

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

**Unaudited Condensed Consolidated Interim  
Financial Statements**

For the Three and Nine Months Ended 30 September 2015

# 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 AND NINE MONTHS ENDED 30 SEPTEMBER 2015**

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The following statement, which should be read in conjunction with the auditor's responsibilities stated in the auditor's 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 30 September 2015 and for the three and nine 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.

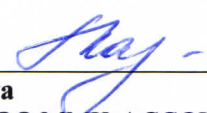
Management is also responsible for:

- 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 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 and nine months ended 30 September 2015 were approved on 5 November 2015 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 30 September 2015 and the related condensed consolidated statements of comprehensive income for the three-month and nine-month periods then ended, and changes in equity and cash flows for the nine-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*

5 November 2015  
Moscow, Russian Federation

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

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2015**

*(In millions of U.S. Dollars, except per share data)*

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2015	2014	2015	2014
REVENUE	4	1,502	2,135	4,658	6,225
COST OF SALES		(1,036)	(1,614)	(3,161)	(4,907)
GROSS PROFIT		<b>466</b>	<b>521</b>	<b>1,497</b>	<b>1,318</b>
General and administrative expenses	6	(51)	(88)	(168)	(307)
Selling and distribution expenses		(111)	(127)	(341)	(417)
Other operating expenses, net	7	(8)	(1)	-	(22)
OPERATING PROFIT		<b>296</b>	<b>305</b>	<b>988</b>	<b>572</b>
Share of results of associates		-	-	1	1
Finance income		11	9	26	11
Finance costs		(39)	(45)	(113)	(142)
Reversal of impairment losses /(impairment losses) and provision for site restoration		(6)	-	(14)	7
Foreign exchange loss, net		(135)	(196)	(120)	(228)
Other income		-	-	-	2
Other expenses		(9)	(30)	(40)	(82)
PROFIT BEFORE INCOME TAX		<b>118</b>	<b>43</b>	<b>728</b>	<b>141</b>
INCOME TAX		(40)	(17)	(182)	(35)
PROFIT FOR THE PERIOD		<b>78</b>	<b>26</b>	<b>546</b>	<b>106</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		(33)	(128)	(124)	(285)
Translation of foreign operations		230	275	164	327
<i>Items, that will not be reclassified subsequently to profit or loss</i>					
Actuarial (losses)/gains		-	-	(1)	2
Effect of translation to presentation currency		(803)	(1,104)	(699)	(1,308)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX		<b>(606)</b>	<b>(957)</b>	<b>(660)</b>	<b>(1,264)</b>
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		<b>(528)</b>	<b>(931)</b>	<b>(114)</b>	<b>(1,158)</b>
Profit/(loss) attributable to:					
Shareholders of the Parent Company		78	28	545	109
Non-controlling interests		-	(2)	1	(3)
		<b>78</b>	<b>26</b>	<b>546</b>	<b>106</b>
Total comprehensive income/(loss) attributable to:					
Shareholders of the Parent Company		(528)	(929)	(115)	(1,155)
Non-controlling interests		-	(2)	1	(3)
		<b>(528)</b>	<b>(931)</b>	<b>(114)</b>	<b>(1,158)</b>
BASIC AND DILUTED EARNINGS PER SHARE (U.S. Dollars)		0.007	0.003	0.049	0.010
Weighted average number of ordinary shares outstanding (in thousands)		11,169,570	11,146,006	11,158,855	11,156,693

The notes on pages 8 to 23 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 30 SEPTEMBER 2015  
(In millions of U.S. Dollars)**

	Notes	30 September 2015	31 December 2014
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS:</b>			
Property, plant and equipment	8	4,258	5,072
Intangible assets		19	24
Investments in securities and other financial assets	9	199	352
Investments in associates		2	1
Deferred tax assets		104	144
Other non-current assets		33	4
<b>Total non-current assets</b>		<b>4,615</b>	<b>5,597</b>
<b>CURRENT ASSETS:</b>			
Inventories		853	1,007
Trade and other receivables		547	558
Investments in securities and other financial assets	9	601	230
Income tax receivable		-	26
Value added tax recoverable		58	112
Cash and cash equivalents	10	336	327
<b>Total current assets</b>		<b>2,395</b>	<b>2,260</b>
<b>TOTAL ASSETS</b>		<b>7,010</b>	<b>7,857</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY:</b>			
Share capital	11	386	386
Treasury shares	11	(1)	(13)
Share premium		970	995
Investments revaluation reserve	9	100	224
Translation reserve		(5,675)	(5,140)
Retained earnings		7,903	7,458
Equity attributable to shareholders of the Parent Company		<b>3,683</b>	<b>3,910</b>
Non-controlling interests		33	32
<b>Total equity</b>		<b>3,716</b>	<b>3,942</b>
<b>NON-CURRENT LIABILITIES:</b>			
Long-term borrowings	112	1,150	1,722
Retirement benefit obligations		9	10
Site restoration provision		83	88
Deferred tax liabilities		405	487
<b>Total non-current liabilities</b>		<b>1,647</b>	<b>2,307</b>
<b>CURRENT LIABILITIES:</b>			
Short-term borrowings and current portion of long-term borrowings	13	908	863
Current portion of retirement benefit obligations		2	2
Trade and other payables		712	736
Income tax payable		18	-
Current portion of site restoration provision		6	6
Net assets attributable to minority participants		1	1
<b>Total current liabilities</b>		<b>1,647</b>	<b>1,608</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>7,010</b>	<b>7,857</b>

