. The management is of the opinion that these balances will be recovered during the next twelve months in full; either in cash or through further VAT bonds, which would trade at a discount. During the financial year 2014, the Group received VAT bonds totalling US$135,573 thousand (translated at the date of issuance) and sold them later in the year with an average discount of 21.8% in local currency. A provision of US$1,710 thousand has been recorded as at 31 December 2014 (2013: US$60,116 thousand), which reflects management's best estimate of the discount on balances expected to be recovered through VAT bonds. The exact timing of the issuance of VAT bonds and refunds in cash is subject to uncertainties in respect of the prevailing exchange rate at this time. This uncertainty may impact the effective cash flows in US Dollars and is outside of management's control. The significant devaluation of the Ukrainian Hryvnia resulted in a translation adjustment on the gross VAT balance of US$126,414 thousand (including effect on VAT bonds) during the financial year 2014. Additional disclosures are made in Note 23.

During the financial years 2013 and 2014, current VAT was refunded only against corporate profit tax prepayments. As a result of such prepayments made, the balance of prepaid corporate profit tax increased from US$24,869 thousand to US$73,764 during the last two financial years. The management is of the view that the prepaid corporate profit tax will be recovered in future periods either through offset with future profits or an issuance of bonds by the Ministry of Finance as happened during the financial year 2014 for overdue VAT receivable balances. However, the recovery through offset with future profits depends on pellet prices in the global market, the future agreement with the Ukrainian government tax authorities, the local tax law and the development of foreign exchange rates which are outside of management's control. During the financial year 2014, the balance of prepaid corporate profit tax was subject to a translation adjustment of US$58,129 thousand due to the significant devaluation of the Ukrainian Hryvnia. See also Note 15 for further details.

Deferred income tax

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

Assumptions about the generation of expected future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, commodity prices, reserves, operating costs, closure and rehabilitation costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of recognised deferred tax balances in the consolidated financial statement of the Group and the amounts of other tax losses and temporary differences not yet recognised. In such circumstances, some, or all, of the carrying amount of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the income statement. At 31 December 2014, the Group's consolidated financial statements showed deferred tax assets of US$32,358 thousand (2013: US$37,612 thousand) and deferred tax liabilities of US$841 thousand (2013: US$2,031 thousand). See also Note 15 for further information.

Net investments in foreign operations

Throughout the Group there are various intercompany balances between subsidiaries, including loans that are used to finance mainly capital expenditure projects as well as working capital requirements. The vast majority of these loans are denominated in US Dollars and are translated into the respective local functional currencies in the subsidiaries' local accounts. Loans for which settlement is neither planned nor likely to occur in the foreseeable future are, in substance, a part of the Group's net investment in that foreign operation and translation differences on these loans are recognised in other comprehensive income (translation reserve) and only reclassified from the translation reserve to profit or loss on disposal of the respective net investment. It is the Group management's view that the total balance of the loans granted by the Group to its Ukrainian subsidiaries qualify as net investments in its foreign operations and the translation losses totalling US$1,205,667 thousand for the financial year 2014 (2013: US$437 thousand) are consequently recognised in other comprehensive income. The significant translation losses are a result of the devaluation of the Ukrainian Hryvnia compared to the US Dollar. During the financial year 2014, the Ukrainian Hryvnia has devalued by approximately 97% compared to the US Dollar; from 7.993 as at 31 December 2013 to 15.769 as at the end of this reporting period.

Note 5: Segment information

The Group is managed as a single entity which produces, develops and markets its principal product, iron ore pellets, for sale to the metallurgical industry. While the revenue generated by the Group is monitored at a more detailed level, there are no separate measures of profit reported to the Group's Chief Operating Decision-Maker ("CODM"). In accordance with IFRS 8 *Operating segments*, the Group presents its results in a single segment which are disclosed in the income statement for the Group.

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

EBITDA

The Group presents EBITDA because it believes that EBITDA is a useful measure for evaluating its ability to generate cash and its operating performance. The Group's full definition of EBITDA is disclosed in the Glossary on page 143.

US$000	Notes	**Year ended 31.12.14**	Year ended 31.12.13
Profit before tax and finance		**318,350**	359,218
Under-recovery and write-down of VAT receivable	23	**6,790**	36,421
Write-offs and impairment losses	13	**83,534**	854
Share-based payments	31	**530**	1,266
Losses on disposal of property, plant and equipment		**4,825**	8,492
Depreciation and amortisation		**82,269**	99,645
EBITDA		**496,298**	505,896

"C1" costs

"C1" costs represents the cash costs of production of iron pellets from own ore divided by production volume of own ore, and excludes non-cash costs such as depreciation, pension costs and inventory movements, costs of purchased ore and concentrate, and production cost of gravel.

US$000	**Year ended 31.12.14**	Year ended 31.12.13
Cost of sales – pellet production	**586,653**	726,960
Depreciation and amortisation	**(64,137)**	(78,690)
Purchased concentrate and other items for resale	**(27,110)**	(34,805)
Inventory movements	**10,127**	25,476
Other non-C1 cost components	**(15,546)**	(13,213)
C1 cost	**489,987**	625,728
Own ore produced (tonnes)	**10,670,445**	10,465,606
C1 cash cost per tonne (US$)	**45.9**	59.8

Net financial indebtedness

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

US$000	Notes	**As at 31.12.14**	As at 31.12.13
Cash and cash equivalents	28	**626,509**	390,491
Current borrowings	29	**(248,374)**	(101,043)
Non-current borrowings	29	**(1,056,253)**	(928,196)
Net financial indebtedness		**(678,118)**	(638,748)

Disclosure of revenue and non-current assets

The Group does not generate significant revenues from external customers attributable to the United Kingdom, the Company's country of domicile. The information on the revenues from external customers attributed to the individual foreign countries is given in Note 6.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Note 6: Revenue

Accounting policy

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 are to be met before revenue is recognised:

Sale of goods including pellet sales

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

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

- CIF (Cost Insurance and Freight);
- CFR (Cost and Freight);
- DAP (Delivery At Place); or
- FOB (Free on Board).

Under the CFR and FOB terms the title passes on the bill of lading date whereas under the other terms revenue is recognised when goods arrive at agreed destination or at border crossing. If the sales agreement allows for adjustment of the sales prices based on survey of the goods by the customer (e.g. ore content) the revenue is recognised based on the most recent determined product specification.

Logistic services

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

Other sales and services provided include predominantly the revenue generated from the sale of other materials, such as gravel, and repair and maintenance works provided to third parties. The revenues are recognised when the title passes for material sold or services provided are completed.

Revenue for the year ended 31 December 2014 consisted of the following:

US$000	**Year ended 31.12.14**	Year ended 31.12.13
Revenue from sales of iron ore pellets and concentrate:		
Export	**1,290,695**	1,494,899
Total revenue from sale of iron ore pellets and concentrate	**1,290,695**	1,494,899
Revenue from logistics and bunker business	**90,661**	76,321
Revenue from other sales and services provided	**6,929**	10,165
Total revenue	**1,388,285**	1,581,385

Export sales of iron ore pellets and concentrate by geographical destination showing separately countries that individually represented more than 10% of export sales in either current or prior year were as follows:

US$000	**Year ended 31.12.14**	Year ended 31.12.13
Traditional Market	**594,045**	663,951
Thereof Austria	***318,707***	*381,675*
Thereof Slovakia	***132,958***	*127,029*
Thereof Others	***142,380***	*155,247*
Growth market	**493,964**	565,900
Thereof China	***327,579***	*435,471*
Thereof Japan	***166,385***	*130,429*
Natural Market	**202,686**	265,048
Thereof Turkey	***99,192***	*184,234*
Thereof Others	***103,494***	*80,814*
Total exports	**1,290,695**	1,494,899

Note 6: Revenue continued

During the year ended 31 December 2014 sales made to three customers accounted for 45.2% of the revenues from export sales of ore pellets (2013: 47.2%).

Sales to customers that individually represented more than 10% of total sales in either current or prior year are as follows:

US$000	**Year ended 31.12.14**	Year ended 31.12.13
Customer A	**318,707**	381,675
Customer B	**132,958**	127,029
Customer C	**131,613**	139,774
Customer D	**61,908**	184,234

Note 7: Cost of sales

Cost of sales for the year ended 31 December 2014 consisted of the following:

US$000	**Year ended 31.12.14**	Year ended 31.12.13
Energy	**262,936**	315,530
Personnel	**50,851**	66,194
Materials	**85,043**	107,530
Repairs and maintenance	**59,780**	88,220
Depreciation and amortisation	**64,137**	78,690
Royalties and levies	**22,801**	23,162
Purchased concentrate and other items for resale	**27,110**	34,805
Inventory movements	**(10,127)**	(25,476)
Logistics and bunker business	**61,307**	46,262
Other	**24,122**	38,304
Total cost of sales	**647,960**	773,221
Thereof for pellet production	***586,653***	*726,960*
Thereof for logistics and bunker business	***61,307***	*46,261*

Note 8: Selling and distribution expenses

Selling and distribution expenses for the year ended 31 December 2014 consisted of the following:

US$000	**Year ended 31.12.14**	Year ended 31.12.13
Pellet transportation	**249,528**	266,730
Personnel	**4,833**	5,130
Logistics business	**26,596**	32,991
Advertising	**12,070**	12,192
Depreciation	**14,010**	14,135
Other	**4,477**	4,540
Total selling and distribution expenses	**311,514**	335,718

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Note 9: General and administrative expenses

General and administrative expenses for the year ended 31 December 2014 consisted of the following:

US$000	Year ended 31.12.14	Year ended 31.12.13
Personnel	**28,406**	31,972
Office, maintenance and security	**6,780**	6,962
Professional fees	**6,990**	6,715
Audit and non-audt fees	**2,011**	2,506
Depreciation and amortisation	**2,084**	4,022
Other	**2,371**	2,662
Total general and administrative expenses	**48,642**	54,839

Auditor remuneration

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

US$000	Year ended 31.12.14	Year ended 31.12.13
Audit services		
Ferrexpo plc Annual Report	**1,292**	1,252
Subsidiary entities	**301**	354
Total audit services	**1,593**	1,606
Non-audit services		
Assurance related services	**47**	708
Tax advisory	**4**	125
Tax compliance	**4**	–
Other services	**363**	67
Total non-audit services	**418**	900
Total auditor remuneration	**2,011**	2,506

Non-audit services totalling US$247 thousand in relation to assurance services provided for liability management activities of the Group has been capitalised as prepaid arrangement fees and are not included in the table above.

Assurance related services in the comparative period include fees paid for services provided in relation to raising of new debt for the Group.

Note 10: Other income

Accounting policy

Other income mainly includes lease income generated from the lease of rail wagons, mining equipment and premises and the proceeds from the sale of spare parts, scrap metal and fuel and compensations received from insurance companies. Lease income is recognised based on the underlying contractual basis over the term of the lease. Other income from the sale of consumable materials are recognised as revenue when the title passes.

Other income for the year ended 31 December 2014 consisted of the following:

US$000	Year ended 31.12.14	Year ended 31.12.13
Lease income	**737**	942
Other income	**8,357**	5,720
Total other income	**9,094**	6,662

Note 11: Other expenses

Other expenses for the year ended 31 December 2014 consisted of the following:

US$000	Year ended 31.12.14	Year ended 31.12.13
Community support donations	**39,077**	10,116
Movements in allowance for doubtful receivables and prepayments made	**8,011**	661
Other personnel costs	**1,601**	2,469
Other	**8,325**	10,211
Total other expenses	**57,014**	23,457

Information on the Group's community support donations is provided in the CSR paragraph in the Performance Review on page 24 and the Corporate Social Responsibility section on page 32.

The vast majority of the movements in allowance for doubtful receivables and prepayments is related to an allowance recorded for prepayments made for 300 rail cars ordered, but not yet fully delivered due to the ongoing conflict in the eastern part of Ukraine. See also Note 38.

Note 12: Foreign exchange gains and losses

Accounting policy

Foreign exchange gains and losses are reported on a net basis. Operating foreign exchange gains and losses are those resulting directly from the Group's operating activities. Non-operating gains and losses are predominantly those associated with the Group's financing and treasury activities including the translation of interest-bearing loans and borrowings denominated in currencies different to the respective functional currencies and transactional gains and losses from the conversion of cash balances in currencies different to the local functional currencies at exchange rates different to those at the initial recognition date.

Foreign exchange gains and losses for the year ended 31 December 2014 consisted of the following:

US$000	Year ended 31.12.14	Year ended 31.12.13
Operating foreign exchange gains		
Revaluation of trade receivables	**78,827**	1
Revaluation of trade payables	**(2,265)**	30
Other	**(190)**	591
Total operating foreign exchange gains	**76,372**	622
Non-operating foreign exchange (losses)/gains		
Revaluation of interest-bearing loans	**(76,517)**	2,892
Conversion of cash and cash equivalents	**81,192**	7,329
Other	**(19,521)**	(466)
Total non-operating foreign exchange (losses)/gains	**(14,846)**	9,755
Total foreign exchange gains	**61,526**	10,377

During the financial year 2014, the Ukrainian Hryvnia has devalued by approximately 97% compared to the US Dollar; from 7.993 as at 31 December 2013 to 15.769 as at the end of this reporting period. This has had a significant impact on the carrying values of property plant and equipment (Note 17), income taxes recoverable and prepaid (Note 15) and other taxes recoverable and payable (Note 23).

Note 13: Write-offs and impairment losses

Accounting policy

The Group assesses at each reporting date whether there are indications that assets may be impaired or previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, or when annual impairment testing for an asset is required, the Group estimates the assets' recoverable amounts. If the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount which is the higher of its fair value less costs of disposal and its value in use. Impairment losses of continuing operations are recognised in the income statement. Further information on the annual impairment testing of goodwill is provided in Note 18.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Note 13: Write-offs and impairment losses continued

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. In this the case, the carrying amount of the asset is increased to its recoverable amount, but not exceeding 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 and the basis for future depreciation is adjusted accordingly. Impairment losses in respect of goodwill are not reversed.

Write-offs and impairment losses for the year ended 31 December 2014 consisted of the following:

US$000	Notes	Year ended 31.12.14	Year ended 31.12.13
Write-off of VAT receivables	23	**1,351**	–
Write-off of inventories	20	**48**	528
Write-off of property, plant and equipment	17	**47**	326
Impairment of available-for-sale investments, net of amounts reclassified from other comprehensive income	30	**(294)**	–
Impairment of available-for-sale investments	30	**82,382**	–
Total write-offs and impairment losses		**83,534**	854

Further information on the impairment of available-for-sale investments are provided in Note 30.

Note 14: Finance income and expense

Accounting policy

Finance income comprises interest income on funds invested and the effect of unwinding discounts recorded in previous periods. Interest income is recognised as it accrues using the effective interest method.

Finance expense is expensed as incurred and includes the interest on loans and borrowings and defined benefit plans. Finance expense also include bank charges, such as arrangement fees, charged in relation to the Group's major debt facilities. Finance expense also comprises the effect from discounting receivable balances (including overdue VAT balances) expected to be received more than 12 months after the period end.

Borrowing costs incurred in respect of the financing of construction or production of a qualifying asset are capitalised up to the date when the asset is ready for its intended use. See also Note 17 for further details.

Finance income and expense for the year ended 31 December 2014 consisted of the following:

US$000	Year ended 31.12.14	Year ended 31.12.13
Finance income		
Interest income	**2,299**	2,062
Other finance income	**16,951**	310
Total finance income	**19,250**	2,372
Finance expense		
Interest expense on financial liabilities measured at amortised cost	**(58,371)**	(53,340)
Effect from capitalised borrowing costs	**8,748**	8,966
Interest on defined benefit plans	**(4,306)**	(5,487)
Bank charges	**(13,490)**	(10,976)
Other finance costs	**(1,053)**	(5,116)
Total finance expense	**(68,472)**	(65,953)
Net finance expense	**(49,222)**	(63,581)

Other finance income includes a US$16,497 thousand release of a discount recorded in the prior years to reflect changes in the estimated timing of receipts for VAT in dispute that was previously expected to be recovered over a protracted period of time. Further information is provided in Note 23. This discount was built up in prior periods and recorded as a finance cost (2013: US$3,695 thousand). No such effect is included in the finance expense for the financial year ended 31 December 2014.

