FERREXPO

40 *Years* FERREXPO SUPPLYING THE WORLD WITH IRON ORE PELLETS

10 *Years* FERREXPO *on the* LONDON STOCK EXCHANGE

FERREXPO PLC 2017 ANNUAL REPORT & ACCOUNTS

WELCOME TO FERREXPO

Ferrexpo is an iron ore pellet producer with mining and processing operations in Ukraine and sales offices around the world.

The Group has had a premium listing on the Main Market of the London Stock Exchange since its IPO in June 2007 and it is currently a constituent of the FTSE 250 Index and the FTSE4Good Index.

Ferrexpo is the largest exporter of iron ore pellets in the Former Soviet Union (the “FSU”) and currently the third largest supplier of blast furnace pellets to the global steel industry.

See pages 12–16.

Our **long life resource base** and **well invested production process** enables us to be a **low cost producer** of a **high-quality iron ore product**. This, combined with our **established logistical infrastructure,** allows us to deliver to our **diversified, global customer base**.

See pages 2–7.

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GROUP PERFORMANCE 2017

LOST-TIME INJURY FREQUENCY RATE

1.17x

Group LTIFR in line with 2016 (2016: 1.17x)
1 fatality during the year (2016: 2)

TOTAL PRODUCTION

10.4MT

95% of production of 65% Fe pellets (2016: total production 11.2Mt, 94% of production 65% Fe pellets)

REVENUE

+21%

US$1.2BN (2016: US$986M)

UNDERLYING EBITDA^A

+47%

US$551M (2016: US$375M)

PROFIT FOR THE YEAR

+108%

US$394M (2016: US$189M)

UNDERLYING DILUTED EPS^A

+109%

66.85¢ (2016: 31.91¢)

DILUTED EPS

+110%

66.91¢ (2016: 31.91¢)

NET DEBT TO EBITDA^A

<1.0x

0.73x (2016: 1.57x)

NET CASH FLOW FROM OPERATING ACTIVITIES

+6%

US$353M (2016: US$332M)

INTERIM AND FINAL DIVIDEND

+100%

3.3¢ + 3.3¢ = 6.6¢ (2016 interim and final dividend: 3.3¢)

SPECIAL DIVIDEND (INTERIM & FINAL)

+200%

9.9¢ (2016: 3.3¢)

ALTERNATIVE PERFORMANCE MEASURES

Words with the symbol ^A are defined in the Alternative Performance Measures section of the Annual Report on pages 150–152.

STRATEGIC REPORT
CORPORATE GOVERNANCE
FINANCIAL STATEMENTS

FERREXPO'S BUSINESS MODEL
HOW WE ADD VALUE

LONG LIFE IRON ORE MAGNETITE DEPOSIT IN UKRAINE

c.28% Fe content

MAGNETITE IRON ORE CAN BE UPGRADED AND ENRICHED THROUGH A **CAPITAL INTENSIVE** PROCESS

OTHER KEY INPUTS FOR PRODUCTION PROCESS:

- SKILLED LABOUR FORCE
- RELIABLE SUPPLY OF WATER, ELECTRICITY AND GAS

ESTABLISHMENT OF:

- MINE
- PROCESSING PLANT
- PELLETISING PLANT

FERREXPO HAS INVESTED OVER US$2.15BN SINCE 2007

HIGH QUALITY **65% FE IRON ORE** PRODUCT (IN THE FORM OF **PELLETS**)

- CENTRAL EUROPE
- WESTERN EUROPE
- NORTH EAST ASIA
- CHINA & SOUTH EAST ASIA
- TURKEY, MIDDLE EAST & INDIA

- GLOBAL LOGISTICS CAPABILITY
- REGIONAL MARKETING OFFICES

FERREXPO SELLS PELLETS TO A DIVERSIFIED GLOBAL CUSTOMER BASE CONSISTING OF THE BEST STEEL MILLS IN THE WORLD WHO ARE "CRISIS RESISTANT"

WELL INVESTED PRODUCTION PROCESS

LOW COST **COMPETITIVE PRODUCER**

CASH GENERATIVE THROUGHOUT THE COMMODITIES CYCLE

CASH UTILISED TO ENSURE:

1 STRONG BALANCE SHEET TO WITHSTAND INHERENT RISK, OPERATING IN AN EMERGING MARKET AND A VOLATILE COMMODITIES INDUSTRY

2 CONTINUED DEVELOPMENT OF OPERATIONS AND IMPROVEMENT TO PRODUCT

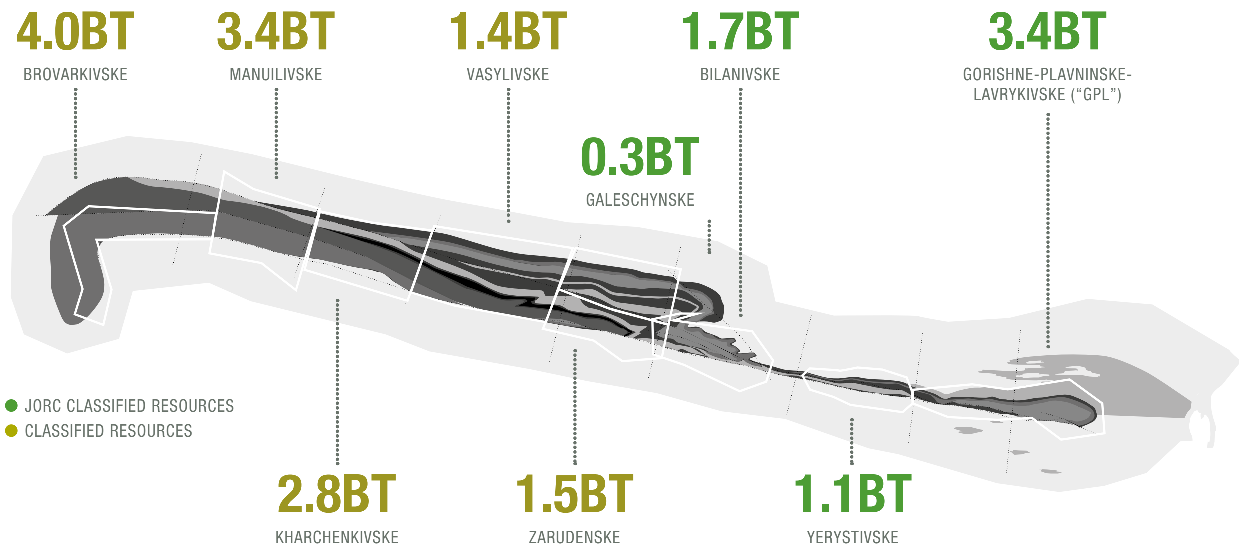
3 CONSISTENT DIVIDENDS TO SHAREHOLDERS

SUSTAINABLE STAKEHOLDER RELATIONSHIPS

- LONG-TERM CUSTOMER RELATIONSHIPS
- STABLE EMPLOYER THROUGHOUT THE COMMODITIES CYCLE
- REGULAR PAYMENT OF TAXES TO LOCAL AND CENTRAL GOVERNMENT AUTHORITIES
- RELIABLE PARTNER AND CONSUMER OF NATIONAL LOGISTICS AND ENERGY INFRASTRUCTURE
- ENCOURAGE AND SUPPORT LOCAL SUPPLIERS
- KEY FINANCIAL CONTRIBUTOR TOWARDS COMMUNITY PROJECTS
- POSITIVE CONTRIBUTION TO UKRAINE'S TRADE BALANCE – GROUP EXPORTS REPRESENT C.2% OF THE COUNTRY'S EXPORT REVENUE
- LONG-TERM SHARE PRICE APPRECIATION TO SHAREHOLDERS AND CONSISTENT DIVIDENDS

FERREXPO AT A GLANCE
A LONG LIFE RESOURCE

Ferrexpo's **significant resource base** is situated along a single ore body, which allows for efficient expansion through brownfield developments.



JORC Reserve Statements as at 1 January 2018[1]

Deposit	Proved MT	Fe total %	Fe magnetic %	Probable MT	Fe total %	Fe magnetic %
Gorishne-Plavninske-Lavrykivske ("GPL")	180	27	17	523	30	22
Yerystivske	207	34	27	416	32	25
JORC Reserves	**387**	**31**	**22**	**939**	**31**	**23**

JORC Resource Statements as at 1 January 2018[2]

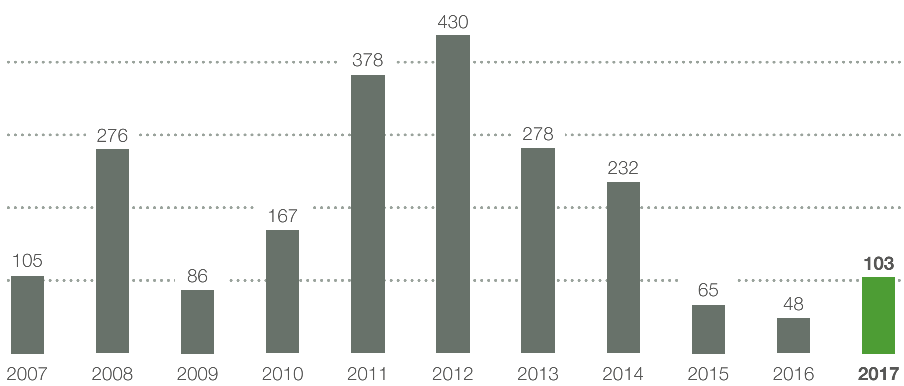
Deposit	Measured MT	Fe total %	Fe mag %	Indicated MT	Fe total %	Fe mag %	Inferred MT	Fe total %	Fe mag %
Gorishne-Plavninske-Lavrykivske ("GPL")	323	30	20	1,653	31	23	1,445	31	23
Yerystivske	212	34	27	556	33	26	364	30	23
Bilanivske	336	31	24	1,149	31	23	217	30	21
Galeschynske	–	–	–	268	55	–	58	55	–
JORC Resources	**871**	**31**	**23**	**3,626**	**33**	**22**	**2,084**	**31**	**22**

1 The reserve estimates for the GPL deposits were calculated based on a review conducted by SRK in March 2008 less the volume of ore mined from the GPL deposit between 2008 and 31 December 2017.
2 The reserve estimates are based on a report by SRK (UK) dated 15 June 2007. The mineral resource estimate for Yerystivske has been depleted in line with the volume of ore mined between September 2013 and 31 December 2017.

WELL INVESTED PRODUCTION PROCESS

+US$2.15BN

Capital Investment (US$ Million)



Overview of Ferrexpo's operations in Ukraine

Since 2007, Ferrexpo has invested to upgrade and modernise its processing facilities, developed a new open pit mine (the first in the CIS since Independence) and completed a quality upgrade programme to enhance the quality of its pellets.

ORE EXTRACTION

Open cut, hard rock iron ore mining, using truck and shovel. Average Fe content of 28%.

DRILLING
BLASTING
EXCAVATION
HAULAGE
ORE TO CRUSHER

CRUSHING

The ore is crushed and screened before entering one of two crushing plants.

COARSE CRUSHING
MEDIUM CRUSHING
SCREENING
FINE CRUSHING
DRY MAGNETIC SEPARATION

BENEFICIATION

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

GRINDING
CLASSIFICATION
HYDRO SEPARATION
MAGNETIC SEPARATION
FLOTATION UPGRADE
TAILINGS

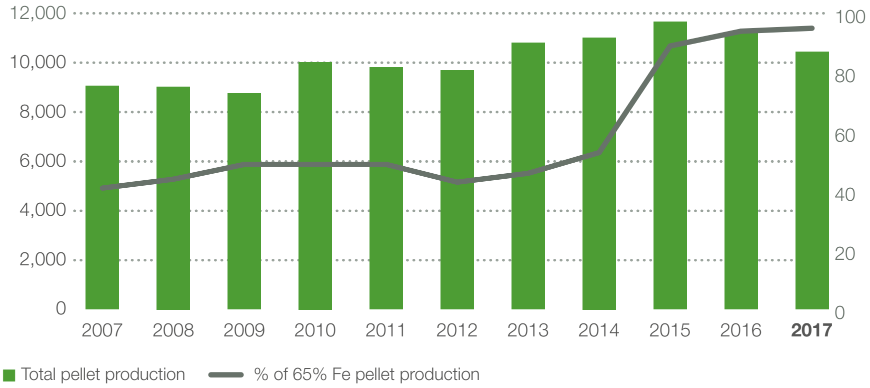
PELLETISING

Four kiln grate units heat and form the pellet feed into pellets of around 16mm.

THICKENING
FILTRATION
BALLING
INDURATION

FERREXPO AT A GLANCE
HIGH QUALITY PRODUCT

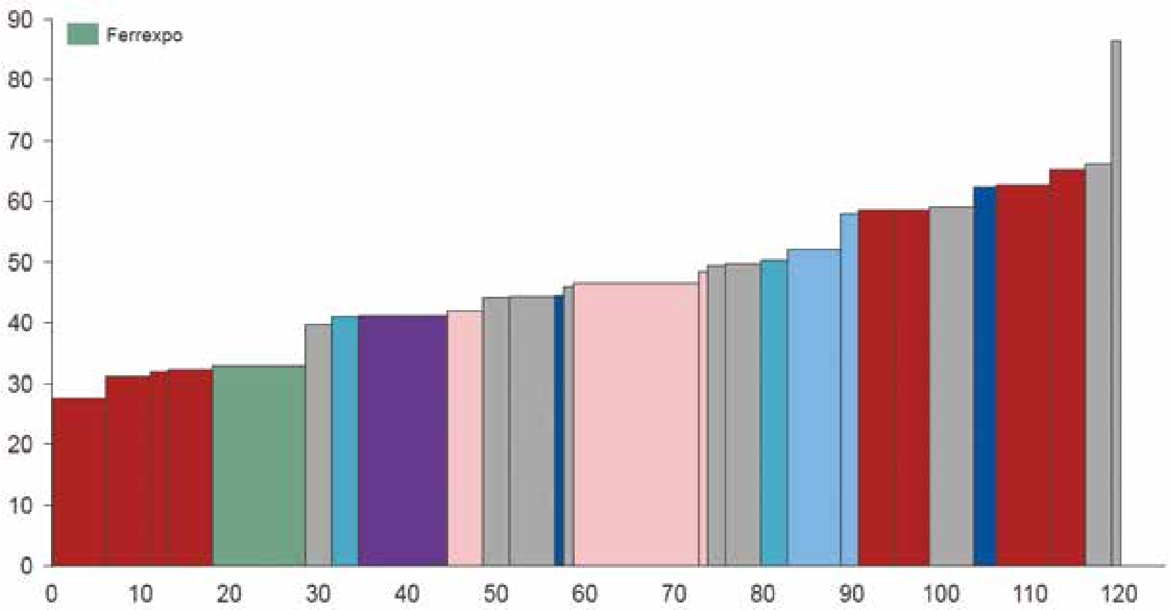
Increasing Quality of Pellet Production
(thousand tonnes)



In 2015, the Group completed its **Quality Upgrade Programme** to increase the iron content of its pellets to 65% Fe. As such, production of 65% Fe pellets has increased from 53% of total output in 2014 to 95% of total output in 2017, a record for the Group.

LOW COST PRODUCER

Breakeven Cost Curve of Pellet Exports with Delivery to China



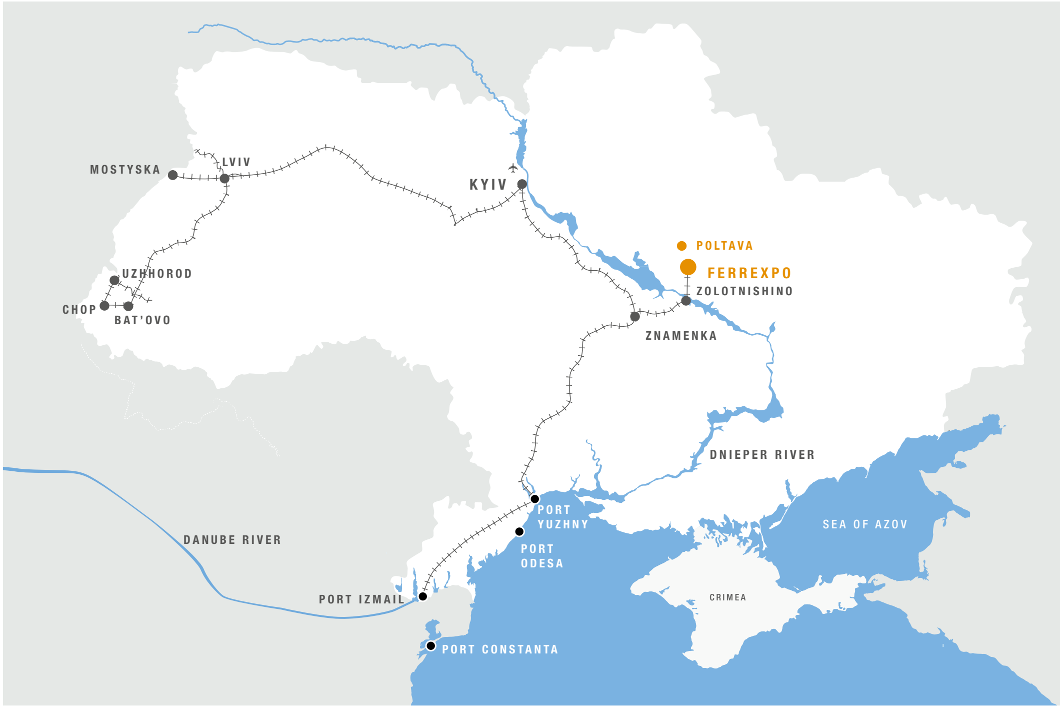
CRU
THE INDEPENDENT AUTHORITY™
MINING | METALS | FERTILIZERS

y-axis: Business costs for pellet exports, 2017, CFR China, US$/t
x-axis: Cumulative pellet exports, 2017, Mt

Definition: Business costs are the sum of realisation costs and site costs. Realisation costs include the cost of getting the material to market, the marketing of the material and the financing cost of selling the material. The power of business costs is that by adjusting all product qualities relative to the same benchmark (62% Fe fines product delivered to North China) it allows all mines to be compared on a cost curve on a like-for-like basis. This also means that by subtracting the benchmark price from the business costs for a mine you get an estimate of cash flow from that operation.

ESTABLISHED LOGISTICS

The Group's logistics infrastructure enables it to transport its pellets by rail, from its mines in the Poltava region to the western border of Ukraine to connect with the European rail network and to the TIS Ruda Terminal in the southern port of Yuzhny for seaborne shipments via capesize vessels.



150
BARGES

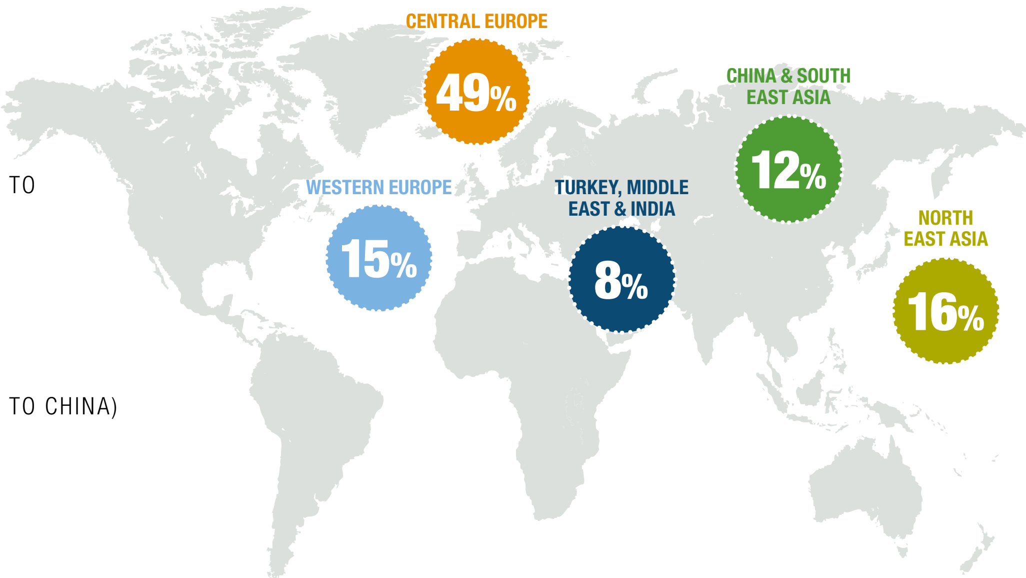
19
CAPESIZE SHIPS LOADED

2,252
RAIL CARS

HIGH QUALITY CUSTOMER BASE

16
SAILING DAYS
(FROM UKRAINE TO MIDDLE EAST)

35
SAILING DAYS
(FROM UKRAINE TO CHINA)



CHAIRMAN'S STATEMENT
A HIGH QUALITY IRON ORE SUPPLIER

Another excellent set of results demonstrating strong demand for Ferrexpo's high-quality iron ore pellets from the world's leading steel manufacturers.

DUE TO THE GROUP'S PAST INVESTMENT PROGRAMME TO INCREASE THE QUALITY OF ITS PELLETS, AND STRONG DEMAND FOR HIGH-QUALITY IRON ORE IN 2017, FERREXPO ACHIEVED A RECORD PELLET PREMIUM FOR THE YEAR.

IN 2018, PELLET PREMIUMS ARE EXPECTED TO INCREASE FURTHER COMPARED TO 2017.

STEVE LUCAS
CHAIRMAN, FERREXPO PLC

GOVERNANCE HIGHLIGHTS

- Recruited a new Senior Independent Director to the Board
- Board refreshment programme now complete for the time being

For more information see the Corporate Governance Report on page 53.

Introduction

I am very pleased to report that in 2017 the Group almost doubled its pre-tax profit to US$450 million (2016: US$231 million) while underlying EBITDA[A] increased by 47% to US$551 million (2016: US$375 million).

Net debt was reduced by 32% to US$403 million, its lowest level since 2011, with the net debt to EBITDA[A] ratio falling comfortably below 1 times to 0.73 times compared to 1.57 times as of 31 December 2016.

Ferrexpo achieved a record pellet premium for its product in 2017. Its average received price outperformed the average Platts 62% Fe iron ore fines price by 40%.

Driving the improvement in pricing was an increasing divergence during the year for prices paid for different qualities of iron ore, with high-quality iron ore producers, including pellet producers, receiving significant premiums to the benchmark iron ore price, while low-quality producers realised substantial discounts. Ferrexpo, as a pellet producer, was very well placed to benefit from this market development given its long-held strategy of producing and selling a high-quality iron ore product to the best steel mills in the world.

Although Ferrexpo's cost of pellet production per tonne did increase during the year, it is still a low cost producer relative to its peers, and remains in the bottom quartile of the pellet cost curve.

Dividends

In view of this increase in profitability, the Board was pleased to declare an interim ordinary dividend (3.3 US cents)

US$450M
+95% PRE-TAX PROFIT
(2016: US$231 million)

66.85
US CENTS
+109% DILUTED EPS
(2016: 31.91 US cents)

16.5
US CENTS PER SHARE
2017 TOTAL RECOMMENDED DIVIDEND
(2016: 6.6 US cents per share)

and a special dividend (3.3 US cents) during the year, and today we have announced a final ordinary dividend of 3.3 US cents per share as well as a special dividend of 6.6 US cents per share. If the final ordinary dividend is approved by shareholders, the total dividend relating to 2017 will be 16.5 US cents per share (2016: 6.6 US cents per share).[1]

Health and Safety
We deeply regret a fatality at Ferrexpo Poltava Mining ("FPM") in 2017 (2016: two). Our goal remains firmly focused on achieving zero fatalities or injuries. On behalf of the Group, I would like to express our sincere condolences to the family of our valued colleague.

For further information on health and safety performance, see pages 25 and 44.

Industry
The steel industry experienced strong profitability in 2017 primarily due to global demand growth and capacity rationalisation in the Chinese steel sector. As such, steel mills looked to increase their utilisation rates, while in China mills also sought to decrease their air emissions by reducing sintering and using higher quality inputs. These factors resulted in increased demand for high-grade ore, including pellet. Meanwhile, additional supply of high grade iron ore, including pellet, was limited, resulting in pellet premiums trading at nine-year highs.

For further information on the market environment, see the Market Review on pages 12–16.

Strategy
Since its IPO in 2007, Ferrexpo has established itself as a high quality producer and exporter of iron ore pellets to the best steel mills in the world. It has done this by investing more than US$2.15 billion into its operations to access additional ore, upgrade its processing facilities to improve the quality of its pellet, and establish reliable and cost-effective transportation routes to European and seaborne markets. As a result, it has more than doubled production of its high-quality 65% Fe pellets, and today it is the third largest exporter of blast furnace pellets by volume.

At the same time, Ferrexpo is one of the lowest cost pellet producers in the world. Going forward, the Group will look to maintain its low cost position within the industry, further improve the quality of its output and increase its production volume.

In 2017, production volumes were primarily impacted by the refurbishment of one of the Group's pelletising lines as well as a general increase in maintenance levels. The Group's refurbishment programme of its pellet lines will continue into 2018 and 2019.

For further information on production, see page 25.

Ferrexpo, however, has compelling brownfield projects to incrementally increase its production volumes subject to available cash flows.

The Group's capital allocation strategy is to maintain an appropriate balance between a strong balance sheet, attractive shareholder returns (in the form of dividends) and investment in growth opportunities. This strategy has been designed to reduce the risks inherent in operating in an emerging market while selling our product in a volatile commodities market.

Over the past two years, the Group has focused on strengthening its balance sheet and during this time has reduced net debt by US$465 million. Given this strong reduction and the improvement in Group profitability, total dividends of 16.5 US cents per share have been declared for 2017. Going forward, the Group will continue to focus on debt reduction.

Following the reduction in capital investment in 2015, due to the low iron ore price environment, investment was gradually increased in 2017. Ferrexpo is implementing a project to increase output of pellet feed by approximately 1.5 million tonnes. Once completed in 2020, it will allow the Group to produce sufficient concentrate to feed all four of its pelletising lines and increase pellet production to 12 million tonnes per annum. Ferrexpo also commenced detailed engineering studies regarding the expansion of its pelletising capacity. Capital will be invested subject to cash flows and market conditions.

Looking to the future, I am confident that Ferrexpo will make further progress by improving the quality of its product and increasing production volumes within the constraints of its capital allocation strategy.

1 The special dividend will be paid on 16 April 2018 to shareholders on the register at the close of business on 3 April 2018. Subject to approval at the Group's AGM, payment of the final ordinary dividend will be made on 27 June 2018 to shareholders on the register at the close of business on 1 June 2018. The dividend will be paid in UK Pounds Sterling with an election to receive US Dollars.

CHAIRMAN'S STATEMENT

CONTINUED

Board Changes

During 2017, Sir Malcolm Field and Oliver Baring retired as planned. The Board is most grateful to both of them for the valuable contributions they have made. Simon Lockett, who has wide experience of natural resource operations in emerging markets, joined the Board in June and took over as Senior Independent Director in September.

The Board's refreshment programme is now complete.

Social Responsibility

For the year ended 2017, it is expected that Ferrexpo's pellet exports will be approximately 1.9% of Ukraine's total export revenue. The Board believes it is fundamental to ensure that Ferrexpo continues to make a positive contribution to the society in which it operates, aiding the long-term development of Ukraine and creating a stable operating environment for the Group.

Ferrexpo provides financial support for a broad array of social programmes across the country and in 2017 invested approximately 2.4% of total Group revenue in these programmes, in line with 2016. These programmes underpin Ferrexpo's licence to operate and ensure that the community is supported when required.

For further information see Responsible Business on pages 41–49.

Ukraine

The National Bank of Ukraine expects 2017 GDP growth of approximately 2%, in line with 2016.

Over the year, there were various encouraging developments. The government implemented several reforms to reduce the regulatory burden on businesses operating within the country. The World Bank's Doing Business report for the period from 30 June 2016 to 30 June 2017 ranked Ukraine four places higher at 76th out of 190 countries in terms of overall ease of doing business. In August 2017, Moody's rating agency upgraded Ukraine's sovereign rating from Caa3 to Caa2 with a positive outlook. The driver for the upgrade was based on the cumulative impact of structural reforms that, if sustained, are expected to improve the government's financial position. The rating upgrade was constrained by the government's heavy debt maturity profile over the next several years that is expected to require additional foreign currency lending.

In terms of IMF funding, Ukraine received a US$1 billion tranche in April 2017, as part of the US$17.5 billion programme agreed in March 2015. To date, US$7.7 billion has been paid out. The IMF has stressed that further progress is required in the fight against corruption, including the establishment of an independent anti-corruption court.

Against this background of GDP growth, improvements to the regulatory environment and a credit rating upgrade, the Board of Ferrexpo believes Ukraine is gradually moving in the right direction although challenges remain.

Outlook

In 2018, Ferrexpo expects further rationalisation of steel capacity in China which should support global steel margins, and, in turn, is likely to encourage a continued focus on iron making productivity. These dynamics, together with a continued focus by Chinese authorities on the environment and a reduction of air emissions, provide a favourable environment for higher quality iron ore, including pellets.

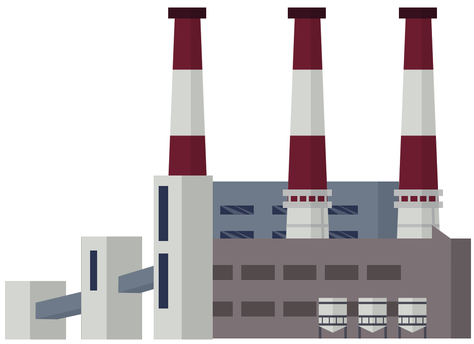
Ferrexpo expects to benefit from higher pellet premiums compared to 2017, reflecting agreements already reached with customers and the prevailing strength in demand for high-quality pellets.

From an operational point of view, costs remain subject to commodity prices, the Hryvnia exchange rate and inflation levels in Ukraine. Production volumes will reflect a 65-day pellet line shutdown in the second quarter of 2018. As such, first half 2018 production is expected to be in line with the first half of 2017. Production in the second half of 2018 is expected to be ahead of the second half of 2017.

Strategic Report

The 2017 Strategic Report, from pages 2 to 49, was reviewed and approved by the Board on 20 March 2018.

Steve Lucas
Chairman



CAT 793D truck operating in FYM pit

MARKET REVIEW
SERVICING THE DEMAND FOR PELLETS

EXTERNAL TRENDS

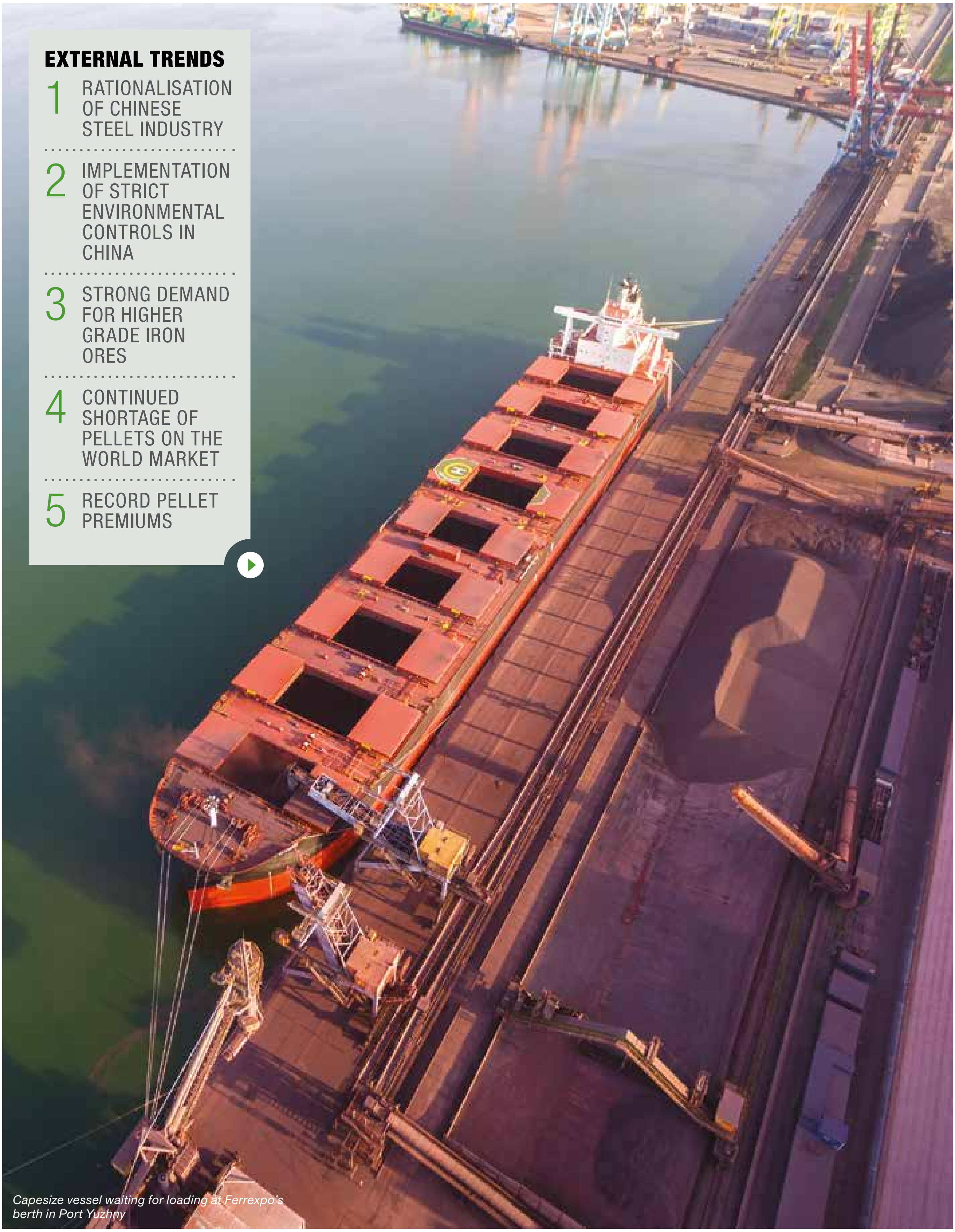
1 RATIONALISATION OF CHINESE STEEL INDUSTRY

2 IMPLEMENTATION OF STRICT ENVIRONMENTAL CONTROLS IN CHINA

3 STRONG DEMAND FOR HIGHER GRADE IRON ORES

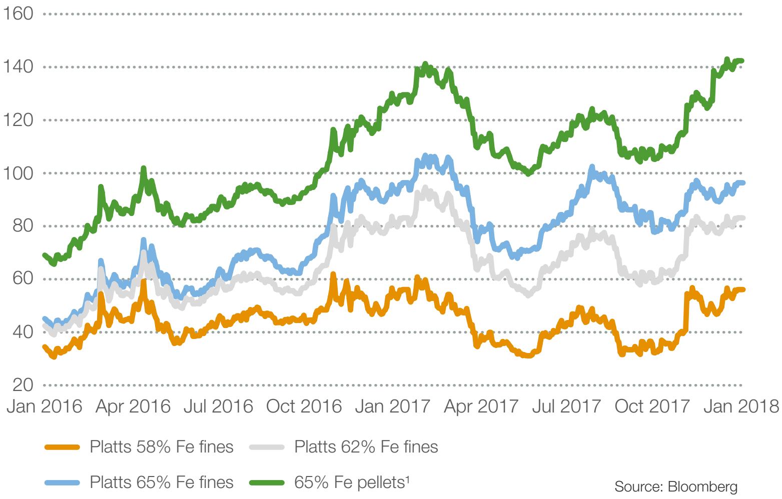
4 CONTINUED SHORTAGE OF PELLETS ON THE WORLD MARKET

5 RECORD PELLET PREMIUMS



Capesize vessel waiting for loading at Ferrexpo's berth in Port Yuzhny

Graph 1: Price Graph for Different Grades of Iron Ore
(US$ per tonne)



1 65% Fe pellet price is calculated as 62% Fe CFR fines price + Atlantic pellet premium + Fe premium (based on 62% Fe fines price).

Overview of the Iron Ore Market in 2017

Key developments in the steel and iron ore industry in 2017 included: (1) a significant increase in the anti-dumping duties imposed on steel products by many countries around the world; (2) ongoing Chinese government rationalisation of the steel industry as well as implementation of environmental controls to reduce emissions from the local production of pig iron and sintering; and (3) a widening price differential between low grade and high grade raw materials.

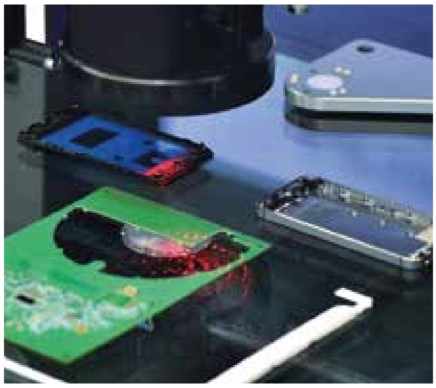
While anti-dumping duties gave traditional steel-producing countries good reason to lift their own steel production, in China around 50 million tonnes of steel capacity was closed during the year. At the same time, World Steel Association ("WSA") figures show that China increased its overall crude steel production to 832 million tonnes in 2017 (up from 787 million tonnes in 2016), which included a 30% reduction in steel exports, indicating healthy domestic demand.

The elimination of less efficient capacity in the Chinese steel industry increased the profitability of incumbent mills. Higher profitability led mills to maximise their steelmaking capacity, demanding higher quality inputs which also help to limit emissions.

Overall, global crude steel production expanded in 2017 by approximately 5.3% due to strong industrial demand and improving steel profitability (at a high since the global financial crisis in 2007). In terms of the markets most important to global iron ore, besides China, European steel output (including CIS countries) increased 3.8% to 313 million tonnes while North East Asia increased steel production by 1.7% to 175 million tonnes (Source: WSA).

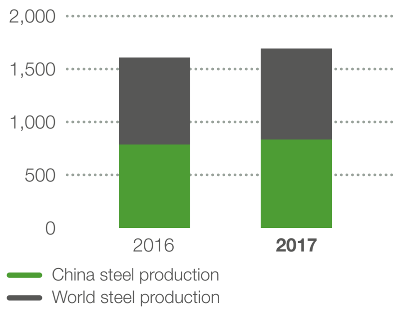
Higher steel production combined with high rates of productivity meant demand for iron ore pellet was strong throughout the year. While a limited supply of seaborne pellet resulted in pellet premiums trading at nine-year highs.

The average Platts 62% Fe iron ore fines price rose 22% in 2017 to US$71 per tonne (2016: average US$58 per tonne). While the average Platts 65% index increased 35% to US$88 per tonne (2016: average US$65 per tonne), implying strong demand for high grade products through the year. Conversely, the Platts 58% Fe price index decreased 4% in 2017 to an average of US$43 per tonne for the year (2016 average: US$45 per tonne) as low grade products were heavily discounted through most of the year. *Graph 1: Price Graph for Different Grades of Iron Ore* above shows the growing price differential through the year.



Ferrexpo's pellets are used for high quality steels

Steel and Iron Ore Production
(million tonnes)



MARKET REVIEW
CONTINUED

The Iron Ore Pellet Market
According to CRU, in 2017, iron ore pellets accounted for approximately 22% (443 million tonnes) of total iron ore consumption, while lump accounted for 16% (321 million tonnes) and fines 62% (1.2 billion tonnes), see *Table 1: Iron Ore Consumption.*

The proportion of actively traded pellets on global markets, however, comprises only around 8% of total exported iron ore, or the equivalent of 124 million tonnes in 2017. The majority of pellets are captive to certain steel mills or regions, while iron ore fines and lump are mined remotely and predominantly traded on the open (seaborne) market.

The largest consumers of pellets are in China, Russia, India, the USA and Iran (accounting for 65% of total pellet consumption in 2017). The largest importers of pellets are China, Japan, Germany, Saudi Arabia and Turkey, with Europe importing approximately 47 million tonnes, followed by North East Asia, which imported approximately 21 million tonnes in 2017.

Despite representing approximately 28% of global pellet usage, the 124 million tonne pellet export market sets the price for pellets through negotiations between a limited supply of independent pellet producers and steel mills.

The supply of actively traded pellets increased by a net 5 million tonnes in 2017 (2016: 119 million tonnes) from producers in India, Russia and Brazil, while pellet premiums were trading at a nine-year high. This would suggest that most pelletising plants elsewhere were already operating near capacity and could only increase production marginally despite attractive pellet premiums.

Table 1: Iron Ore Consumption

	2017 global consumption (Mt)	2017 % of total iron ore consumption	2017 exports (Mt)	Exports as a % of consumption
Pellets	443	22%	124	28%
Lump	321	16%	260	81%
Fines (incl. pellet feed)	1,230	62%	1,130	92%
Total iron ore consumption	**1,994**	**100%**	**1,514**	**76%**

Source: CRU Market Outlook January 2018

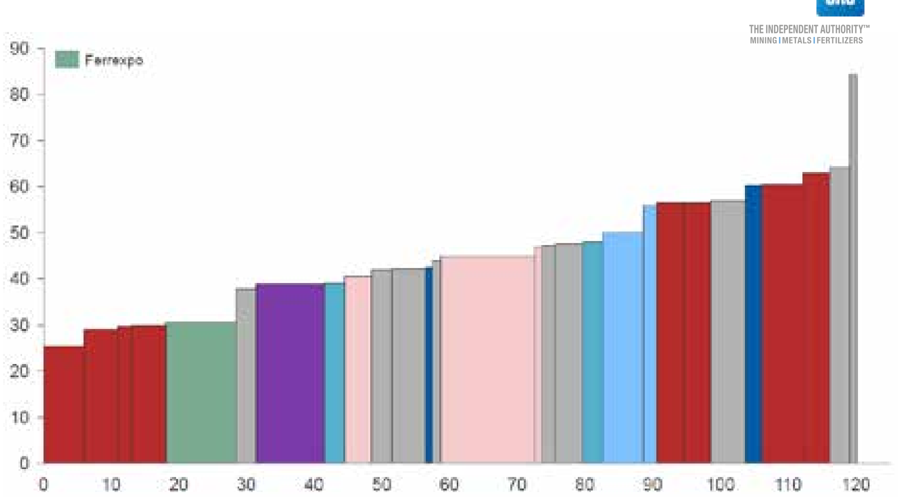
The table below shows that since 2010 exports of lump and fines have increased by 62% and 44% respectively while the supply of pellets has decreased by nearly 20%. 2010 marked the peak of pellet availability on the export market with 151 million tonnes, 27 million tonnes higher than 2017 levels, of which Samarco accounted for 25 million tonnes.

Table 2: Iron Ore Exports

	2010 exports (Mt)	2017 exports (Mt)	% change since 2010	2016 exports (Mt)
Exports of pellet	151	124	-18%	119
Exports of lump	160	260	62%	260
Exports of fines	787	1,130	44%	1,164
Total iron ore exports	**1,098**	**1,514**	**38%**	**1,543**

Source: CRU Market Outlook January 2018

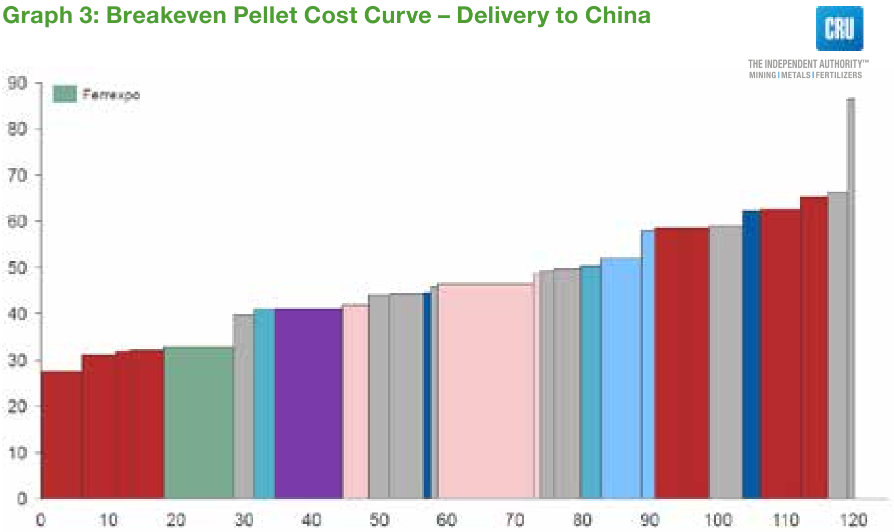
Graph 2: Breakeven Pellet Cost Curve – Delivery to Europe



y-axis: Business costs for pellet exports, 2017, CFR Rotterdam, US$/t
x-axis: Cumulative pellet exports, 2017, Mt

Definition: Business costs are the sum of realisation costs and site costs. Realisation costs include the cost of getting the material to market, the marketing of the material and the financing cost of selling the material. The power of business costs is that by adjusting all product qualities relative to the same benchmark (62% Fe fines product delivered to North China) it allows all mines to be compared on a cost curve on a like-for-like basis. This also means that by subtracting the benchmark price from the business costs for a mine you get an estimate of cash flow from that operation.