Approved on 5 November 2015 by:



**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 8 to 23 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 NINE MONTHS ENDED 30 SEPTEMBER 2015**  
(In millions of U.S. Dollars)

	Attributable to shareholders of the Parent Company						Non-controlling interests	Total equity	
	Share capital	Treasury shares	Share premium	Investments revaluation reserve	Translation reserve	Retained earnings			Total
<b>BALANCE AT 1 JANUARY 2014</b>	<b>386</b>	<b>(30)</b>	<b>1,020</b>	<b>618</b>	<b>(2,778)</b>	<b>7,612</b>	<b>6,828</b>	<b>33</b>	<b>6,861</b>
Profit/(loss) for the period	-	-	-	-	-	109	109	(3)	106
Other comprehensive (losses)/income for the period, net of tax	-	-	-	(285)	(981)	2	(1,264)	-	(1,264)
Total comprehensive (losses)/income for the period	-	-	-	(285)	(981)	111	(1,155)	(3)	(1,158)
Purchase of treasury shares	-	(29)	-	-	-	-	(29)	-	(29)
Issuance of ordinary shares from treasury shares	-	31	(4)	-	-	-	27	-	27
<b>BALANCE AT 30 SEPTEMBER 2014</b>	<b>386</b>	<b>(28)</b>	<b>1,016</b>	<b>333</b>	<b>(3,759)</b>	<b>7,723</b>	<b>5,671</b>	<b>30</b>	<b>5,701</b>
<b>BALANCE AT 1 JANUARY 2015</b>	<b>386</b>	<b>(13)</b>	<b>995</b>	<b>224</b>	<b>(5,140)</b>	<b>7,458</b>	<b>3,910</b>	<b>32</b>	<b>3,942</b>
Profit for the period	-	-	-	-	-	545	545	1	546
Other comprehensive losses for the period, net of tax	-	-	-	(124)	(535)	(1)	(660)	-	(660)
Total comprehensive (losses)/income for the period	-	-	-	(124)	(535)	544	(115)	1	(114)
Purchase of treasury shares	-	(226)	-	-	-	-	(226)	-	(226)
Issuance of ordinary shares from treasury shares	-	238	(7)	-	-	-	231	-	231
Deferred tax asset write-off relating to disposal of treasury shares	-	-	(18)	-	-	-	(18)	-	(18)
Dividends	-	-	-	-	-	(99)	(99)	-	(99)
<b>BALANCE AT 30 SEPTEMBER 2015</b>	<b>386</b>	<b>(1)</b>	<b>970</b>	<b>100</b>	<b>(5,675)</b>	<b>7,903</b>	<b>3,683</b>	<b>33</b>	<b>3,716</b>

The notes on pages 8 to 23 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 NINE MONTHS ENDED 30 SEPTEMBER 2015**

