

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

**Consolidated Financial Statements
For the Year Ended 31 December 2016**

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

TABLE OF CONTENTS

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION
AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

AUDITORS' REPORT

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 2016:

Consolidated statement of comprehensive income	1
Consolidated statement of financial position.....	2
Consolidated statement of changes in equity.....	3
Consolidated statement of cash flows.....	4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION.....	6
2. ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS.....	7
3. BASIS OF PREPARATION.....	9
4. SIGNIFICANT ACCOUNTING POLICIES.....	10
5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY	27
6. REVENUE	29
7. SEGMENT INFORMATION	29
8. COST OF SALES.....	31
9. GENERAL AND ADMINISTRATIVE EXPENSES	31
10. SELLING AND DISTRIBUTION EXPENSES	32
11. OTHER OPERATING INCOME, NET	32
12. OTHER EXPENSES.....	32
13. FINANCE COSTS	32
14. INCOME TAX	32
15. PROPERTY, PLANT AND EQUIPMENT.....	35
16. INVENTORIES	37
17. TRADE AND OTHER RECEIVABLES	38
18. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS	39
19. CASH AND CASH EQUIVALENTS	40
20. SHARE CAPITAL.....	40
21. LONG-TERM BORROWINGS	41
22. SITE RESTORATION PROVISION	42
23. DEFINED CONTRIBUTION PLANBS	43
24. TRADE AND OTHER PAYABLES.....	43
25. SHORT-TERM BORROWINGS AND CURRENT PORTION OF LONG-TERM BORROWINGS.....	44
26. RELATED PARTIES	45
27. RISK MANAGEMENT ACTIVITIES.....	46
28. CAPITAL MANAGEMENT	48
29. COMMITMENTS AND CONTINGENCIES.....	49
30. FAIR VALUE OF FINANCIAL INSTRUMENTS.....	51
31. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS	53

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

**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND
APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

Management is responsible for the preparation of consolidated financial statements that present fairly the financial position of Open Joint Stock Company Magnitogorsk Iron & Steel Works and its subsidiaries (the "Group") at 31 December 2016, and the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated 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 is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;
- 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 consolidated 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 consolidated financial statements for the year ended 31 December 2016 were approved for issuance on 13 February 2017 by:



R. V. Shilyaev
General Director
13 February 2017
Magnitogorsk, Russia


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



Independent auditor's report

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

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Open Joint Stock Company Magnitogorsk Iron & Steel Works (the "Company") and its subsidiaries (together – the "Group") as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

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

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Auditor's Professional Ethics Code and Auditor's Independence Rules that are relevant to our audit of the consolidated financial statements in the Russian Federation. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our audit approach

Overview



- Overall Group materiality: USD 31 million, which represents 2.5% of earnings before interest, tax, depreciation and amortization (EBITDA) adjusted for some one-off items.
- We conducted audit work at 4 reporting units in 3 countries;
- Engagement team visited the following locations – OJSC Magnitogorsk Iron & Steel Works (Russia), LLC Torgovy Dom MMK (Russia), MMK Metalurji (Turkey) and MMK Steel Trade AG (Switzerland);
- Our audit scope covers 97% of the Group’s revenues and 97% of the Group’s EBITDA.

Impairment test of property, plant and equipment at MMK Metalurji;
Recoverability of deferred tax assets at MMK Metalurji.

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall group materiality	USD 31 mln (2015: USD 36 mln)
How we determined it	2.5% of Group EBITDA adjusted for some one-off items
Rationale for the materiality benchmark applied	We chose EBITDA as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users. We chose 2.5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.



Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
<p><i>Impairment of property, plant and equipment at MMK Metalurji</i></p> <p><i>Refer to note 15 to the consolidated financial statements for the related disclosure</i></p> <p>Changes in global economic environment and developments in metals industry have resulted in, among others, volatility of metal prices. As a consequence, the Group performed impairment test in respect of steel segment in Turkey – MMK Metalurji. As at 31 December 2016 property, plant and equipment at MMK Metalurji comprise 13 percent of total Group’s fixed assets with aggregate value of USD 583 mln.</p> <p>Determining the recoverable amount of the assets requires a number of significant judgments and estimates, especially regarding the amount of future cash flows and the applied discount rate. The projected operating cash flows are significantly influenced by long-term assumptions concerning scrap and steel prices, as well as volume of sales that highly depends from commencing operation of hot-rolled mill in 2018. The key assumption that leads to commencing operation of hot-rolled mill is based on expectation of the Group’s management that hot-rolled steel price will exceed scrap price by over USD 195 per ton at full capacity of the mill.</p> <p>Management has assessed recoverability of the carrying value of property plant and equipment and concluded that that the recoverable amount was higher than the carrying value such that no additional impairment provision was required.</p>	<p>We assessed internal controls designed for identification of impairment indicators and the appropriateness of the management’s judgement regarding identification of assets which may be impaired.</p> <p>We obtained, understood and evaluated impairment model for MMK Metallurji prepared by management and assessed the principles of management’s discounted cash flow model.</p> <p>We tested the mathematical accuracy of the calculations derived from forecast model and assessed key inputs in the calculations such as revenue growth and discount rate, by reference to management’s forecasts, macroeconomic assumptions and our own valuation expertise.</p> <p>We focused on these key assumptions because small subjective changes can have a material impact on the value in use assessment and any resultant impairment charge. We found, based on our audit work, that the key assumptions used by management were supportable and appropriate in light of the current environment.</p> <p>We evaluated management’s analysis of the sensitivity of the impairment test result and the adequacy of the sensitivity disclosure in particular in respect of the assumptions with the greatest potential effect on the test result, e.g. those relating to discount rate, annual growth rate and sales volume in monetary terms.</p> <p>Based on available evidence we found management’s estimates applied in the value in use model to be reasonable and the discounted cash flow to be in accordance to approved plans. We concurred with management that no adjustment to the impairment provision already recognised is required. We found the disclosure in note 15 to be appropriate.</p>