Graph 3: Breakeven Pellet Cost Curve – Delivery to China



y-axis: Business costs for pellet exports, 2017, CFR China, US$/t
x-axis: Cumulative pellet exports, 2017, Mt

Definition: Business costs are the sum of realisation costs and site costs. Realisation costs include the cost of getting the material to market, the marketing of the material and the financing cost of selling the material. The power of business costs is that by adjusting all product qualities relative to the same benchmark (62% Fe fines product delivered to North China) it allows all mines to be compared on a cost curve on a like-for-like basis. This also means that by subtracting the benchmark price from the business costs for a mine you get an estimate of cash flow from that operation.

Table 3: Global Pellet Exporters

Million tonnes	**2017 Blast furnace**	**2017 Direct reduction**	2016 Blast furnace	2016 Direct reduction
Vale (Brazil & Oman)	**20.8**	**17.1**	21.6	16.3
LKAB (Sweden)	**11.8**	**7.0**	12.0	6.5
Ferrexpo (Ukraine)	**10.5**	**–**	11.7	–
Rio Tinto (IOC, Canada)	**7.7**	**2.6**	8.0	1.8
Severstal (Russia)	**6.0**	**–**	4.9	–
Metalloinvest (Russia)	**5.6**	**0.1**	4.0	–
ArcelorMittal (QCM Canada)	**5.6**	**0.6**	5.1	0.8
Metinvest (Ukraine)	**4.8**	**–**	3.4	–
CMP (Chile)	**2.8**	**–**	2.4	–
Bahrain Steel	**2.8**	**–**	3.0	–
Grange (Australia)	**1.8**	**–**	2.7	–
Evraz	**0.5**	**–**	0.4	–
US Exports	**–**	**7.9**	–	8.4
Sub-total	**80.7**	**35.3**	79.2	33.8
Other	8			
Total pellet exports 2017 (BF+DR)	**124**			
Ferrexpo's share of total export market	**8.5%**			

Sources: CRU, government statistics, Bloomberg, Ferrexpo analysis.

Table 3: Global Pellet Exporters shows that of the 124 million tonnes of pellet exported in 2017, approximately 30% went to DRI production while the remaining 70% was utilised in blast furnace steel operations. DR pellets are typically higher grade and receive a US$5 to US$10 per tonne premium above the blast furnace pellet premium.

Graphs 2 and 3 detail the breakeven pellet cost curve for delivery to Europe and China respectively. Market concentration in the pellet export market is high, with the two largest suppliers of pellets by volume (coloured red and pink in Graphs 2 and 3) holding a market share of approximately 45%. In terms of their breakeven cost, both these exporters sit in the first, second, third and fourth quartile of the cost curve while the higher cost pellet producers require a breakeven 62% Fe CFR fines price of around US$70 per tonne. Ferrexpo is well positioned in the bottom half of the cost curve.

In order to satisfy high demand, the largest supplier has announced that it will bring back capacity in 2018 with the restart of operations which have been idled since 4Q 2012, and sit in the fourth quartile of the cost curve. CRU expects that this could add an additional 8 million tonnes to the seaborne market once in full operation (approximately 5 million tonnes in 2018).

The capacity restart of further seaborne supply remains uncertain in terms of timing and the volume to be produced.

Barriers to entry into the pellet market are high, with significant capital investment required. When developing a greenfield pellet operation it is usually necessary to invest in mining, beneficiation, pelletising and logistics capability. *Table 4: Recent Capacity Additions to the Pellet Market* shows the cost of the most recent capacity additions to the seaborne pellet market.

As a pellet exporter, which has established operations and is well positioned geographically to supply major import markets, Ferrexpo benefits from operating in a niche sub-sector of the iron ore market with high barriers to entry, at a low cost relative to the competition.

MARKET REVIEW
CONTINUED

Table 4: Recent Capacity Additions to the Pellet Market

New pellet capacity	Duration	Tonnes	Cost	Cost/tonne of pellet capacity	Description
Samarco	2011-2014	8.3Mt	R$6.459bn (US$3.251bn equivalent)	US$391/ tonne	Construction of 9.5Mt concentrator Construction of slurry pipeline with 20Mt capacity Construction of 8.3Mt pelletiser 9Mt increase in port capacity
Vale Tubarão VIII	2011-2015	7Mt	US$1.3bn	US$176/ tonne	Construction of pellet plant
Metalloinvest	2012-2015	5Mt	RUB16bn (US$460m equivalent)	US$92/ tonne	Construction of pellet plant
NMLK	2011-2016	6Mt	RUB41bn (US$1.4bn equivalent)	US$233/ tonne	Construction of pellet plant US$680m or US$113/tonne Expanded mining and beneficiation capacity

Source: Company announcements

Table 5: Consumption of Iron Ore per tonne of Hot Metal

Kg of Fe/tonne of hot metal	Europe	% of mix	NE Asia	% of mix	China	% of mix
Pellets	522	33%	171	11%	180	11%
Lump	119	7%	371	23%	213	13%
Fines	949	60%	1,069	66%	1,271	76%
Total	**1,590**		**1,611**		**1,664**	

Source: CRU statistical review January 2018

Pellet Utilisation Rates and Forecast Pellet Demand Growth

Pellet utilisation rates in a blast furnace vary regionally across the world. *Table 5: Consumption of Iron Ore per tonne of Hot Metal* shows the consumption of pellet, lump and fines per tonne of hot metal in Europe, North East Asia and China. Europe remains a large and globally important market for pellets whilst the proportion of sintering in China is high at close to 80% and North East Asia utilises a higher proportion of lump. Sintering is generally the most polluting part of steelmaking and has been targeted as part of the Chinese government's anti-pollution controls. In Europe and North East Asia, steel plants have limited sintering capacity while lump contains a higher level of impurities compared to pellets and, given it is naturally occurring, has an inconsistent form, making it a less reliable input compared to pellet. These factors limit the overall proportion of lump that can be used in a blast furnace and support the consumption of pellets going forward.

As with fines and lump, the largest consumer of pellets is China, consuming 144 million tonnes in 2017 compared to 135 million tonnes in 2016. In 2017, China produced approximately 125 million tonnes of pellet internally (2016: 120 million tonnes) and imported 19 million tonnes (2016: 15 million tonnes). China's own production of pellets peaked in 2010 at 140 million tonnes. CRU estimates that since 2016 China has closed approximately 60 million tonnes of pelletising capacity which was considered to be obsolete. Ferrexpo believes there is a large range of mining operations in China with a wide spectrum of cost structures; however, the marginal cost to produce concentrate in China is estimated to be approximately US$70 per tonne compared to the average 62% Fe fines price in 2017 of US$71 per tonne. As China is a large consumer of pellet, the high local cost of marginal pellet supply should support demand for imports of pellet.

The consumption of iron ore in 2017 was approximately 2 billion tonnes (see *Table 1: Iron Ore Consumption* on page 14); a 1% increase in the proportion of pellet in the blast furnace burden mix would lead to an additional 20 million tonnes of pellet demand.

Ferrexpo rail cars

PERFORMANCE REVIEW
A HIGH QUALITY IRON ORE SUPPLIER

The Group's Quality Upgrade Programme, completed in 2015, allowed Ferrexpo to fully capture the increase in market premiums for high quality iron ore, with its 65% Fe pellet product.

KOSTYANTIN ZHEVAGO, CEO

"THE GROUP'S CAPITAL ALLOCATION STRATEGY IS TO MAINTAIN AN APPROPRIATE BALANCE BETWEEN A STRONG BALANCE SHEET, ATTRACTIVE SHAREHOLDER RETURNS AND INVESTMENT IN GROWTH OPPORTUNITIES. THIS STRATEGY HAS BEEN DESIGNED TO REDUCE THE RISKS INHERENT IN OPERATING IN AN EMERGING MARKET WHILE SELLING OUR PRODUCT IN A VOLATILE COMMODITIES MARKET.

CHRIS MAWE
CHIEF FINANCIAL OFFICER

CHRIS MAWE, CFO

21%
INCREASE IN REVENUE
to US$1.2 billion

47%
INCREASE IN UNDERLYING EBITDA[A]
to US$551 million

108%
INCREASE IN PROFIT FOR THE YEAR
to US$394 million

FINANCIAL RESULTS

Summary

Strong demand for high quality iron ore in 2017 enabled Ferrexpo to achieve a record pellet premium for its product. The Group's Quality Upgrade Programme, completed in 2015, allowed it to fully capture the increase in market premiums for its 65% Fe pellet product, which represented a record 95% of total pellet output during the year.

While pellet premiums reached a record for the Group, costs per tonne increased from a ten-year low in 2016. The increase reflected higher costs for commodity priced inputs as well as the impact of a 7% decline in production volumes due to maintenance activities.

Underlying EBITDA[A] increased by 47% to US$551 million (2016: US$375 million) reflecting higher revenue partly offset by cost inflation. Profit for the year increased by US$205 million to US$394 million (2016: US$189 million). This was driven by the US$176 million increase in underlying EBITDA[A] as well as a lower net finance expense and lower reduction in write-offs and special items.

Ferrexpo continued to focus on further debt reduction in 2017. During the year, the Group repaid US$239 million of debt and net debt declined by US$186 million to US$403 million as of 31 December 2017 (31 December 2016: US$590 million).

Net debt has reduced by US$465 million since it peaked at US$868 million as of 31 December 2015, while net debt to underlying EBITDA[A] is at a six-year low and sits comfortably below 1x at 0.73x (2016: 1.57x).

Given its improved profitability and cash generation, the Group was pleased to announce an increase in dividends, and if the final ordinary dividend is approved by shareholders, dividends will total 16.5 US cents per share for the full year.

Revenue

Group revenue increased 21% to US$1.2 billion compared to US$986 million in 2016.

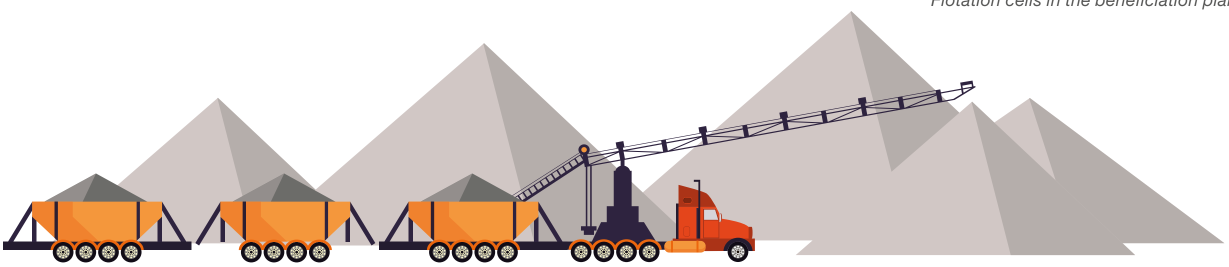
The Group's long-term contracts are all based on a spot index iron ore fines price using various reference periods and takes into account the cost of international freight, typically the C3 index from Brazil to China. Pellet premiums are typically negotiated annually, half-yearly or quarterly.

Ferrexpo's achieved price in 2017 increased by US$27 per tonne compared to 2016. This takes into account price movements in the benchmark Platts 62% Fe iron ore fines price as well as movements in pellet premiums and C3 freight.

In 2017, the 62% Fe iron ore fines spot price increased 22% with an average price of US$71 per tonne compared to US$58 per tonne in 2016.

Due to strong market demand for high grade pellets, the Group achieved a record average pellet premium. Overall, the Group's net pellet premium increased 86% compared to 2016 levels.

Flotation cells in the beneficiation plant



PERFORMANCE REVIEW
CONTINUED

The cost of international freight increased in 2017 due to strong demand and rising oil prices. The average C3 freight rate increased US$6 per tonne to US$15 per tonne. As such, turnover from international freight services increased to US$73 million compared to US$66 million in 2016.

Sales volumes for the year were 10.5 million tonnes compared to 11.7 million tonnes in 2016. Sales volumes in 2016 benefitted from a one-off destocking of approximately 400,000 tonnes of pellets which did not repeat in 2017. Sales volumes in 2017 were also impacted by lower production volumes. Pellet stocks as of 31 December 2017 were 390,000 tonnes compared to 369,000 tonnes at the end of 2016.

Costs

Cost of Goods Sold

Ferrexpo's total cost of goods sold was US$411 million in 2017 compared to US$400 million in 2016. The 3% increase primarily reflected higher commodity price inputs and an increase in maintenance activities and costs partly reduced by lower production levels.

C1 Cash Cost of Production[A]

The Group's C1 cash cost of production was US$32.3 per tonne compared to a ten-year low of US$27.7 per tonne in 2016. The US$4.6 per tonne increase reflected higher commodity prices, increased maintenance activity, increased mining activity and lower production volumes.

Costs of approximately US$53 million (or US$5 per tonne of pellet output) were incurred in the mining of lean (lower grade) ore which is currently being stockpiled and has, therefore, not been reported within the C1 cash cost of production, but is reflected in working capital. It is planned that this lean ore will be utilised once the Group has installed additional processing capacity.

For further information see Capital Investment on page 27.

The C1 Cash Cost of Production is regarded as an Alternative Performance Measure ("APM"). For further information see page 150.

Selling and Distribution Costs

Selling and distribution costs were US$220 million compared to US$210 million in 2016. The increase primarily reflected higher seaborne freight rates (see Revenue). As such, international freight increased by US$7 million to US$73 million.

Rail costs to transport pellets to border points for export increased marginally during the year, reflecting a 15% increase in domestic railway tariffs. This increase was partially offset by a slight depreciation of the Ukrainian Hryvnia against the US Dollar.

Currency

Ferrexpo prepares its accounts in US Dollars, whereas the functional currency of the Ukrainian operations is the Hryvnia.

During 2017 the Hryvnia devalued 3% from UAH27.19 per US Dollar as of 1 January 2017 to UAH28.07 per US Dollar as of 31 December 2017.

Ukrainian Hryvnia vs. US Dollar

	1 January 2017	31 December 2017	Average 2017	Average 2016
UAH per US$	27.19	28.07	26.60	25.55

Source: National Bank of Ukraine.

Local balances at 31 December 2017 are converted into the Group's reporting currency at the prevailing exchange rate. The devaluation of the Hryvnia during the financial year 2017 resulted in a US$41 million reduction in net assets, as reflected in the translation reserve.

CAT 793D truck in FYM pit

Operating Foreign Exchange Gains/Losses

Given the functional currency of the Ukrainian subsidiaries is the Hryvnia, a devaluation of the Hryvnia against the US Dollar results in foreign exchange gains on the subsidiaries' US Dollar denominated receivable balances (from the sale of pellets). The lower operating foreign exchange gains in 2017 of US$6.7 million (2016: US$13.8 million) reflected a relatively stable Hryvnia against the US Dollar during the year.

Non-operating Foreign Exchange Gains/Losses

Non-operating foreign exchange gains/losses are mainly due to the conversion of loans in currencies different to the functional currency of certain subsidiaries of the Group, and are the net effect from a lower devaluation of the Hryvnia to the US Dollar in 2017 compared to 2016 and a significantly stronger appreciation of the Euro to the US Dollar. The Euro appreciated from 0.956 per US Dollar to 0.838 per US Dollar in 2017.

Profit Before Tax and Finance

Profit before tax and finance increased by US$187 million to US$496 million compared to US$309 million in 2016, principally reflecting a US$177 million increase in operating profit to US$490 million (2016: US$314 million) due to higher sales prices partly offset by lower sales volumes and cost inflation.

Interest and Debt

Gross debt reduced by 32% in 2017 and as of 31 December 2017 was US$501 million (31 December 2016: US$734 million). This reflected repayment of US$194 million of the Group's outstanding Pre-Export Finance ("PXF") facility, US$26 million Export Credit Agency debt and a US$19 million repayment of trade finance facilities.

In November 2017, the Group secured a new PXF facility of US$195 million. The interest rate on this facility is 450 basis points + 3-month US LIBOR.

PERFORMANCE REVIEW
CONTINUED

Due to the fall in gross debt, finance expense was US$55 million during the period (2016: US$67 million). The average cost of debt for the period ended 31 December 2017 was 8.0% (average 2016: 6.7%). The increased average rate reflected amortisation of the Group's PXF facilities which have a lower cost compared to the Group's outstanding US$346 million Eurobond, partly offset by lower average borrowings.

With the first redemption of the Group's Eurobond in April 2018 for US$173 million (the second and final redemption is in 2019 for US$173 million) Ferrexpo expects its interest expense to reduce in 2018 and 2019 subject to increases in LIBOR. As of 31 December 2017, approximately 24% of its debt was floating and 76% fixed.

For further details, see Liquidity and Debt Maturity Profile on page 23.

Tax
In 2017, the Group's tax charge was US$55 million, resulting in an effective tax rate of 12.3% compared to 18.2% in 2016, or US$42 million.

The effective tax rate in 2017 reflected a partial de-recognition of the deferred tax asset on the provision for restricted cash balances as well as recognition of a deferred tax asset at Ferrexpo Yeristovo Mining ("FYM") related to losses incurred in prior periods. This was partially consumed in 2017 and is expected to be fully offset against future taxable profits.

For further information see Note 12 of the financial statements.

Profit for the Year from Continuing Operations
Profit for the year increased by US$205 million to US$394 million (2016: US$189 million). This was primarily driven by a strong year-on-year increase in EBITDA of US$176 million, as well as a US$12 million reduction in net finance expense, a US$19 million year-on-year increase in non-operating forex gains, and a US$11 million reduction in write-offs and allowances (recorded as special items) offset by a US$13 million increase in corporate profit taxes.

For further information on special items see Note 7 and Note 10 respectively of the financial statements.

Cash Flows
Net cash flows from operating activities were US$353 million in 2017 compared to US$332 million in 2016. This reflected a working capital outflow of US$110 million during the year compared to an inflow of US$9 million in 2016.

In 2017, working capital included an outflow of US$53 million (2016: US$42 million) related to the increase in stocks of lower grade iron ore. This ore is expected to be processed once the Group has additional beneficiation capacity in place.

In 2016, working capital benefitted from a US$29 million pre-payment from two customers. This pre-payment was reversed in 2017 and, in addition, balances due from customers increased by US$3 million during the year due to higher market prices and timing of sales which were weighted towards December.

Inventories increased by US$26 million in 2017 partly due to higher commodity cost inflation as well as higher spare parts and raw materials due to an increase in maintenance activities and a restocking of items to normal levels following a destocking in 2015 and 2016.

During the year, Ferrexpo received all VAT outstanding on a regular monthly basis. In 2016, Ferrexpo received a refund of US$27 million of pre-paid corporate profit tax relating to prior years which was reflected in a decrease in VAT recoverable and other taxes recoverable and payable in the cash flow statement.

Capital Investment[A]
Capital expenditure[A] in 2017 was US$103 million compared to US$48 million in 2016. Of this, US$79 million was sustaining capex (2016: US$48 million) with US$20 million related to development stripping at FYM. Investment into growth projects was US$24 million (2016: nil).

In 2017, the Group re-commenced Phase 1 of its concentrate expansion programme which was postponed in 2015. The project will increase production of pellet feed by approximately 1.5 million tonnes per annum and is expected to cost an additional US$65 million to complete by 2020. The total cost of the project is US$120 million, of which US$48 million was incurred prior to deferment and US$7 million was incurred in 2017.

During 2017, Ferrexpo invested US$4.4 million in the development and exploration of the Belanovo, Galeschyno and the Northern Deposits (2016: US$0.5 million).

Ferrexpo also commenced engineering studies to expand its pelletising capacity above its current nameplate capacity of 12 million tonnes per annum.

For further information see Strategy in the Chairman's Statement on page 9 and Capital Investment in the Performance Review on page 27.

Dividends
A final ordinary dividend of 3.3 US cents per share is being proposed (2016: 3.3 US cents), as well as a final special dividend for the year of 6.6 US cents (2016: 3.3 US cents). If the final ordinary dividend is approved by shareholders, the total dividend related to 2017 will be 16.5 US cents per share (2016: 6.6 US cents per share).

The special dividend will be paid on 16 April 2018 to shareholders on the register at the close of business on 3 April 2018. Subject to approval at the Group's AGM, payment of the final ordinary dividend will be made on 27 June 2018 to shareholders on the register at the close of business on 1 June 2018. The dividend will be paid in UK Pounds Sterling with an election to receive US Dollars.

Overview of FYM operations

Liquidity[A] and Debt Maturity Profile
As of 31 December 2017, Ferrexpo's total available liquidity[A] was US$312 million (2016: US$145 million) consisting of US$98 million cash and US$214 million in committed facilities (including a new US$195 million PXF and available facilities of US$19 million on an existing PXF). In addition, the Group has up to US$80 million of unused trade finance facilities.

Net debt declined by US$186 million to US$403 million as of 31 December 2017 (31 December 2016: US$589 million). Net debt to underlying EBITDA[A] for the last 12 months was 0.73x compared to 1.57x as of 31 December 2016.

Total debt outstanding, as of 31 December 2017, was US$501 million (31 December 2016: US$734 million). This comprised of US$113 million drawn under a 2013 PXF facility with three quarterly instalments of US$38 million remaining (completing in 3Q 2018); a US$346 million Eurobond maturing in equal parts in April 2018 and April 2019, and US$39 million of Export Credit Agency ("ECA") funding maturing over the next four years.

In 2018, the Group has US$309 million of debt amortisations consisting of a US$173 million Eurobond redemption, US$113 million PXF repayment and US$23 million of ECA amortisations.

The PXF facility of US$195 million will amortise over eight quarters with final repayment on 31 December 2020. During 2017, Ferrexpo considerably strengthened its balance sheet and improved its liquidity. This was reflected by credit rating upgrades on Ferrexpo's long-term corporate and debt rating from B- to B with a positive outlook from Fitch and stable outlook for S&P. S&P, Fitch and Moody's all rate Ferrexpo's debt one notch above the Ukraine sovereign rating.

Following the successful closure of a new PXF in 2017, Ferrexpo may look to further extend its debt maturity profile in 2018 using the PXF market or other debt capital markets.

PERFORMANCE REVIEW
CONTINUED

Part of the beneficiation plant at FPM

OPERATIONAL REVIEW

Marketing

Total sales volumes in 2017 were 10.5 million tonnes (2016: 11.7 million tonnes) with the Group's premium 65% Fe pellet representing a record 95% of total pellet output during the year (2016: 94%).

Completion of the Group's Quality Upgrade Programme in 2015 has allowed Ferrexpo to improve its price realisations and has led to a narrowing of the price gap between itself and the benchmark pellet price.

Due to lower production levels in 2017, Ferrexpo focused on servicing its existing long-term customer portfolio. *Table 1: Sales Volume by Market Regions* shows that the customer mix remained stable compared to 2016. The countries the Group sells the most to are Austria, Germany and Japan.

Table 1: Sales Volume by Market Regions

	2017	2016
Central Europe	**49%**	48%
Western Europe	**15%**	17%
North East Asia	**16%**	16%
China and South East Asia	**12%**	13%
Turkey, the Middle East, India	**8%**	6%
Total sales volume (million tonnes)	**10,467**	**11,697**

The Group's pricing formula for its long-term contracts are all based on a spot index iron ore fines price, usually the Platts 62% Fe iron ore fines price, for various reference periods, and takes into account the cost of international freight, typically the C3 index, as well as a pellet premium which is typically negotiated.

Table 2: Sales Volume by Average Reference Period for Iron Ore Fines Calculation shows the split of sales volume agreed according to the average reference period used for the iron ore fines price calculation. Most of the Group's contracts are based on the average iron ore fines price for the month of sale or for the quarter of sale.

Table 2: Sales Volume by Average Reference Period for Iron Ore Fines Calculation

	2017	2016
Current month	**61%**	66%
One month forward	**8%**	12%
Current quarter	**20%**	11%
Lagging three-month quarter	**9%**	10%
Spot fixed on day	**2%**	1%
Total sales volume (million tonnes)	**10,467**	**11,697**

In terms of the reference period used for the calculation of pellet premiums in the sales price formula, it is common practice in the industry for long-term pellet supply contracts to fix a pellet premium on annual basis. There are some exceptions, for example spot sales; however, in 2017 and historically, the majority of Ferrexpo's pricing has been based on annual pellet premiums.

For further information regarding sales prices and freight rates see Financial Results, Revenue on page 19.

For further information see Overview of the Iron Ore Market in 2017 on page 13.

PRODUCTION

Health and Safety

Most regrettably there was a fatality at FPM during the year when a truck driver was fatally injured whilst performing maintenance. The circumstances have been thoroughly investigated, with findings shared across the Group and further safety procedures put in place. In 2016, there were two work-related fatalities at the Group's operations.

There were a total of 23 lost-time injuries ("LTIs") across the Group in 2017 (2016: 22), equating to an LTI frequency rate ("LTIFR") of 1.17, in line with 2016. Table 3 below details the LTIFR as per million man hours worked across the Company's mining and processing operations in Ukraine and its barging subsidiary for 2017 and 2016.

FYM was LTI free for 19 months from February 2016 to August 2017, while the Group's barging subsidiary, DDSG, was LTI free for nine months from October 2016 to June 2017, a record for DDSG. Unfortunately, the barging operations experienced five minor accidents in the second half of 2017, with the principal cause being slips, trips and falls. DDSG is working to eliminate such incidents.

Table 3: Lost-Time Injury Frequency Rate

LTIFR	2017	2016
– FPM	**1.03**	1.14
– FYM	**0.74**	0.38
– FBM	**0.00**	0.00
Mining entities	**0.98**	1.01
Barging	**4.32**	3.70
Group	**1.17**	1.17

Most of the accidents reported have been traced back to non-compliance with internal safety procedures. The Group leadership is focused on improving understanding of safety protocols and adherence to standards, combined with training to ensure better awareness of the consequences of risk-taking in the operational environment.

Pellet Production

Pellet production in 2017 was 10.4 million tonnes, compared to 11.2 million tonnes in 2016. The Group's 65% Fe pellet represented a record 95% of total pellet output during the year (2016: 94%); however, overall production levels were impacted by constraints in the processing and pelletising plants.

In 2017, production was impacted by an increase in required maintenance (planned and unplanned). In the first half of the year, output reflected a 55-day refurbishment of pellet line number 4. This is part of a programme to refurbish all four of the Group's pellet lines, as is required approximately every 15 to 20 years. FPM completed the refurbishment of line number 3 in 2014. Due to the low iron ore price environment in 2015 and 2016 further refurbishments were deferred until 2017. The third line will be refurbished over approximately 65 days in 2Q 2018 and the refurbishment of the remaining line is planned for the first half of 2019.

The Group has a project underway to expand its concentrate capacity to increase its output of pellets to nameplate capacity of 12 million tonnes per annum. For further details see Capital Investment on page 27.

The table below summarises production in 2017 and 2016.

Table 4: Production Statistics

(000't unless otherwise stated)	2017	2016	Change
Iron ore processed	**27,230**	29,335	-7.2%
Average Fe content	**33.69%**	33.74%	-0.05ppt
Concentrate produced ("WMS")	**12,807**	14,006	-8.6%
Average Fe content	**63.12%**	62.78%	0.34ppt
Pellets produced from own ore	**10,394**	11,071	-6.1%
FBP	**559**	666	-16.1%
Average Fe content	**62.58%**	62.44%	0.14ppt
FPP	**6,789**	7,070	-4.0%
Average Fe content	**64.85%**	64.88%	-0.03ppt
FPP+	**3,046**	3,336	-8.7%
Average Fe content	**64.85%**	64.88%	-0.03ppt
Pellets produced from purchased concentrate	**50**	129	-61.2%
Total pellet production	**10,444**	11,201	-6.8%
Total Group stripping volume (million m³)	**33,826**	22,623	49.5%

Note: Ferrexpo Basic Pellets ("FBP"), Ferrexpo Premium Pellets ("FPP") and Ferrexpo Premium Pellets plus ("FPP+"). In 2017, Ferrexpo produced 37,000 tonnes of pellet feed for sale with an average Fe content of 67.2% (2016: 123,000 tonnes, average FE 67.5%).

In July 2017, FPM's mining licence was renewed for a further 20 years until 2037. FYM's mining licence was renewed in 2012 and will expire in 2032.

PERFORMANCE REVIEW

CONTINUED

Production Costs

The Group's C1 cash cost of production was US$32.3 per tonne compared to a ten-year low of US$27.7 per tonne in 2016.

Graph 1: C1 Cash Cost Per Tonne[A] shows how the Group's C1 cash cost of production has moved relative to the iron ore fines price since 2007. Approximately 60% of Ferrexpo's C1 cash cost of production is commodity related, including fuel, electricity, gas, explosives and steel grinding media. In times of relatively high iron ore prices, the cost of production tends to increase due to commodity cost inflation; however, during periods of low commodity prices the cash cost is reduced.

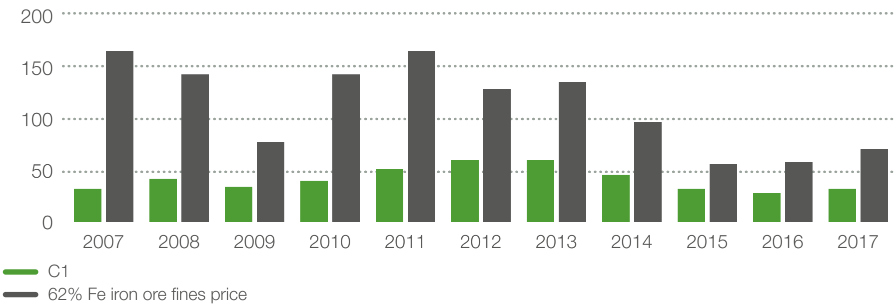
Of the US$4.6 per tonne increase in the C1 cash cost in 2017 compared to 2016, approximately 36% (or US$1.65 per tonne) reflected higher commodity prices, while increased maintenance activity represented 20% (or US$0.90 per tonne) of the increase and approximately 16% (or US$0.73 per tonne) was due to lower production volumes. Increased stripping activity at FYM, in preparation for future expansion, represented c.18% (or US$0.83 per tonne) of the cost increase.

Ukrainian producer price inflation was approximately 16.5%[1] on average compared to 2016. Local cost inflation, specifically related to higher electricity tariffs and wages, increased the C1 cost by US$1.3 per tonne. The Hryvnia was relatively stable against the US Dollar, depreciating by 3%, and it did not impact costs of production materially.

Approximately half of the Group's cost of sales is incurred in Hryvnia, with electricity costs the largest component. However, the electricity cost also has exposure to the US Dollar as approximately 35% of electricity generation in Ukraine comes from thermal coal which is priced in US Dollars. In terms of logistics costs incurred within Ukraine, approximately 90% are in Hryvnia. Overall, roughly 55% of the Group's total cost base is denominated in Hryvnia.

1 Source: www.ukrstat.gov.ua

Graph 1: C1 Cash Cost Per Tonne[A] Through the Commodities Cycle
(US$ per tonne)



The table below shows the Group's C1 cash cost[A] by raw material input.

Breakdown of C1 cash cost per tonne	2017	2016
Electricity	**28%**	31%
Fuel	**9%**	7%
Gas	**10%**	12%
Materials	**14%**	16%
Spare parts	**7%**	6%
Maintenance	**8%**	6%
Personnel	**8%**	6%
Grinding bodies	**9%**	8%
Royalties	**5%**	5%
Explosives	**2%**	3%

CO_2 Emissions

The table below shows the Group's CO_2 intensity ratio was 242 kilograms per tonne of pellets produced in 2017 compared to 235 kilograms per tonne of pellets produced in 2016.

Emissions in tonnes	2017	2016	Change
Total CO_2 emissions	**2,614,449**	2,703,272	-3.3%
Scope 1 (direct emissions generated by Ferrexpo from natural gas, diesel, coal, oil, explosives etc)	**554,763**	550,591	0.76%
Scope 2 (indirect emissions purchased by Ferrexpo from electricity and steam)	**1,974,997**	2,079,329	-5.0%
Pellets produced (thousand tonnes)	**10,444**	11,201	-6.8%
Intensity ratio (kilogram per tonne of pellets produced) (Scope 1 & 2 only)	**242.22**	234.79	3.2%
Scope 3 (emissions derived from living matter such as biofuels)	**84,689**	73,352	15.5%

Note: Calculation for the Group's Scope 2 CO_2 emissions for 2016 has been amended due to a correction to the conversion factor applied for the calculation of emissions from steam.

Electricity, which the Group purchases from the national grid in Ukraine, represented approximately 75% of the Group's total emissions in 2017. CO_2 from this source reduced 5% due to increased use of lower carbon inputs in Ukraine's electricity generation (as calculated by EBRD[1]), such as nuclear and hydro power, as well as due to a 7% decline in production levels. Gas, which represented 9% of the Group's total emissions in 2017, reduced 14% due to lower production volumes as well as an increase in substitution with sunflower husks. In 2017, sunflower husks replaced 19% of gas consumption with the Group consuming 116,000 tonnes of husks compared to 100,000 tonnes in 2016. Diesel consumption represented 8% of the Group's total CO_2 emissions in 2017. Emissions from diesel increased 22% during the year due to increased mining activities.

Overall, Ferrexpo's intensity ratio increased 3% year-on-year due to higher mining activity, while production volumes reduced, reflecting increased maintenance activities in the processing plant.

Mining and Production Efficiencies

The Group has several projects underway which contribute to cost savings, efficiency improvements and enhanced health and safety standards. These include efficiency gains in shovel and dragline dig rates as well as a transition to 100% liquid emulsion blasting media. The transition to emulsion blasting media has resulted in increased rock fragmentation. This has improved excavator and shovel dig rates and reduces equipment wear and tear. It also yields power savings and reduced maintenance cost in the crushing plant. Other efficiency projects include the use of automatic pit drills, drones for automatic surveys of the pit area and the commencement of the creation of a centralised mining control hub for FYM and FPM. This follows the consolidation of FPM and FYM's maintenance centre for mobile equipment. The Group is also focused on improving its fixed plant maintenance processes and procedures to ensure they are best in class and deliver improved reliability.

Ferrexpo will continue to implement small-scale projects aimed at improving productivity and efficiency to reduce operating costs.

Capital Investment[A]

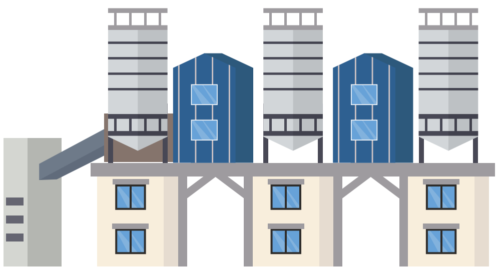
Capital investment during the year focused primarily on sustaining capex, including refurbishment of pelletiser line number 4. For further information see Pellet Production on page 25.

In 2017, following deferral of growth projects in 2015, FPM recommenced Phase 1 of its concentrate expansion programme to address bottlenecks in the concentrator. Once completed, by 2020, the Group will be able process an additional 6 million tonnes of raw ore, producing approximately 1.5 million tonnes of pellet equivalent concentrate. To date, approximately US$55 million has been spent on purchase of equipment and long-lead items and it is expected that it will cost an additional US$55 million to complete.

Exploration and initial pre-stripping activities at Ferrexpo Belanovo Mine, the Group's next mining deposit to be developed, occurred during the year. The project will be accelerated subject to market conditions and demands for additional high quality ore, in line with requirements of the Group's growth projects.

Ferrexpo has initiated studies to expand its pelletising capacity from 12 million tonnes to over 20 million tonnes by increasing the capacity of each of its four pelletising lines, together with the required increases to mining and concentrate capacity to support a higher level of production.

The Group has multiple options to increase its mining, processing and pelletising capacity. However, any investment will be subject to cash flows and market conditions.



1 European Bank for Reconstruction and Development

STRATEGIC FRAMEWORK

Ferrexpo's strategy is to produce and export high quality pellets to premium steel mills around the world who produce sophisticated steel products. It aims to be a low cost, efficient producer with a reliable logistics infrastructure.

TOP FIVE STRATEGIC PRIORITIES	WHAT WE SAID WE WOULD DO IN 2017
1 Produce high quality pellets	– Continue to produce 65% Fe pellets ("FPP") with consistent quality and low variability
2 Be a low cost producer	– Maintain a competitive cost of production – Optimise fleet management system to further enhance mining fleet productivity – Dragline boom monitoring programme in conjunction with Monash University to increase working load – Mill to mine optimisation programme to improve mill operation and throughput and reduce power consumption – Consolidate Group functions to service "one" Ferrexpo
3 Sell to a world class customer portfolio	– Maintain a diverse customer base between Europe and Asia – Consolidate market share gains in premium markets
4 Maintain a social licence to operate	– Eliminate fatal accidents and reduce the LTIFR – Support the community through various initiatives – Reduce consumption of key inputs such as electricity and gas, and reduce emissions per tonne
5 Maintain appropriate capital allocation between a strong balance sheet, returns to shareholders and investment for growth	– Access the bank or debt markets if required

Over the medium to long term, and subject to cash flows and adequate financial return, the Group intends to increase its pellet output to over 20 million tonnes. The Group looks to consistently reduce business risk and deliver sustainable value to all stakeholders over the long term.

WHAT WE DID	WHAT WE AIM TO DO IN 2018
– Production of 65% Fe pellet represented a record 95% of total pellet output in 2017 – Overall production fell 7% due to maintenance in the pelletiser	– Maintain consistent quality in line with customer expectations – Complete refurbishment of pellet line number 1
– Exceeded benchmark effective dig rates on shovels and draglines – Transitioned to 100% emulsion blasting, improving rock fragmentation, reducing equipment wear and tear, and yielding power savings and lower maintenance costs – Consolidated FPM and FYM's mobile maintenance centre – Continued to improve fixed plant maintenance processes and procedures	– Increase production levels to improve efficiencies and reduce C1 cash cost – Continue to implement small-scale projects to improve productivity and reduce operating costs
– The Group focused on servicing its existing long-term customer portfolio split between Central Europe, Western Europe, North East Asia, China and South East Asia, and Turkey, Middle East and India	– Continue to focus on servicing the Group's long-term customer base – Maintain a geographically diversified portfolio of crisis-resistant customers
– Most regrettably, there was one fatality in 2017 – The LTIFR was in line with 2016 at 1.17x – Continued to provide financial support to community initiatives – CO_2 emissions fell 4% in 2017 due to lower use of electricity and gas. Due to lower overall production, emissions per tonne increased 3%	– Support the community through various initiatives – Eliminate fatal accidents and target zero lost time injuries – Reduce consumption of key inputs such as electricity and gas, and reduce emissions per tonne
– Secured a US$195 million pre-export credit facility – Increased Group liquidity to US$312 million (2016: US$145 million) – Reduced net debt to US$403 million (31 December 2016: US$589 million) – Last 12 months net debt to EBITDA 0.73x as at 31 December 2017 (2016: 1.57x) – Increased dividends to 16.5 US cents per share (2016: 6.6 US cents) – Increased capital investment to US$103 million (2016: US$48 million)	– If market conditions are appropriate, look to extend the Group's debt maturity profile – Subject to cash flows, continue to pay dividends – Subject to cash flows, further resume development capex to expand the Group's concentrate and pelletising capacity

For more on our Key Performance Indicators, see pages 30–31

For more on our Principal Risks, see pages 34–39

For more on being a Responsible Business, see pages 41–49

KEY PERFORMANCE INDICATORS

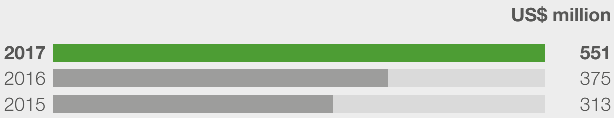
The Group has refined its reporting of KPIs to focus on those most relevant to the Annual Report. It has also provided a clearer linkage between financial and operational KPIs.

FINANCIAL KPIs

UNDERLYING EBITDA[A]

The Group calculates underlying EBITDA as profit from continuing operations before tax and finance plus depreciation, amortisation, share-based payments and special items. Underlying EBITDA measures the Group's ability to generate cash as well as provides a useful measure of operating performance excluding certain non-cash items.

In 2017, EBITDA increased by US$176 million, principally due to higher sales prices partly offset by cost inflation.

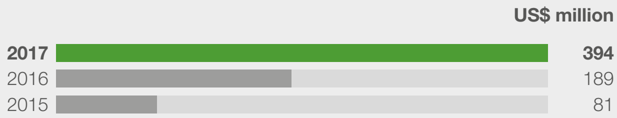


STRATEGIC LINK
1 2 3 4 5

PROFIT FOR THE YEAR

In addition to Alternative Performance Measures, Ferrexpo considers the IFRS results of the Group to be an important measurement of profitability.

In 2017, profit for the year was up 108% to US$394 million.

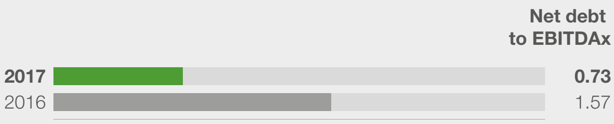


STRATEGIC LINK
1 2 3 4 5

NET DEBT TO UNDERLYING EBITDA[A]

Ferrexpo uses net debt to underlying EBITDA to monitor its debt levels relative to profitability. It is an industry standard measurement used to determine relative levels of indebtedness.

In 2017, net debt to underlying EBITDA reduced to 0.73x.

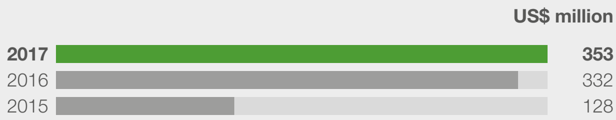


STRATEGIC LINK
1 2 3 4 5

NET CASH FLOW FROM OPERATING ACTIVITIES

Net cash flow from operating activities represents the cash flow generation ability of the Company and indicates available cash flow for investments, returns to shareholders and debt reduction.

In 2017, net cash flow from operating activities increased 6% to US$353 million.



STRATEGIC LINK
1 2 3 4 5

NON-FINANCIAL KPIs

LOST-TIME INJURY FREQUENCY RATE AND FATALITIES

It is the Group's highest priority to ensure its employees operate in a safe environment. The LTIFR is an industry standard measurement and an important indicator of how safe the work environment is.

The LTIFR in 2017 was in line with 2016 at 1.17x.

	LTIFRx
2017	**1.17**
2016	1.17
2015	0.96

STRATEGIC LINK

1 2 3 4 5

PRODUCTION VOLUME

Production volumes measure the Group's ability to meet customer demand as well as providing an indication of the Group's operational performance.

In 2017, production reduced 7% due to maintenance of the Group's pelletising lines.

	Mt
2017	**10.4**
2016	11.2
2015	11.7

STRATEGIC LINK

1 2 3 4 5

C1 CASH COSTS[A]

This is the cash costs of production of iron pellets from own ore, divided by production volume from own ore. This is an industry standard measurement and assesses Ferrexpo's relative competitiveness compared to other pellet producers. It is an important measure to assess the Group's ability to withstand periods of volatile iron ore pricing.

In 2017, Ferrexpo's C1 cash cost of production increased by US$4.6 per tonne to US$32.3 per tonne.

	US$ per tonne
2017	**32.3**
2016	27.7
2015	31.9

STRATEGIC LINK

1 2 3 4 5

SALES VOLUME BY REGION

Ferrexpo believes it is important to have a diversified customer base so as to be able to withstand periods of volatility in specific regions.

In 2017, Ferrexpo focused on servicing its existing long-term customer portfolio.

		%
Turkey, Middle East & India	**2017**	**8**
	2016	6
	2015	6
China & South East Asia	**2017**	**12**
	2016	13
	2015	22
North East Asia	**2017**	**16**
	2016	16
	2015	12
Western Europe	**2017**	**15**
	2016	17
	2015	11
Central Europe	**2017**	**49**
	2016	48
	2015	49

STRATEGIC LINK

1 2 3 4 5

RISK MANAGEMENT

The Group has established risk management and internal control systems which support the identification, understanding and mitigation of the key risks that it faces.

