

# **Open Joint Stock Company Magnitogorsk Iron & Steel Works and Subsidiaries**

**Unaudited Condensed Consolidated Interim  
Financial Statements**

For the Three Months Ended 31 March 2017

**OPEN JOINT STOCK COMPANY  
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES**

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**OPEN JOINT STOCK COMPANY  
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES**

**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND  
APPROVAL OF THE UNAUDITED CONDENSED CONSOLIDATED INTERIM  
FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2017**

The following statement, which should be read in conjunction with the auditor's responsibilities stated in the report on review of the unaudited condensed consolidated interim financial statements set out on page 2, is made with a view to distinguishing the respective responsibilities of management and those of the auditor in relation to the unaudited condensed consolidated interim financial statements of Open Joint Stock Company Magnitogorsk Iron & Steel Works and its subsidiaries (the "Group").

Management is responsible for the preparation of the unaudited condensed consolidated interim financial statements as at 31 March 2017 and for the three months period then ended, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

In preparing the unaudited condensed consolidated interim financial statements, management is responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- making an assessment of the Group's ability to continue as a going concern.

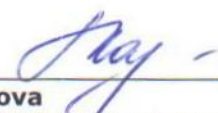
Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group, and which enable them to ensure that the unaudited condensed consolidated interim financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with statutory legislation and accounting standards;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

The unaudited condensed consolidated interim financial statements for the three months ended 31 March 2017 were approved on 10 May 2017 by:

  
**P. V. Shilyaev**  
General Director



  
**M. E. Khazova**  
Director of OOO MMK-ACCOUNTING  
CENTER, a specialized organization, which  
performs the accounting function for  
OJSC Magnitogorsk Iron & Steel Works



## Report on Review of Interim Financial Information

To the Shareholders and Board of Directors of OJSC Magnitogorsk Iron & Steel Works:

### Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Open Joint Stock Company Magnitogorsk Iron & Steel Works and its subsidiaries (the "Group") as of 31 March 2017 and the related condensed consolidated statements of comprehensive income, changes in equity and cash flows for the three-month period then ended. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

### Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim Financial Reporting".

*AO PricewaterhouseCoopers Audit*

10 May 2017

Moscow, Russian Federation

A. B. Fomin, certified auditor (licence no. 01-000059), AO PricewaterhouseCoopers Audit

Audited entity: OJSC Magnitogorsk Iron & Steel Works

State registration certificate № 186, issued by Administration of Magnitogorsk on 17 October 1992

Certificate of inclusion in the Unified State Register of Legal Entities issued on 12 August 2002 under registration № 1027402166835

Kirova, 93. Magnitogorsk. Russia, 455000

Independent auditor: AO PricewaterhouseCoopers Audit

State registration certificate № 008.890, issued by the Moscow Registration Chamber on 28 February 1992

Certificate of inclusion in the Unified State Register of Legal Entities issued on 22 August 2002 under registration № 1027700148431

Member of Self-regulated organization of auditors «Russian Union of auditors» (Association)

ORNZ 11603050547 in the register of auditors and audit organizations

**OPEN JOINT STOCK COMPANY  
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE THREE MONTHS ENDED 31 MARCH 2017  
(In millions of U.S. Dollars, except per share data)**

	Notes	Three months ended 31 March	
		2017	2016
REVENUE	4	1,660	1,050
COST OF SALES		(1,171)	(789)
<b>GROSS PROFIT</b>		<b>489</b>	<b>261</b>
General and administrative expenses	6	(57)	(52)
Selling and distribution expenses		(115)	(86)
Other operating income, net	7	2	69
<b>OPERATING PROFIT</b>		<b>319</b>	<b>192</b>
Share of results of associates		1	(1)
Finance income		1	4
Finance costs		(8)	(28)
Reversal of impairment losses and provision for site restoration		(1)	6
Foreign exchange (loss)/gain, net		(3)	25
Other expenses		(21)	(9)
<b>PROFIT BEFORE INCOME TAX</b>		<b>288</b>	<b>189</b>
INCOME TAX		(47)	(32)
<b>PROFIT FOR THE PERIOD</b>		<b>241</b>	<b>157</b>
<b>OTHER COMPREHENSIVE INCOME/(LOSSES)</b>			
<i>Items, that will be reclassified subsequently to profit or loss</i>			
Net change in fair value of available-for-sale investments		-	62
Disposal of investments revaluation reserve		-	(43)
Translation of foreign operations		(107)	(64)
<i>Items, that will not be reclassified subsequently to profit or loss</i>			
Remeasurements of post-employment benefit obligations		1	-
Effect of translation to presentation currency		413	285
<b>OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX</b>		<b>307</b>	<b>240</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>548</b>	<b>397</b>
Profit attributable to:			
Shareholders of the Parent Company		241	157
Non-controlling interests		-	-
		<b>241</b>	<b>157</b>
Total comprehensive income attributable to:			
Shareholders of the Parent Company		546	396
Non-controlling interests		2	1
		<b>548</b>	<b>397</b>
BASIC AND DILUTED EARNINGS PER SHARE (U.S. Dollars)		0.022	0.014
Weighted average number of ordinary shares outstanding (in thousands)		11,174,330	11,173,190

The notes on pages 5 to 17 are an integral part of these unaudited condensed consolidated interim financial statements.