Note 15: Taxation

Accounting policy

Current income tax

Current income taxes are computed based on enacted or substantially enacted local tax rates and laws at the reporting date and the expected taxable incomes of the subsidiaries for the respective period.

Current income taxes are recognised as an expense or income in the consolidated income statement unless related to items recognised in the consolidated statement of comprehensive income or directly in equity or if related to the initial accounting for a business combination.

Deferred income tax

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

Deferred tax liabilities are generally recognised for taxable temporary differences, if it is probable that they become taxable. Deferred income tax assets are generally recognised for 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.

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

No deferred assets or liabilities are recognised if the temporary differences arise from the initial recognition of assets and liabilities in a transaction, other than in a business combination, which affects neither the accounting profit nor taxable profit or loss.

Deferred tax liabilities are recognised in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets in relation to temporary differences on such investments and interests are recognised to the extent that is probable that are sufficient taxable profits available against which the benefits of the temporary differences can be utilised and they are expected to reverse in foreseeable future.

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

Income tax effects on items directly recognised in other comprehensive income or equity are also recognised in other comprehensive income or equity.

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.

The income tax expense for the year ended 31 December 2014 consisted of the following:

US$000	**Year ended 31.12.14**	Year ended 31.12.13
Current income tax		
Current income tax charge	**87,556**	45,878
Amounts related to previous years	**(142)**	684
Total current income tax	**87,414**	46,562
Deferred income tax		
Origination and reversal of temporary differences	**(13,694)**	(7,266)
Effect from changes in tax laws and rates	**(3,278)**	2,312
Total deferred income tax	**(16,972)**	(4,954)
Total income tax expense	**70,442**	41,608

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Note 15: Taxation continued

Other comprehensive income contained taxes on the following items charged or credited to it for the year ended 31 December 2014:

US$000	Year ended 31.12.14	Year ended 31.12.13
Tax effect of exchange differences arising on translating foreign operations	**80,394**	–
Tax effect of net losses on available-for-sale investments	**–**	30
Tax effect of remeasurement gains on defined pension liability	**(195)**	(58)
Total income taxes charged to other comprehensive income	**80,199**	(28)

The effective income tax rate differs from the statutory corporate income tax rates. The weighted average statutory rate was 13.6% for 2014 (2013: 8.3%). This is calculated as the average of the statutory tax rates applicable in the countries in which the Group operates, weighted by the profits and losses before tax of the subsidiaries in the respective countries, as included in the consolidated financial information. The effective tax rate is 27.7% (2013: 13.6%). The increase is a result of the change in the profit mix between the different local jurisdictions and the level of non-deductible expenses for tax purposes according to the enacted local tax legislations. The non-deductible expenses include the impairment in an equity investment (see Note 30), community support donations (see Note 11) as well as the discount on VAT bonds sold prior to its maturities (see Note 23).

A reconciliation between the income tax charged in the accompanying financial information and income before taxes multiplied by the weighted average statutory tax rate for the year ended 31 December 2014 is as follows:

US$000	Year ended 31.12.14	Year ended 31.12.13
Profit before tax	**254,282**	305,392
Notional tax computed at the weighted average statutory tax rate of 13.6% (2013: 8.3%)	**34,654**	25,329
Derecognition of deferred tax asset	**–**	101
Reassessment of prior year temporary differences	**1,489**	–
Effect from changes in local tax rates	**(3,278)**	2,312
Effect from utilisation of non-recognised deferred tax assets	**–**	94
Expenses not deductible for tax purposes	**37,436**	8,485
Tax exempted income	**(856)**	(1,396)
Non-recognition of deferred taxes on current year losses	**2,366**	4,084
Tax related to prior years	**(142)**	2,011
Other (including translation differences)	**(1,227)**	588
Total income tax expense	**70,442**	41,608

The net balance of income tax receivable changed as follows during the financial year 2014:

US$000	Year ended 31.12.14	Year ended 31.12.13
Opening balance	**74,921**	11,197
Income statement charge	**(87,414)**	(46,562)
Charge through other comprehensive income	**80,394**	–
Tax paid	**58,077**	108,321
Reclassification	**–**	1,876
Translation difference	**(58,094)**	89
Closing balance	**67,884**	74,921

During the financial year 2014, the Ukrainian Hryvnia has devalued by approximately 97% compared to the US Dollar; from 7.993 as at 31 December 2013 to 15.769 as at the end of this reporting period.

Note 15: Taxation continued

Split by:

US$000	As at 31.12.14	As at 31.12.13
Income tax receivable balance – current	–	33,233
Income tax receivable balance – non-current	**73,782**	54,242
Income tax payable balance	**(5,898)**	(12,554)
Net income tax receivable	**67,884**	74,921

During the financial years 2013 and 2014, current VAT receivable balances in Ukraine were mainly recovered in exchange for prepayments of corporate profit tax. As at 31 December 2014, these prepayments totalled US$73,764 thousand (2013: US$87,475 thousand) and it is management's view that this balance will be either offset with future profits or recovered through an issuance of bonds by the Ministry of Finance as happened during the financial year 2014 for overdue VAT receivable balances (see Note 23). As at the date of the preparation of these financial statements, there is an uncertainty as to the timing of the recovery of this balance. In light of this uncertainty, it was considered most appropriate to classify the entire balance as non-current in the consolidated statement of financial position.

Deferred income tax assets and liabilities at 31 December 2014 relate to the following:

	Consolidated statement of financial position		Consolidated income statement	
US$000	As at 31.12.14	As at 31.12.13	Year ended 31.12.14	Year ended 31.12.13
Trade and other receivables	**93**	51	**68**	(445)
Inventories	**1,630**	1,311	**974**	1,082
Accrued income and prepaid expenses	**–**	–	**–**	(12)
Property, plant and equipment	**18,466**	26,993	**5,920**	3,881
Intangible assets	**89**	187	**(6)**	134
IPO costs netted against share premium	**–**	–	**–**	(33)
Tax losses recognised	**1,717**	1,291	**657**	231
Other financial assets	**150**	174	**(4)**	118
Trade and other payables	**23**	26	**10**	25
Accrued expenses	**7,055**	1,658	**7,764**	74
Defined benefit pension liability	**4,930**	8,451	**592**	595
Provision for site restoration	**303**	372	**116**	19
Other financial liabilities	**122**	–	**124**	(9)
Other items	**–**	–	**–**	(2)
Total deferred tax assets/change	**34,578**	40,514	**16,215**	5,658
Thereof netted against deferred tax liabilities	**(2,220)**	(2,902)		
Total deferred tax assets as per the statement of financial position	**32,358**	37,612		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Note 15: Taxation continued

	Consolidated statement of financial position		Consolidated income statement	
US$000	**As at 31.12.14**	As at 31.12.13	**Year ended 31.12.14**	Year ended 31.12.13
Trade and other receivables	**(639)**	(703)	**65**	55
Inventories	**(219)**	(264)	**(87)**	4
Accrued income and prepaid expenses	**(354)**	(745)	**27**	(587)
Property, plant and equipment	**(1,324)**	(2,069)	**602**	(391)
Other non-current assets	**–**	(866)	**408**	(251)
Other financial assets	**(525)**	(171)	**(357)**	14
Trade and other payables	**–**	(93)	**84**	428
Accrued expenses	**–**	(10)	**9**	(10)
Lease obligations	**–**	(12)	**6**	(11)
Defined benefit pension liability	**–**	–	**–**	12
Total deferred tax liabilities/change	**(3,061)**	(4,933)	**757**	(737)
Thereof netted against deferred tax assets	**2,220**	2,902		
Total deferred tax liabilities as per the statement of financial position	**(841)**	(2,031)		
Net deferred tax assets/net change	**31,517**	35,581	**16,972**	4,921

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

US$000	**Year ended 31.12.14**	Year ended 31.12.13
Opening balance	**35,581**	30,639
Income statement credit	**16,972**	4,954
Charges booked outside of the income statement	**(109)**	(28)
Translation differences	**(20,927)**	16
Closing balance	**31,517**	35,581

During the finanancial year 2014, the Ukrainian Hryvnia has devalued compared to the US Dollar from 7.993 as of 31 December 2013 to 15.769 as of 31 December 2014 reducing the balance of deferred tax assets and liabilites by US$20,927 thousand. This effect is reflected in the translation reserve included in shareholder's equity. See also Note 35.

As at 31 December 2014, the Group had deductible temporary differences on available tax loss carry forwards in the amount of US$222,884 thousand (2013: US$100,226 thousand) for which no deferred tax assets were recognised.

Temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised amount to US$311,648 thousand (2013: US$826,470 thousand).

Note 16: Earnings per share and dividends paid and proposed

Accounting policy

Basic number of Ordinary Shares outstanding

The basic number of Ordinary Shares is calculated by reducing the total number of Ordinary Shares in issue by the weighted average of shares held in treasury and employee benefit trust reserve. The number of Ordinary Shares in issue excludes the shares held by the Employee Benefit Trust and the treasury shares held by the Group. The basic earnings per share ("EPS") are calculated by dividing the net profit for the year attributable to ordinary equity shareholders of Ferrexpo plc by the weighted average number of Ordinary Shares.

Dilutive potential Ordinary Shares

The dilutive potential Ordinary Shares outstanding are calculated by adjusting the weighted average number of Ordinary Shares in issue on the assumption of conversion of all potentially dilutive Ordinary Shares. All share awards are potentially dilutive and are considered in the calculation of diluted earnings per share.

	Year ended 31.12.14	Year ended 31.12.13
Profit for the year attributable to equity shareholders		
Basic earnings per share (US cents)	**30.46**	44.76
Diluted earnings per share (US cents)	**30.39**	44.69

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

Thousand	**Year ended 31.12.14**	Year ended 31.12.13
Weighted average number of shares		
Basic number of Ordinary Shares outstanding	**585,413**	585,294
Effect of dilutive potential Ordinary Shares	**1,258**	926
Diluted number of Ordinary Shares outstanding	**586,671**	586,220

Dividends paid and proposed

US$000	**Year ended 31.12.14**
Dividends proposed	
Final dividend for 2014: 3.3 US cents per Ordinary Share	**19,320**
Special dividend for 2014: 6.6 US cents per Ordinary Share	**38,640**
Total dividends proposed	**57,960**
Dividends paid during the year	
Interim dividend for 2014: 3.3 US cents per Ordinary Share	**19,011**
Final dividend for 2013: 3.3 US cents per Ordinary Share	**19,279**
Special dividend for 2013: 6.6 US cents per Ordinary Share	**38,614**
Total dividends paid	**76,904**

US$000	Year ended 31.12.13
Dividends proposed	
Final dividend for 2013: 3.3 US cents per Ordinary Share	19,317
Special dividend for 2013: 6.6 US cents per Ordinary Share	38,633
Total dividends proposed	57,950
Dividends paid during the year	
Interim dividend for 2013: 3.3 US cents per Ordinary Share	19,692
Final dividend for 2012: 3.3 US cents per Ordinary Share	19,441
Special dividend for 2012: 6.6 US cents per Ordinary Share	38,749
Total dividends paid	77,882

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Note 17: Property, plant and equipment

Accounting policy

Property, plant and equipment

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

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

Upon recognition, items of property, plant and equipment are divided into components, which represent items with a significant value that have different useful lives. Assets included in property, plant and equipment are depreciated over its estimated useful life taking into account its own physical life limitations and the present assessment of economically recoverable reserves of the mine property at which the asset is located. The remaining useful lives for major assets are reassessed on a regular basis. Changes in estimates, which affect the unit of production calculations, are accounted for prospectively.

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

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

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

Assets in the course of construction are initially recognised in assets under construction. Assets under construction are not depreciated. On completion of the asset and when available for use, the cost of construction is transferred to the appropriate asset category in property, plant and equipment and depreciation commences.

Freehold land is not depreciated.

Stripping costs included in mining assets and assets under construction

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

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

The production stripping costs are generally charged to the income statement as variable production costs. The production stripping costs are only capitalised if a stripping activity results in improved access to a component ore body and the duration of the future benefits is ascertained without a high degree of judgement. If capitalised, the production stripping costs are included in mining assets and depreciated using the same methodology as for the capitalised pre-production stripping costs.

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

Exploration and evaluation assets

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

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

Note 17: Property, plant and equipment continued

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

Upon reaching the development stage, exploration and evaluation assets are either transferred to assets under construction or other intangible assets, if those costs were associated with the acquisition of licences.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale (qualifying asset) are capitalised as part of the cost of the respective asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that incurred in connection with the borrowing of the funds. In the case of general borrowings used to fund the acquisition or construction of a qualifying asset, the borrowing costs to be capitalised are calculated based on a weighted average interest rate applicable to the relevant general borrowings of the Group during a specific period.

See also Note 13 in respect of write-offs and impairments.

As at 31 December 2014 property, plant and equipment comprised:

US$000	Exploration and evaluation	Land	Mining assets	Buildings	Vessels	Plant and equipment	Vehicles	Fixtures and fittings	Assets under construction	Total
Cost:										
At 1 January 2013	**3,078**	**9,687**	**345,438**	**228,398**	**110,613**	**346,947**	**374,627**	**6,933**	**196,969**	**1,622,690**
Additions	127	17	–	1,492	–	249	4	100	317,331	319,320
Transfers	–	193	26,637	42,942	2,537	83,398	29,362	1,573	(186,642)	–
Disposals	–	–	(177)	(4,526)	(342)	(14,019)	(6,853)	(181)	(6,684)	(32,782)
Translation differences	–	142	–	8	3,245	12	2	11	28	3,448
At 31 December 2013	**3,205**	**10,039**	**371,898**	**268,314**	**116,053**	**416,587**	**397,142**	**8,436**	**321,002**	**1,912,676**
Additions	749	1,059	–	2,332	664	684	1,303	120	255,341	262,252
Transfers	–	539	299	73,214	2,624	78,423	12,632	2,800	(170,531)	–
Disposals	–	(3,330)	(263)	(1,936)	(1,673)	(16,753)	(3,663)	(178)	(2,887)	(30,683)
Translation differences	(1,707)	(3,728)	(183,408)	(146,169)	(10,501)	(219,873)	(198,957)	(4,121)	(183,915)	(952,379)
At 31 December 2014	**2,247**	**4,579**	**188,526**	**195,755**	**107,167**	**259,068**	**208,457**	**7,057**	**219,010**	**1,191,866**
Depreciation:										
At 1 January 2013	**–**	**–**	**6,984**	**47,235**	**8,903**	**139,321**	**68,552**	**4,026**	**106**	**275,127**
Depreciation charge	–	–	26,935	16,372	7,359	34,242	30,561	1,208	–	116,677
Disposals	–	–	–	(1,361)	–	(8,227)	(3,927)	(152)	–	(13,667)
Transfers	–	–	–	–	–	15	–	(15)	–	–
Impairment	–	–	–	(195)	–	416	52	(3)	56	326
Translation differences	–	–	–	16	365	7	1	5	–	394
At 31 December 2013	**–**	**–**	**33,919**	**62,067**	**16,627**	**165,774**	**95,239**	**5,069**	**162**	**378,857**
Depreciation charge	–	–	25,116	12,963	8,213	26,652	23,610	1,347	–	97,901
Disposals	–	–	–	(706)	(1)	(8,005)	(1,562)	(158)	–	(10,432)
Transfers	–	–	–	8	–	(43)	–	35	–	–
Impairment	–	–	–	–	–	47	–	–	–	47
Translation differences	–	–	(22,759)	(33,945)	(2,167)	(86,831)	(52,981)	(2,133)	(124)	(200,940)
At 31 December 2014	**–**	**–**	**36,276**	**40,387**	**22,672**	**97,594**	**64,306**	**4,160**	**38**	**265,433**
Net book value at:										
31 December 2013	3,205	10,039	337,979	206,247	99,426	250,813	301,903	3,367	320,840	1,533,819
31 December 2014	**2,247**	**4,579**	**152,250**	**155,368**	**84,495**	**161,474**	**144,151**	**2,897**	**218,972**	**926,433**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Note 17: Property, plant and equipment continued

During the fianancial year 2014, the Ukrainian Hryvnia has devalued compared to the US Dollar from 7.993 as of 31 December 2013 to 15.769 as of 31 December 2014 reducing property, plant and equipment by US$751,439 thousand. This effect is reflected in the translation reserve included in shareholder's equity. See also Note 35.