*(In millions of U.S. Dollars)*

	<u>Nine months ended 30 September</u>	
	<u>2015</u>	<u>2014</u>
<b>OPERATING ACTIVITIES:</b>		
Profit for the period	546	106
Adjustments to profit for the period:		
Income tax	182	35
Depreciation and amortization	392	594
Impairment losses/(reversal of impairment losses)and provision for site restoration	14	(7)
Finance costs	113	142
Loss on disposal of property, plant and equipment	7	48
Change in allowance for doubtful accounts receivable	-	2
Loss on revaluation of trading securities	-	1
Loss on disposal securities	2	-
Inventory allowance	1	5
Finance income	(26)	(11)
Foreign exchange loss, net	120	228
Income from available-for-sale investments	7	(28)
Share of results of associates	(1)	(1)
Gain on disposal of subsidiaries	7	-
	<u>1,343</u>	<u>1,114</u>
Movements in working capital		
Increase in trade and other receivables	(80)	(233)
Decrease in value added tax recoverable	16	23
Decrease in inventories	45	46
(Increase)/decrease in investments classified as trading securities	(1)	2
Increase in trade and other payables	77	83
Cash generated from operations	<u>1,400</u>	<u>1,035</u>
Interest paid	(97)	(139)
Income tax paid	(123)	(38)
Net cash from operating activities	<u>1,180</u>	<u>858</u>
<b>INVESTING ACTIVITIES:</b>		
Purchase of property, plant and equipment	(240)	(393)
Purchase of intangible assets	(3)	(5)
Proceeds from sale of property, plant and equipment	-	8
Proceeds from sale of assets classified as held for sale	-	15
Proceeds from sale of subsidiaries	4	-
Loans given	-	(4)
Loans repaid	-	24
Interest received	19	11
Dividends received from available-for-sale investments	4	14
Bank deposits	(368)	(170)
Net cash used in investing activities	<u>(584)</u>	<u>(500)</u>

The notes on pages 8 to 23 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 NINE MONTHS ENDED 30 SEPTEMBER 2015 (CONTINUED)**

*(In millions of U.S. Dollars)*

	<u>Nine months ended 30 September</u>	
	<u>2015</u>	<u>2014</u>
FINANCING ACTIVITIES:		
Proceeds from borrowings	481	1,189
Repayments of borrowings	(899)	(1,410)
Purchase of treasury shares	(226)	(29)
Proceeds from issuance of ordinary shares from treasury shares	231	27
Net cash (used in)/generated from financing activities	<u>(413)</u>	<u>(223)</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		
CASH AND CASH EQUIVALENTS, beginning of period	183	135
10	327	154
Effect of translation to presentation currency and exchange rate changes on the balance of cash held in foreign currencies	(174)	(77)
10	<u>336</u>	<u>212</u>
<b>CASH AND CASH EQUIVALENTS, end of period</b>		

The notes on pages 8 to 23 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 AND NINE MONTHS ENDED 30 SEPTEMBER 2015** *(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 30 September 2015 the Parent Company’s major shareholders were Mintha Holding Limited with a 87.3% ownership interest (31 December 2014: 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 30 September 2015 did not change from 31 December 2014.

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

#### **Statement of compliance**

These unaudited condensed consolidated interim financial statements for the three and nine months ended 30 September 2015 have been prepared in accordance with IAS 34 “Interim financial reporting” (“IAS 34”). The consolidated statement of financial position at 31 December 2014 has been derived from the consolidated statement of financial position included in the Group’s consolidated financial statements at 31 December 2014. 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 2014, 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 2014, except for changes made due to adoption of new Standards and Interpretations becoming effective from 1 January 2015. Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit and loss.

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

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2015**  
*(In millions of U.S. Dollars, unless otherwise stated)*

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

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

The following new standards and interpretations became effective on 1 January 2015:

- Amendments to IAS 19 – Defined benefit plans: Employee contribution (issued in November 2013, effective for annual periods beginning on or after 1 July 2014);
- Improvements to International Financial Reporting Standards 2012 and 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).

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 condensed consolidated interim financial statements.

A number of new standards, amendments to standards and interpretations are not yet effective as at 30 September 2015, and have not been early adopted by the Group:

- IFRS 9, Financial Instruments: Classification and Measurement (issued in July 2014 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 14, Regulatory Deferral Accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016);
- Amendments to IFRS 11 – Accounting for Acquisitions of interests in Joint Operations (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016);
- Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016);
- IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2017). The Group is currently assessing the impact of the standard on its consolidated financial statements;
- Amendments to IAS 16 and IAS 41, Agriculture: Bearer plants (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016);
- Amendments to IAS 27, Equity Method in Separate Financial Statements (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016);
- Amendments to IFRS 10 and IAS 28 regarding the sale or contribution of assets between an investor and its associate or joint venture (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016);
- Annual Improvements to IFRS 5, IFRS 7, IAS 19, IAS 34 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016);
- Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016);
- Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods on or after 1 January 2016).

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 information.

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

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2015**  
*(In millions of U.S. Dollars, unless otherwise stated)*

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

**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 consolidated financial statements as at and for the year ended 31 December 2014.

**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 30 September 2015, the official exchange rates were: US\$ 1 = RUB 66.2367, US\$ 1 = EUR 0.8881 (31 December 2014: US\$ 1 = RUB 56.2584, US\$ 1 = EUR 0.8232). Exchange rates for the nine months ended 30 September 2015 were used as: US\$ 1 = RUB 59.4850, US\$ 1 = EUR 0.8951 (nine months ended 30 September 2014: US\$ 1 = RUB 35.4458, US\$ 1 = EUR 0.7372).