**OPEN JOINT STOCK COMPANY  
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AT 31 MARCH 2017  
(In millions of U.S. Dollars)**

	Notes	31 March 2017	31 December 2016
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS:</b>			
Property, plant and equipment	8	4,637	4,345
Intangible assets		25	22
Investments in securities and other financial assets	9	3	3
Investments in associates		8	6
Deferred tax assets		84	75
Other non-current assets		11	11
<b>Total non-current assets</b>		<b>4,768</b>	<b>4,462</b>
<b>CURRENT ASSETS:</b>			
Inventories		1,280	1,067
Trade and other receivables		719	558
Investments in securities and other financial assets	9	119	50
Income tax receivable		2	1
Value added tax recoverable		141	97
Cash and cash equivalents	10	274	266
<b>Total current assets</b>		<b>2,535</b>	<b>2,039</b>
<b>TOTAL ASSETS</b>		<b>7,303</b>	<b>6,501</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY:</b>			
Share capital	11	386	386
Share premium		969	969
Translation reserve		(5,061)	(5,365)
Retained earnings		8,942	8,703
Equity attributable to shareholders of the Parent Company		5,236	4,693
Non-controlling interests		23	18
<b>Total equity</b>		<b>5,259</b>	<b>4,711</b>
<b>NON-CURRENT LIABILITIES:</b>			
Long-term borrowings	12	325	178
Obligations under finance leases		1	1
Retirement benefit obligations		17	16
Site restoration provision		165	155
Deferred tax liabilities		385	373
<b>Total non-current liabilities</b>		<b>893</b>	<b>723</b>
<b>CURRENT LIABILITIES:</b>			
Short-term borrowings and current portion of long-term borrowings	13	245	320
Current portion of obligations under finance leases		1	1
Current portion of retirement benefit obligations		3	3
Trade and other payables		870	710
Current portion of site restoration provision		11	10
Income tax payables		21	23
<b>Total current liabilities</b>		<b>1,151</b>	<b>1,067</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>7,303</b>	<b>6,501</b>

Approved on 10 May 2017 by:

**P. V. Shilyaev**  
General Director



**M. E. Khazova**

Director of OOO MMK-ACCOUNTING CENTER, a specialized organization, which performs the accounting function for OJSC Magnitogorsk Iron & Steel Works

The notes on pages 5 to 17 are an integral part of these unaudited condensed consolidated interim financial statements.

**OPEN JOINT STOCK COMPANY  
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE THREE MONTHS ENDED 31 MARCH 2017**  
*(In millions of U.S. Dollars)*

	Attributable to shareholders of the Parent Company						Total	Non-controlling interests	Total equity
	Share capital	Treasury shares	Share premium	Investments revaluation reserve	Translation reserve	Retained earnings			
<b>BALANCE AT 1 JANUARY 2016</b>	<b>386</b>	<b>(1)</b>	<b>969</b>	<b>121</b>	<b>(5,940)</b>	<b>7,772</b>	<b>3,307</b>	<b>13</b>	<b>3,320</b>
Profit for the period	-	-	-	-	-	157	<b>157</b>	-	<b>157</b>
Other comprehensive income for the period, net of tax	-	-	-	19	220	-	<b>239</b>	1	<b>240</b>
Total comprehensive income for the period	-	-	-	19	220	157	396	1	397
Purchase of treasury shares	-	(62)	-	-	-	-	<b>(62)</b>	-	<b>(62)</b>
Issuance of ordinary shares from treasury shares	-	63	(1)	-	-	-	<b>62</b>	-	<b>62</b>
<b>BALANCE AT 31 MARCH 2016</b>	<b>386</b>	<b>-</b>	<b>968</b>	<b>140</b>	<b>(5,720)</b>	<b>7,929</b>	<b>3,703</b>	<b>14</b>	<b>3,717</b>
<b>BALANCE AT 1 JANUARY 2017</b>	<b>386</b>	<b>-</b>	<b>969</b>	<b>-</b>	<b>(5,365)</b>	<b>8,703</b>	<b>4,693</b>	<b>18</b>	<b>4,711</b>
Profit for the period	-	-	-	-	-	241	<b>241</b>	-	<b>241</b>
Other comprehensive income for the period, net of tax	-	-	-	-	304	1	<b>305</b>	2	<b>307</b>
Total comprehensive income for the period	-	-	-	-	304	242	<b>546</b>	2	<b>548</b>
Changes in non-controlling interest in subsidiaries	-	-	-	-	-	(3)	<b>(3)</b>	3	-
<b>BALANCE AT 31 MARCH 2017</b>	<b>386</b>	<b>-</b>	<b>969</b>	<b>-</b>	<b>(5,061)</b>	<b>8,942</b>	<b>5,236</b>	<b>23</b>	<b>5,259</b>

The notes on pages 5 to 17 are an integral part of these unaudited condensed consolidated interim financial statements.