Key audit matter	How our audit addressed the Key audit matter
<p><i>Recoverability of deferred tax assets at MMK Metalurji</i></p> <p>Refer to note 14 to the consolidated financial statements for the related disclosure.</p> <p>As at 31 December 2016, MMK Metalurji has deferred tax assets on tax losses carried forward of USD 19 mln. Total deferred tax assets exceed deferred tax liabilities as at reporting date. We focused on this balance because there has been a history of losses at MMK Metalurji, and the recoverability of the deferred tax asset at MMK Metalurji is particularly sensitive to expectation about the future profitability of this business. This in turn mainly depends on the hot-rolled mill planned to commence operation in 2018. Significant judgement is required over the recoverability of deferred tax assets arising from past losses because the realization of tax benefits is dependent on future taxable profits and there are inherent uncertainties involved in forecasting such profits.</p>	<p>We considered the expiry period of available tax losses carried forward according to tax legislation in Turkey. This period is five years. In addition, our audit procedures included evaluation and challenging management's forecast assumptions such as revenue growth and stable operating costs. We checked the consistency of underlying assumptions with those of the impairment analysis. We also assessed the past performance against the business plan used by the Group to determine the future taxable income. We believe the assumptions used by management are within the acceptable range.</p> <p>Based on the procedures performed we consider management's conclusion in respect of deferred tax assets recoverability to be consistent with the available information. We found the disclosure in note 14 to be appropriate.</p>

How we tailored our group audit scope

We tailored the scope of our audit to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the geographic and management structure of the Group, the accounting processes and controls and the industry in which the Group operates.

We identified that OJSC Magnitogorsk Iron & Steel Works, the parent company of the Group, required an audit as significant component due to the size and risk involved. As the Group has separate financial function for MMK Metalurji (Turkey) and MMK Steel Trade AG (Switzerland) they were also selected as components. For LLC Torgovy Dom MMK (Russia) and MMK-Mining Assets Management S.A. (Luxemburg) we performed work over specific financial statements lines. In addition, we have performed analytical procedures over the remaining immaterial companies of the Group.

In establishing our overall approach to the audit of the Group, we considered the significance of these components to the financial statements, our assessment of risk within each component, the overall coverage across the Group achieved by our procedures, as well as the risk associated with less significant components not brought into the normal scope of our audit.

We determined the type of work for each component that needed to be performed by us in relation to the activity within the Russian Federation, or by other PwC network firms operating under our instruction in relation to the activity outside the Russian Federation. Where the work was performed by those other firms, we determined the level of involvement we needed to have in their audit work to be able to conclude whether sufficient appropriate audit evidence has been obtained as a basis for our opinion on the Group's consolidated financial statements as a whole.

Taking together, our audit work performed addressed 97% of Group revenue and 97% of Group's EBITDA. This gave us the evidence we needed for our opinion on the Group's consolidated financial statements as a whole.



Other information

Management is responsible for the other information. The other information comprises Press release (but does not include the Group's consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and Annual report and Issuer's Report for the fourth quarter of 2016, which are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;



- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



The certified auditor responsible for the audit resulting in this independent auditor's report is Alexei Fomin.

AO PricewaterhouseCoopers Audit

13 February 2017
Moscow, Russian Federation

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



Audited entity: OJSC Magnitogorsk Iron & Steel Works

State registration certificate № 186, issued by the 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**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016**

(In millions of U.S. Dollars, unless otherwise stated)

	Notes	Years ended 31 December	
		2016	2015
REVENUE	6	5,630	5,839
COST OF SALES	8	(3,817)	(4,054)
GROSS PROFIT		1,813	1,785
General and administrative expenses	9	(207)	(221)
Selling and distribution expenses	10	(443)	(448)
Other operating income, net	11	299	-
OPERATING PROFIT		1,462	1,116
Share of results of associates		1	2
Finance income		13	37
Finance costs	13	(117)	(147)
Foreign exchange gain/(loss), net		60	(173)
Impairment losses and provision for site restoration	15, 22	(5)	(179)
Other expenses	12	(72)	(43)
PROFIT BEFORE INCOME TAX		1,342	613
INCOME TAX	14	(231)	(192)
PROFIT FOR THE YEAR		1,111	421
OTHER COMPREHENSIVE INCOME/(LOSSES)			
<i>Items, that may be reclassified subsequently to profit or loss</i>			
Net change in fair value of available-for-sale investments	18	(121)	(103)
Translation of foreign operations		(237)	250
<i>Items, that will not be reclassified subsequently to profit or loss</i>			
Remeasurements of post-employment benefit obligations		-	(7)
Effect of translation to presentation currency		815	(1,070)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		457	(930)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		1,568	(509)
Profit attributable to:			
Shareholders of the Parent Company		1,111	420
Non-controlling interests		-	1
		1,111	421
Total comprehensive income/(losses) attributable to:			
Shareholders of the Parent Company		1,565	(490)
Non-controlling interests		3	(19)
		1,568	(509)
BASIC AND DILUTED PROFIT PER SHARE (U.S. Dollars)		0.099	0.038
Weighted average number of ordinary shares outstanding (in thousands)		11,173,899	11,162,183

The notes on pages 6 to 53 are an integral part of these consolidated financial statements.

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016
(In millions of U.S. Dollars)**

	Notes	31 December	
		2016	2015
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	15	4,345	3,764
Intangible assets		22	18
Investments in securities and other financial assets	18	3	214
Investments in associates		6	2
Deferred tax assets	14	75	65
Other non-current assets		11	30
Total non-current assets		4,462	4,093
CURRENT ASSETS:			
Inventories	16	1,067	877
Trade and other receivables	17	558	375
Investments in securities and other financial assets	18	50	359
Income tax receivable		1	14
Value added tax recoverable		97	70
Cash and cash equivalents	19	266	369
Total current assets		2,039	2,064
TOTAL ASSETS		6,501	6,157
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	20	386	386
Treasury shares	20	-	(1)
Share premium		969	969
Investments revaluation reserve	18	-	121
Translation reserve		(5,365)	(5,940)
Retained earnings		8,703	7,772
Equity attributable to shareholders of the Parent Company		4,693	3,307
Non-controlling interests		18	13
Total equity		4,711	3,320
NON-CURRENT LIABILITIES:			
Long-term borrowings	21	178	954
Obligations under finance leases		1	-
Retirement benefit obligations		16	13
Site restoration provision	22	155	126
Deferred tax liabilities	14	373	323
Total non-current liabilities		723	1,416
CURRENT LIABILITIES:			
Short-term borrowings and current portion of long-term borrowings	25	320	893
Current portion of obligations under finance leases		1	-
Current portion of retirement benefit obligations		3	3
Trade and other payables	24	710	516
Current portion of site restoration provision	22	10	8
Income tax payables		23	-
Net assets attributable to minority participants		-	1
Total current liabilities		1,067	1,421
TOTAL EQUITY AND LIABILITIES		6,501	6,157

P. V. Shilyaev
General Director

13 February 2017
Magnitogorsk, Russia



M. E. Khazova

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

The notes on pages 6 to 53 are an integral part of these consolidated financial statements.