Assets under construction consist of ongoing capital projects amounting to US$133,274 thousand (2013: US$243,622 thousand) and capitalised pre-production stripping costs of US$85,698 thousand (2013: US$77,380 thousand). Once production commences, stripping costs are transferred to mining assets. The accounting policy for mine stripping costs is outlined in Note 17.

Property, plant and equipment includes capitalised borrowing costs on qualifying assets of US$13,162 thousand (2013: US$10,474 thousand). The capitalised borrowing costs on general borrowings were determined based on the capitalisation rate of 5.8% (2013: 5.8%), which is the average effective interest rate on general borrowings during the period. The Group has no specific borrowings in relation to qualifying assets during either reporting period.

The carrying value of equipment held under finance leases and hire purchase contracts at 31 December 2014 was US$11,555 thousand (2013: US$25,544 thousand). Leased assets and assets under hire purchase contracts are pledged as security for the related finance leases and hire purchase liabilities. US$115,988 thousand of property, plant and equipment have been pledged as security for liabilities (2013: US$227,460 thousand).

The gross value of fully depreciated property, plant and equipment that is still in use is US$25,566 thousand (2013: US$47,992 thousand).

Note 18: Goodwill and other intangible assets

Accounting policy

Goodwill

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill from business combinations is not amortised, but reviewed for impairment at every balance sheet date and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss recognised for goodwill is never reversed in a subsequent period.

Exploration and evaluation assets

See policy disclosed in Note 17.

Other intangible assets

Other intangible assets acquired separately are measured on initial recognition at cost and the useful lives are assessed as either finite or indefinite. Following the initial recognition, the intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses. If amortised, the intangible assets are amortised on a straight-line basis over the estimated useful life of the asset, ranging between one and three years. Capitalised mineral licenses are amortised on a unit of production basis.

The cost of other intangible assets acquired in a business combination is its fair value as at the date of acquisition.

Note 18: Goodwill and other intangible assets continued

As at 31 December 2014 goodwill and other intangible assets comprised:

US$000	Goodwill	Exploration and evaluation	Other intangible assets	Total
Cost:				
At 1 January 2013	**98,413**	**3,607**	**12,956**	**114,976**
Additions	–	5,562	1,706	7,268
Disposals	–	–	(111)	(111)
Translation differences	2	–	122	124
At 31 December 2013	**98,415**	**9,169**	**14,673**	**122,257**
Additions	**–**	**22**	**1,690**	**1,712**
Disposals	**–**	**–**	**(875)**	**(875)**
Translation differences	**(48,406)**	**(4,527)**	**(6,627)**	**(59,560)**
At 31 December 2014	**50,009**	**4,664**	**8,861**	**63,534**
Accumulated amortisation and impairment:				
At 1 January 2013	**–**	**–**	**2,805**	**2,805**
Amortisation charge	–	1,196	1,226	2,422
Disposals	–	–	(111)	(111)
Translation differences	–	–	55	55
At 31 December 2013	**–**	**1,196**	**3,975**	**5,171**
Amortisation charge	**–**	**–**	**797**	**797**
Disposals	**–**	**–**	**(62)**	**(62)**
Reversal of amortisation charge	**–**	**(1,104)**	**–**	**(1,104)**
Translation differences	**–**	**(92)**	**(1,644)**	**(1,736)**
At 31 December 2014	**–**	**–**	**3,066**	**3,066**
Net book value at:				
31 December 2013	98,415	7,973	10,698	117,086
31 December 2014	**50,009**	**4,664**	**5,795**	**60,468**

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

The major component of other intangible assets comprises mining licences and purchased software.

Impairment testing

Impairment testing was performed at 31 December 2014 based on a value-in-use calculation using cash flow projections over the remaining estimated lives of the Gorishne-Plavninskoye and Lavrikovskoye (“GPL”) and the Yeristovskoye deposits, which are expected to expire in 2038 and 2037, respectively, according to the current approved mine plans. The estimated production volumes are based on these mine plans and do not take into account the effects of expected future mine life extension programmes. The cash flow projection is based on a financial long-term model approved by the senior management covering the expected life of the mines. The production capacity remains at a fixed level once full capacity is reached and therefore no perpetual growth rate is applied for the cash flow projections beyond this point of time.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Note 18: Goodwill and other intangible assets continued

The key assumptions used for the impairment testing are:

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

Cash flows are projected based on management's expectations regarding the development of the iron ore and steel market and the cost of producing and distributing the pellets. The Group takes into account two key assumptions, selling price and total production costs. Within this, both macro and local factors which influence these are considered.

In determining the future long-term selling price, the Group takes into account external and internal analysis of the longer-term and shorter-term supply and demand dynamics in the local region and throughout the world along with costs of production of competitors and the marginal cost of incremental production in a particular market. The Group considers local supply demand balances affecting its major customers and the effects this could have on the longer-term price. The assumptions for iron ore prices ranged from US$65 per tonne to US$75 per tonne of Fe 62% fines CFR North China (2013: US$90 per tonne to US$120 per tonne).

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

For the purpose of the goodwill impairment test, the future cash flows were discounted using the real pre-tax discount rate of 14% (2013: 10%) per annum. These rates reflect the time value of money and risk associated with the asset, and is in line with the rates used by competitors with a similar background.

Sensitivity to changes in assumptions

Management believes that due to the available headroom resulting from the Group's impairment testing of its operating assets no reasonable change in the above key assumptions would cause the carrying value of these operating assets to materially exceed its value-in-use.

Note 19: Other non-current assets

As at 31 December 2014 other non-current assets comprised:

US$000	**As at 31.12.14**	As at 31.12.13
Prepayments for property, plant and equipment	**9,020**	19,185
Prepaid bank arrangement fees	**4,502**	7,978
Other non-current assets	**4,689**	7,412
Total other non-current assets	**18,211**	34,575

Note 20: Inventories

Accounting policy

Inventories are stated 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 – at cost on a first-in, first-out basis.
- Finished goods and work in progress – at cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity, but excluding borrowing costs.

The net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. See also Note 13 in respect of write-offs and impairments.

Major spare parts and servicing equipment that meet the definition of property, plant and equipment are, in accordance with IAS 16, included in property, plant and equipment and not in inventory.

Note 20: Inventories continued

At 31 December 2014 inventories comprised:

US$000	As at 31.12.14	As at 31.12.13
Raw materials and consumables	**97,474**	120,087
Finished ore pellets	**15,773**	33,969
Work in progress	**9,144**	25,206
Other	**2,331**	2,775
Provision for slow-moving and obsolete inventory items	**–**	(1,174)
Total inventories – current	**124,722**	180,863
Raw materials and consumables	**81,987**	58,303
Total inventories – non-current	**81,987**	58,303
Total inventories	**206,709**	239,166

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

Note 21: Trade and other receivables

Accounting policy

Trade and other receivables are stated at original invoice amount less an allowance for any uncollectible amounts. An allowance for doubtful debts is recorded when collection of the full amount is no longer probable. Individual balances are written off when management deems that there is no possibility of recovery.

At 31 December 2014 trade and other receivables comprised:

US$000	As at 31.12.14	As at 31.12.13
Trade receivables	**85,468**	100,723
Other receivables	**3,487**	3,854
Allowance for doubtful receivables	**(1,729)**	(2,079)
Total trade and other receivables	**87,226**	102,498

Trade receivables at 31 December 2014 includes US$803 thousand (2013: US$1,181 thousand) owed by related parties. The detailed related party disclosures are made in Note 38.

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

US$000	Year ended 31.12.14	Year ended 31.12.13
Opening balance	**2,079**	1,549
Recognition	**699**	752
Reversal	**(278)**	(222)
Translation differences	**(771)**	–
Closing balance	**1,729**	2,079

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Note 21: Trade and other receivables continued

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

As at 31.12.14 US$000	**Gross amount**	**Receivables past due and impaired**	**Receivables neither past due nor impaired**	**Receivables past due but not impaired** Less than 45 days	45 to 90 days	Over 90 days
Trade receivables	**85,468**	**1,673**	**81,387**	**1,214**	**169**	**1,025**
Other receivables	**3,487**	**56**	**3,179**	**71**	**147**	**34**

As at 31.12.13 US$000	Gross amount	Receivables past due and impaired	Receivables neither past due nor impaired	Receivables past due but not impaired Less than 45 days	45 to 90 days	Over 90 days
Trade receivables	100,723	1,767	92,969	2,210	887	2,890
Other receivables	3,854	312	3,275	19	22	226

The Group's exposures to credit and currency risks are disclosed in Note 30.

Note 22: Prepayments and other current assets

As at 31 December 2014 prepayments and other current assets comprised:

US$000	**As at 31.12.14**	As at 31.12.13
Prepayments to suppliers:		
Electricity and gas	**3,280**	5,009
Materials and spare parts	**1,965**	2,208
Services	**4,917**	4,990
Other prepayments	**46**	286
Prepaid bank arrangement fees	**4,168**	2,793
Accrued income	**6,411**	9,334
Other	**270**	453
Total prepayments and other current assets	**21,057**	25,073

Prepayments at 31 December 2014 include US$759 thousand (2013: US$1,494 thousand) made to related parties. The detailed related party disclosures are made in Note 38.

Note 23: Other taxes recoverable and payable

Accounting policy

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.

VAT receivable balances are not discounted unless the overdue balances are expected to be received after more than 12 months following the period end. Where intentions have been communicated that refunds of overdue VAT balances will be made through the issuance of government bonds or other financial instruments and management considers acceptance of such instruments, these overdue VAT balances are valued at the estimated market value of such instruments with adjustments charged to the income statement.

Note 23: Other taxes recoverable and payable continued

As at 31 December 2014 other taxes recoverable comprised:

US$000	As at 31.12.14	As at 31.12.13
VAT receivable	**71,859**	182,628
Other taxes prepaid	**123**	235
Total other taxes recoverable and prepaid – current	**71,982**	182,863
VAT receivable	**1,519**	78,281
Total other taxes recoverable and prepaid – non-current	**1,519**	78,281
Total other taxes recoverable and prepaid	**73,501**	261,144

As at 31 December 2014, US$72,837 thousand of the VAT receivable before discount relates to the Group's Ukrainian business operations (2013: US$318,213 thousand).

The Ukrainian Hryvnia devalued compared to the US Dollar from 7.993 as at 31 December 2013 to 15.769 as at 31 December 2014 reducing the gross balance of VAT outstanding expressed in US Dollars by US$156,913 thousand and the associated provision of US$36,421 thousand by US$11,798 thousand. These net differences are reflected in the translation reserve. See also Note 35. During the second half of the financial year 2014, bonds were received by the Group with a face value of UAH1,607,101 thousand (US$135,573 thousand at the exchange rates applicable at issuance) in settlement for VAT due of the same amount. The bonds were issued by the Ministry of Finance to settle certain accumulated VAT liabilities, are tradable and mature over a period of five years in 10 equal instalments carrying a 9.5% annual coupon payable semi-annually. At the date of issuance, the bonds traded with a discount of 22% to face value. All VAT bonds received during the financial year 2014 were subsequently sold at an average discount of 21.8% resulting in net proceeds totalling UAH1,256,800 thousand (US$97,067 thousand at the exchange rate at the date of sale).

As at the end of the comparative period ended 31 December 2013, part of the VAT balance was in the court system and management estimated that these balances would be recovered over a protracted period of time. As a result a discount of US$23,696 thousand was recorded and charged to finance expense during the financial years 2012 and 2013. From this balance, US$16,497 was released to finance income in 2014 (Note 14) with the remainder reflected in the translation reserve. As at 31 December 2014, management expect amounts in the court system to be recovered inside one year through a further issuance of bonds which will trade at a similar discount to face value and a provision of US$1,710 thousand has been recorded in the income statement to reflect this.

The table below provides a reconciliation of the gross VAT receivable balance in Ukraine:

US$000	Notes	Year ended 31.12.14	Year ended 31.12.13
Opening gross balance		**318,213**	301,536
Net VAT incurred		**153,345**	187,645
VAT received in cash		**(141,126)**	(170,967)
VAT recovered through sale of VAT bonds		**(97,067)**	–
Discount on sale of VAT bonds		**(29,333)**	–
VAT write-off through the income statement	13	**(1,351)**	–
VAT write-off capitalised		**(3,430)**	–
Translation differences (including effect on VAT Bonds)		**(126,414)**	–
Closing gross balance		**72,837**	318,213

Further information on VAT is provided in the Update on Risks section on page 28.

As at 31 December 2014 other taxes payable comprised:

US$000	As at 31.12.14	As at 31.12.13
Environmental tax	**2,403**	3,225
Royalties	**3,048**	3,822
VAT payable	**171**	1,734
Other taxes	**2,862**	3,188
Total other taxes payable	**8,484**	11,969

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Note 24: Trade and other payables

Accounting policy

Trade and other payables are not interest bearing and are stated at their original invoice amount.

As at 31 December 2014 trade and other payables comprised:

US$000	**As at 31.12.14**	As at 31.12.13
Materials and services	**26,839**	40,437
Payables for equipment	**4,298**	8,676
Dividends payable	**44**	86
Other	**1,170**	802
Total current trade and other payables	**32,351**	50,001

Trade and other payables at 31 December 2014 includes US$2,070 thousand (2013: US$3,374 thousand) due to related parties (see Note 38).

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 30.

Note 25: Defined benefit pension liability

Accounting policy

The defined benefit costs relating to the plans operated by the Group in the different countries are determined and accrued in the consolidated financial statements using the projected unit credit method for those employees entitled to such payments. The underlying assumptions are defined by the management and the defined benefit pension liability is calculated by independent actuaries at the end of each annual reporting period.

Remeasurements, comprising actuarial gains and losses, are immediately reflected in the statement of financial position. The corresponding charge or credit is recognised in the other comprehensive income of the period in which it occurred and immediately reflected in retained earnings as not reclassified to the income statement in subsequent periods.

The costs of managing plan assets are deducted from the return on plan assets reflected in other comprehensive income. All other scheme administration costs are charged to the income statement. The net interest is calculated by applying the discount rate to the net defined benefit pension liability or plan assets. Any past service costs are recognised in the income statement at the earlier of when the plan amendment occurs or when related restructuring costs are recognised.

The service costs (including current and past) are included in cost of sales, selling and distribution expenses and general and administrative expenses in the consolidated income statement whereas the net finance expenses are included in finance expenses. The effects from remeasurements are recognised in the other comprehensive income.

The defined benefit pension liability is the aggregate of the defined benefit obligation less plan assets of funded schemes. The Group operates funded and unfunded schemes.

The Group operates defined benefit plans for qualifying employees of its subsidiaries in Ukraine, Switzerland and Austria. All local defined benefit pension liabilities are calculated by independent actuaries applying accepted actuarial techniques.

Details of the major pension schemes in Ukraine and Switzerland are provided below:

Ukraine

The Group makes defined contributions to the Ukrainian State Pension scheme at statutory rates based on gross salary payments for the employees of OJSC Ferrexpo Poltava Mining and LLC Ferrexpo Yeristovo GOK. The Group also 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. Additionally, the Group has a legal obligation to its employees (in the form of a collective agreement) to make a one-off payment on retirement to employees with a long term of service which is also included in pension liability. All pension schemes in Ukraine are unfunded.

At 31 December 2014, the pension schemes in Ukraine covered 9,202 current employees (2013: 8,992 people). There are 1,127 former employees currently in receipt of pensions (2013: 1,116 people).

Note 25: Defined benefit pension liability continued

Switzerland

The employees of the Group's Swiss operation are covered under a collective pension plan (multi-employer plan), which is governed in accordance with the requirements of Swiss law. The funding, of which two-thirds is contributed by the employer and one-third by the employees, is based on the regulations of the pension scheme and Swiss law. The pension scheme in Switzerland is funded and the assets of the pension scheme are held separately from those of the Group and are invested with an insurance company. The accumulated capital of the employees is subject to interests determined by the local legislation and defined in the regulations of the pension scheme.

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

At 31 December 2014, the Swiss pension scheme covered 17 people (2013: 19 people).