**3. SEASONAL OPERATIONS**

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

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

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2015**  
*(In millions of U.S. Dollars, unless otherwise stated)*

**4. REVENUE**

By product	Three months ended 30 September		Nine months ended 30 September	
	2015	2014	2015	2014
Hot rolled steel	659	941	2,110	2,683
Galvanised steel	231	286	633	799
Cold rolled steel	128	196	457	626
Long steel products	136	198	408	582
Galvanised steel with polymeric coating	121	152	361	452
Wire, sling, bracing	31	57	89	149
Tin plated steel	32	32	89	110
Hardware products	29	35	81	110
Coking production	24	37	74	106
Band	15	31	65	90
Formed section	3	29	14	77
Tubes	10	16	28	40
Coal	3	-	7	5
Scrap	18	4	23	8
Slabs	-	2	14	35
Others	62	119	205	353
<b>Total</b>	<b>1,502</b>	<b>2,135</b>	<b>4,658</b>	<b>6,225</b>

By customer destination	Three months ended 30 September		Nine months ended 30 September	
	2015	2014	2015	2014
Russian Federation and the CIS	79%	83%	76%	79%
Middle East	16%	13%	14%	14%
Europe	4%	3%	7%	5%
North America	-	-	-	1%
Asia	-	-	1%	-
Africa	1%	1%	2%	1%
<b>Total</b>	<b>100%</b>	<b>100%</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 (Russia)*, 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);

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**5. SEGMENT INFORMATION (CONTINUED)**

- *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
- *Coal mining segment*, which includes OJSC Belon and its subsidiaries (“Belon Group”) 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 30 September 2015 and 2014:

	Three months ended 30 September									
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
	Steel (Russia)		Steel (Turkey)		Coal mining		Eliminations		Total	
<b>Revenue</b>										
Sales to external customers	1,367	1,970	132	165	3	-	-	-	1,502	2,135
Inter-segment sales	64	43	-	-	50	65	(114)	(108)	-	-
<b>Total revenue</b>	<b>1,431</b>	<b>2,013</b>	<b>132</b>	<b>165</b>	<b>53</b>	<b>65</b>	<b>(114)</b>	<b>(108)</b>	<b>1,502</b>	<b>2,135</b>
<b>Segment EBITDA</b>	<b>402</b>	<b>522</b>	<b>12</b>	<b>8</b>	<b>16</b>	<b>(3)</b>	<b>-</b>	<b>(5)</b>	<b>430</b>	<b>522</b>
Depreciation and amortisation	(106)	(181)	(17)	(17)	(4)	(10)	-	-	(127)	(208)
Loss on disposal of property, plant and equipment	(6)	(8)	-	-	(1)	(1)	-	-	(7)	(9)
Operating profit/(loss) per IFRS financial statements	<b>290</b>	<b>333</b>	<b>(5)</b>	<b>(9)</b>	<b>11</b>	<b>(14)</b>	<b>-</b>	<b>(5)</b>	<b>296</b>	<b>305</b>

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**5. SEGMENT INFORMATION (CONTINUED)**

The following table presents measures of segment results for the nine months ended 30 September 2015 and 2014:

	Nine months ended 30 September									
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
	Steel (Russia)		Steel (Turkey)		Coal mining		Eliminations		Total	
<b>Revenue</b>										
Sales to external customers	4,227	5,749	423	470	8	6	-	-	4,658	6,225
Inter-segment sales	193	85	-	-	156	200	(349)	(285)	-	-
<b>Total revenue</b>	<b>4,420</b>	<b>5,834</b>	<b>423</b>	<b>470</b>	<b>164</b>	<b>206</b>	<b>(349)</b>	<b>(285)</b>	<b>4,658</b>	<b>6,225</b>
<b>Segment EBITDA</b>	<b>1,311</b>	<b>1,192</b>	<b>30</b>	<b>23</b>	<b>54</b>	<b>4</b>	<b>(2)</b>	<b>(4)</b>	<b>1,393</b>	<b>1,215</b>
Depreciation and amortisation	(332)	(519)	(50)	(49)	(10)	(26)	-	-	(392)	(594)
Loss on disposal of property, plant and equipment	(11)	(44)	-	-	(1)	(4)	-	-	(12)	(48)
Share of results of associates	(1)	(1)	-	-	-	-	-	-	(1)	(1)
Operating profit/(loss) per IFRS financial statements	<b>967</b>	<b>628</b>	<b>(20)</b>	<b>(26)</b>	<b>43</b>	<b>(26)</b>	<b>(2)</b>	<b>(4)</b>	<b>988</b>	<b>572</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 30 September 2015 and 31 December 2014, the segments' total assets and liabilities were reconciled to total assets and liabilities as follows:

	30 September 2015				
	Steel (Russia)	Steel (Turkey)	Coal mining	Eliminations	Total
Total assets	7,921	1,062	257	(2,230)	7,010
Total liabilities	2,712	604	59	(81)	3,294
	31 December 2014				
	Steel	Steel (Turkey)	Coal mining	Eliminations	Total
Total assets	8,632	1,222	277	(2,274)	7,857
Total liabilities	3,221	686	163	(155)	3,915

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**6. GENERAL AND ADMINISTRATIVE EXPENSES**

	Three months ended 30 September		Nine months ended 30 September	
	2015	2014	2015	2014
Payroll and social taxes	23	50	90	165
Taxes other than income tax	13	24	40	76
Professional services	7	3	15	19
Depreciation and amortisation	4	4	9	13
Insurance	1	4	4	12
Materials	1	2	3	5
Research and development costs	-	1	1	3
Other	2	-	6	14
<b>Total</b>	<b>51</b>	<b>88</b>	<b>168</b>	<b>307</b>

**7. OTHER OPERATING (INCOME)/EXPENSES, NET**

	Three months ended 30 September		Nine months ended 30 September	
	2015	2014	2015	2014
Loss on disposal of property, plant and equipment, net	7	9	12	48
Provision for doubtful debtors	2	3	-	6
Net loss on trading securities revaluation	-	1	-	1
Loss on disposal securities	2	-	2	-
Income from available-for-sale investments	(2)	(14)	(6)	(28)
Net gains on sale of other assets	(2)	(4)	(6)	(5)
Gain on disposal of subsidiaries	-	-	(6)	-
Other operating losses, net	1	6	4	-
<b>Total</b>	<b>8</b>	<b>1</b>	<b>-</b>	<b>22</b>



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**8. PROPERTY, PLANT AND EQUIPMENT**

	Land and buildings	Machinery and equipment	Trans- portation equipment	Fixtures and fittings	Mining assets	Construction- in-progress	Total
<i>Gross book value</i>							
<b>At 1 January 2014</b>	<b>4,529</b>	<b>9,446</b>	<b>283</b>	<b>250</b>	<b>256</b>	<b>772</b>	<b>15,536</b>
Additions	1	206	3	2	-	153	365
Transfers	15	106	6	4	-	(131)	-
Disposals	(18)	(161)	(8)	(2)	-	(8)	(197)
Effect of translation to presentation currency	(658)	(1,455)	(46)	(42)	(43)	(130)	(2,374)
<b>At 30 September 2014</b>	<b>3,869</b>	<b>8,142</b>	<b>238</b>	<b>212</b>	<b>213</b>	<b>656</b>	<b>13,330</b>
<i>Depreciation</i>							
<b>At 1 January 2014</b>	<b>(1,751)</b>	<b>(4,598)</b>	<b>(176)</b>	<b>(127)</b>	<b>(178)</b>	<b>(88)</b>	<b>(6,918)</b>
Charge for the period	(79)	(474)	(13)	(18)	(5)	-	(589)
Reversal of impairment	-	-	-	-	-	7	7
Disposals	9	113	6	1	-	-	129
Effect of translation to presentation currency	255	719	28	23	30	14	1,069
<b>At 30 September 2014</b>	<b>(1,566)</b>	<b>(4,240)</b>	<b>(155)</b>	<b>(121)</b>	<b>(153)</b>	<b>(67)</b>	<b>(6,302)</b>
<i>Carrying amount</i>							
<b>At 01 January 2014</b>	<b>2,778</b>	<b>4,848</b>	<b>107</b>	<b>123</b>	<b>78</b>	<b>684</b>	<b>8,618</b>
<b>At 30 September 2014</b>	<b>2,303</b>	<b>3,902</b>	<b>83</b>	<b>91</b>	<b>60</b>	<b>589</b>	<b>7,028</b>
<i>Carrying amount had no impairment taken place</i>							
<b>At 01 January 2014</b>	<b>3,515</b>	<b>5,880</b>	<b>127</b>	<b>139</b>	<b>180</b>	<b>771</b>	<b>10,612</b>
<b>At 30 September 2014</b>	<b>2,930</b>	<b>4,724</b>	<b>100</b>	<b>106</b>	<b>137</b>	<b>655</b>	<b>8,652</b>
<i>Gross book value</i>							
<b>At 1 January 2015</b>	<b>2,916</b>	<b>6,027</b>	<b>173</b>	<b>154</b>	<b>136</b>	<b>453</b>	<b>9,859</b>
Additions	-	107	1	2	2	138	250
Transfers	17	73	3	6	-	(99)	-
Disposals	(2)	(113)	(4)	(1)	-	(7)	(127)
Disposals of subsidiaries	-	-	-	-	(26)	-	(26)
Effect of translation to presentation currency	(344)	(772)	(22)	(24)	(19)	(71)	(1,252)
<b>At 30 September 2015</b>	<b>2,587</b>	<b>5,322</b>	<b>151</b>	<b>137</b>	<b>93</b>	<b>414</b>	<b>8,704</b>
<i>Depreciation</i>							
<b>At 1 January 2015</b>	<b>(1,195)</b>	<b>(3,234)</b>	<b>(114)</b>	<b>(88)</b>	<b>(108)</b>	<b>(48)</b>	<b>(4,787)</b>
Charge for the period	(50)	(322)	(8)	(12)	(3)	-	(395)
Impairment losses	(4)	(1)	-	-	-	-	(5)
Disposals	1	99	3	-	-	-	103
Disposals of subsidiaries	-	-	-	-	26	-	26
Effect of translation to presentation currency	142	418	15	16	15	6	612
<b>At 30 September 2015</b>	<b>(1,106)</b>	<b>(3,040)</b>	<b>(104)</b>	<b>(84)</b>	<b>(70)</b>	<b>(42)</b>	<b>(4,446)</b>
<i>Carrying amount</i>							
<b>At 1 January 2015</b>	<b>1,721</b>	<b>2,793</b>	<b>59</b>	<b>66</b>	<b>28</b>	<b>405</b>	<b>5,072</b>
<b>At 30 September 2015</b>	<b>1,481</b>	<b>2,282</b>	<b>47</b>	<b>53</b>	<b>23</b>	<b>372</b>	<b>4,258</b>
<i>Carrying amount had no impairment taken place</i>							
<b>At 1 January 2015</b>	<b>2,222</b>	<b>3,426</b>	<b>69</b>	<b>74</b>	<b>81</b>	<b>452</b>	<b>6,324</b>
<b>At 30 September 2015</b>	<b>1,929</b>	<b>2,804</b>	<b>54</b>	<b>59</b>	<b>47</b>	<b>412</b>	<b>5,305</b>