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016**

(In millions of U.S. Dollars)

	Notes	Share capital	Treasury shares	Share premium	Investments revaluation reserve	Translation reserve	Retained earnings	Total	Non-controlling interests	Total
BALANCE AT 1 JANUARY 2015		386	(13)	995	224	(5,140)	7,458	3,910	32	3,942
Profit for the year		-	-	-	-	-	420	420	1	421
Other comprehensive loss for the year, net of tax		-	-	-	(103)	(800)	(7)	(910)	(20)	(930)
Total comprehensive income/(loss) for the year		-	-	-	(103)	(800)	413	(490)	(19)	(509)
Aquisition of treasury shares		-	(282)	-	-	-	-	(282)	-	(282)
Disposal of treasury shares		-	294	(8)	-	-	-	286	-	286
Deferred tax asset write-off relating to disposal of treasury shares	14	-	-	(18)	-	-	-	(18)	-	(18)
Dividends	20	-	-	-	-	-	(99)	(99)	-	(99)
BALANCE AT 31 DECEMBER 2015		386	(1)	969	121	(5,940)	7,772	3,307	13	3,320
Profit for the year		-	-	-	-	-	1,111	1,111	-	1,111
Other comprehensive income/(loss) for the year, net of tax		-	-	-	(121)	575	-	454	3	457
Total comprehensive income/(loss) for the year		-	-	-	(121)	575	1,111	1,565	3	1,568
Aquisition of treasury shares		-	(204)	-	-	-	-	(204)	-	(204)
Disposal of treasury shares		-	205	-	-	-	-	205	-	205
Increase in non-controlling interests due to changes of Groups share in subsidiaries		-	-	-	-	-	-	-	2	2
Dividends	20	-	-	-	-	-	(180)	(180)	-	(180)
BALANCE AT 31 DECEMBER 2016		386	-	969	-	(5,365)	8,703	4,693	18	4,711

The notes on pages 6 to 53 are an integral part of these consolidated financial statements.

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

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(In millions of U.S. Dollars)

	Notes	Years ended 31 December	
		2016	2015
OPERATING ACTIVITIES:			
Profit for the year		1,111	421
Adjustments to profit for the year:			
Income tax		231	192
Depreciation and amortisation	8, 9, 10	479	535
Finance costs	13	117	147
Loss on disposal of property, plant and equipment	11	14	15
Impairment losses and provision for site restoration	15, 22	5	179
Change in allowance for doubtful accounts receivable	11	4	1
Loss on disposal of securities	11	-	2
Change in allowance for obsolete and slow-moving inventory items and write down to net realisable value	16	(24)	28
Finance income		(13)	(37)
Loss/(gain) on disposal of subsidiaries	11	3	(6)
Foreign exchange (income)/loss, net		(60)	173
Income from available-for-sale investments	11	(3)	(6)
Gain on sale of available-for-sale investments	11, 18	(315)	-
Share of results of associates		(1)	(2)
Operating cashflow before working capital changes		1,548	1,642
Movements in working capital			
(Increase)/ decrease in trade and other receivables		(124)	59
Decrease in value added tax recoverable		5	1
Increase in inventories		(32)	(75)
Decrease in investments classified as trading securities		-	(2)
Increase in trade and other payables		94	34
Cash generated from operations		1,491	1,659
Interest paid		(85)	(123)
Income tax paid		(215)	(180)
Net cash generated by operating activities		1,191	1,356
INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(463)	(348)
Purchase of intangible assets		(11)	(4)
Purchase of securities and other financial assets		(2)	-
Proceeds from sale of property, plant and equipment		4	15
Interest received		15	34
Proceeds from sale available-for-sale investments		410	-
Proceeds from sale of subsidiaries, net of disposed cash		-	4
Placement of short-term bank deposits		(654)	(997)
Withdrawal of short-term bank deposits		962	852
Dividends received from available-for-sale investments		3	6
Net cash generated/(used) in investing activities		264	(438)

The notes on pages 6 to 53 are an integral part of these consolidated financial statements.

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

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016
(CONTINUED)**

(In millions of U.S. Dollars)

	Notes	Years ended 31 December	
		2016	2015
FINANCING ACTIVITIES:			
Proceeds from borrowings		524	548
Repayments of borrowings		(1,920)	(1,142)
Purchase of treasury shares		(204)	(282)
Proceeds from issuance of ordinary shares from treasury shares		205	286
Dividends paid to equity holders of the Parent Company	20	(180)	(103)
Net cash used in financing activities		(1,575)	(693)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS			
		(120)	225
CASH AND CASH EQUIVALENTS, beginning of year		369	327
Effect of translation to presentation currency and exchange rate changes on the balance of cash held in foreign currencies		17	(183)
CASH AND CASH EQUIVALENTS, end of year	19	266	369

The notes on pages 6 to 53 are an integral part of these consolidated financial statements.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(In millions of U.S. Dollars, unless otherwise stated)

1. GENERAL INFORMATION

OJSC Magnitogorsk Iron & Steel Works ("the Parent Company") is an open joint stock company. 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 privatisation 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 Parent Company's registered office is 93, Kirova street, Magnitogorsk, Chelyabinsk region, Russia, 455000.

As at 31 December 2016 the Parent Company's major shareholder was Mintha Holding Limited with a 87.3% ownership interest (at 31 December 2015: Mintha Holding Limited with 87.3%).