Approach
The Group's risk management processes provide a framework to support the identification, prioritisation and management of the risks involved in the Company's activities. It is not and cannot be designed to eliminate risk, particularly in an emerging market economy. Ferrexpo's risk management policies and procedures have been established to identify and analyse the risks faced by the Group, to set appropriate limits and controls and take relevant mitigating actions where considered by the Board of Ferrexpo and its executive management to be beneficial.

Risk Assessment
The Group's risk matrix is regularly reviewed and monitored by the Executive Committee and its sub-committee, the Finance and Risk Management Committee, as well as the Audit Committee and the Board. This review process includes ensuring that any new risks are identified, their potential impact on the Group assessed and appropriate controls established. The risks identified are ranked based on the potential impact and the probability of occurrence in order to assess their impact on the Group's operation and viability. The impact and the probability are reassessed on a regular basis based on latest developments in the Group's macro and micro environment. It is the responsibility of the Group's Executive Committee to define appropriate actions to adequately monitor those risks and establish an effective control environment. The controls are generally conducted by the Group's internal audit function or members of the Executive Committee and updates are provided to the Executive Committee and the Board.

Risk Governance
The Ferrexpo Board is ultimately responsible for defining the Group's attitude to risk and ensuring that appropriate systems of risk management and internal control are established and embedded across the Group, in conformity with its desired risk management culture. Its responsibility extends to ensuring that the principal risks faced by the Group are robustly assessed and that the Company's exposure to such risks are aligned with its strategic objectives.

The Audit Committee assists the Board in its regular monitoring of risk exposures and the Group's risk matrix, and is responsible for evaluating the adequacy and effectiveness of the established risk management and internal control systems. It also oversees how management monitors compliance with risk management policies and procedures, with assistance from the Group internal audit function which conducts ad-hoc reviews of risk management controls and procedures as part of its annual programme of work. For more information relating to the Audit Committee's monitoring and assessment of the effectiveness of the risk management and internal control systems, see the Audit Committee Report on page 61.

The Finance and Risk Management Committee oversees the centralised financial risk management structures, while the Corporate Safety and Social Responsibility Committee monitors safety, environment and community risks and the Executive Compliance Committee monitors compliance risks.

These three committees assist the Audit Committee and Board in the identification and analysis of risk. Assurance on the internal control and risk management systems is provided in the form of management information, reports and updates from the Group internal audit function, external audits and the oversight by the Executive Committee, Audit Committee and Board.

2017 Risk Assessment
The risks set out in the matrix were assessed by the Finance and Risk Management Committee, Executive Compliance Committee and the Audit Committee, as appropriate, and the risks identified as posing the biggest threat to the Company's operations (based on their potential impact and taking account of the mitigating measures in place) were analysed in order to identify the principal risks faced by the Group for assessment by the Board. The principal risks identified are set out on pages 34 to 39.

At each Board meeting throughout the year, the Board reviewed the risk register and assessed the risks facing the Company over both the short and long term. The Viability Statement is set out on page 40.

RISK MANAGEMENT PROCESS

FERREXPO BOARD
– Overall responsibility for maintaining sound risk management and internal control systems
– Sets strategic objectives and defines risk appetite
– Monitors the nature and extent of risk exposure

AUDIT COMMITTEE
– Support the Board in monitoring risk exposure and risk appetites
– Review effectiveness of risk management and control systems

EXECUTIVE COMMITTEE
– Assess and mitigate Company-wide risk
– Monitor internal controls

CSR COMMITTEE
– Oversight of CSR matters and performance

FINANCE AND RISK MANAGEMENT COMMITTEE
– Monitor centralised financial risk management structures

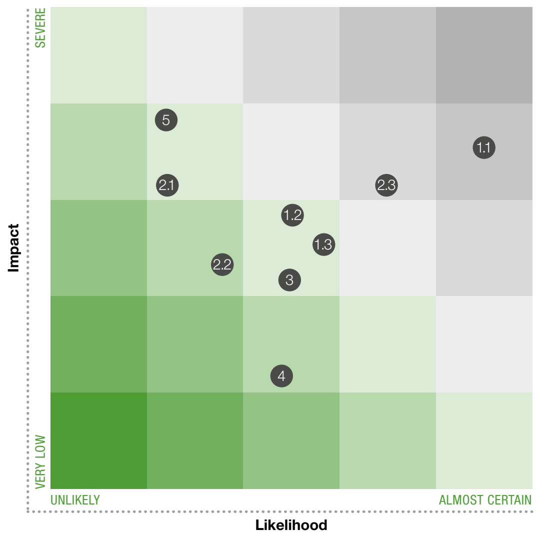
EXECUTIVE COMPLIANCE COMMITTEE
– Monitor Group compliance
– Monitor Group and local compliance officers

INTERNAL AUDIT FUNCTION
– Support the Audit Committee in reviewing the effectiveness of risk management
– Internal control systems

OPERATIONAL LEVEL
– Risk management processes and internal controls embedded across all Ferrexpo operations

RISK MATRIX HEAT MAP

The risks identified in the heat map to the right highlight which could have the greatest impact (shaded grey) on the Group's operations and viability.



PRINCIPAL RISKS

The list of the principal risks and uncertainties facing Ferrexpo's business that are listed 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.

In order to provide a more concise overview of the principal risks facing Ferrexpo, it has grouped the risks into nine categories compared to 17 risks reported in 2016. Most of the principal risks reported in 2016 are still present but have been grouped under more general headings. Interest rate risk, however, is no longer considered to be principal and has been removed.

All risks and their mitigations are actively considered monthly at the Group's Finance and Risk Management Committee meetings based on detailed analysis.

Ferrexpo operates in the mining industry where there is an inherent level of risk present due to the nature of its operations. In addition, the iron ore fines price (which forms a major component of the Group's received price) is volatile, while the Group's asset base is located in Ukraine, an emerging market. As such, Ferrexpo recognises and accepts the risks present in its business and looks to mitigate them where possible.

The Board of Ferrexpo has ultimate responsibility for the identification of risks and associated mitigation strategies.

1. REALISED PRICE

The pricing formula used for long-term contracts in the pellet industry is, in general, based on the Platts 62% Fe iron ore fines prices, a negotiated pellet premium (usually agreed annually) and the cost of international freight (usually referenced to the C3 index). Ferrexpo's achieved price can vary significantly from period to period as it is dependent on the global price for 62% Fe iron ore fines, pellet premiums and freight (all of which Ferrexpo has little or no control over as a price taker).

1.1. LOWER IRON ORE PRICES (EXTERNAL RISK) — CHANGE ↗

ROOT CAUSE AND IMPACT

A decline in the 62% Fe iron ore fines price will reduce Group revenue, profitability and cash generation. A reduction in cash generation could impact the Group's ability to fund maintenance and development capital investment. Lower levels of maintenance investment could result in lower production volumes, further reducing cash generation and impacting balance sheet strength.

The iron ore fines price averaged US$71 per tonne in 2017 compared to US$58 per tonne in 2016. Most market analysts expect the price to fall in 2018 and 2019, averaging US$63 per tonne and US$59 per tonne respectively[1]. For further information on iron ore prices and the market environment see pages 12 to 16.

RESPONSIBILITY

n/a – Ferrexpo's market share of the total iron ore market is very low and, as such, it is considered a price taker.

RISK APPETITE: Medium

STRATEGIC LINK

1 2 3 4 5

MITIGATION

Ferrexpo is a low cost producer and is currently in the lowest quartile of the cost curve. Ferrexpo's operating costs are partly linked to commodity prices. In times of low prices for the end product, costs are also typically reduced. Furthermore, the Ukrainian Hryvnia is a commodity-related currency and historically it has depreciated during periods of low commodity prices.

Ferrexpo regularly reviews options to hedge the price of its output; however, its current strategy is to not enter into hedging agreements. Ferrexpo has maintained positive profit through the iron ore price cycle.

1 As of 14 February 2018 expected average price comprises forecasts from 13 investment banks.

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

1. PRODUCE HIGH QUALITY PELLETS
2. BE A LOW COST PRODUCER
3. SELL TO A WORLD CLASS CUSTOMER PORTFOLIO
4. MAINTAIN A SOCIAL LICENCE TO OPERATE
5. MAINTAIN APPROPRIATE CAPITAL ALLOCATION BETWEEN A STRONG BALANCE SHEET, RETURNS TO SHAREHOLDERS AND INVESTMENT FOR GROWTH

1.2. PELLET PREMIUMS AND PELLET SUPPLY (EXTERNAL RISK) — CHANGE ↘

ROOT CAUSE AND IMPACT

Ferrexpo receives a pellet premium for its product in addition to the iron ore fines price. Currently, a substantial portion of its profitability is due to this premium. The average Atlantic pellet premium from 2011 to 2017 was US$35 per tonne.

Average pellet premiums in 2017 were over 70% higher than 2016 and traded at a nine-year high. The outlook for premiums in 2018 is good, with the average premium expected to increase.

Approximately 10 million tonnes of high cost pellet supply is expected to re-enter the market during 2018 and 2019. Steel mills, however, are currently enjoying high levels of demand and profitability, underpinning pellet demand. Post 2018, it is possible that pellet supply which is currently not in production will re-enter the market. This could coincide with a reduction in steel mill profitability, impacting demand for pellets and resulting in an oversupply of pellets to the market. A decrease in the pellet premium would reduce the Group's revenue, profitability and cash generation.

RESPONSIBILITY

Chief Marketing Officer and CEO.

RISK APPETITE: Medium

STRATEGIC LINK

1 2 3 4 5

MITIGATION

Ferrexpo sells high quality pellets which underpins demand for its product throughout the commodity cycle. Should the pellet premium decline, Ferrexpo has one of the lowest pellet conversion costs in the industry, which should ensure that it is able to remain a competitive producer.

For further information on pellet premiums and the market environment see pages 12 to 16.

1.3. SEABORNE FREIGHT RATES (EXTERNAL RISK) — CHANGE ↗

ROOT CAUSE AND IMPACT

As iron ore is a bulk commodity, seaborne freight rates are an important component of the cost to deliver product to a customer. An increase in freight rates will reduce the net price received from a customer while a reduction in freight rates will increase the net price received from a customer.

Seaborne freight rates, such as C3, are published by the Baltic Exchange and represents the cost for ocean transportation for iron ore from the Brazilian port of Tubarao (where the largest seaborne pellet supplier is based) to Qingdao, China (the largest steel producer in the world).

As Ferrexpo sells to international customers, the price it receives includes reference to C3 or other appropriate global benchmarks.

Freight rates are largely influenced by the price of oil. In 2017, the average C3 freight rate increased to US$15 per tonne from US$9 per tonne in 2016.

RESPONSIBILITY

Chief Marketing Officer and Group Freight Manager.

RISK APPETITE: Medium

STRATEGIC LINK

1 2 3 4 5

MITIGATION

Ferrexpo has its own in-house freight and distribution specialists who procure freight competitively on behalf of the Group. Ferrexpo's geographic proximity to its European customers is a competitive advantage compared to other iron ore producers.

PRINCIPAL RISKS
CONTINUED

2. OPERATING RISKS

2.1. OPERATING RISKS AND HAZARDS INCL. MINING, PROCESSING AND LOGISTICS (COMPANY SPECIFIC RISK) CHANGE

ROOT CAUSE AND IMPACT

Ferrexpo operates large-scale mining operations which can pose significant challenges and environmental risks. This may result in production-related shortfalls or shutdowns due to geotechnical incidents, mining or processing equipment failure as well as logistics bottlenecks.

The Group's operations require sustaining capital expenditure and repair and maintenance programmes to ensure availability of equipment. A reduction in sustaining capital or repairs and maintenance expenditure can result in equipment failure.

Production stoppages will increase costs and lower output. It can also reduce the quality of the product and lead to late delivery to customers. Lower volumes, higher costs, financial penalties due to poor quality and late delivery of product can impact the Group's cash generation ability, reducing liquidity levels, impacting capital investment levels as well as balance sheet strength. The late delivery of product can also impact the Group's ability to perform according to customer contracts and impact its ability to renew contracts in the future.

RESPONSIBILITY

Chief Operating Officer, Chief Marketing Officer, Operating Committee, Executive Committee, Board of Directors.

RISK APPETITE: Low

STRATEGIC LINK

1 2 3 4 5

MITIGATION

During the year the Group completed a 55-day refurbishment of pelletiser line number 4. Pelletiser line number 3 was refurbished in 2014. The Group plans to refurbish the final two pellet lines in 2018 and 2019 respectively. See pages 25 to 27, and page 44 for a description of the factors impacting the Group's operations in 2017.

In 1Q 2015, the Group completed a Quality Upgrade Programme which has allowed Ferrexpo to increase the overall quality of its product. Since 2007, Ferrexpo has invested more than US$2.15 billion, which has included modernisation of existing equipment and investment in its logistics capabilities.

Where possible, Ferrexpo owns its own logistics infrastructure. This includes 2,252 rail cars, which reduce reliance on state rail cars for transportation of pellets to border points, 150 barges for transportation of pellets into Central Europe, and a 49.5% interest in the port of TIS Ruda on the Black Sea, which guarantees the Group independent access to seaborne markets, avoiding reliance on the state port.

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

1. PRODUCE HIGH QUALITY PELLETS
2. BE A LOW COST PRODUCER
3. SELL TO A WORLD CLASS CUSTOMER PORTFOLIO
4. MAINTAIN A SOCIAL LICENCE TO OPERATE
5. MAINTAIN APPROPRIATE CAPITAL ALLOCATION BETWEEN A STRONG BALANCE SHEET, RETURNS TO SHAREHOLDERS AND INVESTMENT FOR GROWTH

2.2. HEALTH AND SAFETY RISKS (COMPANY SPECIFIC RISK)

CHANGE ↘

ROOT CAUSE AND IMPACT

The mining and processing of iron ore is often associated with a hazardous working environment as it includes the use of explosives and the operation and repair of heavy machinery, amongst other things. Failure to provide a safe working environment for the Group's workforce and failure to ensure an improved and sustained performance in safety behaviour can impact the Group's social licence to operate. Fatalities and lost time injuries also result in production stoppages as well as negatively impact employee moral.

During 2017, there was one fatality compared to two fatalities in 2016. A total of 23 lost time injuries occurred across the Group during the year compared to 22 in 2016. The lost time injury frequency rate per million man hours worked was 1.17, in line with 2016.

RESPONSIBILITY

Chief Operating Officer, Operating Committee, Executive Committee, CSR Committee, Board of Directors.

RISK APPETITE: Low

STRATEGIC LINK

1 2 3 4 5

MITIGATION

Safety performance is regularly reviewed throughout the organisation.

All accidents are fully investigated, using Incident, Cause and Analysis methodology. To eliminate reoccurrence, the significant incident register is reviewed six-monthly to update controls and develop additional actions.

Safety training is regularly provided to employees to instil a culture of accountability. The goal of these safety workshops is to emphasise and ensure that all employees understand and appreciate the importance of strict adherence to safety procedures and that protection of our employees is paramount.

A "near miss" reporting process has been established to learn from low consequence events.

Employee remuneration is linked to safety performance.

Ferrexpo has modernised its mining and production facilities, improving safety and environmental performance.

2.3. OPERATING COST INCREASES (EXTERNAL RISK)

CHANGE ↗

ROOT CAUSE AND IMPACT

The production of iron ore pellets is a more capital intensive process than other types of iron ore production as it requires the enrichment of relatively low grade ore into a high grade product. As such, in general, pellet producers have higher operating costs per tonne of output than producers of iron ore fines or lump.

Approximately 60% of Ferrexpo's C1 cash cost of production is commodity related, including fuel, electricity, gas, explosives and steel grinding media. In times of relatively high iron ore prices the cost of production tends to increase due to commodity cost inflation; however, during periods of low commodity prices the cash cost is reduced. In addition, over half of the Group's operating costs, including in-land logistics costs, are incurred in Ukrainian Hryvnia.

As such, the Group's cost of production is sensitive to local inflation, exchange rate fluctuations between the Hryvnia and the US Dollar and US Dollar commodity cost inflation.

In 2017, the Group's C1 cash cost increased from US$28 per tonne to US$32 per tonne. See page 25 to 27 for a description of the factors impacting operating costs.

RESPONSIBILITY

Chief Operating Officer, Operating Committee, Finance and Risk Management Committee, Executive Committee, Board.

RISK APPETITE: Low

STRATEGIC LINK

1 2 3 4 5

MITIGATION

Ferrexpo sits in the bottom quartile of the pellet cost curve. Many of its costs which relate to commodity prices will impact its peers to a similar extent. As such, in times of higher commodity prices the Group should be able to maintain its cost competitiveness relative to its competitors.

Ferrexpo looks to increase production volumes to ensure fixed cost dilution and enable the Group to offset (to some extent) external cost inflation. The Group has a Business Improvement Programme aimed at increasing efficiencies and reducing costs by 1% to 2% per annum.

The Ukrainian Hryvnia is a commodity-related currency and historically has depreciated during periods of low commodity prices.

PRINCIPAL RISKS

CONTINUED

3. UKRAINE COUNTRY RISK (EXTERNAL RISK) CHANGE

ROOT CAUSE AND IMPACT

Ukraine has been an independent country since 1991. During this time, the country has witnessed two revolutions, in 2004 and in 2014. It has also been subjected to the annexation of Crimea, and there is an ongoing conflict in Eastern Ukraine. The general political instability has negative social and economic consequences and is capable of damaging Ferrexpo's ability to operate without disruption in Ukraine.

Economic weakness can reduce the government's ability to fund social services, leading to tensions within local communities. It can also impact the government's ability to meet payment obligations to exporters (such as VAT refunds) and/or lead to higher taxes (including increased royalty payments). Services provided by state monopolies such as the supply of electricity, gas and freight transportation can also be disrupted in this environment. This can affect Ferrexpo's ability to export product reliably.

Transparency International ranks Ukraine as 130th out of 176 countries in terms of the level of perceived corruption (with 176th being regarded as the most corrupt). There is a risk that counterparties are involved in activities that are not in compliance with relevant international standards. Further, a weak judicial system can be susceptible to outside influences and can take an extended period of time for courts to reach final judgment.

The Group holds mining licences and the other permits required to carry out mining operations. If mining licences were to be revoked or not renewed, Ferrexpo's ability to continue to produce pellets would be at risk.

Ukraine is a recipient of IMF funding for which, in return, the government has undertaken to implement a number of systemic reforms. In August 2017, Moody's rating agency upgraded Ukraine's sovereign rating from Caa3 to Caa2 with a positive outlook. The driver for the upgrade was based on the cumulative impact of structural reforms that, if sustained, are expected to improve the government's financial position. The rating upgrade was constrained by the government's heavy debt maturity profile over the next several years that is expected to require additional foreign currency lending.

In 2017, Ferrexpo raised new debt facilities, extended FPM's mining licence for 20 years and received all outstanding VAT.

Also see "Debt maturity profile – impact".

RESPONSIBILITY

Ferrexpo Board of Directors and CEO.

RISK APPETITE: Medium

STRATEGIC LINK

1 2 3 4 5

MITIGATION

Ferrexpo prioritises sufficient liquidity levels and strong credit metrics to ensure smooth operations should geopolitical or economic weakness disrupt the financial system of the country.

Ferrexpo makes meaningful contributions to national and local communities.

Ferrexpo invests in energy efficiency, including alternative fuels to augment gas consumption, and maintains close contact with electricity suppliers.

Ferrexpo has established several sources of suppliers for key products as well as several supply routes.

Ferrexpo maintains and invests in its logistics capabilities to ensure available capacity to better service its customers, lower costs and reduce reliance on state providers.

Ferrexpo prioritises a strong internal control framework including high standards of compliance and ethics.

Ferrexpo monitors its commitments under its various mining licences in order to ensure conditions contained within the licences are fulfilled or the appropriate waivers are obtained.

For further information on Ukraine see page 10 of the Strategic Report.

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

1. PRODUCE HIGH QUALITY PELLETS
2. BE A LOW COST PRODUCER
3. SELL TO A WORLD CLASS CUSTOMER PORTFOLIO
4. MAINTAIN A SOCIAL LICENCE TO OPERATE
5. MAINTAIN APPROPRIATE CAPITAL ALLOCATION BETWEEN A STRONG BALANCE SHEET, RETURNS TO SHAREHOLDERS AND INVESTMENT FOR GROWTH

4. TAX (EXTERNAL RISK)

CHANGE ↔

ROOT CAUSE AND IMPACT

Ferrexpo is a large taxpayer in Ukraine and also pays tax internationally. The growing complexity of tax legislation around the world can result in unforeseen tax payments. Ferrexpo is subject to transfer pricing regulations both locally and internationally. The Base Erosion and Profit Shifting ("BEPS") project initiated by the G20 and OECD is likely to increase scrutiny of cross-border tax transactions and may result in challenges from different jurisdictions.

Legislation and regulations are not always clearly written and are subject to varying interpretations and inconsistent enforcement by local, regional and national Ukrainian tax authorities, and other governmental bodies. The uncertainty of application and the evolution of Ukrainian tax laws, including those affecting cross-border transactions, could result in additional tax payments having to be made by the Group which would reduce cash flows and impact liquidity levels.

For further information see Note 12 of the financial statements.

RESPONSIBILITY

Chief Financial Officer, Finance and Risk Management Committee.

RISK APPETITE: Medium

STRATEGIC LINK

1 2 3 4 5

MITIGATION

Ferrexpo conducts transparent and open dialogue with local, regional and national tax authorities. Its tax strategy is in line with best international standards and it is in compliance with all known requirements. The Group regularly takes advice on tax matters from Ukrainian and international tax experts.

5. DEBT MATURITY PROFILE (EXTERNAL RISK)

CHANGE ↘

ROOT CAUSE AND IMPACT

Ferrexpo operates in a volatile commodity market while the majority of its assets are based in Ukraine, which has a weak country credit profile as defined by international credit rating agencies. From 2013 until 2016, the debt capital markets for commodity producers with assets in Ukraine were closed due to geopolitical factors as well as low commodity prices. As such, the Group can experience periods where the capital markets are closed or where the cost of funding increases significantly.

In 2018, Ferrexpo has US$309 million of debt amortisations falling due, and in 2019 US$283 million of amortisations fall due.

In November 2017, Ferrexpo raised a new bank facility of US$195 million at 450 basis points + US LIBOR compared to the Group's 2017 average cost of debt of 8%. As of 31 December 2017, the Group had strong credit metrics with total liquidity of US$312 million (including the new bank debt facility) and net debt to EBITDA of 0.73x.

If the 62% Fe iron ore fines price or the pellet premium was to fall significantly in 2018 or 2019 without any offsetting impact from cost reductions, it could affect the Group's cash generation and its ability to meet debt amortisations.

RESPONSIBILITY

Chief Financial Officer, Finance and Risk Management Committee.

RISK APPETITE: Medium

STRATEGIC LINK

1 2 3 4 5

MITIGATION

Ferrexpo has a strong balance sheet with prudent credit metrics, enabling it to attract additional debt facilities should it be required.

Ferrexpo is a low cost producer and has maintained positive profit through the iron ore price cycle, including an average EBITDA margin of 36% from 2007 to 2017.

VIABILITY STATEMENT

The Board monitors the Group's risk management and internal control systems on an ongoing basis, and confirms that during the year it carried out a thorough assessment of the principal risks facing the Group, their potential impact and the mitigating strategies in place, as described on pages 32 to 39.

The principal risks include those that would threaten the Group's business model, future performance, liquidity or solvency.

Time Horizon

The Board has reviewed the long-term prospects of the business. which remain aligned with Ferrexpo's life of mine assumptions.

For the purposes of assessing the Group's viability in the medium term, the Directors have chosen a five-year time period given the long-life nature of mining assets, including the period required to invest in such assets and taking into account the cash flows generated by those assets, as well as the cyclical nature of the commodities industry. As such, a five-year time period was considered an appropriate length for the Board's strategic planning period.

Stress Testing

In determining the viability of the business, the Directors have stress tested the individual risks and combination of risks that could materially impact the future viability of the business.

The Group is primarily exposed to changes in global iron ore prices (the 62% Fe iron ore fines CFR China price and the pellet premium). A US$1 per tonne fall in the received price for the Group's iron ore pellets would, if not mitigated, reduce the Group's annual EBITDA by approximately US$10 million. Other stress test scenarios included operational incidents that have a significant impact on production volumes, a deterioration in the Group's long-term cost position on the industry cost curve or other operating constraints due to Ukrainian country risk.

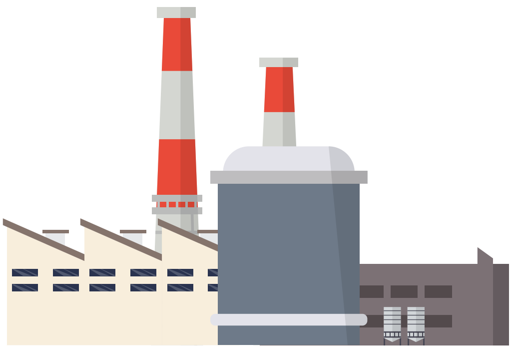
The scenario analysis includes severe situations outside the normal course of business, such as a breakdown in the linkage between the movements of the iron ore price with other commodity prices, notably the oil price which forms a significant component of the Group's cost base or an appreciation of the Ukrainian Hryvnia when the iron ore price is weak.

Mitigating actions include a reduction or cancellation of discretionary expenditure such as capital investment, dividends or other operating costs, adjusting capital allocation, reducing working capital requirements, altering mining schedules and accessing additional funding.

The Directors take comfort in the Group's historic cash generation ability, particularly in 2015 and 2016 at a time when the iron ore price was trading at a cyclical low. Since 1 January 2016, the Group has reduced its net financial indebtedness by US$465 million and currently has strong credit metrics.

Prospects

The Directors believe the viability of the Group under these scenarios remains sound, principally due to Ferrexpo's low cost position on the iron ore cost curve, its high quality product that commands a price premium, a first class customer portfolio, a well invested asset base together with supportive industry fundamentals for iron ore pellet consumption.



A RESPONSIBLE BUSINESS
ENSURING A LONG-TERM SUSTAINABLE FUTURE

Responsible business covers Ferrexpo's interaction with its workforce, surrounding communities, natural environment and ethical business practices, and is key to the long-term success of its business model.

WE ARE DELIGHTED THAT OUR RESPONSIBLE BUSINESS ACTIVITIES HAVE BEEN RECOGNISED THROUGH INCLUSION IN THE FTSE4GOOD INDEX IN 2017, A SERIES OF ETHICAL INVESTMENT STOCK MARKET INDICES DESIGNED TO MEASURE PERFORMANCE OF COMPANIES WITH STRONG ENVIRONMENTAL, SOCIAL AND GOVERNANCE PRACTICES.

VIKTOR LOTOUS
CHAIRMAN, CORPORATE SAFETY AND SOCIAL RESPONSIBILITY COMMITTEE

For more information, see our Responsible Business Report – www.ferrexpo.com

This year Ferrexpo celebrated its 40th year of continuous operation, and the 10th year since the Group listed on the London Stock Exchange. Since listing, Ferrexpo has invested more than US$2.15 billion in its operations to maintain and extensively modernise its equipment and expand production. It has continued to train and develop a skilled and diverse workforce, and engaged with stakeholders to ensure a successful partnership with local communities, with the Company's continued uninterrupted operations seen as evidence of this partnership working.

As an important business both within Ukraine and the global iron ore pellet market, Ferrexpo's high quality pellet supply represents approximately 8.5% of the global seaborne trade in iron ore pellets, making the Company the third largest exporter. Within Ukraine, Ferrexpo Poltava Mining was recognised in 2017 as being one of the largest taxpayers and is one of the largest employers in the Poltava Region, with the Group employing over 9,000 people at its operations and directly engaging with a further 1,600 contractors.

The Group supported various charities and contributed US$28 million for national and local community projects in action during 2017, representing over 2% of Group revenue.

Ferrexpo was proud to be recognised in 2017 for its efforts to present its Responsible Business Report with inclusion in the prestigious FTSE4Good Index, an index measuring the performance of companies demonstrating strong Environmental, Social and Governance ("ESG") practices, which includes other mining companies such as Anglo American, Rio Tinto and BHP Billiton.

Further to previous years, the Company also intends to release a standalone Responsible Business Report later this year.

A RESPONSIBLE BUSINESS

CONTINUED

Children at a Ferrexpo-sponsored kindergarten

GOVERNANCE AND MANAGEMENT FRAMEWORK

A key priority during the year was the development of a reporting system for corporate responsibility performance data. As a result, reporting became centralised and data has been collected through the Group's accounting system.

The CSR Committee, which is accountable for most of the areas covered by the Responsible Business Report, met four times in 2017, and assists the Board in its oversight of responsible business related activities.

The diagrams below highlight the CSR governance structure at Ferrexpo and a framework of how responsible business considerations (in green) are fully embedded within the corporate strategy.

GOVERNANCE STRUCTURE

THE BOARD
Oversight of responsible business matters and performance

CSR COMMITTEE[1]
Chairman – **Viktor Lotous**
Members – **Steve Lucas, Kostyantin Zhevago, Bert Nacken, Greg Nortje**
Secretary – **David Leonard**

EXECUTIVE COMMITTEE
Focus on priorities and execution of responsible business activities

HEALTH & SAFETY	COMMUNITY	WORKFORCE	ENVIRONMENT & SUSTAINABLE RESOURCES

STRATEGIC RELATIONSHIPS – LICENCE TO OPERATE

Employees and contractors	Communities	Suppliers	Customers	Capital providers and shareholders	Government and regulators

1 Viktor Lotous – FPM Chief Operating Officer and Head of Managing Board; Steve Lucas – Ferrexpo plc Non-executive Chairman; Bert Nacken – independent Non-executive Director; Greg Nortje – Group Head of Human Resources; Kostyantin Zhevago – CEO. The Group's Chief Operating Officer, Jim North, though not a member of the CSR Committee, was present at all Committee meetings during the year.

ENGAGING OUR STAKEHOLDERS

ASSESSING KEY ISSUES

Where issues are considered to be material to Ferrexpo stakeholders, they are included in the Group's priorities and managed as part of the responsible business strategy. The diagram opposite details the key issues:

INCREASING CONCERN TO STAKEHOLDERS

– Occupational health	– Employment and turnover – Contracts and collective bargaining	– Health & safety performance – Financial performance – Direct value generated
– Learning and development of personnel – Diversity – Resettlement and closure plans – Responsible purchasing	– Energy usage – Greenhouse gases and climate change	– Community recreational facilities – Sustainable usage of resources and Business Improvement Plan
	– Emissions – Water management – Waste generation	– Community projects – Code of conduct

INCREASING CURRENT OR POTENTIAL IMPACT ON FERREXPO

OUR APPROACH TO BEING A RESPONSIBLE BUSINESS

OUR OPERATIONS

LOGISTICS

WORKFORCE

MARKETING

PROCESSING

RESOURCE BASE

MINING

OUR RESPONSIBLE APPROACH

OUR PEOPLE
- Safety
- Occupational health
- Diversity
- Local hiring
- Training and development
- Employment and turnover
- Contracts and collective bargaining

ECONOMIC INDICATORS AND BUSINESS ETHICS
- Financial performance
- Local investment (including purchasing) and recruitment
- Direct value generated
- Code of conduct
- Responsible purchasing

COMMUNITY
- Community support donations
- Government relations
- Resettlement and closure plans

ENVIRONMENT
- Energy
- Water
- Greenhouse gases
- Other air emissions
- Land use and rehabilitation

OUR STAKEHOLDERS

GOVERNMENT

INVESTORS

SUPPLIERS

WORKFORCE

COMMUNITIES

CUSTOMERS

CAPITAL PROVIDERS

A RESPONSIBLE BUSINESS
CONTINUED

OUR PEOPLE

One of Ferrexpo's core strengths is in its engaged, talented workforce. Ferrexpo's employees and contractors are key stakeholders in the Company's continued success, with health and safety, corporate culture and diversity all important factors for retaining a motivated workforce.

Port operators at Yuzhny, Ukraine

Mine operators, Ferrexpo Poltava Mining

TRAINING WORKFORCE:

+49%

MORE TRAINING COURSES UNDERTAKEN IN 2017

KPIs

GOAL	PERFORMANCE
To operate fatality free:	One fatality in 2017 ↘
Maintain injury frequency rate below peers:	LTIFR remains in line with 2016 and sustained at a level below peers →

Health and Safety

The health and safety of the Company's stakeholders is of paramount importance to the business. Health and safety practices are constantly reviewed, with preventative measures taken to ensure a safe working environment and the wellbeing for all employees and contractors. Each year, the Company targets continuous improvement in all safety-related work practices.

The Company's health and safety principles include:

- assessing employee exposure to hazards and guarding against harm by providing training and protective equipment and clothing;
- ensuring that there are adequate emergency response procedures and equipment;
- following all applicable legal and regulatory requirements;
- providing appropriate resources and training relating to health and safety management; and
- investigating harmful incidents, understanding their causes and putting in place risk mitigation measures.

The Company regrets to report that safety performance was marred by one fatality in 2017. In February 2017, a truck driver was fatally injured in an accident during routine maintenance of his vehicle in the maintenance department. The Company's approach is that all injuries are preventable and, accordingly, a thorough investigation has been undertaken and appropriate remedial actions have been implemented to ensure no repeats.

The Company measures day-to-day safety performance through recording of lost time injuries ("LTIs"), which are incidents that result in an employee or contractor missing a day of work, per million hours worked, referred to as the Lost Time Injury Frequency Rate ("LTIFR"). Ferrexpo has published its LTIFR since listing in 2007 and continues to do so in order to provide a consistent benchmark for future performance. Ferrexpo's Group LTIFR for 2017, covering employees and contractors at its operations in Ukraine and at its barging subsidiary, was 1.17, a result in line with 2016.

Corporate Culture

Ferrexpo strives to train and develop its workforce at all levels. In October 2017, Ferrexpo hosted its second Senior Leadership Conference in Kiev, bringing together the top 60 future leaders of the business to cascade the Group's long-term business strategy. As part of the Group's talent management process, an inaugural Business Leadership Programme was launched in 2017, focusing on the development of senior leaders in business critical positions and identified successors, with 19 participants attending a ten-week inaugural programme. The programme was run in partnership with the House of Knowledge, a Kiev-based training organisation affiliated with the Edinburgh Business School.

A total of 9,648 vocational training courses were undertaken by employees, a rise of 49% on 2016. The main areas driving this increase was an additional 536 employees undertaking safety training at FPM and the "Master School" programme that commenced in March 2017, whereby 127 employees in first line supervisory roles were trained by specifically selected senior leaders in courses ranging from leadership, project management, finance for non-professionals and risk management. In addition, over 900 employees received training on the prevention of bribery and corruption, the Group's code of conduct and modern slavery risks. See Ethical Business on page 47.

Workforce

In 2017, the Ferrexpo Group employed an average of 9,063 employees across the Company's operations in Ukraine, corporate offices in Switzerland and the UK, and marketing offices in Kiev, Dubai, Tokyo and Shanghai, a decrease of 59 on 2016, with this decrease relating to natural attrition of the Company's workforce in Ukraine. The average number of contractors at Ferrexpo operations increased by 282 to 1,602 in 2017 as a result of additional contract maintenance of the Company's pelletiser.

It is the Company's policy to employ a diverse workforce and currently 29% of the Company's workforce is female, a figure significantly ahead of Ferrexpo's peers. In addition, 20% of management positions across the Company were held by women (2016: 21%), with the Company targeting an increase in this number to 24% by 2021. Additionally, in gender diversity steps being undertaken, Ukrainian legislation recently changed in December 2017 to remove restrictions on the deployment of women in specific operational roles, and the Company is now seeking to hire female truck drivers in its operations and is targeting deployment by the end of 2018.

Participants at the Senior Leadership Conference, Kiev (October 2017)

DEVELOPING OUR WORKFORCE:

9,648

EMPLOYEE TRAINING COURSES UNDERTAKEN IN 2017

MAJOR EMPLOYER:

9,000

NEARLY 9,000 EMPLOYED IN UKRAINE, ONE OF THE LARGEST BUSINESSES IN THE COUNTRY

Modern Slavery

The Company complies with the UK Modern Slavery Act 2015 and has taken steps to ensure human trafficking and slavery are not part of the Company's supply chain or business. For further details, please see the Company's statement on the Modern Slavery Act on the Company's website.

A RESPONSIBLE BUSINESS

CONTINUED

ENVIRONMENT

Ferrexpo's operations cover over 5,000 hectares, and the Company carefully monitors its environmental footprint to manage and mitigate its impact on the natural environment. Examples of monitoring include energy and water usage, emissions and waste generation.

KPIs

GOAL	PERFORMANCE	
Reduce direct and indirect CO_2 emissions:	Direct emissions rose 1% and indirect fell by 5%	→
Increase percentage of renewable energy usage in fuel mix:	rose 1 percentage point to 6%	↗
Reduce carbon footprint:	Total CO_2 emissions reduced 3%	↗

Reducing Carbon Footprint

Carbon dioxide is produced as a major byproduct of mining and processing iron ore into pellets, with diesel, natural gas and electricity required to drive the Company's operations. The Company reduced its emissions of both direct and indirect carbon by over 100,000 tonnes in 2017, representing a 3% decrease. The Company continues to increasingly substitute natural gas in its pelletiser, a project that began in 2015, and has helped reduce natural gas consumption per tonne of pellets by a further 14% in the last 12 months.

Direct CO_2 production rose by 1% in 2017, reflecting increased mining activity, and indirect CO_2 fell by 5% in 2017, reflecting the 7% reduction in pellet production and corresponding reduction in ore volumes processed. Carbon emission intensity (CO_2 tonnes per tonne of pellets produced) rose by 3% as a result of scheduled maintenance on the pelletiser, which reduced the final output of pellets.

Managing Energy Consumption

Mining is an inherently energy intensive activity, requiring large volumes of rock to be moved, processed and heated in order to produce iron ore pellets. Ferrexpo manages its energy consumption through a number of energy saving initiatives, projects to modernise its processing plant and biofuel substitution where possible. Since 2007, Ferrexpo has invested more than US$2.15 billion in updating the equipment used in its operations, with various modernisation projects improving energy efficiency.

Total Group energy consumption fell by 2% to 17.9 petajoules in 2017, marking the third successive year that total usage has fallen, particularly natural gas, coal and steam, which fell by 14%, 6% and 12% respectively.

NATURAL GAS SAVINGS:

55%

REDUCTION IN NATURAL GAS CONSUMPTION PER PELLET SINCE LISTING

INCREASING BIOFUELS: SUNFLOWER HUSKS NOW REPRESENT

6%

OF TOTAL ENERGY MIX

PROMOTING BIODIVERSITY:

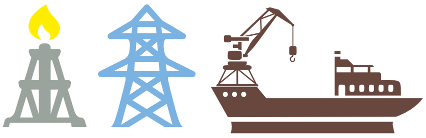
38

NESTING PLATFORMS INSTALLED ON COMPANY'S EASTERN WASTE DUMPS, TO ENCOURAGE RED BOOK RARE BIRD SPECIES

Emissions in tonnes	2017	2016	% change
CO_2 emissions	**2,614,449**	2,703,272	-3.3%
Scope 1 (direct)	**554,763**	550,591	+0.76%
Scope 2 (indirect)	**1,974,997**	2,079,329	-5.0%
Scope 3 (biofuels)	**84,689**	73,352	+15.5%
Pellets produced (thousand tonnes)	**10,444**	11,201	-6.8%
Intensity ratio (Scope 1 and 2)	**242**	**235**	**+3.2%**

Note: Calculation for the Group's Scope 2 CO_2 emissions for 2016 has been amended due to a correction to the conversion factor applied for the calculation of emissions from steam.

ECONOMIC INDICATORS AND BUSINESS ETHICS



Ferrexpo represented 1.9% of total Ukrainian exports in 2017. The Company is an important business both on a local and national level. Good corporate governance and ethical practices are therefore key to maintaining the Company's social licence to operate.

SUPPORTING UKRAINIAN ECONOMY:

Top 100

COMPANY CONTRIBUTING TO UKRAINIAN NATIONAL BUDGET ACCORDING TO UKRAINIAN STATE FISCAL SERVICE

ETHICAL BUSINESS:

+98%

COMPLETION RATE IN ONLINE TRAINING MODULES IN ANTI-BRIBERY AND CONFLICTS OF INTEREST

MAJOR INTERNATIONAL PRODUCER: FERREXPO SHIPS

8.5%

OF GLOBAL PELLET EXPORT MARKET

Tax Responsibility

Ferrexpo is committed to comply with the tax laws in each jurisdiction that it operates in. The Company aims to engage in tax fairness, acting in the spirit of the laws of each operating country, with oversight of tax policy performed by the Company's Board of Directors. The Company has paid US$566 million in corporate taxes since listing in 2007, and a further US$152 million in royalties; making it one of Ukraine's largest single tax paying companies. The Company publishes its report on payments to government annually, with the 2016 report published in June 2017.

Ferrexpo is one of the largest taxpayers to the Ukrainian economy, with the Ukrainian State Fiscal Service announcing in January 2018 that Ferrexpo was in the top 100 taxpayers in Ukraine during 2017.[1]

KPIs

GOAL	PERFORMANCE	
Supporting economies where we operate:	US$75 million paid in taxes and royalties in 2017 alone	↗
Educate workforce in code of conduct and best practice principles:	Three additional courses unveiled in 2017	↗

Ethical Business

Ferrexpo has a Group Compliance Officer who establishes, reviews and monitors the Group's Compliance Programme. To address local risks in the most effective manner, the Company's compliance team, led by the Group Compliance Officer, consists of four local compliance officers in Ukraine, and one at the Group's barging subsidiary. The Board of Ferrexpo oversees the Group's Compliance Programme directly and through its committees (to which the Group Compliance Officer reports regularly), as well as through the Executive Compliance Committee.

In 2017, the main focus areas of Ferrexpo's Compliance Programme included:
– preventing bribery and corruption,
– monitoring conflicts of interests,
– third party due diligence,
– providing compliance training to employees and counterparties.

Ferrexpo believes that training is fundamental for effective functioning of compliance programmes. Throughout 2017, over 900 employees, including management and directors, successfully completed online training courses on Preventing Bribery and Corruption, Code of Conduct, and Modern Slavery.
In terms of working with third parties, compliance efforts were directed at preventing and mitigating risks by conducting third-party checks, providing training and including compliance-related clauses into contracts to address bribery, sanctions and modern slavery risks.

During the year, the Group also focused on addressing new regulatory requirements. This included conducting risk assessments to establish adequate procedures to prevent modern slavery in Ferrexpo's supply chain and prevent the facilitation of tax evasion.

The Group also commenced data protection gap analysis to meet the GDPR and the Swiss DPA requirements in 2018.

1 www.officevp.sfs.gov.ua/media-ark/news-ark/324207.html

A RESPONSIBLE BUSINESS

CONTINUED

COMMUNITY

Ferrexpo is an integral part of the local community, employing over 30% of the local working population; it is therefore important that Ferrexpo is an active participant in the community, supporting key institutions such as medical and educational facilities, and acting to preserve local culture.

Eyesight testing event, Vyshgorod, December 2017

Schoolchildren: Ferrexpo-sponsored school in Horishni Plavni

SUPPORTING VULNERABLE CITIZENS: NEARLY

5,000

PEOPLE PER MONTH PROVIDED WITH COMPANY-SUBSIDISED FOOD PACKAGES

+3%

INCREASE IN COMMUNITY SUPPORT EXPENDITURE IN 2017

KPIs

GOAL	PERFORMANCE
Contribute to development, education and skills of local population:	Charitable donations increased by 3% in 2017
Provide targeted assistance:	Over 4,500 local residents surveyed to align charitable activities to needs of local population, in inaugural Ferrexpo survey

Ferrexpo in the Community

In 2017, Ferrexpo contributed US$28 million, or approximately 2.4% of total Group revenue, for community projects across the country, a 3% increase compared to 2016. Of this amount, approximately 88% of the expenditure related to activities coordinated by the charity organisation Blooming Land. Blooming Land is a charity established to coordinate the Group's national CSR programme operating independently of Ferrexpo. It focuses on activities related to diabetes awareness and diagnosis, eyesight diagnosis and preventative care, and general support and care for the elderly on a national basis.