**OPEN JOINT STOCK COMPANY  
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE THREE MONTHS ENDED 31 MARCH 2017  
(In millions of U.S. Dollars)**

	Notes	Three months ended 31 March	
		2017	2016
<b>OPERATING ACTIVITIES:</b>			
Profit for the period		241	157
Adjustments to profit for the period:			
Income tax		47	32
Depreciation and amortization		130	94
Reversal of impairment losses and provision for site restoration		1	(6)
Finance costs		8	28
Loss on disposal of property, plant and equipment	7	2	2
Change in allowance for doubtful accounts receivable		1	(1)
Change in inventory allowance		(3)	(20)
Finance income		(1)	(4)
Foreign exchange loss/(gain), net		3	(25)
Income from available-for-sale investments	7	-	(3)
Gain on sale of available-for-sale investments	7	-	(68)
Share of results of associates		(1)	1
Gain on disposal of subsidiaries	7	(3)	-
		425	187
Movements in working capital			
Increase in trade and other receivables		(126)	(141)
(Increase)/decrease in value added tax recoverable		(36)	10
(Increase)/decrease in inventories		(135)	131
Increase in trade and other payables		86	24
Cash generated from operations		214	211
Interest paid		(7)	(30)
Income tax paid		(71)	(7)
<b>Net cash from operating activities</b>		<b>136</b>	<b>174</b>
<b>INVESTING ACTIVITIES:</b>			
Purchase of property, plant and equipment		(121)	(78)
Purchase of intangible assets		(1)	(1)
Interest received		1	6
Proceeds from sale available-for-sale investments		-	93
Proceeds from sale of securities and other financial assets		1	-
Purchase of securities and other financial assets		(1)	-
Placement of short-term bank deposits		(110)	(414)
Withdrawal of short-term bank deposits		42	336
<b>Net cash used in investing activities</b>		<b>(189)</b>	<b>(58)</b>
<b>FINANCING ACTIVITIES:</b>			
Proceeds from borrowings		454	93
Repayments of borrowings		(399)	(359)
Purchase of treasury shares		-	(62)
Proceeds from issuance of ordinary shares from treasury shares		-	62
<b>Net cash received from/(used in) financing activities</b>		<b>55</b>	<b>(266)</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
		2	(150)
CASH AND CASH EQUIVALENTS, beginning of period	10	266	369
Effect of translation to presentation currency and exchange rate changes on the balance of cash held in foreign currencies		6	25
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<b>10</b>	<b>274</b>	<b>244</b>

The notes on pages 5 to 17 are an integral part of these unaudited condensed consolidated interim financial statements.



# **OPEN JOINT STOCK COMPANY MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES**

## **NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2017 (In millions of U.S. Dollars, unless otherwise stated)**

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### **1. GENERAL INFORMATION**

OJSC Magnitogorsk Iron & Steel Works ("the Parent Company") is an open joint stock company as defined by the Civil Code of the Russian Federation. The Parent Company was established as a state owned enterprise in 1932. It was incorporated as an open joint stock company on 17 October 1992 as part of and in accordance with the Russian Federation privatization program.

The Parent Company, together with its subsidiaries ("the Group"), is a producer of ferrous metal products. The Group's products are sold in the Russian Federation and internationally. The subsidiaries of the Parent Company are mainly involved in the various sub-processes within the production cycle of ferrous metal products or in the distribution of those products. The Group is also engaged in coal mining and sale thereof.

The Parent Company's registered office is 93, Kirova street, Magnitogorsk, Chelyabinsk region, Russia, 455000.

As at 31 March 2017 the Parent Company's major shareholders were Mintha Holding Limited with a 87.3% ownership interest (31 December 2016: 87.3%).

The ultimate beneficiary of the Parent Company is Mr. Viktor F. Rashnikov, the Chairman of its Board of Directors.

The effective and nominal ownership holdings of the Group's principal subsidiaries at 31 March 2017 did not change from 31 December 2016.

### **2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES**

#### **Statement of compliance**

These unaudited condensed consolidated interim financial statements for the three months ended 31 March 2017 have been prepared in accordance with IAS 34 "Interim financial reporting" ("IAS 34"). The consolidated statement of financial position at 31 December 2016 has been derived from the consolidated statement of financial position included in the Group's consolidated financial statements at 31 December 2016. These unaudited condensed consolidated interim financial statements do not include all of the information and disclosure required in the annual consolidated financial statements and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2016, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The same accounting policies and methods of computation have been followed in these unaudited condensed consolidated interim financial statements as were applied in the preparation of the Group's consolidated financial statements for the year ended 31 December 2016, except for changes made due to adoption of new Standards and Interpretations becoming effective from 1 January 2017. Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit and loss.

#### **Adoption of new or revised standards and interpretations**

The following new standards, amendments to standards and interpretations became effective for the Group from 1 January 2017:

- Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12 (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017).

# **OPEN JOINT STOCK COMPANY MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES**

## **NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2017 (In millions of U.S. Dollars, unless otherwise stated)**

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### **2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

These standards, amendments to standards and interpretations did not have a material impact on these condensed consolidated interim financial statements.