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

At 31 December 2016 and 2015, the Group's principal subsidiaries were as follows:

Subsidiary by country of incorporation	Nature of business	Effective % held at 31 December	
		2016	2015
<i>Russian Federation</i>			
OJSC Metizno-Kalibrovochny Zavod "MMK-Metiz"	Production of metal hardware products	95.78	95.78
LLC IK MMK Finance	Investing activities	100.00	100.00
LLC Stroitelny Komplex	Construction	100.00	100.00
LLC Ogneupor	Production of refractory materials	100.00	100.00
LLC Mekhanoremontny Komplex	Maintenance of metallurgical equipment	100.00	100.00
LLC OSK	Production of machinery and equipment for metallurgy	100.00	100.00
OJSC MTSOZ	Production of cement and refractory materials	100.00	100.00
CJSC Profit	Collection and processing of metal scrap	100.00	100.00
LLC Torgovy Dom MMK	Trading activities	100.00	100.00
OJSC Belon	Holding company, trading activities	95.40	95.40
LLC MMK Ugol (OJSC TSOF Belovoskaya)	Coal mining	98.51	95.39
<i>Cyprus</i>			
Onarbay Enterprises Ltd	Holding company	100.00	100.00
<i>Turkey</i>			
MMK Metalurji	Production of ferrous metal products	100.00	100.00
<i>Switzerland</i>			
MMK Steel Trade AG	Trading activities	100.00	100.00
<i>Luxemburg</i>			
MMK-Mining Assets Management S.A.	Holding company	100.00	100.00

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(In millions of U.S. Dollars, unless otherwise stated)

2. ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

The following amended standards that are relevant to the Group became effective from 1 January 2016, but did not have any material impact on the Group.

- Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Annual Improvements to IFRSs 2014 (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).

New Standards and Interpretations in issue not yet adopted

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2017, and which the Group has not early adopted.

IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018).

Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(In millions of U.S. Dollars, unless otherwise stated)

**2. ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS
(CONTINUED)**

- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Group is currently assessing the impact of the new 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). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The standard is not expected to have a material impact on the Group's consolidated financial statements.

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). The amendments do not change the underlying principles of the Standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard. The amendments to the standard are not expected to have a material impact on the Group's consolidated financial statements.

IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The standard is not expected to have a material impact on the Group's consolidated financial statements.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(In millions of U.S. Dollars, unless otherwise stated)

**2. ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS
(CONTINUED)**

Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Group will present this disclosure in its 2017 consolidated financial statements.

The following other new pronouncements are not expected to have any material impact on the Group when adopted:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).
- Annual Improvements to IFRSs 2014-2016 cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017 for amendments to IFRS 12, and on or after 1 January 2018 for amendments to IFRS 1 and IAS 28).
- IFRIC 22 – Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Transfers of Investment Property – Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

3. BASIS OF PREPARATION

Statement of compliance

International Financial Reporting Standards (“IFRS”) include Standards and Interpretations issued by the International Accounting Standards Board (“IASB”).

These consolidated financial statements of the Group have been prepared in accordance with IFRS.

The Group additionally prepares IFRS consolidated financial statements presented in Russian roubles and in Russian language in accordance with the Federal Law No. 208 – FZ “On consolidated financial reporting”.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(In millions of U.S. Dollars, unless otherwise stated)

3 BASIS OF PREPARATION (CONTINUED)

Basis of preparation

The consolidated financial statements of the Group are prepared under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value and derivative financial instruments, which are accounted for at fair value.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

Basis of consolidation

Subsidiaries

These consolidated financial statements incorporate the financial statements of the Parent Company and its subsidiaries. Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct the relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of the investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have a practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than the majority of the voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of the investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(In millions of U.S. Dollars, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and the carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 "Financial Instruments: recognition and measurement" or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

Associates

Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in the Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as the share of results of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii); all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of results of associates.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

When a Group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Functional and presentation currency

Different entities within the Group have different functional currencies, based on the underlying economic conditions of their operations.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(In millions of U.S. Dollars, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The functional currency of the Group's entities except for MMK Metalurji and MMK Steel Trade AG is the Russian Rouble ("RUB"). The functional currency of MMK Metalurji and MMK Steel Trade AG is the United States Dollar ("USD").

These consolidated financial statements are presented in millions of USD. Using USD as a presentation currency is considered by management to be more relevant for users of the consolidated financial statements of the Group.

The translation into presentation currency is made as follows:

- all assets and liabilities, both monetary and non-monetary, are translated at closing exchange rates at the dates of each consolidated statement of financial position presented;
- all items included in the consolidated shareholders' equity, other than net income, are translated at historical exchange rates;
- all income and expenses in each consolidated statement of comprehensive income are translated at exchange rates in effect when the transactions occur. For those transactions that occur evenly over the year a quarterly average exchange rate is applied;
- resulting exchange differences are included in other comprehensive income as "Effect of translation to presentation currency"; and
- in the consolidated statement of cash flows, cash balances at the beginning and end of each year presented are translated at exchange rates at the respective dates of the beginning and end of each year. All cash flows are translated at exchange rates in effect when the cash flows occur. For those cash flows that occur evenly over the year a quarterly average exchange rate for the year is applied. Resulting exchange differences are presented separately from cash flows from operating, investing and financing activities as "Effect of translation to presentation currency".

Exchange rates used in preparation of the consolidated financial statements were as follows:

	31 December	
	2016	2015
<i>Russian Rouble/US Dollar</i>		
Year-end rates	60.66	72.88
Average for the period	66.51	60.85

Foreign currency transactions

Transactions in currencies other than the functional currencies of the Group's entities (foreign currencies) are recorded at the exchange rates prevailing at the dates of the transactions. At each statement of financial position date monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the date of statement of financial position. Exchange differences arising from changes in exchange rates are recognised in the consolidated statement of comprehensive income within "Foreign exchange gain/loss – net". Non-monetary items carried at historical cost are translated at the exchange rate prevailing on the date of transaction. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated at the exchange rate prevailing on the date on which the most recent fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(In millions of U.S. Dollars, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values, other than equity-related contingent consideration, are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRS.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 "Income taxes" and IAS 19 "Employee benefits" respectively;
- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with IFRS 2 "Share-based payment"; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations" are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(In millions of U.S. Dollars, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described above.

Revenue recognition

Revenue is measured at fair value of consideration received net of discounts, allowances, associated value-added taxes and export duties.

The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below.

Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point.

Sales of services are recognised in the accounting period in which the services are rendered, by reference to the stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Interest income is recognised on a time-proportion basis using the effective interest method.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(In millions of U.S. Dollars, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009.

The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred on the specific borrowings less any investment income on the temporary investment of these borrowings are capitalised.

Income tax

Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profit differs from profit for the year as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the date of consolidated statement of financial position.

Deferred income tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated statement of financial position and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit when initially recorded.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(In millions of U.S. Dollars, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that the temporary difference will reverse in the future and there is sufficient future taxable profit available against which the deductions can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year in which the liability is settled or the asset realised, based on tax rates and tax laws that have been enacted or substantively enacted by the date of consolidated statement of financial position. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

Deferred income tax on post-acquisition retained earnings of subsidiaries. Deferred income tax is provided on post-acquisition retained earnings and other post acquisition movements in reserves of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Uncertain tax positions

The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period. Adjustments for uncertain income tax positions are recorded within the income tax charge.