It is estimated that approximately 3 million people, or 7% of the population, in Ukraine suffer from diabetes, while 40% of these individuals are believed to be unaware of their condition. Through its work to raise awareness and testing for diabetes, 40 events were hosted across Ukraine during 2017, which included talks from endocrinologists, testing of blood sugar levels and the provision of diabetic food products. In addition, 47 events were held to provide health-related consultations and support for the elderly, while 42 events related to eye care. This included free eyesight examinations by opticians using high quality ophthalmology equipment as well as the provision of glasses to suit individual requirements.

In addition to the funds allocated to Blooming Land, Ferrexpo allocated approximately US$3.2 million (2016: US$2.8 million) to directly finance local community projects within 25 kilometres of the operations through a charity fund controlled by FPM (the “FPM Charity Fund”). Projects include an ongoing programme of modernisation and maintenance of local schools, hospitals, the cultural museum, sports facilities and provision of food and care packages to over 5,000 local vulnerable residents each month. In addition, new projects carried out included the purchase of 20 electric bicycles for local medical professionals to help facilitate the provision of care in rural communities, and the completion of the first phase of the Sports and Recreation Complex, providing indoor tennis courts – one of only two sites for indoor activity during winter months in the local town of Horishni Plavni.

For information on controls over community support donations, see the Audit Committee Report on pages 63 and 64.

Collaborating with Communities

In order to best align Ferrexpo’s strategy in relation to its work in the community to the needs of local residents, Ferrexpo’s local CSR committees designed and implemented a community survey to gather local opinion, with over 4,500 local residents surveyed over a six-week period in 2017.

Respondents listed the following as key areas of importance for future work (descending order): city improvement initiatives, medical infrastructure, educational infrastructure, assistance for the vulnerable, and sports and leisure facilities. A number of specific projects were proposed by local residents, with the more popular set to be reviewed and potentially implemented in 2018.

Social Partnership Projects

In 2017, Ferrexpo began supporting the Center for Municipal Development, a specialist school serving 42 children with disabilities in the City of Kremenchug, located 25 kilometres from Horishni Plavni, where the Company’s mines are located. The Company is providing funds for a specially adapted bus to transport children from Horishni Plavni to the Center, in addition to funding a visit to Kiev for 27 of the Center’s children in April. The charity fund also supported local children with disabilities to attend a rehabilitation centre in Germany.

Blood sugar testing in Pereyaslav-Khmelnitsky, November 2017

SUPPORTING LOCAL COMMUNITIES:

2.4%

OF GROUP REVENUE INVESTED IN COMMUNITY PROJECTS, COMPARED TO A PEER GROUP AVERAGE OF 0.4%

Art students at Ferrexpo-sponsored school, Horishni Plavni

BOARD OF DIRECTORS

STEVE LUCAS
NON-EXECUTIVE CHAIRMAN

DATE OF APPOINTMENT
19 May 2016

OTHER APPOINTMENTS
Non-executive director, Tullow Oil plc since 2012 and Acacia Mining plc since 2013.

BACKGROUND AND EXPERIENCE
Steve Lucas is a Chartered Accountant with long and wide-ranging financial experience as an executive and non-executive director in the energy and extractive industries.

- Non-executive director, Essar Energy plc, 2012–2014
- Finance director, National Grid plc, 2002–2010
- BG Group, 1994–2000, latterly as group treasurer
- Shell International Petroleum Co, 1983–1994, in various senior financial roles.

Chartered Accountant.

COMMITTEE MEMBERSHIP
He is the Chairman of the Nominations Committee and a member of the CSR Committee and the Committee of Independent Directors.

VITALII LISOVENKO
INDEPENDENT NON-EXECUTIVE DIRECTOR

DATE OF APPOINTMENT
28 November 2016

OTHER APPOINTMENTS
Non-executive adviser to the Minister of Finance of Ukraine, having previously served as an executive counsellor to the Minister of Finance.

Non-executive director, Black Sea Trade and Development Bank (Greece) since 2014.

BACKGROUND AND EXPERIENCE
Vitalii Lisovenko has spent most of the past 20 years involved in government finance, developing particular expertise in debt negotiation. He has also worked in the private sector. In 2005, he served as the head of the Trade and Economic Mission at the Ukrainian Embassy in London. He was an Associate Professor of Finance at the Kyiv State Economic University from 2010 until 2017.

- Executive director, Ukreximbank (Ukraine), 2006–2010
- Executive director, Alfa Bank Ukraine, 2010–2014
- Non-executive director, Amsterdam Trade Bank, 2013–2014

PhD in Economics, Kiev National Economic University.

COMMITTEE MEMBERSHIP
He is a member of the Audit and Remuneration Committees and the Committee of Independent Directors.

SIMON LOCKETT
SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR

DATE OF APPOINTMENT
15 June 2017

OTHER APPOINTMENTS
Non-executive director and chairman of Remuneration Committee, Triyards Holdings Limited (Singapore) since 2015; Non-executive director and chairman of Nominations Committee, Pico Petroleum Limited (Egypt) since 2015.

BACKGROUND AND EXPERIENCE
Simon Lockett has worked for many years in the international upstream oil and gas industry, with an executive career spent with Shell and then the FTSE 250 company Premier Oil plc, where he served as chief executive for over nine years until 2014.

- Non-executive director, Genel Energy plc, 2016–2017
- Chairman, Loyz Energy Ltd (Singapore), 2014–2016
- Non-executive adviser on behalf of the UK government for the UK-ASEAN Business Council, 2010-2014

MBA, Manchester Business School.

COMMITTEE MEMBERSHIP
He is the Chairman of the Committee of Independent Directors and a member of the Nominations, Audit and Remuneration Committees.

CHRIS 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.

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 the Chairman of the Remuneration Committee and a member of the Audit and CSR Committees and the Committee of Independent Directors.

MARY REILLY
INDEPENDENT NON-EXECUTIVE DIRECTOR

DATE OF APPOINTMENT

27 May 2015

OTHER APPOINTMENTS

Non-executive director of Essentra plc and Mitie Group plc; Non-executive director and the chair of Audit Committee of Travelzoo Inc.

BACKGROUND AND EXPERIENCE

Mary Reilly is a Chartered Accountant and a former audit partner of Deloitte LLP, where she worked with a range of industrial and charitable organisations for nearly 40 years prior to retiring in 2013. After leaving Deloitte she chaired the Audit and Risk Committees of the UK Department of Transport until March 2018 and of Crown Agents Ltd until the end of September 2017.

- Non-executive director, Cape plc, 2016–2017

Chartered Accountant.

COMMITTEE MEMBERSHIP

She is the Chairman of the Audit Committee and a member of the Remuneration Committee and the Committee of Independent Directors.

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 CSR Committee.

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.

CHRIS MAWE FCA
GROUP CHIEF FINANCIAL OFFICER

See page 50 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 INTRODUCTION

Dear Shareholder,

I am pleased to present our Corporate Governance Report which sets out our governance structure and highlights the governance activity of the Board and its principal Committees during the course of the year.

The Board remains committed to maintaining good corporate governance practices throughout the Ferrexpo Group. The structure, policies and procedures we have adopted, which are described in this report, the Directors' Report and the reports of the various Committees, reflect this commitment, but we recognise the need to keep them under review and to make changes where necessary to ensure that standards are maintained. 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.

Information on Board succession is set out below in the Nominations Committee Report. As expected, the rate of departures slowed in 2017 and, as the longest-serving Non-executive Director joined only in August 2014, we can now afford a brief pause in the Board succession process, which we will use in order to take stock before planning the next round of appointments.

Steve Lucas
Chairman

Statement of Compliance

(In Accordance with Listing Rule 9.8.6R)

During the year to 31 December 2017 the Company applied all Main and Supporting Principles, and complied with the provisions, of the 2016 UK Corporate Governance Code (the "Governance Code", which is available at www.frc.org.uk) with the exception of:

– Provision D.1.1 of the Governance Code which requires that performance-related remuneration schemes should include malus and clawback provisions. As indicated in the 2017 Remuneration Report, such provisions are being applied to all awards under the LTIP and STIP schemes that take place from 1 January 2018.
– Provision B.6.2 of the Governance Code which requires Board evaluation to be externally facilitated at least every three years. An explanation for this non-compliance is set out in this report under "Performance Evaluation" on page 58.

Information Pursuant to the EU Takeover Directive

The Company has provided the additional information required by Rule 7.2.6 of the FCA's Disclosure and Transparency Rules (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.

Information Pursuant to the EU Non-financial Reporting Directive

The information required by Rule 7.2.8A and B of the FCA's Disclosure and Transparency Rules (Board diversity policy) is provided in the Nominations Committee Report on page 60.

CORPORATE GOVERNANCE REPORT

CONTINUED

LEADERSHIP

GOVERNANCE STRUCTURE

SHAREHOLDERS

THE BOARD

AUDIT COMMITTEE	REMUNERATION COMMITTEE	NOMINATION COMMITTEE	COMMITTEE OF INDEPENDENT DIRECTORS ("CID")	CORPORATE SAFETY AND SOCIAL RESPONSIBILITY COMMITTEE	CHIEF EXECUTIVE OFFICER AND EXECUTIVE COMMITTEE[1]
Responsibilities include: – Monitoring integrity of financial statements. – Reviewing internal control and risk management systems. – Relationship with external auditor.	Responsible for reviewing and approving all aspects of remuneration for Executive Directors and members of the Executive Committee.	Responsible for identifying and nominating (for Board approval) candidates to fill Board vacancies, having due regard to the need for appropriate balance and diversity.	Responsibilities include: – Ensuring compliance with Chapter 11 of the Listing Rules and the Relationship Agreement. – Authorising (if appropriate) related party transactions on behalf of the Board. – Conflicts of interest procedure under the 2006 Companies Act.	Responsible for formulating and monitoring the implementation of the Group's policy on CSR issues as they affect operations.	Responsible for: – Execution of Board-approved strategies. – Delegated authority levels for senior management. – Development and implementation of Group policies. – All material matters not reserved for the entire Board.
More info: Audit Committee Report page 61	More info: Directors' Remuneration Report on pages 67 to 81	More info: Nominations Committee Report on pages 59 to 60	See page 55	More info: CSR section on pages 41 to 49	See page 52

1 The Executive Compliance Committee, the Finance and Risk Management Committee, and the Executive Related Party Matters Committee all report to the Executive Committee.

The Board

The Board is responsible for setting the Group's objectives and policies, providing effective leadership within the framework of prudent and effective controls required for a public company. The Board has a formal schedule setting out the matters requiring Board approval and specifically reserved to it for decision. These include:
– approving the Group strategy and budget;
– annual and long-term capital expenditure plans;
– contracts for more than a certain monetary amount;
– monitoring financial performance and critical business issues;
– approval of major projects and contract awards;
– approval of key policies and procedures including for dividends, treasury, charitable donations and corporate social responsibility;
– approval of procedures for the prevention of fraud and bribery; and
– through the Committee of Independent Directors ("CID"), monitoring and authorising related party transactions.

Certain aspects of the Board's responsibilities have been delegated to the Committees shown in the chart above to ensure compliance with the Act, FCA Listing Rules and the Governance Code. The terms of reference for each of the Audit Committee, Nominations Committee, Remuneration Committee and CSR Committee are available on the Company's website at http://www.ferrexpo.com/about/corporate-governance/board-committees.

It is the responsibility of the CEO and the Executive Committee to manage the day-to-day running of the Group.

Role Descriptions

The division of responsibilities between the Chairman and the CEO has been clearly established in writing and is agreed by the Board. A summary of the roles of the Chairman, the CEO, the Senior Independent Director, the independent Non-executive Directors and the Company Secretary is set out in the following table. The table also includes an overview of the role of the Executive Committee and of the CID. The roles of the Audit and Nominations Committees are set out later in this Corporate Governance Report, the role of the CSR Committee in the Strategic Report on page 42, and the role of the Remuneration Committee in the Remuneration Report on page 68.

Role	Description
Chairman	The Chairman is responsible for leadership of the Board, ensuring its effectiveness, setting its agenda, ensuring that it receives accurate, clear and timely information, 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 Lucas's other current responsibilities are set out in the biographical notes on page 50. There has been no increase in those commitments during the reporting period.
CEO	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. He has other business interests and is a member of the Ukrainian parliament, but devotes the majority of his time to Ferrexpo.
Senior Independent Director	The Senior Independent Director, Simon Lockett, in conjunction with the other independent Non-executive Directors, assists in communications and meetings with shareholders concerning corporate governance matters. He also chairs the Committee of Independent Directors. At least once a year, the Senior Independent Director meets the Non-executive Directors, without the Chairman present, to evaluate the Chairman's performance. The Senior Independent Director is available to discuss with shareholders any issues that the Chairman has been unable to resolve to shareholders' satisfaction.
Non-executive Directors	The Non-executive Directors provide an independent and objective viewpoint to Board discussions and bring experience from a variety of industry backgrounds. Their role is to provide constructive support and challenge to executive management. Acting either as the Board or as members of its Committees, the Non-executive Directors: approve budgets; discuss and contribute to strategic proposals and agree on corporate 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 (see Remuneration Report on page 68); and monitor executive succession planning (for Board succession planning, see Nominations Committee Report on page 59).
Company Secretary	The Company Secretary 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. All Directors have access to the advice and services of the Company Secretary.
Executive Committee	The Executive Committee is a key decision-making body of the Group, responsible for managing and taking all material decisions relating to the Group, apart from those set out in the Schedule of Matters Reserved for the Board. It has delegated responsibility from the Board 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. The Executive Committee meets regularly during the year.
Committee of Independent Directors	The CID is composed of the Senior Independent Director, the Chairman of the Board and the 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, approve transactions where there is a risk of a conflict of interest for any member of the Board under 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" below under "Effectiveness")) and satisfies itself that, as required under the Relationship Agreement, related party transactions have been properly conducted at an arm's length basis on normal commercial terms and in compliance with Chapter 11, and that no disclosures have been omitted or misstated in the financial statements.

Board Composition

As at the date of this report, the Board (excluding the Chairman) comprises two non-independent Executive Directors and four Non-executive Directors, all of whom are considered by the Board to be independent in accordance with Provision B.1.1. of the Governance Code. This structure ensures that the Executive Directors are subject to appropriate independent and constructive challenge by the Non-executive Directors, and that no single Director can dominate or unduly influence decision making.

Composition of the Board and Committees as at the date of this report is illustrated in the table below:

Board member	Role	Audit	Remuneration	Nominations	CID	CSR[1]
S Lucas	Non-executive Chairman			••	•	•
K Zhevago	Chief Executive Officer					•
C Mawe	Chief Financial Officer					
S Lockett	Senior Independent Non-executive Director	•	•	•	••	
V Lisovenko	Independent Non-executive Director	•	•		•	
B Nacken	Independent Non-executive Director	•	••		•	•
M Reilly	Independent Non-executive Director	••	•		•	

1 CSR Committee also includes some members of senior management; see Strategic Report on page 42.
• Committee member.
•• Committee Chairman.

The Board considers that it is of a sufficient size to ensure that the requirements of the business are met without placing undue reliance on any one Director.

Biographical details of the Directors at the date of this report are set out on pages 50 and 51.

CORPORATE GOVERNANCE REPORT

CONTINUED

Board Activity in 2017

Five scheduled Board meetings were held in 2017, all in Switzerland, and the regular matters discussed at these meetings included:

- oral reports from the Chairmen of the Committees meeting before the Board meeting, and minutes of earlier meetings of the Committees;
- Chief Executive Officer's report including production and operations, iron ore market conditions, and updates on the position in Ukraine;
- Chief Financial Officer's report including status vs. budget, forecasts, cash flow position, and funding update;
- Bank F&C: update on attempts to recover funds held at the bank following its insolvency;
- related party matters (including Directors' interests/conflicts);
- investor relations report (including shareholder feedback);
- strategy, business plan and budget;
- formal risk review;
- compliance matters;
- CSR matters, including health and safety, and community spending; and
- Board refreshment/succession planning/independence/Committee composition.

Matters reviewed as required included:

- review of half year or annual results, going concern and viability, dividend policy/recommendations, investor presentation;
- Board/Chairman/Director performance evaluation;
- review of AGM statement, and proxy agency comments/recommendations;
- annual review of bank relationships within and outside Ukraine; and
- annual review of treasury policy.

The Board also held sessions at which the relevant executive heads of department led a more detailed discussion on aspects of operations, finance, HR and management succession planning, sales and marketing, and communications.

The Board visited the Group's operations in Horishni Plavni (formerly known as Komsomolsk) between 27 and 29 September 2017. During that time the Board inspected various parts of the operations and community projects in the local area, received various presentations from executive management in respect of operations and strategy, and held an informal meeting at which many of its standard agenda items were covered.

The Board meets for dinner on the evening immediately prior to each scheduled Board meeting. This provides an opportunity for Directors to discuss key matters in a more informal setting, and therefore assists in promoting an open and constructive relationship between members of the Board.

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.

EFFECTIVENESS

Board Balance and Independence

The composition of the Board is regularly reviewed by both the Nominations Committee and the Board itself. The Board is considered to have maintained, throughout the period of refreshment between 2014 and 2017, a proper balance in terms of skills, experience, independence and knowledge of the Company. There is now a Chairman, two Executive Directors and four independent Directors, and the Board and Committee structure is such that decision making is not dominated by a single individual or small group.

Controlling Shareholder – Relationship Agreement

Kostyantin Zhevago is a beneficiary of The Minco Trust, which owns 100% of Fevamotinico S.a.r.l., the majority shareholder in the Company. Consequently he, The Minco Trust and Fevamotinico S.a.r.l. (collectively "the Controlling Shareholder") have entered into a Relationship Agreement with the Company in order 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") (under the Relationship Agreement Mr Zhevago would be entitled, if he was not the CEO, to appoint himself or another person as his representative Director). The Relationship Agreement terminates if, inter alia, the shareholding of Mr Zhevago and his associates in the Company falls below 24.9%. This Relationship Agreement complies fully with the UK Listing Rules. The Board monitors compliance with the Relationship Agreement through the Committee of Independent Directors (see under "Conflicts of Interest" below), which reviews the work of the Executive Related Party Matters Committee ("ERPMC") (both bodies are independent of Mr Zhevago), with the CID reviewing the minutes of the ERPMC and all related party transactions with regard to the Class Tests and the potential need to consult the Sponsor. The ERPMC is authorised to approve transactions that are in the ordinary course of business, without unusual terms; others are referred to the CID. More generally, the CID keeps under review the independence of the Board and compliance with the Governance Code, as the Relationship Agreement requires.

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 2017.
- So far as Ferrexpo is aware, the Controlling Shareholder and its associates have also complied with the independence provisions during 2017.
- 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 2017.

Conflicts of Interest

The Board has an established procedure (see "Controlling Shareholder – Relationship Agreement" above) 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 Articles 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 ERPMC (which is composed of certain members of the Executive Committee and other members of senior management not including Mr Zhevago) and the Committee of Independent Directors ("CID"). Any changes to the schedules are noted, and confirmed as correct, at 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 in identifying potential conflicts and ensuring that they are managed appropriately and that conflicted individuals are not involved in the relevant decision-making process. The Group aims to follow emerging best practice in this area.

Training and Professional Development

The Chairman is responsible for agreeing training and development requirements with each Director to ensure they have the necessary skills and knowledge to continue to contribute effectively to the Board's discussions. All Directors receive updates given to the Board as a whole on changes and proposed changes in laws and regulations affecting the Group, as and when necessary. During 2017 separate training sessions were held for the members of the Audit and Remuneration Committees on recent developments in regulation and recommended practice. Site visits are held for the whole Board annually, so as to ensure that all Directors are familiar with the Group's operations, 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. In addition, training may be provided by the Group's advisers in respect of specific areas of interest to the Board, including general economic and market conditions, developments in corporate governance regulations and best practice and any other matters as agreed by the Chairman.

All Directors may take independent professional advice at the expense of the Group in the furtherance of their duties.

Induction

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.

Following their appointments to the Board at the end of 2016 and in June 2017 respectively, Vitalii Lisovenko and Simon Lockett received an induction briefing that took account of their previous experience and their responsibilities at Ferrexpo. Where relevant, these inductions included meetings with other Directors and key members of the senior management team. They were also provided with relevant information, including the Company's most recent financial reports, Board briefing packs and Group policies and procedures.

Information Flow

The Chairman is responsible for ensuring that all Directors receive timely and accurate information in order to enable them to discharge their obligations effectively. Working with the Company Secretary, the Chairman ensures that agendas, briefing notes and reports for each Board meeting are agreed and distributed to the Board in advance and in sufficient time to allow proper consideration of their contents. The papers include reports on the Group's operations, and take into account the factors set out in section 172 of the Companies Act 2006 (Directors' duty to promote the success of the Company), and such factors are also 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.

Minutes of each Board and Committee meeting are prepared shortly after the meeting and their contents agreed with the Chairman (or relevant Committee Chairman) before being circulated more widely to the Board where appropriate. Actions arising from the meetings are recorded and communicated as appropriate, and updates on outstanding actions are discussed at subsequent meetings. Directors have the right to request that any concerns they have are recorded in the appropriate Committee or Board minutes.

CORPORATE GOVERNANCE REPORT
CONTINUED

Time Commitment
Non-executive Directors would normally expect to spend at least 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. The attendance of the Directors at Board and Committee meetings during 2017 is shown in the table below.

The Non-executive Directors are required to confirm at least annually that they are able to commit sufficient time to the affairs of the Company, and all of our Non-executive Directors have given this confirmation in respect of 2018.

Board and Committee Attendance in 2017

	Board[1]					
Director	Scheduled	Audit	Rem	Nom	CID	CSR
S Lucas[2]	5/5			1/1	6/6	1/4
K Zhevago	5/5					4/4
C Mawe	5/5					
O Baring	5/5	4/4	4/4		6/6	
Sir M Field	3/3				4/4	
V Lisovenko	5/5	4/4	4/4		6/6	
S Lockett	2/2	2/2	2/2	1/1	3/3	
B Nacken[3]	4/5	3/4	3/4		5/6	4/4
M Reilly	5/5	4/4	4/4		6/6	

1 Figures show number of meetings attended out of those the Director was eligible to attend; certain Directors joined or left the Board during the year.
2 The timing of three CSR Committee meetings was changed at short notice due to unforeseen circumstances, and Steve Lucas was unable to attend; on each occasion he reviewed and, where relevant, commented on the papers considered at the meeting.
3 Bert Nacken was unable to attend the Board and Committee meetings in November 2017 as he was recovering from an operation.

Performance Evaluation
The annual performance evaluation of the Board and its Committees was carried out internally in 2016–2017 by the Chairmen of these bodies. The evaluation process involved the completion of questionnaires by Board and Committee members, with responses collated and analysed by the Chairmen with assistance from the Company Secretary. The Chairman of the Board then discussed the feedback from the questionnaires, and the comments made, with each Director individually before relaying the conclusions to the Board. The last externally facilitated evaluation (the Company's first) was conducted in 2013 and was reported on in the 2013 Annual Report. In line with the Governance Code, the Board had intended to conduct an externally facilitated performance evaluation process during 2016–2017, but later decided in view of the number of changes to the Board during the year that it was preferable to postpone this until 2017–2018.

The 2016–2017 evaluation concluded that the Board and its Committees continued to work well after significant changes in their composition; that Board-level relationships were generally good, with effective communication and open discussion of the various challenges that Ferrexpo faced. The process revealed a demand for more training in order to ensure that Directors keep abreast of changing regulatory requirements, and training sessions were arranged for the Audit and Remuneration Committees towards the end of 2017 (this was also in line with one of the Bank F&C review sub-committee's recommendations for improvements in corporate governance).

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

Nominations Committee Report

Dear Shareholder,

I am pleased to present the Nominations Committee Report for 2017.

The Committee met formally once during the year, but its main activity was conducting the search for a new Non-executive Director. This search culminated in the Committee recommending the appointment to the Board of Simon Lockett who, after a short period of introduction, succeeded Oliver Baring as Senior Independent Director at the beginning of September.

The Nominations Committee remains composed of an independent Non-executive Director and the Chairman of the Board.

STEVE LUCAS
CHAIRMAN OF THE NOMINATIONS COMMITTEE
20 March 2018

Membership and Meetings

The Nominations Committee is chaired by Steve Lucas and its other member is Simon Lockett; Oliver Baring also served on the Committee during 2017. The Nominations Committee meets at least once a year, as required by its terms of reference, and met formally on one occasion in 2017 besides holding periodic meetings with search agents and interviews with candidates.

Appointment Process and Succession Planning

The Committee is aware of the Governance Code recommendation that non-executive membership of the Board should not extend beyond nine years in an independent capacity. The search for new Directors to replace the existing Directors as they gradually retire was completed (for the time being) during 2017 with the appointment in June of Simon Lockett as a Non-executive Director. He succeeded Oliver Baring as Senior Independent Director in September, and Oliver Baring retired from the Board in November. Additionally, Sir Malcolm Field retired at the AGM in May.

In the case of Simon Lockett, after consulting the Nominations Committee about the skills and experience required, the executive search consultants Odgers Berndtson (who have no other connection with the Company) drew up a long list of candidates from which a shortlist were chosen to be invited for interview by the Nominations Committee. The Nominations Committee then recommended Simon Lockett as the preferred candidate, and he was interviewed by other members of the Board before being formally appointed on 15 June 2017.

As indicated last year, in future the Committee intends to pursue a more gradual process of Board succession than has been possible in the recent past, and in the coming year will be developing plans for future succession.

CORPORATE GOVERNANCE REPORT

CONTINUED

Re-election

In accordance with the provisions of the Governance Code, it is expected that all Directors will stand for re-election by shareholders at the Company's 2018 AGM.

Board Diversity Policy

The Nominations Committee and the Board recognise the importance of boardroom diversity in terms of cultural and professional background, expertise and gender, and believe that the present composition of the Board is satisfactory according to those criteria. The Committee seeks to apply this policy by ensuring that all available suitable candidates are taken into account when drawing up shortlists of candidates for appointment to the Board, and seeks only to engage executive search consultants who have signed up to the Voluntary Code of Conduct for executive search firms. The final decisions to make appointments to the Board are, however, made on merit against objective criteria, so as to ensure that the strongest possible candidates for the role are recruited.

The Committee will continue to ensure that gender and other diversity is considered when conducting future searches for Board positions, and will take account of the recommendations of the Hampton-Alexander and Parker reviews regarding gender balance and ethnic diversity on boards.

Management and Staff Diversity

As stated under "Workforce" in the "Our People" section of the Strategic Report on page 45, Ferrexpo's policy is to employ a diverse workforce.

Gender Diversity

Currently 29% of the workforce is female. 20% of management positions are held by women, and it is intended to increase this figure to 23% by 2021. Efforts to increase the representation of women more generally are expected to be assisted by a recent change in Ukrainian law to allow women to be employed in certain operational roles from which they were previously excluded. Ferrexpo is currently training a number of female staff with the aim of having the first two of them driving trucks in the pit by the end of 2018.

Additionally, it is planned to direct some of our community support donations towards programmes aimed at helping women.

Disability

In Ukraine, Ferrexpo is required by law to ensure that registered disabled people make up at least 4% of its workforce. This requirement was met in 2017.

Audit Committee Report

I am pleased to present to you the Report of the Audit Committee for 2017. As usual, and in accordance with Provision C.3.4 of the Governance Code, the Board asked the Audit Committee to advise it as to whether the Annual Report and Accounts are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy. In providing our advice (which is set out under "Financial Reporting" on page 65) we were mindful of ensuring that the Annual Report and Accounts are read in the context of the current circumstances facing the Company.

This report sets out the following information:
- The composition of the Audit Committee and the balance of skills and experience represented on it.
- The Committee's activities in 2017.
- Key estimates and critical judgements exercised by the Committee.
- Ferrexpo's systems of internal controls and risk management.
- The assessment of the external auditors' independence and effectiveness.
- The "fair, balanced and understandable" assessment.

Our Viability Statement is set out in the Strategic Report on page 40.

During the year, the Audit Committee met four times and reviewed the Annual Report and associated preliminary year-end results and the interim results, focusing on key areas of judgement and complexity and accounting policies.

The internal control and risk management procedures at Ferrexpo are set out later in this report and the main risks themselves are on pages 34 to 39 of the Strategic Report. Throughout the year, the Committee has robustly assessed the principal risks facing the business.

The significant issues and judgements considered by the Committee in respect of the 2017 Annual Report are set out on page 63. 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 external auditors at intervals throughout the year. Detailed disclosure is given in the relevant notes to the financial statements of the significant areas 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 procedures followed by the auditors and the responses of management, and questioned and debated them with the CFO, the Group Financial Controller and, if relevant, operational management, and with 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 and operating practice in other large mining companies. 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 on page 103.

Our auditors, Deloitte, were appointed at the AGM in May 2017, and to date we are satisfied with their performance, independence and objectivity. We will conduct a more formal review when their first annual reporting cycle is complete.

MARY REILLY
CHAIRMAN OF THE AUDIT COMMITTEE
20 March 2018

CORPORATE GOVERNANCE REPORT

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Membership and Meetings

The Audit Committee currently comprises four independent Non-executive Directors: Mary Reilly (Chairman of the Committee), Simon Lockett, Vitalii Lisovenko and Bert Nacken. Oliver Baring also served on the Committee until November 2017. All members of the Audit Committee (and especially Bert Nacken with his long experience of the mining industry) are considered to possess appropriate knowledge and skills relevant to the activities of the Group, and Mary Reilly is considered to have recent and relevant financial experience, including of accounts and auditing, due to her career as an audit partner with Deloitte LLP and her experience as a member of the audit committees of other companies. The Audit Committee met on four occasions during 2017. The attendance record of the Committee members is shown in the table on page 58.

In addition to its members, other individuals and external advisers, and the Chairman of the Board, may be invited to attend meetings of the Committee at the request of the Committee Chairman. The Committee regularly meets the external auditors at the end of its scheduled meetings, without Executive Directors or management being present.

Activity During 2017

Key activities of the Audit Committee during 2017 are set out below.

Date	Matters discussed

March	– Reviewed and approved, with input from Ernst & Young, the external auditors at the time, the Viability Statement for inclusion in the 2016 Annual Report
	– Reviewed impact on the accounts of the liquidation of Bank F&C
	– Reviewed the valuation of lean and weathered ore stocks and confirmed the Group's intention to process it in due course
	– Reviewed the Annual Report and financial statements for the year ended 31 December 2016 (and concluded that they were fair, balanced and understandable), and the draft preliminary announcement and recommended Board approval of:
	  – Financial statements
	  – Audit Committee Report
	  – Internal controls disclosures
	  – Going concern assessment
	– Reviewed Ernst & Young's report on the 2016 financial statements and the management representation letter
	– Reviewed risk register
	– Reviewed community support donation disclosures, controls and audit reports
	– Reviewed compliance report

May	– 2016 year-end review (including review of external audit process and Ernst & Young management letter) – Reviewed Deloitte's planning report for 2017 interim and Annual Reports – Reviewed the possible applicability of Ukrainian withholding tax to intra-group interest payments – Reviewed risk register – Reviewed community support donations and recommendations of Ernst & Young for improvements in the control environment – Reviewed compliance report – Internal audit update, including review of performance against plan and audit of Group compliance

July	– Review of half-year results, including:
	  – Discussing findings of Deloitte's review of the results
	  – Financial statements
	  – Going concern assessment
	– Reviewed Modern Slavery Act compliance statement
	– Reviewed risk register
	– Reviewed community support donations and progress on implementing administrative improvements at the charities
	– Reviewed compliance report

November	– 2017 year-end planning – Review of Deloitte planning report – External auditor fees proposal – Reports from the external and internal auditors and Ferrexpo's IT department on the impact of the cyber attack on Ukraine in June 2017, and on remedial action – Internal audit update including progress against 2017 internal audit plan, approval of 2018 plan, and a review of whistleblowing line statistics – Briefing on the Criminal Finances Act 2017 – Reviewed risk register – Reviewed community support donations including year-end audit plan and outstanding matters previously requested by the Board – Reviewed compliance report – Audit Committee performance evaluation (taken at the Board meeting): the previously identified need for more frequent training and briefing on developments in regulation and practice had been addressed with a training session for the Committee in November. No further needs had been identified in the 2017 evaluation

Key Estimates and Critical Judgements

The significant issues and judgements considered by the Committee in respect of the 2017 Annual Report are set out below.

Issues	Judgements/actions taken
Taxation: recoverability of deferred tax assets (Accounts Note 12)	The Committee accepts management's estimates regarding the recoverability of these assets.
Taxation: tax legislation in Ukraine (Accounts Note 12)	Having considered the background to this matter and having kept it under review during the year, the Committee shares management's confidence that Ferrexpo will continue to be successful in defending any claims made by the Ukrainian authorities.
Property, plant and equipment: deferred stripping costs (Accounts Note 14)	The Committee endorses the estimates underlying management's decision to capitalise US$22.7 million of pre-production stripping costs as at 31 December 2017.
Property, plant and equipment: determination of cash-generating unit (Accounts Note 14)	The Committee agrees that it is appropriate to assess the Group's assets for impairment on a single cash-generating unit ("CGU") basis.
Inventories: lean and weathered ore (Accounts Note 17)	The Committee notes that stocks of "lean" and weathered ore have continued to increase, but accepts that it is still the Group's intention to process them in due course.
Share capital and reserves: net investments in foreign operations (Accounts Note 32)	The Committee supports management's view that the balance of the loans granted by the Group to its Ukrainian subsidiaries qualifies as net investment in its foreign operations.

Internal Control and Risk Management

The Board has overall responsibility for the Group's system of internal control, which includes risk management, and monitoring 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 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, Finance and Risk Management Committee ("FRMC"), CSR Committee and Audit Committee. On behalf of the Board, the Executive Committee and FRMC have established a process for identifying, evaluating and managing the significant risks faced by the Group. This process was followed throughout 2017 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.

Controls over Community Support Donations

In 2017 Ferrexpo continued to support communities on a local and national basis (see the section on social responsibility in the Chairman's Statement on page 10, the "A Responsible Business" section of the Strategic Report on pages 41 to 49, and Note 7 to the financial statements on page 106). Community support activities take place exclusively in Ukraine, and donations are made within a Board-approved framework agreed annually at the time of setting the budget; they are subject to the internal control and approval limits applicable within the individual subsidiaries of the Group, which are set by the Board.

The Board exercises control of the local charitable spending via its CSR Committee, which oversees and directs these activities.

As in the prior year, the Group has continued to fund national charitable activities via Blooming Land, a charity established primarily to coordinate the Group's national CSR programme independently of Ferrexpo. The Board has made progress in improving the control environment surrounding the fund and continues to do so.

In relation to Blooming Land, controls include:
- Board approval of the use of the relevant charity.
- Board approval of the annual budgeted expenditure.
- Board approval of disbursements on a bi-monthly basis.
- Confirmation by Blooming Land of application and use of funds for relevant community support purposes for each payment, typically US$500,000.
- Confirmation by Blooming Land, its three sub-funds and the sub-contracted event managers, of compliance with relevant local and international legislation.
- Consideration of relevant due diligence on the charities involved, including third-party checks on the relevant managers and funds.
- Receipt and consideration of reporting by an independent firm of Ukrainian auditors on the financial statements of Blooming Land.
- Reviewed reporting from the external auditor in relation to their procedures on CSR as part of their audit of the Group.
- Verification of expenditures on a sample basis.
- Attendance at charitable events.

CORPORATE GOVERNANCE REPORT
CONTINUED

During 2017 the Board continued to receive reports from the funds concerning their activity, and has continued to exercise oversight to ensure that community support funds are applied as directed. As part of its reporting, Blooming Land detailed 129 charitable events which took place in 83 locations relating to activities which consumed the majority of its funding. As part of the control procedures, on a sample basis, Group employees attended four events and received reports and analysis of expenditure for ten events.

The relevant charitable activities are supported directly by the Group's subsidiary Ferrexpo Poltava Mining and approval, including compliance with local and taxation legislation, is confirmed at the local level via the relevant management board.

The controls in place have developed following the increase in the need for community support donations due to the political upheaval of four years ago. Charities which operate independently of Ferrexpo are inherently more difficult to monitor and oversee, than the Group's own charitable funds. However, these charities are a normal, efficient and appropriate channel for donations in Ukraine. The Board is confident that the controls in place within the Group are appropriate.

Ferrexpo is a large employer in Ukraine and makes substantial community support donations. The Board will continue to exercise close oversight of these and will, if necessary, further enhance controls during 2018.

Internal Controls – General

Key elements of the internal control and risk management system 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 Executive Compliance Committee ("ECC"), an executive sub-committee which meets regularly (six times in 2017) is charged, on behalf of the Executive Committee or Audit Committee, as appropriate, with ensuring that systems and procedures are in place to comply with laws, regulations and ethical standards. The ECC is attended by the Group Compliance Officer and, as necessary, by the local compliance officers from the operations, who present regular reports and ensure that the ECC is given prior warning of regulatory changes and their implications. The ECC enquires into the ownership of potential suppliers deemed to be "high risk", and oversees the management of conflicts of interests below Board level and general compliance activities (including under the UK Bribery Act 2010, the Modern Slavery Act, the Criminal Finances Act, and the EU General Data Protection Regulation).
- 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.
- The Investment Committee (an executive sub-committee) which meets as required in order to consider and approve capital expenditures within limits delegated by the Executive Committee and the Board.
- A budgetary process and authorisation levels to 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.
- The Finance and Risk Management Committee ("FRMC") (an executive sub-committee) reviews financial information and management accounts, and meets regularly.
- Clearly defined treasury policy (details of which are given in Note 27 to the financial statements on pages 130 to 136) 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 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 Chairman of the Audit Committee, and to the CFO for line management purposes.
- 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 internal security department operating in the Group's key operating subsidiaries.
- A whistleblowing policy is in place under which staff may in confidence, via an independent, secure website, raise concerns about financial or other impropriety, which are followed up by internal audit and reported on to the Audit Committee.

The Board, with assistance from the Audit Committee, regularly reviews the policies and procedures making up the internal control and risk management system, and any significant matters reported by the Executive Committee. The risk register, which includes details of the controls in place to manage and mitigate identified risks, is considered at every scheduled Board and Audit Committee meeting, with specific risks discussed in detail as and when required.

The Board has delegated its responsibility for reviewing the effectiveness of the internal control and risk management system to the Audit Committee. In making its assessment, the Audit Committee considers the reporting provided to it during the year in relation to internal control systems and procedures, including the risk register, and may request more detailed investigations into specific areas of concern if appropriate.

The Committee and the Board continued to keep the Bank F&C situation under review throughout the year (see Note 30 to the financial statements on page 140).

Full details of the Group's policy on risk and uncertainties are set out in Note 27 to the financial statements on pages 130 to 136. See also the Principal Risks section of the Strategic Report on pages 34 to 39.

Internal Audit

There is an internal audit function with a Group-wide remit, and the Head of Internal Audit, who has mining and international experience, reports directly to the Chairman of the Audit Committee and the CFO.

The Committee reviews at least annually the effectiveness of the internal audit function by assessing outcomes against plan targets, and is satisfied, following its 2017 assessment, with the rigour of the audit projects and with management's response to the Head of Internal Audit's findings. An internal audit programme for 2018 was approved by the Audit Committee in November 2017.

An internal audit programme for 2017, approved by the Audit Committee, focused on the compliance process; the operational risks relating to the availability of iron ore; IT; and the Ukrainian subsidiary DP Ferrotrans. The Committee received a report from the Head of Internal Audit twice during the year, and reviewed the progress of the internal audit plan with the auditors and the Head of Internal Audit. The reports include the Head of Internal Audit's assessment of the operation and effectiveness of relevant elements of the Group's internal control systems, and therefore form part of the Committee's ongoing monitoring and assessment of such systems.

External Audit

Auditor Independence and Assessment of Audit Process Effectiveness

The Audit Committee and the Board place great emphasis on the independence and objectivity of the Group's external auditors 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 at the end of the annual reporting cycle by the Audit Committee, taking into account the views of management. The outcome of the March 2017 review was relayed to the relevant partners of Ernst & Young LLP. 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. The auditors also 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.

Deloitte LLP were appointed as auditors at the AGM in May 2017 with Christopher Thomas as lead partner, and to date the Audit Committee and the Board are satisfied with their performance, independence and objectivity. A formal review will take place when their first annual reporting cycle is complete.

Non-audit Services

The Audit Committee operates policies in respect of the provision of non-audit services and the 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 under EU guidance. 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$20,000 must first be approved by the Audit Committee or its Chairman (who are routinely notified of all non-audit services).

Fees for audit-related and non-audit-related services performed by the external auditors during 2017 are shown in Note 7 to the financial statements on page 106.

Financial Reporting

The Board has asked the Committee to advise whether it considers the 2017 Annual Report and Accounts, taken as a whole, to be fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. In providing its advice, the Committee noted that the factual content of the Annual Report and Accounts 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 has also conducted its own detailed review of the disclosures in the Annual Report and Accounts taking into account its own knowledge of Ferrexpo's strategy and performance, the consistency between different sections of the report, the accessibility of the structure and narrative of the report, and the use of key performance indicators. The Committee is satisfied that, taken as a whole, the Annual Report and Accounts is fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy and has advised the Board accordingly.

The Committee has also advised the Board on the process which has been undertaken in the year to support the longer-term viability statement required under the Governance Code. The Viability Statement is set out in the Strategic Report on page 40 and a statement setting out the Board's assessment of the Company as a going concern is contained in the Directors' Report on page 85 and Note 2 to the accounts on page 101.

Whistleblowing Policy

The Audit Committee is responsible for reviewing the Group's whistleblowing arrangements, and receives regular reports from the Head of Internal Audit which detail any new whistleblowing incidents and, where appropriate, steps taken to investigate such incidents.

MARY REILLY
CHAIRMAN OF THE AUDIT COMMITTEE

RELATIONS WITH SHAREHOLDERS

The Chairman is responsible for ensuring that the views of shareholders are communicated to the Board as a whole, and reports on his discussions with shareholders as part of the standard agenda for scheduled Board meetings. 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. 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.

The Executive Directors and other senior executives maintain appropriate contact with institutional shareholders on a range of issues affecting the Group's performance, and meet with institutional investors and analysts following the announcement and presentation 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 Senior Independent Director and other Non-executive Directors are available for discussions with shareholders if required. 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 20 March 2018.

STEVE LUCAS
CHAIRMAN

REMUNERATION REPORT

A Statement to Shareholders from the Chairman of the Remuneration Committee[1]
On behalf of the Board, I am pleased to introduce the Directors' Remuneration Report for the year ended 31 December 2017.

As in recent years, this report is split into two distinct sections. The first sets out Ferrexpo's remuneration policy for Executive and Non-executive Directors, which was approved by shareholders at the 2017 AGM and is reproduced in full for ease of reference and to provide context to the decisions taken by the Committee during the year. The second reviews how the Company's remuneration policy was implemented in 2017, and will be subject to an advisory vote at the forthcoming AGM. The elements subject to audit are highlighted throughout.

During the year, and in advance of the expiry in May 2018 of the existing Ferrexpo Long Term Incentive Plan ("LTIP"), the Committee reviewed our Executive Director remuneration arrangements to ensure that they remain appropriate, and concluded that they do. The Company will therefore seek shareholder approval at the 2018 AGM for the renewal of the LTIP to accommodate future grants in line with the current remuneration policy.

In 2017, demand for iron ore pellet was strong with pellet premiums at a nine-year high. This enabled the Group to almost double its pre-tax profit and considerably strengthen its balance sheet. However, production output was impacted by necessary plant maintenance which meant lower pellet production and higher cost per tonne. The Committee believes that this performance is fairly reflected in executive remuneration outcomes for the year, as set out in this report and taking into consideration the specific arrangements regarding Mr Zhevago (the CEO) outlined 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 that his large shareholding in the business is 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 conversion into US Dollars. Mr Mawe's (the CFO) salary is unchanged for the year commencing 1 January 2018. STIP awards continue to be settled in cash to help ensure the Company continues to attract, motivate and retain key talent in a challenging operating environment, and to aid simplicity. As foreshadowed in last year's Remuneration Report and in line with market practice, the Committee has introduced clawback provisions to STIP awards in order to provide further alignment with shareholder interests. We will also introduce a two-year holding period on vested LTIP shares with clawback provisions, for awards granted from 2018 onwards, which extends incentive time horizons and provides further alignment with shareholder interests. In total, this results in a five-year combined LTIP vesting and holding period. No other significant changes are expected in the implementation of the remuneration policy for the year ahead.

The Committee strives to align the incentives of the executives with shareholder interests, and the Board keeps under review the structure and level of remuneration afforded through share-based incentives and ownership in relation to variable and fixed pay.