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

During the nine months ended 30 September 2015 and 30 September 2014 the Group did not capitalize borrowing costs.

At 30 September 2015 management identified specific assets with recoverable amount lower than the carrying value of those and therefore impairment was recognized in the amount of USD 5 million.

At 30 September 2014 the Group recognized partial reversal of previously recognized impairment in amount of USD 7 million. No further impairment or reversal of previously recorded impairment was identified by management.

At 30 September 2015 and 31 December 2014, property, plant and equipment with carrying amounts of USD 661 million and USD 706 million, respectively, was pledged as security for certain long-term and short-term borrowings (Notes 12 and 13).

Capital commitments are disclosed in Note 15.

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

	<b>30 September 2015</b>	<b>31 December 2014</b>
<b>Non-current</b>		
<b>Available-for-sale investments, at fair value</b>		
Listed equity securities	197	348
Unlisted securities	2	4
<b>Total non-current</b>	<b>199</b>	<b>352</b>
<b>Current</b>		
<b>Financial assets, at fair value through profit or loss</b>		
Trading equity securities	-	3
Trading debt securities	2	3
Share in mutual investment fund	2	2
Bank deposits, USD bearing interest rate of 1.55 – 4.73% (31 December 2014: 2.0 – 3.55%)	393	222
Bank deposits, EUR bearing interest rate of 0.80 – 2.00%	81	-
Bank deposits, RUB bearing interest rate of 11.07 – 12.10%	123	-
<b>Total current</b>	<b>601</b>	<b>230</b>

Non-current listed equity securities classified as available for sale represent investments in equity securities of a foreign entity, where the Group has less than a 20% equity interest and is unable to exercise significant influence. At 30 September 2015 and 31 December 2014, the revaluation reserve arising from unrealized holding gains on these securities was USD 100 million and USD 224 million, respectively.

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

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.