Property, plant and equipment

Manufacturing assets

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 January 2007, the date of transition to IFRSs, was determined by reference to its fair value at that date.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. Repair and maintenance expenses are charged to the consolidated statement of comprehensive income as incurred.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(In millions of U.S. Dollars, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Construction in progress comprises costs directly related to the construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction. Depreciation of these assets is recorded on the same basis as for other property assets, and begins when it is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs of disposal and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the profit and loss. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs of disposal.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of comprehensive income within "Other operating income/expense, net".

Mineral rights

Mineral rights are presented as part of Mining assets and include rights for evaluation, exploration and production of mineral resources under the licences or agreements. Such assets are carried at cost, amortisation is charged on a straight line basis over the shorter of the valid period of the license or the agreement, or the expected life of mine, starting from the date when production activities commence. The costs directly attributable to acquisition of rights for evaluation, exploration and production are capitalised as a part of the mineral rights. If the reserves related to the mineral rights are not economically viable, the carrying amount of such mineral rights is written off.

Depreciation

Land is not depreciated. Depreciation of manufacturing assets is computed under the straight-line method utilising useful lives of the assets which are:

Buildings	15-50 years
Machinery and equipment	1-30 years
Transportation equipment	3-20 years
Fixtures and fittings	3-30 years

The estimated useful lives, residual values, and depreciation method are reviewed at each reporting date, with the effect of any changes in estimate accounted for on a prospective basis.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(In millions of U.S. Dollars, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets subject to finance leases are capitalised as property, plant and equipment at the lower of fair value of the leased asset or present value of future minimum lease payments at the date of acquisition, with the related lease obligation recognised at the same value. Assets held under finance leases are depreciated over their estimated economic useful lives or over the term of the lease, if shorter. If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is useful life of the asset.

Finance lease payments are allocated using the effective interest rate method, between the finance cost and the capital repayment, which reduces the related lease obligation to the lessor. The Group doesn't have material finance lease agreements.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

Intangible assets, excluding goodwill

Intangible assets are recorded at cost less accumulated amortisation and impairment losses. Intangible assets primarily represent licenses and various purchased software costs. Amortisation is charged on a straight-line basis over their estimated useful lives which are:

Licenses	3-25 years
Purchased software	1-10 years
Other intangibles	1-10 years

Impairment of tangible and intangible assets, excluding goodwill

Tangible and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated statement of comprehensive income.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(In millions of U.S. Dollars, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the consolidated statement of comprehensive income.

Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories is determined on the weighted average basis and includes all costs in bringing the inventory to its present location and condition.

Cost includes direct material, labour and an allocation of material and manufacturing overheads. Costs of production in process and finished goods include the purchase costs of raw materials and conversion costs such as direct labour and an allocation of fixed and variable production overheads. Raw materials are valued at purchase cost inclusive of freight and other shipping costs.

Net realisable value represents the estimated selling price for inventories less estimated costs to completion and selling costs. Where appropriate, an allowance for obsolete and slow-moving inventory is recognised. The impairment charged to reduce the carrying amount of inventories to their net realisable value and an allowance for obsolete and slow-moving inventory are included in consolidated statement of comprehensive income as cost of sales.

Deferred drifting costs

The direct costs and attributable overheads of the preparation of underground coal reserves (drifting) for production using advanced mining machinery are included in inventory and recognised as cost of sales on the unit of production basis of each coal drift.

Value added taxes

Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the consolidated statement of financial position on a gross basis and disclosed separately as an asset and liability.

Financial instruments – key measurement terms

Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(In millions of U.S. Dollars, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to, and must be settled by, delivery of such unquoted equity instruments.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to the maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of the related items in the consolidated statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(In millions of U.S. Dollars, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification of financial assets

Financial assets have the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss have two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

Held-to-maturity assets include quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at the end of each reporting period.

Held-for-trading investments are financial assets which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists.

Other financial assets at fair value through profit or loss are financial assets designated irrevocably, at initial recognition, into this category. Management designates financial assets into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Group's key management personnel. Recognition and measurement of this category of financial assets is consistent with the accounting policy for trading investments.

All other financial assets are included in the *available-for-sale* category, which includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

The Group may choose to reclassify a non-derivative trading financial asset out of the fair value through profit or loss category if the asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the fair value through profit or loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Financial assets that would meet the definition of loans and receivables may be reclassified if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Initial recognition of financial instruments

Trading investments and derivatives are initially recorded at their fair value. All other financial assets and liabilities are initially recorded at their fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and the transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(In millions of U.S. Dollars, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at their trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement whilst (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all the risks and rewards of ownership but not retaining control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

Available-for-sale investments

Available-for-sale investments are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year as finance income. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year as finance income when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired at which time the cumulative gain or loss is reclassified from other comprehensive income to finance income in profit or loss for the year.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to finance costs in profit or loss for the year.

Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(In millions of U.S. Dollars, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Trade and other receivables

Trade and other receivables are recognised initially at fair value and are subsequently carried at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method.

Impairment of financial assets carried at amortised cost

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty; or
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognized and a new asset is recognized at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(In millions of U.S. Dollars, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the impairment loss account within the profit or loss for the year.

Classification of financial liabilities

Financial liabilities have the following measurement categories: (a) held for trading which also includes financial derivatives and (b) other financial liabilities. Liabilities held for trading are carried at fair value with changes in value recognised in profit or loss for the year (as finance income or finance costs) in the period in which they arise. Other financial liabilities are carried at amortised cost.

Trade and other payables

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost using the effective interest method.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred and are subsequently carried at amortised cost using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Financial guarantee contracts

Financial guarantees are irrevocable contracts that require the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the obligation at the end of the reporting period.

Employee benefit obligations

Remuneration to employees in respect of services rendered during the period is recognised as an expense in the consolidated statement of comprehensive income.

Defined contribution plans

The Group's Russian subsidiaries are legally obliged to make defined contributions to the Russian Federation State Pension Fund (a defined contribution plan financed on a pay-as-you-go basis). The Group's contributions to the Russian Federation State Pension Fund relating to defined contribution plans are charged to consolidated statement of comprehensive income in the period to which they relate.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(In millions of U.S. Dollars, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In the Russian Federation all state social contributions, including contributions to the Russian Federation State Pension Fund, are collected through an insurance contributions calculated by the application of a regressive rate from 26% to 0% of the annual gross remuneration of each employee. This rate depends on the annual gross remuneration of each employee.

