

ESTABLISHED CAPABILITIES
with a **COMPETITIVE EDGE**

**FERREXPO PLC
ANNUAL REPORT AND ACCOUNTS
2013**

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COMPANIES HOUSE

**PRODUCING IRON ORE
PELLETS *for over* 35 YEARS**

Ferrexpo is a Swiss headquartered iron ore group with assets in Ukraine. It has been mining, processing and selling high quality iron ore pellets to the global steel industry for over 35 years.

Ferrexpo's resource base is one of the largest iron ore deposits in the world. The Group is the 5th largest global supplier of pellets and the largest exporter of pellets from the CIS. In 2013, it produced 10.8 million tonnes of pellets, a 12% increase compared to 2012.

OUR BUSINESS MODEL

ESTABLISHED CAPABILITIES
with a **COMPETITIVE EDGE**

across the value chain

OPEN PIT MINING *with a* **LONG LIFE RESOURCE / PAGE 02**

PROCESSING *a* **HIGH QUALITY PRODUCT / PAGE 04**

INTEGRATED LOGISTICS *and a* **CENTRAL LOCATION / PAGE 06**

A FOCUSED STRATEGY *applying* **FINANCIAL DISCIPLINE / PAGE 08**

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2013 HIGHLIGHTS

Yeristovo
mine

Poltava
mine

Concentrator
facilities

Tailings
dam

+12%

Total production volumes

Production of 10.8 million tonnes
(2012: 9.7 million tonnes)

+20%

Production of premium 65% Fe pellets (own ore)

Ferrexpo produced 5.0 million tonnes
of higher quality 65% Fe pellets
(2012: 4.2 million tonnes)

+11%

Sales volumes

Sales volumes of 10.7 million tonnes
(2012: 9.7 million tonnes)

See page for the full Financial Review

+11%

Revenue

Group revenue increased to
US\$1.6 billion
(2012: US\$1.4 billion)

+25%

EBITDA

Group EBITDA increased to
US\$506 million
(2012: US\$405 million)

+21%

Diluted EPS

Diluted EPS increased to
44.69 US cents
(2012: 37.08 US cents)

Visit our new website at www.ferrexpo.com
to read more about Ferrexpo plc

OUR BUSINESS MODEL

OPEN PIT MINING *with a* **LONG LIFE RESOURCE**

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

As of 1 January 2014, Ferrexpo had estimated resources of approximately 6.7 billion tonnes classified according to the JORC Code and a further 13.1 billion tonnes of resources estimated under the FSU Classification.

Ferrexpo Poltava Mining ('FPM')

FPM exploits the Gorishne-Plavninskoye and Lavrikovskoye ('GPL') deposits. The FPM mine has consistent geology and allows for a long-life production profile. The mine is a traditional shovel and truck open pit mining operation extracting approximately 30mtpa of crude ore. The mine and processing complex are adjacent to rail and port facilities on the Dnieper River. FPM has operated successfully for over 40 years without any significant disruptions or delays in production.

Ferrexpo Yeristovo Mining ('FYM')

The development of the FYM mine fully utilises known and existing technology and infrastructure, as well as the Group's skill base. The FYM open pit mine is located approximately two kilometres north of the FPM mine. First ore was reached in the second half of 2012. Currently, ore extracted from the FYM mine is sent to FPM's processing complex to be used in the production of pellets.

Ferrexpo Belanovo Mining ('FBM')

The Belanovskoye deposit has total JORC resources of 1.7 billion tonnes. Belanovo activities are focused on development of a pre-feasibility study, licence maintenance and the acquisition of land. Pre-stripping work will start following full financial appraisal, acquisition of land and the granting of appropriate designs and permits. In 2014, the Group expects to commence a drilling campaign to optimise the pit and geotechnical design, establish a detailed hydrogeological programme and to develop a detailed processing flow chart for conversion of ore to 67% Fe concentrate.

JORC Reserve Statements as at 1 January 2014

Deposit	Reserves					
	Proved (million tonnes)	Fe grade (total)	Fe (magnetite)	Probable (million tonnes)	Fe grade (total)	Fe (magnetite)
Gorishne-Plavninskoye ¹	195	26	17	485	30	22
Lavrikovskoye ¹	36	31	22	93	32	23
Yeristovskoye ²	—	—	—	624	32	25
Total	231	27	18	1,202	31	24

1 The reserves estimates for the GPL deposits are those estimated in the report by RHDHV (Former Turgis UK Consulting (Pty) Ltd.) dated 29 May 2009 less the volume of ore mined from GPL deposits in 2009, 2010, 2011, 2012 and 2013.

2 The reserves estimates for the Yeristovskoye deposits are based on a report by SRK Consulting (UK) Ltd. ('SRK') dated 15 June 2007 less the volume of ore mined from the Yeristovskoye deposit in 2012 and 2013.

JORC Resource Statements as at 1 January 2014

Deposit	Resources								
	Measured (million tonnes)	Fe grade (total)	Fe (magnetite)	Indicated (million tonnes)	Fe grade (total)	Fe (magnetite)	Inferred (million tonnes)	Fe grade (total)	Fe (magnetite)
Gorishne-Plavninskoye ¹	277	29	19	1,022	31	23	1,275	31	23
Lavrikovskoye ¹	97	31	22	686	30	22	174	29	20
Yeristovskoye ²	259	34	27	559	33	26	364	30	23
Belanovskoye ²	336	31	24	1,149	31	23	217	30	21
Galeschinskoye ²	—	—	—	268	55	—	58	55	—
Total	969	31	23	3,684	33	—	2,088	31	—

1 The resource estimates for the GPL deposits were calculated based on a review conducted by SRK in March 2008 less the volume of ore mined from GPL deposits in 2008 (27.8 million tonnes), 2009 (28.6 million tonnes), 2010 (28.9 million tonnes), 2011 (29.6 million tonnes) and 2012 (29.8 million tonnes).

2 The resource estimates are based on a report by SRK dated 15 June 2007 less the volume of ore mined from the Yeristovskoye deposit in 2012 (1.2 million tonnes) and 2013 (8.5 million tonnes).

OUR BUSINESS MODEL

PROCESSING *a* HIGH QUALITY PRODUCT

Ferrexpo produces iron ore pellets which are a premium priced product used in the steel industry.

The high quality of the Group's products and the reliability of our supply means we have supplied some of the world's leading steel producers for many decades. In particular, those who require steel for premium applications, meaning it is critical that the final product is produced to the highest quality. These top producers enjoy a competitive advantage in their chosen markets, and our close ties with these customers help us to maintain stable iron ore pellet sales volumes across business cycles.

In addition, Ferrexpo meets the requirements of steel mills by having a competitive and reliable logistics system.

Pellets are uniform in size and composition. They are a high productivity, direct charge iron ore feed to the iron making process and therefore have a lower environmental impact than fines (which require sintering by the steel producers).

Our magnetite product has a lower environmental impact than competing hematite products, and it improves blast furnace productivity in the steel production process due to its high iron content, low levels of impurities, spherical shape and uniform quality.

All of our current output is in the form of high quality iron ore pellets with an iron content of 62% or 65%.

Ferrexpo Premium Pellets ('FPP'): 65% Fe

Approximately half of our production is in the form of FPP of 65% Fe. We have a capital investment project under way to install improved processing capability to allow for 100% production of FPP in 2015. FPP are high grade acid pellets with low levels of alumina and phosphorus as well as high magnesium oxide content. This chemical composition assists in the production of high value added steel products at reduced costs.

Ferrexpo Basic Pellets ('FBP'): 62% Fe

FBP pellets provide a high performance cost-effective feed for a blast furnace and can reduce the use of fluxes due to elevated silica levels. After many years of use by steel producers around the world, FBP's performance in the blast furnace has established a strong reputation, particularly when combined with our after sales service.

Ore from mine

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

Primary crushing

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

Medium fine crushing

Input particle size: 0-1,200mm; output particle size: 0-20mm.

Wet magnetic separation

The fine ore particles are collected to produce 63% Fe concentrate, half of which goes to the pelletiser to produce 62% Fe iron ore pellets.

Grinding

The ore is ground to produce fine particles of 0-0.44mm in size.

Dry magnetic separation

Dry magnetic separation separates waste material from the iron resulting in output particles of 0-20mm with a Fe content of 40%.

Flotation tanks

Approximately 50% of the concentrate is upgraded to 67% Fe content, used to create 65% Fe iron ore pellets, with unwanted waste material removed to the tailings storage area.

Pelletising

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

Transportation

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

OUR BUSINESS MODEL

INTEGRATED LOGISTICS *and a* **CENTRAL LOCATION**

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

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

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

In 2013, 22 capesize ships were loaded, allowing the Group to benefit from lower freight rates as compared to panamax vessels.

In 2013, Ferrexpo shipped approximately 1.5 million tonnes of pellets to customers in Europe via its 145 strong barge fleet.

OUR BUSINESS MODEL

A FOCUSED STRATEGY *applying* **FINANCIAL DISCIPLINE**

According to the World Health Organisation, by the middle of the 21st century, the urban population will almost double, increasing from approximately 3.4 billion in 2009 to 6.4 billion in 2050 driven predominantly by growth in emerging markets.

Market Context

Steel as the world's most important engineering and construction material is fundamental to this growth, requiring iron ore as the key raw ingredient.

The supply of iron ore is dominated by four companies providing approximately 70% of the world's seaborne iron ore, however, the share of steel production coming from lower grade iron ores has in recent years increased. Jefferies Bank believe the average grade of iron ore products in the seaborne market has fallen from 63% Fe in 2007 to below 62% Fe in 2013, while Goldman Sachs believe the average grade from Australian producers (the largest supplier of seaborne iron ore) will decline to below 60% Fe by 2014. In addition, steel mills are under increasing pressure to reduce their environmental emissions.

Ferrexpo, with the largest resource base in Europe, supplies high quality iron ore pellet of increasing quality to the growing steel market enabling lower grade iron ores to be blended and blast furnace emissions to be reduced. As a long standing supplier of premium iron ore in a concentrated market, Ferrexpo is well placed to grow its output and to provide an alternative supply of high quality iron ore to global steel mills.

Within this context Ferrexpo has a strategy to develop a high quality business reducing the risk profile across all aspects of the operations.

Financial Discipline

In order to develop the Company sustainably, it is necessary to ensure projects are funded and adequate liquidity is maintained, while dividend income to shareholders is stable, balanced and appropriate. The majority of the Group's cash flows have been reinvested in the business over many years to increase output and shareholder returns. To ensure a smooth long-term growth profile through business cycles, it is the strategy of Ferrexpo, where possible, to maintain strong credit ratios.

Ferrexpo's strategy is focused on the 10 key priorities below:

- **Develop its resource base**
- **Improve the quality of its output**
- **Develop its logistics capabilities**
- **Develop its customer portfolio**
- **To be a low cost producer**
- **Train and develop the Group's employees**
- **Maintain a social licence to operate**
- **Evaluate relevant investment opportunities**
- **Maintain financial discipline**
- **Maintain high standards of corporate governance**

See page 12 to read about our progress against our strategic priorities

OUR BUSINESS MODEL

A RESPONSIBLE BUSINESS
with **STRONG GOVERNANCE**

Corporate Social Responsibility ('CSR') Highlights in 2013

See page 36 for further information
regarding Corporate Responsibility
Safety

- Most regrettably, one contractor fatality in 2013
- No employee fatalities for over three years
- Lowest lost-time frequency rate in the Group's history
- Brought new open pit mine into commercial production with only one lost-time injury

Environment

- No reportable incidents regarding emissions or discharges i.e. did not exceed State permissible environmental limits
- FBM undertook baseline audits on air and water quality as well as a study to establish the average health of people living in the vicinity. FBM plans to use this data for future comparisons once mining activity commences
- General environmental impact approved by local council for FYM concentrator and FBM mine
- In line with new requirements a CO₂ emissions statement has been included on page 45
- Savings in energy consumption (see table below)

Energy Savings in 2013

Electricity	(th. kWt/h)	25,090
Gas	(th. m ³)	406
Steam	(Gcal)	5,892
Fuel	(t)	360

Community Initiatives

- Community support donations of US\$10.7 million
- Construction and commissioning of 212 apartments to be allocated to FYM and FPM employees under the Group's subsidised housing and social loyalty programme
- Strong emphasis remains on developing high educational standards in Komsomolsk to ensure the area retains and attracts the next generation of future employees

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

US\$15M

Average annual community
spend over the last
three years

STRATEGY *and* KEY PERFORMANCE INDICATORS

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

In recognition of the good results for 2013 and the success in growing output by 30% since IPO and 12% compared to 2012, the Board is pleased to announce a special dividend of 6.6 US cents per Ordinary Share.

DEVELOP ITS RESOURCE BASE

Ferrexpo's 20 billion tonne resource base is situated along a single ore body, which enables efficient expansion through brownfield development. It is the Group's strategy to increase production over the medium term to 20 million tonnes of high quality iron ore product.

What's been achieved in 2013

- 6.6 million tonnes of FYM mined ore processed
- Production of pellets increased 12% to 10.8 million tonnes
- 2 million tonnes of pellets were produced from FYM ore or 20% of Group production
- Continuation of mine life extension at FPM
- Development of pre-feasibility study at FBM

Objectives for 2014

- Mine 9 million tonnes of ore from FYM
- Increase pellet output to an annualised rate of 12 million tonnes
- Continuation of mine life extension at FPM
- Continuation of drilling programme at FBM

IMPROVE THE QUALITY OF ITS OUTPUT

As the Group sells a premium iron ore product, it is well placed to benefit from the growing price premium paid for superior iron ore as traditional steel mills are increasingly required to blend lower grade ores with a higher grade product in order to maintain the quality of their final output.

Ferrexpo expects to increase the average quality of its pellets from 63.3% Fe to 65% Fe by the end of 2015.

What's been achieved in 2013

- Construction of a new flotation unit
- Engineering design for the existing flotation unit
- Part construction of an additional flotation section for tailings
- Preliminary construction work for the expansion and upgrade of the tailings facilities
- Pre-feasibility study for the construction of a new filter plant
- Record production of 65% Fe pellets in 2013 to 5 million tonnes (20% growth versus 2012)

Objectives for 2014

- Commissioning of the flotation sections
- Commissioning of the new tailings handling facility
- Engineering design for a new hydraulic press filtration plant

DEVELOP ITS LOGISTICS CAPABILITIES

An integrated and cost-effective logistics infrastructure is essential for a bulk commodity miner as it enables customer relationships to be developed, costs to be reduced and supply reliability to be enhanced, thus increasing long-term profitability and reducing risk.

It is the Group's strategy to develop, where appropriate, its own logistics capabilities adding to rail, port and shipping capability both within and outside Ukraine. This enables Ferrexpo to service a geographic spread of top steel mills reducing its reliance on any one region and, importantly, allows the Group to establish a reputation as a reliable global supplier of pellets.

What's been achieved in 2013

- 22 capesize vessels loaded (2012: 17)
- Commencement of Group's own transshipment vessel reduced freight costs by US\$2.3 per tonne
- Overall, 20% reduction in freight costs per tonne to Asian markets
- Acquired 267 new rail cars

Objectives for 2014

- Increase capacity at seaborne port terminal
- Lower distribution costs by utilising more cost-effective and reliable distribution channels to customers
- Purchase rail cars to reduce further reliance on state-owned cars

DEVELOP ITS CUSTOMER PORTFOLIO

Ferrexpo as a single commodity producer looks to continually reduce risk. It is the strategy of the Company to deal under long-term contractual arrangements with the world's leading steel producers who are focused on producing high quality steel for premium applications, and who will themselves remain profitable through steel price fluctuations.

Ferrexpo is a top five global exporter of pellets. As it continues to grow its output, develop its logistics capabilities and increase its brand awareness, the Group believes it can win new business by offering quality product, reliable supply and excellent customer service, positioning itself as an alternative and credible supplier of pellets to top steel mills alongside the major iron ore producers.

What's been achieved in 2013

- Secured a high proportion of production under long-term contracts with some of the world's best steel mills
- Diversity of customer base with 47% of sales volumes in Europe and 53% sales in Asia
- Increased weighting of sales to higher margin customers

Objectives for 2014

- Finalise new long-term contracts with premium steel mills
- Maintain a diverse customer base between Europe and Asia

STRATEGY *and* KEY PERFORMANCE INDICATORS *continued*

TO BE A LOW COST PRODUCER

To remain profitable throughout the commodity cycle, it is necessary to be competitively placed on the global seaborne cost curve.

It is the Group's strategy to improve cost efficiency continuously by increasing output and reducing consumption norms, developing further best operating practice and lowering its delivery cost to European and Asian markets.

Circa 50% of production and distribution costs to the Ukrainian border are in local currency. To date in 2014, the Hryvnia has depreciated by 16%.

What's been achieved in 2013

- 20% reduction in freight costs to Far Eastern markets
- Following the ramp up of FYM in 1Q 2013 production costs declined by 10% throughout the year
- The Business Improvement Programme ('BIP') has reduced the C1 cost by US\$8.6 per tonne since 2006

Objectives for 2014

- To reduce costs through increased production volumes

TRAIN AND DEVELOP THE GROUP'S EMPLOYEES

Ferrexpo believes it is essential to train and develop its employees, as a skilled and motivated labour force will underpin innovation and business improvement, helping it to develop its reserve base and sustain production for decades to come.

The majority of Ferrexpo's employees are based in Ukraine. Mining is part of Ukraine's history and culture. The country has a large, well-educated and dedicated work force and the Group is committed to further developing the skills of its people.

What's been achieved in 2013

- A significant proportion of the workforce (including contractors) received training

Objectives for 2014

- To continue to train the workforce
- To continue to focus on employee and contractor safety
- To continue to address high potential hazards in the workplace

FYM employees

MAINTAIN A SOCIAL LICENCE TO OPERATE

In order to succeed as a large business operating in a major town, Ferrexpo believes it should be a major asset to its country of operation. The town of Komsomolsk was established in 1960 to service its operations. The Group has been a significant contributor to local community initiatives as well as a consistent employer, investor and tax payer through the commodities cycle and through periods of political instability.

To date, Ferrexpo has not experienced any major production disruptions in its history. The Group's strategy is to operate responsibly and sensitively and to assist the local community.

What's been achieved in 2013

- Most regrettably there was a contractor fatality in 2013 (2012: nil)
- Improvement in the lost-time injury frequency rate, reaching the lowest point in the Group's history
- Total emission levels declined versus 2012 and were within regulated limits
- Continued to invest in the local community, US\$10.7 million of community support donations

Objectives for 2014

- Maintain the trend towards lower emissions per tonne while increasing production
- Support the community through various initiatives
- Ongoing improvements in health and safety performance

EVALUATE RELEVANT INVESTMENT OPPORTUNITIES

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

What's been achieved in 2013

- Operation of *Iron Destiny*, the Group's transshipment vessel, which has contributed towards lower freight costs
- 15.5% stake acquired in Brazilian iron ore producer, Ferrous Resources

Objectives for 2014

- To continue to evaluate relevant investment opportunities that could de-risk or diversify the Group's operations

Iron Destiny, the Group's transshipment vessel

MAINTAIN FINANCIAL DISCIPLINE

In order to sustainably develop the Group, it is necessary to ensure projects are funded and adequate liquidity is maintained, while dividend income to shareholders is balanced and appropriate.

The majority of the Group's cash flows have been reinvested in the business over many years to increase shareholder returns. To ensure a smooth long-term growth profile through business cycles, it is the strategy of Ferrexpo to maintain, where possible, strong credit metrics.

The pace of investment depends on the level of cash flow after interest and dividends as well as the availability of fairly priced debt instruments.

The availability of debt depends, *inter alia*, on the perceived risk profile of the business and it is Ferrexpo's aim to reduce its risk profile through growth and investment in its operations and development of a high quality customer base.

What's been achieved in 2013

- Net debt to EBITDA of 1.3x at 31 December 2013
- New US\$350 million bank facility obtained

Objectives for 2014

- To manage the debt profile of Group through low cost and long dated maturities
- To maintain strong credit ratios

MAINTAIN HIGH STANDARDS OF CORPORATE GOVERNANCE

Developing and selling a product in a global environment, to world class customers, requires the highest standards of governance, transparency and ethical dealings with all stakeholders, including customers, suppliers, creditors and shareholders. It is the strategy of the Group to operate to the very highest levels of governance and integrity whilst ensuring an optimal operating structure for the business.

Ferrexpo's principal shareholder and CEO holds 50.3% of the shares in the Company and his interests remain fully aligned with all shareholders. The strategy of Ferrexpo and its principal shareholder is to operate to best international standards of governance, transparency and fairness.

What's been achieved in 2013

- Continued high standards of corporate governance

Objectives for 2014

- The Board to continue to provide diversity and balance in terms of knowledge and experience, in line with the UK Corporate Governance Code of 2012. (See Chairman's Statement on Corporate Governance on page 55.)
- To develop further the Group's CSR reporting

Number of Meetings

	2013	2012
Board ¹	5	6
Audit Committee	5	4
Remuneration Committee	3	5

¹ This does not include an annual site visit.

RECENT POLITICAL EVENTS IN UKRAINE

We would like to express our profound sadness for the loss of life as a result of the recent political turmoil in Ukraine, and extend our deepest sympathies to the families, communities and colleagues who have been affected.

We are hopeful of a satisfactory political outcome reflecting democratic principles.

At the time of writing, there have been no disruptions to Ferrexpo's operations.

A REVIEW OF 2013

In 2013, Ferrexpo was the fastest growing supplier by volume of pellets to the global steel industry and a top five seaborne producer. Total pellet production increased by 12% to 10.8 million tonnes, compared to an average industry decline during the year of over 5%. The Group also increased the quality of its pellet output, with a 20% increase of higher grade 65% Fe pellets.

Ferrexpo Yeristovo Mining ('FYM'), Ferrexpo's new open pit mine, provided 20% of the Group's ore in 2013 while the Group's beneficiating and pelletising plant was able to increase output while simultaneously continuing a major capital refurbishment programme to modernise its facilities.

The Group improved its logistics infrastructure during the year which contributed to a 20% reduction in freight costs per tonne to Asian markets. It also agreed three long-term contracts with leading steel mills in Asia.

As a result, Ferrexpo has further reduced its risk profile in 2013 and continued to build on its reputation as a reliable supplier of high grade iron ore to the global steel market.

The Group is pleased to announce a final ordinary dividend of 3.3 US cents per share and a special dividend of 6.6 US cents per share reflecting the progress it has made in 2013.

Results

Group revenue increased by 11% to US\$1.6 billion for the 12 months ended 31 December 2013 (2012: US\$1.4 billion) primarily driven by record sales volumes of 10.7 million tonnes (2012: 9.7 million tonnes) and a 4% increase in industry benchmark prices to US\$135 per tonne (2012 average benchmark CFR China 62% fines price: US\$130 per tonne).

The Group's average C1 cash cost of production for the period was US\$59.8 per tonne in line with 2012 (2012: US\$59.6 per tonne). The mining and processing of FYM ore has had a positive impact on the Group's overall production cost throughout the year following the ramp up of its production in 1Q 2013, where Group costs peaked at US\$63.9 per tonne. Total production volumes increased 12% to 10.8 million tonnes of pellets in 2013 (2012: 9.7 million tonnes) leading to higher fixed cost absorptions. In addition, there were cost benefits related to the high grade ore at FYM as well as lower mining costs at the new open pit.

In terms of logistics costs, rail tariff cost inflation was partially mitigated by savings from using the Group's own rail cars. The Group proposes to acquire further rail cars, while Ferrexpo reduced its cost of freight per tonne to the Far East by 20% (see pages 18 and 21 for further information on the Group's logistics).

Overall EBITDA rose by 25% to US\$506 million (2012: US\$405 million) driven by strong growth in sales volumes and higher market pricing.

The Group tax rate in 2013 was 14% compared to 18% in 2012. The decline principally reflects the reduction in the statutory tax rate in Ukraine.

Group profit after tax increased to US\$264 million compared to US\$219 million in 2012.

Ukrainian VAT incurred at FPM was recovered in 2013 on a timely basis, however balances from 2012 and prior years as well as from FYM and amounts in dispute in the court system remained unpaid. As of 31 December 2013, Ferrexpo was owed US\$318 million (2012: US\$302 million) of VAT by the Ukrainian government. The Group has recorded a total provision in respect of the overdue and disputed VAT amounts of US\$60 million (2012: US\$20 million). At the current time it is unclear how VAT will be repaid, and the provision in part reflects the likely discount to face value of any financial instrument which may be issued and converted to cash. In January 2014, the Group received a VAT repayment relating to December 2013 for Ferrexpo Poltava Mining ('FPM') and for FYM relating to 2012. As of 31 January 2014, the gross VAT outstanding balance was US\$291 million; this compares to an expected VAT balance, reflecting normal business activity, of between US\$50 million and around US\$100 million depending on the level of capital investment in any period.

Net cash flow from operating activities was US\$233 million, a 96% increase compared to 2012 (2012: US\$119 million).

Working capital increases were principally due to the stockpiling of the lower grade ore at FPM as priority was given during the year to processing the higher grade ore from FYM in order to focus on pellet quality. The lean ore at FPM will be processed in 2015 following completion of the quality upgrade project. This stockpiling, together with an increase in pre-paid corporate profit tax (see page 26 for further explanation), were the main drivers behind a working capital outflow of US\$103 million.

During the year the Group spent US\$278 million on capital investment in its existing and new mines as well as on logistics infrastructure (2012: US\$429 million). The reduction compared to 2012 reflects the near completion of the Group's approved capex programme to improve the quality and quantity of its pellet output to 65% Fe and 12 million tonnes respectively.

Savings on capital investments have also been made, particularly in sustaining capital where projects have been optimised. The Group closed the year with US\$103 million of capital commitments, compared to US\$163 million as at 31 December 2012.

A REVIEW OF 2013 *continued*

Ferrexpo has continued to maintain its financial discipline with net debt to EBITDA of 1.3 times (2012: 1.1 times). At the period end, Ferrexpo had net debt of US\$639 million (2012: US\$423 million) and cash combined with undrawn committed facilities with a maturity in excess of one year of US\$671 million.

Dividend

Ordinary dividend

The Group has invested significantly over the past six years and has maintained its dividend since IPO at 6.6 US cents per share split equally between interim and final payments. Ferrexpo is continuing to invest prudently in its operations to ensure sustained volume increases and earnings growth over the coming years. However, taking into consideration the volatility of iron ore pricing the Board feels it is appropriate to maintain the ordinary dividend at its current level during the continued investment in the business. As such, the Board recommends a final dividend in respect of profits generated by the Group in 2013 of 3.3 US cents per Ordinary Share (2012 final ordinary dividend: 3.3 US cents per Ordinary Share) for payment on 30 May 2014 to shareholders on the register at the close of business on 2 May 2014. The dividend will be paid in UK Pounds Sterling with an election to receive US Dollars.

Special dividend

In recognition of the good results for 2013, and the success in growing output by 30% since IPO and 12% compared to 2012, the Board is pleased to announce a special dividend of 6.6 US cents per Ordinary Share for payment on 28 March 2014 to shareholders on the register at the close of business on 21 March 2014. The dividend will be paid in UK Pounds Sterling with an election to receive US Dollars.

Market Environment

The World Steel Association reported that global crude steel production grew 3.5% in 2013 (compared to 2012) to 1.6 billion tonnes.

Of this, 779 million tonnes were produced in China representing 7.5% growth in Chinese steel production. This growth in steel production supported iron ore demand and prices with seaborne exports increasing by approximately 11% to 1.3 billion tonnes. The average benchmark price for iron ore (62% Fe CFR fines to China) increased by 4% to US\$135 per tonne compared to an average price in 2012 of US\$130 per tonne.

Demand for iron ore pellets was strong in 2013 with pellet premiums increasing from approximately US\$15 per tonne in the Chinese spot market (the largest buyer of iron ore including pellets) at the beginning of the year to over US\$30 per tonne by year end.

The improvement in pellet premiums was largely due to a reduction in supply from the market's principal pellet producers following low pellet premiums in 2012 as well as increasing demand for pellets in the Middle East. Direct reduction steel making in the Middle East requires high quality iron ore which reduces the availability of pellets for traditional blast furnaces in the rest of the world.

The marginal cost to produce pellets from pellet feed is believed to be approximately US\$30 per tonne based on the position of the larger suppliers of pellets on the global pelletising cost curve, as can be seen above. Ferrexpo's position at the low end of this curve highlights that it is well placed to benefit from growing demand for a high quality product.

Marketing and Logistics

In 2013, Ferrexpo sold 10.7 million tonnes of iron ore pellets compared to 9.7 million tonnes in 2012, an 11% increase.

During the year Ferrexpo reduced its cost of freight to the Far East by 20% per tonne primarily due to increased utilisation of capesize vessels and the commencement of its own transshipment facilities.

THE IRON ORE MARKET 2013

1.6

BILLION TONNES
GLOBAL STEEL
PRODUCTION

3.5

% GROWTH
VERSUS 2012

48

% OF
GLOBAL
STEEL
PRODUCTION

7.5

% GROWTH IN CHINESE
STEEL PRODUCTION IN
2013

See www.ferrexpo.com
to find out more

Blast furnaces use sintered fines, lump ore and pellets as iron ore inputs.

Fines Iron ore fines are small in size, and must be sintered and processed into larger particles before they can be used in a blast furnace.

Lump ore Iron ore lump consists of individual particles and can be charged directly into a furnace, enabling a steel producer to avoid sintering. The share of lump in the seaborne market is reducing due to declining grade and availability.

Pellets Pellets are high grade spheres of iron ore with uniform quality and are easier to transport than sintered fines. Pellets are often considered to be the highest quality form of iron ore to be used in a blast furnace.

Price premiums for high quality iron ore feedstock, such as lump and pellets, increased in 2013. Looking forward this is expected to continue driven by greater environmental requirements for steel mills to reduce their harmful emissions as well as a necessity to compensate for the growth in lower grade iron ore fines that is becoming increasingly prevalent.

CRU forecasts that the total consumption of pellets will grow on average by 4.7% per annum to 2018 while overall iron ore consumption is expected to increase by only 2.7% per annum. The difference in growth highlights the expected demand for quality iron ore product.

FPM Dashboard

30

MILLION TONNES
OF IRON ORE
MINED, 2013

8,062

EMPLOYEES

25 YEAR
MINE
LIFE

1.5

BILLION TONNES
JORC CLASSIFIED
RESERVES

**FPM is extending
its mine life to
2038 and will
complete a major
modernisation of
its production
assets in 2014.**

See www.ferrexpo.com
to find out more

The Poltava region, in which Ferrexpo's mining operations are situated, is an area of predominantly flat agricultural land close to the River Dnieper, one of the largest European river systems and an important transport artery for Ukraine, Belarus and Russia.

Iron ore mining in the area dates from the 19th century, although the major expansion of mining activity occurred in the early 20th century. The town of Komsomolsk was established adjacent to the mine to support the mining operation and ancillary industries (transport, power etc). Ferrexpo is still by far the largest employer in the town, which has a population of around 55,000 people, with approximately 23% of the working population of Komsomolsk being employed by the mine in one capacity or another.

FPM consists of a mine (as can be seen above) and concentrating and pelletising

facilities. FPM has been operating successfully for over 40 years without any significant disruptions or delays in production.

The mine is adjacent to rail and port facilities on the Dnieper River and is 6 kilometres long and over 350 metres deep. FPM operates a traditional shovel and truck open pit mining operation extracting approximately 30mtpa of crude ore. Its pelletising facility has nameplate capacity to produce 12 million tonnes of pellets which requires approximately 30 million tonnes of crude ore at 30% Fe.

See page 2 for our reserves and resources information

Loading of the Los Angeles
capesize vessel at the
Group's port facilities.

FERREXPO PLC
ANNUAL REPORT
AND ACCOUNTS
2013

**In 2013, Ferrexpo loaded
22 capesize vessels
carrying an average of
170,000 tonnes of pellets
(2012: 17 capesize
vessels).**

The Group continued to build its brand awareness in these regions with the signing of new long-term contracts including its first long-term contract with one of China's largest steel producers as well as renewal of two existing contracts with long established steel mills. In 2013, sales volumes to Japan increased four-fold while volumes sold to Turkey doubled and sales to Germany increased by over 85% compared to 2012.

Breakdown of Sales Volume by Market

	2013	2012
Traditional	47%	49%
Natural	18%	9%
Growth	35%	42%

The reduction in sales to Growth markets reflects the Group's decision to focus on building market share in Natural markets as well as current constraints regarding the Group's production output. As Ferrexpo increases its output it anticipates increasing sales to Growth markets.

43% of Ferrexpo's contracted sales volume in 2013 was based on the Platts benchmark index¹ compared to 29% in 2012.

Sales volumes priced on a quarterly negotiation, based on the underlying market conditions, were reduced to 40% in 2013 compared to 47% in 2012. As of 1 January 2014, this type of pricing was eliminated and it is intended that all of the Group's long-term sales contracts will be based on a benchmark indexed formula¹.

In 2013, 17% of sales volume was priced on a spot basis compared to 24% in 2012.

Overall, 83% of Ferrexpo's sales were made to long-term customers (2012: 75%) on contracts with tenures typically running from two to ten years.

Sales Volume by Contract Type

	2013	2012
Index	43%	29%
Quarterly negotiated	40%	47%
Spot	17%	24%

In 2013, Ferrexpo loaded 22 capesize vessels carrying an average of 170,000 tonnes of pellets (2012: 17 capesize vessels).

Ferrexpo has implemented improvements to its logistics infrastructure during the year which have resulted in sustainable cost reductions to its seaborne freight rate. This included cost savings from the commissioning of the Group's own transshipment vessel as well as contributing to an improvement in load rates throughout the

year. Other enhancements included improved vessel scheduling and more competitive freight rates as the Group looked to attract additional ship owners to the region.

The 20% reduction of the Group's freight rate per tonne to Asian markets was a vital step in establishing the Group's reputation as a competitive global supplier of pellets.

As of 31 December 2013, the Group owned 2,200 rail cars (2012: 1,933 rail cars) and has ordered an additional 300 units to be delivered in 2014, so as to maintain maximum independence and reduce reliance on state-owned rail cars as production volumes continue to increase. It is the Group's aim to be broadly self-sufficient in rail cars, which will necessitate further purchases beyond the orders already placed. The Group shipped 6.7 million tonnes of pellets through its own shipping terminal and a neighbouring terminal at the port of Yuzhny in 2013. Ferrexpo believes it currently has seaborne shipping capacity of seven million tonnes per annum. Original capacity of five million tonnes has been enhanced through improved vessel scheduling and more consistent rail deliveries. Finally, Ferrexpo delivered 1.5 million tonnes of pellets by barge to steel mills in Central Europe via the Danube River (2012: 1.4 million tonnes).

Overall in 4Q 2013, Ferrexpo delivered 3.1 million tonnes of pellets to its global customer base via rail, barge or ship. This was a record and in line with the Group's target of annualised production of 12 million tonnes.

Health and Safety

The management of Ferrexpo fosters and continually develops a culture of safety in the organisation, linking safety performance to remuneration.

Most regrettably there was a contractor fatality in 2013 at the Group's operations. A description of the incident is provided on page 41.

The lost-time injury frequency rate ('LTIFR') at FPM continued to fall in 2013 to 0.67 per million man hours worked (2012: 0.74). At FYM one lost-time injury was reported during the year (2012: nil). Overall, Ferrexpo's total LTIFR in Ukraine for 2013 was 0.64 compared to 0.66 in 2012.

Ferrexpo is pleased to announce that in 2013, FPM was awarded second place in the category 'Cultural Evolution in Safety or Sustainability' by DuPont at its annual Safety and Sustainability Awards. The award evaluated companies from 17 countries. DuPont believe the award reflects FPM's determination to continue to improve its safety record in line with industry best practice.

¹ Platts benchmark index for 62% Fe iron ore fines CFR to China. As is industry standard, this price is then adjusted for quality and a pellet premium (typically negotiated on a quarterly basis).

A REVIEW OF 2013 *continued*

Production

In 2013, Ferrexpo's pellet production increased by 12% to 10.8 million tonnes. This was a record for the Group and ensured Ferrexpo was the fastest growing global pellet exporter by volume for the year. The production growth was underpinned by the ramp up of production at the Group's second mine FYM. In 2013, 6.6 million tonnes of crude ore from FYM was delivered to FPM for beneficiating and pelletising. As a result, 2 million tonnes of pellets were produced from FYM ore or 20% of Group production. The FYM mine will continue to ramp up production enabling the Group to reach its target of producing 12 million tonnes of pellets on an annualised basis in 2014.

In 2013, Ferrexpo produced 5 million tonnes of premium grade pellets (Ferrexpo Premium Pellets). This was a record for the Group and represented growth of 20% compared to 2012.

Production Statistics

(000t unless otherwise stated)	2013	2012	+/-	Change %
Iron ore processed from FPM and FYM	30,599	29,803	796	2.7
Average Fe content %	32.3%	30.7%	1.6	5.2
Concentrate produced	13,195	11,830	1,365	11.5
Weighted average Fe content %	62.8%	62.2%	0.6	1.0
Pellets produced from FPM and FYM	10,466	9,409	1,057	11.2
Higher grade	4,725	4,118	607	14.7
Average Fe content %	64.9%	64.9%	—	—
Lower grade	5,741	5,291	450	8.5
Average Fe content %	62.2%	62.1%	0.1	0.2
Purchased concentrate	401	325	76	23.4
Average Fe content %	65.9%	65.4%	0.5	0.8
Pellets produced from purchased concentrate	347	281	66	23.5
Higher grade	263	56	207	370
Average Fe content %	64.9%	64.8%	0.1	0.2
Lower grade	84	225	(141)	(62.7)
Average Fe content %	62.2%	62.1%	0.1	0.2
Total pellet production	10,813	9,690	1,123	11.6
Pellet sales volume	10,689	9,675	1,014	10.5
Gravel output	2,281	2,822	(541)	(19.2)
Total Group stripping volume (bcm)	49,208	50,033	(825)	(1.6)

During the year FPM continued to complete a major modernisation and refurbishment programme of its production facilities whilst increasing the volume of output. As a result of the modernisation of three of the 15 grinding sections in 2013 FPM was able to process more ore and thus produce more concentrate for pelletising. Six out of the 15 grinding sections have now been refurbished with a further

three expected to be completed in 2014. This should allow the Group to reach its target of 12 million tonnes of annualised production in 2014.

For further information please see Capital Investments on page 24.

Production Costs

For the year ended 31 December 2013, the C1 cash cost of production of pellets from own ore was US\$59.8 per tonne in line with the cost in 2012.

During the year, the Ukrainian Hryvnia remained stable. Just over half of C1 cash costs are denominated in local currency. Cost inflation was principally driven by a 7% increase in electricity tariffs.

Following the ramp up of production at FYM in 1Q, the C1 cost declined throughout the year with the average cost for the year in line with 2012 and 7% below the first quarter.

	1Q 2013	2Q 2013	3Q 2013	4Q 2013	FY 2013	FY 2012
C1 cash cost of production	63.9	59.8	58.2	57.6	59.8	59.6

The mining and processing of FYM ore has had a positive impact on the Group's overall production volumes and unit cost through increased volume efficiencies, lower mining costs and the addition of higher grade ore. The ore mined at FYM has magnetic properties that allow for easier separation of the iron from other elements compared to the lower grade ore which forms part of the seam mined at the FPM pit. To increase output and minimise overall cost, FPM focused on processing the higher grade portion of its ore together with the ore from FYM. The lower grade ore from FPM has been stockpiled to be processed once the quality upgrade project is complete. This has enabled better recovery and higher profitability to be earned whilst optimising FYM's mining plan and ore recovery.