#### **New Accounting Pronouncements**

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 March 2017, and have not been early adopted by the Group:

- IFRS 9 "Financial Instruments: Classification and Measurement" (issued in July 2014 and effective for annual periods beginning on or after 1 January 2018). The Group is currently assessing the impact of the standard on its consolidated financial statements.
- IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018).
- IFRS 16 "Leases" (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018).

Unless otherwise described above, the new standards, amendments to standards and interpretations are expected to have no impact or to have a non-material impact on the Group's consolidated condensed interim financial statements.

#### **Estimates**

The preparation of unaudited condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these unaudited condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the unaudited consolidated financial statements as at and for the year ended 31 December 2016.

#### **Basis of preparation**

The unaudited condensed consolidated interim financial statements of the Group are prepared on the historical cost basis except for the certain financial instruments which are reported in accordance with IAS 39 "Financial instruments: recognition and measurement" at fair value.

#### **Functional and presentation currency**

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency).

The functional currency of the Group's entities except for MMK Metalurji and MMK Steel Trade AG is the Russian Rouble. The functional currency of MMK Metalurji and MMK Steel Trade AG is the US Dollar.

The presentation currency of the Group is the US dollar since the management considers the US dollar to be more appropriate for the understanding and comparability of consolidated financial statements. The results and financial position of each of the Group's subsidiaries were translated to the presentation currency as required by IAS 21, "The Effects of Changes in Foreign Exchange Rates".

At 31 March 2017, the official exchange rates were: US\$ 1 = RUB 56.3779 (31 December 2016: US\$ 1 = RUB 60.6569). Exchange rates for the three months ended 31 March 2017 were used as: US\$ 1 = RUB 58.8013 (three months ended 31 March 2016: US\$ 1 = RUB 74.4939).

**OPEN JOINT STOCK COMPANY  
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES**

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED 31 MARCH 2017  
(In millions of U.S. Dollars, unless otherwise stated)**

**3. SEASONAL OPERATIONS**

The Group's operations are not affected significantly by seasonal or cyclical factors during the financial year.

**4. REVENUE**

<b>By product</b>	<b>Three months ended 31 March</b>	
	<b>2017</b>	<b>2016</b>
Hot rolled steel	701	467
Galvanized steel	257	150
Cold rolled steel	192	104
Galvanized steel with polymeric coating	103	89
Long steel products	160	81
Tin plated steel	32	27
Hardware products	32	20
Wire, sling, bracing	32	18
Coking production	27	17
Band	19	14
Formed section	16	2
Scrap	11	7
Tubes	11	6
Coal	1	2
Slabs	-	7
Others	66	39
<b>Total</b>	<b>1,660</b>	<b>1,050</b>

<b>By customer destination</b>	<b>Three months ended 31 March</b>	
	<b>2017</b>	<b>2016</b>
Russian Federation and the CIS	77%	71%
Middle East	13%	18%
Asia	4%	3%
Europe	3%	7%
Africa	2%	1%
South America	1%	-
<b>Total</b>	<b>100%</b>	<b>100%</b>

**5. SEGMENT INFORMATION**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. IFRS 8 "Operating segments" requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker ("CODM") in order to allocate resources to the segments and to assess their performance, and for which discrete financial information is available.

The Group has identified the General Director of the Parent Company as its CODM.

Based on the current management structure and internal reporting the Group has identified the following segments:

- *Steel segment*, which includes Parent Company and its subsidiaries involved in production of steel, wire and hardware products. All significant assets, production and management and administrative facilities of this segment are located in the city of Magnitogorsk (Russian Federation);
- *Steel segment (Turkey)*, which includes MMK Metalurji involved in production of steel. The two sites of this segment are located in Iskenderun and Istanbul (Turkey); and

**OPEN JOINT STOCK COMPANY  
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**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED 31 MARCH 2017  
(In millions of U.S. Dollars, unless otherwise stated)**

**5. SEGMENT INFORMATION (CONTINUED)**

- *Coal mining segment*, which includes OJSC Belon and LLC MMK Ugol involved in mining and refining of coal. All significant assets, production and management and administrative facilities of this segment are located in the city of Belovo (Russian Federation).

The profitability of the three operating segments is primarily measured by CODM based on Segment EBITDA. Segment EBITDA is determined as segment's operating profit adjusted to exclude depreciation and amortisation expense and loss on disposal of property, plant and equipment, and to include the share of result of associates, including the impairment of investments in associates. Since this term is not a standard measure in IFRS the Group's definition of EBITDA may differ from that of other companies.

Inter-segment pricing is determined on a consistent basis using market benchmarks.