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

	Year ended 31.12.14			Year ended 31.12.13		
	Ukrainian schemes	Swiss scheme	Austrian scheme	Ukrainian schemes	Swiss scheme	Austrian scheme
Discount rate	**16.00%**	**1.45%**	**1.60%**	12.90%	2.20%	3.50%
Retail price inflation	**6.50%**	**1.25%**	**2.50%**	4.44%	1.25%	2.50%
Expected future salary increase	**6.83%**	**3.00%**	**2.50%**	4.55%	3.00%	2.50%
Expected future benefit increase	**6.50%**	**0.00%**	**0.00%**	4.44%	0.00%	0.00%
Female life expectancy (years)	**76.1**	**86.0**	**n/a**	76.1	86.0	n/a
Male life expectancy (years)	**66.5**	**82.9**	**n/a**	66.5	82.9	n/a

US$000	As at 31.12.14	As at 31.12.13
Present value of funded defined benefit obligation	**4,224**	4,017
Fair value of plan assets	**(2,781)**	(2,806)
Funded status	**1,443**	1,211
Present value of unfunded defined benefit obligation	**27,114**	51,943
Defined benefit pension liability	**28,557**	53,154
Thereof for Ukrainian schemes	***27,030***	*51,876*
Thereof for Swiss scheme	***1,443***	*1,211*
Thereof for Austrian scheme	***84***	*67*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Note 25: Defined benefit pension liability continued

Amounts recognised in the income statement or other comprehensive income are as follows:

US$000	Year ended 31.12.14	Year ended 31.12.13
Defined benefit cost charged in the income statement:		
Current service cost	**2,215**	3,126
Interest cost on defined benefit obligation	**4,367**	5,568
Interest income on plan assets	**(61)**	(48)
Administration cost	**10**	9
Other	**–**	(1)
Total defined benefit cost charged in the income statement	**6,531**	8,654
Remeasurement (gains)/losses in OCI:		
Remeasurement from demographic assumptions	**255**	3
Remeasurement from financial assumptions	**(2,542)**	5,046
Experience adjustment	**945**	(5,427)
Return on plan assets	**(112)**	(120)
Total remeasurement gains in other comprehensive income	**(1,454)**	(498)
Total defined benefit cost	**5,077**	8,156
Thereof for Ukrainian schemes	***4,316***	*8,087*
Thereof for Swiss scheme	***734***	*67*
Thereof for Austrian scheme	***27***	*2*

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

US$000	Year ended 31.12.14	Year ended 31.12.13
Opening defined benefit obligation	**55,960**	52,668
Current service cost	**2,215**	3,126
Interest cost on defined benefit obligation	**4,367**	5,568
Remeasurement gains	**(1,342)**	(379)
Translation differences	**(26,284)**	104
Contributions paid by employer	**(3,340)**	(4,768)
Contributions paid by employees	**127**	127
Benefits paid through pension assets	**(365)**	(486)
Closing defined benefit obligation	**31,338**	55,960
Thereof for Ukrainian schemes	***27,030***	*51,876*
Thereof for Swiss scheme	***4,224***	*4,017*
Thereof for Austrian scheme	***84***	*67*
Thereof for active employees	***20,149***	*34,815*
Thereof for vested terminations	***4,202***	*7,522*
Thereof for pensioners	***6,987***	*13,623*

The durations of the defined benefit obligation for the different schemes as at 31 December 2014 are 8.2 years (Ukraine), 21.4 years (Switzerland) and 12.8 years (Austria).

Contributions to the defined benefit plans, including benefits paid by employer and employer contributions, are expected to be US$2,797 thousand for the schemes in Ukraine and US$339 thousand in Switzerland in the next financial year. There is no contribution expected for the scheme in Austria.

Note 25: Defined benefit pension liability continued

Changes in the fair values of the plan assets are as follows:

US$000	Year ended 31.12.14	Year ended 31.12.13
Opening fair value of plan assets	**2,806**	2,473
Interest income	**61**	48
Contributions paid by employer	**352**	458
Contributions paid by employees	**127**	127
Benefits paid through pension assets	**(365)**	(486)
Return on plan assets	**112**	120
Administration cost	**(10)**	(9)
Translation differences	**(302)**	75
Closing fair value of plan assets	**2,781**	2,806
Thereof for Swiss scheme	***2,781***	*2,806*

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

%/US$000	As at 31.12.14	As at 31.12.14	As at 31.12.13	As at 31.12.13
Scheme assets at fair value				
Equities	**25.4**	**705**	21.1	592
Bonds	**39.7**	**1,105**	44.0	1,235
Properties	**10.2**	**285**	10.3	289
Other	**24.7**	**686**	24.6	690
Fair value of scheme assets	**100.0**	**2,781**	100.0	2,806

Reasonable changes of the significant assumptions would have the following effects on the defined benefit obligation:

	Year ended 31.12.14					
US$000	**Ukrainian schemes**	**Swiss scheme**	**Austrian scheme**	**Ukrainian schemes**	**Swiss scheme**	**Austrian scheme**
	Increase by			**Decrease by**		
Change	*1.00% or 1 year*	*1.00% or 1 year*	*1.00% or 1 year*	*1.00% or 1 year*	*1.00% or 1 year*	*1.00% or 1 year*
Discount rate (%)	**(1,907)**	**(694)**	**(10)**	**2,167**	**965**	**11**
Future salary increases (%)	**933**	**136**	**10**	**(908)**	**(125)**	**(10)**
Indexation of pension (%)	**634**	**530**	**n/a**	**(631)**	**–**	**n/a**
Life expectancy (year)	**(398)**	**70**	**n/a**	**340**	**(70)**	**n/a**

	Year ended 31.12.13					
US$000	Ukrainian schemes	Swiss scheme	Austrian scheme	Ukrainian schemes	Swiss scheme	Austrian scheme
	Increase by			Decrease by		
Change	*1.00% or 1 year*	*1.00% or 1 year*	*1.00% or 1 year*	*1.00% or 1 year*	*1.00% or 1 year*	*1.00% or 1 year*
Discount rate (%)	(3,754)	(607)	(7)	4,283	831	11
Future salary increases (%)	1,980	121	10	(1,882)	(112)	(7)
Indexation of pension (%)	1,350	455	n/a	(1,334)	–	n/a
Life expectancy (year)	698	47	n/a	(824)	(46)	n/a

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Note 25: Defined benefit pension liability continued

For the presentation of the effects of the changes of the significant assumptions shown in the table on the previous page, the present value of the defined benefit obligation has been calculated based on the projected unit credit method at the end of the reporting period, which is the same as the one applied for the calculation of the defined benefit obligation recognised in the statement of financial position as at 31 December 2014. The methods and assumptions used for the sensitivity analysis for the prior year are unchanged.

Note 26: Provisions

Accounting policy

General

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

Site restoration

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

The provision for site restoration changed as follows during the financial year 2014:

US$000	Year ended 31.12.14	Year ended 31.12.13
Opening balance	**2,871**	2,368
Unwind of the discount	**185**	301
Arising during the year	**713**	202
Translation adjustments	**(1,424)**	–
Closing balance	**2,345**	2,871

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

The provision represents the discounted value of the estimated costs of decommissioning and restoring the mines at the dates when the deposits are expected to be depleted in the relevant areas within the mine. The present value of the provision has been calculated using a nominal pre-tax discount rate of 16.0% (2013: 12.3%) and the costs are expected to be incurred once the restoration works begin in the different areas of the mines.

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

Note 27: Accrued liabilities and deferred income

As at 31 December 2014 accrued liabilities and deferred income comprised:

US$000	As at 31.12.14	As at 31.12.13
Accrued expenses	**16,289**	10,851
Accrued employee costs	**14,208**	21,164
Advances from customers	**2,094**	1,271
Deferred income	**1,600**	2,222
Total accrued liabilities and deferred income	**34,191**	35,508

Note 28: Cash and cash equivalents

Accounting policy

Cash and cash equivalents include cash at bank and on hand as well as short-term deposits with original maturity of 90 days or less and are recorded at their nominal amount as these present an insignificant risk of changes in value.

As at 31 December 2014 cash and cash equivalents comprised:

US$000	**As at 31.12.14**	As at 31.12.13
Cash at bank and on hand	**321,049**	355,364
Short-term deposit	**305,460**	35,127
Total cash and cash equivalents	**626,509**	390,491

The Group's exposure to liquidity, counterparty and interest rate risk as well as a sensitivity analysis for financial assets and liabilities are disclosed in Note 30. See also Note 38 for further information in respect of transactional banking arrangements with a related party.

Note 29: Interest-bearing loans and borrowings

Accounting policy

The Group's interest-bearing loans and borrowings are measured at amortised cost. All loans are in US Dollars. See also Note 30 for more details in respect of the accounting policies applied.

This note provides information about the contractual terms of Group's major finance facilities.

US$000	Notes	**As at 31.12.14**	As at 31.12.13
Current			
Syndicated bank loans – secured	30	**210,000**	70,000
Other bank loans – secured	30	**22,906**	16,775
Obligations under finance leases	30	**4,644**	4,523
Interest accrued	30	**10,824**	9,745
Total current interest-bearing loans and borrowings		**248,374**	101,043
Non-current			
Eurobond issued	30	**496,392**	493,810
Syndicated bank loans – secured	30	**472,500**	350,000
Other bank loans – secured	30	**73,736**	66,129
Obligations under finance leases	30	**13,625**	18,257
Total non-current interest-bearing loans and borrowings		**1,056,253**	928,196
Total interest-bearing loans and borrowings		**1,304,627**	1,029,239

As at 31 December 2014 the Group has a syndicated US$420 million pre-export finance facility, of which US$332.5 million is available and drawn, and a new fully drawn syndicated US$350 million pre-export finance facility. Both are revolving facilities with commitment amortisation over the final 24 months and the maturities are 31 July 2016 and 8 August 2018 respectively. Subject to additional bank commitments, the new US$350 million facility can be further increased up to an amount of US$500 million within one year of the effective date, which was 8 August 2014.

As at 31 December 2014 the major bank debt facilities were guaranteed and secured as follows:
- Ferrexpo AG and Ferrexpo Middle East FZE assigned the rights to revenue from certain sales contracts;
- OJSC Ferrexpo Poltava Mining assigned all of its rights of certain export contracts for the sale of pellets to Ferrexpo AG and Ferrexpo Middle East FZE; and
- the Group pledged bank accounts of Ferrexpo AG and Ferrexpo Middle East FZE into which sales proceeds from certain assigned sales contracts are exclusively received.

In addition to the Group's major bank debt facilities listed above, an unsecured US$500 million Eurobond was issued on 7 April 2011 and is due for repayment on 7 April 2016. The bond has a 7.875% coupon and interest is payable on a semi-annual basis. See Note 39 in respect of a bond exchange subsequent to the end of the reporting period.

Further information on the Group's exposure to interest rate, foreign currency and liquidity risk is provided in Note 30.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Note 30: Financial instruments

Accounting policy

Financial assets and liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities (e.g. promissory notes), trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

Derivative financial instruments

The Group does not hold any derivative financial instruments.

Initial measurement

Non-derivative financial instruments

Financial assets and financial liabilities are initially measured at fair value. Any transaction costs that are directly attributable to the acquisition or issue of financial assets or financial liabilities are added or deducted from its fair value except for financial assets and financial liabilities at fair value through the income statement. For those financial assets and financial liabilities, the transactions costs are recognised immediately in the income statement.

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 subsequent measurement is based on the classification of the financial instruments.

Subsequent measurement

Financial assets

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 the income statement when the loans and receivables are derecognised or impaired along with the amortisation process.

Available-for-sale financial assets

All investments, except for investments in associates, are classified as available-for-sale. Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans or receivables, held-to-maturity investments or financial assets at fair value through the income statement.

If the fair value can be reliably determined, subsequent measurement of available-for-sale financial assets is made on a fair value basis with unrealised gains or losses recognised in other comprehensive income in the net unrealised gains reserve until the investment is derecognised. On derecognition or when determined to be impaired, the cumulative gains or losses are to be recognised, at which time the cumulative net effect is to be reclassified from the reserve to the income statement.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For investments without an active market, the fair value is determined using other valuation techniques including discounted cash flow models and reference to recent transaction prices. If the fair value of an available-for sale equity investment cannot be reliably measured, the investment is measured at cost less any impairment losses.

Other

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

Financial liabilities

Trade and other payables

Trade and other payables are subsequently measured at amortised cost using the effective interest method.

Interest-bearing loans and borrowings

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.

Note 30: Financial instruments continued

Impairment of financial assets

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

Assets carried at amortised cost

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

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

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

Available-for-sale financial assets

The Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss previously recognised in other comprehensive income is to be reclassified from the reserve to the income statement. Impairment losses on available-for-sale investments are not reversed through the income statement. The increases in their fair values after impairment are recognised directly in the statement of other comprehensive income.

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

		As at 31.12.14			
US$000	Notes	Loans and receivables	Available-for-sale financial assets	Financial liabilities measured at amortised cost	Total
Financial assets					
Cash and cash equivalents	28	**626,509**	**–**	**–**	**626,509**
Trade and other receivables	21	**87,226**	**–**	**–**	**87,226**
Available-for-sale investments		**–**	**46**	**–**	**46**
Other financial assets		**8,944**	**–**	**–**	**8,944**
Total financial assets		**722,679**	**46**	**–**	**722,725**
Financial liabilities					
Trade and other payables	24	**–**	**–**	**32,351**	**32,351**
Accrued liabilities	27	**–**	**–**	**30,497**	**30,497**
Interest-bearing loans and borrowings	29	**–**	**–**	**1,304,627**	**1,304,627**
Total financial liabilities		**–**	**–**	**1,367,475**	**1,367,475**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Note 30: Financial instruments continued

US$000	Notes	As at 31.12.13 Loans and receivables	Available-for-sale financial assets	Financial liabilities measured at amortised cost	Total
Financial assets					
Cash and cash equivalents	28	390,491	–	–	390,491
Trade and other receivables	21	102,498	–	–	102,498
Available-for-sale investments		–	82,778	–	82,778
Other financial assets		15,054	–	–	15,054
Total financial assets		508,043	82,778	–	590,821
Financial liabilities					
Trade and other payables	24	–	–	50,001	50,001
Accrued liabilities	27	–	–	32,015	32,015
Interest-bearing loans and borrowings	29	–	–	1,029,239	1,029,239
Total financial liabilities		–	–	1,111,255	1,111,255

Financial risk management

Overview

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

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

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

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

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

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

Financial instrument risk exposure and management

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

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

Note 30: Financial instruments continued

Credit risk

Trade and other receivables

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

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

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

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

Country risk is the potential volatility of foreign assets, whether receivables or investments, that is due to political and/or financial events in a given country.

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

Investment securities

Outside Ukraine the Group limits its cash exposure to credit, counterparty and country risk by only investing in liquid securities and with counterparties that are incorporated in an A+ or better (S&P) rated OECD country. A ratings approach is used to determine maximum exposure to each counterparty. Cash not required within three months for production, distribution and capital expenditures is invested with counterparties rated by S&P or Moody's at a level of long-term BBB (S&P) or short-term A3 (S&P) or better.

Recognising that the principal activities of the Group are predominantly in Ukraine, special consideration is given to Ukrainian transactional banking counterparties where the sector is small and constrained by the sovereign credit rating. Exceptions may be made under the following conditions:

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

Cash and deposits are held with the Group's transactional bank in Ukraine, which is a related party financial institution. This bank is registered with the National Bank of Ukraine for receiving and disbursing payments under Group intercompany loans, and is an approved Ukrainian counterparty. The Group is therefore exposed to Ukraine country risk in this respect as well as in relation to certain of its other activities. Note 38 provides further information.

Guarantees

The Group's policy is to provide financial guarantees under limited circumstances only for the benefit of wholly-owned or substantially wholly-owned subsidiaries. At 31 December 2014 Ferrexpo AG and Ferrexpo Finance plc were jointly and severally liable under a US$420 million revolving pre-export finance facility having an available and outstanding balance of US$332,5 million (2013: US$420 million). Additionally, Ferrexpo AG, Ferrexpo Finance plc and Ferrexpo Middle East FZE were jointly and severally liable under a new US$350 million revolving pre-export finance facility which was fully drawn as of 31 December 2014.