BERT NACKEN
CHAIRMAN OF THE REMUNERATION COMMITTEE

1 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.

REMUNERATION REPORT

CONTINUED

PART A: POLICY SECTION (NOT SUBJECT TO AUDIT)

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. Total Shareholder Return ("TSR") relative to sector peers, annual business priorities, financial and operational targets and individual performance); and
- provide rewards that are competitive in the relevant markets to help 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.

Executive Director Policy Table

This section of our report summarises the policy for each component of Executive Director remuneration which was effective from the date of the 2017 AGM for both current and future Executive Directors (but see also "Remuneration Policy for New Appointments" on page 71). The framework governing the LTIP was approved by shareholders at the 2008 AGM and will expire in May 2018. The Company is therefore seeking approval at the 2018 AGM for a new LTIP to accommodate future grants. The framework being presented does not propose any change to the remuneration policy approved by shareholders at the 2017 AGM.

The Chief Executive takes a salary of US$240,000 per year which is donated 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 the policies set out below, other than those related to benefits and pensions, are therefore not applicable to the current CEO and apply exclusively to the CFO. The principles below are, however, also considered as a framework for any future Executive Director appointments and apply where appropriate to the members of the Executive Committee.

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 inflation rate) on an annualised basis over the period over which this policy applies. 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) or cash in lieu of pension.	The employer contribution will be a percentage of pensionable salary and associated benefits (excluding variable pay). The employer contribution will normally be up to 15% of salary subject to compliance 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 costs 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. Payments are typically made in cash; however, the Committee may determine that a portion of the bonus be deferred and be in the form of cash or shares. Malus and clawback provisions will apply in the event of a material misstatement of results, material calculation error or gross misconduct.	Maximum opportunity of 150% of salary. The target opportunity is up to two-thirds of maximum and the threshold opportunity is up to one-third of maximum.	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 2017 are set out in Part B under "2017 STIP outcome". 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 and will expire in May 2018. The Company is seeking renewal of the framework at the 2018 AGM for a new LTIP to accommodate future grants in line with the current policy. To the extent that an LTIP award vests, this will include the applicable dividends on the shares earned during the vesting period. The Remuneration Committee has discretion to introduce a two-year holding period to Executive Directors' vested LTIP shares for future awards. This will apply for LTIP awards made from 2018. Malus and clawback provisions will apply in the event of a material misstatement of results, material calculation error or gross misconduct.	The LTIP provides for annual awards of performance shares, options or cash 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 2017". 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 the primary performance measure.

REMUNERATION REPORT
CONTINUED

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.

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 practice among FTSE-listed 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 are encouraged to retain their vested LTIP shares on an after-tax basis until the applicable guideline level is achieved. This is in addition to a mandatory two-year holding period on vested LTIP shares for awards granted from 2018 onwards.

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.

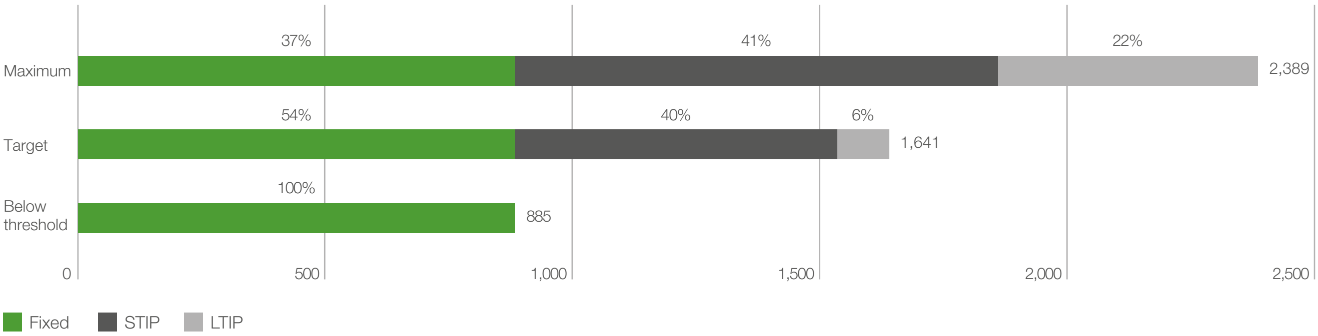
Purpose and link to strategy	Operation	Opportunity	Performance metrics
Fees			
To attract and retain talent by ensuring fees are market competitive and reflect the time commitment required of Non-executive Directors in different roles.	Annual fee for the Chairman. Annual base fee for Non-executive Directors. 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.	Changes to Non-executive Director fees 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.

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
CHF ('000s)



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 2018
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 and current practice, applied to the base salary in force at 1 January 2018. For the STIP, the amounts illustrated for the CFO are those potentially receivable in respect of performance for 2018. For 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 above is assumed to be of similar monetary value as in 2017. However, it should be noted that the Committee reviews the efficacy of the LTIP prior to grant each year, which could affect the LTIP awards made to the CFO in 2018.

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.

REMUNERATION REPORT
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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 12 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.

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 CEO and 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

The Chairman and Non-executive Directors have each 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. The key terms of current letters of appointment are as follows:

Non-executive Director	Position	Date of first appointment	Date of re-election
S Lucas	Chairman	19 May 2016	Annual re-election
B Nacken	Non-executive Director	1 August 2014	Annual re-election
V Lisovenko	Non-executive Director	28 November 2016	Annual re-election
M Reilly	Non-executive Director	27 May 2015	Annual re-election
S Lockett	Non-executive Director	15 June 2017	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, or by correspondence, or at 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 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.

REMUNERATION REPORT

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PART B: REMUNERATION IN 2017 (SUBJECT TO AUDIT)

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

Committee Membership in 2017

The Committee comprises four independent Non-executive Directors. Bert Nacken is the Chairman of the Committee. The other members are Mary Reilly, Vitalii Lisovenko and Simon Lockett (since 15 June 2017). Oliver Baring retired from the Committee and the Board on 23 November 2017. The Committee met four times during the year. Attendance at meetings by individual members is detailed in the Corporate Governance Report on page 58. A summary of the topics discussed at meetings in 2017 is detailed below:

- Review of remuneration of members of the Executive Committee, including salaries, STIP and LTIP policy.
- Review of incentive outcomes.
- Review of feedback from 2017 AGM voting season.
- Review of general market considerations surrounding executive remuneration packages and structure.
- Performance evaluation of the Committee.
- Review of the LTIP framework and performance measures ahead of the proposed renewal in 2018.

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 Mercer | Kepler to provide advice on remuneration policy, with particular emphasis on the structure of long-term incentives for senior management and the provision of benchmark reports on executive and non-executive remuneration. Mercer | Kepler is a member of the Remuneration Consultants Group and adheres to its code of conduct. To help ensure a consistent approach to remuneration across the Group, Mercer | Kepler also provided advice to the Company in respect of matters relating to the remuneration of other employees. Other than remuneration advice, no other services were provided by Mercer | Kepler. Kepler's parent company, Mercer, advised the Group on international healthcare plans. The fees paid to Mercer | Kepler in respect of work carried out for the Committee in 2017 totalled £34,730 based on time and materials. The Committee evaluates the support provided by its advisers periodically and is satisfied that Mercer | Kepler provide independent and objective remuneration advice to the Committee and do not have any connections with Ferrexpo which may impair their independence.

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 2017 and the prior year.

	K Zhevago (CEO)		C Mawe (CFO)	
All figures shown in currency of payment	**2017**	2016	**2017**	2016
1 Salary	**US$240,000**	US$240,000	**CHF651,525**	CHF651,525
2 Benefits	**nil**	nil	**CHF167,790**	CHF167,790
3 STIP	**–**	–	**CHF728,644**	CHF726,621
4 LTIP	**–**	–	**£395,685**	£41,964
5 Pension	**CHF14,662**	CHF3,110	**CHF65,326**	CHF59,023
Total	**US$240,000 plus CHF14,662**	US$240,000 plus CHF3,110	**CHF1,613,285 plus £395,685**	CHF1,604,959 plus £41,964
6 Total (single currency)	**US$254,891**	US$243,157	**CHF2,115,062**	CHF1,657,579

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 76 and 77.
4 LTIP: the market value of shares that vested on performance to 31 December of the relevant year (2017: 100% vested on performance; 2016: 24% vested on performance). The market value is based on the share price on the date of vesting: 31 December 2017 of 293.10 pence. Further details are provided on page 78.
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: 2017 – US$1 = CHF0.9846, CHF1 = £0.7890; 2016 – US$1 = CHF0.9850, CHF1 = £0.7512.

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 2017 and the prior year.

	All figures shown in currency of payment, US$000			
	2017		2016	
	Fees	**Total**	Fees	Total
Non-executive Directors[1]				
S Lucas[2]	**440**	**440**	137	137
M Reilly[3]	**170**	**170**	185	185
B Nacken[4]	**170**	**170**	170	170
V Lisovenko[5]	**135**	**135**	12	12
S Lockett[6]	**92**	**92**	–	–
Former Non-executive Directors				
M Field[7]	**73**	**73**	223	223
O Baring[8]	**158**	**158**	198	198

1 The Non-executive Director base fee is US$135,000 p.a. and US$35,000 p.a. for Chairmanship of a Committee. This fee structure became effective on 1 September 2016.
2 Steve Lucas joined the Board on 19 May 2016 and was appointed Chairman on 28 November 2016. He receives a Chairman fee of US$440,000 p.a.
3 Mary Reilly receives an additional fee of US$35,000 p.a. for her role as Chairman of the Audit Committee.
4 Bert Nacken receives an additional fee of US$35,000 for his role as Chairman of the Remuneration Committee.
5 Vitalii Lisovenko joined the Board on 28 November 2016.
6 Simon Lockett joined the Board on 15 June 2017. In addition to the Non-executive Director base fee, he receives additional fees of US$55,000 p.a. for his role as Senior Independent Director since 1 September 2017.
7 Sir Malcolm Field joined the Board on 10 March 2016 and during 2017 he received a time pro-rated additional fee of US$35,000 p.a. for his role as Chairman of the Bank F&C Review Committee. He also received a fee of US$4,625 in 2017, calculated on a time spent basis, in respect of work carried out on the Bank F&C review. He retired from the Board on 25 May 2017.
8 Oliver Baring retired from the Board on 23 November 2017. He received, in addition to the Non-executive Director's base fee until his retirement, additional fees of US$60,000 p.a. for his role as Senior Independent Director until 30 August 2017.

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 executive salaries in 2017. Mr Zhevago's salary, which he donates to Ukrainian charities, also remained unchanged at US$240,000.

		Base salary at:		
Executive Director	Position	**1 January 2018**	1 January 2017	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. Contributions operate according to a sliding scale, increasing as the employee gets older to a maximum of 10%.

	Normal retirement date	Increase in value for 2017 less Director's contribution (CHF000)	**Total cash value at end of 2017 (CHF000)**
K Zhevago	07.01.2039	14	**71**
C Mawe	31.01.2027	65	**793**

No additional benefit is receivable on early retirement.

Mr Zhevago is entitled to, but in 2017 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.

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2017 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 both in the short term and over the longer term. Key performance targets for 2017 were set at the start of the year for the CFO and senior executives and were weighted to reflect the contribution of the individual 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 cost improvement activities, as well as personal targets relating to operational and financial management objectives.

In last year's report, detailed targets and objectives were not disclosed prospectively as they were considered to be commercially sensitive at that time. We indicated that retrospective disclosure of these targets would be given in this year's report where this is no longer the case, and this is included in the table below. Financial and operational targets were normalised, 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.

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 level of achievement against each of the targets for 2017 as determined by the Committee for the CFO is summarised below.

Business scorecard (60% of STIP)

KPI	Measure/target	Weighting for CFO %	Threshold 50%	Target 100%	Stretch 150%	Scorecard outcome	Assessment	Max as a % of salary	Bonus awarded as a % of salary
Financial	Underlying cash EBITDA (US$)	12.5%	428	475	522	477.7	Above target	18.8%	12.9%
	NOPAT (US$)	7.5%	359	406	453	393.0	Above threshold	11.3%	6.5%
CSR and Safety	Safety programme and standards implementation (%)	5.0%	50%	75%	100%	100%	Stretch achieved	7.5%	7.5%
	Zero fatalities/improvement in LTIFR[1]	5.0%	0%	1.0%	2.0%	-1.0%	Zero due to fatality	7.5%	0.0%
Operational	Production volume (Mt)	2.5%	11,100	11,300	11,700	10,394	Below threshold	3.8%	0.0%
	Full cash costs (C1) (US$/t)	2.5%	39.6	38.7	36.7	39.1	Above threshold	3.8%	1.9%
	FPM Total movement cost (US$/t)	2.5%	1.60	1.52	1.36	1.46	Above target	3.8%	3.0%
	FYM Total movement cost (US$/t)	5.0%	1.39	1.34	1.24	1.26	Above target	7.5%	7.0%
Sales and Marketing	Realised DAP/FOB price (US$)	2.5%	-10.0	-7.5	-5.0	-0.60	Stretch achieved	3.8%	3.8%
	Seaborne freight per wmt compared to C3 (US$/t)	2.5%	5.0	3.5	2.0	2.1	Above target	3.8%	3.7%
	Sales volume (Mt)	5.0%	10,184	10,384	10,584	10,427	Above target	7.5%	5.5%
Operational improvement projects	Mobile maintenance relocation (% completed)	2.5%	80%	90%	100%	90%	Target	3.8%	2.5%
	Plant maintenance improvement (% implementation)	2.5%	80%	90%	100%	95%	Target	3.8%	3.1%
	Effective organisation design headcount reduction (FTE)[2]	2.5%	600	800	1000	0.0	Below threshold	3.8%	0.0%
		60.0%						90.0%	57.3%
						Discretionary modifier			1.5%
						Scorecard outcome			58.8%

1 LTIFR: number of work-related lost time injuries per million man hours (not including contractors).
2 FTE: full-time equivalent is a unit to measure the number of employees on full-time schedules and employees on part-time schedules converted to full-time basis.

The Committee considered the CFO's performance against Financial, Operational, CSR and Safety, Sales and Marketing, and Operational improvement targets during 2017, and decided to add 1.5% to the overall business scorecard result. In doing so, the Committee noted that the outcome of the scorecard for the CFO reflected the impact of planned pellet plant maintenance which had not been fully foreseen when the pellet volume targets were set at the start of the year. The Committee also considered that the normalisation of financial targets to take account of market and raw material cost price developments beyond the direct control of management had in effect raised the scorecard financial targets, resulting in only an above target outcome being achieved. This result did not reflect the fact that the Group's pre-tax profit increased by 110% while net debt was reduced by 32%. Taking into consideration all these factors, the Committee determined an overall business scorecard result for the CFO of 58.8% of salary.

Personal objectives (40% of STIP)

KPI	Objectives	Weighting for CFO %	Threshold 50%	Target 100%	Stretch 150%	Scorecard outcome	Assessment	Max as a % of salary	Bonus awarded as a % of salary
Personal objectives	Refinancing risk	20.0%	Reduced	Substantially eliminated	Eliminated	Above target	Refinancing risk substantially eliminated plus new PXF achieved	30.0%	25.0%
	Address compliance internal audit findings	5.0%	Partially – rating remains sufficient	Mostly – rating remains sufficient	All key points – rating upgraded	Stretch achieved	All internal audit findings addressed	7.5%	7.5%
	Reduce interest charge	5.0%	US$1 million below budget	US$2 million below budget	US$3 million below budget	Above target	US$2.2 million achieved	7.5%	5.5%
	Reduce Group taxation – no cross-border claims	5.0%	20% of Group PBT	19% of Group PBT	18% of Group PBT	Stretch achieved	Tax charge expected at 16%	7.5%	7.5%
	FME/FAG – manage transfer pricing and Board independence	5.0%	FAG	FME	Both	Stretch achieved	Issues for both FAG and FME addressed	7.5%	7.5%
Total		**40.0%**						**60.0%**	**53.0%**
Total STIP								**150.0%**	**112.0%**

The Committee considered the CFO's personal performance against his personal targets during 2017 as shown above and confirmed a result of between target and stretch of 53.0%. The Committee confirmed that the CFO had achieved all his personal targets relating to the deleveraging the Group's balance sheet, managing the Group's overall tax position, reducing working capital and various compliance-related targets. It was also noted that the CFO had through various personal actions contributed towards an increase in the Group's credit rating by the main rating agencies and had enhanced relationships with banking partners, thus enabling a new PXF facility to be arranged.

Taking into account his overall scorecard results and achievement of specific personal targets, the Committee awarded a total bonus of 112% of salary to the CFO.

STIP Framework for 2018

The STIP framework for 2018 is in line with the principles of the remuneration policy and the 2017 framework. Financial and operational targets, including cost reduction measures and personal KPIs, continue to be set as in previous years. Mr Mawe's 2018 STIP opportunity is 150% of salary for maximum performance, and 100% for target performance. The measures and weightings for the STIP in 2018 are shown in the table below. Due to commercial sensitivity, details of performance targets will be disclosed retrospectively and in certain instances may be aggregated. The CEO does not participate in the STIP.

KPI	Weighting for CFO
Financial (EBITDA, NOPAT)	30.0%
Operational (Production, sales volume)	30.0%
Personal	40.0%
Total	**100%**

REMUNERATION REPORT

CONTINUED

2015 LTIP Award Vesting – Audited

The performance period for the 2015 LTIP awards ended on 31 December 2017. The 2015 LTIP rewarded TSR outperformance of a tailored comparator group, as set out below. Under the 2015 LTIP, 20% of maximum vests for TSR performance in line with the Index, with full vesting for TSR outperformance of 8% p.a.

Ferrexpo's TSR performance relative to the weighted index was assessed by Mercer | Kepler. From 1 January 2015 to 31 December 2017, Ferrexpo's TSR outperformance was 45.7% p.a. resulting in 100% of the 2015 LTIP awards vesting.

LTIP Granted in 2017 – Audited

The 2017 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	02.05.2017	150,000	£176,175[1]	34%[1]	20%	31.12.2019

1 Based on average share price for the last three months of 2016 of 117.45 pence and average exchange rate of CHF1 = £ 0.7890.

The constituents of the Index for the last three cycles are summarised in the table below:

		2015	2016[1]	**2017**
Focused iron ore miners	Weighting	60%	60%	**60%**
Assore		✔	✔	✔
Atlas Iron		✔	✔	✔
Cliffs		✔	✔	✔
Fortescue Metals		✔	✔	✔
Kumba Iron Ore		✔	✔	✔
Mount Gibson		✔	✔	✔
Global diversified miners	Weighting	40%	40%	**40%**
Anglo American[2]		✔	✔	
BHP Billiton		✔	✔	✔
Rio Tinto		✔	✔	✔
Vale		✔	✔	✔
Glencore		✔	✔	✔

1 The Committee reviewed the constituents of the comparator index and their weightings prior to the grant of 2015 LTIP awards and decided to increase the weighting on the focused iron ore miners from 50% to 60% by dropping the single commodity/emerging market miners component from the comparator group, increasing the weighting on our closest comparators to improve the relevance of the benchmark and aid simplicity.
2 Removed from the peer group because the company is the majority shareholder of Kumba Iron Ore (already in the peer group) which the Committee regarded as the more relevant of the two comparators.

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 vest if Ferrexpo's TSR underperforms the comparator index. 20% vest if Ferrexpo's TSR is equal to Index TSR; full vesting occurs only if Ferrexpo's TSR exceeds the Index by at least 8% p.a.; there is straight-line pro rata vesting in between these 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.

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

LTIP Framework for 2018

This Directors' Remuneration Report is published prior to the grant date of awards under the LTIP, which are normally made in April. In advance of grant, the Committee will review the efficacy of the LTIP to ensure that it remains relevant. Details of awards made in 2018 will be set out in 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 Mercer | Kepler. Fees payable were reviewed in 2016 and reduced, effective 1 September 2016. The Committee Chairman's fee was only reduced on 1 January 2017. A further review was undertaken in 2017 and the fee payable to the Senior Independent Director was reduced, effective 1 September 2017, as shown below:

Role	**From 1 September 2017 Annual fee**	**From 1 January 2017 Annual fee**	From 1 September 2016 Annual fee	Before 1 September 2016 Annual fee
Chairman fee	**US$440,000**	**US$440,000**	US$440,000	US$500,000
Non-executive Director base fee	**US$135,000**	**US$135,000**	US$135,000	US$150,000
Committee Chairman fee	**US$35,000**	**US$35,000**	US$40,000	US$40,000
Senior Independent Director fee	**US$55,000**	**US$60,000**	US$60,000	US$60,000

Directors' Shareholdings – Audited

Total interests of the Directors in office (and connected persons) as at 31 December 2017:

	At 31 December 2017	At 31 December 2016
K Zhevago[1]	**296,077,944**	296,077,944
C Mawe	**115,437**	238,217
S Lucas	**0**	0
O Baring[2]	**16,130**	20,130
B Nacken	**20,000**	20,000
M Reilly	**0**	0
V Lisovenko	**0**	0
M Field	**0**	0
S Lockett	**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.
2 As at date of retirement from the Board on 23 November 2017.

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 20 March 2018, 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%	115,437	300,000	66%	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 2017 and share price of 293.10 pence.

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

	At 1 January 2017	Granted (2017 award)	Exercised	Lapsed	Total at 31 December 2017	Price on date of award (pence)	Date from which exercisable	Expiry date
C Mawe	130,000[1]		31,200	98,800	0	155	01.01.17	22.04.24
	135,000[2]				135,000	67	01.01.18	21.04.25
	150,000				150,000	37	01.01.19	25.04.26
		150,000			150,000	148.6	01.01.20	04.05.27
Total					435,000			

1 This award has vested 24% under the TSR performance condition described above. At the date of vesting (31 December 2016) the market price of a share was 134.50 pence.
2 This award has vested 100% under the TSR performance condition described above. At the date of vesting (31 December 2017) the market price of a share was 293.10 pence.

With the exception of the reinvestment of the January 2018 special dividend to purchase 251 shares for Mr Mawe, there have been no changes in the interests of the Directors from the end of the period under review to 20 March 2018. Total outstanding (i.e. awarded but not yet vested) awards granted under the LTIP as at the end of 2017 are equivalent to 0.22% of issued share capital.

REMUNERATION REPORT
CONTINUED

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
Lucio Genovese and Wolfram Kuoni retired from the Board on 1 August 2014 and 28 November 2016 respectively. They remain respectively a Non-executive Director and the Chairman of Ferrexpo AG, for which they respectively receive fees of US$40,000 p.a. and US$87,500 p.a. No other 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 2016 and 2017 compared to that for other employees.

	CEO	Other employees[1]
Salary	0%	50%
Taxable benefits	0%	0%
Annual bonus	n/a	30%

1 Refers to senior executives.

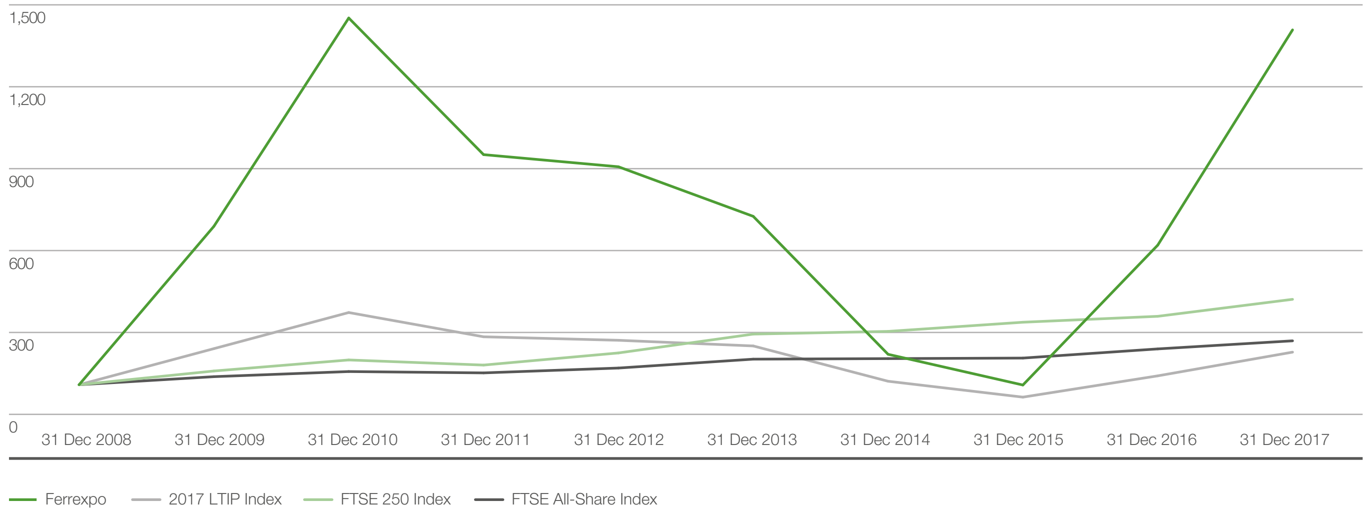
Relative Importance of Spending on Pay
The table below shows Ferrexpo's dividend and total employee pay expenditure (this includes pension and variable pay, including STIP and fair value of LTIP, but not social security) for the financial years ended 31 December 2016 and 31 December 2017, and the percentage change.

US$ million	2017	2016	Year-on-year change
All-employee remuneration	**55**	45	22%
Distributions to shareholders[1]	**58**	40	45%

1 Includes dividends and share buybacks.

Comparison of Company Performance and Executive Director Pay
The graph below shows the value, at 31 December 2017, 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
Growth in the value of a hypothetical £100 holding over the nine years to 31 December 2017.



Chief Executive Officer's Pay

US$000	2009	2010	2011	2012	2013	2014	2015	2016	2017
K Zhevago									
Single figure total remuneration	322	341	348	291	243	243	243	243	**255**
STIP vesting (% max)	K Zhevago did not participate in the STIP								
LTIP vesting (% max)	K Zhevago did not participate in the LTIP								

Statement of Shareholder Voting

The following table shows the results of the binding vote on the Remuneration Policy and the advisory vote on the 2016 Annual Report at the 2017 AGM.

	For		Against		Withheld
	No.	%	No.	%	No.
Remuneration Policy (at 2017 AGM)	434m	97.4%	12m	2.6%	1.4m
2016 Annual Report on Remuneration (at 2017 AGM)	436m	97.8%	10m	2.2%	1.3m

Other transactions involving Directors are set out in Note 34 (related parties) to the financial statements. This report was approved by the Board on 20 March 2018.

Signed on behalf of the Board

BERT NACKEN
CHAIRMAN OF THE REMUNERATION COMMITTEE

DIRECTORS' REPORT

Introduction
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.

The Directors present their Annual Report on the affairs of the Group, together with the financial statements and auditors' report, for the year ended 31 December 2017. There have been no significant events since the balance sheet date, other than the proposed dividend disclosed in Note 13 to the financial statements. An indication of likely future developments in the business of the Group is included in the Strategic Report.

Information about the use of financial instruments by the Group is given in Note 27 to the financial statements.

Additional disclosures which are incorporated by reference into this Directors' Report, including any information required in accordance with Listing Rule 9.8.4R of the FCA's Listing Rules or the Act, can be located as set out in the following table:

		Page
Capitalised interest and tax relief (LR 9.8.4 R(1))	See financial statements Note 14	114
Details of long-term incentive schemes (LR 9.8.4R (4))	Remuneration Report	67-81
Contracts of significance (LR 9.8.4R (10))	See financial statements Note 34. Transactions with FC Vorskla are considered to be contracts of significance under the Listing Rules	142
Details of waivers of dividends by shareholders (LR 9.8.4R (12) and (13))	The employee benefit trust contains 2.9 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 9.8.4R (14))	Corporate Governance Report	56
Disclosures concerning greenhouse gas emissions	Strategic Report	46
Financial instruments	The Group does not hold any derivative financial instruments. Group policy on financial instruments is set out in Note 27 to the financial statements	130
Events since the balance sheet date	See financial statements Note 35	144
Statement of Directors' responsibilities in respect of the Annual Report and Accounts		86
Information that fulfils the requirements of DTR 7.2 (other than DTR 7.2.6)	Corporate Governance Report	53

Dividends
Results for the year are set out in the consolidated income statement on page 96.

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 27 June 2018 to shareholders on the register at the close of business on 1 June 2018. 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 2017, the Directors have also announced a special dividend of 6.6 US cents per share, amounting to US$38 million, for payment on 16 April 2018 to shareholders on the register at the close of business on 3 April 2018. 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:
- Oliver Baring (retired 23 November 2017)
- Sir Malcolm Field (retired 25 May 2017)
- Vitalii Lisovenko
- Simon Lockett (appointed 15 June 2017)
- Steve Lucas
- Chris Mawe
- Bert Nacken
- Mary Reilly
- Kostyantin Zhevago

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 50 and 51. 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 67 to 81.

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 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 each 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 44 to 45. Employee numbers are stated in Note 29 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.

Political Donations

The Group made no political donations during the year.

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 relevant institutional investor guidelines.

Details of the issued share capital of the Company are shown in Note 31 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.

The Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or that may result in restrictions on voting rights.

DIRECTORS' REPORT
CONTINUED

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 25 May 2017. This authority will expire at the conclusion of the Company's 2018 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 2017.

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 2017, 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%

1 Fevamotinico S.a.r.l. is a wholly owned subsidiary of The Minco Trust of which Kostyantin Zhevago is a beneficiary.

As at 4 March 2018, the latest practicable date prior to publication of the Annual Report, no changes in these interests in voting rights had been notified to the Company.

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 Facilities

Under the US$195 million revolving pre-export finance ("PXF") facility with BNP Paribas and other banks entered into in November 2017, 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 the lenders are not obliged to fund a drawdown and a lender may upon notice cancel its commitment and declare the amount owing to it immediately due and payable. As at 31 December 2017 the facility was undrawn.

Under the US$350 million revolving PXF 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 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 and a lender may upon notice cancel its commitment and declare the amount owing to it immediately due and payable.

As of 31 December 2017, total committed PXF facilities available were US$326.25 million, of which US$112.5 million had been drawn under the 2013 facility. Of the remaining US$213.75 million, US$18.75 million is available under the 2013 facility and US$195 million under the 2017 facility.

Corporate Bonds Due 2018 and 2019

Under the conditions of the Notes issued in February and July 2015, if Kostyantin Zhevago or certain related persons ceases to own directly or indirectly at least 30% of the issued and allotted share capital of the Company; if any person (other than Kostyantin Zhevago or certain related persons) becomes the beneficial owner of shares in the Company carrying more than 50% of the voting rights normally exercisable at a general meeting; or if the allotted share capital of the Company ceases to be listed on certain approved markets, then any Noteholder will have the right to require the repurchase of its Notes at a purchase price in cash equal to 101% of the principal amount plus accrued and unpaid interest.

Relationship Agreement

Details of the Relationship Agreement entered into between Fevamotinico S.a.r.l., Kostyantin Zhevago, The Minco Trust and the Company can be found in the Corporate Governance Report (page 56). The Relationship Agreement ceases to apply if Ferrexpo's shares cease to be listed and traded on the London Stock Exchange, or 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.

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 18 to 39. The Viability Statement is set out in the Strategic Report on page 40. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Performance Review on pages 18 to 27. In addition, Note 27 of the notes to the consolidated financial statements on pages 130 to 136 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 Directors have reviewed the Group's cash flow projections, liquidity and debt maturity profile for the period from the approval of the accounts to the end of March 2019 and also considered events and conditions beyond the period of management's going concern assessment, in particular the debt repayments totalling US$177,022 thousand in April and May 2019. 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.

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 (as defined in the Act) of which the Group's auditors are unaware, and that each Director has taken all steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information (as defined) 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 Friday 25 May 2018 at Deutsche Bank, Winchester House, 75 London Wall, London EC2N 2DB. 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.

The Strategic Report on pages 1 to 49 and this Directors' Report 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 Directors' Report was approved by the Board on 20 March 2018.

For and on behalf of the Board

STEVE LUCAS
CHAIRMAN

CHRIS 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 financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare such financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and Article 4 of the IAS Regulation, and have also chosen to prepare the Parent Company financial statements in accordance with Financial Reporting Standard 101 (Reduced Disclosure Framework). 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 the Parent Company 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 Financial Reporting Standard 101 (Reduced Disclosure Framework) has been followed, subject to any material departures disclosed and explained in the financial statements; and
– prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that the Directors:
– properly select and apply accounting policies;
– present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
– provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
– make an assessment of the Group's ability to continue as a going concern.

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 are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

We confirm that to the best of our knowledge:
(a) the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
(b) the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
(c) 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 position and performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 20 March 2018 and is signed on its behalf by:

STEVE LUCAS
CHAIRMAN

CHRIS MAWE
CHIEF FINANCIAL OFFICER

20 March 2018

FINANCIAL CONTENTS

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FERREXPO PLC

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion:
- the financial statements give a true and fair view of the state of Ferrexpo plc (the "Parent Company") and its subsidiaries' (together the "Group") affairs as at 31 December 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; 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.

We have audited the financial statements of Ferrexpo plc (the "Parent Company") and its subsidiaries (the "Group") which comprise:
- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and Parent Company statements of financial position;
- the consolidated and Parent Company statement of cash flows;
- the consolidated and Parent Company statement of changes in equity;
- the accounting policies;
- the related consolidated Notes 1 to 35; and
- the related Parent Company Notes 1 to 8.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and 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, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: – Charitable payments – Taxation – Related party disclosure Our assessment of the Group's key audit matters is consistent with 2016 except for: i) "**Going Concern**", which is no longer considered a key audit matter as a result of improved iron ore pellet prices and increased actual and forecast cash flow generation; ii) "**Impact of Bank F&C liquidation**", which is no longer considered a key audit matter as the amounts relating to Bank F&C have been fully provided for in 2016; and iii) "**Taxation**", which is a new key audit matter due to the significance of a judgement in relation to whether or not to recognise a deferred tax asset for the previous Bank F&C losses, and ongoing challenges from the State Fiscal Service of Ukraine ("SFS"), including the commencement of a transfer pricing audit in 2017.
Materiality	The materiality that we used for the Group financial statements was US$16.5 million, which was determined as 5% of the two-year average of profit before tax ("PBT") and special items.

Scoping	We utilised Deloitte global member firms ("Component Auditors") to report on the operations of the five material subsidiaries comprising the three mining and processing entities in Ukraine and the Swiss and Middle East marketing companies. Material subsidiaries were determined based on i) financial significance of the component to the Group as a whole, and ii) assessment of the risk of material misstatements applicable to each component. Our audit scope results in all major operations of the Group being subject to audit work, covering in excess of 94% of the Group's revenue, 95% of the Group's profit and 85% of the net assets.
First year audit transition	We developed a detailed audit transition plan, designed to deliver an effective transition from the Group's predecessor auditor, Ernst & Young LLP ("EY"). Our audit planning and transition commenced on 1 January 2017. Our transition activities were performed for components located in the UK, Switzerland and Ukraine, which included (but were not limited to) meeting relevant partners and senior staff from EY, shadowing EY in the audit close meetings, attending the February 2017 Audit Committee meeting where the final report on the audit was provided, and reviewing EY's 2016 audit work papers. Our transition focused on obtaining an understanding of the Group's system of internal control, evaluating the Group's accounting policies and areas of accounting judgement, and meeting with management across all major divisions.

Conclusions relating to going concern, principal risks and viability statement

Going concern We have reviewed the Directors' statement in Note 2 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Parent Company's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements. We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.	**We confirm that we have nothing material to report, add or draw attention to in respect of these matters.**
Principal risks and viability statement Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Group's and the Parent Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to: – the disclosures on pages 34 to 39 that describe the principal risks and explain how they are being managed or mitigated; – the Directors' confirmation on page 61 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or – the Directors' explanation on page 40 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures, drawing attention to any necessary qualifications or assumptions. We are also required to report whether the Directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	**We confirm that we have nothing material to report, add or draw attention to in respect of these matters.**

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FERREXPO PLC

CONTINUED

Charitable payments	
Key audit matter description	In order to maintain its social licence to operate, the Group operates a CSR programme in Ukraine. In 2013, the programme expanded and, also in 2013, Blooming Land, a local charity based in Ukraine, was established with the primary function of coordinating the Group's CSR programme. In 2017, this programme included Ferrexpo making charitable payments totalling US$28.4 million (as disclosed in Note 7) out of which US$25.0 million (2016: US$25.2 million) was paid to Blooming Land. These activities are further described on page 48 of the Strategic Report and the Group oversight is described on page 63 of the Corporate Governance Report. Blooming Land managed its activities via three related charitable funds (the "Sub Funds") who carried out charitable activities by subcontracting individual event managers. During the year 129 health-related events were reported to Ferrexpo as having taken place. We identified a risk that the payments could be misappropriated or misapplied once the funds have been received by the Sub Funds. Depending on the nature of any such misappropriation or misapplication, the risk is that the Group's financial statements i) might not fairly present the nature of the expenditures made; ii) might omit liabilities for any related breaches of laws and regulations involving the Group; and/or iii) might omit related party or other disclosures that ought to have been made. Given the importance of transparent reporting and compliance, CSR payments to Blooming Land were considered as a significant risk area due to potential fraud and a key audit matter.
How the scope of our audit responded to the key audit matter	We have reviewed the procedures performed and reporting provided to the Board of Directors from the Group's Compliance Officer as required by the Group's CSR policy. We agreed CSR payments made to Blooming Land to bank statements. We reviewed Board minutes of Ferrexpo Poltava Mining to ensure all CSR payments made to Blooming Land were approved. We performed background checks on the beneficiary (the effective administrator) of Blooming Land and the Sub Funds. We also performed background checks of the directors of the four funds and the individual event managers contracted by the Sub Funds. We obtained and reviewed confirmations received by the Company from the individual event managers, the trustee of Blooming Land and the three Sub Funds that the funds had been received and applied for health-related charitable activities in Ukraine in compliance with local and international legislation. We challenged management as to whether Blooming Land and the Sub Funds were independent or controlled by Ferrexpo. We reviewed management's analysis that evaluated whether IFRS 10 criteria were met and whether these entities were controlled by the Group. We determined that audit evidence was required from the Sub Funds and the individual event managers to evidence the nature and validity of the expenditure funded by Ferrexpo. From the breakdown of costs by event, we sampled 12 events (including four which we attended), for which we requested selected primary documents including invoices paid and bank transfer documentation. We attended four events which occurred in 2017. We made follow-up enquiries regarding the volumes of items ordered relative to the number of observed attendees and the treatment of significant surplus inventory. We reconciled the cash balance in the four funds from the opening balance, plus funds received from Ferrexpo, less the total amount per the breakdown of costs by event in the year prepared by Blooming Land to the reported closing cash balance.
Key observations	The results of our testing were sufficient and appropriate audit evidence as a basis for our audit opinion. We consider management's presentation and disclosures in relation to charitable payments to be appropriate.

Taxation	
Key audit matter description	The key audit matter related to taxation includes the following specific areas: **Deferred tax assets:** In 2017, the Group implemented a new commercial structure in its operations in Ukraine. As a result, the Group recognised a deferred tax asset ("DTA") at one of its Ukrainian subsidiaries of US$28.8 million, of which US$24.0 million relates to previously unrecognised tax losses and the remainder to previously unrecognised deferred tax assets on property, plant and equipment. The Group also derecognised the deferred tax asset of US$25.4 million previously recognised in relation to the losses which arose on deposits held with Bank Finance and Credit ("Bank F&C") which was declared as insolvent and commenced liquidation proceedings in 2015. This was on the basis that the liquidator of Bank F&C has not recognised the Group's claims to losses of US$132.6 million against the bank (refer to Note 30). Assessing the probability to the claim being recognised is highly subjective given the complex nature of the court proceedings and the further passage of time. There is a risk that other deferred tax assets will not be recovered in the future due to (i) restrictions imposed by the Ukrainian government, or (ii) insufficient future profits. **Transfer pricing:** The Group prices its sales between its subsidiaries using international benchmark prices for comparable products covering product quality and applicable freight. The Group judges these to be on terms which comply with applicable legislation. In August 2017, the State Fiscal Service of Ukraine ("SFS") commenced a tax audit at the Group's major subsidiary in Ukraine with a focus on cross-border transactions in terms of its pellet sales to another subsidiary of the Group. The audit can take up to 18 months and there have been no findings to date. This matter is described in Note 12 to the financial statements. Significant judgement is required in applying the transfer pricing rules and in determining the probability of any loss in connection with the Ukrainian tax audit. The taxation disclosure including accounting policies and description of key sources of estimation uncertainty are set out in Note 12 and considered by the Audit Committee on page 63 of the Annual Report.
How the scope of our audit responded to the key audit matter	**Deferred tax assets:** We involved specialists in Ukrainian tax legislation to review the commercial structure to determine whether such structures were common in Ukraine and acceptable under Ukrainian tax legislation. We have evaluated the projected profitability for the Ukrainian subsidiaries for purposes of evaluating the recoverability of the tax losses recognised in the current period. We considered the appropriateness of forecast taxable profits and the consistency of these forecasts with the Group's budgets to support the recognition of the remaining deferred tax assets. We have evaluated the latest developments in the litigation relating to Bank F&C including a review of correspondence received from the external legal counsel and discussed with them the potential outcomes for this matter. **Transfer pricing:** We have involved transfer pricing tax specialists in Ukraine to assess appropriateness of the transfer pricing policies and documentation in place prepared by management. On a sample basis, we verified the calculation of prices for transactions that occurred in 2017 to be in line with the transfer pricing policy. We have reviewed the correspondence with SFS and calculation of the assessed risk with assistance from UK tax and transfer pricing specialists. In addition, we have reviewed recent similar cases in Ukraine and the results of the court proceedings.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FERREXPO PLC

CONTINUED

Taxation (continued)	
Key observations	**Deferred tax assets:** The liquidator still has not recognised the Group's claims and therefore we concur with the Group's derecognition of the deferred tax asset. **Transfer pricing:** The SFS has set out a comprehensive information request in relation to transactions and period in scope and management has delivered all the required information. No specific claim or findings have been communicated as of the date of this report. The results of our testing were satisfactory and we concur that the recorded tax assets, tax provisions and disclosures are appropriate.
Related party disclosure	
Key audit matter description	The Group enters into a substantial number of related party transactions, recording an expense of US$40.0 million and other income of US$0.5 million, of which US$21.6 million and US$0.5 million, respectively, relates to transactions with counterparties that are controlled by the Group's majority shareholder and CEO. There is a risk of undisclosed related party transactions and transactions entered into that are not transacted on an arm's length basis and not disclosed as such. The related party disclosures are set out in Note 34 to the financial statements.
How the scope of our audit responded to the key audit matter	We reviewed and evaluated management's process for identifying and recording related party transactions and reviewed the design and implementation of management's controls around the approval of related party transactions both at the level of the Group and individual entities. We have reviewed the minutes of meetings of the Board of Directors and relevant sub-committees and confirmed there are no new related party transactions entered into in 2017 that are significant or outside the normal course of business. For a sample of new counterparties in 2017 we searched for evidence of any related party relationships with the Group. We did independent searches of the majority shareholder/CEO's other business interests to test the completeness of the related party list. We obtained the list of related parties confirmed by the Board of Directors and did not identify any counterparties on the list which were not included in the related party disclosures. We have reviewed underlying contracts to understand the nature and commerciality of any new or significant related party transactions and assess whether they are executed on an arm's length basis. We reviewed disclosure of related party balances and transactions to determine whether they were in compliance with IAS 24.
Key observations	The results of our testing were satisfactory and we concur that the related party transactions and balances are appropriately disclosed in the financial statements.