Ferrexpo's strategy is to continuously improve efficiency and reduce costs so as to remain competitive on the global cost curve. During the year, improved efficiencies were achieved through higher output and the Business Improvement Programme ('BIP') which has a target to reduce the C1 cost of production by 1% to 2% per annum on a constant output basis. The BIP programme has resulted in an overall reduction in the C1 cost of US\$8.6 per tonne since its inception in 2006.

Ferrexpo's average cost of transportation of its pellets to Ukrainian border points was US\$14.4 per tonne in line with 2012. Rail tariff cost increases of 5% were largely offset by savings gained from using the Group's own rail cars which qualify for a discount from the State rail authority. Ferrexpo sells its pellets mainly on a CFR basis and its realised pricing depends on freight costs. Importantly, during the year Ferrexpo reduced its cost of freight to China by 20% achieving its goal of being at least in line with the cost of freight for capesize vessels from Brazil to China.

2KM

The FYM open pit mine is located approximately 2 kilometres north of the FPM mine.

FYM Dashboard

6.6

MILLION TONNES
OF IRON ORE
PROCESSED IN 2013

1,318

EMPLOYEES

32

YEAR
MINE
LIFE

1.2

BILLION TONNES
JORC CLASSIFIED
RESERVES

The experience gained from FPM has underpinned the establishment of world class mining facilities at FYM.

US\$450m

invested to reach first ore and complete related infrastructure.

See www.ferrexpo.com to find out more

The FYM deposit has estimated resources of 1.2 billion tonnes under the JORC Code, of which approximately 624 million tonnes were proved and probable reserves with an average iron content of 32%.

Assuming an iron ore production rate of 28mtpa (broadly similar to FPM's current production), it has the capacity to add approximately 32 years to the Group's production profile.

The FYM open pit mine is located approximately 2 kilometres north of the FPM mine. First ore was reached in 2H 2012. The initial ore extracted from the FYM mine is being processed at FPM's beneficiating facilities. Together with existing output from the FPM mine, this will allow the Group to increase its pellet production to an

annualised rate of approximately 12 million tonnes in 2014.

FYM is developing additional processing and pelletising facilities for the remaining ore mined at the FYM pit. These processing facilities are expected to increase the combined output of the Group to around 20 million tonnes of pellets or concentrate equivalent per annum. This includes a new concentrating complex with up to 10 million tonnes of capacity to produce 67% Fe pellet feed.

See page 2 for our reserves and resources information

A REVIEW OF 2013 *continued*

Overall on the global cost curve for iron ore, management believe that Ferrexpo is positioned in the middle after adjusting for different iron ore products on a like for like basis, including any benefits or discounts a producer may receive relative to the 62% Fines CFR China price.

At current cost levels, Ferrexpo estimates that approximately 1 billion tonnes of supply would need to be eliminated due to iron ore price declines before Ferrexpo's operations would be loss making.

In 2014, Ferrexpo is aiming to reduce its costs through increased production and further efficiencies from processing FYM ore.

Capital investments

In 2013, capital investment amounted to US\$278 million (2012: US\$429 million). The reduction in spending largely reflects the near completion of the Group's US\$647 million programme, approved in November 2010, primarily to increase the quality of its pellet output to an average of 65% Fe and to open the Group's second mine providing ore to increase pellet production to 12 million tonnes. These projects, as well as the Mine Life Extension project to extend FPM's mine life to 2038, are progressing to plan and budget.

A summary of the Group's major capital projects follows.

Sustaining Capex and Capacity Upgrade Project

During the period, the Group spent US\$81 million on modernisation and reducing bottlenecks at FPM's production facilities (2012: US\$108 million).

¹ In order to determine a comparable CFR cost for non-homogeneous iron ore products any benefits or discounts a producer may receive relative to the 62% Fines CFR China price are deducted or added. In the case of Ferrexpo, the calculation is as follows: C1 cash cost of production + freight to Port Yuzhny + sea freight to China + maintenance capex + regional market discount – less pellet premium – premium for higher Fe content.

Included in sustaining capital investments are projects to upgrade FPM's beneficiating and pelletising facilities to allow processing of 12 million tonnes of pellets per year. Activities during the period, focused on the redesign and refurbishment of the three grinding sections. These were completed and commissioned through the year, while maintaining day-to-day operations and increasing production levels above those in 2012. As a result of the upgrade of the FPM beneficiation plant, concentrate production increased by more than 11% during the year.

Future activities will involve the modernisation of additional grinding sections of the existing beneficiation plants, as well as the replacement of medium/fine crushing sections and a major rebuild of one kiln in the pelletising plant.

Sustaining capital investment also provides for the modernisation of existing assets and systems to increase operating efficiencies benefiting the cash cost of production. As the capacity upgrade project is nearing completion, management believe that sustaining capex at FPM for 2014 and future years is expected to be reduced.

Quality upgrade project

In order to improve the quality of the pellet product, the overall iron content of the concentrate requires upgrading. The primary method to achieve this is through vertimill fine grinding technology and flotation. This will allow for the production of concentrate with an average 67% iron content (compared to the current average iron content of 65%) and will ensure all pellets contain 65% iron content.

During 2013, a floatation cell with all related equipment was installed and will be commissioned in 2014. This was constructed along with part of the second floatation plant and the associated upgrade of the tailing facilities.

In addition the following engineering work was carried out in relation to the quality upgrade project aimed at further enhancing returns.

- Engineering design for the modernisation of the existing floatation and installation of associated vertimills
- Pre-feasibility study for the construction of a new filter plant at the pelletizing plant which will accommodate the filtering of the higher grade concentrate to increase yields

In 2013, US\$47 million was spent on the above activities (2012: US\$35 million), mainly relating to the construction of the additional floatation and fine grinding unit.

FYM Capital Project

In 2013, FYM spent US\$100 million on pit and associated infrastructure development (2012: US\$146 million). During the year, FYM delivered 6.6 million tonnes of ore to the FPM processing plants. In terms of infrastructure development, the construction field office, tyre repair centre, and the canteen were commissioned along with the potable water and sewage handling facilities. The welding

The majority of the Group's cash flows have been reinvested in the business over many years. To ensure a smooth long-term growth profile through business cycles, it is the strategy of Ferrexpo to, where possible, maintain strong credit ratios.

bay, equipment service centre, administration and repair centres are expected to be completed in the first half of 2014.

As the Group's current processing capacity of crude ore at FPM will be limited to 35mtpa, during the year FYM finalised the design for a 10mtpa concentrating facility in order to process mined ore from the FYM pit that is not delivered to FPM for further processing (crude ore volumes from FPM's pit is approximately 30mtpa while FYM will be able to mine 28mtpa at full capacity). Studies are also under way to evaluate concentrate transportation and pelletising options.

Investment Opportunities

In 2013, Ferrexpo announced it had acquired a stake in Ferrous Resources ('Ferrous'), a producing iron ore company operating in the iron ore quadrangle of the Minas Gerais region of Brazil, a major iron ore producing region in the world. Total consideration for the stake was US\$82 million.

For the year ended 31 December 2013, Ferrous produced over 5.1 million tonnes of 62% iron ore fines compared to 3.2 million tonnes in 2012. Ferrous has a 4 billion tonne JORC compliant reserve and resource base, and the company is aiming to expand output to 17mtpa by 2017. Ferrexpo currently owns 15.5% of the company.

Financial Management

Ferrexpo's financial position as of 31 December 2013 reflected its strategy of maintaining prudent balance sheet metrics and ensuring sufficient liquidity given that it operates in a volatile commodity market and is a single country operation.

Net debt to EBITDA was 1.3x at year end compared to 1.1x for the same period in 2012. Net debt at year end was US\$639 million (31 December 2012: US\$423 million), of which approximately 63% has been used to finance outstanding gross VAT balances of US\$318 million as well as prepaid corporate profit tax of US\$88 million in Ukraine. During 2013, Ferrexpo secured a new revolving credit facility of US\$350 million. The facility has a forward start date of no later than 1 September 2014 and carries a cost of 325bps above US LIBOR. This facility can be used to extend the tenor of the Group's existing US\$420 million bank facility which commences its two year amortisation period in September 2014 maturing on 31 August 2016. Together with the Group's cash balance as of 31 December 2013, cash and available undrawn facilities totaled US\$671 million¹.

¹ As of 31 December 2013, US\$280 million of the new US\$350 million pre-export finance ('PXF') facility was available. Once repayment of the in-situ PXF commences in 2014 the remaining US\$70 million will become available.

Ukraine

Ukraine is experiencing financial difficulties due to low growth and high public spending. As a result, it has a high current account deficit while foreign reserves were reported at approximately US\$16 billion as of 28 February 2014. To date in 2014, the Hryvnia has devalued by approximately 16%. These economic problems are not expected to be resolved in a short time frame, and with external debt markets difficult to access for the country, Ukraine is expected to be reliant on external financial aid. In the coming year this could include aid directly from individual sovereign states or the European Union as well as from the IMF.

The Group's facilities are located in central Ukraine in the Poltava region 200 miles south of Kyiv. At the time of writing, Ferrexpo's operations remain unaffected by the unfolding events of recent weeks. Production and logistics to the western border of the country and to the Group's port in Odessa on Ukraine's south coast operate normally. Ferrexpo continues, however, to monitor the situation closely.

The Group's priority continues to be to maintain production and supply its first class customer base with high quality premium iron ore product as it has done throughout its 40-year production history. It has and will continue to follow its strategy which will grow production and reduce risk in its operations.

VAT

In 2013, the Group received 11 monthly VAT refunds which took the outstanding VAT balance as of 31 December 2013 to US\$318 million (31 December 2012: US\$302 million). In January 2014, the Group received VAT repayments for December 2013 and January 2014. As of 31 January 2014, the gross VAT outstanding balance was US\$291 million. The Group did not receive a VAT refund in February.

Of the total VAT outstanding balance at the end of 2013, US\$146 million related to 2012 and prior years, and US\$102 million was in dispute in the court system. As such the gross VAT amount as of 31 December 2013 of US\$318 million has been adjusted by US\$60 million (2012: US\$20 million) to US\$258 million in order to reflect either the likely discount if financial instruments are issued to settle the outstanding balance or, alternatively, the time value of money related to the cost of financing these balances.


A REVIEW OF 2013 *continued*

The late repayment of VAT is, in the view of the Board, a result of the Ukrainian government's current weak fiscal position. The Board believes that there is a risk that continued fiscal weakness could further impact the timely repayment of VAT. This would lead to higher levels of working capital and increase the risk of a financial loss when repayment occurs which would depend on the eventual type of repayment and the prevailing exchange rate as repayments will be made in local currency. Ferrexpo has received VAT repayments consistently throughout 2013, however, balances from 2012 and earlier remain unpaid. Ferrexpo continues to have a constructive dialogue with the Ukrainian authorities regarding the repayment of overdue VAT and hopes that a resolution to this long standing problem in Ukraine will be found in 2014.

 **Full details on Ukrainian VAT receivable are disclosed in notes 26 and 36 to the accounts.**


Pre-paid Corporate Profit Tax

As part of an agreement with the majority of industry players in Ukraine the tax authorities have been remitting regular VAT refunds in 2013 in exchange for the pre-payment of corporate profit tax in respect of future periods. In 2013, Ferrexpo paid US\$63 million in this respect resulting in a year-end balance of US\$88 million (2012: US\$25 million).

 **Full details on pre-paid corporate profit tax are disclosed in note 26 to the accounts.**

Court Case

The Group faces an ongoing legal claim over a shareholding in FPM. After having taken Ukrainian legal advice, the Board believes that risks related to these court proceedings are remote. Due to the nature of the country and its court system, however, a negative outcome cannot be ruled out. The case has been running for seven years and the Board believe it still has a considerable way to go.

 **Full details on the court case are disclosed in the principal risks section of this report on page 28 and note 36 to the accounts.**

Corporate Governance

The Board of Ferrexpo remains committed to maintaining high standards of governance and integrity throughout the Group. As a set of individuals of different nationalities and backgrounds with complementary skills and experience, the Board has worked together effectively in guiding the notable progress the Group has made since the IPO, and within the context of a volatile global economic environment.

The UK Corporate Governance Code of 2012 highlights the need for progressive refreshing of the Board and recommends that the re-election of Directors who have served more than six years be reviewed. The Board has appointed external recruitment consultants to search for

suitable candidates who can provide diversity and balance in terms of knowledge, experience and gender. The Board will prioritise an orderly succession once new members have been recruited.

Ferrexpo's principal shareholder and CEO, Kostyantyn Zhevago, holds 50.3% of the shares in the Company and his interests remain fully aligned with all shareholders. Mr Zhevago is a long-term investor focused on developing a high quality sustainable business. He has unparalleled experience of operating in Ukraine which can be a difficult and at times unstable environment. Mr Zhevago's experience is of significant value to Ferrexpo and all its shareholders.

The strategy of the Board, including Mr Zhevago, is to operate to best international standards of governance, transparency and fairness.

People

The Board would like to express its sincere appreciation to all of Ferrexpo's employees for their continued hard work and dedication which has led to another excellent year of progress at the Group.

Brian Maynard, Chief Operating Officer, will be leaving Ferrexpo in April 2014. Brian has contributed greatly to the Group during his three years and Ferrexpo wishes him success in his future endeavours.

Outlook

The Group has successfully opened its new mine, FYM, and it is increasing its annualised production capacity to 12 million tonnes of pellets which should reduce costs through higher volumes in 2014. Since the balance sheet date, the Ukrainian Hryvnia has devalued by 16%. This will lower the operating costs which are denominated in local currency, as expressed in US Dollars, and reduce the carrying value of assets and liabilities which are also denominated in Hryvnia.

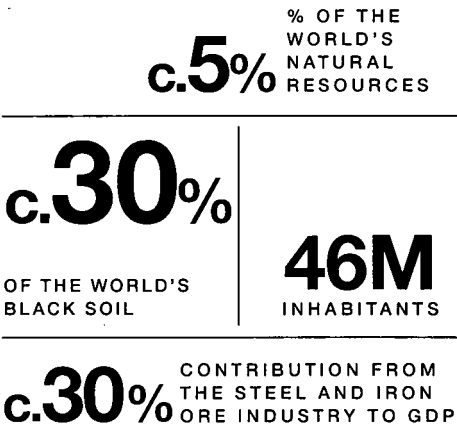
In the first quarter of 2014 iron ore prices have been weak. It is expected that prices will stabilise but remain volatile for the remainder of the year. There is a growing demand for higher quality iron ore feedstock. This trend for premium iron ore is expected to be driven by greater environmental requirements for steel mills to reduce their harmful emissions as well as a necessity to compensate for the growth in lower grade iron ore fines that is becoming increasingly prevalent. Ferrexpo believes it should benefit from this trend.

Ferrexpo is committed to reducing its unit costs and developing its substantial resource from own generated cash flows within the discipline of prudent balance sheet management whilst providing appropriate dividend returns to shareholders.

UKRAINE

Kyiv

is Ukraine's capital city.
It is approximately
200 miles from
Ferrexpo's mining
operations in
Komsomolsk.



Europe's largest country, covering 233,000 square miles (603,628 square kilometres) of land. It is bordered by Poland, Slovakia, Hungary, Romania, Moldova, Russia and Belarus.

With a large highly skilled workforce (70% of Ukraine's 46 million people have a secondary education or higher), developed transport infrastructure (third biggest rail network in Europe) and abundant natural resources Ukraine is a competitive European economy.

Ukraine possesses one of the world's largest reserves of commercial-grade iron ore and a well-established steel and iron ore industry. Well located to reach the industrial markets of Europe, the Middle East and Asia due to its position on the northern shores of the Black sea, it is in an ideal position to export this resource.

Ferrexpo has been a consistent and reliable producer throughout its 40-year history and has not experienced any significant production disruptions to date.

PRINCIPAL RISKS

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

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

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

RISKS RELATING TO OPERATIONS IN UKRAINE

Political and Legal (See Note 36 in the Accounts)

Possible Impact

Due to rising political instability, Ukraine's sovereign risk rating has recently been downgraded by all credit agencies.

Ukraine has a high current account deficit funded by foreign borrowings and a large external debt refinancing requirement in 2014, while foreign reserves were reported at US\$16 billion as of 28 February 2014.

If the country does not peacefully resolve the current political uncertainty as well as secure additional financing, there is a risk it may default on its obligations and potentially increase the cost of funding for Ferrexpo.

Other risks could include a weak judicial system that is susceptible to outside influence. The Group faces an ongoing legal claim over a shareholding in Ferrexpo Poltava Mining. The case has been running for more than six years in Ukraine, and the Directors believe it still has some way to go. The Board continues to receive legal advice that the case against Ferrexpo has little legal merit under Ukrainian law for legal, technical and practical reasons.

Mitigation

- Management proactively engages with local, regional and central government. Ferrexpo protects its local and international interests by ensuring it operates to the very highest international standards and actively defends its rights.
- At the time of writing, Ferrexpo's operations remain unaffected by the current political instability and operations continue to proceed as planned. Ferrexpo, however, continues to monitor closely the current situation as it is volatile.
- The Group's priority continues to be to maintain production and supply its first class customer base with high quality premium iron ore product, as it has done throughout its 40-year production history.

Associated Strategic Priority

ADGI

Ukrainian Producer Price Inflation ('PPI')

Possible Impact

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

Mitigation

- The Group's BIP has achieved continuing efficiency improvements and cost reductions over many years. Since inception of BIP in 2006, the cash cost of production has reduced by US\$8.6 per tonne of pellets. The Group also has a consistent track record of producing at full capacity to achieve maximum overhead absorption and is set to expand production output in 2013.

Associated Strategic Priority

E I

Ukrainian VAT Receivable (See Note 26 in the Accounts)

Possible Impact

As the bulk of the Group's output is exported, it does not collect substantial amounts of VAT on sales (which could otherwise be offset against VAT incurred on purchases of goods and services for operating and investment activities). The Ukrainian government refunds the outstanding balance of VAT, although not always on a timely basis. The late repayment of VAT results in increased working capital, which must be funded from operating cash flows and debt. Ukrainian VAT balances are exposed to a risk of devaluation of the UAH.

As of 31 December 2013, Ferrexpo was owed US\$318 million of VAT by the Ukrainian government, of which US\$146 million was overdue relating to 2012 and prior financial years. In addition to this overdue balance, US\$102 million is in dispute in the court system. The Group has recorded a total provision in respect of the overdue and disputed VAT amounts of US\$60 million.

Mitigation

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

Associated Strategic Priority

A B C E H I

Ukrainian Taxes

Possible Impact

The Group is exposed to changes in local tax laws especially in Ukraine. During the year new transfer pricing regulations were implemented. Ukrainian tax laws are complex and subject to varying interpretations, and inconsistent enforcement by local, regional and national authorities. Tax authorities can challenge the Group's interpretation and treatment of these laws resulting in increased tax liabilities owed by the Group.

As part of an agreement with the majority of industry players in Ukraine the tax authorities have been remitting regular VAT refunds in 2013 in exchange for the partial pre-payment of corporate profit tax in respect of future periods. In 2013, Ferrexpo paid US\$63 million in this respect resulting in a year-end balance of US\$88 million (2012: US\$25 million).

Mitigation

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

Associated Strategic Priority

A B C E H I

Counterparty Risk (See Notes 34 and 37 in the Accounts)

Possible Impact

The Group operates in Ukraine which has a weak country credit profile as defined by international credit rating agencies. Financial instability of the Group's counterparties, including its major suppliers, Ukrainian government, local banks and a weak banking sector can absorb high amounts of working capital. Counterparty risk could also lead to lower sales volumes, delays in projects and interruption of production or financial loss in the event of a default by counterparties and adversely affect its future financial results.

Mitigation

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

Associated Strategic Priority

A B C E I

PRINCIPAL RISKS *continued*

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

RISKS RELATING TO THE GROUP'S OPERATIONS

Iron Ore Prices and Market

Possible Impact

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

Mitigation

- Ferrexpo has a competitive cost base which has enabled it to produce at full capacity and remain profitable throughout the commodities cycle.
- The Group has an established, broad customer base and logistics infrastructure which can service regional and seaborne markets. This provides flexibility should a particular region experience a decline in demand.

Associated Strategic Priority

A B C D F G H I

Mining Risks and Hazards

Possible Impact

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

Mitigation

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

Associated Strategic Priority

A D G I J

Reliance on State Monopolies

Possible Impact

The Group purchases certain goods and services from state-owned enterprises, and changes in the related tariffs affect the Group's cost base. Availability of services can also be limited, which could affect the Group's ability to produce and deliver pellets. Examples include railway tariffs and availability of rail wagons, supply of gas and electricity and associated tariffs, and mining royalties.

Mitigation

- The factors affecting the Group's future cost structure are closely managed.
- Cost reduction initiatives are planned and reported to the Board.
- Since inception of BIP in 2006, it has reduced the C1 cash cost by US\$8.6 per tonne of pellets.
- The Group has purchased its own rail wagons to reduce reliance on state-owned rail cars.
- The Group sourced alternative gas supplies in January 2009 when there were gas price disputes between Russia and Ukraine.
- Ferrexpo actively looks to invest in areas to reduce reliance on state monopolies.

Associated Strategic Priority

A C D E I

Logistics

Possible Impact

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

Mitigation

- The Group continues to invest in its logistics capabilities in order to ensure available capacity, better service its customers, lower costs and to reduce reliance on third-party providers. Beside considerable investment in the rail car fleet over recent years, Ferrexpo owns 145 barges operating on the Danube/Rhine River corridor. It also owns a 48.6% in the port of TIS Ruda which guarantees the Group independent access to the seaborne markets avoiding reliance on the state port.

Associated Strategic Priority

C D I

RISKS RELATING TO THE GROUP'S STRATEGY

Expansion Capital Investment

Possible Impact

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

Mitigation

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

Associated Strategic Priority

A B C D H I J

Government Approvals of Expansion

Possible Impact

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

Mitigation

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

Associated Strategic Priority

A C E G I

Investment Opportunities

Possible Impact

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

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

Mitigation

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

Associated Strategic Priority

A H I

FINANCIAL REVIEW

US\$ million (unless otherwise stated)	Year ended 31.12.13	Year ended 31.12.12 ¹	Change
Revenue	1,581	1,424	11.0%
EBITDA ²	505.9	405.4	24.8%
As % of revenue	32.0%	28.5%	
Profit before taxation	305.4	265.7	14.9%
Income tax	41.6	47.1	(11.7%)
Profit for the period	263.8	218.6	20.7%
Diluted earnings per share (US cents)	44.69	37.08	20.5%
Final dividend per share (US cents)	3.3	3.3	–
Special dividend per share (US cents)	6.6	6.6	–

¹ As a result of the retrospective application of the amendments to IAS 19, the pension cost for the year ended 31 December 2012 was adjusted and had a positive effect of US\$3.9 million on the previously disclosed EBITDA figures.

² The Group calculates EBITDA as profit from continuing operations before tax and finance plus depreciation and amortisation and non-recurring exceptional items included in other income and other expenses, share-based payment expenses and the net of gains and losses from disposal of investments, property, plant and equipment. See note 5 on page 104 for further information.

Revenue

Total revenue increased by 11.1% to US\$1.6 billion for the year ended 2013 compared to US\$1.4 billion in 2012. The increase was driven by a 10.5% growth in sales volumes to 10.7 million tonnes (2012: 9.7 million tonnes) as well as a 4% improvement in the Group's received price in line with the industry benchmark price which increased on average by US\$5 per tonne (2013 CFR Platts 62% fines China: US\$135 per tonne versus 2012 CFR Platts 62% fines China: US\$130 per tonne).

Other revenue, not related to pellet sales was broadly stable year on year and amounted to US\$86.5 million (2012: US\$94.0 million). This included revenue from third-party services, such as bunker fuel sales and freight services at the Group's logistics operations as well as sales of gravel.

Cost of Sales

Total cost of sales for the year ended 31 December 2013 was US\$773.2 million (2012: US\$690.7 million). Cost of sales consists of the C1 cash cost of sales, the cost of sales of the logistics and bunker business, depreciation as well as the cost of production from third-party concentrate. Increases in the year related to production growth along with an increase in depreciation following the commencement of operations at the FYM mine.

C1 Cash Cost

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

Overall, C1 costs in 2013 were in line with 2012 at US\$59.8 per tonne (2012: US\$59.6 per tonne). This reflected increases in electricity tariffs which increased to 9.2 US cents per kWh (2012: 8.6 US cents per kWh) and royalties attached to FYM ore, offset partly by slightly reduced costs in other categories particularly oil and gas. The Hryvnia was stable during the year. Against this backdrop, the C1 cost declined in each quarter of the year following the ramp up of production at FYM in the first quarter and the start of full commercial production from FYM ore in Q3. The C1 cost in 4Q 2013 was 10% lower than the peak which was reached in 1Q 2013. This is shown in the table below:

	1Q 2013	2Q 2013	3Q 2013	Q4 2013	FY 2013	FY 2012
C1 cash cost of production	63.9	59.8	58.2	57.6	59.8	59.6

The mining and processing of FYM ore has had a positive impact on the Group's overall production cost through increased volume efficiencies, lower mining costs and the addition of higher grade ore which combined with efficiency improvements at FPM resulting from the BIP and capital investment programmes has resulted in lower costs.

The split of C1 costs by category are shown below:

Gross Margin

The Group's gross margin was 51.1% in 2013 in line with 2012 (2012: 51.5%). This reflected higher sales volumes and prices with the margin unchanged as a result of stable C1 costs and increased depreciation due to projects being brought into production.

Selling and Distribution Expenses

Selling and distribution expenses were US\$335.7 million in 2013 compared to US\$312.0 million in 2012 driven by increased volumes and higher market rates for capesize vessels offset by logistics cost saving as a result of capital investments in ship loading top-off facilities, the use of more capesize vessels and rail cars compared to 2012.

DAP/FOB distribution costs incurred in delivering product to the Ukrainian border were US\$154.2 million (2012: US\$140.4 million), equating to US\$14.4 per tonne in line with 2012. These costs primarily include railway freight to the southern ports at Yuzhny and Izmail and ocean freight to Constanta, as well as port charges and railway freight to the western Ukrainian border. Rail tariff cost inflation was 4.6% in 2013 which was mitigated by lower costs associated with using own rail cars which increased by 267 units to 2,200 units during the year.

International freight costs to seaborne markets, which are also reflected as part of revenue on associated CFR sales, amounted to US\$114.4 million in line with 2012 (2012: US\$113.5 million). This reflected an increase in seaborne sales volumes offset by the freight savings achieved by the Group during the year through enhanced port capacity, increased use of capesize vessels and improved scheduling.

FINANCIAL REVIEW *continued*

The Group loaded 5.9 million tonnes of pellets at its port facilities in 2013, an increase of 55% compared to 3.8 million tonnes loaded in 2012. The introduction of *Iron Destiny*, the Group's top-off vessel, helped improve throughput at the port and reduced freight costs to Asia by US\$2.30 per tonne in 2013.

Selling and Distribution Expenses

US\$ million	Year ended 31.12.13	Year ended 31.12.12
International freight for pellets	114.4	113.5
Railway transportation	108.2	93.4
Port charges	31.1	31.9
Other pellet transportation costs (commissions, insurances, personnel)	13.1	18.6
Cost of logistics business	33.0	27.5
Advertising	12.2	9.6
Depreciation	14.1	9.8
Other	9.7	7.5
Total selling and distribution expenses	335.7	312.0
Total sales volume (thousand tonne)	10,689	9,675
Cost per tonne of pellets sold (including international freight)	31.4	32.2
DAP/FOB distribution costs per tonne of pellets sold	14.4	14.5

General and Administrative Expenses and Other Expenses

General and administrative expenses were US\$5.1 per tonne sold in 2013 compared to US\$5.8 per tonne in 2012. The improvement reflects higher sales volumes and lower costs of US\$54.8 million compared to 2012 (2012: US\$56.3 million).

Other expenses were US\$6.7 million below the prior year mainly as a result of lower community support donations due to the timing of project completions in the prior year.

EBITDA

EBITDA increased 24.8% or by US\$100.5 million to US\$505.9 million in 2013 compared to US\$405.4 million in 2012. The increase was due to strong growth in sales volumes, higher market pricing and stable C1 costs,

Finance Income and Expense

Finance income was US\$2.4 million (2012: US\$2.6 million) reflecting lower average cash balances. The average cash balance in 2013 was US\$435.6 million compared to US\$743.4 million in 2012.

Net debt at 31 December 2013 was US\$638.7 million (31 December 2012: US\$423.4 million) while gross debt was US\$1,029.2 million (31 December 2012: US\$1,020.0 million).

Finance expense was US\$66.0 million (2012: US\$88.2 million). The average cost of Group debt for the period was 5.15% compared to an average of 5.24% in 2012.

In 2012, finance expense included a US\$20.0 million discount to reflect the time value of money on outstanding VAT balances in Ukraine that were expected to be recovered after more than one year. This discount has been increased by US\$3.7 million in 2013, with a further US\$36.4 million reflected separately in the income statement. Further information in respect of the VAT situation in Ukraine is provided in the VAT section below and in note 26 to the accounts.

Income Tax Expense

The income tax expense in 2013 was US\$41.6 million compared to US\$47.1 million in 2012.

The effective tax rate in 2013 was 13.6% (2012: 17.8%). This reduction mainly reflects the lower tax rate in Ukraine which reduced from 21% in 2012 to 19% in 2013.

Cash Flows

Working capital

Working capital increased by US\$103.0 million in 2013, mainly reflecting a US\$88.5 million increase in inventories due to the stockpiling of FPM ore which is expected to be processed in 2015 following the completion of the quality upgrade project. Other working capital increased by US\$14.5 million principally due to higher trade receivables reflecting higher volumes and prices.

VAT

In 2013, the Group received 11 monthly VAT refunds for FPM and first refunds for FYM, taking the outstanding VAT balance as of 31 December 2013 to US\$318.2 million (31 December 2012: US\$301.5 million). In January 2014, the Group received VAT repayments for December 2013 and January 2014. As of 31 January 2014, the gross VAT outstanding balance was US\$291.4 million. The Group did not receive a VAT refund in February 2014.

The amount of VAT outstanding from 2012 and prior years is US\$145.7 million. Management believe that this will be recovered within the next year, possibly through the issue of financial instruments, as has been the practice in the past. There is no fully reliable way to estimate the ultimate amount of recoverability, however, it is believed that if financial instruments were to be issued they would trade at a discount for which an appropriate provision of US\$36.4 million has been recorded as of 31 December 2013 (disclosed separately in the income statement).

The provision recorded in respect of the total outstanding VAT balances amounts to US\$60.1 million as of 31 December 2013 (2012: US\$20.0 million). This includes a discount of US\$23.7 million to reflect the time value of money on outstanding VAT balances in Ukraine that are expected to be recovered after more than one year and the provision of US\$36.4 million (2012: nil).

Full details on the Ukrainian VAT receivable are disclosed in note 26 to the accounts.

Pre-Paid Corporate Profit Tax

As part of an agreement with the majority of companies in Ukraine the tax authorities have been remitting regular VAT refunds in 2013 in exchange for the pre-payment of corporate profit tax in respect of future periods. In 2013, Ferrexpo paid US\$62.6 million resulting in a US\$87.5 million prepayment as of 31 December 2013 (2012 pre-paid corporate profit tax: US\$24.9 million).

Net Cash Flow

Net cash flow from operating activities was US\$232.9 million representing a 96% increase over 2012 (2012: US\$118.6 million). This was principally due to higher EBITDA and regular VAT refunds which compensated for the pre-payments of corporate profit tax.

Capital Investment

Total capital investment for 2013 was US\$277.8 million compared to US\$429.3 million for 2012. The reduction in spend largely reflects the near completion of the Group's US\$647 million programme. This was approved in November 2010 to increase the volume and quality of its pellet output to 12 million tonnes and 65% Fe respectively. The level of capital expenditure also reflects savings on projects. Overall, capital commitments were US\$103.0 million at the year end, in line with 2012.

In 2013, sustaining capital expenditure was US\$86.7 million (2012: US\$113.5 million) for the Group, of which US\$81.0 million was invested at FPM (2012: US\$108.4 million). This included US\$19.8 million for the capacity upgrade project.

The remaining US\$5.7 million of sustaining capex in 2013 was principally invested in the Group's barge fleet (2012: US\$5.1 million).

Capital investment in FPM's development projects during the year was US\$61.9 million (2012: US\$83.7 million) while development expenditure at FYM was US\$100.3 million (2012: US\$146.3 million).

Acquisitions

In 2013, Ferrexpo acquired a stake in Ferrous Resources, a producing iron ore company operating in the iron ore quadrangle of the Minas Gerais region of Brazil. Total consideration for the stake was approximately US\$82.4 million. Ferrexpo currently owns 15.5% of the company.

Dividends

The Group paid dividends, gross of applicable withholding taxes, of US\$77.9 million in 2013 (2012: US\$38.7 million) which included a US\$39.1 million ordinary payment and a US\$38.7 million special dividend relating to 2012.

Group Liquidity and Debt

In 2013, Ferrexpo maintained prudent financial metrics. As of 31 December 2013, net debt to EBITDA was 1.3x at year end compared to 1.1x for the same period in 2012.

Summary of Group Liquidity and Debt

US\$ million	As of 31.12.13	As of 31.12.12
Cash and cash equivalents	390.5	596.6
Gross debt	(1,029.2)	(1,020.0)
Net debt	(638.7)	(423.4)
Total equity	1,735.0	1,547.4
Undrawn facilities ¹	280.0	–
Total liquidity (undrawn facilities plus cash)	670.5	596.6

¹ Ferrexpo secured a new pre-export finance ('PXF') facility in 2013 for US\$350 million maturing in 2018. This facility remains undrawn and as of 31 December 2013, US\$280 million of the US\$350 million was available. Once repayment of Ferrexpo's US\$420 million PXF facility commences in 2014 the remaining US\$70 million of the US\$350 million PXF will become available. Ferrexpo can use the new facility to extend the maturity of its US\$420 million PXF should it wish.

Net debt at year end was US\$638.7 million (31 December 2012: US\$423.4 million) of which approximately 63% had been used to finance outstanding VAT receivables and pre-paid corporate profit tax.

In 2013, Ferrexpo secured a new revolving credit facility of US\$350 million. The facility has a forward start date of no later than 1 September 2014 with a four year tenor, including two years of amortisation, and carries a cost of 325bps above US LIBOR. This facility may be used to repay the Group's existing US\$420 million bank facility which commences its two year amortization period in September 2014 maturing on 31 August 2016.

CORPORATE RESPONSIBILITY

"FPM continues to improve its safety systems using knowledge gained from international best practice. We are modernising our mine and processing plants to increase productivity and optimise our energy consumption. The ongoing success of our business provides for a sustainable employee and community development programme."

Victor Lotous

Chief Operating Officer of Ferrexpo
Poltava Mining ('FPM')

"FYM was brought into commercial production in 2013 with the employment of over 1,000 individuals. Local and national contractors worked to establish world class standards of mining, maintenance and administrative infrastructure. Through the engagement of the community and regional stakeholders FYM was able to gain approvals to construct a 10mtpa iron ore concentrator. Once constructed, this facility will ensure that a great mineral resource continues to share many benefits with employees, future employees and the surrounding communities for many decades to come."

Nikolay Goroshko

General Director of Ferrexpo Yeristovo
Mining ('FYM')

"FBM is a potential new mining and processing resource that is undergoing technical, environmental and community reviews in order to establish a business case for future development. The knowledge and experience gained from FPM and FYM have been taken into account so as to minimise the impact on the environment and maximise the positive impact on future employees and nearby communities."

Bob Garrick

General Manager of Ferrexpo Belanovo
Mining ('FBM')

Governance

The Corporate Safety and Social Responsibility Committee

The Group has a Corporate Safety and Social Responsibility Committee (the 'CSR Committee') which is a sub-committee of the main Board and includes two Board members and two senior executives. It monitors the implementation of CSR policies.

The CSR Committee is chaired by Brian Maynard (Group Chief Operating Officer). The other members of the CSR Committee are Michael Abrahams (Chairman of the Board), Kostyantyn Zhevago (Chief Executive Officer) and Viktor Lotous (FPM Chief Operating Officer). To assist them in the exercise of their duties, the CSR Committee will, from time to time, engage specialist technical advisers.

During the year the matters considered by the CSR Committee included the following:

- A review of the main CSR risks facing Ferrexpo (see the 'Principal Risks' section of this report on page 28) and how they are being managed.
- A review of the work being done to implement the greenhouse gas emissions reporting regulations in the UK.
- A review of health and safety, human resources, community support projects, environmental protection measures, and progress in improving the use of natural resources.
- A review of Ferrexpo's environmental and social risk profile from the investor's point of view.

Shareholders and Investment Community

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

Customers and Suppliers

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

How Ferrexpo Engages with its Stakeholders

Government (National and Local)

- Written communication and email
- Face-to-face
- Site visits
- Audits and inspections
- Annual Report and Accounts

Stakeholder Engagement

Stakeholders

Stakeholders are those groups or individuals who are significantly affected by Ferrexpo's activities or those whose actions may affect the ability of the Group to implement its strategies and objectives.

The stakeholder groups that the Group engages with are described below.

Shareholders and the Investment Community

Directors and senior executives have frequent discussions with institutional investors and major shareholders on a range of issues including performance, strategy and governance. The Head of Investor Relations manages programmes and communications, particularly at the time of the full and half-year results announcements when presentations are given to analysts, brokers and major shareholders. The Annual General Meeting is an important event in the calendar, giving all shareholders the opportunity to engage directly with Directors and management.

Customers and Suppliers

Ferrexpo has had successful business relationships with several of its customers for over 20 years. Marketing plays an important role in developing new relationships in order to diversify the customer base in anticipation of the planned increase in production.

Local Communities

- Sponsorship (finance and know-how)
- Funding of community projects
- Local TV
- Local press articles and interviews
- Site visits

Employees and Trade Unions

- Face-to-face regular meetings with employees and unions
- Information boards around the site
- Training
- Written communication and email
- Surveys
- Special programmes (e.g. anti-bribery procedure training)

CORPORATE RESPONSIBILITY *continued*

Employee Engagement

A reputation for integrity and responsible behaviour underpins Ferrexpo's commercial performance and is gained by motivating employees and building trust and goodwill. Employee engagement starts at a personal level when employees begin their employment through an established induction programme, and continues throughout their period of employment with the Company. It takes a variety of forms according to circumstances – from face-to-face discussions between employees and their supervisors to formal Group training programmes, from job-specific training to events for ensuring compliance with legal or regulatory requirements (such as that undertaken in 2011 and repeated in 2013 in implementing anti-bribery procedures across the Group).

In addition, all employees are communicated with through Ferrexpo's formal internal communication system. This system includes use of bulletin boards, monthly publications and 'tool-box' talks at the start of each shift. Important information is also communicated through Ferrexpo memoranda. In general, either an operations Director or senior manager is responsible for issuing these formal communiqués to the relevant employees.

Two-way communication is also encouraged, with employees providing feedback through their line managers or through occasional employee surveys.

Employee Representation

At FPM approximately 90% of the workforce is represented by a single labour union, while at FYM employees are represented by an employee representative forum consisting of both management nominated and employee elected representatives. Positive engagement with employees and the labour union is maintained through established forums and communication structures. In 2013, the Company continued to enjoy positive labour stability without any disruption to production.

On various matters of mutual interest to Ferrexpo and its employees, management regularly consults and communicates with employees belonging to the labour union or represented by the employee representative forum through transparent partnership and communication structures. Minutes from formal meetings are published to ensure that all the relevant employees of the applicable business operation are kept clearly and meaningfully informed on issues currently under discussion.

The labour union and employee representative forum also consult directly and provide feedback to their members at membership meetings. The Company provides the necessary resources for these meetings to enable these employee representative organisations to brief their members on important employee and Group matters.

Respect for Human Rights

Ferrexpo is committed to the adoption of fair labour practices at its workplaces: the Group's conditions of service comply with applicable laws and industry standards.