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

Certain Group companies act as guarantors for several finance facilities provided to Ukrainian subsidiaries: Ferrexpo AG amounting to US$88,399 thousand (2013: US$96,080 thousand), Ferrexpo Middle East FZE amounting to US$43,621 thousand (2013: US$23,603 thousand) and Ferrexpo plc amounting to US$23,952 thousand (2013: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Note 30: Financial instruments continued

The total remaining contractual maturities of the guarantees provided under the facilities listed above is US$1,299,393 thousand (2013: US$1,021,904 thousand).

Exposure to credit risk

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

US$000	As at 31.12.14	As at 31.12.13
Cash and cash equivalents	**626,509**	390,491
Trade and other receivables	**87,226**	102,498
Other financial assets	**8,944**	15,054
Total maximum exposure to credit risk	**722,679**	508,043

Of the total maximum exposure to credit risk, US$170,150 thousand (2013: US$158,197 thousand) related to Ukraine.

The total receivables balance relating to the Group's top three customers was US$25,629 thousand (2013: US$25,210 thousand) making up 29.4% of the total amounts receivable (2013: 24.6%).

Impairment profile

The Group's exposure to credit risk relating to trade and other receivables is disclosed in Note 21.

Liquidity risk

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

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

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

	As at 31.12.14				
US$000	Less than 1 year	Between 1 to 2 years	Between 2 to 5 years	More than 5 years	Total
Interest-bearing					
Eurobond issued	**–**	**496,392**	**–**	**–**	**496,392**
Syndicated loans – secured	**210,000**	**166,250**	**306,250**	**–**	**682,500**
Other banks – secured	**22,906**	**23,275**	**48,202**	**2,259**	**96,642**
Obligation under finance lease	**4,644**	**3,548**	**10,077**	**–**	**18,269**
Interest accrued	**10,824**	**–**	**–**	**–**	**10,824**
Future interest payable	**60,171**	**35,495**	**13,554**	**32**	**109,252**
Total interest-bearing	**308,545**	**724,960**	**378,083**	**2,291**	**1,413,879**
Non-interest-bearing					
Trade and other payables	**32,462**	**16**	**–**	**–**	**32,478**
Accrued liabilities	**30,497**	**–**	**–**	**–**	**30,497**
Total non-interest-bearing	**62,959**	**16**	**–**	**–**	**62,975**
Total financial liabilities	**371,504**	**724,976**	**378,083**	**2,291**	**1,476,854**

Note 30: Financial instruments continued

	As at 31.12.13				
US$000	Less than 1 year	Between 1 to 2 years	Between 2 to 5 years	More than 5 years	Total
Interest-bearing					
Eurobond issued	–	–	493,810	–	493,810
Syndicated loans – secured	70,000	210,000	140,000	–	420,000
Other banks – secured	16,775	17,088	23,880	25,161	82,904
Obligation under finance lease	4,523	4,641	11,485	2,131	22,780
Interest accrued	9,745	–	–	–	9,745
Future interest payable	52,818	48,206	24,462	442	125,928
Total interest-bearing	153,861	279,935	693,637	27,734	1,155,167
Non-interest-bearing					
Trade and other payables	50,001	–	–	–	50,001
Accrued liabilities	32,015	–	–	–	32,015
Total non-interest-bearing	82,016	–	–	–	82,016
Total financial liabilities	235,877	279,935	693,637	27,734	1,237,183

Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Group. Functional currencies for the Group are primarily the Ukrainian Hryvnia, but also US Dollars, Swiss Francs, Euro and UK Pounds Sterling.

The Group's major lines of borrowings and the majority of its sales are denominated in US Dollars, with costs of local Ukrainian production mainly in Hryvnia. The value of the Hryvnia is published by the National Bank of Ukraine ("NBU").

The Group has a gross recoverable VAT balance of US$72,837 thousand (UAH1,149 million) and prepaid corporate profit tax of US$73,763 thousand (UAH1,163 million) to be recovered from the Ukrainian government tax authority and is reliant on the normal functioning of this system. The exact timing of recovery is subject to uncertainties, along with the prevailing exchange rate to the US Dollar at the time of repayment. During the financial year 2014, VAT bonds were received by the Group from the Ministry of Finance with a face value of UAH1,607 million (US$135,573 thousand at exchange rates applicable at issuance) in settlement for VAT due of the same amount. As a result of the significant UAH devaluation during the financial year 2014, the recoverable gross VAT balance and prepaid corporate profit tax decreased by US$126,414 thousand (including effect on VAT bonds) and US$58,129 thousand, respectively, affecting the Group's cash flow from the refunds in US Dollars.

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

With the devaluation of the local currency, US Dollar-denominated loans held by the Ukrainian subsidiary resulted in non-operating exchange losses to the extent these are not matched by US Dollar-denominated assets. Fixed assets are similarly held in local currency amounts and the devaluation in the currency resulted in reduced net asset values with the effect recorded in the translation reserve.

The NBU manages and determines the official exchange rates. An interbank market for exchange of currencies exists in Ukraine and is monitored by the NBU. The Group, through financial institutions, exchanges currencies at bank offered market rates.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Note 30: Financial instruments continued

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

	As at 31.12.14					
US$000	Ukrainian Hryvnia	US Dollars	Euro	Swiss Franc	Other currencies	Total
Financial assets	**2**	**118,924**	**7,477**	**528**	**1,332**	**128,263**
Financial liabilities						
Other banks – secured	**–**	**(54,801)**	**(151)**	**–**	**–**	**(54,952)**
Obligation under finance lease	**–**	**(1,481)**	**–**	**–**	**–**	**(1,481)**
Interest accrued	**–**	**(334)**	**–**	**–**	**–**	**(334)**
Total borrowings	**–**	**(56,616)**	**(151)**	**–**	**–**	**(56,767)**
Trade and other payables	**–**	**(4,622)**	**(966)**	**(257)**	**(343)**	**(6,188)**
Accrued liabilities	**–**	**–**	**–**	**(32)**	**(1,330)**	**(1,362)**
Total financial liabilities	**–**	**(4,622)**	**(966)**	**(289)**	**(1,673)**	**(7,550)**
Net financial assets/(liabilities)	**2**	**57,686**	**6,360**	**239**	**(341)**	**63,946**

	As at 31.12.13					
US$000	Ukrainian Hryvnia	US Dollars	Euro	Swiss Franc	Other currencies	Total
Financial assets	4	89,898	1,026	685	454	92,067
Financial liabilities						
Other banks – secured	–	(56,215)	(382)	–	–	(56,597)
Obligation under finance lease	–	(4,146)	–	–	–	(4,146)
Interest accrued	–	(426)	(2)	–	–	(428)
Total borrowings	–	(60,787)	(384)	–	–	(61,171)
Trade and other payables	–	(2,844)	(1,018)	(142)	(360)	(4,364)
Accrued liabilities	–	–	–	(18)	(554)	(572)
Total financial liabilities	–	(63,631)	(1,402)	(160)	(914)	(66,107)
Net financial assets/(liabilities)	4	26,267	(376)	525	(460)	25,960

Interest rate risk

The Group predominantly borrows bank funds that are at floating interest rates and is exposed to interest rate movements. The interest rate exposure to US Dollars remained relatively low during the period, and no interest rate swaps have been entered into in this or prior periods.

Commodity risk

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

Note 30: Financial instruments continued

Sensitivity analysis

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

US$000	Year ended 31.12.14 Income statement/ equity	Year ended 31.12.13 Income statement/ equity
Ukrainian Hryvnia	**9,615**	4,379
Euro	**1,060**	(63)
Swiss Franc	**40**	88
Total	**10,715**	4,404

A 20% weakening of the US Dollar against the above currencies would have an equal but opposite effect to the amounts shown above, on the basis that all the other variables remain constant.

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not hold any derivatives (e.g. interest rate swaps). Therefore a change in interest rates at the reporting date would not affect the income statement.

Cash flow sensitivity for variable rate instruments

An increase of 100 basis points ("bps") in interest rates would have decreased equity and the consolidated result by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

US$000	Year ended 31.12.14	Year ended 31.12.13
Net finance charge	**1,102**	2,705

A decrease of 100bps would increase equity and profit by US$331 thousand for the year ended 31 December 2014 (2013: increase of US$827 thousand). This is on the basis that all the other variables remain constant.

Capital management

The Board's policy is to maintain a strong capital base. The Board of Directors monitors both the demographic spread of shareholders, as well as the return on capital, which the Group defines as total shareholders' equity, excluding non-controlling interests, and the level of dividends to Ordinary Shareholders. Please refer to the Statement of Changes in Equity for details of the capital position of the Group.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and advantages and security afforded by a sound capital position. The Board continues to support maintaining a sound capital base balanced against these market constraints.

The Board maintains a dividend policy consistent with the Group's profile, reflecting the investment activities the Group is making on major projects for future production growth and the cash generated by existing operations, whilst maintaining a prudent level of dividend cover.

Neither the Company nor any of its subsidiaries is subject to externally imposed capital requirements other than a bank covenant requirement to maintain consolidated equity of the Group of US$500,000 thousand including non-controlling interests and excluding the translation reserve. Compliance is ensured by balancing dividend payments against the earnings of the Group.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Note 30: Financial instruments continued

Fair values and impairment testing

Set out below are the carrying amounts and fair values of the Group's financial instruments that are carried in the consolidated statement of financial position:

	Carrying amount		Fair value	
US$000	**As at 31.12.14**	As at 31.12.13	**As at 31.12.14**	As at 31.12.13
Financial assets				
Cash and cash equivalents	**626,509**	390,491	**626,509**	390,491
Trade and other receivables	**87,226**	102,498	**87,226**	102,498
Available-for-sale investments	**46**	82,778	**46**	82,778
Other financial assets	**8,944**	15,054	**8,944**	15,054
Total financial assets	**722,725**	590,821	**722,725**	590,821
Financial liabilities				
Trade and other payables	**32,351**	50,001	**32,351**	50,001
Accrued liabilities	**30,497**	32,015	**30,497**	32,015
Interest-bearing loans and borrowings	**1,304,627**	1,029,239	**1,204,836**	1,035,933
Total financial liabilities	**1,367,475**	1,111,255	**1,267,684**	1,117,949

Other financial assets

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.

Interest bearing loans and borrowings

The fair values of interest-bearing loans and borrowings are based on the discounted cash flows using market interest rates except for the fair value of the Eurobond issued, which is based on the market price quotation at the reporting date.

Available-for-sale investments

As at 31 December 2014 available-for-sale investments comprised:

	Ownership		Carrying value	
US$000	**As at 31.12.14**	As at 31.12.13	**As at 31.12.14**	As at 31.12.13
Ferrous Resources	**15.51%**	15.51%	**–**	82,382
PJSC Stakhanov Railcar Company	**1.10%**	1.10%	**46**	396
Vostok Ruda LLC	**1.10%**	1.10%	**–**	–
LLC Atol	**9.95%**	9.95%	**–**	–
CJSC AMA	**9.00%**	9.00%	**–**	–
CJSC Amtek	**9.00%**	9.00%	**–**	–
Total available-for-sale financial assets			**46**	82,778

The Group acquired between January and September 2013 a 15.5% strategic stake in Ferrous Resources, a producing iron ore company operating in the iron ore quadrangle of the Minas Gerais region of Brazil. The other investments listed above relate to companies incorporated in Ukraine.

Ferrous Resources

As at 31 December 2014, the Group held a 15.5% equity investment in Ferrous Resources acquired during the financial year 2013 in various transactions with total price paid of US$82,382 thousand, which was also the carrying amount as at the end of the comparative period ended 31 December 2013. In the second half of the financial year 2014, the iron ore prices in the global market declined significantly and no recovery is expected in the near future based on available market outlooks. As a consequence of this significant adverse change in the iron ore market and industry, the investment in Ferrous Resources is fully impaired as at 31 December 2014 due to uncertainties in respect of the current operational activity and the future development of the mining operation. See also Note 13.

Note 30: Financial instruments continued

PJSC Stakhanov Railcar Company

The available-for-sale equity investment in PJSC Stakhanov Railcar Company in the amount of US$46 thousand (2013: US$396 thousand) is fair valued based on the quoted market price for its shares on the Ukrainian Stock exchange. The value of PJSC Stakhanov Railcar Company decreased due to a lower quoted market price for its shares on the Ukrainian stock exchange as of 31 December 2014. The signficant decline of the fair value is expected to be prolonged and the decline is therefore recorded as an impairment. As a consequence, the total amount included in the net unrealised gains reserve has been reclassified to the income statement reducing the impairment charge booked in the current year. See Note 13.

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	As at 31.12.14			
US$000	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Available-for-sale investments	**46**	**–**	**–**	**46**
Total available-for-sale financial assets	**46**	**–**	**–**	**46**

	As at 31.12.13			
US$000	Level 1	Level 2	Level 3	Total
Financial assets				
Available-for-sale investments	396	–	82,382	82,778
Total available-for-sale financial assets	396	–	82,382	82,778

There were no transfers between Level 1 and Level 2 in the period.

Reconciliation of Level 3 fair value measurements of financial assets

US$000	**Year ended 31.12.14 Available-for-sale financial assets**	Year ended 31.12.13 Available-for-sale financial assets
Opening balance	**82,382**	–
Additions	**–**	82,382
Total gains or losses:		
– in the income statement	**(82,382)**	–
– in other comprehensive income	**–**	–
Transfer out of Level 3	**–**	–
Closing balance	**–**	82,382

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Note 31: Share-based payments

Accounting policy

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value of the award at the grant date using modelling techniques consistent with the mathematics underlying the Black-Scholes option pricing model extended to allow for the performance conditions. The fair value is determined by reference to the quoted closing share price on the grant date. The cost is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. In valuing equity-settled transactions, no account is taken of any vesting conditions, except for market conditions, such as the relative Total Shareholder Return ("TSR").

Where the vesting of awards is subject to the satisfaction of certain market conditions, a vesting charge is recognised irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied. Where awards terminate before the performance period is complete, any unamortised expense is recognised immediately.

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

Long-term incentive plan ("LTIP")

The LTIPs are share-based schemes whereby certain senior management and executives receive rewards based on the relative TSR. The LTIP is subject to a performance condition based on the TSR compared to a comparator group, which operate in a similar environment, measured over the vesting period. Further description is provided in the Remuneration Report. The cost of equity-settled awards is measured as described above together with an estimate of future social security contributions payable in respect of this value.

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

No. ('000)	**2014 LTIP**	2013 LTIP	2012 LTIP	Total
Year ended 31.12.14	**480**	**–**	**–**	**480**
Year ended 31.12.13	–	450	–	450
Year ended 31.12.12	–	–	485	485

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

The following expenses have been recognised in 2014 and 2013 in respect of the LTIP:

US$000	**2014 LTIP**	2013 LTIP	2012 LTIP	2011 LTIP	Total
Year ended 31.12.14	**203**	**163**	**164**	**–**	**530**
Year ended 31.12.13	–	210	528	528	1,266

	Year ended 31.12.14 WAFV (US$)	Year ended 31.12.13 WAFV (US$)	**Year ended 31.12.14 No. ('000)**	Year ended 31.12.13 No. ('000)
LTIP				
Beginning of the year	**2.60**	3.23	**1,320**	1,150
Awards granted during the year	**1.27**	1.40	**480**	450
Lapsed during the year	**2.01**	3.42	**(150)**	(30)
Vested during the year	**4.28**	3.28	**(400)**	(250)
Outstanding at 31 December	**1.62**	2.59	**1,250**	1,320

Note 32: Employees

Employee benefits expenses for the year ended 31 December 2014 consisted of the following:

US$000	Year ended 31.12.14	Year ended 31.12.13
Wages and salaries	**63,503**	76,661
Social security costs	**20,360**	26,277
Post-employment benefits	**2,215**	2,938
Other employee costs	**4,735**	4,574
Share-based payments	**530**	1,266
Total employee benefits expenses	**91,343**	111,716

Average number of employees	Year ended 31.12.14	Year ended 31.12.13
Production	**7,855**	7,797
Marketing and distribution	**179**	172
Administration	**984**	911
Other	**861**	816
Total average number of employees	**9,879**	9,696

The balances included in the table below cover compensation for Non-executive Directors, Executive Directors and other key management personnel:

US$000	Year ended 31.12.14	Year ended 31.12.13
Wages and salaries	**5,512**	6,352
Social security costs	**438**	557
Other employee costs	**276**	263
Total compensation for key management	**6,226**	7,172

Share-based payments amounting to US$530 thousand (2013: US$1,266 thousand) are included in wages and salaries.