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**10. CASH AND CASH EQUIVALENTS**

	<u>30 September 2015</u>	<u>31 December 2014</u>
Cash in banks, USD	41	38
Cash in banks, RUB	11	144
Cash in banks, EUR	10	25
Cash in banks, TRY	-	1
Bank deposits, USD bearing interest rate of 1.20% – 2.00% (31 December 2014: 3.00% – 4.00%)	89	84
Bank deposits, EUR bearing interest rate of 2.60%	-	21
Bank deposits, TRY bearing interest rate of 0.25% – 3.05%	-	2
Bank deposits, RUB bearing interest rate of 10.50% – 11.25% (31 December 2014: 8.00%)	185	12
<b>Total</b>	<b><u>336</u></b>	<b><u>327</u></b>

**11. SHARE CAPITAL**

**Common stock**

	<u>30 September 2015</u>	<u>31 December 2014</u>
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>	<u>Issued</u>	<u>Treasury shares</u>	<u>Net outstanding</u>
Balance at 1 January 2015	11,174,330	(28,168)	11,146,162
Acquisition of treasury shares	-	(792,405)	(792,405)
Re-issuance of treasury shares	-	818,083	818,083
Balance at 30 September 2015	<u>11,174,330</u>	<u>(2,490)</u>	<u>11,171,840</u>
<b>Number of ordinary shares in thousands</b>	<u>Issued</u>	<u>Treasury shares</u>	<u>Net outstanding</u>
Balance at 1 January 2014	11,174,330	(10,698)	11,163,632
Acquisition of treasury shares	-	(152,532)	(152,532)
Re-issuance of treasury shares	-	137,393	137,393
Balance at 30 September 2014	<u>11,174,330</u>	<u>(25,837)</u>	<u>11,148,493</u>

**Treasury stock**

At 30 September 2015 and 31 December 2014, the Group held 2,490 thousand and 28,168 thousand, respectively, issued common shares of the Parent Company as treasury stock.

All treasury stock is recorded at cost.

**Dividends**

On 28 September 2015, the Parent Company declared a interim dividend of RUB 0.58 (USD 0.01) per ordinary share in respect of the six months ended 30 June 2015 representing a total dividend of USD 99 million.

On 12 December 2014, the Parent Company declared a interim dividend of RUB 0.58 (USD 0.01) per ordinary share in respect of the nine months ended 30 September 2014 representing a total dividend of USD 118 million, of which USD 117 million was paid out in 2014.

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**12. LONG-TERM BORROWINGS**

	Type of interest rate	Annual interest rate, actual at		30 September 2015	31 December 2014
		30 September 2015	31 December 2014		
Unsecured listed bonds, RUB	Fixed	-	9%	-	84
Secured loans, USD	Floating	6%	5%	151	206
Secured loans, USD	Fixed	-	4%	-	10
Secured loans, EUR	Fixed	6%	6%	133	195
Unsecured loans, USD	Floating	3%	3%	630	794
Unsecured loans, RUB	Fixed	10%	9%	137	254
Unsecured loans, EUR	Floating	1%	2%	99	179
<b>Total</b>				<b>1,150</b>	<b>1,722</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 30 September 2015 and 31 December 2014, the total unused element of all credit facilities was USD 1,074 million and USD 1,114 million, respectively.

At 30 September 2015 and 31 December 2014, long-term loans were secured by the Group's property, plant and equipment with a net carrying amount of USD 661 million and USD 706 million, respectively, and shares in a subsidiary with a carrying amount of net assets of USD 458 million and USD 536 million, respectively.

**Debt repayment schedule**

	<u>30 September 2015</u>
Periods of twelve months ending on 30 September	
2016 (presented as current portion of long-term borrowings, Note 13)	845
2017	763
2018	283
2019	104
2020 and thereafter	-
<b>Total</b>	<b>1,995</b>

**Debt repayment schedule**

	<u>31 December 2014</u>
Periods of twelve months ending on 31 December	
2015 (presented as current portion of long-term borrowings, Note 13)	702
2016	849
2017	643
2018	143
2019 and thereafter	87
<b>Total</b>	<b>2,424</b>

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

	Type of interest rate	Annual interest rate, actual at		30 September 2015	31 December 2014
		30 September 2015	31 December 2014		
<b>Short-term borrowings:</b>					
Secured loans, USD	Floating	2%	2%	23	28
Secured loans, USD	Fixed	-	2%	-	27
Secured loans, EUR	Floating	1%	2%	8	3
Unsecured loans, USD	Fixed	1%	2%	32	50
Unsecured loans, RUB	Fixed	-	17%	-	53
				<u>63</u>	<u>161</u>
<b>Current portion of long-term borrowings:</b>					
Unsecured listed bonds, RUB	Fixed	9%	9%	154	97
Secured loans, USD	Floating	6%	5%	62	65
Secured loans, USD	Fixed	4%	3%	36	10
Secured loans, EUR	Fixed	6%	6%	64	62
Unsecured loans, USD	Floating	3%	3%	313	323
Unsecured loans, EUR	Floating	1%	2%	69	78
Unsecured loans, RUB	Fixed	10%	9%	137	66
Unsecured loans, USD	Fixed	3%	-	10	-
Unsecured loans, EUR	Fixed	-	4%	-	1
				<u>845</u>	<u>702</u>
<b>Total</b>				<b><u>908</u></b>	<b><u>863</u></b>