The following table presents measures of segment results for the three months ended 31 March 2017 and 2016:

	<b>Three months ended 31 March</b>									
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>Steel</b>	<b>Steel</b>	<b>(Turkey)</b>	<b>Coal mining</b>	<b>Eliminations</b>	<b>Total</b>				
<b>Revenue</b>										
Sales to external customers	1,509	933	150	115	1	2	-	-	1,660	1,050
Inter-segment sales	78	40	-	-	84	41	(162)	(81)	-	-
<b>Total revenue</b>	<b>1,587</b>	<b>973</b>	<b>150</b>	<b>115</b>	<b>85</b>	<b>43</b>	<b>(162)</b>	<b>(81)</b>	<b>1,660</b>	<b>1,050</b>
<b>Segment EBITDA</b>	<b>423</b>	<b>264</b>	<b>11</b>	<b>11</b>	<b>24</b>	<b>12</b>	<b>(6)</b>	<b>-</b>	<b>452</b>	<b>287</b>
Depreciation and amortisation	(108)	(74)	(15)	(17)	(7)	(3)	-	-	(130)	(94)
Loss on disposal of property, plant and equipment	(1)	(2)	-	-	(1)	-	-	-	(2)	(2)
Share of results of associates	(1)	1	-	-	-	-	-	-	(1)	1
<b>Operating profit per IFRS financial statements</b>	<b>313</b>	<b>189</b>	<b>(4)</b>	<b>(6)</b>	<b>16</b>	<b>9</b>	<b>(6)</b>	<b>-</b>	<b>319</b>	<b>192</b>

A reconciliation from operating profit per IFRS financial statements to loss before taxation is included in the unaudited condensed consolidated statement of comprehensive income.

At 31 March 2017 and 31 December 2016, the segments' total assets and liabilities were reconciled to total assets and liabilities as follows:

	<b>31 March 2017</b>				
	<b>Steel</b>	<b>Steel</b>	<b>Coal</b>	<b>Eliminations</b>	<b>Total</b>
	<b>Steel</b>	<b>(Turkey)</b>	<b>mining</b>		
Total assets	8,061	904	364	(2,026)	<b>7,303</b>
Total liabilities	1,931	100	76	(63)	<b>2,044</b>
	<b>31 December 2016</b>				
	<b>Steel</b>	<b>Steel</b>	<b>Coal</b>	<b>Eliminations</b>	<b>Total</b>
	<b>Steel</b>	<b>(Turkey)</b>	<b>mining</b>		
Total assets	8,000	903	310	(2,712)	<b>6,501</b>
Total liabilities	1,687	92	69	(58)	<b>1,790</b>

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**6. GENERAL AND ADMINISTRATIVE EXPENSES**

	Three months ended 31 March	
	2017	2016
Payroll and social taxes	29	25
Taxes other than income tax	14	11
Depreciation and amortisation	5	3
Professional services	4	4
Insurance	1	1
Materials	1	1
Research and development costs	1	1
Other	2	6
<b>Total</b>	<b>57</b>	<b>52</b>

**7. OTHER OPERATING INCOME, NET**

	Three months ended 31 March	
	2017	2016
Reversal of provision for doubtful debtors	1	(1)
Loss on disposal of property, plant and equipment, net	2	2
Income from available-for-sale investments	-	(3)
Net gains on sale of available-for-sale investments	-	(68)
Net gains on sale of other assets	(2)	(1)
Gain on disposal of subsidiaries	(3)	-
Other operating losses, net	-	2
<b>Total</b>	<b>(2)</b>	<b>(69)</b>

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**8. PROPERTY, PLANT AND EQUIPMENT**