The Group's obligations for contributions to other defined contribution plans are recognised as expense as incurred.

Defined benefit plans

The Group accounts for the cost of defined benefit plans using the projected unit credit method. Under this method, the cost of providing pensions is charged to the consolidated statement of comprehensive income, so as to attribute the total pension cost over the service lives of employees in accordance with the benefit formula of the plan. The Group's obligation in respect of defined retirement benefit plans is calculated separately for each defined benefit plan by discounting the amounts of future benefits that employees have already earned through their service in the current and prior periods. The discount rate applied represents the yield on government bonds that have maturity dates approximating the terms of the Group's obligations.

The current service cost of the defined benefit plan, recognised in the income statement in employee benefit expense reflects the increase in the defined benefit obligation resulting from employee service in the current year, benefit changes, curtailments and settlements. Past-service costs are recognised immediately in profit and loss.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the profit and loss in the consolidated statement of comprehensive income. Actuarial gains and losses are fully recognised in other comprehensive income in the period they occur.

Restricted cash

Restricted cash represents legally restricted collateral deposited with various banks as margin for irrevocable letters of credit and is included in other long-term assets of the consolidated statement of financial position.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the date of consolidated statement of financial position, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(In millions of U.S. Dollars, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Site restoration provision

The Group provides for the costs of restoring a site where a legal or constructive obligation exists. The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the reporting date. The estimated future land restoration costs, discounted to net present value, are capitalised in respective items of property, plant and equipment and amortised over the useful life of the corresponding asset. In case at the date when the site restoration obligation arise no corresponding assets exist relative provision is included in the consolidated statement of comprehensive income as other expenses.

The Group reviews site restoration provisions at each reporting date and adjusts them to reflect the current best estimate. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Changes in the measurement of a provision that result from changes in the estimated timing or amount of cash outflow, or a change in the discount rate, are added to or deducted from the costs of the related assets as appropriate in the current period or when there is no relative asset are recognised in the consolidated statement of comprehensive income as other expenses.

Provisions are discounted to their present value based on the rates of government bond which are consistent with the currency and estimated term of the liability. The unwinding of the obligation is included in the consolidated statement of comprehensive income as finance costs before revising the provision at year end.

Dividends

Dividends and related taxation thereon are recognised as a liability in the period in which they have been declared and become legally payable.

Accumulated profits legally distributable are based on the amounts available for distribution in accordance with the applicable legislation and as reflected in the statutory financial statements of the individual entities of the Group. These amounts may differ significantly from the amounts calculated on the basis of IFRS.

Segment information

Segment reporting is presented on the basis of management's perspective and relates to the parts of the Group that are defined as operating segments. Operating segments are identified on the basis of internal reports to the Group's chief operating decision maker ("CODM"). The Group has identified the General Director of the Parent Company as its CODM and the internal reports used by the top management team to oversee operations and make decisions on allocating the resources serve as the basis of information presented. These internal reports are prepared on the same basis as these consolidated financial statements.

Based on the current management structure, the Group has identified three reportable segments: steel (Russia), steel (Turkey) and coal mining.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(In millions of U.S. Dollars, unless otherwise stated)

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. As a result of the volatility in the global and Russian financial markets, management's estimates may change and result in a significant impact on the Group. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgments, including those involving estimations (see below), that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in consolidated financial statements and affect the amounts of assets and liabilities within the next financial year.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that affect the amounts recognised in the consolidated financial statements and have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

The most significant areas requiring the use of management estimates and assumptions relate to:

- useful economic lives and residual values of property, plant and equipment;
- site restoration provision;
- impairment of assets; and
- income tax and other taxes.

Useful economic life and residual value of property, plant and equipment

The Group's property, plant and equipment, other than mining assets, are depreciated using the straight-line method over their estimated useful lives which are based on management's business plans and operational estimates, related to those assets.

The factors that could affect the estimation of useful lives and residual values include the following:

- changes in asset utilisation rates;
- changes in maintenance technology;
- changes in regulations and legislation; and
- unforeseen operational issues.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(In millions of U.S. Dollars, unless otherwise stated)

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Any of the above could affect prospective depreciation of property, plant and equipment and their carrying and residual values.

Management periodically reviews the appropriateness of assets' useful economic lives. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefits to the Group.

Site restoration provision

The Group estimates site restoration based on management's understanding of the current legal requirements and internally generated engineering estimates and represents management's best estimate of the present value of the future costs required.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Significant estimates and assumptions are made in determining the amount of restoration provisions. Those estimates and assumptions deal with uncertainties such as: requirements of the relevant legal and regulatory framework; the magnitude of possible contamination and the timing, extent and costs of required restoration activity. These uncertainties may result in future actual expenditure differing from the amounts currently provided.

The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for operating sites are recognised in the balance sheet by adjusting both the restoration asset if it exists and provision. Such changes give rise to a change in future depreciation and financial charges. For closed sites, changes to estimated costs are recognised immediately in the income statement. Details are disclosed in Note 22.

Impairment of assets

The Group periodically evaluates the recoverability of the carrying amount of its assets. Whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable, the Group estimates the recoverable amount of the asset. This requires the Group to make judgments regarding long-term forecasts of future revenues and costs related to the assets subject to review. In turn, these forecasts are uncertain in that they require assumptions about demand for products and future market conditions. Significant and unanticipated changes to these assumptions and estimates included within the impairment reviews could result in significantly different results than those recorded in the consolidated financial statements. Details of the assumptions are disclosed in Note 15.

Taxation

The Group is subject to income tax and other taxes in numerous jurisdictions. Significant judgement is required in determining the provision for income tax and other taxes due to the complexity of the tax legislation of the Russian Federation and of other countries, where the Group's entities operate. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax inspection issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the amount of tax and tax provisions in the period in which such determination is made.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(In millions of U.S. Dollars, unless otherwise stated)

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

In addition, the Group records deferred tax assets at each date of the consolidated statement of financial position based on the amount that management believes will be utilised in future periods. This determination is based on estimates of future profitability. A change in these estimates could result in the write-off of deferred tax assets in future periods for assets that are currently recorded in the consolidated statement of financial position. In estimating levels of future profitability, the Group has considered historical results of operations in recent years and would, if necessary, consider the implementation of prudent and feasible tax planning strategies to generate future profitability.