The details of compensation relating to Non-executive and Executive Directors are disclosed in the table below:

US$000	Year ended 31.12.14	Year ended 31.12.13
Salary and fees	**2,457**	2,424
Bonus	**839**	828
Benefits	**183**	181
Pension	**100**	94
Gains made on exercise of nil cost share options under the LTIP	**65**	292
Total compensation to Non-executive and Executive Directors	**3,644**	3,819

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Note 33: Operating profit by function

US$000	Notes	Before adjusting items	Adjusted items	Year ended 31.12.14	Before adjusting items	Adjusted items	Year ended 31.12.13
Revenue	6	**1,388,285**	**–**	**1,388,285**	1,581,385	–	1,581,385
Cost of sales	3/7	**(647,960)**	**–**	**(647,960)**	(773,221)	–	(773,221)
Gross profit		**740,325**	**–**	**740,325**	808,164	–	808,164
Selling and distribution expenses	8	**(311,514)**	**–**	**(311,514)**	(335,718)	–	(335,718)
General and administrative expenses	9	**(48,642)**	**–**	**(48,642)**	(54,839)	–	(54,839)
Other income	10	**9,094**	**–**	**9,094**	6,662	–	6,662
Other expenses	11	**(57,014)**	**(95,149)**	**(152,163)**	(23,457)	(45,767)	(69,224)
Operating foreign exchange gains	12	**76,372**	**–**	**76,372**	622	–	622
Operating profit		**408,621**	**(95,149)**	**313,472**	401,434	(45,767)	355,667
Share of profit of associates	37	**4,878**	**–**	**4,878**	3,551	–	3,551
Total profit from operations and associates		**413,499**	**(95,149)**	**318,350**	404,985	(45,767)	359,218

Summary of adjusted items:

US$000	Notes	Year ended 31.12.14	Year ended 31.12.13
Operating adjusting items			
Write-down of VAT receivable	23	**(6,790)**	(36,421)
Write-offs and impairment losses	13	**(83,534)**	(854)
Losses on disposal of property, plant and equipment		**(4,825)**	(8,492)
Total operating adjusting items		**(95,149)**	(45,767)

Note 34: Commitments, contingencies and legal disputes

Accounting policy

Leases

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

Group as a lessee

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

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

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

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases and recognised over the lease term as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Note 34: Commitments, contingencies and legal disputes continued

Operating lease commitments – Group as lessee

Future minimum rentals payable under non-cancellable operating leases as at 31 December 2014 are as follows:

US$000	As at 31.12.14	As at 31.12.13
Less than one year	**667**	2,049
Between one and five years	**3,288**	7,339
More than five years	**36,783**	56,167
Total minimum rentals payable	**40,738**	65,555

During the year ended 31 December 2014, US$1,970 thousand was recognised as an expense in the income statement in respect of operating leases (2013: US$2,762 thousand).

The Group leases land and buildings under operating leases. The leases on land typically run for 48 years and with a lease period of 5 to 10 years on buildings.

Operating lease commitments – Group as lessor

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

Finance lease commitments

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

	As at 31.12.14	
US$000	Minimum payments	Present value of payments
Less than one year	**5,852**	**4,644**
Between one and five years	**15,658**	**13,624**
More than five years	**–**	**–**
Total minimum lease payments	**21,510**	**18,268**
Less: amounts representing finance charges	**(3,242)**	**–**
Present value of minimum lease payments	**18,268**	**18,268**

	As at 31.12.13	
US$000	Minimum payments	Present value of payments
Less than one year	6,100	4,523
Between one and five years	19,158	16,125
More than five years	2,358	2,132
Total minimum lease payments	27,616	22,780
Less: amounts representing finance charges	(4,836)	–
Present value of minimum lease payments	22,780	22,780

Other

US$000	As at 31.12.14	As at 31.12.13
Capital commitments on purchase of property, plant and equipment	**108,763**	102,958

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Note 34: Commitments, contingencies and legal disputes continued

Legal

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

The Group is currently involved in a share dispute which commenced in 2005 and has been disclosed in its various public documents since IPO in 2007. The main chronology of the dispute is below:

On 21 April 2010, the Higher Commercial Court of Ukraine invalidated the share sale and purchase agreement ("SPA") pursuant to which a 40.19% stake in OJSC Ferrexpo Poltava Mining ("FPM") was sold on 18 November 2002 to nominee companies that were previously ultimately controlled by Kostyantin Zhevago, which ultimately sold the shares to Ferrexpo AG.

On 2 December 2014, the Supreme Court of Ukraine set aside the judgment of the Higher Commercial Court of Ukraine delivered in April 2010 and remitted the case for review to the Higher Commercial Court of Ukraine. On 16 February 2015, the Higher Commercial Court of Ukraine confirmed the decisions. As at the date of the publication of these annual financial statements for the period ended 31 December 2014, the original SPA from 18 November 2002 is now valid.

After having taken legal advice, the management of the Group believes that risks related to further court proceedings in respect of this case are remote. In light of the risks surrounding the operation and independence of Ukrainian courts, including those associated with the Ukrainian legal system in general, however the claimants may ultimately prevail in this dispute and the Group's ownership of the relevant interest in FPM may be successfully challenged.

Tax and other regulatory compliance

Ukrainian legislation and regulations regarding taxation and customs continue to evolve. Legislation and regulations are not always clearly written and are subject to varying interpretations and inconsistent enforcement by local, regional and national authorities, and other governmental bodies. Instances of inconsistent interpretations are not unusual. The uncertainty of application and the evolution of Ukrainian tax laws, including those affecting cross-border transactions, create a risk of additional tax payments having to be made by the Group, which could have a material effect on the Group's financial position and results of operations. This includes also a new transfer pricing law which significantly increased the power of the tax authorities. The Group does not believe that these risks are any more significant than those of similar enterprises in Ukraine.

Recoverable VAT amounting to US$3,587 thousand (2013: US$101,977 thousand) outstanding at 31 December 2014 and US$5,178 thousand (2013: nil) refunded by the tax authorities during the financial year 2014 are in the process of being considered by the Ukrainian court system in several different cases. As the VAT is fully recoverable under the relevant Ukrainian legislation, the Group expects to receive positive court decisions for these ongoing court proceedings and expect these amounts to be recovered in a further issuance of bonds. Consequently, the VAT is recorded at its full amount in the financial statements, net of an estimated discount to reflect the expected difference to the bonds. See also disclosure made in Note 23. No provision has been made for any related penalties and fines, which would in the case of a final negative ruling become payable.

Note 35: Share capital and reserves

Accounting policy

Ordinary Shares

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

Employee benefit trust reserve

Ferrexpo plc shares held by the Group are recognised at cost and classified in reserves. Consideration received for the sale of such shares is also recognised in equity, with any difference between the proceeds from sale and the original cost is to be recorded in reserves. No gain or loss is recognised in the income statement on the purchase, issue or cancellation of equity shares.

Treasury shares

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

Translation reserve

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

Information on the Group's share capital and reserves is provided below:

Share capital

Share capital represents the nominal value on issue of the Company's equity share capital, comprising £0.10 Ordinary Shares. The fully paid share capital of Ferrexpo plc at 31 December 2014 was 613,967,956 Ordinary Shares (2013: 613,967,956) at a par value of £0.10 paid for in cash, resulting in share capital of US$121,628 thousand (2013: US$121,628 thousand) per the statement of financial position.

As at 31 December 2014 other reserves attributable to equity shareholders of Ferrexpo plc comprised:

US$000	Uniting of interest reserve	Treasury share reserve	Employee benefit trust reserve	Net unrealised gains reserve	Translation reserve	Total other reserves
At 1 January 2013	**31,780**	**(77,260)**	**(7,808)**	**820**	**(295,588)**	**(348,056)**
Foreign currency translation differences	–	–	–	–	(428)	(428)
Loss on available-for-sale investments	–	–	–	(138)	–	(138)
Tax effect	–	–	–	30	–	30
Total comprehensive income for the period	–	–	–	(108)	(428)	(536)
Share-based payments	–	–	1,266	–	–	1,266
At 31 December 2013	**31,780**	**(77,260)**	**(6,542)**	**712**	**(296,016)**	**(347,326)**
Foreign currency translation differences	–	–	–	–	(1,185,874)	(1,185,874)
Transfer to profit and loss	–	–	–	(712)	–	(712)
Loss on available-for-sale investments	–	–	–	–	–	–
Tax effect	–	–	–	–	80,394	80,394
Total comprehensive income for the period	–	–	–	(712)	(1,105,480)	(1,106,192)
Share-based payments	–	–	530	–	–	530
At 31 December 2014	**31,780**	**(77,260)**	**(6,012)**	**–**	**(1,401,496)**	**(1,452,988)**

Uniting of interest reserve

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

Treasury share reserve

In September 2008, Ferrexpo plc completed a buyback of 25,343,814 shares for a total cost of US$77,260 thousand (2013: US$77,260 thousand). These shares are currently held as treasury shares by the Group. The Companies Act 2006 forbids the exercise of any rights (including voting rights) and the payment of dividends in respect of treasury shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Note 35: Share capital and reserves continued

Employee benefit trust reserve

This reserve represents the treasury shares held by Ferrexpo AG setting up an employee benefit trust reserve. The reserve is used to satisfy future grants for senior management incentive schemes. Information on the Group's share-based payments is provided in Note 31. As at 31 December 2014, the employee benefit trust reserve includes 3,162,399 shares (2013: 3,275,435 shares).

Net unrealised gains reserve

This reserve records fair value changes on available-for-sale investments. See Note 30 for further information on the available-for-sale investments.

Translation reserve

During the financial year 2014, the Ukrainian Hryvnia devalued from 7.993 as at the beginning of the year to 15.769 as at 31 December 2014 and the exchange differences arising on translation of the Group's foreign operations is initially recognised in the statement of other comprehensive income.

See also the consolidated statement of comprehensive income on page 80 of these financial statements for further details.

Note 36: Consolidated subsidiaries

Accounting policy

Entities are included in the consolidated financial statements from the date of obtaining control and the inclusion in the consolidated financial statements is consequently ceased when the control over a entity is lost. Control is obtained when the Group is exposed, or has the rights, to variable returns from its involvement with an entity and has the ability to affect those returns through its power over the entity that gives the current ability to direct the relevant activities. Control can be obtained through voting rights, but also through agreements, statutes, contracts, trust deeds or other schemes.

Non-controlling interests in the net assets of consolidated subsidiaries are shown separately in the Group's consolidated statement of financial position and consolidated statement of changes in equity. The share of the profit attributable to non-controlling interests are shown in the consolidated income statement and the consolidated statement of comprehensive income.

Note 36: Consolidated subsidiaries continued

The Group comprises Ferrexpo plc and its consolidated subsidiaries as set out below:

Name	Country of incorporation	Principal activity	Equity interest owned 31.12.14 %	31.12.13 %
OJSC Ferrexpo Poltava Mining	Ukraine	Iron ore mining	**97.3**	97.3
Ferrexpo AG	Switzerland	Sale of iron ore pellets	**100.0**	100.0
DP Ferrotrans	Ukraine	Trade, transportation services	**97.3**	97.3
United Energy Company LLC	Ukraine	Holding company	**97.3**	97.3
Ferrexpo Finance plc	England	Finance	**100.0**	100.0
Ferrexpo Services Limited	Ukraine	Management services and procurement	**100.0**	100.0
Ferrexpo Hong Kong Limited	China	Marketing services	**100.0**	100.0
LLC Ferrexpo Yeristovo GOK	Ukraine	Iron ore mining	**100.0**	100.0
LLC Ferrexpo Belanovo GOK	Ukraine	Iron ore mining	**100.0**	100.0
Nova Logistics Limited	Ukraine	Service company (dormant)	**51.0**	51.0
Ferrexpo Middle East FZE	U.A.E.	Sale of iron ore pellets	**100.0**	100.0
Ferrexpo Singapore PTE Ltd.	Singapore	Marketing services	**100.0**	100.0
First-DDSG Logistics Holding GmbH	Austria	Holding company	**100.0**	100.0
EDDSG GmbH	Austria	Barging company	**100.0**	100.0
DDSG Tankschiffahrt GmbH	Austria	Barging company	**100.0**	100.0
DDSG Services GmbH[3]	Austria	Barging company	**100.0**	100.0
DDSG Mahart Kft.	Hungary	Barging company	**100.0**	100.0
Pancar Kft.	Hungary	Barging company	**100.0**	100.0
Ferrexpo Port Services GmbH	Austria	Port services	**100.0**	100.0
Ferrexpo Shipping International Ltd.	Marshall Islands	Holding company	**100.0**	100.0
Iron Destiny Ltd.	Marshall Islands	Shipping company	**100.0**	100.0
Transcanal SRL	Romania	Port services	**77.6**	77.6
Helogistics Asset Leasing Kft.	Hungary	Asset holding company	**100.0**	100.0
Universal Services Group Ltd.[1]	Ukraine	Asset holding company	**100.0**	100.0
LLC DDSG Ukraine Holding[2]	Ukraine	Holding company	**100.0**	100.0
LLC DDSG Invest[2]	Ukraine	Asset holding company	**100.0**	100.0
LLC DDSG Ukraine Shipping Management[2]	Ukraine	Barging company	**100.0**	100.0
LLC DDSG Ukraine Shipping[2]	Ukraine	Asset holding company	**100.0**	100.0
Arlington Ltd.	Guernsey	Holding company	**100.0**	–

1 The entities were incorporated in February and March 2013.
2 Formerly Helogistics Transport GmbH.
3 The entity was aquired in February 2014.

The Group's interests in the entities listed above are held indirectly by the Company, with the exception of Ferrexpo AG which is directly held. The Group's equity interests are 100.0% for all its major consolidated subsidiaries, except for OJSC Ferrexpo Poltava Mining. The interest that non-controlling interests have in the Group's operations are not material and predominantly related to OJSC Ferrexpo Poltava Mining. No significant judgements and assumptions were required to determine that the Group has control over these entities.

The Group also holds an interest of 48.6% (2013: 48.6%) in TIS Ruda, a Ukrainian port located on the Black Sea. As this is an associate, it is accounted for using the equity method of accounting and further disclosed in Note 37.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Note 37: Investments in associates

Accounting policy

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

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

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

As at 31 December 2014 investments in associates comprised:

	Principal activity	Country of incorporation	Ownership %	**As at 31.12.14 US$000**	As at 31.12.13 US$000
TIS Ruda[1]	Port development	Ukraine	48.6	**8,569**	20,546

US$000	**Year ended 31.12.14**	Year ended 31.12.13
Opening balance	**20,546**	16,995
Share of profit	**4,878**	3,551
Dividends received	**(2,756)**	–
Translation adjustments	**(14,099)**	–
Closing balance	**8,569**	20,546

For the year ended 31 December 2014 the summarised financial information for the associate was as follows:

	Total assets		Total liabilities		Revenue		Net profit	
US$000	**As at 31.12.14**	As at 31.12.13	**As at 31.12.14**	As at 31.12.13	**Year ended 31.12.14**	Year ended 31.12.13	**Year ended 31.12.14**	Year ended 31.12.13
TIS Ruda[1]	**20,231**	27,503	**2,486**	1,740	**25,447**	23,335	**9,776**	7,116

1 Based on preliminary and unaudited financial information.

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

Note 38: Related party disclosure

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

Entities under common control are those under the control of Kostyantin Zhevago. Associated companies refer to TIS Ruda LLC, in which the Group holds an interest of 48.6%. This is the only associated company of the Group. Other related parties are principally those entities controlled partially by Anatoly Trefilov. Anatoly Trefilov is a member of the supervisory board of OJSC Ferrexpo Poltava Mining.