	Land and buildings	Machinery and equip- ment	Trans- portation equip- ment	Fixtures and fittings	Mining assets	Construc- tion-in- progress	Total
<b>Gross book value</b>							
<b>At 1 January 2016</b>	<b>2,405</b>	<b>4,954</b>	<b>141</b>	<b>129</b>	<b>87</b>	<b>382</b>	<b>8,098</b>
Additions	-	28	-	-	-	53	81
Transfers	3	18	1	-	-	(22)	-
Site restoration provision	-	-	-	-	2	-	2
Disposals	(1)	(24)	(1)	-	-	(4)	(30)
Effect of translation to presentation currency	140	316	10	9	7	32	514
<b>At 31 March 2016</b>	<b>2,547</b>	<b>5,292</b>	<b>151</b>	<b>138</b>	<b>96</b>	<b>441</b>	<b>8,665</b>
<b>Depreciation</b>							
<b>At 1 January 2016</b>	<b>(1,036)</b>	<b>(2,905)</b>	<b>(100)</b>	<b>(82)</b>	<b>(64)</b>	<b>(147)</b>	<b>(4,334)</b>
Charge for the period	(12)	(77)	(2)	(3)	(1)	-	(95)
Reversal of impairment	-	-	-	-	-	3	3
Disposals	-	21	1	-	-	-	22
Effect of translation to presentation currency	(59)	(180)	(7)	(6)	(5)	(11)	(268)
<b>At 31 March 2016</b>	<b>(1,107)</b>	<b>(3,141)</b>	<b>(108)</b>	<b>(91)</b>	<b>(70)</b>	<b>(155)</b>	<b>(4,672)</b>
<b>Carrying amount</b>							
<b>At 1 January 2016</b>	<b>1,369</b>	<b>2,049</b>	<b>41</b>	<b>47</b>	<b>23</b>	<b>235</b>	<b>3,764</b>
<b>At 31 March 2016</b>	<b>1,440</b>	<b>2,151</b>	<b>43</b>	<b>47</b>	<b>26</b>	<b>286</b>	<b>3,993</b>
<b>Carrying amount had no impairment taken place</b>							
<b>At 1 January 2016</b>	<b>1,784</b>	<b>2,522</b>	<b>48</b>	<b>54</b>	<b>45</b>	<b>382</b>	<b>4,835</b>
<b>At 31 March 2016</b>	<b>1,865</b>	<b>2,620</b>	<b>49</b>	<b>54</b>	<b>49</b>	<b>440</b>	<b>5,077</b>
<b>Gross book value</b>							
<b>At 1 January 2017</b>	<b>2,818</b>	<b>5,851</b>	<b>166</b>	<b>156</b>	<b>99</b>	<b>601</b>	<b>9,691</b>
Additions	-	32	4	4	-	103	143
Transfers	17	46	3	5	-	(71)	-
Site restoration provision	-	-	-	-	2	-	2
Disposals	-	(41)	(1)	-	-	(4)	(46)
Disposals of subsidiaries	(10)	-	-	-	-	-	(10)
Effect of translation to presentation currency	167	373	11	12	7	47	617
<b>At 31 March 2017</b>	<b>2,992</b>	<b>6,261</b>	<b>183</b>	<b>177</b>	<b>108</b>	<b>676</b>	<b>10,397</b>
<b>Depreciation</b>							
<b>At 1 January 2017</b>	<b>(1,256)</b>	<b>(3,611)</b>	<b>(123)</b>	<b>(109)</b>	<b>(69)</b>	<b>(178)</b>	<b>(5,346)</b>
Charge for the period	(15)	(102)	(3)	(7)	(1)	-	(128)
Disposals	-	35	1	-	-	-	36
Disposals of subsidiaries	10	-	-	-	-	-	10
Effect of translation to presentation currency	(74)	(224)	(8)	(8)	(5)	(13)	(332)
<b>At 31 March 2017</b>	<b>(1,335)</b>	<b>(3,902)</b>	<b>(133)</b>	<b>(124)</b>	<b>(75)</b>	<b>(191)</b>	<b>(5,760)</b>
<b>Carrying amount</b>							
<b>At 1 January 2017</b>	<b>1,562</b>	<b>2,240</b>	<b>43</b>	<b>47</b>	<b>30</b>	<b>423</b>	<b>4,345</b>
<b>At 31 March 2017</b>	<b>1,657</b>	<b>2,359</b>	<b>50</b>	<b>53</b>	<b>33</b>	<b>485</b>	<b>4,637</b>
<b>Carrying amount had no impairment taken place</b>							
<b>At 1 January 2017</b>	<b>2,005</b>	<b>2,660</b>	<b>51</b>	<b>52</b>	<b>53</b>	<b>601</b>	<b>5,422</b>
<b>At 31 March 2017</b>	<b>2,085</b>	<b>2,781</b>	<b>57</b>	<b>57</b>	<b>58</b>	<b>677</b>	<b>5,715</b>

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**8 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

During the three months ended 31 March 2017 and 31 March 2016 the Group did not capitalize borrowing costs.

Capital commitments are disclosed in Note 15.

**9. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS**

	<b>31 March 2017</b>	<b>31 December 2016</b>
<b>Non-current</b>		
<b>Available-for-sale investments, at fair value</b>		
Unlisted securities	3	3
<b>Total non-current</b>	<b>3</b>	<b>3</b>
<b>Current</b>		
<b>Financial assets, at fair value through profit or loss</b>		
Trading debt securities	6	6
Share in mutual investment fund	2	2
<b>Bank deposits, USD</b> bearing interest rate of 1.30 – 1.60% (31 December 2016: 2.35%)	110	5
<b>Bank deposits, EUR</b> (bearing interest rate of 31 December 2016: 0.27 – 1.50%)	-	37
<b>Bank deposits, RUB</b> bearing interest rate of 10.30% – 10.50%	1	-
<b>Total current</b>	<b>119</b>	<b>50</b>

Trading debt securities are liquid publicly traded bonds of Russian companies. They are reflected at period-end market value based on trade prices obtained from investment brokers.

**10. CASH AND CASH EQUIVALENTS**

	<b>31 March 2017</b>	<b>31 December 2016</b>
Cash in banks, USD	85	55
Cash in banks, RUB	23	23
Cash in banks, EUR	17	52
Cash in banks, CHF	1	-
Bank deposits, USD bearing interest rate of 1.17% – 2.6% (31 December 2016: 0.35% – 2.00%)	98	77
Bank deposits, RUB bearing interest rate of 8.00% – 10.10% (31 December 2016: 4.50% - 9.50%)	50	57
Bank deposits, TRY (bearing interest rate 31 December 2016: 9.50% – 10%)	-	2
<b>Total</b>	<b>274</b>	<b>266</b>