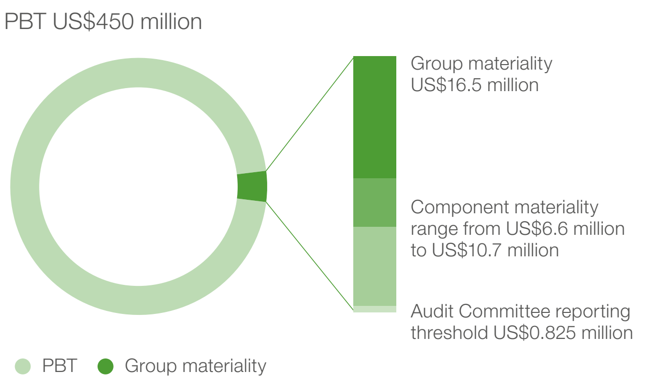
Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent Company financial statements
Materiality	US$16.5 million (2016: US$12.0 million by the previous auditors)	US$14.4 million
Basis for determining materiality	We have determined materiality by using 5% of a two-year average (2016–2017) of profit before tax ("PBT") and special items which comprised US$0.4 million of inventory and property, plant and equipment write-offs in 2017 and US$2.5 million of inventory, property, plant and equipment, receivables and prepayments and other write-offs and US$8.5 million of allowance for the Bank Finance & Credit restricted cash balance in 2016. In 2016, the previous auditors used approximately 5% of adjusted profit before tax.	1.5% of Parent Company's net assets
Rationale for the benchmark applied	The profit before tax for the years 2016–2017 has been normalised in determining materiality to exclude items which, due to their variable financial impact and/or expected infrequency of the underlying events, are not considered indicative of continuing operations of the Group. These items do not form part of the Group's internally or externally monitored primary key performance indicators, and which if included, would distort materiality year-on-year. We consider this approach of using a two-year average to be more appropriate than an assessment based on current year results alone given the nature of the mining industry, which is exposed to cyclical commodity price fluctuations and to therefore provide a more stable base reflective of the scale of the Group's size and operations.	We consider the chosen benchmark appropriate due to the nature of the Parent Company's operations being a holding company of the Group.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of US$0.825 million (2016: US$0.6 million was used by the previous auditors) for the Group as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.



An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and the Parent Company and their environments, including internal control, and assessing the risks of material misstatement. The Group's Parent Company and finance company are UK based, while the head office and marketing companies are based in Switzerland and the primary mining operations are located in Ukraine.

Considering operational and financial performance and risk factors, we focused our assessment on the significant components and performed full scope audits of the Swiss FAG and FME, Ukrainian FPM, FYM and FBM components and Ferrexpo plc company only, along with specified audit procedures at Ferrexpo Finance plc. Our full scope and specified audit procedures cover revenue (94% of Group total), profit before tax (95% of Group total) and net assets (85% of Group total).

The remaining 23 components represent 5% of Group's profit before tax and individually do not contribute more than 5% of the Group's profit before tax. There were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances. We have performed analytical procedures for these companies as well as testing of consolidation journal entities.

The work performed by the component audit teams is guided by the Group audit team and is executed at levels of materiality applicable to each individual entity, which were lower than Group materiality and ranged from US$6.6 million to US$10.7 million.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FERREXPO PLC

CONTINUED

For full scope overseas components, the Group audit team was involved in the audit work performed by the component auditors in Ukraine and Switzerland through a combination of our global planning conference call meetings, in-country technical training, provision of referral instructions, review and challenge of related component inter-office reporting and of findings from their work (which included the audit procedures performed to respond to risks of material misstatement), attendance at component audit closing conference calls and weekly interaction on audit and accounting matters which arose.

Ferrexpo plc company only and Ferrexpo Finance plc are registered in the United Kingdom, hence the audit and specified procedures were carried out by the Group audit team.

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:
- Fair, balanced and understandable – the statement given by the Directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit Committee reporting – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- Directors' statement of compliance with the UK Corporate Governance Code – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R (2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing as applicable matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report
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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinions 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.

In our opinion, based on the work undertaken in the course of the audit:
- 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 Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the Parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records Under the Companies Act 2006 we are required to report to you if, in our opinion: – we have not received all the information and explanations we require for our audit; or – 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 are not in agreement with the accounting records and returns.	**We have nothing to report in respect of these matters.**
Directors' remuneration Under the Companies Act 2006 we are also required to report, if in our opinion, certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns.	**We have nothing to report in respect of these matters.**

Other matters
Auditor tenure
Following the recommendation of the Audit Committee, we were appointed by the members at the Annual General Meeting on 27 May 2017 to audit the financial statements for the year ending 31 December 2017 and subsequent financial periods. The period of total uninterrupted engagement of the firm is therefore one year.

Consistency of the audit report with the additional report to the Audit Committee
Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

CHRISTOPHER THOMAS
(SENIOR STATUTORY AUDITOR)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
20 March 2018

CONSOLIDATED INCOME STATEMENT

US$000	Notes	Before special items	Special items	Year ended 31.12.17	Before special items	Special items	Year ended 31.12.16
Revenue	6	1,197,494	–	1,197,494	986,325	–	986,325
Operating expenses	5/7/10	(716,947)	(407)	(717,354)	(687,060)	(2,501)	(689,561)
Other operating income	8	3,238	–	3,238	2,914	–	2,914
Operating foreign exchange gains	9	6,661	–	6,661	13,832	–	13,832
Operating profit		490,446	(407)	490,039	316,011	(2,501)	313,510
Non-operating special items	10	–	–	–	–	(8,525)	(8,525)
Share of profit from associates	33	5,527	–	5,527	3,726	–	3,726
Profit/(loss) before tax and finance		495,973	(407)	495,566	319,737	(11,026)	308,711
Net finance expense	11	(54,766)	–	(54,766)	(67,002)	–	(67,002)
Non-operating foreign exchange gains/(losses)	9	9,033	–	9,033	(10,311)	–	(10,311)
Profit/(loss) before tax		450,240	(407)	449,833	242,424	(11,026)	231,398
Income tax (expense)/credit	12	(58,787)	3,426	(55,361)	(43,733)	1,535	(42,198)
Profit/(loss) for the year		391,453	3,019	394,472	198,691	(9,491)	189,200
Profit/(loss) attributable to:							
Equity shareholders of Ferrexpo plc		389,675	3,254	392,929	196,770	(9,416)	187,354
Non-controlling interests		1,778	(235)	1,543	1,921	(75)	1,846
Profit/(loss) for the year		391,453	3,019	394,472	198,691	(9,491)	189,200
Earnings/(loss) per share:							
Basic (US cents)	13	66.53	0.56	67.09	33.60	(1.60)	32.00
Diluted (US cents)	13	66.30	0.55	66.85	33.51	(1.60)	31.91

The presentation of the income statement has been simplified in the current period, with the comparative information re-presented to be on a consistent basis, as set out in Note 2. There has been no restatement of the underlying financial information.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

US$000	Notes	Year ended 31.12.17	Year ended 31.12.16
Profit for the year		**394,472**	189,200
Items that may subsequently be reclassified to profit or loss:			
Exchange differences on translating foreign operations		**(41,415)**	(126,365)
Income tax effect	12	**4,557**	16,607
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods		**(36,858)**	(109,758)
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement (cost)/gains on defined benefit pension liability	22	**(9,172)**	1,075
Income tax effect	12	**1,556**	(246)
Net other comprehensive (loss)/income not being reclassified to profit or loss in subsequent periods		**(7,616)**	829
Other comprehensive loss for the year, net of tax		**(44,474)**	(108,929)
Total comprehensive income for the year, net of tax		**349,998**	80,271
Total comprehensive income attributable to:			
Equity shareholders of Ferrexpo plc		**348,686**	79,650
Non-controlling interests		**1,312**	621
		349,998	80,271

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

US$000	Notes	As at 31.12.17	As at 31.12.16
Assets			
Property, plant and equipment	14	**623,359**	574,839
Goodwill and other intangible assets	15	**36,858**	35,220
Investments in associates	33	**5,947**	2,165
Inventories	17	**175,831**	130,357
Other non-current assets	16	**10,501**	2,984
Income taxes recoverable and prepaid	12	**5,454**	5,630
Deferred tax assets	12	**40,408**	52,818
Total non-current assets		**898,358**	804,013
Inventories	17	**96,645**	78,935
Trade and other receivables	18	**88,327**	90,568
Prepayments and other current assets	19	**17,514**	12,564
Income taxes recoverable and prepaid	12	**14**	10,757
Other taxes recoverable and prepaid	20	**23,192**	21,389
Cash and cash equivalents	25	**97,742**	144,751
Total current assets		**323,434**	358,964
Total assets		**1,221,792**	1,162,977
Equity and liabilities			
Issued capital	31	**121,628**	121,628
Share premium		**185,112**	185,112
Other reserves	31	**(2,020,864)**	(1,984,758)
Retained earnings		**2,310,226**	2,002,153
Equity attributable to equity shareholders of Ferrexpo plc		**596,102**	324,135
Non-controlling interests		**370**	(847)
Total equity		**596,472**	323,288
Interest-bearing loans and borrowings	5/26	**186,294**	505,641
Defined benefit pension liability	22	**20,514**	15,489
Provision for site restoration	23	**2,070**	1,071
Deferred tax liabilities	12	**381**	586
Total non-current liabilities		**209,259**	522,787
Interest-bearing loans and borrowings	5/26	**314,770**	228,061
Trade and other payables	21	**48,428**	28,807
Accrued liabilities and deferred income	24	**18,196**	42,584
Income taxes payable	12	**23,715**	11,780
Other taxes payable	20	**10,952**	5,670
Total current liabilities		**416,061**	316,902
Total liabilities		**625,320**	839,689
Total equity and liabilities		**1,221,792**	1,162,977

The financial statements were approved by the Board of Directors on 20 March 2018.

KOSTYANTIN ZHEVAGO
CHIEF EXECUTIVE OFFICER

CHRISTOPHER MAWE
CHIEF FINANCIAL OFFICER

CONSOLIDATED STATEMENT OF CASH FLOWS

US$000	Notes	Year ended 31.12.17	Year ended 31.12.16
Profit before tax		**449,833**	231,398
Adjustments for:			
Depreciation of property, plant and equipment and amortisation of intangible assets		**46,392**	50,671
Interest expense	11	**53,044**	64,975
Interest income	11	**(372)**	(175)
Losses on disposal of property, plant and equipment		**7,754**	4,446
Cash elements included in losses on disposal of property, plant and equipment		**(2,953)**	–
Operating special items	10	**407**	2,501
Non-operating special items	10	**–**	8,525
Share of profit from associates	33	**(5,527)**	(3,726)
Movement in allowance for doubtful receivables	10	**576**	252
Movement in site restoration provision	23	**1,070**	(308)
Employee benefits	22	**(1,632)**	3,192
Share-based payments	29	**586**	389
Operating foreign exchange gains	9	**(6,661)**	(13,832)
Non-operating foreign exchange (gains)/losses	9	**(9,033)**	10,311
Other adjustments		**(6,458)**	–
Operating cash flow before working capital changes		**527,026**	358,619
Changes in working capital:			
Increase in trade and other receivables		**(3,024)**	(3,578)
Increase in inventories		**(78,892)**	(41,540)
(Decrease)/increase in trade and other accounts payable		**(27,317)**	30,066
(Increase)/decrease in other taxes recoverable and payable (incl. VAT)	20	**(511)**	24,345
Cash generated from operating activities		**417,282**	367,912
Interest paid		**(48,576)**	(58,793)
Income tax (paid)/refunded	12	**(13,721)**	24,438
Post-employment benefits paid		**(1,539)**	(1,466)
Net cash flows from operating activities		**353,446**	332,091
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	14/15	**(102,953)**	(48,176)
Proceeds from disposal of property, plant and equipment and intangible assets		**138**	47
Interest received		**358**	168
Dividends from associates		**4,982**	4,203
Net cash flows used in investing activities		**(97,475)**	(43,758)
Cash flows from financing activities			
Proceeds from borrowings and finance	26	**–**	19,115
Repayment of borrowings and finance	26	**(238,670)**	(195,918)
Arrangement fees paid		**(4,042)**	–
Dividends paid to equity shareholders of Ferrexpo plc		**(58,316)**	–
Net cash flows used in financing activities		**(301,028)**	(176,803)
Net (decrease)/increase in cash and cash equivalents		**(45,057)**	111,530
Cash and cash equivalents at the beginning of the year		**144,751**	35,330
Currency translation differences		**(1,952)**	(2,109)
Cash and cash equivalents at the end of the year	25	**97,742**	144,751

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

US$000	Issued capital (Note 31)	Share premium (Note 31)	Other reserves (Note 31)	Retained earnings	Total capital and reserves	Non-controlling interests (Note 32)	Total equity
		Attributable to equity shareholders of Ferrexpo plc					
At 1 January 2016	121,628	185,112	(1,876,624)	1,814,598	244,714	(783)	243,931
Profit for the year	–	–	–	187,354	187,354	1,846	189,200
Other comprehensive (loss)/income	–	–	(108,523)	819	(107,704)	(1,225)	(108,929)
Total comprehensive (loss)/income for the year	–	–	(108,523)	188,173	79,650	621	80,271
Effect from increase of shareholding in subsidiary	–	–	–	(618)	(618)	(685)	(1,303)
Share-based payments (Note 28)	–	–	389	–	389	–	389
At 31 December 2016	**121,628**	**185,112**	**(1,984,758)**	**2,002,153**	**324,135**	**(847)**	**323,288**
Profit for the year	**–**	**–**	**–**	**392,929**	**392,929**	**1,543**	**394,472**
Other comprehensive loss	**–**	**–**	**(36,692)**	**(7,550)**	**(44,242)**	**(230)**	**(44,472)**
Total comprehensive (loss)/income for the year	**–**	**–**	**(36,692)**	**385,379**	**348,687**	**1,313**	**350,000**
Effect from increase of shareholding in subsidiary	**–**	**–**	**–**	**26**	**26**	**(96)**	**(70)**
Share-based payments (Note 28)	**–**	**–**	**586**	**–**	**586**	**–**	**586**
Equity dividends to shareholders of Ferrexpo plc	**–**	**–**	**–**	**(77,332)**	**(77,332)**	**–**	**(77,332)**
At 31 December 2017	**121,628**	**185,112**	**(2,020,864)**	**2,310,226**	**596,102**	**370**	**596,472**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Corporate information

Ferrexpo plc (the "Company") is incorporated and registered in England, which is considered to be the country of domicile, with its registered office at 55 St James's Street, London SW1A 1LA, UK. Ferrexpo plc and its subsidiaries (the "Group") operate two mines and a processing plant near Kremenchug in Ukraine, have 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 operate 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-Plavninske and Lavrykivske ("GPL") and Yerystivske 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% (2016: 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 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 Group made changes to the presentation of its consolidated income statement in the consolidated financial statements. These changes included: i) the aggregation of "Cost of sales", "Selling and distribution expenses", "General and administrative expenses", "Other expenses", "Write-offs", and "Losses on disposal of property, plant and equipment" into a single line item "Operating expenses"; and ii) the removal of references to "adjusted items" and "continued operations". These changes simplify the presentation, enhance the understandability of the financial statements and better align with industry practice of other listed mining companies. As a result, comparative period balances have been represented to align with these changes. This presentation was already applied for the interim condensed consolidated financial statements for the period ended 30 June 2017.

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

Going concern

The Group has assessed that, taking into account: i) its available cash and cash equivalents available at the date of authorisation of the consolidated financial statements; ii) its cash flow projections for the period of management's going concern assessment; and iii) events and conditions beyond the period of management's going concern assessment, in particular the debt repayments totalling US$177,022 thousand in April and May 2019, it has sufficient liquidity to meet its present obligations and cover working capital needs for the aforementioned period and will remain in compliance with its financial covenants throughout this period. Therefore, the Group continues to adopt the going concern basis of accounting for the preparation of this set of financial statements. See also the Directors' Report on page 85 for further information.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

Note 2: Basis of preparation continued

Foreign currency translation

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

For presentation of 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

New standards and interpretations adopted

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 2016 except for the adoption of new amendments and improvements to IFRSs effective as of 1 January 2017. These new standards and interpretations had no effect on reported results, financial position or disclosure in the financial statements:

- Amendment to IAS 7 Statement of cash flow – Disclosure initiative
- Amendment to IAS 12 Income taxes – Recognition of deferred tax assets for unrealised losses
- Annual Improvements to IFRSs 2014-2016 cycle

New standards and interpretations not yet adopted

The Group has elected not to adopt early any revised and amended standards or interpretations that are not yet mandatory in the EU.

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

IFRS 9 Financial instruments

The complete standard was issued in July 2014 including the requirements previously issued and additional amendments and becomes effective for financial years beginning on or after 1 January 2018. 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 impact of an expected loss impairment model does not materially impact the Group's consolidated financial statements on the basis (i) the Group does not have a history of credit losses; and (ii) there has not been a significant change in the mix, credit terms, or credit quality of the underlying counterparties as at 31 December 2017. The changes to classification and measurement of financial instruments is unchanged on application of the new standard. The Group does not apply hedge accounting under IAS 39 and does not intend to apply it under IFRS 9.

IFRS 15 Revenue from contracts with customers

The new standard was issued in May 2014 and outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes the current revenue recognition standard. The new standard establishes the principles for the disclosure of useful information in the financial statements about the nature, amount, timing and uncertainties of revenue and cash flows arising from contracts with customers. The Group has assessed the impacts of transitioning to IFRS 15. Under IFRS 15 the revenue recognition model will change from one based on the transfer of risk and reward of ownership to the transfer of control of ownership. The Group's revenue is predominantly derived from sales of iron pellets, where the point of recognition is dependent on the contractual sales terms based on the International Commercial terms ("Incoterms"). As the time of the transfer of risks and rewards coincides with the transfer of a control, the timing and the amount of revenue recognised is unlikely to be materially affected for the majority of sales. For the Incoterms Cost, Insurance and Freight ("CIF"), and Cost and Freight ("CFR"), the seller must contract for and pay the freight necessary to bring the goods to the named port of destination. Consequently, the freight service on sales contracts with CIF and CFR Incoterms will meet the criteria of a separate performance obligation and a portion of the revenue earned under these contracts, representing the obligation to perform freight service, is deferred and recognised over time as this obligation is fulfilled, along with the associated costs. The Group has assessed the impact of the CIF and CFR sales for the year ending 31 December 2017. If the new standard were applied as of 31 December 2017, freight-related revenue of US$6,006 thousand would have been deferred, reducing revenue and the operating result by the same amount, and US$63,447 thousand would have been disclosed as freight-related revenue in Note 6, without an effect on the operating result. The Group will apply IFRS 15 for the annual reporting periods beginning on 1 January 2018, with the cumulative effect of initially applying IFRS 15, recognised at the date of initial application. Apart from the impact stated above, the Group does not anticipate the application of IFRS 15 to have a material impact on the financial position and/or financial performance.

IFRS 16 Leases

The new standard was issued in January 2016, replacing the previous leases standard, IAS 17 Leases, and related interpretations. IFRS 16 establishes the principles for the recognition, measurement, presentation and disclosure of leases for the customer ("lessee") and the supplier ("lessor"). IFRS 16 eliminates the classification of leases as either operating or finance as is required by IAS 17. Instead, it introduces a single lessee accounting model requiring a lessee to recognise assets and liabilities for all leases unless the underlying asset has a low value or the

Note 3: New accounting policies continued

lease term is 12 months or less. Currently, the Group leases land and buildings under operating leases. The vast majority of these operating leases are for land used for the extraction of ore and are not within the scope of IFRS 16 and will be accounted for under IFRS 6 Exploration for and evaluation of mineral resources. The Group expects that the new standard will primarily result in the recognition of right-of-use assets and liabilities in respect of the long-term rental contracts for its office premises in London, Dubai and Tokyo, land not used for the direct extraction of ore as well as for lease equipment. This new standard applies to annual reporting periods beginning on or after 1 January 2019 subject to EU endorsement and the Group does not intend to early adopt this standard. If the new standard were applied as of 31 December 2017, right-of-use assets and corresponding lease liabilities of US$15,167 thousand, before the effect from discounting, would have been recognised without an effect on the operating result.

IFRIC 23 Uncertainty over income tax treatments

The interpretation was issued in June 2017 and clarifies the accounting treatment for uncertainties in income taxes. The new interpretation is to be applied to the determination of taxable results, tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12, and becomes effective for financial years beginning on or after 1 January 2019 subject to EU endorsement. The Group is in the process of performing the impact assessment and does not intend to apply early the new interpretation.

The Group does not expect an impact on its consolidated financial statements from all other standards, interpretations and amendments issued at the reporting date, but not yet to be adopted for these financial statements.

Note 4: Use of critical estimates and judgements

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and judgements that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates and judgements are based on information available as at the date of authorising the consolidated financial statements for issue. Actual results could therefore differ from those estimates and judgements. The Group identified a number of areas involving the use of critical estimates and judgements made by management in preparing the consolidated financial statements and supporting information is embedded within the following disclosure notes:

Critical estimates

- Note 12 Taxation – recoverability of deferred tax assets
- Note 14 Property, plant and equipment – deferred stripping costs
- Note 17 Inventories – lean and weathered ore

Critical judgements

- Note 12 Taxation – tax legislation in Ukraine
- Note 31 Share capital and reserves – net investments in foreign operations

Note 5: Segment information

The Group is managed as a single segment, 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 underlying EBITDA, gross profit and net debt.

Underlying EBITDA and gross profit

The Group presents the underlying EBITDA as it is a useful measure for evaluating its ability to generate cash and its operating performance. The Group's full definition of underlying EBITDA is disclosed in the Glossary on page 156.

US$000	Notes	Year ended 31.12.17	Year ended 31.12.16
Profit before tax and finance		495,566	308,711
Losses on disposal of property, plant and equipment		7,754	4,446
Share-based payments	28	586	389
Operating special items	10	407	2,501
Non-operating special items	10	–	8,525
Depreciation and amortisation		46,392	50,671
Underlying EBITDA		**550,705**	375,243

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

Note 5: Segment information continued

US$000	Notes	Year ended 31.12.17	Year ended 31.12.16
Revenue	6	**1,197,494**	986,325
Cost of sales	7	**(411,490)**	(400,333)
Gross profit		**786,004**	585,992

Net debt
Net debt as defined by the Group comprises cash and cash equivalents less interest-bearing loans and borrowings.

US$000	Notes	As at 31.12.17	As at 31.12.16
Cash and cash equivalents	25	**97,742**	144,751
Interest-bearing loans and borrowings – current	26	**(314,770)**	(228,061)
Interest-bearing loans and borrowings – non-current	26	**(186,294)**	(505,641)
Net debt		**(403,322)**	(588,951)

The Group made debt repayments of US$238,602 thousand during the year ended 31 December 2017 (2016: US$195,918 thousand). Net debt is an Alternative Performance Measure ("APM"). Further information on the APMs used by the Group, including the definitions, is provided on pages 150 to 152.

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.

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 sales of pellets and fuel from bunker business
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 pass 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 DAP terms, revenue is recognised when goods arrive at the agreed destination or at the border crossing, whereas under the other above mentioned terms the title passes on the date of the bill of lading. 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.

Revenues related to provisionally priced sales are initially recognised at the estimated fair value of the consideration receivable based on the forward price at each reporting date for the relevant period outlined in the different contracts.

See Note 3 in terms of the impact of the new accounting standard IFRS 15 Revenue from contracts with customers that becomes mandatory for financial years beginning on or after 1 January 2018.

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.

Note 6: Revenue continued

Other sales

Other sales and services provided include predominantly the revenue generated from the sale of other materials 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 2017 consisted of the following:

US$000	Year ended 31.12.17	Year ended 31.12.16
Revenue from sales of iron ore pellets and concentrate:		
Export	**1,126,318**	921,861
Total revenue from sale of iron ore pellets and concentrate	**1,126,318**	921,861
Revenue from logistics and bunker business	**68,449**	61,207
Revenue from other sales and services provided	**2,727**	3,257
Total revenue	**1,197,494**	986,325

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 the current or prior year were as follows:

US$000	Year ended 31.12.17	Year ended 31.12.16
Central Europe	**536,836**	425,079
Austria	***328,377***	*215,479*
Others	***208,459***	*209,600*
Western Europe	**170,295**	153,932
Germany	***155,508***	*143,281*
Others	***14,787***	*10,651*
North East Asia	**198,165**	155,443
Japan	***120,053***	*96,257*
Others	***78,112***	*59,186*
China & South East Asia	**142,812**	129,391
China	***123,531***	*125,788*
Others	***19,281***	*3,603*
Turkey, Middle East & India	**78,210**	58,016
Turkey	***78,210***	*58,016*
Total exports	**1,126,318**	921,861

The Group markets its products across various regions. The disclosure of the segmentation reflects how the Group makes its business decisions and monitors its sales.

Information about the composition of the regions is provided in the Glossary on pages 153 to 156.

During the year ended 31 December 2017 sales made to three customers accounted for 45% of the revenues from export sales of ore pellets and concentrate (2016: 40.0%).

Sales to one customer that individually represented more than 10% of total sales in either the current or prior year amounted to US$328,377 thousand (2016: US$215,479 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

Note 7: Operating expenses before special items

Accounting policy

Operating expenses arise in the course of the ordinary activities of the Group and are recognised in the income statement when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

Expenses are recognised in the income statement on the basis of a direct association between costs incurred and specific items of income. When economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined, expenses are systematically allocated to the accounting period in which the economic benefits are expected to arise.

Operating expenses for the year ended 31 December 2017 consisted of the following:

US$000	Year ended 31.12.17	Year ended 31.12.16
Cost of sales	**411,490**	400,333
Selling and distribution expenses	**219,703**	209,530
General and administrative expenses	**41,954**	38,647
Other operating expenses	**43,800**	38,550
Total operating expenses before special items	**716,947**	687,060

Operating expenses include:

US$000	Year ended 31.12.17	Year ended 31.12.16
Inventories recognised as an expense upon sale of goods	**367,161**	360,503
Employee costs	**53,293**	47,284
Inventory movements	**(1,846)**	11,311
Depreciation of property, plant and equipment	**45,920**	50,233
Amortisation of intangible assets	**472**	438
Royalties and levies	**19,610**	15,294
Costs of logistics and bunker business	**63,127**	55,363
Audit and non-audit services	**1,342**	1,651
Community support donations	**28,384**	27,519
Losses on disposal of property, plant and equipment	**7,754**	4,448

Special items not included in the operating expenses are shown in Note 10.

Information on the Group's community support donations is provided in the social responsibility paragraph in the Chairman's Statement on page 10 and the Responsible Business Report on page 48.

Auditor remuneration

US$000	Year ended 31.12.17	Year ended 31.12.16
Audit services		
Ferrexpo plc Annual Report	**1,008**	1,048
Subsidiary entities	**191**	379
Total audit services	**1,199**	1,427
Audit-related assurance services	**140**	154
Total audit and audit-related assurance services	**1,339**	1,581
Non-audit services		
Tax advisory	**–**	60
Tax compliance	**–**	5
Other services	**3**	5
Total non-audit services	**3**	70
Total auditor remuneration	**1,342**	1,651

Note 7: Operating expenses before special items continued

Auditor remuneration paid is 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. The auditor's remuneration balances related to the comparative period ended 31 December 2016 are for audit and non-audit services provided by the previous audit firm of the Group.

During the comparative period ended 31 December 2016, non-audit services totalling US$32 thousand have been capitalised as prepaid arrangement fees and are not included in the table above.

Note 8: Other income

Accounting policy

Other income mainly includes lease income generated from rail cars, 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 is recognised as revenue when the title passes.

Other income for the year ended 31 December 2017 consisted of the following:

US$000	Year ended 31.12.17	Year ended 31.12.16
Lease income	386	369
Other income	2,852	2,545
Total other income	**3,238**	**2,914**

Note 9: 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 from the respective functional currencies and transactional gains and losses from the conversion of cash balances in currencies different from the local functional currencies at exchange rates different from those at the initial recognition date.

Foreign exchange gains and losses for the year ended 31 December 2017 consisted of the following:

US$000	Year ended 31.12.17	Year ended 31.12.16
Operating foreign exchange gains/(losses)		
Revaluation of trade receivables	7,113	14,240
Revaluation of trade payables	(394)	(388)
Other	(58)	(20)
Total operating foreign exchange gains	**6,661**	**13,832**
Non-operating foreign exchange gains/(losses)		
Revaluation of interest-bearing loans	10,136	(11,577)
Conversion of cash and cash equivalents	(1,497)	(578)
Other	394	1,844
Total non-operating foreign exchange gains/(losses)	**9,033**	**(10,311)**
Total foreign exchange gains	**15,694**	**3,521**

The translation differences and foreign exchange gains and losses are predominantly dependent on the fluctuation of the exchange rate of the Ukrainian Hryvnia against the US Dollar. The table below shows the closing and average rate of the most relevant currencies of the Group compared to the US Dollar.

	Average exchange rate		Closing exchange rate	
US$	As at 31.12.17	As at 31.12.16	Year ended 31.12.17	Year ended 31.12.16
UAH	26.597	25.551	28.067	27.191
EUR	0.887	0.903	0.838	0.956

Exchange differences arising on translation of non-US Dollar functional currency operations (mainly in Ukrainian Hryvnia) are included in the translation reserve. See Note 31 for further details.

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Note 10: Special items
Accounting policy
Special items

Special items include those items, which due to their expected infrequency of the events or non-operational nature giving rise to them, are reported separately on the face of the income statement. These items are excluded from underlying EBITDA, which is an Alternative Performance Measure ("APM"). Further information on the APMs used by the Group, including the definitions, is provided on pages 150 to 152.

Special items comprise:

- Operating special items are those that relate to the operating performance of the Group and principally include write-offs and impairment losses and restructuring charges, if any.
- Non-operating special items are items relating to changes in the Group's asset portfolio, if any.
- Tax special items are significant non-recurring tax items or the tax effect of other special items.

Special items for the year ended 31 December 2017 consisted of the following:

US$000	Notes	Year ended 31.12.17	Year ended 31.12.16
Operating special items			
Write-offs		**407**	2,501
Total operating special items		**407**	2,501
Non-operating special items			
Allowance for restricted cash	30	**–**	8,525
Total non-operating special items		**–**	8,525
Total special items before related tax effect		**407**	11,026
Tax effect on special items	12	**–**	(1,535)
Total special items after related tax effect		**407**	9,491
Special tax items	12	**3,426**	–

Special tax items totalling US$3,426 thousand were recorded during the financial year 2017 (2016: nil), which is the net effect from the following two events:

- recognition of a deferred tax asset from available tax loss carry forwards and temporary differences totalling US$28,822 thousand for a Ukrainian subsidiary, which become profitable in 2017 and is expected to be profitable in the future periods following the implementation of a new commercial structure. See Note 12 for further information; and
- derecognition of a deferred tax asset of US$25,396 thousand, which was recognised in 2015 in respect of the losses recorded as a result of the insolvency of the Group's transactional bank in Ukraine. The deferred tax asset was derecognised based on the latest developments of ongoing court proceedings in Ukraine. See Note 12 and Note 30 for further information.

During the financial year 2016, a non-operating special item arose in relation to the insolvency of the Group's transactional bank in Ukraine. See Note 30 for further details.

Write-offs for the year ended 31 December 2017 primarily consisted of obsolete inventories and property, plant and equipment as outlined below:

US$000	As at 31.12.17	As at 31.12.16
Write-off of inventories	**368**	33
Write-off of property, plant and equipment	**39**	1,822
Write-off of receivables and prepayments	**–**	634
Other	**–**	12
Total write-offs	**407**	2,501

Note 11: Net finance expense

Accounting policy

Finance expense

Finance expense is expensed as incurred and includes the interest on loans and borrowings measured at amortised cost and interest on defined benefit plans.

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 14 for further details.

Finance expense also includes bank charges, such as arrangement fees, charged in relation to the Group's major debt facilities.

Finance income

Finance income comprises of 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 and income for the year ended 31 December 2017 consisted of the following:

US$000	Year ended 31.12.17	Year ended 31.12.16
Finance expense		
Interest expense on loans and borrowings	**(46,547)**	(54,255)
Less capitalised borrowing costs	**3,637**	5,269
Interest on defined benefit plans	**(2,094)**	(2,203)
Bank charges	**(9,550)**	(11,372)
Other finance costs	**(584)**	(4,616)
Total finance expense	**(55,138)**	(67,177)
Finance income		
Interest income	**364**	175
Other finance income	**8**	–
Total finance income	**372**	175
Net finance expense	**(54,766)**	(67,002)

Fees related to the Group's refinancing activities totalling US$4,554 thousand were included in other finance costs in the comparative period ended 31 December 2016. There were no such fees for the period ended 31 December 2017.

Note 12: Taxation

Accounting policy

Current income tax

Current income taxes are computed based on enacted or substantively 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 will 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

Note 12: Taxation continued

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 it is probable that there are sufficient taxable profits available against which the benefits of the temporary differences can be utilised and that they are expected to reverse in the 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 assets 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 assets 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.

Critical estimates

Recoverability of deferred tax assets

Deferred tax assets are recognised on temporary differences and available tax loss carry forwards when it is more likely than not that they will be recovered in a future period. 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. This is particularly the case for a deferred tax asset totalling US$28,822 thousand that was recognised for available tax loss carry forwards for a Ukrainian subsidiary during the financial year 2017 and with a carrying value of US$13,847 thousand as at 31 December 2017. According to the currently enacted tax legislation, these available losses do not expire. Assumptions about the generation of expected future taxable profits depend on management's estimates of future cash flows, which depend on estimates of future production and sales volumes, commodity prices and operating costs.

Further, the Group derecognised a deferred tax asset of US$25,396 thousand (Note 10) on the basis that the liquidator of the Group's former transactional bank in Ukraine has not recognised all of the Group's claims of cash and deposit balances, for which a loss was recorded by the Group in 2015. The Group is currently in legal dispute to have the claims recognised (Note 30). Assessing the probability of the Group's claims being recognised is highly subjective and will ultimately depend on the outcome of the court proceedings in Ukraine.

Critical judgements

Tax legislation in Ukraine

The Group prices its sales between its subsidiaries using international benchmark prices for comparable products covering product quality and applicable freight. The Group judges these to be on terms which comply with applicable legislation. In August 2017, the State Fiscal Service of Ukraine ("SFS") commenced a tax audit at the Group's major subsidiary in Ukraine with a focus on cross-border transactions in terms of its pellet sales to another subsidiary of the Group. According to the current legislation, the SFS has to complete this audit within 18 months from the commencement. No provision has been booked as at 31 December 2017.

Following a tax audit at PJSC Ferrexpo Poltava Mining ("FPM") claims were made by the Ukrainian tax authorities in relation to allegedly unpaid withholding tax totalling US$6,057 thousand (UAH170 million) and associated fines and penalties of US$1,496 thousand (UAH42 million) in respect of interest paid to a subsidiary of the Group in the United Kingdom in 2013 and 2014. Following the audits for aforementioned years, the Ukrainian tax authorities also initiated tax audits for the years 2015 and 2016. The management of the Group expects to continue to successfully defend any claims made by the tax authorities in the Ukrainian courts. Consequently, no provision has been made for the claimed withholding tax and associated fines and penalties as at 31 December 2017.

The income tax expense for the year ended 31 December 2017 consisted of the following:

US$000	Year ended 31.12.17	Year ended 31.12.16
Current income tax		
Current income tax charge	**45,423**	40,542
Amounts related to previous years	**(4,154)**	1,440
Total current income tax	**41,269**	41,982
Deferred income tax		
Origination and reversal of temporary differences	**14,092**	216
Total deferred income tax	**14,092**	216
Total income tax expense	**55,361**	42,198

Note 12: Taxation continued

The amounts related to the prior year shown in table on the previous page are predominantly related to effects from final tax assessments received in Switzerland during the year ended 31 December 2017 and in the United Kingdom during the comparative year ended 31 December 2016. As a result of the final tax assessments received, a recorded tax accrual in Switzerland could be released in financial year 2017 whereas in the financial year 2016 an income receivable balance recorded in the United Kingdom in a previous year had to be derecognised.

Tax effects on items charged to the statement of other comprehensive income consisted of the following for the year ended 31 December 2017:

US$000	Notes	**Year ended 31.12.17**	Year ended 31.12.16
Tax effect of exchange differences arising on translating foreign operations	31	**4,557**	16,607
Tax effect of remeasurement gains on defined benefit pension liability		**1,556**	(246)
Total income taxes charged to other comprehensive income		**6,113**	16,361

The weighted average statutory corporate income tax rate 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 weighted average statutory corporate income tax rate was 13.5% for the financial year 2017 (2016: 8.9%). 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 2017 is as follows:

US$000	**Year ended 31.12.17**	Year ended 31.12.16
Profit before tax	**449,833**	231,398
Notional tax charge computed at the weighted average statutory tax rate of 13.5% (2016: 8.9%)	**60,819**	20,594
Derecognition of deferred tax assets[1]	**25,396**	–
Reassessment of prior year temporary differences[2]	**(5,919)**	1,148
Effect from capitalisation of tax loss carry forwards[3]	**(24,026)**	–
Expenses not deductible for local tax purposes[4]	**7,295**	7,828
Income exempted for local tax purposes	**(2,385)**	(1,588)
Income for local tax purposes[5]	**1,039**	7,767
Effect from change in permanent differences	**(1,957)**	–
Non-recognition of deferred taxes on current year losses[6]	**–**	4,552
Tax effect related to previous years[7]	**(4,154)**	1,440
Effect of higher local tax rate on special items	**–**	(1,003)
Other (including translation differences)	**(747)**	1,460
Total income tax expense	**55,361**	42,198

1 Derecognition of deferred tax assets includes the effect in the amount of US$25,396 thousand in respect of an allowance recorded on restricted cash and deposits balances. See Note 10 and Note 30 for further information.
2 Reassessment of prior year temporary differences in the year ended 31 December 2017 predominantly relates to previously unrecognised deferred taxes on temporary differences for a Ukrainian subsidiary, which became profitable in 2017. This effect is expected to be non-recurring. The effect from the reassessment in the comparative year relates to interest expenses from previous years that became deductible in Ukraine in 2017 as the subsidiaries are profitable again. Depending on the level of taxable result in future years, additional interest expenses might become deductible..
3 Effect in the year ended 31 December 2017 is related to the capitalisation of all available tax losses for a Ukrainian subsidiary that become profitable in 2017. As the entire balance of available tax loss carry forwards was recognised as deferred tax asset, the effect is expected to be of a non-recurring nature.
4 Effect in the year ended 31 December 2017 predominantly relates to expenses not deductible in Ukraine and Switzerland. The effect in Switzerland is expected to be non-recurring whereas the one in Ukraine is expected to be recurring to a certain extent as a portion of operating expenses is historically not deductible for tax purposes according to the enacted local tax legislation.
5 Reconciling item in the year ended 31 December 2017 relates to an income taxable in Switzerland, which is expected to be of a recurring nature, whereas the item in the comparative year relates to an adjustment made in Ukraine in respect of sales of pellets to subsidiaries of the Group abroad in order to address the changes in the local transfer pricing law, which is expected to be non-recurring.
6 Non-recognition of deferred taxes on current year losses due to the uncertainty in respect of the timing of the subsidiaries becoming profitable for local tax purposes, which, depending on the level of taxable results of the Group's subsidiaries in the different jurisdictions, might be of a recurring nature.
7 Effects are related to final tax assessments received in Switzerland in the current and in the United Kingdom in the comparative year. Both effects are expected to be of a non-recurring nature.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Note 12: Taxation continued

The net balance of income tax receivable/(payable) changed as follows during the financial year 2017:

US$000	Year ended 31.12.17	Year ended 31.12.16
Opening balance	**4,607**	49,150
Income statement charge	**(41,269)**	(41,982)
Booked through other comprehensive income	**4,557**	26,966
Tax paid/(refunded)	**13,721**	(24,438)
Translation differences	**138**	(5,089)
Closing balance	**(18,247)**	4,607

During the financial years 2013, 2014 and 2015, VAT receivable balances in Ukraine were mainly recovered in exchange for prepayments of corporate profit tax. US$26,926 thousand of these prepaid taxes were refunded in cash during the financial year 2016 for prepayments made by FPM. The remaining balance of FPM's prepayments of US$10,616 thousand as at 31 December 2016 was fully used to offset with a portion of FPM's taxable profits during the financial year 2017. An income tax receivable balance of US$5,454 thousand (2006: US$5,630 thousand) relates to prepayments made by two other Ukrainian subsidiaries and is classified as non-current due to the uncertainty in respect of the timing of the recovery.

The net income tax payable as at 31 December 2017 consisted of the following:

US$000	As at 31.12.17	As at 31.12.16
Income tax receivable balance – current	**14**	10,757
Income tax receivable balance – non-current	**5,454**	5,630
Income tax payable balance	**(23,715)**	(11,780)
Net income tax (payable)/receivable	**(18,247)**	4,607

Temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes and the capitalisation of available tax loss carry forwards results in the following deferred income tax assets and liabilities at 31 December 2017:

		Consolidated statement of financial position		Consolidated income statement	
US$000	Notes	As at 31.12.17	As at 31.12.16	Year ended 31.12.17	Year ended 31.12.16
Allowance for restricted cash and deposits	30	**3,720**	25,938	**(21,836)**	(1,265)
Property, plant and equipment		**18,032**	13,080	**6,213**	2,245
Inventory		**1,409**	–	**252**	–
Tax losses recognised		**14,210**	388	**13,134**	(108)
Accrued expenses		**–**	10,780	**(10,654)**	(359)
Defined benefit pension liability		**3,316**	2,287	**1,070**	6
Other		**690**	1,380	**83**	(169)
Total deferred tax assets/change		**41,377**	53,853	**(11,738)**	350
Thereof netted against deferred tax liabilities		**(969)**	(1,035)		
Total deferred tax assets as per the statement of financial position		**40,408**	52,818		
Property, plant and equipment		**(600)**	(525)	**(62)**	(62)
Trade and other receivables		**(379)**	(555)	**(187)**	(187)
Other		**(371)**	(541)	**(2,105)**	(317)
Total deferred tax liabilities/change		**(1,350)**	(1,621)	**(2,354)**	(566)
Thereof netted against deferred tax assets		**969**	1,035		
Total deferred tax liabilities as per the statement of financial position		**(381)**	(586)		
Net deferred tax assets/net change		**40,027**	52,232	**(14,092)**	(216)

Note 12: Taxation continued

The movement in the deferred income tax balance is as follows:

US$000	Year ended 31.12.17	Year ended 31.12.16
Opening balance	**52,232**	70,714
Income statement credit	**(14,092)**	(216)
Booked through other comprehensive income	**1,556**	(10,359)
Translation differences	**331**	(7,907)
Closing balance	**40,027**	52,232

As at 31 December 2017, the Group had available tax loss carry forwards in the amount of US$97,873 thousand (2016: US$241,070 thousand) for which no deferred tax assets were recognised. US$70,198 thousand (2016: US$217,560 thousand) are related to losses incurred in Ukraine and Austria and those losses do not expire. The remaining balance totalling US$27,675 thousand (2016: US$23,510 thousand) relates to losses incurred in Hungary of which US$22,957 thousand (2016: US$20,564 thousand) expire after more than eight years.

Temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised amount to US$453,097 thousand (2016: US$491,963 thousand). Other temporary differences of US$26,627 thousand have not been recognised as of 31 December 2017 (2016: US$52,492 thousand), of which the vast majority relates to temporary differences on property, plant and equipment in Ukraine.

Note 13: 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 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 that are potentially dilutive are considered in the calculation of diluted earnings per share.

Distributable reserves

Ferrexpo plc (the "Company") is the Group's holding company, with no direct operating business, so its ability to make distributions to its shareholders is dependent on its ability to access profits held in the subsidiaries. The Group's consolidated retained earnings shown in the consolidated statement of changes in equity do not reflect the profits available for distribution in the Group as of 31 December 2017.

	Before special items	Special items	Year ended 31.12.17	Before special items	Special items	Year ended 31.12.16
Earnings/(loss) for the year attributable to equity shareholders per share						
Basic (US cents)	**66.53**	**0.56**	**67.09**	33.60	(1.60)	32.00
Diluted (US cents)	**66.30**	**0.55**	**66.85**	33.51	(1.60)	31.91

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

Thousand	Year ended 31.12.17	Year ended 31.12.16
Weighted average number of shares		
Basic number of Ordinary Shares outstanding	**585,674**	585,503
Effect of dilutive potential Ordinary Shares	**2,074**	1,713
Diluted number of Ordinary Shares outstanding	**587,748**	587,216

Dividends proposed and paid

Taking into account relevant thin capitalisation rules and dividend-related covenants for the Group's major bank debt facilities, the total available distributable reserves of Ferrexpo plc is US$197,236 thousand as of 31 December 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

Note 13: Earnings per share and dividends paid and proposed continued

US$000	Year ended 31.12.17
Dividends proposed	
Final dividend for 2017: 3.3 US cents per Ordinary Share	**19,328**
Special dividend for 2017: 6.6 US cents per Ordinary Share	**38,656**
Special dividend for 2017: 3.3 US cents per Ordinary Share	**19,328**
Total dividends proposed	**77,312**

The special dividend for 2017 of 3.3 US cents per Ordinary Share was declared in December 2017 and paid in January 2018.