Ferrexpo promotes workplace equality and seeks to eliminate all forms of unfair discrimination.

The Group does not tolerate inhumane treatment of employees, including any form of forced labour, physical punishment, or other abuse.

Ferrexpo prohibits the use of child labour.

The Group recognises the right of its employees to freedom of association.

Ferrexpo operates fair and appropriate means for the determination of terms of conditions of employment.

The Group provides appropriate procedures for the protection of workplace rights and its employees' interests.

Ferrexpo provides employees with opportunities of enhancing their skills and capabilities, enabling them to develop fulfilling careers and to maximise their contribution to the business.

Ferrexpo respects human dignity and the rights of individuals and of the communities associated with its operations. The Group seeks to make contributions to the economic, social, and educational wellbeing of these communities by means that include sponsoring local community events and providing opportunities for employment to workers from the communities surrounding the Group's operations.

Ferrexpo believes that it has the right and the responsibility to make its position known to governments on any matters that affect its employees, shareholders, customers, or the communities associated with its operations.

While the primary responsibility for the protection of human rights lies with governments and international organisations, where it is within the Group's power to do so Ferrexpo seeks to promote the observance of human rights in the countries where it operates. The Group supports the principles set out in the Universal Declaration of Human Rights.

Ferrexpo respects the personal participation of its employees in the democratic political process and their right to absolute privacy with regard to personal political activity. The Company will not attempt to influence any such activity, provided there is no disruption to workplace activities and that it does not contribute to industrial unrest.

The recent civil unrest experienced in some parts of Ukraine did not impact the areas surrounding Ferrexpo's operations.

Protection services are supplied to the Group through an external contract security company. The protection services supplier ensures that its personnel take cognisance of Ferrexpo's stance on human rights, especially in relation to procedures of search, arrest and charging.

Local Communities

Ferrexpo recognises that a regular dialogue with the communities affected by its operations, in which many employees also live, is an important element in minimising the risk of local hostility or disruption to operations. Ferrexpo has a positive impact on local communities through being a major employer. As a mining company, it also recognises the sensitivities that surround the occasional necessary displacement of small communities by its operations, and those operations' impact on the physical landscape. It works hard to maintain dialogue with local communities and has a dedicated department through which communications are channelled.

Support for local projects and community events is a further element of community engagement. The structure and objectives of community engagement are defined for all operations, where this is relevant, and clear management accountability and success criteria have been identified.

Government (National and Local)

Engagement with local and national government is open and proactive. Communication often revolves around project implementation and land acquisition, as well as routine submission of information as required by the authorities.

Diversity

Ferrexpo believes that by building an inclusive culture it benefits from the many advantages of a richly diverse workforce. Being able to draw on diverse experiences, perspectives and approaches encourages innovation and can be a source of competitive differentiation. The Group's efforts in this area therefore endeavour to create an inclusive culture where all employees feel appreciated for their uniqueness and the contribution they make to the Company.

In this important area, the need to increase the number of women in the workforce remains a key challenge. Mining as a career remains the choice of few women in Ukraine as a consequence of a mixture of historical and cultural factors, such as the need to work shifts, and legislative restrictions in Ukraine that prevent women from working in potentially hazardous areas. The Group acknowledges that it has an important task ahead in finding effective ways to attract more women into careers in mining. Notwithstanding this, Ferrexpo recognises that it has a duty of care to provide a system of work that is safe for women of reproductive age, their unborn children, and working mothers who are breastfeeding.

At the same time, the right to equal opportunities and fairness is recognised. Approximately 27% of the Group's total workforce is composed of women as can be seen from the table below.

Number of Employees

	Female	Male	Total
Employees	2,651	7,045	9,696
% of workforce	27%	73%	–
Directors of Ferrexpo plc	–	8	8
EXCO members	–	5	5
Other key management	8	53	61

Training

Human resource development is a core component of Ferrexpo's human resources and business strategies. Our investment in skills training initiatives is significant, with the objective of ensuring that the Company is resourced with people with appropriate skills to contribute to Ferrexpo's performance and results.

Human resource development primarily takes place through the Ferrexpo Training and Development Centre in Komsomolsk, which delivers core technical, mining, information technology, and labour safety training to both employees and contractors. Training in theory is followed up through practical application and formal assessment in the workplace.

Healthcare

Comprehensive, quality healthcare is available to all Ferrexpo employees and their dependants through a fully equipped company funded hospital at FPM. In addition, the Group has a well-developed system of occupational healthcare services, including annual health screening for all employees working in hazardous areas and an annual assessment of hazardous areas where employees are required to work.

Contractors

Contractor staff working on Ferrexpo's sites are subject to agreed minimum performance requirements between their employers and Ferrexpo that cover, *inter alia*, compliance with labour legislation, labour safety and environmental protection. For example, all contractor staff are required to undergo appropriate safety induction programmes before being allowed to work on the site. Ferrexpo requires adherence to these principles by its business partners, and their willingness to accept these principles is an important factor in the Company's decisions to enter into, and remain in, such relationships.

CORPORATE RESPONSIBILITY *continued*

STRATEGY

CSR Strategy

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

	Short-term (1–2 years)	Progress	Medium-term (3–5 years)	Progress	Long-term (5 years+)
Health and Safety	Reduce/eliminate recurring injuries through improvement in safe workplace behaviour	↓	Implement effective systems to ensure compliance with the Group's safety standards	➡	Implement hazardous operations analysis and risk assessment processes to drive best practice
Employees	Increase availability of improved living accommodation	↑	Increase employee development programmes	➡	Integrate recruitment and retention systems
Environment	Keep controlled emissions (dust, gas and effluent) below permitted limits and reduce further where possible Improve workplace conditions through the implementation of modern equipment and processes	↑	Adapt production techniques so as to minimise use of inputs and minimise waste	↑	Increase productive output while reducing the impact on the environment through new processes and technology
Community	Contribute to the development of the education and skills of the local population, and support the modernisation of local community infrastructure and services, in order to develop and maintain the local labour pool Conduct successful negotiations with local communities in order to facilitate land acquisition for mining infrastructure	↑	Align the growth of operations with land acquisition and city planning processes for rural and urban living	➡	Work jointly with local communities to create new infrastructure, social programmes and leisure activities

Key

- ↑ Achieved
- ➡ In progress
- ↓ Not achieved

HEALTH AND SAFETY

POLICY

The prevention of injuries to employees is the highest priority of the Board and management. Policies and practices at all levels reflect this.

Within the operating assets, accountability for health and safety performance lies with senior line management.

All operating assets are required to develop and implement health and safety management systems in line with Group policy, including performance management.

Performance metrics will reflect the Group's commitment to strive to achieve the highest standards of health and safety performance.

Senior line management is responsible for ensuring that adequate resources are committed to health and safety. They have an obligation to secure their resources through the Group's planning and budgeting processes.

Adequate health and safety training will be given to all employees and contractors.

Specific focus needs to be applied to behavioural safety at all levels, to fatal risk prevention and to the major industrial health hazards associated with our operations.

Employees are personally responsible for their own safety and that of their colleagues.

GOALS

Ferrexpo's goal is to develop a culture in which safe production is recognised as cost-effective, and which leads to improved workplace conditions and behaviour. The objective (originally set in 2009) of achieving the best mining safety record in Ukraine is supported by targets including a reduction of 5% in the lost-time injury frequency rate ('LTIFR').

In 2013, management continued the task of further reinforcing the safety culture at Ferrexpo. During the year, it concentrated on implementing a programme of addressing high potential hazards in the workplace. The link between safety performance and staff remuneration (safety KPIs now apply to all staff down to middle management level) continues to be operated.

STRATEGY

Short-term (1–2 years)	Progress	Medium-term (3–5 years)	Progress	Long-term (5 years+)
Reduce/eliminate recurring injuries through improvement in safe workplace behaviour	↓	Implement effective systems to ensure compliance with the Company's safety standards	➔	Implement hazardous operations analysis and risk assessment processes to drive best practice

PERFORMANCE

Short-Term Performance

Most regrettably a contractor died at the Group's operations in 2013. The fatality occurred when the contractor was placing concrete on the roof of a new control room, on the top floor of the new flotation building. While performing these duties his shoulder came in contact with an electrical conductor on the overhead crane, and he suffered a fatal electric shock. The state regulator (Labour Safety) investigated the incident and issued a number of findings and recommendations. The systems for Contractor Safety Management are being modified in order to address the deficiencies. The prevention of injuries to employees is the highest priority of the Board and management, who follow the principle that all accidents are avoidable.

During the year, injuries in the workplace were reduced as can be seen in the table below:

	2013	2012	2011	2010
LTIFR ¹	0.64	0.66	0.77	1.46
Fatal accidents	1	0	0	1
Total accidents	10	10	11	20
Lost days	758	338	469	916

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

The number of lost days increased due to specifics of the received injuries which required more days for recovery.

CORPORATE RESPONSIBILITY *continued*

The accident rate in Ferrexpo's operations has fallen.

Staff are trained in health and safety matters as part of their general technical training. In 2013, safety training was provided to 4,117 employees at the Group's mining operations.

Ferrexpo is pleased to announce that in 2013, FPM was awarded second place in the category 'Cultural Evolution in Safety or Sustainability' by DuPont at its annual Safety and Sustainability Awards. The award evaluated companies from 17 countries. DuPont believe the award reflects FPM's determination to continue to improve its safety record in line with industry best practice.

Contractor Safety

During the year, a mandatory personal protective equipment ('PPE') policy was implemented for all contractors. The Group also implemented a contractual clause that outlines the monetary penalties for contractors that do not follow Ferrexpo's safety requirements. Furthermore, there is now a requirement to review all the contractor's own safety programmes during the tender process and random safety audits of contractor safety behaviour are being carried out in the workplace.

Medium-Term Performance

The Group aims to continue to address high potential hazards in the workplace such as overhead cranes, explosives and electricity dangers.

There was a significant increase in the availability of PPE during the year which Ferrexpo believes has led to a noticeable improvement in contractor safety behaviour.

Long-Term Performance

In 2014, FYM plans to commence a hazardous operation and risk assessment regarding the proposed FYM 10 million tonne per annum concentrator.

EMPLOYEES

POLICY

Ferrexpo's employment principles include policies and practices on company standards, security, recruitment, remuneration, equal opportunities and training and development. These are backed up by subsidiary company employment manuals to cover local legal and regulatory requirements.

GOALS

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

Ferrexpo aims to combine employees' local knowledge with modern technology so as to enhance the capacity and utilisation of its physical plant and equipment.

STRATEGY

Short-term (1–2 years)	Progress	Medium-term (3–5 years)	Progress	Long-term (5 years+)
Increase availability of improved living accommodation	↑	Increase employee development programmes	➡	Integrate recruitment and retention systems

PERFORMANCE

Short-Term Performance

A notable achievement in 2013 was the construction and commissioning of 212 apartments to be allocated to FYM and FPM employees under the Group's subsidised housing and social loyalty programme. The aim of this programme is to motivate and retain skilled workers within the Company by enabling them to take out loans for the purchase of accommodation at a subsidised rate of interest. In Ukraine's current economic environment the proposed subsidised rate of 4% per annum is five to six times lower than the market average. During the year, 135 FYM and FPM employees joined the programme and purchased apartments in the new apartment building.

Medium-Term Performance

Ferrexpo's strategic goal to increase employee development programmes was ongoing during 2013. The Group provides technical training for all employees consistent with their duties and responsibilities. In particular, investment has been made in facilities for health and safety training. Training takes the form of basic and specialised training, retraining and refresher training courses, both internal and external.

Number of Employees and Contractors Trained

	Employees	Contractors	Total
FPM	6,909	680	7,589
FYM	742	–	742
FBM	54	–	54
Total	7,705	680	8,385

Long-Term Performance

As is the norm in Ukraine, the Group does not have individual contracts with its employees other than with its senior managers.

At FPM, a collective agreement with the representative labour union is renewed on an annual basis, which states, *inter alia*, that individual salaries will be increased at least in line with inflation. Management believes, having externally benchmarked wages, that wages paid by the Group are higher than average wages in Ukraine. There has been no major industrial action or labour dispute at the Company's Ukrainian operations since its privatisation in 1995.

Further information on employee numbers is set out in note 35 to the accounts.

CORPORATE RESPONSIBILITY *continued*

ENVIRONMENT

POLICY

Operating practices and growth plans will be implemented in a manner consistent with the principles underlying long-term sustainable resource development; Ferrexpo will always bear in mind the long-term environmental consequences of its actions.

All operating assets are required to develop and implement environmental management systems, in line with Group policy.

All new capital projects will include environmental risk assessments (according to International Finance Corporation (IFC) Environmental and Social Performance Standards) and mitigation plans.

GOALS

Maximise recovery of iron from ore, tailings and concentrate so as to ensure the best use of Ferrexpo's natural resource.

Minimise use of production consumables such as water, electricity, natural gas, diesel fuel and explosives in order to reduce demand for externally sourced natural resources.

Use timely investment to sustain existing operations, and develop new projects so as to allow mineral resource to be converted into new iron ore reserves.

Utilise stripping materials (topsoil, sand, clay, rock) to support the creation of new plant and transport infrastructure.

Eliminate workplace waste through improved management systems, and utilise plant facilities to reuse scrap materials.

Monitor processes and employee behaviour in order to minimise waste and by-product contaminants and improve the condition of plant and equipment.

Monitor dust and gas emissions, and waste effluents in order to keep them below the permitted limits, and reduce them further wherever possible.

Work with engineers and National Design Institutes to ensure that modernisation and production growth plans include designs and documentation that reduce their overall impact on the environment.

Monitor new technologies that could assist in the reprocessing of iron ore tailings.

STRATEGY

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

PERFORMANCE

Short-Term Performance

As can be seen from the table opposite total gas emissions in 2013 declined by 6.6% despite an 11.6% increase in pellet production. This was due to more steady feed of concentrate and higher utilisation of the kilns.

Emissions in Tonnes

Monitoring the effectiveness of environmental policy includes the review of key emissions which are shown opposite.

Emissions in tonnes	2013	2012	2011	2010
Total gas emissions	5,915	6,332	5,803	6,294
Of which:				
Nitrogen dioxide	2,762	3,293	2,475	2,922
Carbon monoxide	2,107	2,226	2,345	2,336
Sulphur dioxide	946	813	887	937
Total solid emissions	2,861	3,296	3,968	3,575
Total emissions	8,776	9,628	9,771	9,869

In 2013, FPM spent approximately US\$7 million (2012: US\$11 million) on the implementation of environmental protection measures. Additionally, US\$10 million (2012: US\$9 million) was spent on environmental monitoring and maintenance activities. Charges payable under emissions regulations totalled US\$6 million (2012: US\$4 million).

Ongoing environmental management activities in 2013 included the building of reservoirs for water conservation (using mining overburden to build dams), further development of the closed water cycle for production activities, environmental equipment upgrades, and landscaping work. In addition, new measures implemented included the replacement of an electric filter at pellet plant No 2 with a bag filter and construction of waste water treatment facilities at the fuel storage centre.

CO₂ reporting

In order to comply with the new UK Carbon Reporting Regulations, Ferrexpo held two workshops with an external service provider to understand and work through the greenhouse gas information offered by DEFRA (UK). The business units of FPM, FYM, and FBM collected information on greenhouse gas emissions created by solid, liquid, and gaseous fuels, as well as refrigerants, explosives, purchased steam and electricity. The results are shown in the table below.

Item	Figure
Intensity ratio (CO ₂ tonnes/pellet tonnes)	0.2
Total tonnes of CO ₂ (million tonnes)	2.2

The methodology for the calculation of CO₂ quantities for the Group's primary iron ore operations was based on energy volumes reported, and multiplied by the factors stated in the following source documents:

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

Business Improvement Programme ('BIP')

(Short-Term and Long-Term Performance)

The table below highlights the savings made from the BIP in 2013. The programme targets a reduction in the Group's C1 cash cost of 1% to 2% per annum on a constant output basis. This has resulted in an overall reduction in the C1 cost of US\$8.6 per tonne or US\$64 million since its inception in 2006.

The Group has placed particular emphasis on reducing its energy consumption given that energy comprises 50% of the cost of production. The graphs at the top of the page show the decrease in electricity and gas consumption since 2005, the year before the commencement of BIP.

Major BIP Projects Implemented in 2013

Division	Name	UAH'000 savings in 2013	Description of savings
Mining department	A reduction of open pit shovel/excavator and truck loading cycle times	7,282	Loss of productivity
Truck department	Utilisation of pre-made overhaul kits to reduce repair time	12,905	Loss of time
Railway department	Recycling of axles for railway wagons and locomotives	3,242	CapEx avoiding
Railway department	Improved maintenance planning in locomotive overhauls	7,761	Loss of time
Blasting department	Recycling of plastic borehole sleeves used in open pit blasting	304	Cost saving
Crushing and concentrating plant	Magnetic separation control system improvements	1,469	Electricity
Crushing and concentrating plant	Modernisation of ball mills including new automation equipment	9,158	Electricity
Crushing and concentrating plant	Grinding media consumption monitoring	10,374	Electricity
Pelletising plant	R&D for a new natural gas burner in one of four rotary pelletising kilns	1,018	Gas
FPM service department	Improved maintenance techniques for large ball mill gears	3,350	Cost saving
Motor transport department	Improved utilisation of mobile service and support equipment	3,095	Fuel
Tailing storage	Improved pumping of hydraulic tailings from the concentrator to the tailings dam	1,586	Electricity
Total projects		61,544	

CORPORATE RESPONSIBILITY *continued*

BIODIVERSITY

Please see the panels outlining Ferrexpo's initiatives in 2013 and approach to biodiversity below.

FPM Environmental Initiatives and Biodiversity

1

TO FOSTER A RESPONSIBLE ATTITUDE AND CARE FOR NATURE IN FUTURE GENERATIONS THE FOLLOWING INITIATIVES TOOK PLACE IN 2013

- Site visits for the students of Komsomolsk where they learn proper ecological methods, and the local flora and fauna types.
- Children scatter apricot, plum and cherry stones along with seeds of acacia, chestnut and hawthorn over the slopes of FPM's waste rock piles.
- Flora grows relatively quickly in the waste dumps as rocks are warmed during the day and at night the moisture condenses on the surface of the stones creating favourable conditions for trees and grass. The various rock types provide certain chemicals that allow roots to take hold in particular pines, poplars and fruit trees

2

THE LARGE VARIETY OF FLORA CULTIVATED ON THE GROUP'S ROCK WASTE DUMPS ARE A GOOD FOOD RESERVE FOR BIRDS

- Over 100 of the bird species nesting in the Poltava region have been observed. In addition to permanent nesting sites near Komsomolsk, the migration routes of many birds that fly to Africa or Western Europe for winter are nearby. These birds stop at the Group's rock waste dumps to replenish their food reserves before the long journey.
- Plenty of small animals and insects on the moist FPM dumps attract birds of prey. Over the FPM territory one can often see falcons, golden eagles and hawks. Occasionally, ornithologists observe rare bird species like the emperor eagle (with a wingspan of around 2 metres). This bird was included in the International Red List of vulnerable species.

3

WE USE BIOENGINEERED FACILITIES TO CLEAN CLARIFIED WATER THAT HAS ACCUMULATED IN THE FPM TAILINGS DAMS

- The total area of such facilities at FPM is 18 hectares. On the bottom of these artificial basins there is a waterproofing material covered with layers of river sand and gravel, creating a favourable medium for the development of organisms which biologically decompose harmful organic impurities. Final filtration of the water is done by the bulrush (cattail) plants that have water purifying properties. The cane filters particles of heavy metals and organic compounds. Cane can remove around 20 chemical elements from the water including contaminants like phosphorus, nitrogen and potassium. Decomposition products are well absorbed by the canes.
- Following cleaning at the bioengineered facilities the water is drained into the nearby river. Dense thickets of canes and plants on the edge of the river act as high quality modern filters.
- This filtration method is also applied to clean storm and spring water coming from the site. There are fish in the tailings dam and crayfish (clean water species) in the drainage channels.

4

FPM WAS CERTIFIED FOR ISO 14001 (ENVIRONMENTAL MANAGEMENT SYSTEM)

- The system was implemented to minimise the influence of the Company's activities on the environment, and to allow for continuous improvement of the environmental KPIs. In doing so, FPM has established new practices for environmental management in the Poltava region.
- This standard is applied to all organisational levels, and operational practices in the Company. The standards set out the steps to be taken by the Company in order to achieve their environmental management goals. The quality of the system is monitored by the state regulator (Poltavastandartmetrogeologiya), and there are 16 auditors based at FPM monitoring the standards and ensuring that any deficiencies are addressed. The accreditation of the FPM environmental management system (ISO 14001) is confirmed every five years.

CORPORATE RESPONSIBILITY *continued*

COMMUNITIES

POLICY

Ferrexpo's presence should benefit those communities around its operations; operations will benefit if local communities are thriving.

Ferrexpo strives to be recognised as an attractive local employer and a concerned corporate citizen.

Ferrexpo will assist in the development of the micro-economic environment within the communities in which it operates, so as to ensure that their dependence on Ferrexpo for their livelihood is reduced.

Ferrexpo aims to enhance and have a positive relationship with the communities around it; to hold an open dialogue with those communities; and to ensure that its involvement with them is cost-effective and relevant to their needs

GOALS

Make operational leadership accessible to the various local citizen groups and organisations, so as to allow Ferrexpo to assess and prioritise their concerns about its various initiatives.

Provide expertise and voluntary services in order to sustain and/or improve community infrastructure, supplying financial assistance where appropriate.

Participate in the development of modern cultural and social programmes and activities in the local area.

Work consistently with local town and village councils in order to understand their expectations of Ferrexpo, so that Ferrexpo can within reason provide value added solutions or alternatives.

Give preference to suitably qualified local residents when hiring to fill vacancies.

STRATEGY

Short-term (1–2 years)	Progress	Medium-term (3–5 years)	Progress	Long-term (5 years+)
Contribute to the development of the education and skills of the local population, and support the modernisation of local community infrastructure and services, in order to develop and maintain the local labour pool	↑	Align the growth of operations with city planning processes for rural and urban living	➡	Work jointly with local communities to create new infrastructure, social programmes, and leisure activities
Conduct successful negotiations with local communities in order to facilitate land acquisition for mining infrastructure				

Community Context

The Poltava region, in which Ferrexpo's mining operations are situated, in an area of predominantly flat agricultural land close to the River Dnieper, one of the largest European river systems and an important transport artery for Ukraine, Belarus and Russia. Iron ore mining in the area dates from the 19th century, although the major expansion of mining activity occurred in the early 20th century. The town of Komsomolsk was established adjacent to the mine to support the mining operation and ancillary industries (transport, power etc). Ferrexpo is still by far the largest employer in the town, which has a population of around 55,000 people, with approximately 23% of the working population of Komsomolsk being employed by the mine in one capacity or another.

PERFORMANCE

Community Initiatives

Ferrexpo has been a significant investor in local community initiatives from the outset, investing substantial funds in the social infrastructure of Komsomolsk and the surrounding area. These funds have been spent on medical facilities, social services, education, religion, culture and sporting activities, as well as on the maintenance of certain of the city's social and cultural structures. Links with the local community are strengthened by meetings of senior management with heads of schools and colleges, supporting local celebration days, giving vocational guidance and vacation work to the students of local schools (including providing financial sponsorship to individual students whom Ferrexpo may subsequently employ) and organising student excursions to Ferrexpo's operations and its museum.

Historically, the Group has employed a significant number of people in providing support services to its mining activities. In many cases, these services could be made available on a commercial basis to other enterprises within the local community which in turn improves the viability and sustainability of the local economy. To encourage this process, Ferrexpo has offered financial and other support to employees who provide these in-house services so as to encourage them to transform internal departments into stand-alone businesses.

Community spending in 2013 (US\$000):

	FPM	FYM	FBM	Total
Medical care	318	8	4	330
Financial support to vulnerable people	1,380	83	11	1,474
Education	1,246	54	13	1,313
Sport	1,300	42	–	1,342
Infrastructure	4,039	1,581	594	6,214
2013 total	8,283	1,768	622	10,673

Medium-Term Performance

The Kremenchug council officially approved the proposed FYM concentrator and the FBM mine development (including its impact on the local communities and environment).

Long-Term Performance

FBM optimised the mine design so as to mitigate the social impact on local residents by redefining the mining area and the location of fixed infrastructure.

First-DDSG Logistics Holding GmbH (formerly Helogistics Holding GmbH)

The Group acquired the river transport company Helogistics Holding GmbH (now renamed First-DDSG Logistics Holding GmbH 'First-DDSG') at the end of 2010. Because of the different nature of its activities its CSR is reported on separately from that of the Group's mining operations. Ferrexpo's strategy is to integrate First-DDSG fully into Ferrexpo's CSR culture.

(a) Health and Safety

In 2013 First-DDSG experienced six lost-time accidents, equating to a LTIFR of 6.98 accidents per million man hours; there were no fatalities. Accidents were mainly due to injuries caused by handling equipment during frequent barging and mooring operations. Accidents are reported to, and discussed at, monthly meetings with the senior management of the Group, and steps are taken to minimise their recurrence.

(b) Employees

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

(c) Environmental

First-DDSG complies with the applicable environmental regulations of the countries along the River Danube in which it operates (for example, regarding the prevention of fuel leakages and the grounding of barges).

(d) Community

As a transport company operating over a wide area rather than concentrated in one place, First-DDSG does not at present consider it appropriate to incur significant expenditure on community initiatives.

CORPORATE RESPONSIBILITY *continued*

The average expenditure on community support over the last three years was US\$14.8 million. This reflects the timing of project completions. In 2012, the Group spent US\$21.8 million and in 2011, US\$12.0 million.

Please see the panels below for examples of FPM support in 2013.

1

FPM PROVIDES FINANCIAL SUPPORT TO STUDENTS COMPETING IN REGIONAL AND NATIONAL CONTESTS

- These grants encourage more children to spend some of their free time continuing to learn in order to take part in the contests. In the 2012/2013 academic year, local students won 50 prizes in the regional contests (record breaking).
- A grade 10 student (V.A. Nizhnichenko school) ranked third in the National biology contest. Three students from grade 10 (L. Buhaevska school) won the Ukrainian contest for young business entrepreneurs with their project on 'Iron ore sculptures'. Another student won the national contest for geological research, and was also placed third in the national geography contest.

2

FINANCIAL SUPPORT FROM FPM WAS USED TO EQUIP NEW CLASSROOMS

- History, geography and IT classrooms at the secondary school of Dmitrovka were equipped with new furniture, computers, air-conditioners and video projectors. The IT classroom has a new interactive SmartBoard (computer/touch screen) which allows new teaching methods in many subjects. In addition, two plasma TVs were purchased so that the students can watch educational video courses and present their own projects. Free Wifi internet is now also available for the students.

3

**THE CHARITY FUND OF FPM
SUPPORTED REPAIRS TO THE
GYMNASIUM, PHYSICS AND IT
LABORATORIES, AND CREATION
OF AN EDUCATIONAL 3-D CINEMA,
IN KOMSOMOLSK SCHOOL NO. 1
(SPECIALISING IN ECONOMY AND LAW)**

- One of the latest achievements is the opening of the first innovative iPad-classroom in Ukraine. In this project traditional textbooks have been replaced by iPads. The students have a great opportunity to learn how to work with different operating systems on different types of computers, allowing them to be well grounded in the IT world. In addition, thousands of educational programmes and electronic books have now become available to the pupils.
- 33 iPads and special Wifi routers ensure high speed quality of teaching.
- The school signed an agreement with the Kyiv Institute of Innovative Technologies and the Ministry of Education to implement an official experiment for the introduction of the iPad-classrooms. Teachers and students immediately improved their skills.

4

**THE CHARITY FUND OF FPM
PROVIDES SUPPORT TO TALENTED
SPORTS ENTHUSIASTS OF
KOMSOMOLSK ON A REGULAR BASIS**

- For example, the funding of the large-scale reconstruction of the local Neptune swimming pool (installation of a new ventilation system, replacement of the roof, floor, walls, heating system, wall cladding). In addition, modern equipment for water sterilising, purification, heating and quality control was installed at the swimming pool.
- Training in the improved conditions has resulted in better performance. In the regional, national and international competitions the trainees of the local swimming school ranked first 97 times, won 113 silver and 101 bronze medals. The local swimming school ranks sixth among 50 sport schools in the team event and 26th among 78 swimming schools domestically.
- During the 2012/2013 academic year 657 athletes of various categories trained at the Komsomolsk swimming school. Regional champion Marina Nadtochiy joined the ranks of the national swimming team and Alexandra Konareva joined the team as an alternate.
- In 2013, Komsomolsk boxer Anna Okhota became the national champion of Ukraine for the fourth time in a row, and is among the best European juniors. In September 2013, she won a silver medal at the World Boxing Championship for women aged under 23. Anna's coach Alexander Seredniyskiy receives financial support from FPM which allows him to accompany Anna to training camps and competitions.

BOARD OF DIRECTORS

Michael Abrahams, CBE DL
Non-executive Chairman

Date of Appointment

Michael Abrahams joined the Board on 14 June 2007.

Other Appointments

He is chairman of the Prudential Staff Pension Scheme.

Background and Experience

He was deputy chairman of Prudential plc until May 2000, and chairman of KCOM Group plc until July 2009. He has served as chairman and as a director of a number of quoted and unquoted companies. He was chairman of the London Clinic until March 2012.

Committee Membership

He is a member of the Nominations and CSR Committees.

Oliver Baring
Senior Independent
Non-executive Director

Date of Appointment

Oliver Baring joined the Board on 1 December 2007.

Other Appointments

He is non-executive chairman of First Africa Holdings Limited, and is a non-executive director of BlackRock World Mining Trust plc, and a member of the Advisory Council of Sentient Resources Fund.

Background and Experience

He was chairman of Mwana Africa plc from 2005 until August 2013. He retired from UBS Warburg in 2001, having led the International Mining Group with responsibility for Africa and Europe. Previously he had been head of the UBS Warburg mining equity sales team and was responsible for its respected coverage and sales capability. He was a partner in Rowe and Pitman before its merger with SG Warburg.

Committee Membership

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

Raffaele (Lucio) Genovese
Independent Non-executive
Director

Date of Appointment

Lucio Genovese joined the Board on 14 June 2007.

Other Appointments

He is the chief executive officer of Nage Capital Management, a Swiss-based advisory and proprietary company specialising in the metals and mining sector. He is the non-executive chairman of Firestone Diamonds plc and serves on a number of other boards of directors. He was appointed a non-executive director of Ferrous Resources on 4 March 2014.

Background and Experience

He has previously served as investment officer and a member of the board of Taj Investment Limited with responsibility for its Indian public and private investment portfolio. Prior to that, he held a number of positions with Glencore International, including senior member of the copper division, CEO of CIS operations, manager of the Moscow office and trader in the ferrous division. He is a Chartered Accountant (South Africa).

Committee Membership

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

Wolfram Kuoni
Independent Non-executive
Director

Date of Appointment

Wolfram Kuoni joined the Board on 14 June 2007.

Other Appointments

He is the founder and senior partner of Kuoni Attorneys-at-Law, Zurich, Switzerland, and serves on a number of boards of directors.

Background and Experience

He has over 13 years of experience in investment banking. Prior to 2005, he held a number of positions within UBS Investment Banking (Zurich and New York), including head of the European export and project finance team. He also originated and structured cross-border acquisitions and equity capital markets transactions. He graduated with a law degree from the University of Berne, and holds a doctorate in law from the University of Zurich and an MBA from INSEAD in France. He is a member of the Zurich Bar.

Committee Membership

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

Christopher Mawe, FCA
Chief Financial Officer

Date of Appointment

Chris Mawe joined the Board on 7 January 2008.

Other Appointments

None.

Background and Experience

He qualified as a Chartered Accountant with Coopers and Lybrand in 1991, having gained a First Class Honours degree in Engineering. He has held senior financial positions for the past 17 years, first with IMI plc in both the UK and Europe, and then with Carclo plc as finance director. Before joining Ferrexpo he was finance director of UK Coal plc.

Committee Membership

None.

Ihor Mitiukov
Independent Non-executive Director

Date of Appointment

Ihor Mitiukov joined the Board on 14 June 2007.

Other Appointments

He is the managing director and head of country for Ukraine, Morgan Stanley.

Background and Experience

He was the general director of the Financial Policy Institute until March 2008. From 2002 to 2005 he served as Extraordinary and Plenipotentiary Ambassador of Ukraine in the United Kingdom. He also represented Ukraine in the International Maritime Organisation. From 1997 to 2001 he served as Minister of Finance of Ukraine and, from 1995 to 1997, as Ukraine's Special Representative to the European Union in Brussels. In 1994, he was deputy governor of the National Bank of Ukraine and then Vice-Prime Minister of Ukraine for Banking and Finance. He graduated from the Cybernetics Department, Kyiv State University and has a PhD in Economics (1985) from the Institute of Economy, Academy of Sciences (Ukraine).

Committee Membership

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

Miklos Salamon
Non-executive Director

Date of Appointment

Mike Salamon joined the Board on 27 March 2009.

Other Appointments

He is a non-executive director of Central Rand Gold, Gem Diamonds and Minera las Cenizas.

Background and Experience

He was executive chairman of New World Resources plc, a subsidiary of BXR Group Limited and managing director of AMCI Capital, a private equity fund from 2007 until 2012. With a career spanning more than 30 years, recently with BHP Billiton, he has extensive knowledge of the international mining and extractive industries. Before 1997 he held a number of positions, first at Anglo American and later in the coal divisions of Shell and Gencor Ltd. He graduated in 1975 from The University of the Witwatersrand, Johannesburg with a degree in Mining Engineering (Cum Laude) and obtained an MBA from the London Business School, University of London in 1981.

Committee Membership

None.

Kostyantyn Zhevago
Chief Executive Officer

Date of Appointment

Kostyantyn Zhevago joined the Board as a Non-executive Director on 14 June 2007 and was appointed Chief Executive on 1 November 2008. He is ultimately the controlling shareholder of Ferrexpo.

Other Appointments

None.

Background and Experience

He was a non-executive director of New World Resources plc, a subsidiary of BXR Group Limited from 2009 until 24 February 2014. He has been a member of the Ukrainian Parliament since 1998. He was chairman of the management board and deputy chairman of the supervisory board of CJSC Commercial Bank Finance and Credit ('Bank F&C'). Between 1993 and 1996, he was financial director of F&C Group of companies. He graduated from the Kyiv State Economic University in 1996, specialising in international economics.

Committee Membership

He is a member of the Nominations and CSR Committees.

EXECUTIVE COMMITTEE

Nikolay Goroshko
General Director, FYM

Nikolay is a graduate of the Kyiv Institute of National Economics, specialising in Industrial Planning. He became Acting Group Chief Financial Officer in April 2007, and Chief Commercial Officer in charge of the Group's Growth Projects in December 2007.

Jason Keys
Group Chief Marketing Officer

Jason brings with him 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. Jason is a Certified Professional Accountant and has a Bachelor of Commerce degree from the University of Western Australia.

Nikolay Kladiev
Chief Financial Officer, FPM

Over the course of his career Nikolay has spent several years as an Audit manager with Ernst & Young and CFO of a large Russian factory. Nikolay is a qualified Chartered Accountant (UK) and holds a Masters in International Economic Relations from the Kyiv National University of Economics.

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

Victor is a graduate of Kryvyi Rih Mining and Ore Institute, and of the Kyiv State Economic University, specialising in Finance. He became Chief Engineer in 1997 and General Director and Chief Operating Officer in April 2007.

Christopher Mawe, FCA
Chief Financial Officer
See previous page for details.

Brian Maynard
Group Chief Operating Officer

Brian has extensive operational experience in bulk commodities having managed various large scale mining divisions throughout his 30-year career at Vale Australia (Coal) and Vale Inco (Canada Nickel). Brian was educated at the University of Manitoba, Canada in geological engineering.

Kostyantyn Zhevago
Chief Executive Officer
See previous page for details.

CORPORATE GOVERNANCE REPORT

Chairman's Statement

In accordance with the recommendation of the UK Corporate Governance Code (the 'Code'), I wish to make a few points by way of introduction to the Corporate Governance Report.

The Ferrexpo Board remains committed to good corporate governance practices, in its management of the affairs of the Group and in its accountability to shareholders, and keeps under review the Group's own policies and procedures in these areas. This commitment stems from the conviction that good governance is not only important for its own sake and because it is required of us, but is also important in sustaining the Company's success over the longer term, by helping to preserve shareholder value and, through careful attention to stakeholder interests, maintaining the social licence to operate.

As detailed in this report, the Directors' Report and the reports of the Audit, Nominations and Remuneration Committees, the Group has implemented an effective corporate governance framework and has established Board Committees, internal procedures and Group policies which are considered vital for the proper management of the Group and good governance of Ferrexpo as an international business. The Board and management of the Group have a policy of conducting all business affairs in a fair and transparent manner and of maintaining high ethical standards in dealings with all relevant parties. The aim of all this is to ensure that the Board discharges properly its duty to the shareholders to challenge and hold to account the executive management, as well as advising and assisting them. This means that the balance of skills and experience on the Board and its Committees is critical. It is subject to regular review, and was also considered as part of the Board evaluation that was concluded at the beginning of 2013, externally facilitated by Prism Cossec (this process is described in more detail later in this report).

As we indicated in last year's report, in 2013 we embarked on a search for new Non-executive Directors, with a view to making new appointments and retiring current Directors from 2014 onwards. Executive search consultants (Spencer Stuart, who have no other connection with the company) have been appointed for this purpose. Ferrexpo already has a well-diversified and well-balanced Board in terms of nationality, professional background, and industry experience. We are anxious to ensure that the skills, expertise and diversity, including gender diversity, on the Board are maintained and if possible increased. We will be reporting on progress with this search as it occurs.

Michael Abrahams
Chairman

Information Pursuant to the EU Takeover Directive

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

Statement of Compliance

(In Accordance with Listing Rule 9.8.6R)

During the year to 31 December 2013 the Company complied with all relevant provisions of the 2012 UK Corporate Governance Code (the 'Code'), to which it is subject.

The Code establishes principles of good governance in five areas: **Leadership, Effectiveness, Accountability, Remuneration, and Relations with Shareholders**. This report explains how these principles were applied, with the exception of those relating to Directors' remuneration which are included in the Remuneration Report on pages 63 to 76.

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

Leadership and Effectiveness

The Board

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

Biographical details of the Directors at the date of this report are set out on pages 52 and 53, and details of their membership of Board Committees are set out on pages 58 and 59. A summary of the roles of the Chairman, the CEO and the Senior Independent Director is set out below.

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

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

All Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that Board procedures are followed and that applicable rules and regulations are complied

CORPORATE GOVERNANCE REPORT *continued*

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

The Board met five times during the reporting period. Attendance by Directors at Board meetings and Board Committee meetings is shown on pages 58 and 59. All Board meetings are held in Switzerland.

How the Board Operates

Chairman, CEO and Senior Independent Director

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

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

The Chairman's other current responsibilities are set out in the biographical notes on page 52. There has been no increase in those commitments during the reporting period.

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

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

All Non-executive Directors

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

Time Commitment

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

Board Balance and Independence

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

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

Lucio Genovese and Wolfram Kuoni are required to devote more time to their duties as Non-executive Directors of Ferrexpo AG than had been expected at the time of their appointment. The Board therefore increased their remuneration with effect from 1 January 2009 (as set out in the Remuneration Report on page 71). In reaching this decision the Board also concluded, in the light of the supervisory and non-executive nature of their duties as Directors of Ferrexpo AG, that both Mr Genovese and Mr Kuoni remained independent in character and judgement, as defined by provision B.1.1 of the Code. The Board believes this still to be the case.