The weighted average interest rates of short-term borrowings and current portion of long-term borrowings at 30 September 2015 and 31 December 2014 were as follows:

	30 September 2015	31 December 2014
RUB-denominated	10%	11%
USD-denominated	3%	3%
EUR-denominated	3%	3%

At 30 September 2015 and 31 December 2014, short-term borrowings were secured by inventories and/or trade receivables of USD 30 million and USD 30 million, respectively.

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

	30 September 2015	31 December 2014
Due in:		
1 month	17	180
1-3 months	208	158
3 months to 1 year	683	525
<b>Total</b>	<b><u>908</u></b>	<b><u>863</u></b>

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**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 30 September 2015 and 31 December 2014 and for the three and nine months ended 30 September 2015 and 2014 are disclosed below.

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

	<b>Three months ended 30 September</b>		<b>Nine months ended 30 September</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<i>Purchases</i>	21	56	74	162
	<b>30 September 2015</b>		<b>31 December 2014</b>	
Balances outstanding				
<i>Accounts payable</i>		1		3

**b) Transactions with other related parties**

	<b>Three months ended 30 September</b>		<b>Nine months ended 30 September</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<i>Revenue</i>	54	75	215	203
<i>Bank charges</i>	-	1	2	2
	<b>30 September 2015</b>		<b>31 December 2014</b>	
Balances outstanding				
<i>Cash and cash equivalents</i>		36		62
<i>Accounts receivable</i>		33		23

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

Key management personnel of the Group receive only short-term employment benefits. For the nine months ended 30 September 2015 and 2014, key management personnel received as compensation USD 10 million and USD 10 million, respectively.

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**15. COMMITMENTS AND CONTINGENCIES**

**Capital commitments**

At 30 September 2015, the Group executed purchase agreements of approximately USD 101 million to acquire property, plant and equipment (31 December 2014 – USD 75 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**

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these unaudited condensed consolidated interim financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

**Russian business environment**

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The unaudited condensed consolidated interim financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

**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. In the absence of such information available-for-sale investments were presented at cost, net of impairment.

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

The Group has not disclosed the fair values for financial instruments such as cash and cash equivalents, bank deposits, trade and other receivables, loans given and promissory notes, short-term and long-term borrowings, trade and other payables, because their carrying amounts are reasonable approximation of fair values as at 30 September 2015 and 31 December 2014.

The following table presents the carrying value of financial instruments measured at fair value at the end of reporting period across the three levels of the fair value hierarchy defined in IFRS 7, *Financial Instruments: Disclosures*, 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.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>30 September 2015</b>				
Available for sale investments, listed equity securities	197	-	-	197
Available for sale investments, unlisted equity securities	-	-	2	2
Trading debt securities	2	-	-	2
Share in mutual investment fund	2	-	-	2
<b>Total assets</b>	<b>201</b>	<b>-</b>	<b>2</b>	<b>203</b>
Listed bonds	149	-	-	149
<b>Total liabilities</b>	<b>149</b>	<b>-</b>	<b>-</b>	<b>149</b>
<b>31 December 2014</b>				
Available for sale investments, listed equity securities	348	-	-	348
Available for sale investments, unlisted equity securities	-	-	4	4
Trading equity securities	3	-	-	3
Trading debt securities	3	-	-	3
Share in mutual investment fund	2	-	-	2
<b>Total assets</b>	<b>356</b>	<b>-</b>	<b>4</b>	<b>360</b>
Listed bonds	166	-	-	166
Interest rate swaps	-	-	2	2
<b>Total liabilities</b>	<b>166</b>	<b>-</b>	<b>2</b>	<b>168</b>

The movement in the balance of Level 3 fair value measurements is as follows:

<b>Derivative financial instruments</b>	<u>USD million</u>
At 1 January 2015	2
Changes in fair value estimation recognized during the year	(2)
<b>Balance at 30 September 2015</b>	<b>-</b>



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**17. EVENTS SUBSEQUENT TO THE REPORTING DATE**

In October 2015 the Group has paid dividends relating to the six months ended 30 June 2015 of USD 103 million (USD 0.01 or RUB 0.58 per share) (Note 11).

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

The unaudited condensed consolidated interim financial statements for the three and nine months ended 30 September 2015 were approved by the Group's management and authorized for issue on 5 November 2015.