US$000	Year ended 31.12.17
Dividends paid during the year	
Interim dividend for 2017: 3.3 US cents per Ordinary Share	**19,266**
Final dividend for 2016: 3.3 US cents per Ordinary Share	**19,679**
Special dividend for 2016: 3.3 US cents per Ordinary Share	**19,371**
Total dividends paid during the year	**58,316**

US$000	Year ended 31.12.16
Dividends proposed	
Final dividend for 2016: 3.3 US cents per Ordinary Share	19,325
Special dividend for 2016: 3.3 US cents per Ordinary Share	19,325
Total dividends proposed	38,650

No dividends were paid during the financial year 2016.

Note 14: 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, when 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 their estimated useful life taking into account their own physical life limitations and the present assessment of economically recoverable reserves of the mine property at which the assets are 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.

Note 14: Property, plant and equipment continued
Freehold land is not depreciated.

Deferred stripping costs
Rock, soil and other waste materials are typically to be removed to access an ore body, which is known as stripping activity. Stripping work comprises overburden removal at pre-production, mine extension and production stages.

Pre-production stripping costs incurred in the development of a component of a mine before commercial production commences are capitalised as part of assets under construction. After the commencement of commercial production, the respective capitalised pre-production stripping costs are transferred to mining assets and depreciated over the life of the respective component of the ore body on a unit of production ("UOP") basis.

Production stripping costs are generally charged to the income statement as variable production costs unless these costs are related to gaining improved access to an identified component of the ore body to be mined in future periods. Such production stripping costs are capitalised within mining assets provided all the following conditions are met:

– it is probable that the future economic benefit associated with the stripping activity will be realised;
– the component of the ore body for which access has been improved can be identified; and
– the costs relating to the stripping activity associated with the improved access can be reliably measured.

Once the commercial production of the specific component of the ore body commences, the capitalised production stripping costs are depreciated on a UOP basis over the life of the respective identified component. No production stripping costs were capitalised as at 31 December 2017 (2016: nil).

Mining assets
Any capitalised stripping activities, either of a pre-production or production nature, are reclassified to mining assets at the point of time when the extraction of the ore body of the specific component starts. Mining assets are depreciated using the UOP method based on the estimated economically recoverable reserves to which they relate.

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.

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 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.

Impairment testing
Property, plant and equipment is considered to be part of a single cash-generating unit ("CGU"). The recoverable amount of the CGU is determined to be the fair value less cost of disposal. 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, such as goodwill, is required, the Group estimates the assets' recoverable amounts. If the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired and is written down to its recoverable amount. Impairment losses are recognised in the income statement.

The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired. Individual balances of receivables and prepayments are assessed at each reporting date and written off when management deems that there is no possibility of recovery. Further information on the result of the annual impairment testing of goodwill is provided in Note 15.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

Note 14: Property, plant and equipment 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 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.

Critical estimates

Capitalised stripping costs

Stripping costs are deferred and capitalised if related to gaining improved access to an identified component of an ore body to be mined in future periods. The capitalised amount is determined based on the volume of waste extracted, compared with expected ore volume in the identified component of the ore body. The identification of the components of a mine's ore body is a critical estimate and is made by reference to the respective life of mine plan, which depends on a range of factors, including the price of iron ore, the cost of extraction and the mine's specific operational features. Changes to the life of mine plan, including the life and design of a mine, may result in changes to the expected stripping ratios (waste to ore extracted) and may result in the capitalisation of production stripping costs or adjustments of the carrying value of stripping costs capitalised in previous periods. As at 31 December 2017, deferred pre-production stripping costs totalling US$110,124 thousand relate to components in operation and are included in mining assets. Deferred pre-production stripping costs in relation to components expected to be put into operation in a future period totalled US$22,734 thousand and are included in assets under construction. No production stripping costs are capitalised as of this point of time.

As at 31 December 2017, 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 2016	1,699	3,089	123,653	150,664	103,392	195,085	144,366	5,618	163,671	891,237
Additions	20	116	6,380	1,370	277	353	–	117	56,066	64,699
Transfers	–	2	(2,120)	9,924	2,966	21,783	5,260	281	(38,096)	–
Disposals	–	–	–	(965)	–	(9,406)	(941)	(78)	(2,537)	(13,927)
Translation differences	(200)	(369)	(19,683)	(18,110)	(3,252)	(23,594)	(17,214)	(485)	(19,103)	(102,010)
At 31 December 2016	**1,519**	**2,838**	**108,230**	**142,883**	**103,383**	**184,221**	**131,471**	**5,453**	**160,001**	**839,999**
Additions	**157**	**769**	**489**	**175**	**1,355**	**(192)**	**(354)**	**237**	**121,007**	**123,643**
Transfers	**–**	**19**	**92,058**	**13,281**	**3,747**	**25,863**	**11,125**	**780**	**(146,873)**	**–**
Disposals	**–**	**–**	**–**	**(936)**	**(257)**	**(9,096)**	**(2,529)**	**(175)**	**(479)**	**(13,472)**
Translation differences	**(58)**	**(123)**	**(9,811)**	**(5,088)**	**9,916**	**(6,437)**	**(4,579)**	**(97)**	**(2,174)**	**(18,451)**
At 31 December 2017	**1,618**	**3,503**	**190,966**	**150,315**	**118,144**	**194,359**	**135,134**	**6,198**	**131,482**	**931,719**
Depreciation:										
At 1 January 2016	–	–	37,300	33,993	27,942	77,006	56,001	3,608	995	236,845
Depreciation charge	–	2	12,661	7,994	7,172	17,547	13,022	515	–	58,913
Disposals	–	–	–	(434)	10	(2,944)	(565)	(74)	–	(4,007)
Impairment	–	–	–	114	–	–	1	–	1,707	1,822
Translation differences	–	–	(5,150)	(4,404)	(1,139)	(9,984)	(7,343)	(277)	(116)	(28,413)
At 31 December 2016	**–**	**2**	**44,811**	**37,263**	**33,985**	**81,625**	**61,116**	**3,772**	**2,586**	**265,160**
Depreciation charge	**–**	**3**	**8,433**	**7,747**	**9,093**	**17,388**	**12,228**	**628**	**–**	**55,520**
Disposals	**–**	**–**	**–**	**(633)**	**–**	**(4,595)**	**(1,637)**	**(160)**	**–**	**(7,025)**
Impairment	**–**	**–**	**–**	**44**	**–**	**1**	**2**	**–**	**(8)**	**39**
Translation differences	**–**	**–**	**(1,842)**	**(1,467)**	**3,627**	**(3,133)**	**(2,451)**	**(41)**	**(27)**	**(5,334)**
At 31 December 2017	**–**	**5**	**51,402**	**42,954**	**46,705**	**91,286**	**69,258**	**4,199**	**2,551**	**308,360**
Net book value at:										
31 December 2016	1,519	2,836	63,419	105,620	69,398	102,596	70,355	1,681	157,415	574,839
31 December 2017	**1,618**	**3,498**	**139,564**	**107,361**	**71,439**	**103,073**	**65,876**	**1,999**	**128,931**	**623,359**

Note 14: Property, plant and equipment continued

Assets under construction consist of ongoing capital projects amounting to US$106,197 thousand (2016: US$86,752 thousand) and capitalised pre-production stripping costs of US$22,734 thousand (2016: US$70,663 thousand). Once production commences, stripping costs are transferred to mining assets.

Property, plant and equipment includes capitalised borrowing costs on qualifying assets of US$17,810 thousand (2016: US$15,454 thousand). The capitalised borrowing costs on general borrowings were determined based on the capitalisation rate of 9.0% (2016: 7.8%), 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 2017 was US$2,214 thousand (2016: US$2,746 thousand). Leased assets and assets under hire purchase contracts are pledged as security for the related finance leases and hire purchase liabilities. US$47,921 thousand of property, plant and equipment have been pledged as security for liabilities (2016: US$47,236 thousand).

The gross value of fully depreciated property, plant and equipment that is still in use is US$24,728 thousand (2016: US$20,553 thousand).

Note 15: 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. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for indication of impairment annually and, in case those are identified, an impairment assessment is conducted. An impairment loss recognised for goodwill is never reversed in a subsequent period. 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.

Exploration and evaluation assets

See policy disclosed in Note 14.

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 licences 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.

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Note 15: Goodwill and other intangible assets continued

As at 31 December 2017, goodwill and other intangible assets comprised:

US$000	Goodwill	Exploration and evaluation	Other intangible assets	Total
Cost:				
At 1 January 2016	32,938	3,064	6,750	42,752
Additions	–	–	378	378
Disposals	–	–	(87)	(87)
Translation differences	(3,905)	(359)	(726)	(4,990)
At 31 December 2016	**29,033**	**2,705**	**6,315**	**38,053**
Additions	**–**	**–**	**3,408**	**3,408**
Disposals	**–**	**–**	**(28)**	**(28)**
Translation differences	**(933)**	**(84)**	**(107)**	**(1,124)**
At 31 December 2017	**28,100**	**2,621**	**9,588**	**40,309**
Accumulated amortisation and impairment:				
At 1 January 2016	–	–	2,728	2,728
Amortisation charge	–	–	438	438
Disposals	–	–	(74)	(74)
Translation differences	–	–	(259)	(259)
At 31 December 2016	**–**	**–**	**2,833**	**2,833**
Amortisation charge	**–**	**–**	**472**	**472**
Disposals	**–**	**–**	**(28)**	**(28)**
Translation differences	**–**	**–**	**174**	**174**
At 31 December 2017	**–**	**–**	**3,451**	**3,451**
Net book value at:				
31 December 2016	29,033	2,705	3,482	35,220
31 December 2017	**28,100**	**2,621**	**6,137**	**36,858**

The goodwill acquired through business combinations in previous periods has been allocated for impairment purposes to a single cash-generating unit, as the Group only has one operating segment, being the production and sale of iron ore products. 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 2017 based on a fair value less cost of disposal calculation using cash flow projections over the remaining estimated lives of the GPL and the Yerystivske deposits, which are expected to expire in 2038 and 2048, 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.

Note 15: Goodwill and other intangible assets continued

The key assumptions used for the impairment testing are:

Estimates/assumptions	Basis
Future production:	Proved and probable reserves
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 considering relevant macro and local factors.

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 and 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$60 per tonne to US$63 per tonne of 62% Fe fines CFR North China (2016: US$55 per tonne to US$62 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, 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 a pre-tax discount rate of 14.0% (2016: 14.0%) per annum. These rates reflect the time value of money and risk associated with the asset, and are 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 recoverable amount.

Note 16: Other non-current assets

As at 31 December 2017, other non-current assets comprised:

US$000	**As at 31.12.17**	As at 31.12.16
Prepayments for property, plant and equipment	**10,283**	2,450
Prepaid bank arrangement fees	**–**	278
Other non-current assets	**218**	256
Total other non-current assets	**10,501**	2,984

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Note 17: 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.
- Lean and weathered ore – at cost, if lower than net realisable value.

The net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion (conversion into pellets or concentrate) and the estimated costs necessary to sell the product or goods.

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.

Critical estimates

Lean and weathered ore

Iron ore of various grades is being extracted at the Group's two operating mines GPL and Yerystivske. In order to maximise the operational efficiency and output of the processing facility at FPM, management determines the optimal mix and grade of ore to be delivered to the processing facility from each mine. During the last financial years, including the financial year 2017, ore of a lower iron content was stockpiled due to limited processing capacities.

It is the Group's intention to process the stockpiled ore once additional processing capacities are available. This additional capacity is currently being constructed and expected to be completed during the financial year 2020 and as a consequence the entire balance is classified as non-current.

As at 31 December 2017, the ore valued at cost totalled US$175,831 thousand. Critical estimates in determining the net realisable value of the lean and weathered ore includes i) the expected timing of the completion of the capacity upgrade programme at FPM, ii) forecast iron ore pellet prices, and iii) the estimated cost to process the ore into iron ore pellets. Separate stress tests have been performed, which assumed the lowest forecast iron ore price from a set of brokers, a one-year delay in the completion of the additional capacity and 10% increase in processing costs and under each scenario the cost value remained recoverable.

At 31 December 2017, inventories comprised:

US$000	As at 31.12.17	As at 31.12.16
Raw materials and consumables	**34,295**	26,847
Spare parts	**42,053**	35,603
Finished ore pellets	**15,482**	12,408
Work in progress	**2,475**	2,522
Other	**2,340**	1,555
Total inventories – current	**96,645**	78,935
Lean and weathered ore	**175,831**	130,357
Total inventories – non-current	**175,831**	130,357
Total inventories	**272,476**	209,292

Inventories classified as non-current mainly comprise lean and weathered ore that are, based on the Group's current processing plans, not planned to be processed within the next year. It is the Group's intention to process this ore at a later point of time and it is expected that it will take more than one year to process this stockpile, depending on the Group's future mining activities, processing capabilities and anticipated market conditions.

Note 18: Trade and other receivables

Accounting policy

Trade and other receivables are stated at original invoice amount less an allowance for any doubtful debts. 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.

Trade receivables include provisionally priced sales, which are open at the end of the reporting period. Certain contracts have embedded provisional pricing mechanisms, which have the character of commodity derivatives that are carried at fair value through profit and loss. Revenues on these contracts are initially recognised at the estimated fair value of consideration receivable, based on the contractual price, and adjusted at the end of each subsequent reporting period on the basis of changes in iron ore prices and the specific underlying contract terms. Final prices based on the relevant index are normally known within 60 days after the reporting period. Further information on the fair value of the embedded provisional pricing mechanism at 31 December 2017 is disclosed in Note 27.

At 31 December 2017, trade and other receivables comprised:

US$000	As at 31.12.17	As at 31.12.16
Trade receivables	**85,645**	85,430
Other receivables	**3,364**	6,064
Allowance for doubtful receivables	**(682)**	(926)
Total trade and other receivables	**88,327**	90,568

In the current year, management have reviewed the presentation of the provisional pricing components and have re-classified those from accrued income (Note 19) to trade receivables in order to reflect the nature of these embedded derivatives in the presentation. US$8,823 thousand has been re-presented for the comparative information to be on a consistent basis. There has been no restatement of the underlying financial information.

Trade receivables at 31 December 2017 includes US$1,237 thousand (2016: US$4,881 thousand) owed by related parties. The detailed related party disclosures are made in Note 34.

The movement in the allowance for doubtful debts during the period under review was:

US$000	Year ended 31.12.17	Year ended 31.12.16
Opening balance	**926**	1,455
Increase	**177**	92
Release	**(445)**	(447)
Translation differences	**24**	(174)
Closing balance	**682**	926

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 31.12.17 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	Receivables past due but not impaired: 45 to 90 days	Receivables past due but not impaired: Over 90 days
Trade receivables	**85,645**	**431**	**84,154**	**282**	**154**	**624**
Other receivables	**3,364**	**251**	**2,923**	**101**	**5**	**84**

As at 31.12.16 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	Receivables past due but not impaired: 45 to 90 days	Receivables past due but not impaired: Over 90 days
Trade receivables	85,430	721	80,781	3,295	107	526
Other receivables	6,064	206	5,473	169	12	204

The Group's exposures to credit, currency and commodity risks are disclosed in Note 27.

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Note 19: Prepayments and other current assets

As at 31 December 2017, prepayments and other current assets comprised:

US$000	As at 31.12.17	As at 31.12.16
Prepayments to suppliers:		
Electricity and gas	**2,729**	832
Materials and spare parts	**3,068**	3,030
Services	**2,650**	2,393
Other prepayments	**615**	362
Prepaid bank arrangement fees	**4,384**	1,357
Accrued income	**4,069**	4,587
Assets classified as held for sale	**–**	3
Total prepayments and other current assets	**17,514**	12,564

In the current year, management have reviewed the presentation of the provisional pricing components and have re-classified those from accrued income to trade receivables (Note 18) in order to reflect the nature of these embedded derivatives in the presentation. US$8,823 thousand has been represented for the comparative information to be on a consistent basis. There has been no restatement of the underlying financial information.

Prepayments at 31 December 2017 include US$1,259 thousand (2016: US$483 thousand) made to related parties. The detailed related party disclosures are made in Note 34.

Note 20: 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.

As at 31 December 2017, other taxes recoverable comprised:

US$000	As at 31.12.17	As at 31.12.16
VAT receivable	**23,081**	21,303
Other taxes prepaid	**111**	86
Total other taxes recoverable and prepaid	**23,192**	21,389

The table below provides a reconciliation of the VAT receivable balance in Ukraine:

US$000	Notes	Year ended 31.12.17	Year ended 31.12.16
Opening balance, gross		**20,565**	49,339
Net VAT incurred		**99,536**	84,555
VAT refunds received in cash		**(96,824)**	(109,756)
Translation differences	2	**(833)**	(3,573)
Closing balance, gross		**22,444**	20,565
Allowance		**(1,190)**	(891)
Closing balance, net		**21,254**	19,674

US$678 thousand of the total VAT receivable balance in Ukraine was overdue as at 31 December 2017 (2016: US$427 thousand). The allowance of US$1,190 thousand (2016: US$891 thousand) is related to uncertainties in terms of the recovery of VAT receivable balances of one of the Ukrainian subsidiaries with its mine still being developed.

Note 20: Other taxes recoverable and payable continued

As at 31 December 2017, other taxes payable comprised:

US$000	As at 31.12.17	As at 31.12.16
Environmental tax	**1,010**	571
Royalties	**3,494**	2,309
VAT payable	**159**	173
Withholding tax	**3,357**	–
Other taxes	**2,932**	2,617
Total other taxes payable	**10,952**	5,670

See Note 30 for information in respect of a withholding tax claim in Ukraine.

Note 21: 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 2017, trade and other payables comprised:

US$000	As at 31.12.17	As at 31.12.16
Materials and services	**30,040**	27,268
Payables for equipment	**2,084**	1,221
Dividends payable	**16,008**	25
Other	**296**	293
Total current trade and other payables	**48,428**	28,807

Trade and other payables at 31 December 2017 includes US$1,770 thousand (2016: US$2,054 thousand) due to related parties (see Note 34).

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 27.

Note 22: Pension and post-employment obligations

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 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 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's expenses in relation to defined contribution plans are charged directly to the income statement.

The Group mainly operates defined benefit plans for qualifying employees of its subsidiaries in Ukraine and Switzerland. All local defined benefit pension liabilities are calculated by independent actuaries applying accepted actuarial techniques. In addition to the aforementioned schemes, the Group operates a defined benefit scheme in Austria and contribution plans for qualifying employees in the United Kingdom and in Singapore.

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Note 22: Pension and post-employment obligations continued
Details of the major defined benefit 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 PJSC Ferrexpo Poltava Mining ("FPM") and LLC Ferrexpo Yeristovo Mining ("FYM"). 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 had 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 was also included in the pension liability before the end of the financial year 2017. All pension schemes in Ukraine are unfunded.

In October 2017, the Ukrainian pension legislation was changed by adjusting the average state salary for the years 2014 to 2018, stepwise increasing insurance length of services and decreasing the coefficient for one year of service. Following the change to the pension legislation, the pensions for the current pensioners have been recalculated and resulted in a past service cost gain of US$4,038 thousand as of 31 December 2017 for both Ukrainian schemes.

As of 1 December 2017, the collective agreement for FPM was changed in order to remove FPM's obligation of additional payments to its employees reaching the retirement age in order to improve their welfare. This change affected 6,992 employees and resulted in a curtailment gain of US$655 thousand.

At 31 December 2017, the pension schemes in Ukraine covered 4,302 current employees (2016: 8,735 people) following the above-mentioned change of the collective agreement for FPM. There are 956 former employees currently in receipt of pensions (2016: 1,026 people).

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, make contributions to the pension scheme as a percentage of the insured salaries and depending on the age of the employees.

At 31 December 2017, the Swiss pension scheme covered 20 people (2016: 20 people).

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

	Year ended 31.12.17		Year ended 31.12.16	
	Ukrainian schemes	Swiss scheme	Ukrainian schemes	Swiss scheme
Discount rate	13.00%	0.80%	16.00%	0.70%
Retail price inflation	7.44%	1.00%	6.92%	1.0%
Expected future salary increase	9.22%	1.25%	7.54%	1.25%
Expected future benefit increase	8.48%	0.00%	6.92%	0.00%
Female life expectancy (years)	81.5	89.4	76.1	86.0
Male life expectancy (years)	77.2	87.4	66.5	82.9

US$000	As at 31.12.17	As at 31.12.16
Present value of funded defined benefit obligation	5,094	4,714
Fair value of plan assets	(3,183)	(2,835)
Funded status	1,911	1,879
Present value of unfunded defined benefit obligation	18,603	13,610
Defined benefit pension liability	20,514	15,489
Thereof for Ukrainian schemes	*18,504*	*13,531*
Thereof for Swiss scheme	*1,911*	*1,879*
Thereof for schemes in other jurisdictions	*99*	*79*

Note 22: Pension and post-employment obligations continued

Amounts recognised in the income statement or other comprehensive income are as follows:

US$000	Year ended 31.12.17	Year ended 31.12.16
Defined benefit cost charged in the income statement:		
Current service cost	**943**	1,119
Past service cost	**(4,038)**	(158)
Curtailment gains	**(655)**	–
Interest cost on defined benefit obligation	**2,116**	2,230
Interest income on plan assets	**(20)**	(27)
Administration cost	**22**	21
Total defined benefit (gains)/cost charged in the income statement	**(1,632)**	3,185
Remeasurement cost/(gains) in other comprehensive income:		
Remeasurement from demographic assumptions	**(799)**	(64)
Remeasurement from financial assumptions	**7,682**	(429)
Experience adjustment	**2,468**	(597)
Return on plan assets	**(179)**	15
Total remeasurement cost/(gains) in other comprehensive income	**9,172**	(1,075)
Total defined benefit cost	**7,540**	2,110
Thereof for Ukrainian schemes	***7,232***	*1,458*
Thereof for Swiss scheme	***301***	*643*
Thereof for schemes in other jurisdictions	***7***	*9*

The effect from remeasurement of financial assumptions relates to the decrease of the discount rate for the Ukrainian schemes as of 31 December 2017 whereas the effect from remeasurement from financial assumptions is related to the higher than assumed salary increases in Ukraine during the financial year 2017.

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

US$000	Year ended 31.12.17	Year ended 31.12.16
Opening defined benefit obligation	**18,324**	19,801
Current service cost	**943**	1,119
Interest cost on defined benefit obligation	**2,116**	2,230
Remeasurement losses/(gains)	**9,352**	(1,088)
Translation differences	**(480)**	(1,969)
Contributions paid by employer	**(1,539)**	(1,466)
Contributions paid by employees	**112**	112
Benefits paid through pension assets	**(424)**	(257)
Curtailment gains	**(669)**	–
Plan amendments	**(4,038)**	(158)
Closing defined benefit obligation	**23,697**	18,324
Thereof for Ukrainian schemes	***18,504***	*13,531*
Thereof for Swiss scheme	***5,094***	*4,714*
Thereof for schemes in other jurisdictions	***99***	*79*
Thereof for active employees	***14,256***	*11,651*
Thereof for vested terminations	***4,414***	*2,494*
Thereof for pensioners	***5,027***	*4,179*

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Note 22: Pension and post-employment obligations continued
The durations of the defined benefit obligation for the different schemes as at 31 December 2017 are 10.0 years (Ukraine) and 21.2 years (Switzerland).

Contributions to the defined benefit plans, including benefits paid by employer and employee contributions, are expected to be US$1,685 thousand for the schemes in Ukraine and US$659 thousand in Switzerland in the next financial year.

The expenses in relation to the defined contribution plan in the United Kingdom and Singapore totalled US$50 thousand (2016: US$67 thousand).

Changes in the fair values of the plan assets are as follows:

US$000	Year ended 31.12.17	Year ended 31.12.16
Opening fair value of plan assets	2,835	2,767
Interest income	20	27
Contributions paid by employer	354	320
Contributions paid by employees	112	112
Benefits paid through pension assets	(424)	(257)
Return on plan assets	179	(15)
Administration cost	(21)	(20)
Translation differences	128	(99)
Closing fair value of plan assets	**3,183**	2,835
Thereof for Swiss scheme	*3,183*	*2,835*

The asset allocation of the plan assets of the Swiss scheme is as follows:

%/US$000	As at 31.12.17	As at 31.12.17	As at 31.12.16	As at 31.12.16
Scheme assets at fair value				
Equities	26.6	847	25.8	731
Bonds	35.6	1,133	35.4	1,003
Properties	10.5	334	10.9	309
Other	27.3	869	27.9	792
Fair value of scheme assets	**100.0**	**3,183**	100.0	2,835

The pension assets are included in a multi-employer plan and no information in respect of the split of the investments into quoted and non-quoted assets is available. Taking into account the requirements of Swiss law, it is assumed that equities and bonds reflect investments into quoted assets whereas a portion of the other assets in the portfolio could be investments into non-quoted assets.

Changes to interest rates and future salary increases in Ukraine are considered to be the main pension-related risks for the Group, as such changes are likely to affect the balance of the Group's defined benefit obligation. The percentage used to calculate the sensitivities was set under consideration of the volatility for these assumptions for the Ukrainian schemes and has also been applied for the Group's less material schemes in other jurisdictions.

Note 22: Pension and post-employment obligations continued

Changes to the significant assumptions would have the following effects on the defined benefit obligation in the different jurisdictions:

US$000	Year ended 31.12.17 Ukrainian schemes	Swiss scheme	Other jurisdictions	Ukrainian schemes	Swiss scheme	Other jurisdictions
	Increase by			Decrease by		
Change	*1.0% or 1 year*	*1.0% or 1 year*	*1.0% or 1 year*	*1.0% or 1 year*	*1.0% or 1 year*	*1.0% or 1 year*
Discount rate (%)	**(1,587)**	**(868)**	**(9)**	**1,845**	**1,221**	**10**
Future salary increases (%)	**1,324**	**181**	**8**	**(1,178)**	**(162)**	**(9)**
Local inflation (%)	**249**	**6**	**n/a**	**(247)**	**(6)**	**n/a**
Indexation of pension (%)	**n/a**	**556**	**n/a**	**n/a**	**n/a**	**n/a**
Life expectancy (years)	**286**	**102**	**n/a**	**(335)**	**(102)**	**n/a**

Following new rules in the Ukrainian pension legislation, the pension indexation is defined by the future salary increases and the local inflation rate. As a result of this change, no sensitivity for the indexation of pension is calculated anymore for the Ukrainian schemes, but the sensitivity for local inflation is used instead.

US$000	Year ended 31.12.16 Ukrainian schemes	Swiss scheme	Other jurisdictions	Ukrainian schemes	Swiss scheme	Other jurisdictions
	Increase by			Decrease by		
Change	*1.0% or 1 year*	*1.0% or 1 year*	*1.0% or 1 year*	*1.0% or 1 year*	*1.0% or 1 year*	*1.0% or 1 year*
Discount rate (%)	(945)	(811)	(8)	1,073	1,138	8
Future salary increases (%)	588	162	7	(532)	(145)	(7)
Indexation of pension (%)	379	526	n/a	(366)	n/a	n/a
Life expectancy (years)	174	99	n/a	(204)	(99)	n/a

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 2017. The methods and assumptions used for the sensitivity analysis for the prior year are unchanged.

Note 23: Provisions

Accounting policy

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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 2017:

US$000	**Year ended 31.12.17**	Year ended 31.12.16
Opening balance	**1,071**	975
Unwind of the discount	**150**	141
Charge to the income statement	**904**	76
Translation differences	**(55)**	(121)
Closing balance	**2,070**	1,071

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Note 23: Provisions continued
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 2038, 2041 and 2061 depending on the different areas within the mine. The first restoration work of the Yerystivske mine is expected to start after 2032.

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 in Ukrainian Hryvnia using a nominal pre-tax discount rate of 13.0% (2016: 16.0%) 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 24: Accrued liabilities and deferred income
As at 31 December 2017, accrued liabilities and deferred income comprised:

US$000	As at 31.12.17	As at 31.12.16
Accrued expenses	3,721	3,228
Accrued employee costs	12,235	9,317
Advances from customers	780	29,027
Deferred income	1,460	1,012
Total accrued liabilities and deferred income	**18,196**	42,584

Note 25: Cash and cash equivalents
Accounting policy
Cash and cash equivalents include cash at bank and on hand and short-term deposits with original maturity of 90 days or less. Cash at bank and on hand and short-term deposits are recorded at their nominal amount as these present an insignificant risk of changes in value.

As at 31 December 2017, cash and cash equivalents comprised:

US$000	As at 31.12.17	As at 31.12.16
Cash at bank and on hand	97,742	144,751
Total cash and cash equivalents	**97,742**	144,751

The debt repayments during the financial year ended 31 December 2017 totalled US$238,602 thousand (2016: US$195,918 thousand) affecting the balance of cash and cash equivalents. Further information on the Group's gross debt is provided in Note 26.

The balance of cash and cash equivalents held in Ukraine amounts to US$10,281 thousand as at 31 December 2017 (2016: US$40,787 thousand). 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 27.

Note 10 and Note 30 provide details on the Group's balance of restricted cash and deposits which has been fully provided for as currently not available to the Group.

Note 26: 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 27 for more details in respect of the accounting policies applied. This note provides information about the contractual terms of the Group's major finance facilities.

US$000	Notes	As at 31.12.17	As at 31.12.16
Current			
Eurobond issued		**171,202**	–
Syndicated bank loans – secured		**112,500**	175,000
Other bank loans – secured		**16,218**	18,309
Other bank loans – unsecured		**1,523**	1,495
Obligations under finance leases	30	**3,969**	3,684
Trade finance facilities		**–**	19,025
Interest accrued		**9,358**	10,548
Total current interest-bearing loans and borrowings		**314,770**	228,061
Non-current			
Eurobond issued		**171,202**	337,685
Syndicated bank loans – secured		**–**	131,250
Other bank loans – secured		**9,267**	25,434
Other bank loans – unsecured		**3,752**	5,246
Obligations under finance leases	30	**2,073**	6,026
Total non-current interest-bearing loans and borrowings		**186,294**	505,641
Total interest-bearing loans and borrowings	27	**501,064**	733,702

At 31 December 2017, the Group's major external debt facilities comprised:

- a syndicated revolving US$350,000 thousand pre-export finance facility, of which US$131,250 thousand was available (2016: US$306,250 thousand) and US$112,500 thousand are drawn. The amortisation of this facility commenced in November 2016 with eight quarterly amortisations and commitment reductions of US$43,750 thousand to the final maturity date of 8 August 2018; and
- an undrawn syndicated revolving US$195,000 thousand pre-export finance facility signed on 16 November 2017. Following a grace period, the facility will be amortised in eight quarterly instalments. The first instalment is due on 31 March 2019 and the final maturity date is 31 December 2020.

The aforementioned 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;
- PJSC 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 assigned sales contracts are exclusively received.

In addition to the major bank debt facilities listed above, the Group has outstanding unsecured Notes at par value totalling US$346,385 thousand as at 31 December 2017 which fall due in two equal instalments of US$173,193 thousand on 7 April 2018 and 2019, respectively. The Notes have a 10.375% interest coupon payable semi-annually.

As at 31 December 2017, the Group had no open trade finance facilities (2016: US$19,025 thousand). Trade finance facilities are secured against receivables related to these specific trades.

All facilities are shown net of associated arrangement fees, except for the revolving syndicated pre-export finance facilities, for which the fees are presented in prepayments and current assets and other non-current assets based on the maturity of the underlying facility and are amortised over the term of the facility.

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Note 26: Interest-bearing loans and borrowings continued

The table below shows the movements in the interest-bearing loans and borrowings:

US$000	As at 31.12.16	Movements during the year ended 31.12.17 Cash movements	Change of arrangement fees	Interest expense	Other	As at 31.12.17
Eurobond issued	337,685	–	4,720	–	–	**342,405**
Syndicated bank loans – secured	306,250	(193,750)	–	–	–	**112,500**
Other bank loans – secured	43,743	(20,512)	2,254	–	–	**25,485**
Other bank loans – unsecured	6,741	(1,534)	39	–	28	**5,274**
Obligations under finance leases	9,710	(3,690)	–	–	22	**6,042**
Trade finance facilities	19,025	(19,025)	–	–	–	**–**
Interest accrued	10,548	(47,661)	–	46,547	(76)	**9,358**
Total interest-bearing loans and borrowings/movements	733,702	(286,172)	7,013	46,547	(26)	**501,064**

Further information on the Group's exposure to interest rate, foreign currency and liquidity risk is provided in Note 27.

Note 27: 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

Except for the provisionally priced receivables disclosed in Note 18, 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 transaction 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

Except for the provisionally priced receivables disclosed in Note 18, 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.

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 27: 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.

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

		As at 31.12.17		
US$000	Notes	Loans and receivables	Financial liabilities measured at amortised cost	Total
Financial assets				
Cash and cash equivalents	25	**97,742**	**–**	**97,742**
Trade and other receivables	18	**88,327**	**–**	**88,327**
Other financial assets		**620**	**–**	**620**
Total financial assets		**186,689**	**–**	**186,689**
Financial liabilities				
Trade and other payables	21	**–**	**48,428**	**48,428**
Accrued liabilities	24	**–**	**15,956**	**15,956**
Interest-bearing loans and borrowings	26	**–**	**501,064**	**501,064**
Total financial liabilities		**–**	**565,448**	**565,448**

		As at 31.12.16		
US$000	Notes	Loans and receivables	Financial liabilities measured at amortised cost	Total
Financial assets				
Cash and cash equivalents	25	144,751	–	144,751
Trade and other receivables	18	90,568	–	90,568
Other financial assets		877	–	877
Total financial assets		236,196	–	236,196
Financial liabilities				
Trade and other payables	21	–	28,807	28,807
Accrued liabilities	24	–	12,540	12,540
Interest-bearing loans and borrowings	26	–	733,702	733,702
Total financial liabilities		–	775,049	775,049

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Note 27: Financial instruments continued

Fair values and impairment testing

Financial assets and other financial liabilities

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. The fair values of interest-bearing loans and borrowings totalled US$526,599 thousand (2016: US$743,888 thousand).

Fair value measurements recognised in the statement of financial position

Except for the provisionally priced trade receivables (Level 2) disclosed in Note 18, the Group does not have any financial instruments that are measured subsequent to initial recognition at fair value, grouped into Level 1 to Level 3 based on the degree to which the fair value is observable. There were no transfers between Level 1 and Level 2 in these periods.

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.

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 creditworthiness would achieve, and compared with other financing available to the Group.

Note 27: Financial instruments continued

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.

Subsequent to the declaration of insolvency of the Group's former transactional bank in Ukraine (see Note 30), the Group changed its transactional banking arrangements and is currently working with four banks in Ukraine, all of them being subsidiaries of Western banks, and is still exposed to Ukraine country and banking sector risk in this respect.

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 2017, Ferrexpo AG, Ferrexpo Finance plc and Ferrexpo Middle East FZE were jointly and severally liable under a US$350 million revolving pre-export finance facility, of which US$112,500 thousand was drawn as of 31 December 2017 (2016: US$350,000 thousand) and US$131,250 thousand was available (2016: nil), and an undrawn US$195 million pre-export finance facility.

Ferrexpo plc, Ferrexpo AG and Ferrexpo Middle East FZE are guarantors to the Eurobond ("Notes") issued by Ferrexpo Finance plc totalling US$346,385 thousand, which is due for repayment on 7 April 2018 and 2019, respectively. Additionally, the Notes benefit from a surety agreement provided by FPM.

Certain Group companies act as guarantors for several finance facilities provided to Ukrainian subsidiaries: Ferrexpo AG amounting to US$38,902 thousand (2016: US$63,465 thousand), Ferrexpo Middle East FZE amounting to US$15,852 thousand (2016: US$25,108 thousand) and Ferrexpo plc amounting to US$7,984 thousand (2016: US$13,307 thousand).

The total remaining contractual maturities of the guarantees provided under the facilities listed above is US$497,800 thousand (2016: US$736,265 thousand).

Exposure to credit risk

The carrying amount of financial assets at 31 December 2017 was US$186,689 thousand (2016: US$236,196 thousand) and represents the maximum credit exposure. See page 131 for further information.

Of the total maximum exposure to credit risk, US$13,170 thousand (2016: US$47,025 thousand) related to Ukraine.

The total receivables balance relating to the Group's top three customers was US$49,918 thousand (2016: US$21,766 thousand) making up 63.4% of the total amounts receivable (2016: 30.8%). The top three customers are considered to be crisis resistant top-class steel mills and sales are made under long-term contracts.

Impairment profile

The Group's exposure to credit risk relating to trade and other receivables is disclosed in Note 18.

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.

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Note 27: Financial instruments continued
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 intends to ensure that it has sufficient cash on demand and/or lines of credit to meet expected operational expenses, including the servicing of financial obligations. For further information see the Group's Viability Statement on page 40.

The following are the contractual maturities of financial liabilities:

	As at 31.12.17				
US$000	Less than 1 year	Between 1 to 2 years	Between 2 to 5 years	More than 5 years	Total
Interest-bearing					
Fixed rate loans and borrowings	189,004	181,180	–	–	370,184
Floating rate loans and borrowings	119,847	5,468	2,301	–	127,616
Interest accrued	9,358	–	–	–	9,358
Future interest payable	30,251	9,218	70	–	39,539
Total interest-bearing	348,460	195,866	2,371	–	546,697
Non-interest-bearing					
Trade and other payables	48,428	–	–	–	48,428
Accrued liabilities	15,956	–	–	–	15,956
Total non-interest-bearing	64,384	–	–	–	64,384
Total financial liabilities	412,844	195,866	2,371	–	611,081

In the current year, the presentation of the interesting-bearing loans and borrowings balances in the liquidity risk table above was changed from amortised costs disclosed in the past to contractual amounts due to reflect the contractual maturities at the respective period ends. The comparative information of the table below has been re-presented to be on a consistent basis. The difference of the total of fixed and floating interest-bearing loans and borrowings compared to the balances disclosed in Note 26 mainly relates to arrangement fees paid for specific facilities.

	As at 31.12.16				
US$000	Less than 1 year	Between 1 to 2 years	Between 2 to 5 years	More than 5 years	Total
Interest-bearing					
Fixed rate loans and borrowings	15,538	188,991	181,177	–	385,706
Floating rate loans and borrowings	204,271	138,518	7,770	–	350,559
Interest accrued	10,548	–	–	–	10,548
Future interest payable	47,381	30,489	9,307	–	87,177
Total interest-bearing	277,738	357,998	198,254	–	833,990
Non-interest-bearing					
Trade and other payables	28,807	–	–	–	28,807
Accrued liabilities	12,540	–	–	–	12,540
Total non-interest-bearing	41,347	–	–	–	41,347
Total financial liabilities	319,085	357,998	198,254	–	875,337

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 NBU.

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.

Note 27: Financial instruments continued

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.

The Group's exposure to foreign currency risk was as follows based on notional amounts:

	As at 31.12.17					
US$000	**Ukrainian Hryvnia**	**US Dollars**	**Euro**	**Swiss Franc**	**Other currencies**	**Total**
Financial assets	**–**	**6,906**	**145**	**673**	**1,446**	**9,170**
Financial liabilities						
Trade and other payables	**–**	**(1,818)**	**(1,719)**	**(201)**	**(5,656)**	**(9,394)**
Accrued liabilities	**–**	**(5)**	**–**	**(15)**	**(913)**	**(933)**
Interest-bearing loans and borrowings	**–**	**(20,238)**	**(12)**	**–**	**–**	**(20,250)**
Total financial liabilities	**–**	**(22,061)**	**(1,731)**	**(216)**	**(6,569)**	**(30,577)**
Net financial assets/(liabilities)	**–**	**(15,155)**	**(1,586)**	**457**	**(5,123)**	**(21,407)**

	As at 31.12.16					
US$000	Ukrainian Hryvnia	US Dollars	Euro	Swiss Franc	Other currencies	Total
Financial assets	–	1,172	207	768	2,226	4,373
Financial liabilities						
Trade and other payables	–	(1,488)	(1,332)	(238)	(569)	(3,627)
Accrued liabilities	–	(2)	–	(20)	(982)	(1,004)
Interest-bearing loans and borrowings	–	(32,296)	(37)	–	–	(32,333)
Total financial liabilities	–	(33,786)	(1,369)	(258)	(1,551)	(36,964)
Net financial assets/(liabilities)	–	(32,614)	(1,162)	510	675	(32,591)

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

Revenues related to provisionally priced sales are initially recognised at the estimated fair value of the consideration receivable based on the forward price at each reporting date for the relevant period outlined in the different contracts. As a consequence, the receivable balance may change in a future period when final invoices can be issued based on final iron ore prices to be applied according to the specific underlying contract terms. The provisionally priced iron ore exposure at 31 December 2017 was 176,000 tonnes (2016: 173,000 tonnes) which gave rise to a fair value gain relating to the embedded provisional pricing mechanism of US$846 thousand as at 31 December 2017 (2016: fair value loss of US$777 thousand). Final iron ore prices based on the relevant index are normally known within 60 days after the reporting period. The difference between the provisionally priced receivable balance recognised as at 31 December 2017 and the receivable balance taking into account the known final prices is US$863 thousand (2016: US$1,433 thousand) and would have increased the consolidated result and the shareholders' equity by this amount.

Where pricing terms deviate from the index-based pricing model, derivative commodity contracts may be used to swap the pricing terms to the iron ore index price.

Finished goods are held at cost without revaluation to a spot price for iron ore pellets at the end of the reporting period, as long as the recoverable amount exceeds the cost basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Note 27: 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. The percentage applied to the sensitivity analysis of the Group's foreign currency exposure is based on the average change of the Ukrainian Hryvnia, the Group's most relevant foreign currency, compared to the US Dollar in past years, which might repeat again in the near future. This percentage was also applied for the Group's less relevant foreign currencies and does not have a significant effect on the total effect of this sensitivity analysis. This assumes that all other variables, in particular interest rates, remain constant.

US$000	Year ended 31.12.17 Income statement/ equity	Year ended 31.12.16 Income statement/ equity
Ukrainian Hryvnia	(2,526)	(5,436)
Euro	(264)	(194)
Swiss Franc	76	85
Total	**(2,714)**	(5,545)

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. The possible change applied to the cash flow sensitivity represents a plausible scenario taking into account the movement of variable interest rates in the last year and possible changes in the near future. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

US$000	Year ended 31.12.17	Year ended 31.12.16
Net finance charge	299	1,868

A decrease of 100bps would increase equity and profit by US$1,288 thousand for the year ended 31 December 2017 (2016: increase of US$1,014 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.

A key measure in respect of the Group's capital management is the level of net debt and the net debt to EBITDA ratio. Both key figures improved significantly during the financial year 2017 as a result of the strong financial performance. The net debt has decreased from US$588,951 thousand at the beginning of the year to US$399,217 thousand as at 31 December 2017.

The capital base of the Group can be adversely affected by falls in the price of iron ore reducing reported revenues and profitability. The price that the industry earns for iron ore products is cyclical in nature and the Board of Directors continues to review its capital base in line with industry trends. In prior years the Board approved investments in growth projects as part of its policy to support a strong capital base. During the financial years 2015 and 2016, in recognition of the industry trend and to further support the Group's capital base, the Board slowed down investments in major growth projects. Under consideration of increased iron ore prices and more positive industry trends, suspended investments in major growth projects accelerated again in 2017 and are expected to continue in 2018.

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 has made supporting current and future production growth and the cash generated by existing operations, while maintaining a prudent level of dividend cover supported by an appropriate level of liquidity.

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.

Note 27: Financial instruments continued

Ferrexpo plc (the "Company") is the Group's holding company, with no direct operating business, so its ability to make distributions to its shareholders is dependent on its ability to access profits held in the subsidiaries. The Group's consolidated retained earnings shown in the consolidated statement of changes in equity do not reflect the profits available for distribution in the Group as of 31 December 2017. See Note 13 for further information.

For more information about the Group's interest-bearing loans and borrowings see Note 26.

Note 28: 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 LTIP is a share-based scheme 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 number of share awards were granted under the LTIP in the previous financial years. The LTIP vesting period is three years.