Lucio Genovese was appointed as Ferrexpo's representative on the board of Ferrexpo's 15.5% investee company Ferrous Resources on 4 March 2014. This is in a non-executive capacity, and the Board considers that it does not affect his independence as a member of the Ferrexpo Board.

Kostyantyn Zhevago is a beneficiary of The Minco Trust which owns 100% of Fevaminotico S.a.r.l., the major shareholder in the Group. Consequently he, The Minco Trust and Fevaminotico S.a.r.l. have entered into a Relationship Agreement with the Company to ensure that the Group is capable of carrying on its business independently, that transactions and relationships between the Group, Fevaminotico 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 Fevaminotico S.a.r.l., The Minco Trust and Mr Zhevago on the Board (the 'Relationship Agreement').

The Board monitors compliance with the Relationship Agreement through the Committee of Independent Directors (see under 'Conflicts of Interest' below).

Conflicts of Interest

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

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

Appointments to the Board and Re-election

Under its terms of reference the Nominations Committee is responsible for leading the process for appointments to the Board. The process for election and re-election of Directors is set out in the Directors' Report on page 77.

Information and Professional Development

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

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

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

Performance Evaluation

Performance evaluation of the Board and its Committees has, until 2012, been carried out internally by the Chairmen of these bodies. In line with the Code it is the intention to hold an externally-facilitated assessment once every three years. The first externally facilitated evaluation was conducted in 2013 and is reported on below.

Choice of Evaluator

The choice of external evaluator was a key consideration for Ferrexpo. The brief was to find a company used to dealing with Board members who would provide a service that addressed the specific requirements of the evaluation. Prism Cosec ('Prism') was chosen to conduct the process due to its flexibility in approach and ability to engage meaningfully with the Directors. Prism assisted Ferrexpo at the time of the Company's listing in 2007. Its dealings with Ferrexpo are now minimal and consist of providing some ad hoc advice, mainly on governance issues. However, Prism's knowledge of the background and development of Ferrexpo was also an important factor in enabling it to carry out an effective and well-designed process.

Evaluation Focus

It was agreed that the evaluation should be specifically aimed at areas where previous evaluations had highlighted points for review. These fell under four main headings:

- Board dialogue
- Board and Committee structure
- Management of related party transactions
- Management of shareholder interests

In addition there was a review of the main Board and Committee documents and records.

CORPORATE GOVERNANCE REPORT *continued*

Evaluation Process

Office based review of Board and Committee documents, policies and procedures

Agenda of topics prepared in conjunction with the Chairman for discussion with individual Directors

Interviews conducted with each of the Directors in person or by telephone, finishing with the Chairman

Preliminary report prepared of findings and recommendations, discussed with the Chairman and Company Secretary

Final publication and review by the Board as a whole

Main Recommendations

Overall Summary

The current Board processes are working effectively and well. The Board and Committee structure and roles are well understood and their duties effectively carried out. Oversight of related party transactions is working effectively. Relations with independent shareholders are dealt with constructively.

Theme	Actions taken/to be taken
Succession planning for the Board	A Board renewal strategy has been formulated and agreed and is in the process of being implemented (see the Chairman's Statement on Corporate Governance on page 55)
Development of executive management	Review of plans to develop next tier of management
CSR Committee	Review of operation of the Corporate Safety and Social Responsibility Committee (the 'CSR Committee') in order to ensure maximum effectiveness
Governance policies and procedures	Continue to review and update governance policies and procedures in line with best practice

Proposals for next year's evaluation

The evaluation in 2014 will be carried out internally. It is proposed to review the action points highlighted from the 2013 evaluation to ensure they have been addressed.

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

Board Committees

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

The Board periodically reviews the membership of its Committees to ensure that Committee membership is refreshed and balance and diversity maintained. This was last done in 2012.

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

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

Board

Five Board meetings were held during the year.

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

Audit Committee

Five Audit Committee meetings were held during the year.

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

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

Remuneration Committee

Three Remuneration Committee meetings were held during the year.

Committee members	Attendance record
L Genovese Chairman	3/3
W Kuoni	3/3
I Mitiukov	3/3
O Baring	3/3

The Remuneration Committee meets at least twice a year, as required by its terms of reference, and is responsible for reviewing and approving all aspects of remuneration for the Executive Directors and members of the Executive Committee. Further details concerning the Remuneration Committee are set out in the Remuneration Report on pages 64 and 70.

Nominations Committee

One Nominations Committee meeting was held during the year.

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

Nominations Committee Report

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

In accordance with the need for the non-executive membership of the Board to be 'refreshed' from time to time, the Committee during 2013 started the search for new Directors, with a view to making new appointments and retiring current Directors from 2014 onwards. For further details, see the Chairman's Statement on Corporate Governance on page 55.

For diversity in the workplace, see 'Diversity' in the Strategic Report on page 39.

CSR Committee

One CSR Committee meeting was held during the year.

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

The CSR Committee's role is to formulate and recommend to the Board the Group's policy on corporate safety and social responsibility issues as they affect the Group's operations. In particular it focuses on ensuring that effective systems and standards, procedures and practices are in place in the Group. The CSR Committee is responsible in conjunction with the Executive

Committee for reviewing management's investigation of incidents or accidents that occur in order to assess whether policy improvements are required. Further details concerning the activities of the CSR Committee are set out in the Corporate Responsibility section of the Strategic Report on page 37.

CID

Five CID meetings were held during the year.

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

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

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

The Executive Committee

The Executive Committee is a key decision making body of the Group. Its members are detailed on page 54. It is responsible for managing and taking all material decisions relating to the Group apart from those that are reserved for the entire Board. It meets regularly during the year. No meetings are held in the United Kingdom. It is the responsibility of the Executive Committee to ensure its duties are at all times set in the context of the requirements of the Schedule of Matters Reserved for the Board. The Board has delegated to the Executive Committee responsibility for the execution of Board-approved strategies for the Group, for ensuring that appropriate levels of authority are delegated to senior management, for the review of organisational structures and for the development and implementation of Group policies.

Accountability and Audit

Financial Reporting

The Board is aware of its responsibility to present a fair, balanced and understandable assessment of the Group's financial position and prospects. This assessment is primarily provided in the Strategic Report contained in this Annual Report. Statements of the respective responsibilities of the Directors and auditors are set out on pages 81 to 83.

CORPORATE GOVERNANCE REPORT *continued*

Audit Committee Report

The Code recommends that all members of the Audit Committee are independent Non-executive Directors, and that at least one member should have recent and relevant financial experience. The Audit Committee complies with these requirements, and all members of the Audit Committee are considered to possess appropriate knowledge and skills. Wolfram Kuoni, an independent Non-executive Director, is Chairman of the Audit Committee. The terms of reference of the Audit Committee and attendance by members at its meetings are outlined on page 58.

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

- Reviewing with Ernst & Young, the external auditors, the annual and interim financial statements and associated documents and the preliminary results statement, ensuring that all material information was properly and clearly disclosed.
- Reviewing with Ernst & Young, the scope of the audit work proposed for 2013 and audit fees.
- Reviewing the risk matrix at each meeting, and discussing with the Head of Internal Audit the internal audit plan and the findings of the internal audit reviews conducted during the year.
- Reviewing the Group's internal controls and risk management systems.
- Reviewing the Group's whistle-blowing arrangements.
- Reviewing the effectiveness of the external auditors, the quality of their auditing work, their independence and the non-audit services they provided, and considering whether to recommend their reappointment.

Since the end of the reporting period the Committee has also considered the potential impact of recent political and economic disturbances in Ukraine on the financial statements.

A statement on the Board's position regarding the Group as a going concern is contained in the Directors' Report on page 79.

In 2013 the significant issues addressed by the Committee in connection with the preparation of the Financial Statements were Ukrainian VAT receivable and associated provisions, the valuation of Ferrexpo's investment in Ferrous Resources, and the reporting of Related Party Transactions. The Committee discussed these matters with management and the Auditors at intervals through the year.

The VAT situation was monitored monthly by management, and at its own meetings the Committee reviewed the balances of refunds paid and outstanding, with their expected periods of payment. Ihor Mitiukov's knowledge of the financial constraints facing the Ukrainian authorities was also helpful to the Committee in reaching a decision.

Related Party Transactions are covered by the Committee of Independent Directors procedure described on page 57. The Audit Committee noted the auditors' work in checking the disclosures in the Financial Statements.

Regarding the 15.5% investment in Ferrous Resources, the Committee reviewed the basis of classification as an 'available-for-sale' asset, and the valuation, as disclosed in note 20 and note 37 to the Financial Statements.

The Board has asked the Committee to state whether it considers the 2013 Annual Report to be fair, balanced and understandable; the Committee confirms that it does so.

Internal Control and Risk Management

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

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

On behalf of the Board, the Executive Committee has established a process for identifying, evaluating and managing the significant risks faced by the Group in accordance with the Turnbull Guidance. This process was followed throughout 2013 and up to the date of approval of this Annual Report. The Group has also adopted a risk-based approach in establishing the Group's system of internal control and in reviewing its effectiveness. To assist in managing key internal risks, it has established a number of Group-wide procedures, policies and standards and has set up a framework for reporting matters of significance.

Full details of the Group's policy on risk and uncertainties are set out in note 37 to the financial statements on pages 133 to 141. See also the Principal Risks section of the Strategic Report on pages 28 to 31 and Appendix 1 – Subsidiary Risks on pages 147 and 148.

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

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

These include:

- Regular review of risk and identification of key risks at the Executive Committee which are reviewed by the Audit Committee and by the Board.
- Clearly defined organisational and reporting structure and limits of authority for transaction and investment decisions, including any with related parties, applied to subsidiary companies including Ferrexpo Poltava Mining ('FPM') and Ferrexpo Yeristovo Mining ('FYM'), the key Ukrainian subsidiaries, and the First-DDSG Group (formerly Helogistics Holdings).

- Clearly defined information and financial reporting systems, including regular forecasts and a rigorous annual budgeting process with reporting against key financial and operational milestones.
- Rigorous investment appraisal underpinned by the budgetary process, where capital expenditure limits are applied to delegated authority limits.
- An Investment Committee (an executive sub-committee) meets once or twice a month to approve capital expenditures within limits delegated by the Executive Committee and the Board.
- The Financial Risk Management Committee ('FRMC') (an executive sub-committee) reviews financial information and management accounts, and meets monthly.
- Clearly defined treasury policy monitored and applied in accordance with pre-set limits for investment and management of the Group's liquid resources including a separate treasury function.
- Internal audit by an in-house internal auditor based in Ukraine (see below) who monitors, tests and improves internal controls operating within the Group at all levels and reports directly to the CFO and the Audit Committee.
- A standard accounting manual is used by the finance teams throughout the Group, which ensures that information is gathered and presented in a consistent way that facilitates the production of the consolidated financial statements.
- A framework of transaction and entity level controls to prevent and detect material error and loss.
- Anti-fraud measures through an independent department operating in the Group's key operating subsidiaries FPM and FYM.
- A whistle-blowing policy is in place under which staff may in confidence, via an independent, secure website, raise concerns about financial or other impropriety.

Treasury

Details of the Group treasury policy are referred to in the Strategic Report on pages 9, 15, 28 to 31 and 35, and in the notes to the financial statements on pages 133 to 141.

Investment Proposals

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

Internal Audit

A Group-wide internal audit function has been established, and operated during 2013 using an experienced internal auditor based in Ukraine but independent of operational management, who reported directly to the CFO and the Audit Committee.

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

Auditor Independence and Assessment of Audit Process Effectiveness

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

The effectiveness of the audit process and the overall performance, independence and objectivity of the auditors are reviewed annually by the Audit Committee, taking into account the views of management, and the outcome of this review is relayed to the relevant partners of Ernst & Young. This review takes the form of an assessment (using a questionnaire) of the auditors' performance under various headings: the robustness of the audit, the quality of delivery, and the calibre of the audit team. In assessing the effectiveness of the audit process, the Committee also took note of the information regarding quality assurance processes contained in Ernst & Young's 2013 Transparency Report, and the outcome of the FRC's Audit Quality Inspection of the firm, published in May 2013. The Audit Committee also has regular discussions with the external auditors, without management being present.

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

Fees for audit-related and non-audit-related services performed by the external auditors are shown in note 9 to the financial statements on page 107.

Recommendation on Reappointment of Auditors

The Committee considered whether Ernst & Young should be proposed for reappointment by the shareholders at the 2014 Annual General Meeting, or whether the audit should be put out to tender as a matter of policy. The Committee has reviewed the performance of Ernst & Young during the year and, taking into account their general satisfaction with the auditors and the rotation of audit partners in 2012, the Committee agreed to recommend to the Board that Ernst & Young should be proposed for reappointment for another year. Ernst & Young were appointed as auditors to the Company in June 2007, prior to the Listing in London. Under current FRC guidance, the next audit tender would not be required until the 2022 year-end; however, the Committee will continue to monitor the proposed requirements in relation to audit tendering and mandatory auditor rotation from the Competition Commission and the EU and will consider the appropriate response in due course.

CORPORATE GOVERNANCE REPORT *continued*

Implementation of Requirements of UK Bribery Act 2010

At the time of the introduction of the Bribery Act in July 2011, and following a thorough risk assessment and the establishment of due diligence procedures for business counterparties, all employees were informed (and given instruction where necessary) about the policies and procedures introduced in order to ensure compliance with the Act (which took the form of the Group Policy on Bribery and Corruption). The Board delegated responsibility for implementing the Policy and monitoring its effectiveness to an anti-bribery compliance officer (currently the CFO), who reports to the CID at its meetings and makes any recommendations arising from the meetings to the full Board. The training given in 2011 was repeated, and extended where appropriate to other employees, in 2013.

Relations with Shareholders

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

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

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

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

The Board approved this report on 11 March 2014.

REMUNERATION REPORT

Introduction

This Report has been prepared by the Remuneration Committee (the 'Committee') on behalf of the Board in accordance with the requirements of the Listing Rules of the UK Listing Authority, Schedule 8 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and the UK Corporate Governance Code. Part A of the report, which is not subject to audit, sets out the Company's remuneration policy. Part B provides details of remuneration and share incentives of the Directors for the year ended 31 December 2013. The sections subject to audit are highlighted throughout. Part A will be subject to a binding shareholder vote at the Company's 2014 AGM and Part B to an advisory vote.

Summary Statement

A Statement to Shareholders from the Chairman of the Committee

On behalf of the Board, I am pleased to introduce the Directors' Remuneration Report for the year ended 31 December 2013.

The Company has continued to grow during the year, executing its strategy by increasing production and sales, reducing the risk profile of the business by diversifying the customer profile and developing its logistics capabilities, whilst investing within the means of its balance sheet. The profitability of the Company has increased, driven by higher volumes along with higher average commodity prices. The Committee believes that this performance is fairly reflected in executive remuneration outcomes for the year, as set out in this report taking into consideration the comments regarding Mr Zhevago (the 'CEO') below.

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

The remuneration of Mr Zhevago and Mr Mawe (the 'Executive Directors') is disclosed in local currency and allows year-on-year comparison, uninfluenced by exchange rate fluctuations on notional translation into US Dollars. A 1% increase to the salary of Mr Mawe (the 'CFO') was made during the year; no other significant changes were made to executive pay or incentives during the year. As stated above, it is in the interests of shareholders to align the incentives of the executives and the shareholders, and the Board continues to review the structure and level of remuneration afforded through share options and ownership in relation to variable and fixed pay.

In line with the new regulations for reporting Directors' remuneration, this report is divided into two distinct sections; the first (Part A) outlines Ferrexpo's forward-looking remuneration policy for Executive and Non-executive Directors, setting out components of pay, how they are linked to the business strategy, and incentive opportunities for the Executive Directors. The second (Part B) reviews how the Company's remuneration policy was implemented in 2013 and includes a table showing a single figure of total remuneration for the Directors.

Lucio Genovese

Chairman of the Remuneration Committee

REMUNERATION REPORT *continued*

PART A: POLICY SECTION

Committee

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

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

Key Principles of the Remuneration Policy

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

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

In determining the Company's remuneration policy, the 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 will apply from the date of the 2014 AGM in respect of payments to both current and future Executive Directors (but see also 'Remuneration policy for new appointments' below). The Chief Executive takes a salary of US\$240,000 per year which is all paid to charity (net of applicable income taxes) with no performance related pay as described earlier in this report, and his incentive is derived entirely from his shareholding in the Company. The Board considers this large shareholding in the business to be a significant factor in aligning the performance of the CEO with other shareholders' interests, and is satisfied that this structure is appropriate. At the current time, most of these policies below are therefore not applicable to the current CEO other than those related to benefits and pensions.

Purpose and link to strategy	Operation	Opportunity	Performance metrics
Fixed pay			
Base salary To attract and retain talent by ensuring base salaries are competitive in the market in which the individual is employed.	Base salaries are reviewed annually, with reference to the individual's role, experience and performance; business performance; salary levels for equivalent posts at relevant comparators; cost of living and inflation; and the range of salary increases applying across the Group.	Base salary increases are applied in line with the outcome of the review which will not exceed 5% p.a. or if higher the applicable RPI in any year. Increases above this level may be applied where appropriate to reflect changes in the scale, scope and responsibility attaching to the role and market comparability.	Business and, where relevant for current Executive Directors, individual performance are considerations in setting base salary.
Pension To provide retirement benefits.	Executive Directors will as appropriate be offered membership of a scheme which complies with relevant legislation. Where necessary, additional pension entitlements will be provided.	The employer contribution will be a percentage of pensionable salary and associated benefits (excluding variable pay) at a level that complies with local statutory requirements.	Not performance related.
Benefits Competitive in the market in which the individual is employed.	Benefits are paid to comply with local statutory requirements and as applicable to attract or retain executives of a suitable calibre. They include life insurance, and medical insurance. Where appropriate, additional benefits may be offered including, but not limited to, allowances for accommodation, relocation, tax advice and legal advice.	Benefits values vary by role and eligibility and cost are reviewed periodically. Increases to the existing benefits will not normally exceed applicable inflation. Increases above this level may be applied where appropriate to reflect changes in role, scope, location and responsibility.	Not performance related.
Variable pay			
Short-Term Incentive Plan ('STIP') To focus management on delivery of annual business priorities which tie into the long-term strategic objectives of the business which include but are not limited to developing the reserve base, increasing production, reducing costs, reducing the risk profile of the business, expanding the customer portfolio, expanding geographically.	Targets are set at the start of the year against which performance is measured. The Committee determines the extent to which these have been achieved. The Committee can exercise discretion to adjust the formulaic outcome within the limits of the plan for factors outside of management control where it believes the outcome is not truly reflective of performance or in line with overall Company performance. The STIP does not contain claw back provisions.	Maximum opportunity of 150% of salary.	Performance related. Performance measures can include financial, non-financial and personal achievement criteria measured over one financial year. Details of the performance measures and weightings for the STIP in 2014 are set out in Part B under 'STIP framework for 2014'. The Committee has discretion to make changes in future years to reflect the evolving nature of the strategic imperatives that may be facing the Company.
Long-Term Incentive Plan ('LTIP') To motivate participants to deliver appropriate longer-term returns to shareholders by encouraging them to see themselves not just as managers, but as part-owners of the business.	The LTIP framework was approved by shareholders at the 2008 AGM. To the extent that an LTIP award vests, this will include the applicable dividends on the shares earned during the vesting period. The LTIP does not contain claw back provisions.	The LTIP provides for annual awards of performance shares and options up to an aggregate limit of 200% of salary in normal circumstances. This limit may be exceeded in exceptional circumstances but will not exceed 300% of salary. The threshold opportunity is 20% of maximum.	Vesting of LTIP awards is subject to the Company's relative TSR against a comparator group over a period of at least three years and continued employment. In addition, for any shares to vest, the Committee must be satisfied that the recorded TSR is a fair reflection of Ferrexpo's underlying business performance. Details of the performance targets for the LTIP are set out in Part B under 'LTIP granted in 2013'. The Committee reviews the LTIP performance conditions, in advance of granting each LTIP cycle. Over the life of this policy relative TSR will be retained as a performance measure and will have a weighting of at least 50%.

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 the Annual Report on remuneration for the year immediately following the year in which the grant is made.

Share Ownership Guidelines

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

Remuneration of Senior Executives Below the Board

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

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

Payments Resulting from Existing Awards

Executive Directors are 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.	<p>Annual fee for the Chairman.</p> <p>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</p> <p>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.</p>	<p>Non-executive Director fees increases are applied in line with the outcome of the review.</p> <p>The maximum aggregate fees, per annum, for all Non-executive Directors allowed by the Company's Articles of Association is £5,000,000.</p>	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'.

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 2014
Target	On target STIP (100% of salary)	Performance warrants threshold vesting (20%) ¹		
Below threshold	No STIP payable	Threshold not achieved (nil)		

¹ Excludes increase in value arising from share price growth.

Potential reward opportunities illustrated above are based on the policy which will apply in 2014, applied to the base salary in force at 1 January 2014. For the STIP, the amounts illustrated for the CFO are those potentially receivable in respect of performance for 2014. For the LTIP awards, it should be noted that the LTIP awards do not normally vest until the end of three years following the beginning of the year in which they were granted. For the LTIP awards, the award opportunity for the CFO is assumed to remain the same number of shares as in 2013 (i.e. 130,000 shares for the CFO) and the face value is estimated using the average share price over Q4 2013 of 183 pence).

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.

REMUNERATION REPORT *continued*

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

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

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

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

Details of Executive Directors' Service Contracts

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

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

Executive Director	Position	Date of contract	Notice period	
			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 Chairman of the Board and which should be notified to the Board. Details of external directorships of quoted companies held by Executive Directors, along with fees retained, are as follows:

Executive Director	Company	Role(s) held	Fees retained
K Zhevago	New World Resources plc ¹	Non-executive Director	Nil ²
C Mawe	—	—	—

¹ Directorship ceased 24 February 2014.

² The fee was donated to various charities.

Details of Non-executive Directors' Letters of Appointment

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

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

Employee Context

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

Consideration of Shareholder Views

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

REMUNERATION REPORT *continued* PART B: REMUNERATION IN 2013

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

Committee Membership in 2013

The Committee comprises four independent Non-executive Directors. Lucio Genovese is the Chairman of the Committee, and its other members are Oliver Baring, Wolfram Kuoni and Ihor Mitiukov. The Committee met three times during the year. Attendance at meetings by individual members is detailed in the UK Corporate Governance Report on page 59. A summary of the topics discussed at each meeting in 2013 is detailed below:

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

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

Advisers

The Committee retains Kepler Associates to provide advice on remuneration policy, with particular emphasis on the structure of long-term incentives for senior management and the provision of annual benchmark reports on executive and non-executive remuneration. Kepler Associates is a member of the Remuneration Consultants Group and adheres to its code of conduct. Other than advice to the Committee no other services were provided by Kepler Associates to the Group. The fees paid to Kepler Associates in respect of work carried out in 2013 totalled £35,765 based on time and materials. The advice of the remuneration consultants is considered to be objective and independent based on the professional qualifications, reputation and expertise of the company involved.

The CEO provides guidance to the Committee on remuneration packages of senior executives employed by the Group (but not in respect of his 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 2013 and the prior year.

All figures shown in currency of payment	K Zhevago (CEO)		C Mawe (CFO)	
	2013	2012	2013	2012
1 Salary	US\$240,000	US\$240,000	CHF638,750	CHF632,000
2 Benefits	US\$nil	US\$49,000	CHF168,000	CHF168,000
3 STIP	–	–	CHF767,689	CHF650,000
4 LTIP	–	–	£52,486	£235,000
5 Pension	CHF2,685	CHF2,000	CHF52,219	CHF48,000
Total	US\$240,000	US\$289,000	CHF1,626,658	CHF1,498,000
	plus CHF2,685	plus CHF2,000	plus £52,486	plus £235,000
6 Total (single currency)	US\$242,896	US\$291,134	CHF1,704,646	CHF1,660,150

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 65, 67, 71 and 72.
- 4 LTIP: the market value of shares that vested on performance to 31 December of the relevant year (2013: 22.9% vested on performance; 2012: 91% vested on performance). The market value is based on the share price on the respective dates of vesting: 31 December 2013 of 191.0 pence and of 31 December 2012, 251.2 pence. Further details are provided on pages 65, 67 and 72 to 74.
- 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: 2013 - US\$1 = CHF0.9272, CHF1 = £0.673; 2012 - US\$1 = CHF0.9372, CHF1 = £0.690.

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 2013 and the prior year.

All figures shown in currency of payment, US\$000	M Abrahams		O Baring ¹		L Genovese ²		W Kuoni ³		I Mitiukov		M Salamon	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Fees	500	500	200	190	230	230	265	265	150	150	150	150
STIP	–	–	–	–	–	–	–	–	–	–	–	–
LTIP	–	–	–	–	–	–	–	–	–	–	–	–
Pension	–	–	–	–	–	–	–	–	–	–	–	–
Total	500	500	200	190	230	230	265	265	150	150	150	150
Total (single currency)	500	500	200	190	230	230	265	265	150	150	150	150

- 1 Oliver Baring receives a fee of US\$150,000 p.a. as a Non-executive Director and an additional fee of US\$60,000 p.a. in total (increased from US\$40,000 in July 2013) for his roles as Senior Independent Director, Chairman of the Nominations Committee and Chairman of the Committee of Independent Directors.
- 2 Lucio Genovese receives a fee of US\$150,000 p.a. as a Non-executive Director and additional fees of US\$40,000 p.a. for his role as Chairman of the Remuneration Committee and US\$40,000 for his role as a Non-executive Director of Ferrexpo AG.
- 3 Wolfram Kuoni receives a fee of US\$150,000 p.a. as a Non-executive Director and additional fees of US\$40,000 p.a. for his role as Chairman of the Audit Committee and US\$75,000 for his role as a Non-executive Director and as Chairman of Ferrexpo AG.

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 to increase Mr Mawe's salary by 2% from 1 January 2014. Mr Zhevago's salary, which he donates to Ukrainian charities, remained unchanged at US\$240,000.

Executive Director	Position	Base salary at:		Increase
		1 January 2014	1 January 2013	
K Zhevago	CEO	US\$240,000	US\$240,000	0%
C Mawe	CFO	CHF651,525	CHF638,750	2%

Pensions and Other Benefits – Audited

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

	Normal retirement date	Increase in value for 2013 less Director's contribution (CHF000)	Total cash value at end of 2013 (CHF000)
K Zhevago	7.1.39	3	30
C Mawe	31.1.27	52	425

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

Mr Zhevago is entitled to, but in 2013 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 CHF168,000 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.

2013 STIP outcome – audited

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

REMUNERATION REPORT *continued*

Key performance targets for 2013 were set at the start of the year for the CFO and senior executives and were weighted to reflect the contribution of the CFO to the achievement of that target. Targets during the year related to financial performance, operational performance, safety (behavioural safety initiatives and improvements in lost-time accident statistics), and project performance, as well as personal targets relating to operational and corporate development objectives. Financial and operational targets were adjusted, as in previous years, to take account of market and raw material cost price developments and mining plans as appropriate, to the extent that these were not under the direct control of management. Adjustments were at the full discretion of the Committee. The level of achievement against each of the targets for FY2013 as determined by the Committee for the CFO is summarised below. The targets themselves have not been disclosed, as the Committee considers that they are commercially sensitive.

KPI		Weighting for CFO	FY2013 assessment	Max bonus as % of salary	Actual bonus as % of salary
Financial	EBITDA NOPAT	22.5%	Above target At stretch	33.75%	19.7% 7.5%
Operational	Production Sales volume	20%	Between target and stretch Below threshold	30%	19.2% 0%
CSR and safety		10%	Between target and stretch	15%	12.5%
Development projects		47.5%	Below target	71.25%	6.3%
Personal and governance			Between target and stretch		55%
Total		100%		150%	120.2%

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

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

The Committee considered the CFO's personal performance, as well as CSR and project performance, during 2013. Taking his overall performance and taking into account specific commercially sensitive targets the Committee awarded a bonus of 120.2% of salary to the CFO.

STIP Framework for 2014

The STIP framework for 2014 is in line with the principles of the Remuneration Policy and 2013 framework. CSR, projects and personal KPIs continue to be set as in previous years. Mr Mawe's 2014 STIP opportunity is 150% for maximum performance, and 100% of salary for target performance. The measures and weightings for the STIP in 2014 are shown in the table below. Due to commercial sensitivity, details of performance targets will be disclosed in arrears and in certain instances will be aggregated. The CEO does not participate in the STIP.

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

2011 LTIP Award Vesting – Audited

The performance period for the 2011 LTIP awards ended on 31 December 2013. The 2011 LTIP rewarded TSR outperformance of a tailored comparator group, as set out on page 73. Under the 2011 LTIP, 20% of maximum would vest for TSR performance in line with the Index, with full vesting for TSR outperformance of 8% p.a. The constituents of the comparator group are set out on page 73. Brockman Resources and Xstrata were acquired during the performance period and were therefore dropped from the 2011 LTIP comparator group.

Ferrexpo's TSR performance relative to the weighted index was assessed by Kepler Associates. From 1 January 2011 to 31 December 2013, outperformance of Index TSR by 0.3% p.a. resulted in 22.9% of the 2011 LTIP awards vesting.

The Committee has considered the Company's overall performance and determined that the recorded TSR outperformance was a fair reflection of Ferrexpo's underlying performance over the performance period and has therefore determined, in accordance with the rules of the plan that 22.9% of the 2011 LTIP awards vested.

LTIP Granted in 2013 – Audited

The 2013 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	23.04.2013	130,000	£265,200 ¹	62% ¹	20%	31.12.2015

¹ Based on average share price for the last six months of 2012, 204 pence and average 2013 exchange rate of CHF1=£0.673.

The Committee reviewed the constituents of the comparator index and their weightings prior to the grant of 2013 LTIP awards and dropped China Vanadium and Gindalbie Metals, and added African Minerals. The constituents of the Index for the last three cycles are summarised in the table below:

	Weighting	2011	2012	2013
Focused iron ore miners	40%			
African Minerals				✓
Atlas Iron		✓	✓	✓
China Vanadium		✓	✓	
Cliffs		✓	✓	✓
Fortescue Metals		✓	✓	✓
Gindalbie Metals		✓	✓	
Kumba Iron Ore		✓	✓	✓
MMX Mineracao		✓	✓	✓
Mount Gibson		✓	✓	✓
Northern Iron		✓	✓	✓
Global diversified miners	50%			
Anglo American		✓	✓	✓
BHP Billiton		✓	✓	✓
Rio Tinto		✓	✓	✓
Vale		✓	✓	✓
Xstrata ¹			✓	✓
Single commodity/emerging market miners	10%			
African Rainbow Minerals		✓	✓	✓
Alcoa		✓	✓	✓
Alumina		✓	✓	✓
Aluminium Corp of China		✓	✓	✓
Antofagasta		✓	✓	✓
Boliden		✓	✓	✓
Eramet		✓	✓	✓
ENRC		✓	✓	✓
First Quantum Minerals		✓	✓	✓
Freeport McMoRan		✓	✓	✓
Industrias Penoles		✓	✓	✓
Katanga Mining		✓	✓	✓
Kazakhmys		✓	✓	✓
KGHM Polska Miedz		✓	✓	✓
Lundin Mining		✓	✓	✓
Norilsk		✓	✓	✓
OZ Minerals		✓	✓	✓
Peabody Energy		✓	✓	✓
Teck Cominco		✓	✓	✓
Vedanta Resources		✓	✓	✓

¹ It is intended that Xstrata will be replaced by Glencore Xstrata for future LTIP cycles.

REMUNERATION REPORT *continued*

TSR is calculated on a common currency basis to ensure that comparisons with international comparators listed overseas are fair. As described in previous reports, the TSR share price averaging period was extended from three to six months for LTIP awards granted in 2011 onwards to help improve the comparison of the management long-term incentive in relation to potential short-term movements in Ferrexpo's share price or the share price of comparator companies.

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

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

LTIP framework for 2014

This Directors Remuneration Report is published prior to the grant date of awards under the LTIP, which are normally made in April. It is the Committee's intention to grant LTIP awards in 2014 in line with the framework used in 2013. The Committee will review the comparator group in advance of grant to ensure it remains appropriate. Details of these awards will be set out in the next year's annual report on remuneration.

Non-executive Directors (Including the Chairman)

The Non-executive Directors' fees are reviewed each year in light of the time commitment and level of involvement that Non-executive Directors are required to devote to the activities of the Board and its Committees, market practice, and surveys by Kepler Associates. Fees payable for 2014 are:

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

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

Directors' Shareholdings – Audited

Total interests of the Directors in office (and connected persons) as at 31 December 2013:

	At 31 December 2013	At 31 December 2012
K Zhevago ¹	296,077,944	300,198,313
C Mawe	208,496	142,202
M Abrahams	176,848	170,992
O Baring	20,130	20,130
L Genovese	170,556	169,568
W Kuoni	29,841	28,854
I Mitiukov	33,046	31,952
M Salamon	100,000	100,000

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

Executive Directors and members of the Executive Committee are encouraged to build up a holding of shares of equivalent value to a year's salary (in the case of Executive Directors) or six months' salary (for other members of the Executive Committee). Executives will be encouraged to retain their vested LTIP shares on an after tax basis until the applicable guideline level is achieved. As at 11 March 2014, 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%	208,496	370,000	92%	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 2013 and share price of 191 pence.

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

	At 1 January 2013	Granted (2013 award)	Exercised	Lapsed	Total at 31 December 2013	Price on date of award (pence)	Date from which exercisable	Expiry date
C Mawe	100,000		91,000	9,000	0	275	01.01.2013	17.06.2020
	120,000 ¹				120,000	341	01.01.2014	07.08.2021
	120,000				120,000	275	01.01.2015	22.04.2022
		130,000			130,000	169	01.01.2016	22.04.2023
Total					370,000			

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

There have been no changes in the interests of the Directors from the end of the period under review to 11 March 2014, being a date not more than one month prior to the date of notice of AGM. Total outstanding (i.e. awarded but not yet vested) awards granted under the LTIP from its inception in 2008 until the end of 2013 are equivalent to 0.23% of issued share capital.

Exit Payments Made in Year – Audited

No Directors left during the year and as a result, no payments for loss of office were paid or receivable by any Director or former Director in the financial year.

Payments to past Directors – Audited

No payments were made to past Directors in the year.

Percentage Change in CEO Remuneration Compared to Other Employees

The table below sets out the percentage increase in salary, taxable benefits, and annual bonus for the CEO between 2012 and 2013 compared to that for other employees.

	CEO	Other employees ¹
Salary	0%	2.0%
Taxable benefits	-100%	0%
Annual bonus	n/a	11.7%

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 2012 and 31 December 2013, and the percentage change.

US\$ million	2013	2012	Year-on-year change
All-employee remuneration	85	89	-4.7%
Distributions to shareholders ¹	78 ^{2,3}	78 ²	0%

¹ Includes dividends and share buybacks.

² Includes special dividends of US\$38.7 million paid in 2013 and 2014 in respect of 2012 and 2013.

³ Assumes final dividend for 2013 is approved at the 2014 AGM.

REMUNERATION REPORT *continued*

Comparison of Company Performance and Executive Director Pay

The graph below shows the value, at 31 December 2013, 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 Index or in the shares of the LTIP comparator group. The FTSE 250 Index is chosen because Ferrexpo is a constituent member of this group.

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

Statement of Shareholder Voting

The following table shows the results of the advisory vote on the 2011 and 2012 Remuneration Reports at the 2012 and 2013 AGMs respectively.

	For		Against		Withheld
	No.	%	No.	%	No.
2012	453m	99.5%	2m	0.5%	0.5m
2013	530m	99.7%	1.5m	0.3%	0.6m

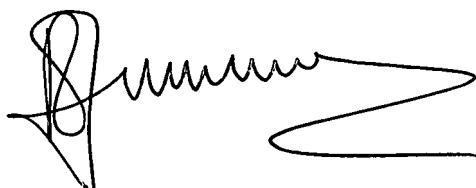
Shareholder Consultation

As no major changes to the Executive Director remuneration structure were considered in 2013, there was no formal consultation of shareholders; however, at shareholders' request there were discussions on various aspects of remuneration during the year.

Other transactions involving Directors are set out in note 34 (related parties) to the financial statements. This report was approved by the Board on 11 March 2014.

Signed on behalf of the Board

Lucio Genovese
Chairman of the Remuneration Committee



DIRECTORS' REPORT

The Directors present their report to shareholders for the financial year ending 31 December 2013, which they are required to produce by law.

Introduction

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

The Company was incorporated under the name Ferrexpo plc as a public company limited by shares on 22 April 2005. Ferrexpo plc listed on the London Stock Exchange in June 2007 and is a member of the FTSE 250 index.

Directors' Duties

The duties of Directors are set out in sections 170 to 177 of the Act. The duties that are specifically referred to in the Corporate Governance Report on pages 55 to 62 include the duties under section 172 (to promote the success of the Company), section 175 (to avoid conflicts of interest), section 176 (not to accept benefits from third parties), and section 177 (to declare any interests in existing or proposed transactions or arrangements with the Company).

Dividends

Results for the year are set out in the Consolidated Income Statement on page 84.

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 30 May 2014 to shareholders on the register at the close of business on 2 May 2014. 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 2013, the Directors have also announced a special dividend of 6.6 US cents per share, amounting to US\$39 million, for payment on 28 March 2014 to shareholders on the register at the close of business on 21 March 2014. The dividend will similarly be paid in UK Pounds Sterling with an election to receive US Dollars.

Directors

The Directors of the Company who served during the year were:

- Michael Abrahams
- Oliver Baring
- Lucio Genovese
- Wolfram Kuoni
- Chris Mawe
- Ihor Mitiukov
- Mike Salamon
- Kostyantyn Zhevago

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

Further details about the Directors and their roles within the Group are given in the Directors' biographies on pages 52 and 53. 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 63 to 76.

Appointment and Replacement of Directors

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

Powers of the Directors

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

Directors' and Officers' Insurance

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

Directors' Indemnity Provision

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

Disclosures required by statute

Employees

Information on the Group's employment policies can be found in the Strategic Report on pages 38 to 39 and 43. Employee numbers are stated in note 35 to the accounts. The Group employs fewer than 250 staff in the United Kingdom and so does not disclose its policies on employee involvement or employing disabled people. However, it will give fair consideration to applications for employment from disabled people.

Greenhouse Gas Emissions

The disclosures concerning greenhouse gas emissions are in the Strategic Report on page 45.

Political Donations

The Group made no political donations during the year.

Financial Instruments

Information on financial instruments is in note 37 to the accounts on pages 133 to 141.

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.

DIRECTORS' REPORT *continued*

At each AGM, the Board proposes to put in place annual shareholder authority for the Company's Directors to allot new shares in accordance with the Institutional Investor Guidelines.

Details of the issued share capital of the Company are shown in note 28 of the financial statements.

Variation of Rights

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

Transfer of Shares

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

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

Repurchase of Shares

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

The Company was given authority to make market purchases of up to approximately 10% of its existing Ordinary Share capital by a resolution passed on 23 May 2013. This authority will expire at the conclusion of the Company's 2014 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 2013.

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 2013, 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
Fevamotinic S.a.r.l. ¹	296,077,944	296,077,944	50.30%
Wigmore Street Investments No. 3 Ltd ²	147,156,035	147,156,035	24.99%

On 28 February 2014 the Company was notified that Wigmore Street Investments No.3 Ltd's shareholding had been reduced to 140,456,035 shares, or 23.86%.

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

Significant Agreements – Change of Control

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

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

LTIP

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

Bank Loan Facility

Under the US\$420 million revolving pre-export finance facility with ING Bank N.V., Uni Credit Bank AG, Société Générale and other banks entered into in September 2011, if Kostyantyn 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 Kostyantyn Zhevago) becomes the beneficial owner of the shares in the Company carrying more than 50% of the voting rights normally exercisable at a general meeting, then the lenders are not obliged to fund a drawdown.