Note 38: Related party disclosure continued

Related party transactions entered into by the Group during the periods presented are summarised in the following tables:

Revenue, expenses, finance income and expense

US$000	Year ended 31.12.14 Entities under common control	Year ended 31.12.14 Associated companies	Year ended 31.12.14 Other related parties	Year ended 31.12.13 Entities under common control	Year ended 31.12.13 Associated companies	Year ended 31.12.13 Other related parties
Other sales[a]	**696**	**–**	**524**	647	–	491
Total related party transactions within revenue	**696**	**–**	**524**	647	–	491
Materials[b]	**12,334**	**–**	**26**	13,897	–	43
Purchased concentrate and other items for resale[c]	**769**	**–**	**–**	7,053	–	–
Spare parts and consumables[d]	**2,423**	**–**	**2**	2,838	–	2
Gas[e]	**39,259**	**–**	**–**	33,581	–	–
Total related party transactions within cost of sales	**54,785**	**–**	**28**	57,369	–	45
Selling and distribution expenses[f]	**11,201**	**24,130**	**5,984**	11,183	22,582	8,335
General and administration expenses[g]	**1,267**	**–**	**–**	1,747	–	12
Total related party transactions within expenses	**67,253**	**24,130**	**6,012**	70,299	22,582	8,392
Finance income[h]	**1,804**	**–**	**–**	1,673	–	–
Finance expenses[h]	**(99)**	**–**	**–**	(184)	–	–
Net related party finance income	**1,705**	**–**	**–**	1,489	–	–

Entities under common control
The Group entered into various related party transactions with entities under common control. A description of the most material transactions which are in aggregate over US$200 thousand in the current or comparative period is given below. All transactions were carried out on an arm's length basis in the normal course of business.

a Sales of power, steam and water and other materials for US$160 thousand (2013: US$149 thousand) and Income from premises leased to Kislorod PCC of US$258 thousand (2013: US$238 thousand).

b Purchases of compressed air and oxygen and metal scrap from Kislorod PCC for US$5,347 thousand (2013: US$5,988 thousand);

b Purchases of cast iron balls from AutoKraZ Holding Co. for US$5,530 thousand (2013: US$6,865 thousand); and

b Purchases of cast iron balls from OJSC Uzhgorodsky Turbogas for US$1,209 thousand (2013: 711 thousand).

c Purchases of concentrate and other items for resale from Vostok Ruda Ltd. amounting to US$769 thousand (2013: US$7,053 thousand).

d Purchases of spare parts from CJSC Kyiv Shipbuilding and Ship Repair Plant ("KSRSSZ") in the amount of US$821 thousand (2013: US$864 thousand);

d Purchases of spare parts from Valsa GTV of US$749 thousand (2013: US$1,226 thousand); and

d Purchases of ferromanganese from Raw and Refined Commodities AG for US$512 thousand (2013: US$354 thousand).

e Procurement of gas for US$39,259 thousand (2013: US$33,581 thousand) from OJSC Ukrzakordongeologia.

f Purchases of advertisement, marketing and general public relations services from FC Vorskla of US$11,137 thousand (2013: US$11,000 thousand).

g Insurance premiums of US$574 thousand (2013: US$728 thousand) paid to ASK Omega for workmen's insurance and other insurances; and

g Fees of US$439 thousand (2013: US$433 thousand) paid to Bank Finance & Credit (Bank F&C) for bank services.

h Transactional banking services are provided to certain subsidiaries of the Group by Bank F&C. Finance income and expense relate to these transactional banking services. Further information is provided under transactional banking arrangements on page 135.

Associated companies

The Group entered into related party transactions with its associated company TIS Ruda LLC, which were carried out on an arm's length basis in the normal course of business for the members of the Group (see Note 36). These are described below:

f Purchases of logistics services in the amount of US$24,130 thousand (2013: US$22,582 thousand) relating to port operations, including port charges, handling costs, agent commissions and storage costs.

Other related parties

The Group entered into various transactions with related parties other than those under the control of the majority owner of the Group. Descriptions of the material transactions are below:

a Sales of material and services to Slavutich Ruda Ltd. for US$508 thousand (2013: US$491 thousand).

f Purchases of logistics management services from Slavutich Ruda Ltd. relating to customs clearance services and the coordination of rail transit. Total billings amounted to US$5,984 thousand (2013: US$8,335 thousand). Slavutich Ruda Ltd. earned commission income of US$1,350 thousand on these services (2013: US$979 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Note 38: Related party disclosure continued

Purchases of property, plant and equipment

The table below details the transactions of a capital nature which were undertaken between Group companies and entities under common control, associated companies and other related parties during the periods presented.

US$000	**Year ended 31.12.14** Entities under common control	**Year ended 31.12.14** Associated companies	**Year ended 31.12.14** Other related parties	Year ended 31.12.13 Entities under common control	Year ended 31.12.13 Associated companies	Year ended 31.12.13 Other related parties
Purchases with independent confirmation	**458**	**–**	**–**	–	–	–
Purchases with shareholder approval	**887**	**–**	**–**	18,141	–	–
Purchases in the ordinary course of business	**2,724**	**–**	**5**	3,741	–	–
Total purchase of property, plant and equipment[i]	**4,069**	**–**	**5**	21,882	–	–

Entities under common control

Current year

i in August 2014, the Group acquired in two separate transactions a railway line and an associated power line from LLC Vorskla Steel totalling US$458 thousand. An independent confirmation was obtained and the transaction was announced in accordance with the UK Listing Rules as the transaction was not considered to be in the ordinary course of business.

During the financial year 2014, the Group entered into various transactions of a capital nature with related parties totalling to US$2,724 thousand. These transactions were in the ordinary course of business. Individual transactions of a capital nature which exceeded US$200 thousand are listed below:

- The Group procured goods and services totalling US$1,807 thousand from OJSC Berdichev Machine-Building Plant Progress for various ongoing projects and design documentation services from OJSC DIOS totalling US$597 thousand.

In February 2014, the Group ordered 300 rail cars from PJSC Stakhanov Railcar Company, of which 233 rail cars amounting to US$12,349 thousand were under the authority of the shareholder approval obtained on 24 May 2012 obtained under the previous listing rules (see below). A further 67 rail cars amounting to US$3,551 thousand were ordered in the ordinary course of business. A prepayment of US$5,863 thousand (at current exchange rate) was made in relation to these rail cars. The rail cars were due for delivery in the second half of the financial year 2014. However, as a consequence of the ongoing conflict in the eastern part of Ukraine, only 25 rail cars were delivered and put into operation during the financial year 2014. These purchased rail cars are under the authority of the shareholder approval mentioned above.

Prior year

During the financial year 2013, the Group entered into various transactions of a capital nature with related parties totalling US$3,741 thousand. These transactions were in the ordinary course of business and on an arm's length basis. Individual transactions which exceeded US$200 thousand are listed below:

- In January 2013, the Group procured three railway platforms in the amount of US$218 thousand from PJSC Stakhanov Railcar Company.
- In April 2013, the Group entered into a contract with OJSC Berdichev Machine-Building Plant Progress and OJSC Uzhgorodsky Turbogas for the production and supply of deslimers for a new flotation section in the amount of US$585 thousand.
- In June and September 2013, the Group procured metal works from OJSC Berdichev Machine-Building Plant Progress in the amount of US$1,297 thousand and US$1,054 thousand in connection with the construction of a new crushing section.

The Group received shareholder approval on 24 May 2012 for an option to purchase up to 500 rail cars from PJSC Stakhanov Railcar Company between the date of the approval and 31 December 2014. In February 2013, the Group exercised the right under this option to order 267 rail cars. These rail cars, amounting to US$18,141 thousand, were delivered and taken into operation during the financial year 2013 and increased the total fleet of rail cars from 1,933 units to 2,200 units as at 31 December 2013.

Balances with related parties

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

US$000	**As at 31.12.14** Entities under common control	**As at 31.12.14** Associated companies	**As at 31.12.14** Other related parties	As at 31.12.13 Entities under common control	As at 31.12.13 Associated companies	As at 31.12.13 Other related parties
Investments available-for-sale[j]	**46**	**–**	**–**	396	–	–
Other non-current assets[k]	**4,726**	**–**	**–**	7,438	–	–
Prepayments for property, plant and equipment[l]	**604**	**–**	**–**	1,548	–	–
Total non-current assets	**5,376**	**–**	**–**	9,382	–	–
Trade and other receivables[m]	**712**	**–**	**91**	1,150	–	31
Prepayments and other current assets[n]	**164**	**–**	**595**	136	1,172	186
Cash and cash equivalents[o]	**161,473**	**–**	**–**	143,005	–	–
Total current assets	**162,349**	**–**	**686**	144,291	1,172	217
Trade and other payables[p]	**1,429**	**151**	**490**	3,099	–	275
Current liabilities	**1,429**	**151**	**490**	3,099	–	275

Note 38: Related party disclosure continued

Entities under common control

A description of the balances over US$200 thousand in the current or comparative period is given below.

j The balance of the investments available-for-sale comprised shareholdings in PJSC Stakhanov Railcar Company (1.10%) and Vostok Ruda Ltd. (1.10%). The ultimate beneficial owner of these companies is Kostyantin Zhevago. PJSC Stakhanov Railcar Company is further listed on the Ukrainian stock exchange. The changes of the values in the table on the previous page are related to fair value adjustments recorded during the respective reporting periods. The shareholdings for all investments remained unchanged during the periods disclosed above. The balance of US$46 thousand as at 31 December 2014 related to the investment in PJSC Stakhanov Railcar Company (2013: US$396 thousand).

k As of 31 December 2014, other non-current assets related to a deposit of US$4,726 thousand with Bank F&C (2013: US$7,438 thousand) as security in respect of loans made to employees under the Group's social loyalty programme. Further information is provided under transactional banking arrangements below.

l The balance as at 31 December 2014 includes prepayments of US$6,007 thousand made in relation to rail cars purchased from PJSC Stakhanov Railcar Company (31 December 2013: nil). The prepayments made as at 30 December 2014 are in relation to 300 rail cars ordered. The rail cars were due for delivery in the second half of the financial year 2014. However, as a consequence of the ongoing conflict in the eastern part of Ukraine, only 25 rail cars were delivered and put into operation. Due to the uncertainty surrounding the delivery of rail cars or recovery of the prepayment, the Group recorded an allowance for the full amount as at 31 December 2014. Prepayments of US$527 thousand were made to OJSC Berdichev Machine-Building Plant Progress (2013: US$1,397 thousand) for various ongoing projects.

m As of 31 December 2014, trade and other receivables included outstanding amounts due from Vorskla Steel Ltd. of US$244 thousand (2013: US$387 thousand) in relation to other sales and US$317 thousand (2013: US$540 thousand) from Kislorod PCC for the sale of power, steam and water.

o As of 31 December 2014, cash and cash equivalents with Bank F&C were US$161,473 thousand (2013: US$143,005 thousand). Further information is provided under transactional banking arrangements below.

p Trade and other payables amounting to US$483 thousand for compressed air and oxygen purchased from Kislorod PCC (2013: US$639 thousand). US$192 thousand (2013: US$215 thousand) are due to AutoKraZ Holding Co. and US$1 thousand (2013: US$258 thousand) to OJSC Berdichev Machine-Building Plant Progress for the procurement of spare parts. Trade and other payables also include US$397 (2013: nil) thousand for rail cars received from PJSC Stakhanov Railcar Company. The balance as at end of the period 31 December 2013 included an amount of US$1,690 thousand for procurement of gas from OJSC Ukrzakordongeologia.

Associated companies

n The prepayments and other current assets balance as at end of the period 31 December 2013 included an amount of US$1,172 thousand made to TIS Ruda LLC for transshipment services.

Other related parties

n Prepayments and other current assets include an amount of US$595 thousand (2013: US$186 thousand) made to Slavutich Ruda Ltd. for distribution services.

p Trade and other payables amounting to US$490 thousand as of 31 December 2014 are in respect of distribution services provided by Slavutich Ruda Ltd. (2013: US$275 thousand).

Transactional banking arrangements

The Group has transactional banking arrangements with Bank Finance & Credit (Bank F&C) in Ukraine which is under common control of the majority shareholder of Ferrexpo plc. Finance income and expense are disclosed in the table on page 133.

The transactional banking services provided by Bank F&C include the conversion of US Dollar receipts into Ukrainian Hryvnia for the settlement of liabilities as part of operational activities incurred in local currency.

On 25 May 2013, the Group entered into a new uncommitted multicurrency revolving loan facility agreement and a documentary credit facility agreement with Bank F&C which will expire on 29 May 2016. The aggregate maximum limit of these facilities amounts to UAH80 million (US$5,073 thousand at the exchange rate as of 31 December 2014) and, as required under Ukrainian legislation, fixed assets are pledged. The total value of pledges under the terms of the loan facility agreements is US$3,990 thousand as of 31 December 2014. The terms and conditions of both facilities were the subject of independent confirmation.

US$000	**As at 31.12.14**	As at 31.12.13
Loan facilities	**5,073**	10,009
Amount drawn	**–**	–
Letter of credit facility outstanding	**–**	153
Bank guarantee facility outstanding	**–**	–

Bank F&C provides mortgages and loans to employees of the Group for the acquisition, construction and renovation of apartments in Ukraine. This is part of a social loyalty programme introduced by the Group in December 2011 allowing certain key local employees of the Group to borrow at preferential interest rates. OJSC Ferrexpo Poltava Mining and LLC Ferrexpo Yeristovo GOK act as guarantors for the bank's loans to the employees of the Group and have deposited US$4,726 thousand at Bank F&C as security for loans granted or to be granted by Bank F&C to employees of the Group (2013: US$7,438 thousand). The interest rate margin earned by Bank F&C covers the costs of administrating the mortgages and loans.

Cash and cash equivalent balances held with Bank F&C are in the normal course of business and are held on call or from time to time on overnight deposit. Interest is paid on balances held on current accounts and overnight deposits. The interest rates received by the Group were in line with relevant comparable market rates throughout the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Note 39: Events after the reporting period

As part of legal proceedings instigated in 2005, the sale and purchase agreement by which the sale of shares in OJSC Ferrexpo Poltava Mining, subsequently acquired by Ferrexpo AG, was declared invalid on 21 April 2010. On 2 December 2014, this decision was reversed by the Supreme Court of Ukraine and the case was remitted for re-consideration to the Higher Commercial Court of Ukraine. On 16 February 2015, the Higher Commercial Court of Ukraine rejected the claimants' case leaving the share sale and purchase agreement valid. As at the date of the publication of these annual financial statements for the period ended 31 December 2014, the original share sale and purchase agreement remains valid and risk surrounding this legal case and associated legal cases which have been commenced as a result are now very remote. See Note 34 for further information on this share dispute.

On 4 February 2015, the National Bank of Ukraine ceased their interventions in the foreign exchange market. As a consequence, the Ukrainian Hryvnia has devalued by 38% compared to the US Dollar, from 15.769 as of 31 December 2014 to 21.736 as of the date of the publication of these accounts. The Group has assets and liabilities denominated in this currency, which when translated at the current prevailing rates would reduce the reported net assets of the Group. A devaluation of 1% of the Ukrainian Hryvnia would reduce the Group's reported net assets by approximately US$13,000 thousand. This effect would decrease proportionately with further devaluation of the Hryvnia to the US Dollar. The underlying US Dollar value of the assets and their ability to generate cash flows is not affected.

On 24 February 2015, the Group exchanged US$214,331 thousand of its US$500 million Eurobond against 25% cash repayment totalling US$53,583 thousand and issued new bonds in the amount of US$160,724 thousand in order to extend the tenor to April 2018 and April 2019. The remaining balance of US$285,669 thousand of the 2016 Eurobond will become repayable in April 2016. See also Note 29.

Subsequent to the year end, the Group proposed dividends as disclosed in Note 16. Other than disclosed above, no material adjusting or non-adjusting events have occurred.

PARENT COMPANY BALANCE SHEET

US$000	Notes	As at 31.12.14	As at 31.12.13
Fixed assets			
Non-current investments			
Subsidiary undertakings	2	**147,496**	147,496
Total fixed assets		**147,496**	147,496
Current assets			
Debtors – amounts falling due within one year:			
Amounts due from subsidiaries		**895,970**	863,114
Prepayments and other current assets		**2,244**	2,207
Other taxes recoverable and prepaid		**1**	–
Cash at bank and in hand		**381**	240
Total current assets		**898,596**	865,561
Creditors – amounts falling due within one year:			
Trade and other creditors	4	**699**	369
Accruals and deferred income	5	**609**	812
Income taxes payable		**1,639**	1,456
Other taxes payable		**–**	50
Total creditors		**2,947**	2,687
Net assets		**1,043,145**	1,010,370
Represented by:			
Capital and reserves			
Share capital	3	**121,628**	121,628
Share premium	3	**185,112**	185,112
Treasury share reserve	3	**(77,260)**	(77,260)
Employee benefit trust reserve	3	**(6,012)**	(6,542)
Retained earnings	3	**819,677**	787,432
Total capital and reserves	3	**1,043,145**	1,010,370

All liabilities held by the Company are current in nature.