Thousand	**2017 LTIP**	2016 LTIP	2015 LTIP	Total
Year ended 31.12.17	**803**	**–**	**–**	**803**
Year ended 31.12.16	–	765	–	765
Year ended 31.12.15	–	–	617	617

The following expenses have been recognised in 2017 and 2016 in respect of the LTIP:

US$000	**2017 LTIP**	2016 LTIP	2015 LTIP	2014 LTIP	Total
Year ended 31.12.17	**433**	**54**	**112**	**(13)**	**586**
Year ended 31.12.16	–	59	126	204	389

	Year ended 31.12.17 WAFV (US$)	Year ended 31.12.16 WAFV (US$)	**Year ended 31.12.17 No. ('000)**	Year ended 31.12.16 No. ('000)
LTIP				
Beginning of the year	**0.63**	1.03	**1,862**	1,497
Awards granted during the year	**1.64**	0.23	**803**	765
Awards vested during the year	**1.17**	–	**(112)**	–
Awards lapsed during the year	**1.27**	1.40	**(431)**	(400)
Outstanding at 31 December	**0.86**	0.63	**2,122**	1,862

The main inputs to the valuation of the 2017 LTIP awards were the share price at date of grant of US$2.01 (2016 LTIP awards: US$0.53), the volatility of the share price of 74% (2016 LTIP awards: 68%) and a risk-free interest rate of 1.5% p.a. (2016 LTIP awards: 0.8% p.a.).

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Note 29: Employees
Employee benefits expenses for the year ended 31 December 2017 consisted of the following:

US$000	Notes	Year ended 31.12.17	Year ended 31.12.16
Wages and salaries		**50,223**	40,957
Social security costs		**9,383**	7,474
Post-employment benefits	22	**943**	1,119
Other employee costs		**3,336**	3,033
Share-based payments	28	**586**	389
Total employee benefits expenses		**64,470**	52,972

Average number of employees	Year ended 31.12.17	Year ended 31.12.16
Production	**7,154**	7,194
Marketing and distribution	**180**	183
Administration	**1,002**	1,003
Other	**727**	724
Total average number of employees	**9,063**	9,104

The balances included in the table below show compensation for Non-executive Directors, Executive Directors and other key management personnel:

US$000	Year ended 31.12.17	Year ended 31.12.16
Wages and salaries	**6,356**	6,106
Social security costs	**276**	236
Post-employment benefits	**199**	116
Other employee costs	**226**	258
Share-based payments	**278**	38
Total compensation for key management	**7,335**	6,754

Share-based payments amounting to US$586 thousand (2016: US$389 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 31.12.17	Year ended 31.12.16
Wages and salaries	**3,079**	3,342
Social security costs	**124**	122
Post-employment benefits	**81**	60
Other employee costs	**170**	170
Share-based payments	**81**	12
Total compensation to Non-executive and Executive Directors	**3,535**	3,706

Note 30: Commitments, contingencies and legal disputes
Accounting policy
Contingencies
Contingent liabilities are not recognised in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

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.

Note 30: Commitments, contingencies and legal disputes continued

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.

Operating lease commitments – Group as lessee

Future minimum rentals payable under non-cancellable operating leases as at 31 December 2017 are as follows:

US$000	As at 31.12.17	As at 31.12.16
Less than one year	2,569	2,441
Between one and five years	8,694	7,202
More than five years	31,206	37,136
Total minimum rentals payable	**42,470**	46,779

During the year ended 31 December 2017, US$2,291 thousand was recognised as an expense in the income statement in respect of operating leases (2016: US$2,152 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 five to ten years on buildings.

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 31.12.17	
US$000	Minimum payments	Present value of payments
Less than one year	4,296	3,969
Between one and five years	2,131	2,072
Total minimum lease payments	**6,427**	**6,041**
Less: amounts representing finance charges	(386)	–
Present value of minimum lease payments	**6,041**	**6,041**

	As at 31.12.16	
US$000	Minimum payments	Present value of payments
Less than one year	4,289	3,684
Between one and five years	6,562	6,026
Total minimum lease payments	10,851	9,710
Less: amounts representing finance charges	(1,141)	–
Present value of minimum lease payments	9,710	9,710

Other

US$000	As at 31.12.17	As at 31.12.16
Capital commitments on purchase of property, plant and equipment	29,681	24,665

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.

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Note 30: Commitments, contingencies and legal disputes continued

Deposit Guarantee Fund and liquidator of Bank F&C

The Group's former transactional bank in Ukraine, Bank F&C ("BFC"), is still going through the liquidation process after having been declared insolvent by the National Bank of Ukraine and put under temporary administration on 18 September 2015. The Group has recorded in previous periods a full allowance for its cash and deposit balances (denominated in Ukrainian Hryvnia) held with BFC on the date of introduction of temporary administration, totalling UAH4,262 million (US$151,850 thousand) as at 31 December 2017 (2016: US$156,866 thousand). The Group, through its major subsidiaries in Ukraine, is engaged in various court proceedings with the aim to maximise its recovery in the liquidation process of BFC as disclosed below.

The Group's principal Ukrainian subsidiary, PJSC Ferrexpo Poltava Mining ("FPM"), is claiming the release of UAH217 million (US$7,731 thousand as of 31 December 2017), which was blocked after the introduction of the temporary administration of BFC on 18 September 2015. FPM has filed a cassation appeal in respect of an earlier adverse judgment received from the court. With judgment of 17 October 2017, the relevant court instance dismissed FPM's appeal in full. Based on legal advice obtained, there are no legal grounds for an appeal against this judgement to the Supreme Court of Ukraine.

Following the commencement of the liquidation process of BFC and in accordance with the applicable local legislation, FPM, LLC Ferrexpo Yeristovo Mining ("FYM") and LLC Ferrexpo Belanovo Mining ("FBM"), collectively referred to as "Ukrainian subsidiaries", submitted on 21 January 2016 their claims for cash and deposit balances held with BFC on the date of introduction of temporary administration totalling UAH4,262 million (US$151,850 thousand as of 31 December 2017).

On 22 April 2016, the liquidator of BFC issued certificates recognising UAH540 million (US$19,240 thousand as of 31 December 2017) of these claims and recognised these claims in the ninth rank. The aforementioned Ukrainian subsidiaries are currently involved in legal proceedings in respect of the under-recognition of the claims amounting to UAH3,722 million (US$132,610 thousand as of 31 December 2017) and the ranking of the claims in the liquidation process. The court proceedings commenced in October 2016 and following various hearings during the financial year 2017, the relevant court instance dismissed on 25 October 2017 FPM's claim in full. FPM filed an appeal on 13 November 2017 and a hearing took place on 21 February 2018. In this hearing, the liquidator of BFC failed to provide certain original documents requested by the court. As a result, the court did not rule on the parties' motions yet, but instead decided to adjourn the hearing. The next hearing is scheduled for 29 March 2018. The claims of FYM and FBM on the same matter are still pending with the relevant courts, but no hearings took place or are scheduled yet.

Note 31: 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 the sale and the original cost 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 re-acquired (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 Dollar functional currency operations, mainly those in Ukrainian Hryvnia, within the Group into US Dollars.

Critical judgements

Net investments in foreign operations

There are various intercompany balances between subsidiaries used to finance 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 cash 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. In assessing whether cash settlement is planned or likely to occur in the foreseeable future, critical judgement is required in forecasting whether the Group will generate sufficient cash outside of Ukraine to satisfy its liquidity requirements. 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. Translation losses related to these loans of US$22,046 thousand, net of associated tax effect of US$4,557 thousand, are recognised in other comprehensive income for the financial year 2017 (2016: US$121,261 thousand). It is the Group management's view that the total balance of the loans granted by the Group to its Ukrainian subsidiaries qualifies as net investment in its foreign operations.

Note 31: Share capital and reserves continued

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 2017 was 613,967,956 Ordinary Shares (2016: 613,967,956) at a par value of £0.10 paid for in cash, resulting in share capital of US$121,628 thousand (2016: US$121,628 thousand) per the statement of financial position.

As at 31 December 2017, other reserves attributable to equity shareholders of Ferrexpo plc comprised:

US$000	Uniting of interest reserve	Treasury share reserve	Employee benefit trust reserve	Translation reserve	Total other reserves
At 1 January 2016	31,780	(77,260)	(5,497)	(1,825,647)	(1,876,624)
Foreign currency translation differences	–	–	–	(125,130)	(125,130)
Tax effect	–	–	–	16,607	16,607
Total comprehensive loss for the period	–	–	–	(108,523)	(108,523)
Share-based payments	–	–	389	–	389
At 31 December 2016	**31,780**	**(77,260)**	**(5,108)**	**(1,934,170)**	**(1,984,758)**
Foreign currency translation differences	**–**	**–**	**–**	**(41,249)**	**(41,249)**
Tax effect	**–**	**–**	**–**	**4,557**	**4,557**
Total comprehensive loss for the period	**–**	**–**	**–**	**(36,692)**	**(36,692)**
Share-based payments	**–**	**–**	**586**	**–**	**586**
At 31 December 2017	**31,780**	**(77,260)**	**(4,522)**	**(1,970,862)**	**(2,020,864)**

Uniting of interest reserve

The uniting of interest reserve represents the difference between the initial investment by Ferrexpo AG in FPM 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 buy-back of 25,343,814 shares for a total cost of US$77,260 thousand. These shares are currently held as treasury shares by the Group. The Companies Act 2006 forbids the exercise of any rights (including voting rights) and the payment of dividends in respect of treasury shares.

Employee benefit trust reserve

This reserve represents the treasury shares held by Ferrexpo AG setting up an employee benefit trust reserve. The reserve is used to satisfy future grants for senior management incentive schemes. Information on the Group's share-based payments is provided in Note 28. As at 31 December 2017, the employee benefit trust reserve includes 2,916,419 shares (2016: 3,024,899 shares).

Translation reserve

During the financial year 2017, the Ukrainian Hryvnia depreciated from 27.191 as at the beginning of the year to 28.067 as at 31 December 2017 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 on page 97.

Note 32: 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 an 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 is shown in the consolidated income statement and the consolidated statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Note 32: Consolidated subsidiaries continued
The Group comprises Ferrexpo plc and its consolidated subsidiaries. The Group's interests in the entities are held indirectly by the Company, with the exception of Ferrexpo AG which is directly held. The Group's equity interests are 100% for all its major consolidated subsidiaries, except for FPM. The interest that non-controlling interests have in the Group's operations are not material and predominantly related to FPM. No significant judgements and assumptions were required to determine that the Group has control over these entities. The Group's consolidated subsidiaries are listed on page 149.

The Group does not have any other interests of 20% or more in undertakings that are not disclosed on page 149, except for the investment in the associate mentioned in Note 33.

Note 33: 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.

The Group also holds an interest of 49.5% (2016: 49.4%) in TIS Ruda LLC, operating a port on the Black Sea which the Group uses as part of its distribution channel.

US$000	Year ended 31.12.17	Year ended 31.12.16
Opening balance	2,165	5,801
Share of profit[1]	5,527	3,726
Dividends declared	(1,489)	(6,870)
Translation adjustments	(256)	(492)
Closing balance	**5,947**	**2,165**

For the year ended 31 December 2017 the summarised financial information for the associate was as follows:

	Revenue		Net profit	
US$000	Year ended 31.12.17	Year ended 31.12.16	Year ended 31.12.17	Year ended 31.12.16
TIS Ruda LLC[1]	22,002	22,911	11,076	7,467

1 Based on preliminary and unaudited financial information.

The figures in the table above represent 100% of the associate's revenue and net profit and not the Group's share based on its ownership. As at 31 December 2017, the associate's total assets were US$13,481 thousand (2016: US$9,858 thousand) and the total liabilities were US$1,563 thousand (2016: US$5,519 thousand) based on preliminary and unaudited statutory accounts. Any deviations from of the Group's share in the associate's equity based on the audited financial statements is adjusted subsequent to the year-end once the audited financial statements are available.

Note 34: Related party disclosure
During the periods presented, the Group entered into arm's length transactions with entities under the common control of the majority owner of the Group, Kostyantin Zhevago, with associated companies and with other related parties. Management considers that the Group has appropriate procedures in place to identify, 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 49.5% (2016: 49.4%). This is the only associated company of the Group. Other related parties are principally those entities controlled partially by Anatoly Trefilov who resigned as a member of the supervisory board of PJSC Ferrexpo Poltava Mining as of 19 April 2017. In accordance with the Listing Rules, all transactions with the entities controlled by Anatoly Trefilov within one year of his resignation from the supervisory board will still be considered as related party transactions and disclosed as such.

The payments made to the Non-executive Directors and Executive Directors are disclosed in the Remuneration Report on pages 74 and 75.

Note 34: Related party disclosure continued

Related party transactions entered into by the Group during the periods presented are summarised in the following tables:

Revenue, expenses, finance income and expense

	Year ended 31.12.17			Year ended 31.12.16		
US$000	Entities under common control	Associated companies	Other related parties	Entities under common control	Associated companies	Other related parties
Sales of pellets [a]	–	–	–	1,975	–	–
Other sales [b]	362	–	94	234	–	143
Total related party transactions within revenue	**362**	**–**	**94**	**2,209**	**–**	**143**
Materials [c]	7,504	–	8	6,954	–	8
Spare parts and consumables [d]	1,382	–	–	1,251	–	–
Gas [e]	–	–	–	4,297	–	–
Total related party transactions within cost of sales	**8,886**	**–**	**8**	**12,502**	**–**	**8**
Selling and distribution expenses [f]	10,867	18,366	827	10,766	19,803	1,507
General and administration expenses [g]	594	–	425	673	–	92
Allowance for restricted cash and deposits [h]	–	–	–	8,524	–	–
Total related party transactions within expenses	**20,347**	**18,366**	**1,260**	**32,465**	**19,803**	**1,607**
Finance expense	34	–	–	38	–	–
Total related party finance expense	**34**	**–**	**–**	**38**	**–**	**–**

A description of the most material transactions which are in aggregate over US$200 thousand in the current or comparative period is given below.

Entities under common control
The Group entered into various related party transactions with entities under common control. All transactions were carried out on an arm's length basis in the normal course of business.

a Spot sales of pellets in the amount of US$1,975 thousand as of the end of the comparative period ended 31 December 2016 to VA Intertrading AG. No such sales as of 31 December 2017.

b Sales of power, steam and water and other materials for US$88 thousand (2016: US$37 thousand) and income from premises leased to Kislorod PCC of US$135 thousand (2016: US$135 thousand).

c Purchases of compressed air and oxygen and metal scrap from Kislorod PCC for US$3,911 thousand (2016: US$3,587 thousand);

c Purchases of cast iron balls from AutoKraZ Holding Co. for US$851 thousand (2016: US$1,269 thousand); and

c Purchases of cast iron balls from OJSC Uzhgorodsky Turbogas for US$2,673 thousand (2016: US$2,063 thousand).

d Purchases of spare parts from CJSC Kyiv Shipbuilding and Ship Repair Plant ("KSRSSZ") in the amount of US$96 thousand (2016: US$410 thousand);

d Purchases of spare parts from OJSC Uzhgorodsky Turbogas in the amount of US$294 thousand (2016: US$150 thousand);

d Purchases of spare parts from Valsa GTV of US$756 thousand (2016: US$486 thousand); and

d Purchases of spare parts from OJSC Berdichev Machine-Building Plant Progress of US$211 thousand (2016: US$61 thousand).

e Procurement of gas for US$4,297 thousand from OJSC Ukrzakordongeologia as of the end of the comparative period ended 31 December 2016. No such transaction as of 31 December 2017.

f Purchases of advertisement, marketing and general public relations services from FC Vorskla of US$10,867 thousand (2016: US$10,766 thousand).

g Insurance premiums of US$403 thousand (2016: US$385 thousand) paid to ASK Omega for workmen's insurance and other insurances.

h The Group recorded during the financial year 2016 an additional allowance for its cash and deposits held at Bank F&C resulting in a charge of US$8,525 thousand as a result of the latest developments of the ongoing court case. See Note 30 for further information.

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 33).

f Purchases of logistics services in the amount of US$18,366 thousand (2016: US$19,803 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. All transactions were carried out on an arm's length basis in the normal course of business.

f Purchases of logistics management services from Slavutich Ruda Ltd. relating to customs clearance services and the coordination of rail transit totalling US$827 thousand (2016: US$1,502 thousand).

g Legal services in the amount of US$221 thousand (2016: nil) provided by Kuoni Attorneys at Law Ltd., which is controlled by a former member of the Board of Directors of Ferrexpo plc who resigned in November 2016, but still acts as a member of the Board of Directors of one of the subsidiaries of the Group; and

g Consulting services totalling US$205 thousand (2016: US$92 thousand) provided by Nage Capital Management AG, which is controlled by a former member of the Board of Directors of Ferrexpo plc who resigned in August 2014, but still acts as a member of the Board of Directors of one of the subsidiaries of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

Note 34: 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 31.12.17 Entities under common control	Associated companies	Other related parties	Year ended 31.12.16 Entities under common control	Associated companies	Other related parties
Purchases in the ordinary course of business	68	–	–	37	–	1
Total purchases of property, plant and equipment	**68**	**–**	**–**	**37**	**–**	**1**

There were no individual transactions which exceeded US$200 thousand in the current or comparative period.

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 31.12.17 Entities under common control	Associated companies	Other related parties	As at 31.12.16 Entities under common control	Associated companies	Other related parties
Prepayments for property, plant and equipment[i]	2,981	–	–	–	–	–
Total non-current assets	**2,981**	**–**	**–**	**–**	**–**	**–**
Trade and other receivables[j]	118	1,082	37	257	4,576	48
Prepayments and other current assets[k]	1,088	–	171	282	–	201
Total current assets	**1,206**	**1,082**	**208**	**539**	**4,576**	**249**
Trade and other payables[l]	339	1,367	64	456	1,331	267
Accrued liabilities and deferred income	–	–	51	–	–	–
Total current liabilities	**339**	**1,367**	**115**	**456**	**1,331**	**267**

A description of the balances over US$200 thousand in the current or comparative period is given below.

Entities under common control

i As of 31 December 2017, prepayments for property, plant and equipment totalling US$2,722 thousand (2016: nil) were made to OJSC Berdichev Machine-Building Plant Progress and US$256 thousand (2016: nil) to AutoKraZ Holding Co.

k Prepayments and other current assets totalling US$858 thousand as of 31 December 2017 related to prepayments made to FC Vorskla for advertisement, marketing and general public relations services (2016: nil).

Associated companies

j As at 31 December 2017, trade and other receivables included US$1,082 thousand (2016: US$4,576 thousand) related to dividends declared by TIS Ruda LLC.

l As at 31 December 2017, trade and other payables included US$1,367 thousand (2016: US$1,331 thousand) related to purchases of logistics services from TIS Ruda LLC.

Other related parties

k Prepayments and other current assets totalling US$171 thousand (2016: US$201 thousand) related to prepayments made to Slavutich Ruda Ltd. for distribution services.

l Trade and other payables of US$59 thousand (2016: US$267 thousand) were in respect of distribution services provided by Slavutich Ruda Ltd.

Note 35: Events after the reporting period

No material adjusting or non-adjusting events have occurred subsequent to the year end other than the proposed dividend disclosed in Note 13.

PARENT COMPANY STATEMENT OF FINANCIAL POSITION

Ferrexpo plc (the "Company") is required to present its separate Parent Company statement of financial position and certain notes to the statement of financial position on a standalone basis as at 31 December 2017 and 2016, which has been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). Information on the principle accounting policies is outlined in Note 3.

Ferrexpo plc is exempt from presenting a standalone Parent Company profit and loss account and statement of comprehensive income in accordance with section 408 of the UK Companies Act 2006.

US$000	Notes	As at 31.12.17	As at 31.12.16
Fixed assets			
Investment in subsidiary undertakings	4	**147,496**	147,496
Total fixed assets		**147,496**	147,496
Current assets			
Debtors	5	**835,453**	874,534
Cash at bank and in hand		**1,576**	47
Total current assets		**837,029**	874,581
Creditors: amounts falling due within one year	6	**23,433**	7,280
Net current assets		**813,596**	867,301
Total assets less current liabilities		**961,092**	1,014,797
Creditors: amounts falling due after more than one year	6	**494**	2,015
Net assets		**960,598**	1,012,782
Capital and reserves			
Called up share capital	7	**121,628**	121,628
Share premium account	7	**185,112**	185,112
Treasury share reserve	7	**(77,260)**	(77,260)
Employee benefit trust reserve	7	**(4,522)**	(5,108)
Profit and loss account	7	**735,640**	788,410
Total capital and reserves		**960,598**	1,012,782

The profit after taxation for the Company, registration number 05432915, was US$24,562 thousand for the financial year ended 31 December 2017 (2016: US$19,403 thousand).

The financial statements were approved by the Board of Directors on 20 March 2018.

KOSTYANTIN ZHEVAGO
CHIEF EXECUTIVE OFFICER

CHRISTOPHER MAWE
CHIEF FINANCIAL OFFICER

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

Note 1: Corporate information

The Company is incorporated and registered in England, which is considered to be the country of domicile, with its registered office at 55 St James's Street, London SW1A 1LA, UK. The Company's Ordinary Shares are traded on the London Stock Exchange.

The majority shareholder of the Company 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% (2016: 50.3%) of the Company's issued share capital.

Note 2: Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). The Company has transitioned from previously applied International Financial Reporting Standards as adopted by the European Union to FRS 101 for all periods presented in these financial statements with the date of transition being 1 January 2017. There were no measurement or recognition adjustments for the Company on the adoption of FRS 101.

The financial statements are presented in US Dollars (US$), the Company's functional currency, and all values are rounded to the nearest thousand, except where otherwise indicated. The functional currency is determined as the currency of the primary economic environment in which the Company operates. The majority of the Company's operating activities are conducted in US Dollars.

The Company has taken advantage of the following disclosure exemptions under FRS 101 as the Company is included in publicly available consolidated financial statements, which include disclosures that comply with the standards listed below:

- the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share-based payments;
- the requirements of IFRS 7 Financial instruments: Disclosures;
- the requirements of paragraphs 91-99 of IFRS 13 Fair value measurements;
- the following paragraphs of IAS 1 Presentation of financial statements:
  - 10 (d) (statement of cash flows);
  - 16 (statement of compliance with all IFRS);
  - 38A (requirement for minimum of two primary statements, including cash flow statements);
  - 38B-D (additional comparative information);
  - 111 (cash flow statement information); and
  - 134-136 (capital management disclosures).
- the requirements of IAS 7 Statement of cash flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting policies, changes in accounting estimates and errors;
- the requirements of paragraph 17 of IAS 24 Related party transaction and the requirements to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member of the same standard.

The Company does not have any employees other than the Directors. The requirement to give employee numbers and costs information under Section 411 of the Companies Act is addressed in the Directors' Remuneration Report of the Group on page 75.

Note 3: Significant accounting policies

Foreign currencies

The accounting policy is consistent with the Group's policy set out in Note 2 "Basis of preparation" of the Group's financial statements.

Investments in subsidiary undertakings

Equity investments in subsidiaries are carried at cost less any provision for impairments. Investments are reviewed for impairment at each reporting date. If indication exists that investments may be impaired, the investments' recoverable amounts are estimated. If the carrying amount of an investment exceeds its recoverable amount, the investment 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 are recognised in the income statement.

Financial guarantees

Financial guarantee liabilities issued by the Company are those contracts that require a payment to be made to reimburse the holder for a loss, which incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument.

Financial guarantees provided are initially recognised at fair value and subsequently measured at the higher of the best estimate to settle the present obligation at the reporting date and the amount initially recognised less, when appropriate, the cumulative amortisation recognised as guarantee fee.

Treasury share reserve

Own equity instruments which are re-acquired (treasury shares) are recognised at cost and deducted from equity shown in the treasury share reserve. 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.

Note 3: Significant accounting policies continued

Share-based payments

The accounting policy is consistent with the Group's policy set out in Note 28 "Share-based payments" of the Group's financial statements.

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.

Taxation

The accounting policy is consistent with the Group's policy set out in Note 12 "Taxation" of the Group's financial statements.

Note 4: Investment in subsidiary undertakings

Investment in subsidiary undertakings at 31 December 2017 relates to the Company's investment in Ferrexpo AG, which is domiciled in Switzerland and wholly owned by the Company. The subsidiary's registered office is at Bahnhofstrasse 13, 6340 Baar, Switzerland.

US$000	At 31.12.17	At 31.12.16
Investment in subsidiary undertakings	147,496	147,496
Total investment in subsidiary undertakings	**147,496**	147,496

See Note 32 to the consolidated financial statements for further information on subsidiaries indirectly held by the Company.

Note 5: Debtors

Debtors as at 31 December 2017 related to the following:

US$000	At 31.12.17	At 31.12.16
Amounts falling due within one year		
Amounts owed by subsidiary undertakings	19,273	16,977
Accrued interest owed by subsidiary undertakings	2,793	2,360
Prepaid expenses	369	292
Total amounts falling due within one year	**22,435**	19,629
Amounts falling due after more than one year		
Amounts owed by subsidiary undertakings	813,018	854,905
Total amounts falling due after more than one year	**813,018**	854,905
Total debtors	**835,453**	874,534

The Company's loans are contractually payable on demand but having assessed the expected repayment profile, this balance has been presented as non-current with the comparative presentation aligned to be on a consistent basis.

Other receivables due from subsidiaries are related to the financial guarantees provided by the Company and reflect the future guarantee fee receivable recorded when the financial guarantees were recognised as a liability.

Note 6: Creditors

Creditors as at 31 December 2017 related to the following:

US$000	At 31.12.17	At 31.12.16
Creditors: amounts falling due within one year		
Financial guarantees	1,211	3,959
Other payables and accrued liabilities	22,222	3,321
Total creditors: amounts falling due within one year	**23,433**	7,280
Creditors: amounts falling due after more than one year		
Financial guarantees	494	2,015
Total creditors: amounts falling due after more than one year	**494**	2,015

The Company's policy is to provide financial guarantees under limited circumstances only for the benefit of wholly owned or substantially owned subsidiaries.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
CONTINUED

Note 6: Creditors continued

As at 31 December 2017, the Company was a guarantor to the following major external debt facilities of the Group:

– Notes totalling US$346,386 thousand of a 10.375% Eurobond repayable in two equal instalments of US$173,193 thousand falling due on 7 April 2018 and 2019. The interest coupon is payable semi-annually;
– a syndicated revolving US$350,000 thousand pre-export finance facility, of which US$131,250 thousand is available (2016: $306,250 thousand) and US$112,500 thousand is drawn (2016: US$306,250 thousand). The amortisation of this facility commenced in November 2016 with eight quarterly amortisations and commitment reductions of US$43,750 thousand to the final maturity date of 8 August 2018; and
– an undrawn syndicated revolving US$195,000 thousand pre-export finance facility, which was secured on 16 November 2017. Following a grace period, the facility will be amortised in eight quarterly instalments. The first instalment is due on 31 March 2019 and the final maturity date is 31 December 2020.

The Company earns guarantee fees from its subsidiaries for the financial guarantees provided in respect of the Group's finance facilities aforementioned.

Note 7: Share capital and reserves

As at 31 December 2017, share capital and reserves comprised:

US$000	Issued capital	Share premium	Treasury share reserve	Employee benefit trust reserve	Retained earnings	Total capital and reserves
At 1 January 2016	121,628	185,112	(77,260)	(5,497)	769,007	992,990
Profit for the period	–	–	–	–	19,403	19,403
Total comprehensive income for the period	–	–	–	–	19,403	19,403
Share-based payments	–	–	–	389	–	389
At 31 December 2016	**121,628**	**185,112**	**(77,260)**	**(5,108)**	**788,410**	**1,012,782**
Profit for the period	–	–	–	–	**24,562**	**24,562**
Total comprehensive income for the period	–	–	–	–	**24,562**	**24,562**
Equity dividends paid to shareholders	–	–	–	–	**(77,332)**	**(77,332)**
Share-based payments	–	–	–	**586**	–	**586**
At 31 December 2017	**121,628**	**185,112**	**(77,260)**	**(4,522)**	**735,640**	**960,598**

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 the Company at 31 December 2017 was 613,967,956 Ordinary Shares (2016: 613,967,956) at a par value of £0.10 paid for in cash, resulting in share capital of US$121,628 thousand (2016: US$121,628 thousand) per the statement of financial position.

Treasury share reserve

In September 2008, the Company completed a buy-back of 25,343,814 shares for a total cost of US$77,260 thousand (2016: US$77,260 thousand). These shares are currently held as treasury shares by the Group. The Companies Act 2006 forbids the exercise of any rights (including voting rights) and the payment of dividends in respect of treasury shares.

Employee benefit trust reserve

This reserve represents the treasury shares used to satisfy future grants for senior management incentive schemes. As at 31 December 2017, the employee benefit trust reserve includes 2,916,419 shares (2016: 3,024,899 shares).

Distributable reserves

The Company is the Group's holding company, with no direct operating business, so its ability to make distributions to its shareholders is dependent on its ability to access profits held in the subsidiaries. The Company's retained earnings shown in the statement of changes in equity as of 31 December 2017 do not reflect the profits that are available for distribution by the Company as of this date. Taking into account relevant thin capitalisation rules and dividend-related covenants for the Group's major bank debt facilities, the total available distributable reserves of Ferrexpo plc is US$197,236 thousand as of 31 December 2017.

Note 8: 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 13 "Earnings per share and dividends paid and proposed" to the consolidated financial statements.

ADDITIONAL DISCLOSURES

See Note 32 for further information on the Group.

Unless otherwise stated, the equity interest disclosed includes ordinary or common shares which are owned by subsidiaries of the Group.

Name	Address of consolidated subsidiary's registered office	Principal activity	Equity interest owned 31.12.17 %	Equity interest owned 31.12.16 %
Consolidated subsidiaries				
Ferrexpo AG	Bahnhofstrasse 13, 6340 Baar, Switzerland	Holding company and sale of iron ore pellets	**100.0**	100.0
PJSC Ferrexpo Poltava Mining[1]	Budivelnykiv Street 16, 39802 Horishni Plavni, Poltava Region, Ukraine	Iron ore mining	**99.0**	99.0
LLC Ferrexpo Yeristovo Mining	Budivelnykiv Street 15, 39802 Horishni Plavni, Poltava Region, Ukraine	Iron ore mining	**100.0**	100.0
LLC Ferrexpo Belanovo Mining	Budivelnykiv Street 15, 39802 Horishni Plavni, Poltava Region, Ukraine	Iron ore mining	**100.0**	100.0
Ferrexpo Middle East FZE	P.O. Box 18341, The Galleries – 04 1203, Jebel Ali Down Town, Dubai, U.A.E.	Sale of iron ore pellets	**100.0**	100.0
Ferrexpo Finance plc	55 St James's Street, London SW1A 1LA, United Kingdom	Finance	**100.0**	100.0
Ferrexpo Services Limited	Patris Lumumba Street 4/6, 01042 Kyiv, Ukraine	Management services and procurement	**100.0**	100.0
Universal Services Group Ltd.	Patris Lumumba Street 4/6, 01042 Kyiv, Ukraine	Asset holding company	**100.0**	100.0
DP Ferrotrans	Portova Street 65, 39802 Horishni Plavni, Poltava Region, Ukraine	Trade, transportation services	**99.0**	99.0
United Energy Company LLC	Bydivelnykiv Street 16, 39802 Horishni Plavni, Poltava Region, Ukraine	Holding company	**99.0**	99.0
Nova Logistics Limited	Budivelnykiv Street 16, 39802 Horishni Plavni, Poltava Region, Ukraine	Service company	**51.0**	51.0
Ferrexpo Singapore PTE Ltd.	Marina Boulevard #05-02, Marina Bay Financial Centre, 018981 Singapore, Singapore	Marketing services	**100.0**	100.0
Ferrexpo Hong Kong Limited[2]	Wing on Centre 16/F, 111 Connaught Road Central, Hong Kong, HK	Marketing services	**–**	100.0
Ferrexpo Shipping International Ltd.	Ajeltake Road, MH-96960 Ajeltake Island – Majuro, Marshall Islands	Holding company	**100.0**	100.0
Iron Destiny Ltd.	Ajeltake Road, MH-96960 Ajeltake Island – Majuro, Marshall Islands	Shipping company	**100.0**	100.0
Arlington Ltd.[3]	PO Box 296, Sarnia House, Le Truchot, GY1 4NA St Peter Port, Guernsey	Holding company	**–**	100.0
First-DDSG Logistics Holding GmbH	Handelskai 348, 1020 Wien, Austria	Holding company	**100.0**	100.0
EDDSG GmbH	Handelskai 348, 1020 Wien, Austria	Barging company	**100.0**	100.0
DDSG Tankschiffahrt GmbH	Handelskai 348, 1020 Wien, Austria	Barging company	**100.0**	100.0
DDSG Services GmbH	Handelskai 348, 1020 Wien, Austria	Service company	**100.0**	100.0
DDSG Mahart Kft.	Sukorói út 1., 8097 Nadap, Hungary	Barging company	**100.0**	100.0
Pancar Kft.	Sukorói út 1., 8097 Nadap, Hungary	Barging company	**100.0**	100.0
Ferrexpo Port Services GmbH	Handelskai 348, 1020 Wien, Austria	Port services	**100.0**	100.0
Transcanal SRL	Ecluzei Street 1, Agigea, Constanta, Romania	Port services	**77.6**	77.6
Helogistics Asset Leasing Kft.	Sukorói út 1., 8097 Nadap, Hungary	Asset holding company	**100.0**	100.0
LLC DDSG Ukraine Holding	Patris Lumumba Street 4/6, 01042 Kyiv, Ukraine	Holding company	**100.0**	100.0
LLC DDSG Invest	Patris Lumumba Street 4/6, 01042 Kyiv, Ukraine	Asset holding company	**100.0**	100.0
LLC DDSG Ukraine Shipping Management	Patris Lumumba Street 4/6, 01042 Kyiv, Ukraine	Barging company	**100.0**	100.0
LLC DDSG Ukraine Shipping	Radhospna Street 18, 39763 Kamiani Potoky, Kremenchuk District, Poltava Region, Ukraine	Asset holding company	**100.0**	100.0
Ferrexpo Poltava Mining Charity Fund[4]	Heroiv Dnipra Street 23-a , 39802 Horishni Plavni, Poltava Region, Ukraine	Charity fund	**100.0**	100.0
Associate				
TIS Ruda LLC	Chapaieva Street 50, 67543 Vizirka Village, Odesa Region, Ukraine	Port development	**49.4**	49.4
Available-for-sale investments[5]				
PJSC Stakhanov Railcar Company		Rail car producer	**1.1**	1.1
Vostok Ruda LLC		Iron ore mining	**1.1**	1.1
LLC Atol		Gas	**9.9**	9.9
CJSC AMA		Gas	**9.0**	9.0
CJSC Amtek		Gas	**9.0**	9.0

1 In November 2017, the Group increased its shareholding by 0.019%.
2 The entity was liquidated in September 2017.
3 The entity was dissolved in February 2017.
4 Charity fund controlled by the Group through its CSR committees.
5 All investments relate to companies incorporated in Ukraine and are fully impaired.

ALTERNATIVE PERFORMANCE MEASURES

When assessing and discussing the Group's reported financial performance, financial position and cash flows, management may make reference to Alternative Performance Measures ("APMs") that are not defined or specified under International Financial Reporting Standards ("IFRS").

APMs are not uniformly defined by all companies, including those in the Group's industry. Accordingly, the APMs used by the Group may not be comparable with similarly titled measures and disclosures made by other companies. APMs should be considered in addition to, and not as a substitute for or as superior to, measures of financial performance, financial position or cash flows reported in accordance with IFRS.

Ferrexpo makes reference to the following APMs in the 2017 Annual Report.

C1 cash cost of production

Definition: Non-financial measure, which represents the cash costs of production of iron pellets from own ore divided by production volume of own production ore. Non-C1 cost components include non-cash costs such as depreciation, inventory movements and costs of purchased ore and concentrate. The Group presents the C1 cash cost of production because it believes it is a useful operational measure of its cost competitiveness compared to its peer group.

US$000	Year ended 31.12.17	Year ended 31.12.16 (audited)
C1 cash costs	**335,451**	306,611
Non-C1 cost components	**31,745**	53,884
Cost of sales – pellet production	**367,196**	360,495
Own ore produced (tonnes)	**10,394,440**	11,071,404
C1 cash cost per tonne (US$)	**32.27**	27.7

Underlying EBITDA

Definition: The Group calculates the underlying EBITDA as profit before tax and finance plus depreciation and amortisation and net gains and losses from disposal of investments and property, plant and equipment and share-based payments and operating and non-operating special items, including write-offs and impairment losses and other exceptional items. The underlying EBITDA is presented because it is a useful measure for evaluating the Group's ability to generate cash and its operating performance. See Note 5 for further details.

Closest equivalent IFRS measure: Profit before tax and finance.

Rationale for adjustment: The Group presents the underlying EBITDA as it is a useful measure for evaluating its ability to generate cash and its operating performance. It excludes the impact of special items that can mask underlying changes in performance. Also it aids comparability across peer groups as it is a measurement that is often used.

Reconciliation to closest IFRS equivalent:

US$000	Notes	Year ended 31.12.17	Year ended 31.12.16
Underlying EBITDA		**550,705**	375,243
Losses on disposal of property, plant and equipment		**(7,754)**	(4,446)
Share-based payments	28	**(586)**	(389)
Operating special items	10	**(407)**	(2,501)
Non-operating special items	10	**–**	(8,525)
Depreciation and amortisation		**(46,392)**	(50,671)
Profit before tax and finance		**495,566**	308,711

Underlying diluted earnings per share before special items

Definition: Earnings per share excluding special items and calculated using the diluted number of Ordinary Shares outstanding.

Closest equivalent IFRS measure: Diluted earnings per share.

Rationale for adjustment: Excludes the impact of special items that can mask underlying changes in performance.

Reconciliation to closest IFRS equivalent:

	Before special items	Special items	Year ended 31.12.17	Before special items	Special items	Year ended 31.12.16
Earnings/(loss) for the year attributable to equity shareholders per share						
Basic (US cents)	**66.53**	**0.56**	**67.09**	33.60	(1.60)	32.00
Diluted (US cents)	**66.30**	**0.55**	**66.85**	33.51	(1.60)	31.91

Net debt to underlying EBITDA

Definition: Net debt divided by the underlying EBITDA (for the last 12 months):

US$000	As at 31.12.17	As at 31.12.16
Net debt (US$000)	**(403,322)**	(588,951)
Underlying EBITDA (US$000)	**550,705**	375,243
Net debt to underlying EBITDA	**0.73x**	1.57x

Rationale for adjustment: The ratio is a measurement of the underlying EBITDA Group's leverage, calculated as a company's interest-bearing liabilities minus cash or cash equivalents, divided by its underlying EBITDA.

Reconciliation to net debt:

US$000	Notes	As at 31.12.17	As at 31.12.16
Cash and cash equivalents	25	**97,742**	144,751
Interest-bearing loans and borrowings – current	26	**(314,770)**	(228,061)
Interest-bearing loans and borrowings – non-current	26	**(186,294)**	(505,641)
Net debt		**(403,322)**	(588,951)

For a reconciliation of underlying EBITDA to profit before tax and finance see page 150.

Capital investment

Definition: Capital expenditure for the purchase of property, plant and equipment and intangible assets.

Closest equivalent IFRS measure: Purchase of property, plant and equipment and intangible assets (net cash flows used in investing activities).

Rationale for adjustment: The Group presents the capital investment as it is a useful measure for evaluating the degree of capital invested in its business operations.

Reconciliation to closest IFRS equivalent:

US$000	Notes	As at 31.12.17	As at 31.12.16
Purchase of property, plant and equipment and intangible assets (net cash flows used in investing activities)	14/15	**102,953**	48,176

ALTERNATIVE PERFORMANCE MEASURES
CONTINUED

Total liquidity
Definition: Sum of cash and cash equivalents and available facilities.

Closest equivalent IFRS measure: Cash and cash equivalents.

Rationale for adjustment: The Group presents total liquidity as it is a useful measure for evaluating its ability to meet short-term business requirements.

Reconciliation to closest IFRS equivalent:

US$000	As at 31.12.17	As at 31.12.16
Cash and cash equivalents	97,742	144,751
Available facilities	213,750	–
Total liquidity	311,492	144,751

GLOSSARY

Act	The Companies Act 2006
AGM	The Annual General Meeting of the Company
Articles	The Articles of Association of the Company
Audit Committee	The Audit Committee of the Company's Board
Bank F&C	Bank Finance & Credit
Belanovo or Bilanivske	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
blast furnace pellets	Used in Basic Oxygen Furnace "BOF" steelmaking and constitute about 70% of the traded pellet market
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 the Suez Canal
capital employed	The aggregate of equity attributable to shareholders, non-controlling interests and borrowings
Central Europe	This segmentation for the Group's sales includes Austria, the Czech Republic, Hungary, Serbia and Slovakia
CFR	Delivery including cost and freight
China & South East Asia	This segmentation for the Group's sales includes China and Vietnam
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

GLOSSARY
CONTINUED

Directors	The Directors of the Company
Direct reduction "DR" pellets	Used in Direct Reduction Iron "DRI" production. In regions where natural gas is cheap and plentiful, such as the Middle East, DR pellets are mixed with natural gas to produce DRI, an alternative source of metallic to scrap in Electric Arc Furnace "EAF" steelmaking. DR pellets are niche, higher quality product with Fe content greater than 67% and a combined level of silica and alumina of <2%
EBT	Employee benefit trust
EPS	Earnings per share
Executive Committee	The Executive Committee of management appointed by the Company's Board
Executive Directors	The Executive Directors of the Company
FBM	Ferrexpo Belanovo Mining, also known as BGOK, a company incorporated under the laws of Ukraine
Fe	Iron
Ferrexpo	The Company and its subsidiaries
Ferrexpo AG Group	Ferrexpo AG and its subsidiaries, including FPM
Fevamotinico	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 river 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	Finance & 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
GPL	Gorishne-Plavninske-Lavrykivske, the iron ore deposit being mined by FPM
Group	The Company and its subsidiaries
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 (in Ukraine)
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
NBU	National Bank of Ukraine
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
North East Asia	This segmentation for the Group's sales includes Japan and Korea
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 and 90,000 tonnes of cargo and can transit both the Panama and Suez canals
PPI	Ukrainian producer price index
probable reserves	Those measured and/or indicated mineral resources which are not yet "proved", but of which detailed technical and economic studies have demonstrated that extraction can be justified at the time of determination and under specific economic conditions
proved reserves	Measured mineral resources of which detailed technical and economic studies have demonstrated that extraction can be justified at the time of determination and under specific economic conditions
rail car	Railway wagon used for the transport of iron ore concentrate or pellets
Relationship Agreement	The relationship agreement entered into among Fevamotinico S.a.r.l., Kostyantin Zhevago, The Minco Trust and the Company
Remuneration Committee	The Remuneration Committee of the Company's Board
reserves	Those parts of mineral resources for which sufficient information is available to enable detailed or conceptual mine planning and for which such planning has been undertaken. Reserves are classified as either proved or probable
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

GLOSSARY
CONTINUED

spot price	The current price of a product for immediate delivery
sterling/£	Pounds 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 with the smelting charge, and possibly a refining charge, and then returns the metal to the customer
ton	A US short ton, equal to 0.9072 metric tonnes
tonne or t	Metric tonne
treasury shares	A company's own issued shares that it has purchased but not cancelled
TSF	Tailings storage facility
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
underlying EBITDA	The Group calculates the underlying EBITDA as profit before tax and finance plus depreciation and amortisation and net gains and losses from disposal of investments and property, plant and equipment and share-based payments and operating and non-operating special items, including write-offs and impairment losses and other exceptional items
underlying EBITDA margin	Underlying EBITDA (see definition above) as a percentage of revenue
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
Western Europe	This segmentation for the Group's sales includes Germany and Italy
WMS	Wet magnetic separation
Yeristovo or Yerystivske	The deposit being developed by FYM

SHAREHOLDER INFORMATION

Registered Office
55 St James's Street
London
SW1A 1LA
www.ferrexpo.com

Advisers
Share Registrars
Equiniti
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Financial
J.P. Morgan Cazenove Ltd
25 Bank Street
London
E14 5JP

Corporate Brokers
J.P. Morgan Cazenove Ltd
25 Bank Street
London
E14 5JP

Deutsche Bank AG
Winchester House
1 Great Winchester Street
London
EC2N 2DB

Legal
Herbert Smith Freehills
Exchange House
Primrose Street
London
EC2A 2EG

Auditors
Deloitte LLP
2 New Street Square
London
EC4A 3BZ
United Kingdom

Designed and produced by **emperor**
Visit us at **emperor.works**

WWW.FERREXPO.COM

FERREXPO

FERREXPO PLC
55 ST JAMES'S STREET, LONDON SW1A 1LA
T +44 (0)20 7389 8300

FTSE4Good