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**11. SHARE CAPITAL**

**Common stock**

	<b>31 March 2017</b>	<b>31 December 2016</b>
Issued and fully paid common shares with a par value of RUB 1 each (in thousands)	11,174,330	11,174,330

Issued and net outstanding shares comprised the following:

<b>Number of ordinary shares in thousands</b>	<b>Issued</b>	<b>Treasury shares</b>	<b>Net outstanding</b>
<b>Balance at 1 January 2017</b>	<b>11,174,330</b>	-	<b>11,174,330</b>
Acquisition of treasury shares	-	-	-
Re-issuance of treasury shares	-	-	-
<b>Balance at 31 March 2017</b>	<b>11,174,330</b>	-	<b>11,174,330</b>

<b>Number of ordinary shares in thousands</b>	<b>Issued</b>	<b>Treasury shares</b>	<b>Net outstanding</b>
<b>Balance at 1 January 2016</b>	<b>11,174,330</b>	<b>(1,836)</b>	<b>11,172,494</b>
Acquisition of treasury shares	-	(237,834)	(237,834)
Re-issuance of treasury shares	-	239,225	239,225
<b>Balance at 31 March 2016</b>	<b>11,174,330</b>	<b>(445)</b>	<b>11,173,885</b>

**Treasury stock**

At 31 March 2017 and 31 December 2016 the Group did hold issued common shares of the Parent Company as treasury stock.

**12. LONG-TERM BORROWINGS**

	<b>Type of interest rate</b>	<b>Annual interest rate, actual at</b>		<b>31 March 2017</b>	<b>31 December 2016</b>
		<b>31 March 2017</b>	<b>31 December 2016</b>		
Unsecured loans, EUR	Fixed	2%	-	169	-
Unsecured loans, USD	Floating	4%	4%	1	2
Unsecured loans, RUB	Fixed	10%	10%	141	140
Unsecured loans, EUR	Floating	1%	1%	14	36
<b>Total</b>				<b>325</b>	<b>178</b>

The information provided below refers to total long-term borrowings, including current portion, identified in Note 13.

**Loans**

The Group has various borrowing arrangements in RUB, USD and EUR denominations with various lenders. Those borrowings consist of unsecured and secured loans and credit facilities. At 31 March 2017 and 31 December 2016, the total unused element of all credit facilities was USD 1,483 million and USD 1,415 million, respectively.



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**12. LONG-TERM BORROWINGS (CONTINUED)**

**Debt repayment schedule**

	<b>31 March 2017</b>
Periods of twelve months ending on 31 March	
2018 (presented as current portion of long-term borrowings, Note 13)	106
2019	99
2020	217
2021	3
2022 and thereafter	6
<b>Total</b>	<b>431</b>

**Debt repayment schedule**

	<b>31 December 2016</b>
Periods of twelve months ending on 31 December	
2017 (presented as current portion of long-term borrowings, Note 13)	295
2018	108
2019	67
2020	1
2021 and thereafter	2
<b>Total</b>	<b>473</b>

**13. SHORT-TERM BORROWINGS AND CURRENT PORTION OF LONG-TERM BORROWINGS**

	Type of interest rate	Annual interest rate, actual at		31 March 2017	31 December 2016
		31 March 2017	31 December 2016		
<b>Short-term borrowings:</b>					
Secured loans, USD	Floating	2%	2%	16	1
Secured loans, EUR	Floating	1%	-	11	-
Unsecured loans, RUB	Fixed	10%	-	88	-
Unsecured loans, EUR	Fixed	1%	1%	24	24
				<b>139</b>	<b>25</b>
<b>Current portion of long-term borrowings:</b>					
Unsecured loans, USD	Floating	4%	3%	3	207
Unsecured loans, EUR	Floating	1%	1%	64	63
Unsecured loans, RUB	Fixed	10%	10%	36	25
Unsecured loans, EUR	Fixed	2%	-	3	-
				<b>106</b>	<b>295</b>
<b>Total</b>				<b>245</b>	<b>320</b>

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**13. SHORT-TERM BORROWINGS AND CURRENT PORTION OF LONG-TERM BORROWINGS  
(CONTINUED)**

The weighted average interest rates of short-term borrowings and current portion of long-term borrowings at 31 March 2017 and 31 December 2016 were as follows:

	<b>31 March 2017</b>	<b>31 December 2016</b>
RUB-denominated	10%	10%
USD-denominated	3%	3%
EUR-denominated	1%	1%

At 31 March 2017 and 31 December 2016, short-term borrowings were secured by inventories of USD 27 million and USD 1 million, respectively.

Short-term borrowings and current portion of long-term borrowings are repayable as follows:

	<b>31 March 2017</b>	<b>31 December 2016</b>
Due in:		
1 month	2	3
1-3 months	126	72
3 months to 1 year	117	245
<b>Total</b>	<b>245</b>	<b>320</b>

**14. RELATED PARTIES**

**Transactions and balances outstanding with related parties**

Transactions between the Parent Company and its subsidiaries, which are related parties of the Parent Company, have been eliminated on consolidation and are not disclosed in this note.