Corporate Bond Due 2016

Under the conditions of the Notes issued in April 2011, if Kostyantyn 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 Kostyantyn Zhevago) becomes the beneficial owner of shares in the Company carrying more than 50% of the voting rights normally exercisable at a general meeting, then any Noteholder will have the right to require the repurchase of its Notes at a purchase price in cash equal to 101% of the principal amount plus accrued and unpaid interest.

Relationship Agreement

Details of the Relationship Agreement entered into between Fevamotinic S.a.r.l., Kostyantyn Zhevago, The Minco Trust and the Company can be found in the Corporate Governance Report (pages 56 and 57). The Relationship Agreement ceases to apply if the holding of Fevamotinic S.a.r.l., The Minco Trust or Mr Zhevago individually or collectively falls below 25% of the issued share capital of the Company.

Events Since the Balance Sheet Date

Information on events since the balance sheet date is provided in note 40 to the financial statements on page 142.

Policy on Derivatives and Financial Instruments

The Group does not hold any derivative financial instruments. Group policy on financial instruments is set out in note 37 to the Notes to the Consolidated Financial Statements on pages 133 to 141.

Directors' Responsibilities in Respect of the Annual Report and Accounts

The Statement of Directors' Responsibilities is on page 81.

Risk Management Policies

Full details of the Group's policy on risk and uncertainty and an overview of the Group's exposure to credit, liquidity and market risks are set out in note 37 of the Notes to the Consolidated Financial Information on pages 133 to 141. Further references to risk are made in the Risks section on pages 28 to 31, 147 and 148, and in the Internal Control and Risk Management section of the Corporate Governance Report on pages 60 to 61 which provides a summary of the internal control procedures put in place by the Board to identify key risks and review risk management and its effectiveness.

Going Concern

The Group's business activities, together with the risk factors likely to affect its future development, performance and position are set out on pages 17 to 35. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 32 to 35. In addition, note 37 of the Notes to the Consolidated Financial Statements on pages 133 to 141 sets out the Group's objectives, policies and processes for managing its capital; its financial risk management objectives and details of its financial instruments; and its exposures to credit risk, liquidity risk as well as currency risk and interest rate risk. The Directors are of the opinion that the Company will continue to operate and, as such, the accounts have been prepared using the Going Concern principle.

DIRECTORS' REPORT *continued*

Corporate Governance Statement

The Disclosure and Transparency Rules (DTR 7.2) require certain information to be included in a corporate governance statement set out in a company's Directors' Report. In common with many companies, Ferrexpo has an existing practice of issuing, within its Annual Report, a Corporate Governance Report that is separate from its Directors' Report. The information that fulfils the requirements of DTR 7.2 is located in Ferrexpo's Corporate Governance Report on pages 55 to 62 (and is incorporated into this Directors' Report by reference), with the exception of the information referred to in DTR 7.2.6, which is located in this Directors' Report.

Statement on Disclosure of Information to Auditors

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

Amendments to Articles of Association

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

AGM

The AGM of the Company will be held at 11.00am on Thursday 22 May 2014 at The Dorchester, Park Lane, London W1K 1QA. A separate letter from the Chairman summarising the business of the meeting and the Notice convening the AGM will be sent to shareholders with this Annual Report.

Auditors

Having reviewed the independence and effectiveness of the auditors, the Audit Committee has recommended to the Board that the existing auditors, Ernst & Young LLP, be reappointed. Ernst & Young LLP have indicated their willingness to continue in office, and an ordinary resolution reappointing them as auditors and authorising the Directors to set their remuneration will be proposed at the 2014 AGM.

Pages 1 to 51 inclusive consist of the Strategic Report and pages 77 to 80 inclusive consist of the Directors' Report. These reports have been drawn up and presented in accordance with, and in reliance upon, applicable English company law and any liability of the Directors in connection with these reports shall be subject to the limitations and restrictions provided by such law.

The Strategic Report and the Directors' Report were approved by the Board on 11 March 2014.

For and on behalf of the Board

Michael Abrahams
Chairman



Christopher Mawe
Chief Financial Officer



STATEMENT OF DIRECTORS' RESPONSIBILITIES

Statement by the Directors under the UK Corporate Governance Code

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

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

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

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

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

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

- (a) the financial statements give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole; and
- (b) the Strategic Report and the Directors' Report includes a fair review of the development and performance of the undertakings included in the consolidation as a whole, and the principal risks and uncertainties that they face.

For and on behalf of the Board

Michael Abrahams
Chairman



Christopher Mawe
Chief Financial Officer



11 March 2014

INDEPENDENT AUDITOR'S REPORT TO FERREXPO PLC

We have audited the financial statements of Ferrexpo plc for the year ended 31 December 2013 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Cash Flows, the Consolidated Statement of Changes in Equity, the Parent Company Balance Sheet and the related notes 1 to 40 for the Group financial statements and notes 1 to 7 for the Parent Company financial statements. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of the Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 81, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2013 and of the Group's profit for the year then ended;

- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Our assessment of risks of material misstatement

We identified the following risks that have had the greatest effect on the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team:

- the recoverability and classification of Ukrainian VAT receivable;
- the valuation of the investment in Ferrous Resources;
- related party transactions;
- the potential impact of recent political and economic disturbance in Ukraine on the financial statements.

Our application of materiality

We determined materiality for the Group to be US\$15.3 million which is 5% of pre-tax profit. Our materiality amount provided a basis for determining the nature and extent of our risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature and extent of further audit procedures. We assessed our materiality calculation based on the profit before tax of the Group as we considered that to be the most relevant performance measure to the stakeholders of the entity.

On the basis of our risk assessment, together with our assessment of the Group's overall control environment, our judgement was that overall performance materiality (i.e. our tolerance for misstatement in an individual account or balance) for the Group should be 75% of materiality, namely US\$11.4 million. Our objective in adopting this approach was to ensure that total detected and undetected audit differences in all accounts did not exceed our planning materiality level.

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

An overview of the scope of our audit

In assessing the risk of material misstatement to the consolidated financial statements, our group audit scope focused on two operating locations, Ukraine and Switzerland at which four subsidiaries were subject to a full scope audit for the year ended 31 December 2013. Due to certain insignificant loss making subsidiaries that were out of scope for our Group audit, the coverage of Group profit before tax achieved from the entities within our Group scope was greater than 100%. In addition to full scope audits, specific audit procedures were undertaken on certain accounts within five further subsidiaries based either in the Group's principal operating locations or in other regions where the Group operates. The extent of audit work on these five entities was based on our assessment of the risks of material misstatement and on the materiality of the Group's business operations in that subsidiary. These subsidiaries were also

selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. The audit work for the in scope subsidiaries was executed at levels of materiality applicable to each individual entity, which were lower than group materiality.

The senior statutory auditor visited Ukraine and Switzerland where all full scope component teams are based and where the majority of the Group's operations are based. For all full scope locations, in addition to the site visits, the Group team reviewed key working papers and directed the component team's planning and execution of the responses to the risks.

Our principal responses to the risks identified above were as follows:

The recoverability and classification of Ukrainian VAT receivable

- We have tested the validity of the amounts claimed from the Ukrainian government, including those currently in dispute.
- We challenged management's assumptions relating to the recoverability, classification and measurement of the balance.
- We agreed the related disclosure provided in the Annual Report and Accounts.

The valuation of the investment in Ferrous Resources

- We challenged management's conclusions for the classification and basis of measurement of the investment.
- We challenged management's assumptions related to the determination of the fair value of the available-for-sale investment in Ferrous Resources.

Related party transactions

- We understood and verified management's process for identifying related parties and recording related party transactions.
- We have assessed management's controls in relation to the assessment and approval of related party transactions and verified management's disclosures in respect of the transactions are correct.
- Throughout the performance of our audit we remained alert for any evidence of related party transactions that had not been disclosed.

Consideration of the potential impact of recent political and economic disturbance in Ukraine on the financial statements

- We gained an understanding of the local environment in Ukraine and monitored its impact on the Group's operations through post balance sheet procedures.
- We challenged management's consideration of the possible impact on forecasts used for impairment and going concern modelling and their consideration of the recoverability of assets.
- We read and challenged management's disclosures in the annual report.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors Remuneration Report to be audited had been properly prepared in accordance with the Companies Act 2006; and
- 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.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

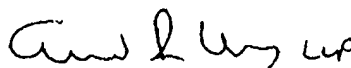
In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' Statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

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

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

Under the Listing Rules we are required to review:

- the Directors' Statement, set out on page 80, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.



Ernst & Young LLP

Ken Williamson (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor London
11 March 2014

CONSOLIDATED INCOME STATEMENT

US\$000	Notes	Year ended 31.12.13	Year ended 31.12.12
Revenue	6	1,581,385	1,424,030
Cost of sales	3/5/7	(773,221)	(690,729)
Gross profit		808,164	733,301
Selling and distribution expenses	8	(335,718)	(311,964)
General and administrative expenses	9	(54,839)	(56,329)
Other income	10	6,662	11,347
Other expenses	11	(23,457)	(30,161)
Operating foreign exchange gains	12	622	653
Operating profit from continuing operations before adjusted items		401,434	346,847
Write-down of VAT receivable	26	(36,421)	–
Write-offs and impairment losses	13	(854)	(836)
Share of profit from associates	14	3,551	2,772
Losses on disposal of property, plant and equipment		(8,492)	(4,067)
Profit before tax and finance from continuing operations		359,218	344,716
Finance income	15	2,372	2,598
Finance expense	3/15	(65,953)	(88,203)
Non-operating foreign exchange gains	3/12	9,755	6,622
Profit before tax		305,392	265,733
Income tax expense	16	(41,608)	(47,135)
Profit for the year from continuing operations		263,784	218,598
Profit attributable to:			
Equity shareholders of Ferrexpo plc		261,984	217,277
Non-controlling interests		1,800	1,321
Profit for the year from continuing operations		263,784	218,598
Earnings per share:			
Basic (US cents)	17	44.76	37.14
Diluted (US cents)	17	44.69	37.08

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

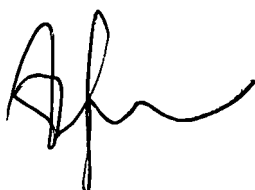
US\$000	Year ended 31.12.13	Year ended 31.12.12
Profit for the year	263,784	218,598
<i>Items that may subsequently be reclassified to profit or loss:</i>		
Exchange differences on translating foreign operations	(437)	(566)
Income tax effect	—	—
Exchange differences arising on hedging of foreign operations	—	(201)
Income tax effect	—	32
Net losses on available-for-sale investments	(138)	(326)
Income tax effect	30	62
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	(545)	(999)
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
Remeasurement gains on defined benefit pension liability	498	21,244
Income tax effect	(58)	(3,404)
Net other comprehensive income not being reclassified to profit or loss in subsequent periods	440	17,840
Other comprehensive income for the year, net of tax	(105)	16,841
Total comprehensive income for the year, net of tax	263,679	235,439
Total comprehensive income attributable to:		
Equity shareholders of Ferrexpo plc	261,888	233,502
Non-controlling interests	1,791	1,937
	263,679	235,439

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

US\$000	Notes	As at 31.12.13	As at 31.12.12
Assets			
Property, plant and equipment	3/18	1,533,819	1,347,563
Goodwill and other intangible assets	19	117,086	112,171
Investments in associates	14	20,546	16,995
Available-for-sale financial assets	20	82,778	534
Inventories	3/23	58,303	12,362
Other non-current assets	21	34,575	41,810
Income taxes recoverable and prepaid	26	54,242	–
Other taxes recoverable and prepaid	26	78,281	97,895
Deferred tax assets	3/22	37,612	33,220
Total non-current assets		2,017,242	1,662,550
Inventories	3/23	180,863	134,111
Trade and other receivables	24	102,498	116,553
Prepayments and other current assets	25	25,073	36,468
Income taxes recoverable and prepaid	26	33,233	24,869
Other taxes recoverable and prepaid	26	182,863	187,246
Cash and cash equivalents	27	390,491	596,560
		915,021	1,095,807
Assets classified as held for sale		106	101
Total current assets		915,127	1,095,908
Total assets		2,932,369	2,758,458
Equity and liabilities			
Issued capital	28	121,628	121,628
Share premium	28	185,112	185,112
Other reserves	28	(347,326)	(348,056)
Retained earnings	3	1,753,200	1,568,077
Equity attributable to equity shareholders of Ferrexpo plc		1,712,614	1,526,761
Non-controlling interests		22,428	20,637
Total equity		1,735,042	1,547,398
Interest-bearing loans and borrowings	5/29	928,196	993,139
Defined benefit pension liability	3/31	53,154	50,195
Provision for site restoration	32	2,871	2,368
Deferred tax liabilities	22	2,031	2,581
Total non-current liabilities		986,252	1,048,283
Interest-bearing loans and borrowings	5/29	101,043	26,846
Trade and other payables	30	50,001	62,609
Accrued liabilities and deferred income	33	35,508	51,285
Income taxes payable	26	12,554	13,672
Other taxes payable	26	11,969	8,365
Total current liabilities		211,075	162,777
Total liabilities		1,197,327	1,211,060
Total equity and liabilities		2,932,369	2,758,458

The financial statements were approved by the Board of Directors on 11 March 2014.

Kostyantyn Zhevago
Chief Executive Officer



Christopher Mawe
Chief Financial Officer



CONSOLIDATED STATEMENT OF CASH FLOWS

US\$000	Notes	Year ended 31.12.13	Year ended 31.12.12
Profit before tax		305,392	265,733
<i>Adjustments for:</i>			
Depreciation of property, plant and equipment and amortisation of intangible assets		99,645	54,169
Interest expense	3/15	60,466	81,308
Write-down of VAT receivable	26	36,421	–
Interest income	15	(2,372)	(2,598)
Share of profit from associates	14	(3,551)	(2,772)
Movement in allowance for doubtful receivables	11	661	721
Loss on disposal of property, plant and equipment		8,492	4,067
Write-offs and impairment losses	13	854	836
Site restoration provision	32	503	(650)
Employee benefits	3/31	8,654	12,616
Share-based payments	38	1,266	1,608
Operating foreign exchange gains	12	(622)	(653)
Non-operating foreign exchange gains	3/12	(9,755)	(6,621)
Operating cash flow before working capital changes		506,054	407,764
<i>Changes in working capital:</i>			
Decrease/(increase) in trade and other receivables		27,485	(3,226)
Increase in inventories		(88,482)	(33,638)
(Decrease)/increase in trade and other accounts payable		(29,489)	40,603
Increase in VAT recoverable and other taxes prepaid	26	(12,516)	(131,903)
Cash generated from operating activities		403,052	279,600
Interest paid		(57,037)	(55,610)
Income tax paid	26	(108,321)	(99,771)
Post-employment benefits paid		(4,768)	(5,641)
Net cash flows from operating activities		232,926	118,578
Cash flows from investing activities			
Purchase of property, plant and equipment	18	(270,534)	(419,357)
Proceeds from sale of property, plant and equipment		910	569
Purchases of intangible assets	19	(7,268)	(9,911)
Purchase of available-for-sale investment	37	(82,382)	–
Interest received		2,090	2,652
Dividends from associates		–	6,710
Net cash flows used in investing activities		(357,184)	(419,337)
Cash flows from financing activities			
Proceeds from borrowings and finance		26,279	63,955
Repayment of borrowings and finance		(19,308)	(13,186)
Arrangement fees paid		(10,643)	(4,672)
Dividends paid to equity shareholders of Ferrexpo plc		(77,882)	(38,775)
Dividends paid to non-controlling shareholders		(1)	(254)
Net cash flows from financing activities		(81,555)	7,068
Net decrease in cash and cash equivalents		(205,813)	(293,691)
Cash and cash equivalents at the beginning of the year		596,560	890,154
Currency translation differences		(256)	97
Cash and cash equivalents at the end of the year	27	390,491	596,560

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

US\$000	Attributable to equity shareholders of Ferrexpo plc										
	Issued capital (Note 28)	Share premium (Note 28)	Uniting of interest reserve (Note 28)	Treasury share reserve (Note 28)	Employee benefit trust reserve (Notes 28 and 38)	Net unrealised gains reserve (Note 28)	Translation reserve (Note 28)	Retained earnings	Total capital and reserves	Non-controlling interests (Note 1)	Total equity
At 1 January 2012	121,628	185,112	31,780	(77,260)	(9,416)	1,084	(294,791)	1,414,512	1,372,649	20,480	1,393,129
Application of IAS 19 revised (note 3)	-	-	-	-	-	-	-	(42,338)	(42,338)	(1,128)	(43,466)
At 1 January 2012 – after application of IAS 19 revised	121,628	185,112	31,780	(77,260)	(9,416)	1,084	(294,791)	1,372,174	1,330,311	19,352	1,349,663
Profit for the period	-	-	-	-	-	-	-	217,277	217,277	1,321	218,598
Other comprehensive income	-	-	-	-	-	(264)	(797)	17,286	16,225	616	16,841
Total comprehensive income for the period	-	-	-	-	-	(264)	(797)	234,563	233,502	1,937	235,439
Equity dividends paid to shareholders of Ferrexpo plc	-	-	-	-	-	-	-	(38,660)	(38,660)	(331)	(38,991)
Share-based payments (note 38)	-	-	-	-	1,608	-	-	-	1,608	-	1,608
Adjustments relating to the increase in non-controlling interests	-	-	-	-	-	-	-	-	-	(321)	(321)
At 31 December 2012	121,628	185,112	31,780	(77,260)	(7,808)	820	(295,588)	1,568,077	1,526,761	20,637	1,547,398
Profit for the period	-	-	-	-	-	-	-	261,984	261,984	1,800	263,784
Other comprehensive income	-	-	-	-	-	(108)	(428)	440	(96)	(9)	(105)
Total comprehensive income for the period	-	-	-	-	-	(108)	(428)	262,424	261,888	1,791	263,679
Equity dividends paid to shareholders of Ferrexpo plc	-	-	-	-	-	-	-	(77,301)	(77,301)	-	(77,301)
Share-based payments (note 38)	-	-	-	-	1,266	-	-	-	1,266	-	1,266
At 31 December 2013	121,628	185,112	31,780	(77,260)	(6,542)	712	(296,016)	1,753,200	1,712,614	22,428	1,735,042

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Corporate information

Organisation and operation

Ferrexpo plc (the 'Company') is incorporated in the United Kingdom with registered office at 2–4 King Street, London, SW1Y 6QL, UK. Ferrexpo plc and its subsidiaries (the 'Group') operate a mine and processing plant near Kremenchug in Ukraine, an interest in a port in Odessa and sales and marketing activities in Switzerland, Dubai and Kyiv. The Group also owns a logistics group located in Austria which operates a fleet of vessels operating on the Rhine and Danube waterways. The Group's operations are vertically integrated from iron ore mining through to iron ore concentrate and pellet production and subsequent logistics. The Group's mineral properties lie within the Kremenchug Magnetic Anomaly and are currently being exploited at the Gorishne-Plavninskoye and Lavrikovskoye ('GPL') and Yeristovskoye deposits.

The majority shareholder of the Group is Fevaminotico S.a.r.l. ('Fevaminotico'), a company ultimately owned by The Minco Trust, of which Kostyantyn Zhevago, the Group's Chief Executive Officer, is a beneficiary. At the time this report was published, Fevaminotico held 50.3% (2012: 51.0%) of Ferrexpo plc's issued share capital. The Group's operations are largely conducted through Ferrexpo plc's principal subsidiary, OJSC Ferrexpo Poltava Mining.

The Group comprises Ferrexpo plc and its consolidated subsidiaries as set out below:

Name	Country of incorporation	Principal activity	Equity interest owned	
			31.12.13 %	31.12.12 %
OJSC Ferrexpo Poltava Mining	Ukraine	Iron ore mining	97.3	97.3
Ferrexpo AG	Switzerland	Sale of iron ore pellets	100.0	100.0
DP Ferrotrans	Ukraine	Trade, transportation services	97.3	97.3
United Energy Company LLC	Ukraine	Holding company	97.3	97.3
Ferrexpo Finance plc	England	Finance	100.0	100.0
Ferrexpo Services Limited	Ukraine	Management services and procurement	100.0	100.0
Ferrexpo Hong Kong Limited	China	Marketing services	100.0	100.0
LLC Ferrexpo Yeristovo GOK	Ukraine	Iron ore mining	100.0	100.0
LLC Ferrexpo Belanovo GOK	Ukraine	Iron ore mining	100.0	100.0
Nova Logistics Limited	Ukraine	Service company (dormant)	51.0	51.0
Ferrexpo Middle East FZE	U.A.E.	Sale of iron ore pellets	100.0	100.0
Ferrexpo Singapore PTE Ltd.	Singapore	Marketing services	100.0	100.0
First-DDSG Logistics Holding GmbH	Austria	Holding company	100.0	100.0
EDDSG GmbH	Austria	Barging company	100.0	100.0
DDSG Tankschiffahrt GmbH	Austria	Barging company	100.0	100.0
DDSG Services GmbH ³	Austria	Barging company	100.0	100.0
DDSG Mahart Kft.	Hungary	Barging company	100.0	100.0
Pancar Kft.	Hungary	Barging company	100.0	100.0
Ferrexpo Port Services GmbH	Austria	Port services	100.0	100.0
Ferrexpo Shipping International Ltd.	Marshall Islands	Holding company	100.0	100.0
Iron Destiny Ltd.	Marshall Islands	Shipping company	100.0	100.0
Transcanal SRL	Romania	Port services	77.6	77.6
Helogistics Asset Leasing Kft.	Hungary	Asset holding company	100.0	100.0
Universal Services Group Ltd. ¹	Ukraine	Asset holding company	100.0	100.0
LLC DDSG Ukraine Holding ²	Ukraine	Holding company	100.0	–
LLC DDSG Invest ²	Ukraine	Asset holding company	100.0	–
LLC DDSG Ukraine Shipping Management ²	Ukraine	Barging company	100.0	–
LLC DDSG Ukraine Shipping ²	Ukraine	Asset holding company	100.0	–

¹ The entity was incorporated in December 2012.

² The entities were incorporated in February and March 2013.

³ Formerly Helogistics Transport GmbH.

The Group's interests in the entities listed above are held indirectly by the Company, with the exception of Ferrexpo AG which is directly held.

The Group also holds an interest of 48.6% (2012: 48.6%) in TIS Ruda, a Ukrainian port located on the Black Sea. As this is an associate, it is accounted for using the equity method of accounting and further disclosed in note 14.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

Note 2: Summary of significant accounting policies

Basis of preparation

The consolidated financial statements of Ferrexpo plc and its subsidiaries have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU'). IFRS as adopted by the EU differs in certain respects from IFRS as issued by the International Accounting Standards Board ('IASB').

The consolidated financial statements have been prepared on a historical cost basis, except for post-employment benefits and available-for-sale financial instruments, the latter measured at fair value in accordance with the requirements of IAS 39 *Financial instruments: Recognition and measurement*, the former measured in accordance with IAS 19 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 accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2012, except for those changes detailed in note 3.

Basis of consolidation

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

Subsidiaries acquired are fully consolidated from the date of effective control, when the Group obtains effective control. Similarly, subsidiaries disposed of are deconsolidated from the date on which the Group ceases to hold effective control. A change in the ownership interest of a subsidiary without 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 combination and goodwill

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

If the cost of acquisition exceeds the identifiable net assets attributable to the Group, the difference is considered as purchased goodwill, which is not amortised but annually reviewed for impairment or in case of an indication of impairment. In the case that the identifiable net assets attributable to the Group exceed the cost of acquisition, the difference is recognised in profit and loss as a gain on bargain purchase. For each business combination, the Group measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. If the initial accounting for a business combination cannot be completed by the end of the reporting period in which the combination occurs, only provisional amounts are reported, which can be adjusted during the measurement period of 12 months after acquisition date.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Details of the impairment testing are disclosed in note 19.

Investments in associates

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

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

Note 2: Summary of significant accounting policies continued

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

Functional and presentational currencies

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

Foreign currency translation

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

For presentation of Group consolidated accounts, if the functional currency of a subsidiary is different to the presentational currency as at the reporting date, the assets and liabilities of this entity are translated into the presentational currency at the rate ruling at the reporting date and the income statement is translated using the average exchange rate for the period 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 recognised in equity relating to the particular foreign operation is recognised in the income statement.

Revenue recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods including pellet sales

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

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

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

Under the CFR and FOB terms the title passes on the bill of lading date whereas under the other terms revenue is recognised when goods arrive at agreed destination or at border crossing.

If the sales agreement allows for adjustment of the sales prices based on survey of the goods by the customer (e.g. ore content) the revenue is recognised based on the most recent determined product specification.

Other sales

Other sales include the processing and sale of ore and ore concentrate, the sale of spare parts, materials and crushed rocks and the repair and rental of railway wagons.

Logistic services

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

Note 2: Summary of significant accounting policies continued

Rendering of services

Revenue from the rendering of services is recognised when services are complete. Sales of services primarily include repairs, canteen revenue and recharges to local customers for electricity consumption and railway usage.

Rental income

Rental income arising from operating leases is accounted for on a straight-line basis over the lease terms.

Foreign exchange gains and losses

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

Finance income and expense

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in the income statement using the effective interest method.

Finance expenses comprise the interest expense on borrowings and other financial liabilities. Finance expenses also comprise the effect of the estimated discount of overdue VAT balances expected to be received after more than 12 months following the period end.

Taxes

Current income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount estimated to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date. See notes 4 and 16 for further details.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, if it is probable that they become taxable, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Note 2: Summary of significant accounting policies continued

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Income tax on items recognised directly in equity is recognised in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Value added tax

Revenues, expenses and assets are recognised net of the amount of value added tax ('VAT'), except:

- where VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case VAT is recognised as part of the cost of acquisition of the asset or as part of expense item as applicable; and
- receivables and payables are stated with the amount of VAT included.

VAT receivable balances are not discounted unless the overdue balances are expected to be received after more than 12 months following the period end. Where intentions have been communicated that VAT repayments, which are due, are to be converted into bonds or other financial instruments and management considers acceptance of such instruments as consideration for VAT due, these are valued at the estimated market value of such instruments with any adjustment charged to the income statement. Further detailed information is disclosed in note 26 to the financial statements.

Equity

Ordinary Shares

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

Employee benefit trust reserve

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

Treasury shares

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

Financial 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 profit or loss. For those financial assets and financial liabilities, the transactions costs are recognised immediately in profit or loss.

The subsequent measurement is based on the classification of the financial asset and financial liability.

Financial assets

Derivative financial instruments

The Group does not hold any derivative financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

Note 2: Summary of significant accounting policies continued

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. Non-derivative financial instruments are recognised at fair value (being the fair value of the consideration given or received) plus any directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date (i.e. the date that the Group commits to purchase or sell the asset). Regular way purchases or sales are those that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group has not designated any financial assets as at fair value through profit or loss ('FVTPL').

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired along with the amortisation process. For trade and other receivables with normal payment terms it is expected that their fair value is equal to the carrying value due to the short maturity.

Available-for-sale financial assets

All investments, except for investments in associates, are classified as available-for-sale. Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans or receivables, held-to-maturity investments or financial assets at FVTPL.

After initial measurement and if fair value can be reliably measured, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised. At this time, the cumulative gains or losses are recognised in other operating income, or determined to be impaired, at which time the cumulative losses are recognised in the income statement in finance costs and removed from the available-for-sale reserve.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For investments without an active market, the fair value is determined using other valuation techniques including discounted cash flow models and reference to recent transaction prices. If the fair value of an available-for-sale equity investment cannot be reliably measured, the investment is measured at cost less any impairment losses.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method less any impairment losses.

Financial liabilities

Trade and other payables

Trade and other payables are recognised and initially measured at fair value which are approximately equal to their carrying amounts due to the short maturity. Subsequently, instruments with a fixed maturity are remeasured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any transaction costs and any discount or premium on settlement.

Interest-bearing loans and borrowings

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

Impairment of financial assets

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

Note 2: Summary of significant accounting policies continued

Assets carried at amortised cost

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

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

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

Available-for-sale financial assets

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

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

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

Leases

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

Group as a lessee

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

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

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

Group as a lessor

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

Note 2: Summary of significant accounting policies continued

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. In the case of general borrowings used to fund the acquisition or construction costs of qualifying assets, the borrowing costs to be capitalised are calculated based on a weighted average interest rate applicable to the relevant general borrowings of the Group during a specific period.

The Group capitalises borrowing costs for all qualifying assets where construction was commenced on or after 1 January 2009. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Major spare parts and stand-by equipment qualify as property, plant and equipment when they are expected to be used during more than one period. Expenditure incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to the income statement in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditure results in future economic benefits, the expenditure is capitalised as an additional cost.

Upon recognition, items of property, plant and equipment are divided into components, which represent items with a significant value that have different useful lives. Property, plant and equipment is depreciated over its estimated useful life which is calculated with due regard to both its own physical life limitations and the present assessment of economically recoverable reserves of the mine property at which the item is located. Estimates of remaining useful lives are made on a regular basis for all mine buildings, machinery and equipment, with annual reassessments for major items. Changes in estimates, which affect unit of production calculations, are accounted for prospectively.

Except for mining assets which are depreciated using the unit of production method, depreciation is calculated on a straight-line basis over the estimated useful life of the asset, as follows:

• Buildings:	20–50 years
• Vessels:	30–40 years
• Plant and equipment:	3–15 years
• Vehicles:	7–15 years
• Fixtures and fittings:	2.5–10 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognised.

Assets in the course of construction are initially recognised in a separate category of property, plant and equipment. On completion, the cost of construction is transferred to the appropriate category. Assets under construction are not depreciated.

On acquisition, the cost of property, plant and equipment is capitalised on the statement of financial position. Depreciation commences when the item is available for use. Freehold land is not depreciated.

Major spare parts and servicing equipment that meet the definition of property, plant and equipment are included in this asset category of the statement of financial position. See also note 3.

Note 2: Summary of significant accounting policies continued

Stripping costs included in mining assets and assets under construction

Stripping costs in relation to mine exploration, evaluation and development costs incurred up to the commencement of the production are included in assets under construction. Stripping work comprises overburden removal at the pre-production, mine extension and production stages.

After the commencement of production, the respective capitalised pre-production stripping costs are transferred to mining assets and depreciated using the unit of production method based on the estimated economically recoverable reserves to which they relate.

The production stripping costs are generally charged to the income statement as variable production costs. The production stripping costs are only capitalised if the stripping activities result in improved access to a component ore body and the duration of the future benefits is ascertained without a high degree of judgement. If capitalised, the production stripping costs are included in mining assets and depreciated using the same methodology as for the capitalised pre-production stripping costs (see above).

The cost of removal of the waste material during a mine's production phase is expensed as incurred.

Exploration and evaluation assets

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

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

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

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

Intangible assets

Goodwill

The policies applied for the initial recognition and subsequent measurement of goodwill are described under Goodwill and other intangible assets on pages 102 and 113.

Other intangible assets

Other intangible assets acquired separately are measured on initial recognition at cost. The cost of other intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses. The useful lives of other intangible assets are assessed as either finite or indefinite.

Amortisation

Other intangible assets, other than goodwill, primarily comprise capitalised software costs, which are amortised on a straight-line basis over the estimated useful life of the asset, ranging between one and three years.

Capitalised mineral licences are amortised on a unit of production basis.

Impairment of assets (excluding financial assets)

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. If the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a market-determined pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the income statement. Refer to note 19 for details on the impairment testing of goodwill.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

Note 2: Summary of significant accounting policies *continued*

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Inventories

Inventories are stated at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Raw materials – at cost on a first-in, first-out basis.
- Finished goods and work in progress – at cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity, but excluding borrowing costs.

The net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

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. See also note 3.

Cash and cash equivalents

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

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Site restoration costs

Site restoration provisions are made in respect of the estimated future costs of closure and restoration and for environmental rehabilitation costs (determined by an independent expert) in the accounting period when the related environmental disturbance occurs. The provision is discounted, if material, and the unwinding of the discount is included in finance costs. At the time of establishing the provision, a corresponding asset is capitalised where it gives rise to a future benefit and depreciated over future production from the mine to which it relates.

The provision is reviewed on an annual basis for changes in cost estimates, discount rates or the life of operations.

Defined benefit pension liability

The defined benefit costs relating to the plans operated by the Group in the different countries are determined and accrued in the consolidated financial statements using the projected unit credit method for those employees entitled to such payments. The underlying assumptions are defined by the management and the defined benefit pension liability is calculated by independent actuaries at the end of each annual reporting period.

Note 2: Summary of significant accounting policies continued

Remeasurement, comprising actuarial gains and losses, effects of changes in asset ceiling and the return on plan assets (excluding interest), is 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 occurred and immediately reflected in retained earnings as not reclassified to profit or loss in subsequent periods.

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 profit or loss at the earlier of when the plan amendment occurs or when related restructuring costs are recognised.

The service costs (including current and past) are included in cost of sales, selling and distribution expenses and general and administrative expenses in the consolidated income statement whereas the net finance expenses are included in finance expenses. The effects from remeasurements are recognised in the other comprehensive income.

The defined benefit pension liability is the aggregate of the defined benefit obligation less plan assets of funded schemes. The Group operates funded and unfunded schemes. Further details of the different schemes are provided in note 31.

Earnings per share

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.

For the current and prior year periods, basic EPS is calculated by dividing the net profit for the year attributable to ordinary equity shareholders of Ferrexpo plc by the number of Ordinary Shares as defined above. The number of Ordinary Shares in issue excludes the shares held by the Employee Benefit Trust and the treasury shares held by the Group. Diluted earnings per share are calculated by adjusting the number of Ordinary Shares in issue on the assumption of conversion of all potentially dilutive Ordinary Shares. All share awards are potentially dilutive and are considered in the calculation of diluted earnings per share.

Share-based payments

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the grant date and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined by reference to the quoted closing share price on the grant date. In valuing equity-settled transactions, no account is taken of any vesting conditions, except for market conditions.

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

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

Long-Term Incentive Plans ('LTIPs')

The LTIPs are share-based schemes whereby certain senior management and executives receive rewards based on the relative Total Shareholder Return ('TSR') outperformance of the Group compared with a group of companies, which operate within a similar environment. The cost of equity-settled awards is measured as described above together with an estimate of future social security contributions payable in respect of this value. Where the granting of an LTIP is subject to the satisfaction of certain market conditions, a vesting charge is recognised irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where awards terminate before the performance period is complete, any unamortised expense is recognised immediately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

Note 3: New accounting policies

The accounting policies and methods of computation adopted in the preparation of the consolidated financial statements are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2012 except for the adoption of new amendments and improvements to IFRSs effective as of 1 January 2013, noted below:

Standards adopted affecting reported results, financial position or disclosures

IAS 1 Financial statement presentation – presentation of items of other comprehensive income

The amended standard became effective for financial years beginning on or after 1 July 2012. The amendment requires the grouping of items in other comprehensive income based on whether they will be potentially reclassifiable to profit or loss at a future point of time or whether they will never be reclassified. The amendment did affect the presentation of the consolidated statement of comprehensive income only and did not have an impact on the Group's financial position or performance.

IAS 16 Property, plant and equipment

The improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory and became effective for financial years beginning on or after 1 January 2013. The amendment affected presentation only and did not have an impact on the Group's financial position or performance. As a result of this improvement, major spare parts and servicing equipment were reclassified from inventory to property, plant and equipment and previously disclosed balances for the comparative period ended 31 December 2012 changed by US\$5,524 thousand. The effect of this improvement as of 31 December 2013 is US\$7,574 thousand without a material impact on the Group's consolidated income statement and basic and diluted earnings per share.

IAS 19 Employee benefits

The most fundamental change of the numerous amendments made to IAS 19 is to remove the so-called 'corridor-approach' and to require the recognition of all actuarial gains and losses from the remeasurement of the defined benefit obligation and the fair values of the plan assets in other comprehensive income in the current period. In addition, finance income from scheme assets is now recognised as part of the interest on the net defined benefit liability using the discount rate used to measure the defined benefit obligation; unvested past service costs are now recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised; and scheme administration costs (other than costs of managing the plan assets) are recognised in profit and loss as they are incurred. The amendments became effective for financial years beginning on or after 1 January 2013 and the retrospective adoption requires to change the opening statement of financial position of the earliest comparative period presented. The tables below provide the details of these effects:

US\$000	Defined benefit pension liability	Tax effect	Equity effect
Defined benefit pension liability as at 31 December 2011	(13,329)	–	–
Application of IAS 19 revised as at 31 December 2011	(51,669)	8,203	(43,466)
Defined benefit pension liability as at 1 January 2012/effect on deferred tax assets and equity	(64,998)	8,203	(43,466)

As a result of the retrospective application of IAS 19 revised, the total equity of the shareholders as of 31 December 2011 decreased from US\$1,393,129 thousand to US\$1,349,663 thousand.

As a result of the retrospective adoption of the amendments to IAS 19, the defined benefit pension liability and costs of the comparative period ended 31 December 2012 changed as follows:

US\$000	Defined benefit pension liability	Tax effect	Equity effect
Defined benefit pension liability as at 31 December 2012	(23,504)	–	–
Application of IAS 19 revised as at 31 December 2011	(51,669)	8,203	(43,466)
Change of the pension costs recorded in financial year 2012:			
– Personnel costs included in cost of sales	3,847	(731)	3,116
– Finance expense	(112)	21	(91)
Unrecognised actuarial gains included in other comprehensive income	21,244	(3,404)	17,840
Foreign exchange translation adjustments	(1)	–	(1)
Change of non-controlling interest	–	–	(81)
Defined benefit pension liability as at 1 January 2013/effect on deferred tax assets and equity	(50,195)	4,089	(22,683)

Note 3: New accounting policies continued

The application of IAS 19 revised did not have a material impact on the Group's consolidated statement of cash flows, the basic and diluted earnings per share of the comparative period ended 31 December 2012.

The effect of IAS 19 revised on the current year service costs is US\$3,236 thousand without a material impact on the Group's basic and diluted earnings per share.

Further details in respect of the defined benefit pension liability are provided in note 31.

IFRS 13 Fair value measurement

The new standard became effective for financial years beginning on or after 1 January 2013 and provides guidance on how to measure fair value under IFRS when fair value is required or permitted by other standards and requires additional specific disclosures. Other than the additional disclosure requirements, the adoption of this new standard did not have an impact on the financial position or performance of the Group. The additional disclosures are made in note 37.

Standards and interpretations adopted with no effect on reported results, financial position or disclosures

IFRS 1 First-time adoption of IFRS – government loans

The amendment requires first-time adopters to apply the requirements of IAS 20 *Accounting for government grants and disclosure of government assistance* prospectively to government loans existing at the date of transition to IFRS. This amendment became effective for financial years beginning on or after 1 January 2013. This amended standard is not relevant, as the Group is not a first-time adopter and consequently did not have an impact on the financial position or performance of the Group.

IFRS 7 Financial instruments: disclosures – offsetting financial assets and financial liabilities

The amendment requires disclosure of information about rights of offset and related arrangements (e.g. collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar agreement. The amendments became effective for financial years beginning on or after 1 January 2013 with retrospective disclosure for all comparative periods. The adoption of this amended standard did not have an impact on the financial position or performance of the Group.

IFRIC 20 Stripping costs in the production phase of a surface mine

The new interpretation covers the accounting for the necessary removal of mine waste materials in order to gain access to the mineral ore deposit during the production phase of a mine. The interpretation provides guidance on the accounting and separation of the costs of stripping activities resulting in the production of inventory in the current period or improved access to further mineral ore deposits that will be mined in future periods. The new interpretation applies to annual periods beginning on or after 1 January 2013. The adoption of this new interpretation did not have an impact on the financial position or performance of the Group.