6. REVENUE

By product	2016	2015
Hot rolled steel	2,371	2,588
Galvanised steel	896	817
Cold rolled steel	628	585
Long steel products	499	502
Galvanised steel with polymeric coating	418	477
Wire, sling, bracing	102	111
Tin plated steel	108	109
Hardware products	110	104
Coking production	78	94
Band	67	80
Tubes	36	35
Scrap	36	29
Formed section	26	17
Slabs	28	14
Coal	7	13
Others	220	264
Total	5,630	5,839

By customer destination	2016	2015
Russian Federation and the CIS	77%	77%
Middle East	14%	15%
Europe	5%	6%
Africa	1%	1%
North America	-	-
Asia	3%	1%
Total	100%	100%

7. 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 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.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(In millions of U.S. Dollars, unless otherwise stated)

7. SEGMENT INFORMATION (CONTINUED)

Based on the current management structure and internal reporting the Group has identified the following operating 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, the 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);
- *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, the Russian Federation.

The profitability of the three operating segments is primarily measured by CODM based on Segment EBITDA based on IFRS. Segment EBITDA is determined as segment's operating profit or loss 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 years ended 31 December 2016 and 2015:

	Steel (Russia)		Steel (Turkey)		Coal mining		Eliminations		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Revenue										
Sales to external customers	5,101	5,272	522	554	7	13	-	-	5,630	5,839
Inter-segment sales	246	240	-	-	200	204	(446)	(444)	-	-
Total revenue	5,347	5,512	522	554	207	217	(446)	(444)	5,630	5,839
Segment EBITDA	1,852	1,559	43	36	63	72	(2)	1	1,956	1,668
Depreciation and amortisation	(401)	(455)	(64)	(67)	(14)	(13)	-	-	(479)	(535)
Loss on disposal of property, plant and equipment	(14)	(15)	1	2	(1)	(2)	-	-	(14)	(15)
Share of results of associates	(1)	(2)	-	-	-	-	-	-	(1)	(2)
Operating profit/(loss) per consolidated financial statements	1,436	1,087	(20)	(29)	48	57	(2)	1	1,462	1,116

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(In millions of U.S. Dollars, unless otherwise stated)

7. SEGMENT INFORMATION (CONTINUED)

At 31 December 2016 and 2015, the segments' total assets and liabilities were reconciled to total assets and liabilities as follows:

	31 December 2016				
	Steel (Russia)	Steel (Turkey)	Coal mining	Eliminations	Total
Total assets	8,000	903	310	(2,712)	6,501
Total liabilities	1,687	92	69	(58)	1,790

	31 December 2015				
	Steel (Russia)	Steel (Turkey)	Coal mining	Eliminations	Total
Total assets	7,141	1,025	249	(2,258)	6,157
Total liabilities	2,310	559	67	(99)	2,837

The segmental additions on property, plant and equipment and intangible assets for the years ended 31 December 2016 and 31 December 2015 were:

	2016	2015
Steel (Russia)	442	319
Steel (Turkey)	12	7
Coal mining	27	29
Total capital expenditure	481	355

8. COST OF SALES

	2016	2015
Cost of production		
Raw materials used	2,751	2,871
Depreciation of property, plant and equipment	461	518
Payroll and social taxes	530	548
Other expenses	100	120
	3,842	4,057
Change in work in progress, finished goods and goods-in-transit	(25)	(3)
Total	3,817	4,054

9. GENERAL AND ADMINISTRATIVE EXPENSES

	2016	2015
Payroll and social taxes	108	116
Taxes other than income tax	42	45
Professional services	15	28
Depreciation and amortisation	15	14
Insurance	3	5
Materials	3	4
Research and development costs	2	2
Other	19	7
Total	207	221

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(In millions of U.S. Dollars, unless otherwise stated)

10. SELLING AND DISTRIBUTION EXPENSES

	2016	2015
Transportation expenses	347	343
Payroll and social taxes	12	10
Materials	20	20
Advertising expenses	2	8
Depreciation	3	3
Packing costs	30	29
Other	29	35
Total	443	448

11. OTHER OPERATING INCOME, NET

	2016	2015
Loss on disposal of property, plant and equipment	14	15
Provision for doubtful debtors	4	1
Net loss on sale of trading securities	-	2
Income from available-for-sale investments	(3)	(6)
Net gains on sale available-for-sale investments	(315)	-
Gain on disposal of subsidiaries	3	(6)
Net gains on sale of other assets	(7)	(8)
Other operating losses/(gains), net	5	2
Total	(299)	-

12. OTHER EXPENSES

For the years ended 31 December 2016 and 2015, other expenses included USD 46 million and USD 34 million, respectively, related to social programs and maintenance of social assets.

13. FINANCE COSTS

	2016	2015
Interest expense on borrowings	100	134
Interest expense on provisions	17	15
Net gains on interest rate swaps	-	(2)
Total	117	147

14. INCOME TAX

The Group's income tax expense attributable to different tax jurisdictions for the years ended 31 December 2016 and 2015 was:

	2016	2015
Current income tax	253	191
Adjustments recognised in current year relating to prior year current tax	(3)	(1)
Deferred income tax (expense)/benefit, net	(19)	2
Total income tax expense	231	192

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(In millions of U.S. Dollars, unless otherwise stated)

14. INCOME TAX (CONTINUED)

The income tax charge is different from that which would be obtained by applying the Russian Federation statutory income tax rate to profit before income tax. A reconciliation between the expected and the actual taxation charge is provided below.

	2016	2015
Profit before income tax	1,342	613
Theoretical income tax charge computed at the Parent Company's statutory rate of 20%	268	123
Adjustments due to:		
Income not taxable	(63)	-
Expenses not deductible	10	3
Adjustments of prior years deferred income tax expense	(2)	(1)
Change in unrecognized deferred tax assets	15	52
Other	3	15
Income tax expense	231	192

Deferred income tax assets and liabilities comprise differences arising between the tax and accounting bases of the following assets and liabilities:

	31 December 2016	Charged/ (credited) to profit or loss	Effect of translation to presentation currency	31 December 2015
Accounts receivable	10	6	-	4
Unused tax losses	40	(16)	4	52
Investment tax credits	8	(2)	-	10
Accounts payable	36	(2)	8	30
Property, plant and equipment	16	-	2	14
Investments	3	-	-	3
Inventories	19	9	2	8
Deferred tax set off	(57)	10	(11)	(56)
Deferred income tax assets	75	5	5	65
Property, plant and equipment	(375)	20	(66)	(329)
Inventories	(42)	(6)	(7)	(29)
Accounts receivable	(12)	1	(2)	(11)
Loans	(1)	5	-	(6)
Accounts payable	-	4	-	(4)
Deferred tax set off	57	(10)	11	56
Deferred income tax liabilities	(373)	14	(64)	(323)
Net deferred income tax liabilities	(298)	19	(59)	(258)