The Group enters into transactions with related parties in the ordinary course of business for the purchase and sale of goods and services and in relation to the provision of financing agreements to and from the Group entities. Transactions with related parties are performed on terms that would not necessarily be available to unrelated parties.

Details of transactions with and balances between the Group and related parties at 31 March 2017 and 31 December 2016 and for the three months ended 31 March 2017 and 2016 are disclosed below.

Other related parties include entities under common control with the Group. The amounts outstanding are unsecured and will be settled in cash.

**a) Transactions with associates of the Group**

	<b>Three months ended 31 March</b>	
	<b>2017</b>	<b>2016</b>
Purchases	30	19
<b>Balances outstanding</b>	<b>31 March 2017</b>	<b>31 December 2016</b>
Trade and other payables	5	3

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**14. RELATED PARTIES (CONTINUED)**

**b) Transactions with other related parties**

	<b>Three months ended 31 March</b>	
	<b>2017</b>	<b>2016</b>
Revenue	80	86
<b>Balances outstanding</b>	<b>31 March 2017</b>	<b>31 December 2016</b>
Cash and cash equivalents	28	48
Bank deposits	-	16
Trade and other receivables	65	18
Trade and other payables	-	1

**Remuneration of the Group's key management personnel**

Key management personnel of the Group receive only short-term employment benefits. For the three months ended 31 March 2017 and 2016, key management personnel received as compensation USD 2 million and USD 1 million, respectively.

**15. COMMITMENTS AND CONTINGENCIES**

**Capital commitments**

At 31 March 2017, the Group executed purchase agreements of approximately USD 178 million to acquire property, plant and equipment (31 December 2016: USD 136 million). Penalties are payable or receivable under these agreements in certain circumstances and where supply terms are not adhered to. Management does not expect such conditions to result in a loss to the Group.

**Contingencies**

**Taxation contingencies in the Russian Federation**

Russian tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged tax authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax non-compliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decisions about the review was made. Under certain circumstances reviews may cover longer periods.

The Russian transfer pricing legislation is to a large extent aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). This legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length. Management has implemented internal controls to be in compliance with this transfer pricing legislation.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

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### **15. COMMITMENTS AND CONTINGENCIES (CONTINUED)**

The Group includes companies incorporated outside of Russia. The tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax, because they do not have a permanent establishment in Russia. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the Group. In 2014, the Controlled Foreign Company (CFC) legislation introduced Russian taxation of profits of foreign companies and non-corporate structures (including trusts) controlled by Russian tax residents (controlling parties). Starting from 2015, CFC income is subject to a 20% tax rate. As a result, management reassessed the Group's tax positions and recognised current tax expense as well as deferred taxes for temporary differences that arose from the expected taxable manner of recovery of the relevant Group's operations to which the CFC legislation applies to and to the extent that the Group (rather than its owners) is obliged to settle such taxes.

As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that an outflow of resources will be required should such tax positions and interpretations be challenged by the tax authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

#### **Russian business environment**

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. During 2016 the Russian economy continued to be negatively impacted by low oil prices, ongoing political tension in the region and international sanctions against certain Russian companies and individuals, all of which contributed to the country's economic recession characterised by a decline in gross domestic product. The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Russia's credit rating was downgraded to below investment grade. This operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

### **16. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The estimated fair values of certain financial instruments have been determined using available market information or other valuation methodologies that require considerable judgment in interpreting market data and developing estimates. Accordingly, the estimates applied are not necessarily indicative of the amounts that the Group could realise in a current market exchange. The use of different assumptions and estimation methodologies may have a material impact on the estimated fair values.

Where it was available, management of the Group determined fair value of unlisted shares using a valuation technique that was supported by publicly available market information.

The carrying amounts of financial instruments such as cash and cash equivalents, bank deposits, trade and other receivables, short-term and floating rate long-term borrowings (except for listed bonds), trade and other payables are reasonable approximation their fair values as at 31 March 2017 and 31 December 2016 (Level 3 of fair value hierarchy).

For assets and liabilities carried at amortised cost the fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risks and remaining maturities. Discount rates used depend on the credit risk of the counterparty.

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**16. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

The following table presents the fair value of financial instruments other than those carried at amortised cost at the end of reporting period across the three levels of the fair value hierarchy defined in IFRS 13 Fair Value Measurement, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value management. The levels are defined as follows:

Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments.

Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data.

Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data.

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>31 March 2017</b>				
Available for sale investments, unlisted equity securities	-	-	3	3
Trading debt securities	6	-	-	6
Share in mutual investment fund	2	-	-	2
<b>Total assets</b>	<b>8</b>	<b>-</b>	<b>3</b>	<b>11</b>
<b>31 December 2016</b>				
Available for sale investments, unlisted equity securities	-	-	3	3
Trading debt securities	6	-	-	6
Share in mutual investment fund	2	-	-	2
<b>Total assets</b>	<b>8</b>	<b>-</b>	<b>3</b>	<b>11</b>

**17. APPROVAL OF THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

The unaudited condensed consolidated interim financial statements for the three months ended 31 March 2017 were approved by the Group's management and authorized for issue on 10 May 2017.