New standards and interpretations not yet adopted

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

IFRS 9 Financial instruments

The standard has been issued as the IASB completes each phase of its project to replace IAS 39. The first elements of IFRS 9 were issued in November 2009 and October 2010 to replace the parts of IAS 39 that relate to the classification and measurement of financial instruments. In November 2013 an amendment was issued to address hedge accounting and to remove the previously determined effective date of 1 January 2015. Instead, the IASB proposes to set the effective date of IFRS 9 when it completes the impairment phase of the project. The Group will assess IFRS 9's full impact and will determine the date to adopt IFRS 9 once it is endorsed for use in the EU.

IFRS 10 Consolidated financial statements

The new standard provides additional guidance to assist in the determination of which entities are controlled and are required to be consolidated. This standard replaces the portion of IAS 27 *Consolidated and separate financial statements* that addresses the accounting for consolidated financial statements. The IASB implementation date is for periods beginning on or after 1 January 2013 whereas the standard becomes mandatory in the EU only for annual periods beginning on or after 1 January 2014. The Group does not intend to take advantage of the possibility of an early adoption. The impact on the accounting for the Group's associated company TIS Ruda will be assessed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

Note 3: New accounting policies continued

IFRS 11 Joint arrangements

The new standard replaces IAS 31 *Interests in joint ventures* and SIC 13 *Jointly-controlled entities – non-monetary contributions by venturers*. The IASB implementation date is for periods beginning on or after 1 January 2013 whereas the standard becomes mandatory in the EU only for annual periods beginning on or after 1 January 2014. The standard defines contractually agreed sharing of control of an arrangement and the accounting for joint operations and joint ventures. The Group does not intend to take advantage of the possibility of an early adoption and will review its arrangements in place in order to evaluate the potential impact.

IFRS 12 Disclosure of involvement with other entities

The new standard covers the disclosures that were previously required in consolidated financial statements under IAS 27 *Consolidated and separate financial statements* as well as those included in IAS 31 *Interests in joint ventures* and IAS 28 *Investments in associates*. The IASB implementation date is for periods beginning on or after 1 January 2013 whereas the standard becomes mandatory in the EU only for annual periods beginning on or after 1 January 2014. The Group does not intend to take advantage of the possibility of an early adoption, but expects that a number of additional disclosures will be required under the new standard.

IAS 19 Employee benefits – defined benefit plans: employee contributions

The amendment to the standard was issued in November 2013 and becomes effective for financial years beginning on or after 1 July 2014. The amendment provides guidance in respect of the accounting for employee contributions set out in the formal terms of a defined benefit plan. The Group does not intend to take advantage of the possibility of an early adoption and will review its arrangements in place in order to evaluate the potential impact.

IAS 32 Financial instruments: presentation – offsetting financial assets and financial liabilities

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

IAS 36 Impairment of assets – recoverable amount disclosures

The amendment to the standard was issued in May 2013 and becomes effective for financial years beginning on or after 1 January 2014. The amendment removes the requirement to disclose recoverable amounts when there has been no impairment or reversal of impairment. Further to that, the disclosure requirements have been aligned with those under US GAAP for impaired assets. The Group does not intend to take advantage of the possibility of an early adoption and will review its arrangements in place in order to evaluate the potential impact.

IFRIC 21 Levies

The new interpretation clarifies when to recognise a liability for a levy imposed by governments (including government agencies and similar bodies) in accordance with laws and regulations. The new interpretation applies to annual periods beginning on or after 1 January 2014. The interpretation has not yet been endorsed by the EU and the effective date is not yet known. The Group is currently assessing the potential effect on the Group's accounting for production and similar taxes. Income taxes in accordance with IAS 12, fines and other penalties and liabilities arising from trading schemes are not covered by this interpretation.

Note 4: Use of estimates and critical judgements

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

Impairment testing

The determination of fair value and value-in-use requires management to make estimates and assumptions about expected production and sales volumes, commodity prices (considering current and historical prices, price trends and related factors), reserves, operating costs, closure and rehabilitation costs and future capital expenditure. These estimates and assumptions are subject to risk and uncertainty; hence there is a possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances, some or all of the carrying value of the assets may be impaired and the impairment would be charged against the income statement. The total of property, plant and equipment amounted to US\$1,533,819 thousand as of 31 December 2013 (2012: US\$1,347,563 thousand). See also note 18 for further information.

Note 4: Use of estimates and critical judgements continued

As outlined in note 19 the impairment testing of goodwill is based on significant judgements and assumptions made by management when performing the annual impairment testing of these non-current assets. Changes to be made to these assumptions may alter the results of the impairment testing, the impairment charges recorded in profit or loss and the resulting carrying values of the non-current assets tested. The carrying amount of the goodwill amounted to US\$98,415 thousand as of 31 December 2013 (2012: US\$98,413 thousand). Related disclosures are also made in note 19.

Capitalised stripping costs

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

An important area of judgement is the distinction between the pre-production and production phase of a mine together with the identification of the components of the ore body and the allocation of the production stripping costs to the components of the ore body or the inventory produced. At 31 December 2013, the carrying amount of capitalised pre-production stripping costs included in assets under construction amounted to US\$77,380 thousand (2012: US\$36,794 thousand). No production stripping costs are capitalised as at this date (2012: nil). See also note 18 for further information.

Fair value of financial instruments

Where the fair value of financial assets and liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including discounted cash flow models and reference to recent transaction prices. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

A judgement was made by management that an investment made during the financial year 2013 is fair valued at the recent transaction price totalling US\$82,382 thousand (2012: nil). Detailed information on the carrying amounts of the financial assets and liabilities is given in note 37.

Taxes recoverable

Within Ukraine, the Group has limited domestic sales and exports the majority of its products so that VAT paid on purchases of goods and capital equipment cannot be fully offset from VAT on domestic sales and the Group relies on refunds to be made by the Ukrainian government tax authority. Since the financial year 2010, refunds have not been made on time by the Ukrainian government tax authority and the gross recoverable balance increased to US\$318,213 thousand as of 31 December 2013 (2012: US\$301,535 thousand). Despite the fact that the vast majority of this balance is due for immediate repayment, there is a risk that a large portion will be recovered in 2014 through the issue of a financial instrument and another portion only after more than 12 months from the period end. A provision of US\$60,116 thousand has been recorded as of 31 December 2013 (2012: US\$20,000 thousand) to reflect management's best estimate of the discount to be expected on the financial instrument at the point of time of its issue and the time value of money based on management's best estimate of the anticipated timing of refunds. The issue of financial instrument and its discount as well as the exact timing of recovery of the other portion of the VAT receivable balance is subject to uncertainties and outside of management's control. A change of the underlying assumptions and estimates may affect the balance of the recorded discount in future periods. Additional disclosures are made in note 26.

During the financial year 2013, VAT refunds were received against corporate profit tax prepayments. As a result of such prepayments made, the balance of prepaid corporate profit tax increased from US\$24,869 thousand to US\$87,475 thousand as of 31 December 2013. The Group is of the view that the prepaid corporate profit tax will be recovered in future periods. However, the recovery depends on pellet prices in the global market, the agreement with the Ukrainian government tax authorities in the future and the development of foreign exchange rates which are outside of management's control. See also notes 16 and 26 for further details.

Defined benefit pension liability

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

Note 4: Use of estimates and critical judgements *continued*

periods of service of employees. In making these estimates and assumptions, management considers advice provided by external advisers, such as actuaries. At 31 December 2013, the carrying amount of defined benefit pension liability was US\$53,154 thousand (2012: US\$50,195 thousand). Detailed disclosure is made in note 31.

Provision for site restoration

The Group's accounting policy for the recognition of site restoration provisions requires significant estimates and assumptions such as requirements of the relevant legal and regulatory framework, the magnitude of possible contamination, and the timing, extent and estimated future costs of required closure and rehabilitation activity. These uncertainties may result in future actual expenditure differing from the amounts currently provided. At 31 December 2013, the carrying amount of the provision for site restoration amounted to US\$2,871 thousand (2012: US\$2,368 thousand). See also note 32 for further information.

Deferred income tax

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

Assumptions about the generation of expected future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, commodity prices, reserves, operating costs, closure and rehabilitation costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of recognised deferred tax balances in the consolidated financial statement of the Group and the amounts of other tax losses and temporary differences not yet recognised. In such circumstances, some, or all, of the carrying amount of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the income statement. At 31 December 2013, the Group's consolidated financial statements showed deferred tax assets of US\$37,612 thousand (2012: US\$33,220 thousand) and deferred tax liabilities of US\$2,031 thousand (2012: US\$2,581 thousand). See also notes 3 and 22 for further information.

Note 5: Segment information

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

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

EBITDA

The Group presents EBITDA because it believes that EBITDA is a useful measure for evaluating its ability to generate cash and its operating performance. The Group's full definition of EBITDA is disclosed in the Glossary on page 150.

US\$000	Notes	Year ended 31.12.13	Year ended 31.12.12
Profit before tax and finance		359,218	344,716
Write-down of VAT receivable	26	36,421	—
Write-offs and impairment losses	13	854	836
Share-based payments	38	1,266	1,608
Losses on disposal of property, plant and equipment		8,492	4,067
Depreciation and amortisation		99,645	54,169
EBITDA		505,896	405,396

As a result of the retrospective adoption of the amendments to IAS 19, the pension costs of the comparative period ended 31 December 2012 changed and had a positive effect of US\$3,847 thousand on the previously disclosed EBITDA figures. See note 3 for further details.

Note 5: Segment information continued

'C1' costs

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

US\$000	Year ended 31.12.13	Year ended 31.12.12
Cost of sales – pellet production	726,960	638,807
Depreciation and amortisation	(78,690)	(39,290)
Purchased concentrate and other items for resale	(34,805)	(29,254)
Inventory movements	25,476	9,029
Other non-C1 cost components	(13,213)	(18,144)
C1 cost	625,728	561,148
Own ore produced (tonnes)	10,465,606	9,408,662
C1 cash cost per tonne (US\$)	59.8	59.6

Net financial indebtedness

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

US\$000	Notes	Year ended 31.12.13	Year ended 31.12.12
Cash and cash equivalents	27	390,491	596,560
Current borrowings	29	(101,043)	(26,846)
Non-current borrowings	29	(928,196)	(993,139)
Net financial indebtedness		(638,748)	(423,425)

Disclosure of revenue and non-current assets

The Group does not generate significant revenues from external customers attributable to 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

Revenue for the year ended 31 December 2013 consisted of the following:

US\$000	Year ended 31.12.13	Year ended 31.12.12
Revenue from sales of iron ore pellets and concentrate:		
Export	1,494,899	1,329,728
Ukraine	–	331
Total revenue from sale of iron ore pellets and concentrate	1,494,899	1,330,059
Revenue from logistics and bunker business	76,321	81,845
Revenue from services provided	1,155	3,202
Revenue from other sales	9,010	8,924
Total revenue	1,581,385	1,424,030

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued***Note 6: Revenue** continued

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

US\$000	Year ended 31.12.13	Year ended 31.12.12
China	435,471	529,664
Austria	381,675	339,725
Turkey	184,234	73,180
Japan	130,429	33,389
Slovakia	127,029	141,765
Czech Republic	123,600	112,623
Germany	80,814	40,486
Serbia	31,647	19,723
India	–	23,068
Russia	–	8,875
Romania	–	5,167
Hungary	–	2,063
Total exports	1,494,899	1,329,728

During the year ended 31 December 2013 sales made to three customers accounted for 47.2% of the revenues from export sales of ore pellets (2012: 44.7%).

Sales to customers that individually represented more than 10% of total sales in either current or prior year are as follows:

US\$000	Year ended 31.12.13	Year ended 31.12.12
Customer A	381,675	339,725
Customer B	184,234	73,180
Customer C	127,029	141,765

Note 7: Cost of sales

Cost of sales for the year ended 31 December 2013 consisted of the following:

US\$000	Year ended 31.12.13	Year ended 31.12.12
Materials	107,530	89,296
Purchased concentrate and other items for resale	34,805	29,254
Electricity	158,849	141,939
Personnel costs	66,194	69,092
Spare parts and consumables	15,921	26,563
Depreciation and amortisation	78,690	39,290
Fuel	74,653	56,038
Gas	82,028	79,082
Repairs and maintenance	72,299	78,022
Royalties and levies	23,162	12,375
Cost of sales from logistics business	16,531	22,342
Bunker fuel	29,731	29,580
Inventory movements	(25,476)	(9,028)
Other	38,304	26,884
Total cost of sales	773,221	690,729

US\$000	Year ended 31.12.13	Year ended 31.12.12
Cost of sales – pellet production	726,960	638,807
Cost of sales – logistics and bunker business	46,261	51,922
Total cost of sales	773,221	690,729

Note 8: Selling and distribution expenses

Selling and distribution expenses for the year ended 31 December 2013 consisted of the following:

US\$000	Year ended 31.12.13	Year ended 31.12.12
International freight for pellets	114,366	113,538
Railway transportation	108,159	93,442
Port charges	31,084	31,891
Other pellet transportation costs	13,121	18,611
Costs of logistics business	32,991	27,495
Advertising	12,192	9,643
Depreciation	14,135	9,805
Other	9,670	7,539
Total selling and distribution expenses	335,718	311,964

Note 9: General and administrative expenses

General and administrative expenses for the year ended 31 December 2013 consisted of the following:

US\$000	Year ended 31.12.13	Year ended 31.12.12
Personnel costs	31,972	30,569
Buildings and maintenance	2,571	2,597
Taxes other than income tax and other charges	184	1,465
Professional fees	6,715	4,699
Depreciation and amortisation	4,022	4,636
Communication	1,328	1,144
Vehicle maintenance and fuel	1,584	2,033
Repairs	982	1,542
Audit and non-audit fees	2,506	2,062
Security	497	2,296
Other	2,478	3,286
Total general and administrative expenses	54,839	56,329

Auditor remuneration

Auditor remuneration paid in respect of the audit of the financial statements of the Group and its subsidiary companies and for the provision of other services not in connection with the audit is disclosed below:

US\$000	Year ended 31.12.13	Year ended 31.12.12
Audit services		
Ferrexpo plc Annual Report	1,252	823
Subsidiary entities	354	766
Total audit services	1,606	1,589
Non-audit services		
Tax advisory	125	23
Assurance related services	708	203
Other services	67	247
Total non-audit services	900	473
Total auditor remuneration	2,506	2,062

Assurance related services include fees paid for services provided in relation to raising of new debt for the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued***Note 10: Other income**

Other income for the year ended 31 December 2013 consisted of the following:

US\$000	Year ended 31.12.13	Year ended 31.12.12
Sale of surplus maintenance spares	–	1,276
Lease income	942	3,050
Other income	5,720	7,021
Total other income	6,662	11,347

Note 11: Other expenses

Other expenses for the year ended 31 December 2013 consisted of the following:

US\$000	Year ended 31.12.13	Year ended 31.12.12
Community support donations	10,116	20,810
Movements in allowance for doubtful receivables and prepayments made	661	721
Research	429	680
Other personnel costs	2,469	2,339
Other	9,782	5,611
Total other expenses	23,457	30,161

Note 12: Foreign exchange gains and losses

Foreign exchange gains and losses for the year ended 31 December 2013 consisted of the following:

US\$000	Year ended 31.12.13	Year ended 31.12.12
Operating foreign exchange gains		
Revaluation of trade receivables	1	7
Revaluation of trade payables	30	23
Revaluation of cash and cash equivalents	512	339
Other	79	284
Total operating foreign exchange gains	622	653
Non-operating foreign exchange gains		
Revaluation of interest-bearing loans	2,892	1,986
Conversion of cash and cash equivalents	7,329	5,046
Other	(466)	(410)
Total non-operating foreign exchange gains	9,755	6,622

The non-operating foreign exchange gains in 2013 relates to income received from the conversion of US Dollars for the settlement of liabilities denominated in Ukrainian Hryvnia at an exchange rate higher than the one applicable upon initial recognition.

Note 13: Write-offs and impairment losses

Impairment losses relate to adjustments made against the carrying value of assets where this is higher than the recoverable amount. Write-offs and impairment losses for the year ended 31 December 2013 consisted of the following:

US\$000	Notes	Year ended 31.12.13	Year ended 31.12.12
Write-off of inventories		528	215
Write-off of property, plant and equipment		326	191
Impairment of available-for-sale financial assets	20	–	430
Total write-offs and impairment losses		854	836

Note 14: Investments in associates

As at 31 December 2013 investments in associates comprised:

	Principal activity	Country of incorporation	Ownership %	As at 31.12.13 US\$000	As at 31.12.12 US\$000
TIS Ruda ¹	Port development	Ukraine	48.6	20,546	16,995

For the year ended 31 December 2013 the summarised financial information for the associate was as follows:

	Total assets		Total liabilities		Revenue		Net profit	
US\$000	As at 31.12.13	As at 31.12.12	As at 31.12.13	As at 31.12.12	Year ended 31.12.13	Year ended 31.12.12	Year ended 31.12.13	Year ended 31.12.12
TIS Ruda ¹	27,503	20,500	1,740	2,498	23,335	22,401	7,116	5,555

¹ Based on preliminary and unaudited financial information.

The information above is for 100% of the associate named and not as a percentage based on Group's ownership. The movement in the investment in the year represents the Group's share of profit of US\$3,551 thousand in TIS Ruda (2012: US\$2,772 thousand). During the comparative period ended 31 December 2012, TIS Ruda paid a dividend amounting to US\$4,963 thousand. No dividend was paid during the financial year 2013 to the Group.

TIS Ruda operates a port on the Black Sea which the Group uses as part of its distribution channel.

Note 15: Finance income and expense

Finance income and expense for the year ended 31 December 2013 consisted of the following:

US\$000	Year ended 31.12.13	Year ended 31.12.12
Finance income		
Interest income	2,062	2,454
Other finance revenue	310	144
Total finance income	2,372	2,598
Finance expense		
Interest expense on financial liabilities measured at amortised cost	(53,340)	(54,749)
Effect from capitalised borrowing costs	8,966	1,508
Interest on defined benefit plans	(5,487)	(6,933)
Bank charges	(10,976)	(6,880)
Other finance costs	(5,116)	(21,149)
Total finance expenses	(65,953)	(88,203)
Net finance expense	(63,581)	(85,605)

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

Other finance costs include the effect from the increase of the recorded discount of US\$3,695 thousand (2012: US\$20,000 thousand) to reflect the time value of money on the outstanding VAT receivable balances in Ukraine that are expected to be recovered after more than one year of the period end. Further information is provided in note 26.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

Note 16: Income tax expense

The income tax expense for the year ended 31 December 2013 consisted of the following:

US\$000	Notes	Year ended 31.12.13	Year ended 31.12.12
Current income tax			
Current income tax charge		45,878	48,797
Amounts related to previous years		684	2,929
Total current income tax		46,562	51,726
Deferred income tax			
Origination and reversal of temporary differences		(7,266)	(12,053)
Effect from changes in tax laws and rates		2,312	7,462
Total deferred income tax	22	(4,954)	(4,591)
Total income tax expense		41,608	47,135

Other comprehensive income contained taxes on the following items charged or credited to it for the year ended 31 December 2013:

US\$000	Year ended 31.12.13	Year ended 31.12.12
Exchange differences arising on hedging of foreign operations	–	32
Net losses on available-for-sale investments	30	62
Remeasurement gains on defined pension liability	(58)	(3,404)
Total income taxes charged to other comprehensive income	(28)	(3,310)

A breakdown of the deferred tax balances is contained in note 22.

The effective income tax rate differs from the corporate income tax rates. The weighted average statutory rate was 8.3% for 2013 (2012: 9.3%). This is calculated as the average of the statutory tax rates applicable in the countries in which the Group operates, weighted by the profits and losses before tax of the subsidiaries in the respective countries, as included in the consolidated financial information. The effective tax rate is 13.6% (2012: 17.8%). The decrease is a result of the reduction of the statutory tax rate in Ukraine and the change in the profit mix between the different local jurisdictions.

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 2013 is as follows:

US\$000	Year ended 31.12.13	Year ended 31.12.12
Profit before tax	305,392	265,733
Notional tax computed at the weighted average statutory tax rate of 8.3% (2012: 9.3%)	25,329	24,770
Derecognition of deferred tax asset	101	264
Effect from changes in local tax rates	2,312	7,462
Effect from utilisation of non-recognised deferred tax assets	94	(318)
Expenses not deductible for tax purposes	8,485	8,818
Tax exempted income	(1,396)	(422)
Non-recognition of deferred taxes on current year losses	4,084	3,684
Tax related to prior years	2,011	2,929
Other	588	(52)
Total income tax expense	41,608	47,135

Note 17: Earnings per share and dividends paid and proposed

Basic earnings per share ('EPS') is calculated by dividing the net profit for the year attributable to ordinary equity shareholders of Ferrexpo plc by the weighted average number of Ordinary Shares.

	Year ended 31.12.13	Year ended 31.12.12
Profit for the year attributable to equity shareholders:		
Basic earnings per share (US cents)	44.76	37.14
Diluted earnings per share (US cents)	44.69	37.08

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

Thousand	Year ended 31.12.13	Year ended 31.12.12
Weighted average number of shares		
Basic number of Ordinary Shares outstanding	585,294	585,060
Effect of dilutive potential Ordinary Shares	926	973
Diluted number of Ordinary Shares outstanding	586,220	586,033

The basic number of Ordinary Shares is calculated by reducing the total number of Ordinary Shares in issue by the weighted average shares held in treasury and employee benefit trust reserve (refer to note 28).

Diluted earnings per share is calculated by adjusting the weighted average number of Ordinary Shares in issue on the assumption of conversion of all potentially dilutive Ordinary Shares. All share awards are potentially dilutive and are considered in the calculation of diluted earnings per share.

Dividends paid and proposed

US\$000	Year ended 31.12.13
Dividends proposed	
Final dividend for 2013: 3.3 US cents per Ordinary Share	19,317
Special dividend for 2013: 6.6 US cents per Ordinary Share	38,633
Total dividends proposed	57,950
Dividends paid during the year	
Interim dividend for 2013: 3.3 US cents per Ordinary Share	19,692
Final dividend for 2012: 3.3 US cents per Ordinary Share	19,441
Special dividend for 2012: 6.6 US cents per Ordinary Share	38,749
Total dividends paid	77,882

US\$000	Year ended 31.12.12
Dividends proposed	
Final dividend for 2012: 3.3 US cents per Ordinary Share	19,309
Special dividend for 2012: 6.6 US cents per Ordinary Share	38,618
Total dividends proposed	57,927
Dividends paid during the year	
Interim dividend for 2012: 3.3 US cents per Ordinary Share	19,312
Final dividend for 2011: 3.3 US cents per Ordinary Share	19,340
Total dividends paid	38,652

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

Note 18: Property, plant and equipment

As at 31 December 2013 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 2012	–	7,860	20,346	177,538	69,612	276,058	238,210	5,325	339,091	1,134,040
Additions	3,078	–	–	–	21,696	39	979	175	470,761	496,728
Transfers	–	1,754	326,015	54,256	19,009	74,290	140,231	1,509	(617,064)	–
Disposals	–	–	(914)	(3,329)	(1,291)	(3,334)	(4,698)	(78)	(1,259)	(14,903)
Application of IAS 16	–	–	–	–	–	–	–	–	5,524	5,524
Translation differences	–	73	(9)	(67)	1,587	(106)	(95)	2	(84)	1,301
At 31 December 2012	3,078	9,687	345,438	228,398	110,613	346,947	374,627	6,933	196,969	1,622,690
Additions	127	17	–	1,492	–	249	4	100	317,331	319,320
Transfers	–	193	26,637	42,942	2,537	83,398	29,362	1,573	(186,642)	–
Disposals	–	–	(177)	(4,526)	(342)	(14,019)	(6,853)	(181)	(6,684)	(32,782)
Translation differences	–	142	–	8	3,245	12	2	11	28	3,448
At 31 December 2013	3,205	10,039	371,898	268,314	116,053	416,587	397,142	8,436	321,002	1,912,676
Depreciation:										
At 1 January 2012	–	–	1,506	38,535	4,240	113,864	48,504	2,671	30	209,350
Depreciation charge	–	–	5,479	10,008	4,566	28,367	24,052	1,430	–	73,902
Disposals	–	–	–	(1,310)	–	(2,868)	(3,981)	(73)	–	(8,232)
Transfers	–	–	–	4	–	2	(3)	(3)	–	–
Impairment	–	–	–	16	–	–	–	–	76	92
Translation differences	–	–	(1)	(18)	97	(44)	(20)	1	–	15
At 31 December 2012	–	–	6,984	47,235	8,903	139,321	68,552	4,026	106	275,127
Depreciation charge	–	–	26,935	16,372	7,359	34,242	30,561	1,208	–	116,677
Disposals	–	–	–	(1,361)	–	(8,227)	(3,927)	(152)	–	(13,667)
Transfers	–	–	–	–	–	15	–	(15)	–	–
Impairment	–	–	–	(195)	–	416	52	(3)	56	326
Translation differences	–	–	–	16	365	7	1	5	–	394
At 31 December 2013	–	–	33,919	62,067	16,627	165,774	95,239	5,069	162	378,857
Net book value at:										
31 December 2012	3,078	9,687	338,454	181,163	101,710	207,626	306,075	2,907	196,863	1,347,563
31 December 2013	3,205	10,039	337,979	206,247	99,426	250,813	301,903	3,367	320,840	1,533,819

Assets under construction consist of ongoing capital projects amounting to US\$243,622 thousand (2012: US\$154,545 thousand) and capitalised pre-production stripping costs of US\$77,380 thousand (2012: US\$36,794 thousand). Once production commences, stripping costs are transferred to mining assets. The accounting policy for mine stripping costs is outlined in note 2.

Property, plant and equipment includes capitalised borrowing costs on qualifying assets of US\$8,966 thousand (2012: US\$1,508 thousand). The capitalised borrowing costs on general borrowings were determined based on the capitalisation rate of 5.8% (2012: 5.8%), which is the average effective interest rate on general borrowings during the period. The Group has no specific borrowings in relation to qualifying assets during either reporting period.

The carrying value of equipment held under finance leases and hire purchase contracts at 31 December 2013 was US\$25,544 thousand (2012: US\$18,549 thousand). During the comparative period ended 31 December 2012, the Group entered into sale and lease-back transactions for rail cars and mining equipment, which were considered to be finance leases. No gain or loss was realised on the sale of the assets subject to these finance leases. Leased assets and assets under hire purchase contracts are pledged as security for the related finance leases and hire purchase liabilities.

US\$227,460 thousand of property, plant and equipment have been pledged as security for liabilities (2012: US\$220,053 thousand).

The gross value of fully depreciated property, plant and equipment that is still in use is US\$47,992 thousand (2012: US\$45,994 thousand).

Note 19: Goodwill and other intangible assets

As at 31 December 2013 goodwill and other intangible assets comprised:

US\$000	Goodwill	Exploration and evaluation	Other intangible assets	Total
Cost:				
At 1 January 2012	98,453	–	6,654	105,107
Additions	–	3,607	6,304	9,911
Disposals	–	–	(53)	(53)
Translation differences	(40)	–	51	11
At 31 December 2012	98,413	3,607	12,956	114,976
Additions	–	5,562	1,706	7,268
Disposals	–	–	(111)	(111)
Translation differences	2	–	122	124
At 31 December 2013	98,415	9,169	14,673	122,257
Accumulated amortisation and impairment:				
At 1 January 2012	–	–	1,867	1,867
Amortisation charge	–	–	980	980
Disposals	–	–	(53)	(53)
Translation differences	–	–	11	11
At 31 December 2012	–	–	2,805	2,805
Amortisation charge	–	1,196	1,226	2,422
Disposals	–	–	(111)	(111)
Translation differences	–	–	55	55
At 31 December 2013	–	1,196	3,975	5,171
Net book value at:				
31 December 2012	98,413	3,607	10,151	112,171
31 December 2013	98,415	7,973	10,698	117,086

The goodwill acquired through business combinations in previous periods has been allocated for impairment purposes to one cash-generating unit, as the Group only has one operating segment, being the production and sale of iron ore. This represents the lowest level within the Group at which goodwill is monitored for internal management purposes.

Goodwill from business combinations is not amortised, but reviewed for impairment at every balance sheet date and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Impairment testing was performed at 31 December 2013 based on a value-in-use calculation using cash flow projections over the remaining estimated life of the Gorishne-Plavinskoye and Lavrikovskoye mine ('GPL'), which is expected to expire in 2038 according to the current approved mine plan. The estimated production volumes are based on this mine plan and do not take into account the effects of expected future mine life extension programmes. The cash flow projection is based on the financial budget covering the next five years and approved by senior management. The production capacity remains at a fixed level until full capacity is reached and therefore no perpetual growth rate is applied for the cash flow projections beyond the budgeted four years.

The major component of other intangible assets comprises mining licences and purchased software.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

Note 19: Goodwill and other intangible assets *continued*

Key assumptions

The key assumptions are:

Estimates/assumptions	Basis
Future production:	Proved and probable reserves and resource estimates
Commodity prices:	Contract prices and longer-term price estimates
Cost of raw materials and other production/distribution costs:	Expected future costs
Exchange rates:	Current market exchange rates
Discount rates:	Cost of capital risk adjusted for the resource concerned

Cash flows are projected based on management's expectations regarding the development of the iron ore and steel market and the cost of producing and distributing the pellets.

The Group takes into account two key assumptions, selling price and total production costs. Within this, both macro and local factors which influence these are considered.

In determining the future long-term selling price, the Group takes into account external and internal analysis of the longer-term and shorter-term supply and demand dynamics in the local region and throughout the world along with costs of production of competitors and the marginal cost of incremental production in a particular market. The Group considers local supply demand balances affecting its major customers and the effects this could have on the longer-term price. The assumptions for iron ore prices ranged from US\$90 per tonne to US\$120 per tonne of Fe 62% fines CFR North China (2012: US\$85 per tonne to US\$128 per tonne).

Cost of production and shipping is considered taking into account local inflationary pressures, major exchange rate developments between local currency and the US Dollar, and the longer-term and shorter-term trends in energy supply and demand and the effect on costs along with the expected movements in steel-related commodity prices which affect the cost of certain production inputs.

For the purpose of the goodwill impairment test, the future cash flows were discounted using the real pre-tax discount rate of 10% (2012: 10%) per annum. These rates reflect the time value of money and risk associated with the asset, and is in line with the rates used by competitors with a similar background.

Sensitivity to changes in assumptions

Management believes that due to the high value of the projects and resulting reserve base no reasonable change in the above key assumptions would cause the carrying value of the unit to materially exceed its value-in-use.

Note 20: Available-for-sale financial assets

As at 31 December 2013 available-for-sale financial assets comprised:

	Ownership		Carrying value	
	As at 31.12.13	As at 31.12.12	As at 31.12.13	As at 31.12.12
US\$000				
Non-current				
Investments available-for-sale – equity investments:				
Ferrous Resources	15.51%	–	82,382	–
PJSC Stakhanov Railcar Company	1.10%	1.10%	396	534
Vostok Ruda LLC	1.10%	1.10%	–	–
LLC AtoI	9.95%	9.95%	–	–
CJSC AMA	9.00%	9.00%	–	–
CJSC Amtek	9.00%	9.00%	–	–
Total non-current			82,778	534

The Group acquired between January and September 2013 a 15.5% strategic stake in Ferrous Resources, a producing iron ore company operating in the iron ore quadrangle of the Minas Gerais region of Brazil. The other investments listed above relate to companies incorporated in Ukraine.

Note 20: Available-for-sale financial assets continued

Details in respect of the valuation of these available-for-sale financial assets are provided in note 37. See also notes 13 and 34 for further details.

Impairment testing

Ferrous Resources

The investment in Ferrous Resources is reviewed for indication of impairment at least at the end of each reporting period that is published. Considering the short period of time since the acquisition of Ferrous Resources and taking into account the current market situation, there are no indications of an impairment as of 31 December 2013.

PJSC Stakhanov Railcar Company

The value of PJSC Stakhanov Railcar Company decreased due to a lower quoted market price for its shares on the Ukrainian stock exchange ('PFTS') as of 31 December 2013. The decrease of the fair value in the amount of US\$138 thousand (2012: decrease of US\$326 thousand) has been recorded against the net unrealised gains reserve. The decrease of the fair value is not considered to be a significant or prolonged decline and therefore not an objective evidence of impairment.

Vostok Ruda LLC

The investment in Vostok Ruda LLC was fully impaired during the financial year 2012. There are no indications at 31 December 2013 that could require a reversal of the previously booked impairment losses.

Ferrexpo Petroleum

The unquoted equity investments in LLC Atol, CJSC AMA and CJSC Amtek, companies engaged in the exploration and development of oil and gas fields in the Poltava Region of Ukraine, were fully impaired during previous financial years based on a discounted cash flow projection. The key assumptions used in this calculation were gas/condensate prices, gas/oil/condensate conversion rates, production volumes, production costs, tax rates, projected capital expenditure, the Ukrainian Hryvnia to US Dollar exchange rate and the discount rate. There are no indications at 31 December 2013 that require a reversal of any impairment losses booked in previous periods.

Note 21: Other non-current assets

As at 31 December 2013 other non-current assets comprised:

US\$000	As at 31.12.13	As at 31.12.12
Prepayments for property, plant and equipment	19,185	35,711
Prepaid bank arrangement fees	7,978	3,760
Other non-current assets	7,412	2,339
Total other non-current assets	34,575	41,810

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

Note 22: Deferred income tax

Deferred income tax assets and liabilities at 31 December 2013 relate to the following:

	Consolidated statement of financial position		Consolidated income statement	
	As at 31.12.13	As at 31.12.12	Year ended 31.12.13	Year ended 31.12.12
US\$000				
Trade and other receivables	51	496	(445)	423
Inventories	1,311	229	1,082	(77)
Accrued income and prepaid expenses	–	12	(12)	12
Property, plant and equipment	26,993	23,091	3,881	5,880
Intangible assets	187	53	134	59
IPO costs netted against share premium	–	33	(33)	(194)
Tax losses recognised	1,291	1,060	231	(962)
Other financial assets	174	56	118	(20)
Trade and other payables	26	1	25	1
Accrued expenses	1,658	1,585	74	100
Defined benefit pension liability	8,451	7,856	595	802
Provision for site restoration	372	353	19	(104)
Other financial liabilities	–	9	(9)	(1)
Other items	–	2	(2)	–
Total deferred tax assets/change	40,514	34,836	5,658	5,919
Thereof netted against deferred tax liabilities	(2,902)	(1,616)		
Total deferred tax assets as per the statement of financial position	37,612	33,220		
Trade and other receivables	(703)	(759)	55	370
Inventories	(264)	(267)	4	(267)
Accrued income and prepaid expenses	(745)	(159)	(587)	59
Property, plant and equipment	(2,069)	(1,678)	(391)	(726)
Other non-current assets	(866)	(615)	(251)	(615)
Other financial assets	(171)	(185)	14	71
Employee benefit trust	–	–	–	305
Trade and other payables	(93)	(521)	428	(520)
Accrued expenses	(10)	–	(10)	–
Lease obligations	(12)	(1)	(11)	7
Defined benefit pension liability	–	(12)	12	(12)
Total deferred tax liabilities/change	(4,933)	(4,197)	(737)	(1,328)
Thereof netted against deferred tax assets	2,902	1,616		
Total deferred tax liabilities as per the statement of financial position	(2,031)	(2,581)		
Net deferred tax assets/net change	35,581	30,639	4,921	4,591

As a result of the retrospective adoption of the amendments to IAS 19, deferred taxes on the defined benefit pension liability of the comparative period ended 31 December 2012 increased by US\$4,089 thousand. See note 3 for further details.

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

	Year ended 31.12.13	Year ended 31.12.12
US\$000		
Opening balance	30,639	29,397
Income statement credit	4,954	4,591
Charges booked outside of profit or loss	(28)	(3,404)
Foreign currency exchange rate adjustment	16	55
Closing balance	35,581	30,639

Note 22: Deferred income tax continued

As at 31 December 2013, the Group had deductible temporary differences on available tax loss carry forwards in the amount of US\$100,226 thousand (2012: US\$80,582 thousand) for which no deferred tax assets were recognised. The vast majority of the available tax loss carry forwards relates to the acquired logistics business in Austria and Hungary during the financial year 2010. Tax loss carry forwards in both tax jurisdictions do not expire. Temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised amount to US\$826,470 thousand (2012: US\$660,683 thousand).

Note 23: Inventories

As at 31 December 2013 inventories comprised:

	As at 31.12.13	As at 31.12.12
US\$000		
Raw materials and consumables	120,087	93,561
Finished ore pellets	33,969	28,142
Work in progress	25,206	5,178
Other	2,775	7,876
Provision for slow-moving and obsolete inventory items	(1,174)	(646)
Total inventories – current	180,863	134,111
Raw materials and consumables	58,303	12,362
Total inventories – non-current	58,303	12,362

Inventory is held at the lower of cost or net recoverable amount.

Inventories classified as non-current comprise ore stockpiles that are not planned to be processed within one year.

Note 24: Trade and other receivables

At 31 December 2013 trade and other receivables comprised:

	As at 31.12.13	As at 31.12.12
US\$000		
Trade receivables	100,723	116,135
Other receivables	3,854	1,967
Allowance for doubtful receivables	(2,079)	(1,549)
Total trade and other receivables	102,498	116,553

Trade receivables at 31 December 2013 includes US\$1,181 thousand (2012: US\$826 thousand) owed by related parties. The detailed related party disclosures are made in note 34.

The movement in the provision for doubtful receivables during the period under review was:

	Year ended 31.12.13	Year ended 31.12.12
US\$000		
Opening balance	1,549	1,484
Recognition	752	1,080
Reversal	(222)	(1,015)
Closing balance	2,079	1,549

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 31.12.13 US\$000	Gross amount	Receivables past due and impaired	Receivables neither past due nor impaired	Receivables past due but not impaired		
				Less than 45 days	45 to 90 days	Over 90 days
Trade receivables	100,723	1,767	92,969	2,210	887	2,890
Other receivables	3,854	312	3,275	19	22	226

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

Note 24: Trade and other receivables continued

As at 31.12.12 US\$000	Gross amount	Receivables past due and impaired	Receivables neither past due nor impaired	Receivables past due but not impaired		
				Less than 45 days	45 to 90 days	Over 90 days
Trade receivables	116,135	1,465	88,792	21,978	1,008	2,892
Other receivables	1,967	84	891	20	531	441

The Group's exposures to credit and currency risks are disclosed in note 37.

Note 25: Prepayments and other current assets

As at 31 December 2013 prepayments and other current assets comprised:

	As at 31.12.13	As at 31.12.12
US\$000		
Prepayments to suppliers:		
Electricity and gas	5,009	4,094
Materials and spare parts	2,208	3,289
Services	4,990	4,588
Other prepayments	286	67
Prepaid bank arrangement fees	2,793	1,410
Accrued income	9,334	22,176
Other	453	844
Total prepayments and other current assets	25,073	36,468

Prepayments at 31 December 2013 include US\$322 thousand (2012: US\$1,482 thousand) made to related parties. The detailed related party disclosures are made in note 34.