The financial statements were approved by the Board of Directors on 10 March 2015.

Kostyantin Zhevago
Chief Executive Officer

Christopher Mawe
Chief Financial Officer

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

Note 1: Parent company accounting policies

Basis of preparation

The Parent Company financial statements of Ferrexpo plc are presented as required by the Companies Act 2006 and were approved for issue on 11 March 2014. The financial statements are prepared under the historical cost convention and are prepared in accordance with applicable UK accounting standards. No profit and loss account is presented by the Company as permitted by Section 408 of the Companies Act 2006. The Company has taken advantage of the exemption granted by FRS 1 *Cash flow statements* (revised), whereby it is not required to publish its own cash flow statement.

The Company is exempt from the disclosure requirements of FRS 29 *Financial instruments*, under its section 2D (a) as the entity is included in publicly available consolidated financial statements, which include disclosures that comply with FRS 29/IFRS 7. Disclosures and narratives have not included information required by that standard, as the Group's consolidated financial statements, in which the Company is included, provide equivalent disclosures for the Group under IFRS 7 *Financial instruments: Disclosures*.

Investments

Equity investments in subsidiaries are carried at cost less any provision for impairments.

Deferred income tax

Deferred income tax is recognised in respect of all timing differences that have originated but not reversed at the reporting date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

- provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the reporting date, dividends have been accrued as receivable; and
- deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the reporting date.

Foreign currencies

The Company's functional currency and presentation currency is US Dollars. Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Financial instruments

Derivative financial instruments

The Company does not hold any derivative financial instruments.

Non-derivative financial instruments

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

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

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

Other

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

Note 1: Parent company accounting policies continued

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit or loss or available-for-sale. Such assets are carried at amortised cost using the effective interest method if the time value of money is significant. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Impairment of financial assets

The Company assesses at each reporting date whether a financial asset or a group of financial assets is impaired. Investments in subsidiaries' undertakings are held at cost. The Company assesses investments for impairment whenever events or changes in circumstances indicate that the carrying amount of an investment may not be recoverable. If any such indication of impairment exists, the Company makes an estimate of its recoverable amount (valuation). Where the carrying amount of an investment exceeds its recoverable amount, the investment is considered impaired and is written down to its recoverable amount.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced, with the amount of the loss recognised in administration costs. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the profit and loss account, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Derecognition of financial assets and liabilities

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

Share-based payments

Equity-settled transactions

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

In valuing equity-settled transactions, no account is taken of any vesting conditions, except for market conditions. No expense is recognised for awards that do not ultimately vest.

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

All costs related to the share-based payments of the Group are recorded in Ferrexpo plc. Note 31 to the consolidated financial statements provides further information on the valuation related to the share-based payments and the costs recorded.

Employee benefit trust reserve

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

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

Note 2: Investments

US$000	As at 31.12.14	As at 31.12.13
Non-current investments	**147,496**	147,496

The balance above relates to the Company's investment in Ferrexpo AG which is a 100% owned subsidiary based in Switzerland.

Note 3: Capital and reserves

US$000	Issued capital	Share premium	Treasury share reserve	Employee benefit trust reserve	Retained earnings	Total equity
At 1 January 2013	121,628	185,112	(77,260)	(7,808)	718,304	939,976
Profit for the period	–	–	–	–	146,429	146,429
Total comprehensive income for the year	–	–	–	–	146,429	146,429
Equity dividends paid to shareholders	–	–	–	–	(77,301)	(77,301)
Share-based payments	–	–	–	1,266	–	1,266
At 31 December 2013	**121,628**	**185,112**	**(77,260)**	**(6,542)**	**787,432**	**1,010,370**
Profit for the period	–	–	–	–	109,546	109,546
Total comprehensive income for the year	–	–	–	–	109,546	109,546
Equity dividends paid to shareholders	–	–	–	–	(77,301)	(77,301)
Share-based payments	–	–	–	530	–	530
At 31 December 2014	**121,628**	**185,112**	**(77,260)**	**(6,012)**	**819,677**	**1,043,145**

Note 4: Trade and other creditors

Trade and other creditors at 31 December 2014 relate to the following:

US$000	As at 31.12.14	As at 31.12.13
Trade and other creditors:		
Falling due within one year	**699**	369
Total trade and other creditors	**699**	369

Note 5: Accrued liabilities and deferred income

Accrued liabilities and deferred income at 31 December 2014 relate to the following:

US$000	As at 31.12.14	As at 31.12.13
Accrued liabilities and deferred income:		
Falling due within one year	**609**	812
Total accrued liabilities and deferred income	**609**	812

Note 6: Related party disclosures

There are no related party transactions and balances to be disclosed. All transactions and balances are with subsidiaries, which are wholly-owned.

Note 7: Events after the reporting period

No material adjusting or non-adjusting events have occurred subsequent to the year end other than the proposed dividends disclosed in Note 16 to the consolidated financial statements.

APPENDIX 1 – SUBSIDIARY RISKS

The list of subsidiary risks and uncertainties facing the Group's business that follows below is based on the Board's current understanding. Due to the very nature of risk it cannot be expected to be completely exhaustive. New risks may emerge, and the severity or probability associated with known risks may change over time.

THE GROUP'S PRINCIPAL RISKS ARE DISCLOSED ON PAGES 26 TO 31.

RISKS RELATING TO THE GROUP'S OPERATIONS

LICENCES

Possible Impact
See also "Risk relating to the Group's strategy – government approvals of expansion" on page 31.

Mining and land allotment licences are critical to the Group's operations, and there can be no guarantee that they will be renewed or that additional licences will be obtained. This could adversely affect the Group's operations and its ability to develop in the future.

Mitigation
- The Group complies with commitments under its various licences in order to ensure that the conditions contained within the licences are fulfilled or, if appropriate, waivers are obtained.

RELOCATION OF COMMUNITIES

Possible Impact
Certain small rural settlements will have to be relocated in order to allow us to proceed with some of our mine expansion projects. Potential solutions have been explored, and progress has been made during the recent months.

Mitigation
- The resolution of the issue is supported by strong activity at the local level including timely meetings and dialogue with community representatives, in order to reach consensus on the benefits of relocation in terms of improved accommodation and utilities and better access to transport infrastructure and social services. Communities are paid a fair price for their land and compensation for disruption. As it is included in the approved funding of the Capital Project, the topic is under constant review, including weekly meetings at site, and when necessary at monthly Executive Committee meetings.

APPENDIX 1 – SUBSIDIARY RISKS CONTINUED

RISKS RELATING TO FINANCE

	Possible Impact	Mitigation
EXCHANGE RATE RISK	The Group receives the majority of its income in US Dollars while a large proportion of its costs are denominated in Ukrainian Hryvnia. An appreciation of the Ukrainian Hryvnia against the US Dollar could have a negative impact on the profitability of the Group.	• Historical weakness of the Ukrainian Hryvnia in times of low commodity prices has provided a natural hedge during downturns in the commodity cycle. All of the Group's revenues and associated debt are denominated in US Dollars.
INTEREST RATE RISK	A portion of the Group's finance facility is linked to US Dollar LIBOR rates. An increase in interest rates will have a negative impact on the Group's financial costs, thus affecting profitability.	• The Group has optimised its debt structure, maintaining low balance sheet gearing. As a result, its interest costs are a low proportion of its profitability.
FINANCING RISK	The Group's development projects may be funded using debt secured with financial guarantees. There is a risk that cancellation of contracts as a result of force majeure events and/or lower iron ore pellet prices would limit the amount of funding available to the Group, and could prompt lenders of existing finance facilities to require Ferrexpo to assign additional contracts to meet agreed ratios.	• The Group's financing risk has been mitigated by the issue of a US$500 million Eurobond and a US$420 million bank facility. • The average debt maturity at 31 December 2014 was three years. • The Group has minimal debt repayments of US$293.6 million (including US$54 million repaid in respect of the bond exchange, see also Note 39) in 2015.

GLOSSARY

Act	The Companies Act 2006
AGM	The Annual General Meeting of the Company
Articles	Articles of Association of the Company
Audit Committee	The Audit Committee of the Company's Board
Belanovo or Belanovskoye	An iron ore deposit located immediately to the north of Yeristovo
Benchmark price	International seaborne traded iron ore pricing mechanism understood to be offered to the market by major iron ore producers under long-term contracts
Beneficiation process	A number of processes whereby the mineral is extracted from the crude ore
BIP	Business Improvement Programme, a programme of projects to increase production output and efficiency at FPM
Board	The Board of Directors of the Company
bt	Billion tonnes
C1 costs	Represents the cash costs of production of iron pellets from own ore, divided by production volume from own ore, and excludes non-cash costs such as depreciation, pension costs and inventory movements, costs of purchased ore, concentrate and production cost of gravel
Capesize	Capesize vessels are typically above 150,000 tonnes deadweight. Ships in this class include oil tankers, supertankers and bulk carriers transporting coal, ore, and other commodity raw materials. Standard capesize vessels are able to transit through Suez Canal
Capital employed	The aggregate of equity attributable to shareholders, non-controlling interests and borrowings
CFR	Delivery including cost and freight
CIF	Delivery including cost, insurance and freight
CIS	The Commonwealth of Independent States
Code	The UK Corporate Governance Code
CODM	The Executive Committee is considered to be the Group's Chief Operating Decision Maker
Company	Ferrexpo plc, a public company incorporated in England and Wales with limited liability
CPI	Consumer Price Index
CRU	The CRU Group provides market analysis and consulting advice in the global mining industry (see www.crugroup.com)
CSR	Corporate Social Responsibility
CSR Committee	The Corporate Safety and Social Responsibility Committee of the Board of the Company
DAP	Delivery at place
DFS	Detailed feasibility study
Directors	The Directors of the Company

GLOSSARY CONTINUED

EBITDA	The Group calculates EBITDA as profit from continuing operations before tax and finance plus depreciation and amortisation and non-recurring exceptional items included in other income and other expenses, share-based payment expenses and the net of gains and losses from disposal of investments and property, plant and equipment
EBT	Employee Benefit Trust
EPS	Earnings per share
Executive Committee	The Executive Committee of management appointed by the Company's Board
Executive Directors	The Executive Directors of the Company
FBM	Ferrexpo Belanovo Mining, also known as BGOK, a company incorporated under the laws of Ukraine
Fe	Iron
Ferrexpo	Ferrexpo plc and its subsidiaries
Ferrexpo AG Group	Ferrexpo AG and its subsidiaries, including FPM
Fevamotinico	Fevamotinico S.a.r.l., a company incorporated with limited liability in Luxembourg
First-DDSG	First-DDSG Logistics Holding GmbH (formerly Helogistics Holding GmbH) and its subsidiaries, an inland waterway transport group operating on the Danube/Rhine corridor
FOB	Delivered free on board, which means that the seller's obligation to deliver has been fulfilled when the goods have passed over the ship's rail at the named port of shipment, and all future obligations in terms of costs and risks of loss or damage transfer to the buyer from that point onwards
FPM	Ferrexpo Poltava Mining, also known as Ferrexpo Poltava GOK Corporation or PGOK, a company incorporated under the laws of Ukraine
FRMC	Financial Risk Management Committee, a sub-committee of the Executive Committee
FTSE 250	Financial Times Stock Exchange top 250 companies
FYM	Ferrexpo Yeristovo Mining, also known as YGOK, a company incorporated under the laws of Ukraine
Group	The Company and its subsidiaries
Growth markets	These are predominantly in Asia and have the potential to deliver new and significant sales volumes to the Group
HSE	Health, safety and environment
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards, as adopted by the EU
IPO	Initial public offering
Iron ore concentrate	Product of the beneficiation process with enriched iron content
Iron ore pellets	Balled and fired agglomerate of iron ore concentrate, whose physical properties are well suited for transportation to and reduction within a blast furnace
Iron ore sinter fines	Fine iron ore screened to -6.3mm

JORC	Australasian Joint Ore Reserves Committee – the internationally accepted code for ore classification
K22	GPL ore has been classified as either K22 or K23 quality, of which K22 ore is of higher quality (richer)
KPI	Key Performance Indicator
kt	Thousand tonnes
LIBOR	The London Inter Bank Offered Rate
LLC	Limited Liability Company
LTIFR	Lost-Time Injury Frequency Rate
LTIP	Long-Term Incentive Plan
m^3	Cubic metre
Majority shareholder	Fevamotinico S.a.r.l., The Minco Trust and Kostyantin Zhevago (together)
mm	Millimetre
mt	Million tonnes
mtpa	Million tonnes per annum
Natural markets	These include Turkey, the Middle East and Western Europe and are those markets where Ferrexpo has a competitive advantage over more distant producers, but where market share remains relatively low
Nominations Committee	The Nominations Committee of the Company's Board
Non-executive Directors	Non-executive Directors of the Company
NOPAT	Net operating profit after tax
OHSAS 18001	International safety standard "Occupational Health & Safety Management System Specification"
Ordinary Shares	Ordinary Shares of 10 pence each in the Company
Ore	A mineral or mineral aggregate containing precious or useful minerals in such quantities, grade and chemical combination as to make extraction economic
Panamax	Modern panamax ships typically carry a weight of between 65,000 to 90,000 tonnes of cargo and can transit both Panama and Suez canals
PPI	Ukrainian producer price index
Probable reserves	Those measured and/or indicated mineral resources which are not yet "proved", but of which detailed technical and economic studies have demonstrated that extraction can be justified at the time of determination and under specific economic conditions
Proved reserves	Measured mineral resources of which detailed technical and economic studies have demonstrated that extraction can be justified at the time of determination and under specific economic conditions
Rail car	Railway wagon used for the transport of iron ore concentrate or pellets
Relationship agreement	The relationship agreement entered into among Fevamotinico S.a.r.l., Kostyantin Zhevago, The Minco Trust and the Company
Remuneration Committee	The Remuneration Committee of the Company's Board

GLOSSARY CONTINUED

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
Sinter	A porous aggregate charged directly to the blast furnace which is normally produced by firing fine iron ore and/or iron ore concentrate, other binding materials, and coke breeze as the heat source
Spot price	The current price of a product for immediate delivery
Sterling/£	Pound Sterling, the currency of the United Kingdom
STIP	Short-Term Incentive Plan
Tailings	The waste material produced from ore after economically recoverable metals or minerals have been extracted. Changes in metal prices and improvements in technology can sometimes make the tailings economic to process at a later date
Tolling	The process by which a customer supplies concentrate to a smelter and the smelter invoices the customer the smelting charge, and possibly a refining charge, and then returns the metal to the customer
Ton	A US short ton, equal to 0.9072 metric tonnes
Tonne or t	Metric tonne
Traditional markets	These lie within Central and Eastern Europe and include steel plants that were designed to use Ferrexpo pellets. Ferrexpo has been supplying some of these customers for more than 20 years. Ferrexpo has well-established logistics routes and infrastructure to these markets by both river barge and rail. These markets include Austria, Czech Republic, Hungary and Slovakia
Treasury shares	A company's own issued shares that it has purchased but not cancelled
TSF	Tailings storage facility
TSR	Total shareholder return. The total return earned on a share over a period of time, measured as the dividend per share plus capital gain, divided by initial share price
UAH	Ukrainian Hryvnia, the currency of Ukraine
Ukr SEPRO	The quality certification system in Ukraine, regulated by law to ensure conformity with safety and environmental standards
US$/t	US Dollars per tonne
Value-in-use	The implied value of a material to an end user relative to other options, e.g. evaluating, in financial terms, the productivity in the steel-making process of a particular quality of iron ore pellets versus the productivity of alternative qualities of iron ore pellets
VAT	Value Added Tax
WAFV	Weighted average fair value
WMS	Wet magnetic separation
Yeristovo or Yeristovskoye	The deposit being developed by FYM

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