Note 26: Taxes payable, recoverable and prepaid

The income tax receivable balance as of 31 December 2013 is shown below:

	As at 31.12.13	As at 31.12.12
US\$000		
Opening balance	11,197	(36,290)
Income statement charge	(46,562)	(51,727)
Tax paid	108,321	99,771
Reclassification	1,876	-
Foreign exchange adjustment	89	(557)
Closing balance	74,921	11,197

Split by:

	As at 31.12.13	As at 31.12.12
US\$000		
Income tax receivable balance – current	33,233	24,869
Income tax receivable balance – non-current	54,242	-
Income tax payable balance	(12,554)	(13,672)
Net income tax receivable	74,921	11,197

As at 31 December 2013 taxes recoverable and prepaid comprised:

	As at 31.12.13	As at 31.12.12
US\$000		
VAT receivable	182,628	186,900
Other taxes prepaid	235	346
Total taxes recoverable and prepaid – current	182,863	187,246
VAT receivable	78,281	97,895
Total taxes recoverable and prepaid – non-current	78,281	97,895

Note 26: Taxes payable, recoverable and prepaid continued

The vast majority of the outstanding VAT receivable balance is related to Ukraine and a result of VAT paid on domestic Ukrainian purchases of goods, capital equipment and services and on the import of goods, capital equipment and services into Ukraine to the extent that this cannot be offset on VAT paid on domestic sales in Ukraine. Ferrexpo currently has limited domestic sales and exports the majority of its products. As a result, VAT has to be recovered from the government tax authority and Ferrexpo is reliant on the normal functioning of this system. During the financial year 2013, the Group received VAT refunds in respect of 2012 and 2013 amounting to US\$170,967 thousand and paid Ukrainian VAT amounting to US\$219,024 thousand. This was reduced by VAT incurred on domestic product sales of US\$31,380 thousand. As a result, the gross recoverable balance increased from US\$301,536 thousand to US\$318,213 thousand (UAH2,543 million).

Management expects this amount to be fully recovered in local currency. However, the exact timing of recovery and method of settlement is subject to uncertainties, along with the prevailing exchange rate to the US Dollar at the time of repayment. In the past, VAT has been recovered in cash and by the issuance of domestic local currency bonds. Alternative methods of settlement have been proposed, but not adopted, including offset of amounts recoverable against current and future corporate profit tax. A financial loss could result, for example, from the issuance of bonds or treasury promissory notes which trade at a discount at the time of issue; continued late repayment as a result of government fiscal constraints diminishing the present value of the receivable; or the conversion to US Dollar of local currency received at a different exchange rate to that recorded at the time of payment; or adverse decision in the courts regarding VAT balances in dispute, which management believe is fully recoverable. In October 2013, the cabinet of ministers of Ukraine confirmed that outstanding VAT liabilities incurred prior to 2013 will be settled with bonds or treasury promissory notes instead of cash repayment. As of the date of the publication of these accounts no such financial instruments have been issued.

Management has assessed the considerable uncertainties regarding the method of repayment of VAT and uncertainties relating to the timing of recovery of the VAT due. Currently the Group has amounts repayable in respect of 2013 under normal terms which is being recovered fully and promptly in the normal course of its business. During the financial year 2013 this was in exchange for a 50% prepayment of corporation tax. As a result of this, the prepaid balance of prepaid corporate profit tax increased from US\$24,869 thousand to US\$87,475 thousand as of 31 December 2013. It is the management's view that this balance will be offset with future profits.

At the end of the reporting period, the Group also has US\$101,977 thousand in the court system which management believes will be fully recovered. The protracted procedures involved and the complexity of the system will, however, result in a delay in repayment and it is the best estimate of management that at the current time it will take two years before all the court processes are completed and payment in full will be received. A discount of US\$23,695 thousand (2012: US\$20,000 thousand) to reflect the time value of money during this period has been made and this asset has been disclosed net of provision as non-current.

The Group has US\$145,685 thousand of VAT outstanding from the financial year 2012 and earlier which management believe will be recovered in the next year through the issue of financial instruments as has been the practice in the past. There is no fully reliable way to estimate the ultimate financial recovery which can ultimately be at par value, however it is the best estimate of management, based on past practice, that the financial instruments would if issued trade at a discount of 25% for which a provision of US\$36,421 thousand (2012: nil) has been made as of 31 December 2013.

The total provision recorded in respect of the outstanding VAT receivable balances is US\$60,116 thousand as of 31 December 2013 (2012: US\$20,000 thousand). Further information on the Ukrainian VAT situation is provided in the Principal Risks section on page 29.

As at 31 December 2013 other taxes payable comprised:

	As at 31.12.13	As at 31.12.12
US\$000		
Withholding tax	501	540
Environmental tax	3,225	496
Royalties	3,822	2,931
Source tax	116	10
VAT payable	1,734	1,697
Other taxes	2,571	2,691
Total taxes payable	11,969	8,365

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

Note 27: Cash and cash equivalents

As at 31 December 2013 cash and cash equivalents comprised:

US\$000	Year ended 31.12.13	Year ended 31.12.12
Cash at bank and on hand	355,364	304,994
Short-term deposit	35,127	291,566
Total cash and cash equivalents	390,491	596,560

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 37. See also note 34 for further information in respect of transactional banking arrangements.

Note 28: Share capital and reserves

	US\$000	Number of shares
Balance at 31 December 2013 and 2012	121,628	613,967,956

Share capital represents the nominal value on issue of the Company's equity share capital, comprising £0.10 Ordinary Shares.

The fully paid share capital of Ferrexpo plc at 31 December 2013 was 613,967,956 Ordinary Shares (2012: 613,967,956) at a par value of £0.10 paid for in cash, resulting in share capital of US\$121,628 thousand (2012: US\$121,628 thousand) per the statement of financial position.

The closing balance as of 31 December 2013 and 2012 includes 25,343,814 shares which are held in treasury and 3,275,435 shares held in the employee benefit trust reserve (2012: 3,504,523 shares).

As at 31 December 2013 other reserves attributable to equity shareholders of Ferrexpo plc comprised:

US\$000	Uniting of interest reserve	Treasury share reserve	Employee benefit trust reserve	Net unrealised gains reserve	Translation reserve	Total other reserves
At 1 January 2012	31,780	(77,260)	(9,416)	1,084	(294,791)	(348,603)
Foreign currency translation differences	-	-	-	-	(829)	(829)
Loss on available-for-sale investments	-	-	-	(326)	-	(326)
Tax effect	-	-	-	62	32	94
Total comprehensive income for the period	-	-	-	(264)	(797)	(1,061)
Share-based payments	-	-	1,608	-	-	1,608
At 31 December 2012	31,780	(77,260)	(7,808)	820	(295,588)	(348,056)
Foreign currency translation differences	-	-	-	-	(428)	(428)
Loss on available-for-sale investments	-	-	-	(138)	-	(138)
Tax effect	-	-	-	30	-	30
Total comprehensive income for the period	-	-	-	(108)	(428)	(536)
Share-based payments	-	-	1,266	-	-	1,266
At 31 December 2013	31,780	(77,260)	(6,542)	712	(296,016)	(347,326)

Uniting of interest reserve

The uniting of interest reserve represents the difference between the initial investment by Ferrexpo AG in OJSC Ferrexpo Poltava Mining to gain control of the subsidiary in 2005 and the net assets acquired, which under the pooling of interests method of accounting are consolidated at their historic cost, less non-controlling interests.

Treasury share reserve

During September 2008, Ferrexpo plc completed a buyback of 25,343,814 shares for a total cost of US\$77,260 thousand. These shares are currently held as treasury shares by the Group. The Companies Act 2006 forbids the exercise of any rights (including voting rights) and the payment of dividends in respect of treasury shares.

Note 28: Share capital and reserves continued

Employee benefit trust reserve

This reserve represents the treasury shares held by Ferrexpo AG setting up an employee benefit trust reserve. The reserve is used to satisfy future grants for senior management incentive schemes.

Net unrealised gains reserve

This reserve records fair value changes on available-for-sale investments.

Translation reserve

The translation reserve represents exchange differences arising on the translation of non-US Dollar (e.g. Ukrainian Hryvnia) functional currency operations within the Group into US Dollars.

Share premium

Share premium represents the premium paid by subscribers for the share capital issues, net of costs directly attributable to the share issue.

Subsequent increases in the stake have been accounted for using the parent extension concept method of accounting as described in the accounting policy section of the financial statements (note 2).

Note 29: Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. All loans are in US Dollars. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 37.

US\$000	Notes	As at 31.12.13	As at 31.12.12
Current			
Syndicated bank loans – secured	37	70,000	–
Other bank loans – secured	37	16,775	13,321
Obligations under finance leases	37	4,523	3,729
Interest accrued	37	9,745	9,796
Total current interest-bearing loans and borrowings		101,043	26,846
Non-current			
Eurobond issued	37	493,810	491,438
Syndicated bank loans – secured	37	350,000	420,000
Other bank loans – secured	37	66,129	62,232
Obligations under finance leases	37	18,257	19,469
Total non-current interest-bearing loans and borrowings		928,196	993,139
Total interest-bearing loans and borrowings		1,029,239	1,019,985

As at 31 December 2013 the Group has a syndicated US\$420 million revolving pre-export finance facility in place and a US\$500 million Eurobond.

The revolving pre-export finance facility was drawn in full on 7 October 2011. This finance facility is available for 60 months including a commitment amortisation over the final 24 months. The maturity is 31 August 2016.

As at 31 December 2013 the major bank debt facility was guaranteed and secured as follows:

- Ferrexpo AG and Ferrexpo Middle East FZE assigned the rights to revenue from certain sales contracts;
- OJSC Ferrexpo Poltava Mining assigned all of its rights of certain export contracts for the pellets sales to Ferrexpo AG and Ferrexpo Middle East FZE; and
- the Group pledged bank accounts of Ferrexpo AG and Ferrexpo Middle East FZE into which all proceeds from the sale of certain iron ore pellet contracts are received.

The unsecured US\$500 million Eurobond was issued on 7 April 2011 and is due for repayment on 7 April 2016. The bond has a 7.875% coupon and interest is payable on a semi-annual basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

Note 29: Interest-bearing loans and borrowings *continued*

On 2 September 2013 the Group secured an additional US\$315 million revolving pre-export finance facility, which is undrawn as of 31 December 2013. In November 2013, the facility was increased to US\$350 million. The new facility becomes effective when the Group declares the effective date within one year after the signing and matures four years after this date. As at 31 December 2013 US\$280 million from this new facility would have been available for draw down if the effective date had been declared. The Group has no other committed credit lines as of 31 December 2013 (2012: nil).

Note 30: Trade and other payables

As at 31 December 2013 trade and other payables comprised:

	As at 31.12.13	As at 31.12.12
US\$000		
Materials and services	40,437	50,736
Payables for equipment	8,676	9,889
Dividends payable	86	87
Other	802	1,897
Total current trade and other payables	50,001	62,609

Trade and other payables at 31 December 2013 includes US\$3,374 thousand (2012: US\$1,816 thousand) due to related parties (see note 34).

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 37.

Note 31: Defined benefit pension liability

The Group operates defined benefit plans for qualifying employees of its subsidiaries in Ukraine, Switzerland and Austria. The effects from the retrospective application of IAS 19 revised are disclosed in note 3. Details of the plans in the different countries are provided below:

Ukraine

The Group makes defined contributions to the Ukrainian State Pension scheme at statutory rates based on gross salary payments for the employees of OJSC Ferrexpo Poltava Mining and LLC Ferrexpo Yeristovo GOK. Such expenses are charged to the income statement in the period the related salaries are earned. 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. Costs relating to this plan are accrued using the projected unit credit method in respect of those employees entitled to such payments.

Additionally, the Group has a legal obligation to its employees (in the form of a collective agreement) to make a one-off payment on retirement to employees with a long-term of service; this has also been included in the provision.

All pension schemes in Ukraine are unfunded and the defined benefit pension liabilities are calculated by an independent actuary applying accepted actuarial techniques. At 31 December 2013, this defined benefit plan covered 7,089 current employees (2012: 5,030 people). There are 1,116 former employees currently in receipt of pensions (2012: 1,135 people).

Switzerland

The employees of the Group's Swiss operation are covered under a collective pension plan (multiemployer 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 assets of the pension scheme are held separately from those of the Group and are invested with an insurance company. The accumulated capital of the employees is subject to interests determined by the local legislation and defined in the regulations of the pension scheme.

On retirement, employees are entitled to receive either a lump sum or an annual proportion of their accumulated capital as a pension underpinned by certain guarantees. The Group, and in certain cases the employees, makes contributions to the pension scheme as a percentage of the insured salaries and depending on the age of the employees.

The pension scheme in Switzerland is funded and covered 19 people as at 31 December 2013 (2012: 20 people). The annual pension costs and the defined benefit obligation as well as the fair value of the plan assets are assessed annually by an independent professionally qualified actuary.

Note 31: Defined benefit pension liability continued

Austria

The Group has an unfunded retirement benefit obligation covering the Austrian employees of Helogistics. All payments under the scheme are made by the employer as a lump sum in cases of retirement, occupational disability and death in service or redundancy. The amount payable is dependent on the years of service up to a maximum of a full annual salary. The annual costs relating to this plan are accrued using the projected unit credit method. The annual costs and the defined benefit obligation are assessed annually by an independent professionally qualified actuary.

At 31 December 2013, one current employee (2012: three employees) is covered by this pension scheme. The annual costs and the defined benefit obligation are assessed annually by an independent professionally qualified actuary.

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

	Year ended 31.12.13			Year ended 31.12.12		
	Ukrainian scheme	Swiss scheme	Austrian scheme	Ukrainian scheme	Swiss scheme	Austrian scheme
Discount rate	12.90%	2.20%	3.50%	11.90%	1.90%	3.50%
Retail price inflation	4.44%	1.25%	2.50%	4.70%	1.25%	2.50%
Expected future salary increase	4.55%	3.00%	2.50%	5.28%	3.00%	2.50%
Expected future benefit increase	4.44%	0.00%	0.00%	0.00%	0.00%	0.00%
Female life expectancy (years)	76.1	86.0	n/a	74.5	86.0	n/a
Male life expectancy (years)	66.5	82.9	n/a	63.5	82.9	n/a

As a result of the retrospective adoption of the amendments to IAS 19, the defined benefit pension obligation and costs for the comparative period ended 31 December 2012 changed. Details in respect of the effects of the adoption are disclosed in note 3.

US\$000	Year ended 31.12.13				Year ended 31.12.12			
	Ukrainian scheme	Swiss scheme	Austrian scheme	Total	Ukrainian scheme	Swiss scheme	Austrian scheme	Total
Present value of funded defined benefit obligation	–	4,017	–	4,017	–	4,050	–	4,050
Fair value of plan assets	–	(2,806)	–	(2,806)	–	(2,473)	–	(2,473)
Funded status		1,211	–	1,211	–	1,577	–	1,577
Present value of unfunded defined benefit obligation	51,876	–	67	51,943	48,509	–	109	48,618
Defined benefit pension liability	51,876	1,211	67	53,154	48,509	1,577	109	50,195

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued***Note 31: Defined benefit pension liability** *continued*

Amounts recognised in profit or loss or other comprehensive income are as follows:

US\$000	Year ended 31.12.13				Year ended 31.12.12			
	Ukrainian scheme	Swiss scheme	Austrian scheme	Total	Ukrainian scheme	Swiss scheme	Austrian scheme	Total
<i>Defined benefit cost charged to profit or loss:</i>								
Current service cost	2,640	485	1	3,126	4,353	464	9	4,826
Termination benefits	–	–	–	–	–	–	1,022	1,022
Interest cost on defined benefit obligation	5,494	71	3	5,568	6,731	79	7	6,817
Interest income on plan assets	–	(48)	–	(48)	–	(54)	–	(54)
Administration cost	–	9	–	9	–	6	–	6
Other	–	–	(1)	(1)	–	–	(60)	(60)
Total defined benefit cost charged to profit or loss	8,134	517	3	8,654	11,084	495	978	12,557
<i>Remeasurement (gains)/losses in OCI:</i>								
Remeasurement from demographic assumptions	3	–	–	3				
Remeasurement from financial assumptions	5,205	(159)	–	5,046	(22,104)	392	12	(21,700)
Experience adjustment	(5,255)	(171)	(1)	(5,427)	624	(175)	66	515
Return on plan assets	–	(120)	–	(120)	–	1	–	1
Total remeasurement (gains)/losses in other comprehensive income	(47)	(450)	(1)	(498)	(21,480)	218	78	(21,184)

Changes in the present value of the defined benefit obligation are as follows:

US\$000	Year ended 31.12.13				Year ended 31.12.12			
	Ukrainian scheme	Swiss scheme	Austrian scheme	Total	Ukrainian scheme	Swiss scheme	Austrian scheme	Total
Opening defined benefit obligation	48,509	4,050	109	52,668	63,452	3,551	168	67,171
Current service cost	2,640	485	1	3,126	4,353	464	9	4,826
Interest cost on defined benefit obligation	5,494	71	3	5,568	6,731	79	7	6,817
Termination benefits	–	–	–	–	–	–	1,022	1,022
Remeasurement (gains)/losses	(47)	(330)	(2)	(379)	(21,480)	217	18	(21,185)
Translation differences	1	100	3	104	(21)	126	–	45
Contributions paid by employer	(4,721)	–	(47)	(4,768)	(4,526)	–	(1,115)	(5,641)
Contributions paid by employee	–	127	–	127	–	135	–	135
Benefits paid through pension assets	–	(486)	–	(486)	–	(522)	–	(522)
Closing defined benefit obligation	51,876	4,017	67	55,960	48,509	4,050	109	52,668
<i>Thereof for active employees</i>	<i>30,731</i>	<i>4,017</i>	<i>67</i>	<i>34,815</i>	<i>29,482</i>	<i>4,050</i>	<i>109</i>	<i>33,641</i>
<i>Thereof for vested terminations</i>	<i>7,522</i>	<i>–</i>	<i>–</i>	<i>7,522</i>	<i>7,015</i>	<i>–</i>	<i>–</i>	<i>7,015</i>
<i>Thereof for pensioners</i>	<i>13,623</i>	<i>–</i>	<i>–</i>	<i>13,623</i>	<i>12,012</i>	<i>–</i>	<i>–</i>	<i>12,012</i>

The duration of the defined benefit obligation for the different schemes as at 31 December 2013 is 12.9 years (Ukraine), 20.0 years (Switzerland) and 12.5 years (Austria).

Contributions to the defined benefit plans in the next financial year are expected to be US\$5,007 thousand for the schemes in Ukraine and US\$401 thousand in Switzerland. There is no contribution expected for the scheme in Austria.

Note 31: Defined benefit pension liability continued

Changes in the fair values of the plan assets are as follows:

	Year ended 31.12.13				Year ended 31.12.12			
	Ukrainian scheme	Swiss scheme	Austrian scheme	Total	Ukrainian scheme	Swiss scheme	Austrian scheme	Total
US\$000								
Opening fair value of plan assets	–	2,473	–	2,473	–	2,173	–	2,173
Interest income	–	48	–	48	–	54	–	54
Contributions paid by employer	–	458	–	458	–	564	–	564
Contributions paid by employee	–	127	–	127	–	135	–	135
Benefits paid through pension assets	–	(486)	–	(486)	–	(522)	–	(522)
Return on plan assets	–	120	–	120	–	(1)	–	(1)
Administration cost	–	(9)	–	(9)	–	(6)	–	(6)
Translation differences	–	75	–	75	–	76	–	76
Closing fair value of plan assets	–	2,806	–	2,806	–	2,473	–	2,473

The asset allocation of the plan assets of the Swiss scheme is as follows:

	As at 31.12.13 %	As at 31.12.13	As at 31.12.12 %	As at 31.12.12
US\$000				
Scheme assets at fair value				
Equities	21.1	592	24.4	603
Bonds	44.0	1,235	42.6	1,053
Properties	10.3	289	10.5	260
Other	24.6	690	22.5	557
Fair value of scheme assets	100.0	2,806	100.0	2,473

Reasonable changes of the significant assumptions would have the following effects on the defined benefit obligation:

	Year ended 31.12.13					
	Ukrainian scheme	Swiss scheme	Austrian scheme	Ukrainian scheme	Swiss scheme	Austrian scheme
US\$000						
	Increase by			Decrease by		
Change	1.00% or 1 year	1.00% or 1 year	1.00% or 1 year	1.00% or 1 year	1.00% or 1 year	1.00% or 1 year
Discount rate (%)	(3,754)	(607)	(7)	4,283	831	11
Future salary increases (%)	1,980	121	10	(1,882)	(112)	(7)
Indexation of pension (%)	1,350	455	n/a	(1,334)	–	n/a
Life expectancy (years)	698	47	n/a	(824)	(46)	n/a

	Year ended 31.12.12					
	Ukrainian scheme	Swiss scheme	Austrian scheme	Ukrainian scheme	Swiss scheme	Austrian scheme
US\$000						
	Increase by			Decrease by		
Change	1.00%	0.25%	0.25%	1.00%	0.25%	0.25%
Discount rate (%)	(3,668)	(204)	(3)	4,216	220	3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

Note 31: Defined benefit pension liability continued

For the presentation of the effects of the changes of the significant assumptions shown 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 2013. The methods and assumptions used for the sensitivity analysis for the prior year are unchanged.

Note 32: Provision for site restoration

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

The provision represents the discounted value of the estimated costs of decommissioning and restoring the mines at the dates when the deposits are expected to be depleted in the relevant areas within the mine. The present value of the provision has been calculated using a nominal pre-tax discount rate of 12.3% (2012: 11.7%) and the costs are expected to be incurred once the restoration works begin in the different areas of the mines.

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

US\$000	As at 31.12.13	As at 31.12.12
Opening balance	2,368	3,015
Unwind of the discount	301	289
Arising during the year	202	(935)
Translation adjustments	–	(1)
Closing balance	2,871	2,368

Note 33: Accrued liabilities and deferred income

As at 31 December 2013 accrued liabilities and deferred income comprised:

US\$000	As at 31.12.13	As at 31.12.12
Accrued expenses	10,851	6,249
Accrued employee costs	21,164	19,726
Advances from customers	1,271	23,938
Deferred income	2,222	1,372
Total accrued liabilities and deferred income	35,508	51,285

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, Kostyantyn Zhevago, with associated companies and with other related parties. Management considers that the Group has appropriate procedures in place to identify, control and properly disclose transactions with the related parties.

Entities under common control are those under the control of Kostyantyn Zhevago. Associated companies refers to TIS Ruda LLC, in which the Group holds an interest of 48.6%. This is the only associated company of the Group. Other related parties are principally those entities controlled partially by Anatoly Trefilov. Anatoly Trefilov is a member of the supervisory board of OJSC Ferrexpo Poltava Mining.

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 31.12.13			Year ended 31.12.12		
	Entities under common control	Associated companies	Other related parties	Entities under common control	Associated companies	Other related parties
US\$000						
Other sales ^a	647	–	491	1,198	–	88
Total related party transactions within revenue	647	–	491	1,198	–	88
Materials ^b	13,897	–	43	5,984	–	24
Purchased concentrate and other items for resale ^c	7,053	–	–	21,948	–	–
Spare parts and consumables ^d	2,838	–	2	7,859	–	–
Fuel ^e	–	–	–	1,373	–	–
Gas ^e	33,581	–	–	9,646	–	–
Total related party transactions within cost of sales	57,369	–	45	46,810	–	24
Selling and distribution expenses ^f	11,183	22,582	8,335	9,377	20,493	8,367
General and administration expenses ^g	1,747	–	12	1,644	–	72
Total related party transactions within expenses	70,299	22,582	8,392	57,831	20,493	8,463
Finance income ^h	1,673	–	–	917	–	–
Finance expenses ^h	(184)	–	–	(733)	–	–
Net related party finance income/(expenses)	1,489	–	–	184	–	–

Entities under common control

The Group entered into various related party transactions with entities under common control. A description of the most material transactions which are in aggregate over US\$200 thousand in the current or comparative period is given below. All transactions were carried out on an arm's length basis in the normal course of business.

- a Sales of power, steam and water and other materials to Kislod PCC for US\$149 thousand (2012: US\$234 thousand) and metal scrap to AutoKraZ Holding Co. for US\$127 thousand (2012: US\$106 thousand). Income from premises lease to Kislod PCC of US\$238 thousand (2012: US\$224 thousand) and US\$58 thousand (2012: US\$58 thousand) to Vorskla Steel Ltd. Revenue of US\$3 thousand was received from Vorskla Steel Ltd. for the sale of sand and other materials (2012: US\$448 thousand).
- b Purchases of compressed air and oxygen and metal scrap from Kislod PCC for US\$5,988 thousand (2012: US\$5,506 thousand);
- b Purchases of cast iron balls from AutoKraZ Holding Co. for US\$6,865 thousand (2012: US\$5,255 thousand);
- b Purchases of cast iron balls from OJSC Uzhgorodsky Turbogaz for US\$711 thousand (2012: nil); and
- b Purchases of ferromanganese from Raw and Refined Commodities AG for US\$354 thousand (2012: US\$347 thousand).
- c Purchases of concentrate and other items for resale from Vostok Ruda Ltd. amounting to US\$7,053 thousand (2012: US\$21,948 thousand).
- d Purchases of spare parts from CJSC Kyiv Shipbuilding and Ship Repair Plant ('KSRSSZ') in the amount of US\$864 thousand (2012: US\$805 thousand);
- d Purchases of spare parts from OJSC Berdichev Machine-Building Plant Progress of US\$45 thousand (2012: US\$595 thousand); and
- d Purchases of spare parts from Valsa GTV of US\$1,226 thousand (2012: US\$736 thousand).
- e Procurement of gas for US\$33,581 thousand (2012: US\$9,646 thousand) from OJSC Ukrzakordongeologia. No procurement of fuel from OJSC Ukrzakordongeologia during the financial year 2013 (2012: US\$1,373 thousand).
- f Purchases of advertisement, marketing and general public relations services from FC Vorskla of US\$11,000 thousand (2012: US\$9,301 thousand).
- g Insurance premiums of US\$728 thousand (2012: US\$686 thousand) paid to ASK Omega for workmen's insurance and other insurances;
- g Fees of US\$373 thousand (2012: US\$113 thousand) paid to F&C Lex and Legal Partners for legal services. Both companies were under the control of Kostyantyn Zhevago until 30 June 2012. All transactions taking place up to 30 June 2013, being one year after the change of the control, are considered to be related party transactions; and
- g Fees of US\$433 thousand (2012: US\$448 thousand) paid to Bank Finance & Credit (Bank F&C) for bank services.
- h Transactional banking services are provided to certain subsidiaries of the Group by Bank F&C. Finance income and expense relate to these transactional banking services. Further information is provided under transactional banking arrangements on page 129.

Associated companies

The Group entered into related party transactions with its associated company TIS Ruda LLC, which were carried out on an arm's length basis in the normal course of business for the members of the Group (see note 1). These are described below:

- f Purchases of logistics services in the amount of US\$22,582 thousand (2012: US\$20,493 thousand) relating to port operations, including port charges, handling costs, agent commissions and storage costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

Note 34: Related party disclosure continued

Other related parties

The Group entered into various transactions with related parties other than those under the control of the majority owner of the Group. Descriptions of the material transactions are below:

- a Sales of material and services to Slavutich Ruda Ltd. for US\$491 thousand (2012: US\$88 thousand).
- f Purchases of logistics management services from Slavutich Ruda Ltd. relating to customs clearance services and the coordination of rail transit. Total billings amounted to US\$8,335 thousand (2012: US\$8,367 thousand). Slavutich Ruda Ltd. earned commission income of US\$979 thousand on these services (2012: US\$906 thousand).
- g Purchases of legal services from Kuoni Attorneys at Law Ltd. amounting to US\$12 thousand (2012: US\$72 thousand).

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.

	Year ended 31.12.13			Year ended 31.12.12		
	Entities under common control	Associated companies	Other related parties	Entities under common control	Associated companies	Other related parties
US\$000						
Purchases with independent fair and reasonable confirmation	–	–	–	2,659	–	–
Purchases with shareholder approval	18,141	–	–	55,026	–	–
Other purchases	3,741	–	–	1,044	–	–
Total purchase of property, plant and equipment¹	21,882	–	–	58,729	–	–

- i Effective 1 October 2012, the UK Listing Rules have been amended to require only independent fair and reasonable confirmation for transactions that are not in the ordinary course of business, irrespective of the nature of the transaction.

During the financial year 2013, the Group entered into various transactions with related parties totalling US\$3,741 thousand. These transactions were in the ordinary course of business and on an arm's length basis and did not require independent fair and reasonable confirmation as a result of the amended UK Listing Rules becoming effective on 1 October 2012. Individual transactions of a capital nature which exceeded US\$200 thousand are listed below:

- In January 2013, the Group procured three railway platforms in the amount of US\$218 thousand from PJSC Stakhanov Railcar Company.
- In April 2013, the Group entered into a contract with OJSC Berdichev Machine-Building Plant Progress and OJSC Uzhgorodsky Turbogaz for the production and supply of deslimers for a new flotation section in the amount of US\$585 thousand.
- In June and September 2013, the Group procured metal works from OJSC Berdichev Machine-Building Plant Progress in the amount of US\$1,297 thousand and US\$1,054 thousand in connection with the construction of a new crushing section.

In addition to the transactions above, the Group obtained on 24 May 2012 shareholder approval for an option to purchase up to 500 rail cars from PJSC Stakhanov Railcar Company between the date of the approval and 31 December 2014. In February 2013, the Group exercised the right under this option to order 267 rail cars. These rail cars, amounting to US\$18,141 thousand, were delivered and taken into operation during the financial year 2013 and increased the total fleet of rail cars from 1,933 units to 2,200 units as of 31 December 2013. In February 2014, the Group ordered another 300 rail cars from PJSC Stakhanov Railcar Company, of which 233 rail cars were under this authority. These rail cars are expected to be delivered between February and June 2014.

During the financial year 2012, the Group entered into the following transactions with related parties:

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

On 15 March 2011, the shareholders of the Group approved the purchase of 400 rail cars, with an option to purchase an additional 600 rail cars, from PJSC Stakhanov Railcar Company. 712 rail cars were ordered under the authority of this shareholder approval during the financial year 2011 and 288 rail cars in 2012, bringing the total ordered to 1,000 units. As of 31 December 2012, all rail cars have been delivered bringing the total fleet of own rail cars to 1,933 units. 788 rail cars amounting to US\$55,026 thousand were put into operation during the financial year 2012.

Note 34: Related party disclosure continued

Balances with related parties

The outstanding balances, as a result of transactions with related parties, for the periods presented are shown in the table below:

	Year ended 31.12.13			Year ended 31.12.12		
	Entities under common control	Associated companies	Other related parties	Entities under common control	Associated companies	Other related parties
US\$000						
Investments available-for-sale ^j	396	–	–	530	–	–
Other non-current assets ^k	7,438	–	–	2,085	–	–
Prepayments for property, plant and equipment ^l	1,548	–	–	625	–	–
Total non-current assets	9,382	–	–	3,240	–	–
Trade and other receivables ^m	1,150	–	31	823	–	3
Prepayments and other current assets ⁿ	136	1,172	186	162	1,302	18
Cash and cash equivalents ^o	143,005	–	–	141,424	–	–
Total current assets	144,291	1,172	217	142,409	1,302	21
Trade and other payables ^p	3,099	–	275	1,694	–	122
Current liabilities	3,099	–	275	1,694	–	122

Entities under common control

A description of the most material balances which are over US\$200 thousand in the current or comparative period is given below.

- j The balance of the investments available-for sale comprised shareholdings in PJSC Stakhanov Railcar Company (1.10%) and Vostok Ruda Ltd. (1.10%). The ultimate beneficial owner of these companies is Kostyantyn Zhevago. PJSC Stakhanov Railcar Company is further listed on the Ukrainian stock exchange. The changes of the values in the table above are related to fair value adjustments recorded during the respective reporting periods. The shareholdings for all investments remained unchanged during the periods disclosed above. During the financial year 2012, the investment in Vostok Ruda Ltd. was subject to an impairment of US\$430 thousand.
- k As of 31 December 2013, other non-current assets related to a deposit of US\$7,438 thousand with Bank F&C (2012: US\$2,085 thousand) as security in respect of loans made to employees under the Group's social loyalty programme. Further information is provided under transactional banking arrangements below.
- l As of 31 December 2013, prepayments of US\$1,397 thousand were made to OJSC Berdichev Machine-Building Plant Progress (2012: US\$289 thousand).
- m As of 31 December 2013, trade and other receivables included outstanding amounts due from Vorskla Steel Ltd. of US\$387 thousand (2012: US\$277 thousand) in relation to other sales and US\$540 thousand (2012: US\$461 thousand) from Kislod PCC for the sale of power, steam and water.
- o As of 31 December 2013, cash and cash equivalents with Bank F&C were US\$143,005 thousand (2012: US\$141,424 thousand). Further information is provided under transactional banking arrangements below.
- p Trade and other payables amounting to US\$639 thousand for compressed air and oxygen purchased from Kislod PCC (2012: US\$599 thousand) and US\$1,690 thousand for the procurement of fuel and gas from OJSC Ukrzakordongeologia (2012: US\$642 thousand) and US\$215 thousand (2012: nil) and US\$258 thousand (2012: US\$53 thousand) for spare parts procured from AutoKraZ Holding Co. and OJSC Berdichev Machine-Building Plant Progress.

Associated companies

- n Prepayments and other current assets relate to prepayments of US\$1,172 thousand (2012: US\$1,302 thousand) made to TIS Ruda LLC for transshipment services.

Other related parties

- p Trade and other payables amounting to US\$275 thousand as of 31 December 2013 are in respect of distribution services provided by Slavutich Ruda Ltd. (2012: US\$99 thousand).

Transactional banking arrangements

The Group has transactional banking arrangements with Bank Finance & Credit (Bank F&C) in Ukraine which is under common control of the majority shareholder of Ferrexpo plc. Finance income and expense are disclosed in the table on page 127.

The transactional banking services provided by Bank F&C include also the conversion of US Dollar receipts into Ukrainian Hryvnia for the settlement of liabilities incurred in local currency.

The Group had an uncommitted multicurrency revolving loan facility agreement with Bank F&C which expired on 16 April 2013. The maximum limit of this facility amounted to UAH80 million (US\$10,009 thousand at exchange rate as of 31 December 2012) and the terms and conditions of the facility were subject of an independent fair and reasonable confirmation at its inception and renewal dates. The loan facility remained undrawn for the entire period of time since its inception.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

Note 34: Related party disclosure continued

On 26 April 2013, the Group entered into a new uncommitted multicurrency revolving loan facility agreement and a documentary credit facility agreement with Bank F&C which will expire on 26 April 2016. The aggregate maximum limit of these facilities amounts to UAH80 million (US\$10,009 thousand at the exchange rate as of 31 December 2013) and, as required under Ukrainian legislation, fixed assets are pledged. The total value of pledges under the terms of the loan facility agreements is US\$8,702 thousand as of 31 December 2013. The terms and conditions of both facilities were the subject of an independent fair and reasonable confirmation.

US\$000	Year ended 31.12.13	Year ended 31.12.12
Loan facilities	10,009	10,009
Amount drawn	–	–
Letter of credit facility outstanding	153	7,179
Bank guarantee facility outstanding	–	1,081

Bank F&C provides mortgages and loans to employees of the Group for the acquisition, construction and renovation of apartments in Ukraine. This is part of a social loyalty programme started by the Group in December 2011 allowing certain employees of the Group to borrow at preferential interest rates. OJSC Ferrexpo Poltava Mining and LLC Ferrexpo Verkhovne GOK act as guarantors for the bank's loans to the employees of the Group and have deposited US\$7,438 thousand at Bank F&C as security for loans granted or to be granted by Bank F&C to employees of the Group (2012: US\$2,085 thousand). The interest rate margin earned by Bank F&C covers the costs of administering the mortgages and loans. Detailed information on the social loyalty programme is provided in the Corporate Responsibility section of this Annual Report and Accounts.

Cash and cash equivalent balances held with Bank F&C are in the normal course of business and are held on call or from time to time on overnight deposit. Interest is paid on balances held on current accounts and overnight deposits. The interest rates received by the Group were in line with relevant comparable market rates throughout the year.

Note 35: Employee benefits expenses

Employee benefits expenses for the year ended 31 December 2013 consisted of the following:

US\$000	Year ended 31.12.13	Year ended 31.12.12
Wages and salaries	76,661	76,057
Social security costs	26,277	25,449
Post-employment benefits	2,938	8,276
Other employee costs	4,574	2,927
Share-based payments	1,266	1,608
Total employee benefits expenses	111,716	114,317

Average number of employees was as follows:

	Year ended 31.12.13	Year ended 31.12.12
Production	7,797	7,189
Marketing and distribution	172	171
Administration	911	1,244
Other	816	954
Total average number of employees	9,696	9,558

Compensation for key management was as follows:

US\$000	Year ended 31.12.13	Year ended 31.12.12
Wages and salaries	6,352	6,299
Social security costs	557	604
Other employee costs	263	260
Total compensation for key management	7,172	7,163

Note 35: Employee benefits expenses continued

Share-based payments amounting to US\$1,266 thousand (2012: US\$984 thousand) are included in wages and salaries.

The balances included in the table on the previous page cover compensation for Non-executive and Executive Directors as well as for other key management personnel. The details of compensation relating to Non-executive and Executive Directors are disclosed in the table below:

	Year ended 31.12.13	Year ended 31.12.12
US\$000		
Salary and fees	2,424	2,399
Bonus	828	694
Benefits	181	228
Pension	94	53
Gains made on exercise of nil cost share options under the LTIP	292	362
Total compensation to Non-executive and Executive Directors	3,819	3,736

Note 36: Commitments, contingencies and legal disputes

Operating lease commitments – Group as lessee

Future minimum rentals payable under non-cancellable operating leases as at 31 December 2013 are as follows:

	As at 31.12.13	As at 31.12.12
US\$000		
Less than one year	2,049	3,078
Between one and five years	7,339	8,249
More than five years	56,167	71,475
Total minimum rentals payable	65,555	82,802

During the year ended 31 December 2013, US\$2,762 thousand was recognised as an expense in the income statement in respect of operating leases (2012: US\$3,063 thousand).

The Group leases land and buildings under operating leases. The leases on land typically run for 48 years and with a lease period of 5 to 10 years on buildings.

Operating lease commitments – Group as lessor

The Group does not have any commitments from lease agreements acting as lessor.

Finance lease commitments

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	As at 31.12.13	
	Minimum payments	Present value of payments
US\$000		
Less than one year	6,100	4,523
Between one and five years	19,158	16,125
More than five years	2,358	2,132
Total minimum lease payments	27,616	22,780
Less: amounts representing finance charges	(4,836)	–
Present value of minimum lease payments	22,780	22,780

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

Note 36: Commitments, contingencies and legal disputes continued

	As at 31.12.12	
	Minimum payments	Present value of payments
US\$000		
Less than one year	5,421	3,729
Between one and five years	17,616	13,865
More than five years	5,940	5,604
Total minimum lease payments	28,977	23,198
Less: amounts representing finance charges	(5,779)	–
Present value of minimum lease payments	23,198	23,198

Other

	As at 31.12.13	As at 31.12.12
US\$000		
Capital commitments on purchase of property, plant and equipment	102,958	162,665

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.

The Group is currently involved in a share dispute which commenced in 2005 and which was disclosed and, as appropriate, updated in the Group's 2007 IPO prospectus and subsequent Interim and Annual Report and Accounts as well as in its Eurobond prospectuses.

In 2005 a former shareholder (the claimant) in OJSC Ferrexpo Poltava Mining ('FPM') brought proceedings in the Ukrainian courts, seeking to invalidate the share sale and purchase agreements pursuant to which a 40.19% stake in FPM was sold to nominee companies that were previously ultimately controlled by Kostyantyn Zhevago, amongst other parties. This 40.19% stake has subsequently been diluted to 14% following share issues by FPM.

Following various court rulings in favour of the defendant and the claimant, on 10 April 2010 the High Commercial Court of Ukraine granted the cassation complaint of the former shareholder and invalidated the respective share sale and purchase agreements without ruling on any consequences of such invalidity.

On 6 October 2011, the former shareholder filed a new claim in Ukraine alleging that as a result of the invalidity of the share sale and purchase agreements with respect to the 40.19% stake in FPM, their rights were infringed by the capital increases approved at FPM's general shareholder meeting on 20 November 2002 and all other general meetings relating to changes to FPM's charter capital. Accordingly, the claimants asked that the court invalidate the decisions taken at FPM's general shareholder meetings and to restore their status as 40.19% shareholders of FPM as of 20 November 2002 and to cancel all share issues that took place after 20 November 2002.

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

On 26 March 2013, the Kyiv City Commercial Court issued an injunction to suspend trading of FPM shares during the court case.

The case is currently being heard at the Kyiv City Commercial Court and as of the date of the publication of these financial statements for the year ended 31 December 2013, there has been no decision on merits passed by the Kyiv City Commercial Court.

After having taken Ukrainian legal advice, the management of the Group believes that risks related to these court proceedings are remote. Neither the final decision by the High Commercial Court of Ukraine nor any subsequent claims entitles claimants to direct enforcement rights to the shares of FPM in the form claimed by the claimants. In addition, the restitution of the status quo ante of the shareholding position as sought by claimants is not completely in line with Ukrainian law for various legal, technical and practical reasons. It follows that no provision was recorded for this dispute as of 31 December 2013. At the same time, in light of the risks surrounding the operation and independence of Ukrainian courts, including the risks associated with the Ukrainian legal system in general, the claimants may ultimately prevail in this dispute and the Group's ownership of the relevant interest in FPM may be successfully challenged in the future.

Note 36: Commitments, contingencies and legal disputes continued

Tax and other regulatory compliance

Ukrainian legislation and regulations regarding taxation and customs continue to evolve. Legislation and regulations are not always clearly written and are subject to varying interpretations and inconsistent enforcement by local, regional and national authorities, and other governmental bodies. Instances of inconsistent interpretations are not unusual. The uncertainty of application and the evolution of Ukrainian tax laws, including those affecting cross-border transactions, create a risk of additional tax payments having to be made by the Group, which could have a material effect on the Group's financial position and results of operations. This includes also a new transfer pricing law which significantly increased the power of the tax authorities. The Group does not believe that these risks are any more significant than those of similar enterprises in Ukraine.

We are disputing several tax claims by domestic tax authorities following inspections for the fiscal years 2011 and 2012 and continue to dispute in the court system amounts resulting from audits in relation to 2009 and 2010. Corporate profit tax claims are, among other things, claims related to the deductibility of expenses for tax purposes, adjustments in respect of prices charged on the export of products and payments of additional environmental and other taxes and duties. The aggregate amount claimed by the Ukrainian tax authorities relating to these matters, together with applicable fines and penalties, is approximately US\$16,962 thousand (2012: US\$16,900 thousand). As we believe the tax authorities' claims are unlikely to be enforced no provision has been made for these known claims, although there is no guarantee the tax authorities' challenges will not succeed.

Recoverable VAT amounting to US\$101,977 thousand (2012: US\$103,208 thousand) outstanding at 31 December 2013 is in the process of being considered by the Ukrainian court system in several different cases. As the VAT is fully recoverable under the relevant Ukrainian legislation, the Group expects to ultimately receive positive court decisions for these ongoing court proceedings. Consequently, the VAT is recorded at its full amount in the financial statements, net of an estimated discount to reflect the time value of money as disclosed in note 26. No provision has been made for any related penalties and fines, which would in the case of a final negative ruling become payable.

Note 37: Financial instruments

The accounting classification of each category of financial instruments, and their carrying amounts, are set out below:

		As at 31.12.13				
	Notes	Loans and receivables	Available-for-sale financial assets	At fair value through profit or loss	Financial liabilities measured at amortised cost	Total
US\$000						
Financial assets						
Cash and cash equivalents	27	390,491	–	–	–	390,491
Trade and other receivables	24	102,498	–	–	–	102,498
Available-for-sale investments	20	–	82,778	–	–	82,778
Other financial assets		15,054	–	–	–	15,054
Total financial assets		508,043	82,778	–	–	590,821
Financial liabilities						
Trade and other payables	30	–	–	–	50,001	50,001
Accrued liabilities	33	–	–	–	32,015	32,015
Interest-bearing loans and borrowings	29	–	–	–	1,029,239	1,029,239
Total financial liabilities		–	–	–	1,111,255	1,111,255

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

Note 37: Financial instruments continued

As at 31.12.12						
US\$000	Notes	Loans and receivables	Available-for-sale financial assets	At fair value through profit or loss	Financial liabilities measured at amortised cost	Total
Financial assets						
Cash and cash equivalents	27	596,560	–	–	–	596,560
Trade and other receivables	24	116,553	–	–	–	116,553
Available-for-sale investments	20	–	534	–	–	534
Other financial assets		860	–	–	–	860
Total financial assets		713,973	534	–	–	714,507
Financial liabilities						
Trade and other payables	30	–	–	–	62,609	62,609
Accrued liabilities	33	–	–	–	25,976	25,976
Interest-bearing loans and borrowings	29	–	–	–	1,019,985	1,019,985
Total financial liabilities		–	–	–	1,108,570	1,108,570

Financial risk management

Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk – including currency and commodity risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements. The Board has overall responsibility for the establishment and oversight of the Group's risk management framework.

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

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

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

Financial instrument risk exposure and management

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

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

Note 37: Financial instruments continued

Credit risk

Trade and other receivables

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

Trade finance is used to balance risk and payment. These risks include the creditworthiness of the buyer, and the political and economic stability of the buyer's country. Trade finance generally refers to the financing of individual transactions or a series of revolving transactions and are often self-liquidating, whereby the lending bank stipulates that all sales proceeds to be collected are applied to settle the loan, the remainder returned to the Group. Trade finance transactions are approved by the Group Treasurer. The primary objective is to ensure that the margins paid and conditions applicable should be the same as, or better than, those which other organisations with similar credit worthiness would achieve, and compared with other financing available to the Group.

Credit risk is the risk associated with the possibility that a buyer will default, by failing to make required payments in a timely manner or to comply with other conditions of an obligation or agreement. Where appropriate, the Group uses letters of credit to assist in mitigating such risks.

Counterparty risk crystallises when a party to an agreement defaults. Where letters of credit are used to minimise this risk, the Group uses a confirming bank with a similar or higher credit rating to mitigate country and/or credit risk of the issuing bank.

Country risk is the potential volatility of foreign assets, whether receivables or investments, that is due to political and/or financial events in a given country.

Group treasury monitors the concentration of all outstanding risks associated with any entity or country, and reports to the Group CFO on a timely basis.

Investment securities

The Group limits its cash exposure to credit, counterparty and country risk by only investing in liquid securities and with counterparties outside Ukraine 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 included in the top 15 financial institutions in Ukraine based on the Group's assessment of the creditworthiness of the financial institution.
- the counterparty is resident in Ukraine; and

Cash and deposits are held with the Group's transactional bank in Ukraine, which is a related party financial institution. This bank is registered with the National Bank of Ukraine for receiving and disbursing payments under Group intercompany loans, and is an approved Ukrainian counterparty. The Group is therefore exposed to Ukraine country risk in this respect as well as in relation to certain of its other activities. Note 34 provides further information.

Guarantees

The Group's policy is to provide financial guarantees under limited circumstances only for the benefit of wholly-owned or substantially wholly-owned subsidiaries. At 31 December 2013 Ferrexpo AG and Ferrexpo Finance plc were jointly and severally liable under a US\$420 million revolving pre-export finance facility having an outstanding balance of US\$420 million (2012: US\$420 million). Additionally, Ferrexpo AG, Ferrexpo Finance plc and Ferrexpo Middle East FZE were jointly and severally liable under a new US\$350 million revolving pre-export finance facility which was undrawn as of 31 December 2013.

Ferrexpo plc, Ferrexpo AG and Ferrexpo Middle East FZE are guarantors to the US\$500 million Eurobond ('Notes') issued by Ferrexpo Finance plc, which is due for repayment on 7 April 2016. Additionally the Notes benefit from a surety agreement provided by OJSC Ferrexpo Poltava Mining.

Ferrexpo AG acts as a guarantor for several finance facilities provided to Ukrainian subsidiaries amounting to US\$96,080 thousand (2012: US\$150,600 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

Note 37: Financial instruments *continued*

Exposure to credit risk

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

	As at 31.12.13	As at 31.12.12
US\$000		
Cash and cash equivalents	390,491	596,560
Trade and other receivables	102,498	116,553
Other financial assets	15,054	860
Total maximum exposure to credit risk	508,043	713,973

Of the total maximum exposure to credit risk, US\$158,197 thousand (2012: US\$156,885 thousand) related to Ukraine.

The total receivables balance relating to the Group's top three customers was US\$25,210 thousand (2012: US\$37,383 thousand) making up 24.6% of the total amounts receivable (2012: 32.2%).

Impairment profile

The Group's exposure to credit risk relating to trade and other receivables is disclosed in note 24.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation by holding surplus cash or undrawn committed credit facilities.

The Group prepares detailed rolling cash flow forecasts, which assist it in monitoring cash flow requirements and optimising its cash return on investments. Typically the Group ensures that it has sufficient cash on demand and/or lines of credit to meet expected operational expenses for a period of 30 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The following are the contractual maturities of financial liabilities by interest type:

	As at 31.12.13				
US\$000	Less than 1 year	Between 1 to 2 years	Between 2 to 5 years	More than 5 years	Total
Interest-bearing					
Eurobond issued	–	–	493,810	–	493,810
Syndicated loans – secured	70,000	210,000	140,000	–	420,000
Other banks – secured	16,775	17,088	23,880	25,161	82,904
Obligation under finance lease	4,523	4,641	11,485	2,131	22,780
Interest accrued	9,745	–	–	–	9,745
Future interest payable	52,818	48,206	24,462	442	125,928
Total interest-bearing	153,861	279,935	693,637	27,734	1,155,167
Non-interest-bearing					
Trade and other payables	50,001	–	–	–	50,001
Accrued liabilities	32,015	–	–	–	32,015
Total non-interest-bearing	82,016	–	–	–	82,016
Total financial liabilities	235,877	279,935	693,637	27,734	1,237,183

Net financial liabilities for amounts maturing in less than one year and between one to two years can be reduced by US\$70,000 thousand and US\$210,000 thousand respectively from utilising the undrawn committed PXF facility of US\$350,000 thousand. See also note 29 for further information.

Note 37: Financial instruments continued

US\$000	As at 31.12.12				Total
	Less than 1 year	Between 1 to 2 years	Between 2 to 5 years	More than 5 years	
Interest-bearing					
Eurobond issued	–	–	491,438	–	491,438
Syndicated loans – secured	–	70,000	350,000	–	420,000
Other banks – secured	13,321	13,300	37,864	11,068	75,553
Obligation under finance lease	3,729	3,870	15,600	–	23,199
Interest accrued	9,796	–	–	–	9,796
Future interest payable	53,323	52,560	71,559	607	178,049
Total interest-bearing	80,169	139,730	966,461	11,675	1,198,035
Non-interest-bearing					
Trade and other payables	62,609	–	–	–	62,609
Accrued liabilities	25,926	50	–	–	25,976
Total non-interest-bearing	88,535	50	–	–	88,585
Total financial liabilities	168,704	139,780	966,461	11,675	1,286,620

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 managed by the National Bank of Ukraine ('NBU').

The Group has gross recoverable VAT balances of US\$318,213 thousand (UAH2,542 million) and prepaid corporate profit tax of US\$87,475 thousand (UAH594,5 million) to be recovered from the Ukraine government tax authority and is reliant on the normal functioning of this system. The exact timing of recovery is subject to uncertainties, along with the prevailing exchange rate to the US Dollar at the time of repayment. A devaluation of the Ukrainian Hryvnia will negatively affect the expected cash flows from the refunds in US Dollars irrespective of whether received in cash or in the form of bonds or treasury promissory notes.

A devaluation of the Ukrainian Hryvnia will reduce the operating costs of the production unit in US Dollar terms and the value of Hryvnia payables recorded in the statement of financial position at the year end in US Dollars. As the majority of sales and receivables are denominated in US Dollars, a devaluation in the local currency will result in operating exchange gains recorded in the income statement.

With a devaluation of the local currency, US Dollar-denominated loans held by the Ukrainian subsidiary will result in non-operating exchange losses to the extent these are not matched by US Dollar-denominated assets. Fixed assets are similarly held in local currency amounts and a devaluation in the currency will result in reduced net asset values which are recorded in reserves.

The NBU manages and determines the official exchange rates. An interbank market for exchange of currencies exists in Ukraine and is monitored by the NBU. The Group, through financial institutions, exchanges currencies at bank offered market rates.

Trade receivables are predominately in US Dollars and are not hedged. Trade payables denominated in US Dollars are also not hedged on the market, but are matched against US Dollar currency receipts. This includes the interest expense which is principally payable in US Dollars. Trade receivables and trade payables in Ukrainian Hryvnia are not hedged as a forward market for the currency is generally not available.

Other Group monetary assets and liabilities denominated in foreign currencies are considered immaterial as the exposure to currency risk mainly relates to corporate costs within Switzerland and the United Kingdom.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

Note 37: Financial instruments continued

The Group's exposure to foreign currency risk was as follows based on notional amounts:

US\$000	As at 31.12.13					
	Ukrainian Hryvnia	US Dollar	Euro	Swiss Franc	Other currencies	Total
Financial assets	4	89,898	1,026	685	454	92,067
Financial liabilities						
Other banks – secured	–	(56,215)	(382)	–	–	(56,597)
Obligation under finance lease	–	(4,146)	–	–	–	(4,146)
Interest accrued	–	(426)	(2)	–	–	(428)
Total borrowings	–	(60,787)	(384)	–	–	(61,171)
Trade and other payables	–	(2,844)	(1,018)	(142)	(360)	(4,364)
Accrued liabilities	–	–	–	(18)	(554)	(572)
Total financial liabilities	–	(63,631)	(1,402)	(160)	(914)	(66,107)
Net financial assets/(liabilities)	4	26,267	(376)	525	(460)	25,960

US\$000	As at 31.12.12					
	Ukrainian Hryvnia	US Dollar	Euro	Swiss Franc	Other currencies	Total
Financial assets	4	112,515	612	835	1,036	115,002
Financial liabilities						
Other banks – secured	–	(39,066)	(467)	–	–	(39,533)
Obligation under finance lease	–	(2,364)	–	–	–	(2,364)
Interest accrued	–	(425)	(2)	–	–	(427)
Total borrowings	–	(41,855)	(469)	–	–	(42,324)
Trade and other payables	–	(4,219)	(1,754)	(384)	(489)	(6,846)
Accrued liabilities	–	–	–	(14)	(348)	(362)
Total financial liabilities	–	(46,074)	(2,223)	(398)	(837)	(49,532)
Net financial assets/(liabilities)	4	66,441	(1,611)	437	199	65,470

Interest rate risk

The Group predominantly borrows bank funds that are at floating interest rates and is exposed to interest rate movements. The interest rate exposure to US Dollars remained relatively low during the period, and no interest rate swaps have been entered into in this or prior periods.

Commodity risk

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

Sensitivity analysis

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

	Year ended 31.12.13 Income statement/ equity	Year ended 31.12.12 Income statement/ equity
US\$000		
Ukrainian Hryvnia	4,379	11,074
Euro	(63)	(269)
Swiss Franc	88	73
Total	4,404	10,878

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.

Note 37: Financial instruments continued

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not hold any derivatives (e.g. interest rate swaps). Therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity for variable rate instruments

An increase of 100 basis points ('bps') in interest rates would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

US\$000	Year ended 31.12.13	Year ended 31.12.12
Net finance charge	2,705	1,619

A decrease of 100bps would increase equity and profit by US\$827 thousand for the year ended 31 December 2013 (2012: increase of US\$2,215 thousand). This is on the basis that all the other variables remain constant.

Set out below are the carrying amounts and fair values of the Group's financial instruments that are carried in the consolidated statement of financial position:

US\$000	Carrying amount		Fair value	
	As at 31.12.13	As at 31.12.12	As at 31.12.13	As at 31.12.12
Financial assets				
Cash and cash equivalents	390,491	596,560	390,491	596,560
Trade and other receivables	102,498	116,553	102,498	116,553
Available-for-sale investments	82,778	534	82,778	534
Other financial assets	15,054	860	15,054	860
Total financial assets	590,821	714,507	590,821	714,507
Financial liabilities				
Trade and other payables	50,001	62,609	50,001	62,609
Accrued liabilities	32,015	25,976	32,015	25,976
Interest-bearing loans and borrowings	1,029,239	1,019,985	1,035,933	1,026,084
Total financial liabilities	1,111,255	1,108,570	1,117,949	1,114,669

Fair values

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.

The available-for-sale equity investment in PJSC Stakhanov Railcar Company in the amount of US\$396 thousand (2012: US\$534 thousand) is fair valued based on the quoted market price for its shares on the Ukrainian Stock exchange ('PFTS').

The 15.5% equity investment in Ferrous Resources totalling US\$82,382 thousand (2012: nil) was made in March and September 2013. The unquoted shares are not traded in an organised financial market. The most recent transaction price is considered to reflect the best fair value as of 31 December 2013 in the absence of any significant events since the acquisition of the last tranche.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

Note 37: Financial instruments continued

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

US\$000	As at 31.12.13			
	Level 1	Level 2	Level 3	Total
Financial assets				
Available-for-sale financial assets	396	–	82,382	82,778
Total available-for-sale financial assets	396	–	82,382	82,778

US\$000	As at 31.12.12			
	Level 1	Level 2	Level 3	Total
Financial assets				
Available-for-sale financial assets	534	–	–	534
Total available-for-sale financial assets	534	–	–	534

There were no transfers between Level 1 and Level 2 in the period.

Reconciliation of Level 3 fair value measurements of financial assets

US\$000	As at 31.12.13 Available- for-sale financial assets	As at 31.12.12 Available- for-sale financial assets
Opening balance	–	430
Additions	82,382	–
Total gains or losses:		
– in profit or loss	–	(430)
– in other comprehensive income	–	–
Transfer out of Level 3	–	–
Closing balance	82,382	–

Capital management

The Board's policy is to maintain a strong capital base. The Board of Directors monitors both the demographic spread of shareholders, as well as the return on capital, which the Group defines as total shareholders' equity, excluding non-controlling interests, and the level of dividends to Ordinary Shareholders. Please refer to the Statement of Changes in Equity for details of the capital position of the Group.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and advantages and security afforded by a sound capital position. The Board continues to support maintaining a sound capital base balanced against these market constraints.

Note 37: Financial instruments continued

The Board maintains a dividend policy consistent with the Group's profile, reflecting the investment activities the Group is making on major projects for future production growth and the cash generated by existing operations, whilst maintaining a prudent level of dividend cover.

Neither the Company nor any of its subsidiaries is subject to externally imposed capital requirements other than a bank covenant requirement to maintain consolidated equity of the Group of US\$500,000 thousand including non-controlling interests and excluding the translation reserve. Compliance is ensured by balancing dividend payments against the earnings of the Group.

For more information about the Group's interest-bearing loans and borrowings see note 29.

Note 38: Share-based payments

Long-term incentive plan ('LTIP')

The following share awards were granted under the LTIP in the previous financial years. The LTIP vesting period is three years.

No. ('000)	2013 LTIP	2012 LTIP	2011 LTIP	Total
Year ended 31.12.13	450	–	–	450
Year ended 31.12.12	–	485	–	485
Year ended 31.12.11	–	–	415	415

The LTIP is subject to a performance condition based on the Total Shareholder Return ('TSR') compared to a comparator group, measured over the vesting period, as described in the Director's Remuneration Report.

The following expenses have been recognised in 2013 and 2012 in respect of the LTIP:

US\$000	2013 LTIP	2012 LTIP	2011 LTIP	2010 LTIP	Total
Year ended 31.12.13	210	528	528	–	1,266
Year ended 31.12.12	–	693	592	323	1,608

The fair value of these awards was assessed at their grant date using a simulation or 'Monte Carlo' model consistent with the mathematics underlying the standard Black-Scholes options pricing model, extended to allow for the performance conditions. Each simulation of the model projects the Company's and comparator's share prices (with reinvested dividends) over the vesting period, allowing for the volatilities and correlations between the shares as estimated from historical data. From this projection the proportion of awards vesting, and the value to employees, is calculated. 100,000 simulations were run to calculate the fair values. The fair value is set as the average value over all the simulations.

	Year ended 31.12.13 WAFV (US\$)	Year ended 31.12.12 WAFV (US\$)	Year ended 31.12.13 No. ('000)	Year ended 31.12.12 No. ('000)
LTIP				
Beginning of the year	3.23	3.38	1,150	905
Awards granted during the year	1.40	2.32	450	485
Lapsed during the year	3.42	–	(30)	–
Vested during the year	3.28	1.94	(250)	(240)
Outstanding at 31 December	2.59	3.23	1,320	1,150

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

Note 39: Operating profit by function

US\$000	Notes	Before adjusting items	Adjusted items	Year ended 31.12.13	Before adjusting items	Adjusted items	Year ended 31.12.12
Revenue	6	1,581,385	–	1,581,385	1,424,030	–	1,424,030
Cost of sales	3/7	(773,221)	–	(773,221)	(690,729)	–	(690,729)
Gross profit		808,164	–	808,164	733,301	–	733,301
Selling and distribution expenses	8	(335,718)	–	(335,718)	(311,964)	–	(311,964)
General and administrative expenses	9	(54,839)	–	(54,839)	(56,329)	–	(56,329)
Other income	10	6,662	–	6,662	11,347	–	11,347
Other expenses	11	(23,457)	(45,767)	(69,224)	(30,161)	(4,903)	(35,064)
Operating foreign exchange gain	12	622	–	622	653	–	653
Operating profit		401,434	(45,767)	355,667	346,847	(4,903)	341,944
Share of profit of associates	14	3,551	–	3,551	2,772	–	2,772
Total profit from operations and associates		404,985	(45,767)	359,218	349,619	(4,903)	344,716

Summary of adjusted items:

US\$000	Notes	Year ended 31.12.13	Year ended 31.12.12
Operating adjusting items			
Write-down of VAT receivable	26	(36,421)	–
Write-offs and impairment losses	13	(854)	(836)
Losses on disposal of property, plant and equipment		(8,492)	(4,067)
Total operating adjusting items		(45,767)	(4,903)

Note 40: Events after the reporting period

Since the balance sheet date, the Ukrainian Hryvnia has devalued by 15.6% compared to the US Dollar; from 7.993 as of 31 December 2013 to 9.236 as of date of the publication of these accounts. The Group has assets and liabilities denominated in this currency, which when translated at the current prevailing rates would reduce the net assets of the Group. A devaluation of 1% of the Ukrainian Hryvnia reduces the Group's net assets by approximately US\$24,000 thousand.

Subsequent to the year end, the Group proposed dividends as disclosed in note 17. Other than disclosed above, no material adjusting or non-adjusting events have occurred.

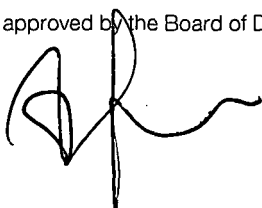
PARENT COMPANY BALANCE SHEET

US\$000	Notes	As at 31.12.13	As at 31.12.12
Fixed assets			
Non-current investments			
Subsidiary undertakings	2	147,496	147,496
Total fixed assets		147,496	147,496
Current assets			
Debtors – amounts falling due within one year:			
Amounts due from subsidiaries		863,114	792,180
Prepayments and other current assets		2,207	2,055
Other taxes recoverable and prepaid		–	2
Cash at bank and in hand		240	700
Total current assets		865,561	794,937
Creditors – amounts falling due within one year:			
Trade and other creditors	4	369	332
Accruals and deferred income	5	812	1,013
Income taxes payable		1,456	1,112
Other taxes payable		50	–
Total creditors		2,687	2,457
Net assets		1,010,370	939,976
<i>Represented by:</i>			
Capital and reserves			
Share capital	3	121,628	121,628
Share premium	3	185,112	185,112
Treasury share reserve	3	(77,260)	(77,260)
Employee benefit trust reserve	3	(6,542)	(7,808)
Retained earnings	3	787,432	718,304
Total capital and reserves	3	1,010,370	939,976

All liabilities held by the Company are current in nature.

The financial statements were approved by the Board of Directors on 11 March 2014.

Kostyantyn Zhevago
Chief Executive Officer



Christopher Mawe
Chief Financial Officer



NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

Note 1: Parent company accounting policies

Basis of preparation

The Parent Company financial statements of Ferrexpo plc are presented as required by the Companies Act 2006 and were approved for issue on 11 March 2014. The financial statements are prepared under the historical cost convention and are prepared in accordance with applicable UK accounting standards. No profit and loss account is presented by the Company as permitted by Section 408 of the Companies Act 2006. The Company has taken advantage of the exemption granted by FRS 1 *Cash flow statements* (revised), whereby it is not required to publish its own cash flow statement.

The Company is exempt from the disclosure requirements of FRS 29 *Financial instruments*, under its section 2D (a) as the entity is included in publicly available consolidated financial statements, which include disclosures that comply with FRS 29/IFRS 7. Disclosures and narratives have not included information required by that standard, as the Group's consolidated financial statements, in which the Company is included, provide equivalent disclosures for the Group under IFRS 7 *Financial instruments: Disclosures*.

Investments

Equity investments in subsidiaries are carried at cost less any provision for impairments.

Deferred income tax

Deferred income tax is recognised in respect of all timing differences that have originated but not reversed at the reporting date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

- provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the reporting date, dividends have been accrued as receivable; and
- deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the reporting date.

Foreign currencies

The Company's functional currency and presentation currency is US Dollars. Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Financial instruments

Derivative financial instruments

The Company does not hold any derivative financial instruments.

Non-derivative financial instruments

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

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are those that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Company has not designated any financial asset as financial assets at fair value through profit or loss.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method less any impairment losses.

Note 1: Parent company accounting policies continued

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit or loss or available-for-sale. Such assets are carried at amortised cost using the effective interest method if the time value of money is significant. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Impairment of financial assets

The Company assesses at each reporting date whether a financial asset or a group of financial assets is impaired. Investments in subsidiaries' undertakings are held at cost. The Company assesses investments for impairment whenever events or changes in circumstances indicate that the carrying amount of an investment may not be recoverable. If any such indication of impairment exists, the Company makes an estimate of its recoverable amount (valuation). Where the carrying amount of an investment exceeds its recoverable amount, the investment is considered impaired and is written down to its recoverable amount.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced, with the amount of the loss recognised in administration costs. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the profit and loss account, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Derecognition of financial assets and liabilities

A financial asset or liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

Share-based payments

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the grant date and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined by reference to the quoted closing share price on the grant date.

In valuing equity-settled transactions, no account is taken of any vesting conditions, except for market conditions. No expense is recognised for awards that do not ultimately vest.

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

All costs related to the share-based payments of the Group are recorded in Ferrexpo plc. Note 38 to the consolidated financial statements provides further information on the valuation related to the share-based payments and the costs recorded.

Employee benefit trust reserve

Ferrexpo plc shares held by the Company are classified in capital and reserves as 'employee benefit trust reserves' and recognised at cost. Consideration received for the sale of such shares is also recognised in equity, with any difference between the proceeds from sale and the original cost taken to revenue reserves. No gain or loss is recognised on the purchase, sale issue or cancellation of equity shares.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

continued

Note 2: Investments

US\$000	As at 31.12.13	As at 31.12.12
Non-current investments	147,496	147,496

The balance above relates to the Company's investment in Ferrexpo AG which is a 100% owned subsidiary based in Switzerland.

Note 3: Capital and reserves

US\$000	Issued capital	Share premium	Treasury share reserve	Employee benefit trust reserve	Retained earnings	Total equity
At 1 January 2012	121,628	185,112	(77,260)	(9,416)	518,036	738,100
Profit for the period	-	-	-	-	238,928	238,928
Total comprehensive income for the year	-	-	-	-	238,928	238,928
Equity dividends paid to shareholders	-	-	-	-	(38,660)	(38,660)
Share-based payments	-	-	-	1,608	-	1,608
At 31 December 2012	121,628	185,112	(77,260)	(7,808)	718,304	939,976
Profit for the period	-	-	-	-	146,429	146,429
Total comprehensive income for the year	-	-	-	-	146,429	146,429
Equity dividends paid to shareholders	-	-	-	-	(77,301)	(77,301)
Share-based payments	-	-	-	1,266	-	1,266
At 31 December 2013	121,628	185,112	(77,260)	(6,542)	787,432	1,010,370

Note 4: Trade and other creditors

Trade and other creditors at 31 December 2013 relate to the following:

US\$000	As at 31.12.13	As at 31.12.12
Trade and other creditors:		
Falling due within one year	369	332
Total trade and other creditors	369	332

Note 5: Accrued liabilities and deferred income

Accrued liabilities and deferred income at 31 December 2013 relate to the following:

US\$000	As at 31.12.13	As at 31.12.12
Accrued liabilities and deferred income:		
Falling due within one year	812	1,013
Total accrued liabilities and deferred income	812	1,013

Note 6: Related party disclosures

There are no related party transactions and balances to be disclosed. All transactions and balances are with subsidiaries, which are wholly-owned.

Note 7: Events after the reporting period

No material adjusting or non-adjusting events have occurred subsequent to the year end other than the proposed dividends disclosed in note 17 to the consolidated financial statements.

APPENDIX 1 – SUBSIDIARY RISKS

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

 The Group's principal risks are disclosed on pages 28 to 31.

RISKS RELATING TO THE GROUP'S OPERATIONS

Licences

Possible impact

See also 'Risk relating to the Group's strategy – government approvals of expansion' on page 31.

Mining and land allotment licences are critical to the Group's operations, and there can be no guarantee that they will be renewed or that additional licences will be obtained. This could adversely affect the Group's operations and its ability to develop in the future.

Mitigation

- The Group complies with commitments under its various licences in order to ensure that the conditions contained within the licences are fulfilled or, if appropriate, waivers are obtained.

Relocation of communities

Possible impact

Certain small rural settlements will have to be relocated in order to allow us to proceed with some of our mine expansion projects. Potential solutions have been explored, and progress has been made during the recent months.

Mitigation

- The resolution of the issue is supported by strong activity at the local level including timely meetings and dialogue with community representatives, in order to reach consensus on the benefits of relocation in terms of improved accommodation and utilities and better access to transport infrastructure and social services. Communities are paid a fair price for their land and compensation for disruption. As it is included in the approved funding of the Capital Project, the topic is under constant review, including weekly meetings at site, and when necessary at monthly Executive Committee meetings.
-

APPENDIX 1 – SUBSIDIARY RISKS *continued*

RISKS RELATING TO FINANCE

Exchange rate risk

Possible impact

The Group receives the majority of its income in US Dollars while a large proportion of its costs are denominated in Ukrainian Hryvnia.

An appreciation of the Ukrainian Hryvnia against the US Dollar could have a negative impact on the profitability of the Group.

Mitigation

- Historical weakness of the Ukrainian Hryvnia in times of low commodity prices has provided a natural hedge during downturns in the commodity cycle. All of the Group's revenues and associated debt are denominated in US Dollars.
-

Interest rate risk

Possible impact

A portion of the Group's finance facility is linked to US Dollar LIBOR rates. An increase in interest rates will have a negative impact on the Group's financial costs, thus affecting profitability.

Mitigation

- The Group has optimised its debt structure, maintaining low balance sheet gearing. As a result, its interest costs are a low proportion of its profitability.
-

Financing risk

Possible impact

The Group's development projects may be funded using debt secured with financial guarantees. There is a risk that cancellation of contracts as a result of force majeure events and/or lower iron ore pellet prices would limit the amount of funding available to the Group, and could prompt lenders of existing finance facilities to require Ferrexpo to assign additional contracts to meet agreed ratios.

Mitigation

- The Group's financing risk has been mitigated by the issue of a US\$500 million Eurobond and a US\$420 million bank facility.
 - The average debt maturity at 31 December 2013 was three years.
 - The Group has minimal debt repayments of US\$24 million in 2014.
-

GLOSSARY

Act	The Companies Act 2006
AGM	The Annual General Meeting of the Company
Articles	Articles of Association of the Company
Audit Committee	The Audit Committee of the Company's Board
Belanovo or Belanovskoye	An iron ore deposit located immediately to the north of Yeristovo
Benchmark price	International seaborne traded iron ore pricing mechanism understood to be offered to the market by major iron ore producers under long-term contracts
Beneficiation process	A number of processes whereby the mineral is extracted from the crude ore (see page 5)
BIP	Business Improvement Programme, a programme of projects to increase production output and efficiency at FPM
Board	The Board of Directors of the Company
bt	Billion tonnes
C1 costs	Represents the cash costs of production of iron pellets from own ore, divided by production volume from own ore, and excludes non-cash costs such as depreciation, pension costs and inventory movements, costs of purchased ore, concentrate and production cost of gravel
Capesize	Capesize vessels are typically above 150,000 tonnes deadweight. Ships in this class include oil tankers, supertankers and bulk carriers transporting coal, ore, and other commodity raw materials. Standard capesize vessels are able to transit through Suez Canal
Capital employed	The aggregate of equity attributable to shareholders, non-controlling interests and borrowings
CFR	Delivery including cost and freight
CIF	Delivery including cost, insurance and freight
CIS	The Commonwealth of Independent States
Code	The UK Corporate Governance Code published in 2012
CODM	The Executive Committee is considered to be the Group's Chief Operating Decision Maker
Company	Ferrexpo plc, a public company incorporated in England and Wales with limited liability
CPI	Consumer Price Index
CRU	The CRU Group provides market analysis and consulting advice in the global mining industry (see www.crugroup.com)
CSR	Corporate Social Responsibility
CSR Committee	The Corporate Safety and Social Responsibility Committee of the Board of the Company
DAP	Delivery at place
DFS	Detailed feasibility study
Directors	The Directors of the Company

GLOSSARY *continued*

EBITDA	The Group calculates EBITDA as profit from continuing operations before tax and finance plus depreciation and amortisation and non-recurring exceptional items included in other income and other expenses, share-based payment expenses and the net of gains and losses from disposal of investments and property, plant and equipment
EBT	Employee Benefit Trust
EPS	Earnings per share
Executive Committee	The Executive Committee of management appointed by the Company's Board
Executive Directors	The Executive Directors of the Company
FBM	Ferrexpo Belanovo Mining, also known as BGOK, a company incorporated under the laws of Ukraine
Fe	Iron
Ferrexpo	Ferrexpo plc and its subsidiaries
Ferrexpo AG Group	Ferrexpo AG and its subsidiaries, including FPM
Fevamotinicco	Fevamotinicco S.a.r.l., a company incorporated with limited liability in Luxembourg
First-DDSG	First-DDSG Logistics Holding GmbH (formerly Helogistics Holding GmbH) and its subsidiaries, an inland waterway transport group operating on the Danube/Rhine corridor
FOB	Delivered free on board, which means that the seller's obligation to deliver has been fulfilled when the goods have passed over the ship's rail at the named port of shipment, and all future obligations in terms of costs and risks of loss or damage transfer to the buyer from that point onwards
FPM	Ferrexpo Poltava Mining, also known as Ferrexpo Poltava GOK Corporation or PGOK, a company incorporated under the laws of Ukraine
FRMC	Financial Risk Management Committee, a sub-committee of the Executive Committee
FTSE 250	Financial Times Stock Exchange top 250 companies
FYM	Ferrexpo Yeristovo Mining, also known as YGOK, a company incorporated under the laws of Ukraine
Group	The Company and its subsidiaries
Growth markets	These are predominantly in Asia and have the potential to deliver new and significant sales volumes to the Group
HSE	Health, safety and environment
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards, as adopted by the EU
IPO	Initial public offering
Iron ore concentrate	Product of the beneficiation process with enriched iron content
Iron ore pellets	Balled and fired agglomerate of iron ore concentrate, whose physical properties are well suited for transportation to and reduction within a blast furnace
Iron ore sinter fines	Fine iron ore screened to -6.3mm

JORC	Australasian Joint Ore Reserves Committee – the internationally accepted code for ore classification
K22	GPL ore has been classified as either K22 or K23 quality, of which K22 ore is of higher quality (richer)
KPI	Key Performance Indicator
kt	Thousand tonnes
LIBOR	The London Inter Bank Offered Rate
LLC	Limited Liability Company
LTIFR	Lost-Time Injury Frequency Rate
LTIP	Long-Term Incentive Plan
m³	Cubic metre
Majority shareholder	Fevamotinic S.a.r.l., The Minco Trust and Kostyantyn Zhevago (together)
mm	Millimetre
mt	Million tonnes
mtpa	Million tonnes per annum
Natural markets	These include Turkey, the Middle East and Western Europe and are those markets where Ferrexpo has a competitive advantage over more distant producers, but where market share remains relatively low
Nominations Committee	The Nominations Committee of the Company's Board
Non-executive Directors	Non-executive Directors of the Company
NOPAT	Net operating profit after tax
OHSAS 18001	International safety standard 'Occupational Health & Safety Management System Specification'
Ordinary Shares	Ordinary Shares of 10 pence each in the Company
Ore	A mineral or mineral aggregate containing precious or useful minerals in such quantities, grade and chemical combination as to make extraction economic
Panamax	Modern panamax ships typically carry a weight of between 65,000 to 90,000 tonnes of cargo and can transit both Panama and Suez canals
PPI	Ukrainian producer price index
Probable reserves	Those measured and/or indicated mineral resources which are not yet 'proved', but of which detailed technical and economic studies have demonstrated that extraction can be justified at the time of determination and under specific economic conditions
Proved reserves	Measured mineral resources of which detailed technical and economic studies have demonstrated that extraction can be justified at the time of determination and under specific economic conditions
Rail car	Railway wagon used for the transport of iron ore concentrate or pellets
Relationship agreement	The relationship agreement entered into among Fevamotinic S.a.r.l., Kostyantyn Zhevago, The Minco Trust and the Company

GLOSSARY *continued*

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
Spot price	The current price of a product for immediate delivery
Sterling/£	Pound Sterling, the currency of the United Kingdom
STIP	Short-Term Incentive Plan
Tailings	The waste material produced from ore after economically recoverable metals or minerals have been extracted. Changes in metal prices and improvements in technology can sometimes make the tailings economic to process at a later date
Tolling	The process by which a customer supplies concentrate to a smelter and the smelter invoices the customer the smelting charge, and possibly a refining charge, and then returns the metal to the customer
Ton	A US short ton, equal to 0.9072 metric tonnes
Tonne or t	Metric tonne
Traditional markets	These lie within Central and Eastern Europe and include steel plants that were designed to use Ferrexpo pellets. Ferrexpo has been supplying some of these customers for more than 20 years. Ferrexpo has well-established logistics routes and infrastructure to these markets by both river barge and rail. These markets include Austria, Czech Republic, Hungary and Slovakia
Treasury shares	A company's own issued shares that it has purchased but not cancelled
TSF	Tailings storage facility
TSR	Total shareholder return. The total return earned on a share over a period of time, measured as the dividend per share plus capital gain, divided by initial share price
UAH	Ukrainian Hryvnia, the currency of Ukraine
Ukr SEPRO	The quality certification system in Ukraine, regulated by law to ensure conformity with safety and environmental standards
US\$/t	US Dollars per tonne
Value-in-use	The implied value of a material to an end user relative to other options, e.g. evaluating, in financial terms, the productivity in the steel-making process of a particular quality of iron ore pellets versus the productivity of alternative qualities of iron ore pellets
VAT	Value Added Tax
WAFV	Weighted average fair value
WMS	Wet magnetic separation
Yeristovo or Yeristovskoye	The deposit being developed by FYM

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26 June 2014

Dear Sirs

FERREXPO FINANCE PLC – No. 4914716

I enclose the signed annual financial statements for 2013.

Will you please return to me the attached copy of this letter in the enclosed envelope, in acknowledgment of receipt.

Yours faithfully



D J Leonard
Secretary