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(In millions of U.S. Dollars, unless otherwise stated)

14. INCOME TAX (CONTINUED)

	31 December 2015	Charged/ (credited) to profit or loss	Charged/ (credited) to change in equity	Effect of translation to presentation currency	31 December 2014
Accounts receivable	4	(6)	-	-	10
Unused tax losses	52	(11)	(18)	1	80
Investment tax credits	10	(39)	-	-	49
Accounts payable	30	13	-	(5)	22
Property, plant and equipment	14	(3)	-	(5)	22
Investments	3	(1)	-	1	3
Inventories	8	(4)	-	(3)	15
Deferred tax et off	(56)	(10)	-	11	(57)
Deferred income tax assets	65	(61)	(18)	-	144
Property, plant and equipment	(329)	48	-	106	(483)
Inventories	(29)	(1)	-	8	(36)
Accounts receivable	(11)	(1)	-	2	(12)
Loans	(6)	5	-	-	(11)
Accounts payable	(4)	(2)	-	-	(2)
Deferred tax set off	56	10	-	(11)	57
Deferred income tax liabilities	(323)	59	-	105	(487)
Net deferred income tax liabilities	(258)	(2)	(18)	105	(343)

Recognised tax losses expire in the following years:

Year of expiry	31 December	
	2016	2015
Without expiry date	20	17
From 2 to 5 years	20	35
	40	52

At 31 December 2016 and 2015, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was USD 581 million and USD 372 million, respectively. No liabilities have been recognised in these consolidated financial statements in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

Based upon historical taxable income and projections for future taxable income over the periods in which deferred income tax assets are deductible, management of the Group believes that the Group will realise the benefits of the deductible differences.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(In millions of U.S. Dollars, unless otherwise stated)

14. INCOME TAX (CONTINUED)

Deferred tax assets of USD 52 million have not been recognised in 2015 (of which USD 52 million related to tax losses) and USD 15 million have not been recognised in 2016 (of which USD 15 million related to tax losses) because it is not probable that future taxable profits will be available against which the Group can utilise the benefits therefrom. Tax losses expire in the following years:

Year of expiry	2016	2015
From 6 to 10 years	-	1
From 2 to 5 years	15	51
	15	52

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). CFC income is subject to a 20% tax rate. This legislation had no material impact on remeasurement of Group's income tax assets and liabilities.

15. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Machinery and equipment	Transportation equipment	Fixtures and fittings	Mining assets	Construction-in-progress	Total
Cost							
At 1 January 2015	2,916	6,027	173	154	136	453	9,859
Additions	-	140	1	5	-	205	351
Transfers	34	106	4	7	-	(151)	-
Site restoration provision	-	-	-	-	5	-	5
Disposals	(21)	(145)	(3)	(1)	-	(14)	(184)
Disposals of subsidiaries	-	-	-	-	(26)	-	(26)
Effect of translation to presentation currency	(524)	(1,174)	(34)	(36)	(28)	(111)	(1,907)
At 31 December 2015	2,405	4,954	141	129	87	382	8,098
Additions	2	144	2	3	-	317	468
Transfers	61	116	3	1	-	(181)	-
Site restoration provision	-	-	-	-	3	-	3
Disposals	(14)	(180)	(6)	(3)	(10)	(5)	(218)
Effect of translation to presentation currency	364	817	26	26	19	88	1,340
At 31 December 2016	2,818	5,851	166	156	99	601	9,691
Depreciation							
At 1 January 2015	(1,195)	(3,234)	(114)	(88)	(108)	(48)	(4,787)
Charge for the year	(66)	(440)	(11)	(16)	(4)	-	(537)
Impairment loss	(4)	(1)	-	-	-	(115)	(120)
Disposals	10	125	2	-	-	5	142
Disposals of subsidiaries	-	-	-	-	26	-	26
Effect of translation to presentation currency	219	645	23	22	22	11	942
At 31 December 2015	(1,036)	(2,905)	(100)	(82)	(64)	(147)	(4,334)

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(In millions of U.S. Dollars, unless otherwise stated)

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land and buildings	Machinery and equipment	Transportation equipment	Fixtures and fittings	Mining assets	Construction-in- progress	Total
Charge for the year	(61)	(396)	(10)	(13)	(3)	-	(483)
Impairment loss	(8)	(1)	-	-	-	(2)	(11)
Disposals	6	164	5	3	10	1	189
Effect of translation to presentation currency	(157)	(473)	(18)	(17)	(12)	(30)	(707)
At 31 December 2016	(1,256)	(3,611)	(123)	(109)	(69)	(178)	(5,346)
Carrying amount At 31 December 2015	1,369	2,049	41	47	23	235	3,764
At 31 December 2016	1,562	2,240	43	47	30	423	4,345
Carrying amount had no impairment taken place At 31 December 2015	1,784	2,522	48	54	45	382	4,835
At 31 December 2016	2,005	2,660	51	52	53	601	5,422

For the years ended 31 December 2016 and 2015 no interest on borrowings was capitalised to property, plant and equipment.

At 31 December 2016 there is no property, plant and equipment pledged. At 31 December 2015, property, plant and equipment with a carrying amount of USD 636 million were pledged as security for certain long-term borrowings (Notes 21).

Capital commitments are disclosed in Note 29.

At 31 December 2015 the Group recognized impairment loss of USD 120 million which includes USD 115 million related to the construction in progress and equipment which had not yet been put into operation and USD 5 million related to other non-production assets.

At 31 December 2016, management analysed changes in the economic environment and developments in the metals industry and the Group's operations since 31 December 2015 and considered it necessary to carry out impairment tests only for one cash-generating unit of the Group – Steel (Turkey). For the purpose of impairment testing, MMK groups its assets into three cash generating units, which are equivalent to the operating segments: Steel (Russia), Steel (Turkey) and Coal. No impairment indicators were identified in cash generating units Steel (Russia) and Coal. Based on the impairment analysis performed no impairment or reversal of previously recorded impairment was recognised as at 31 December 2016.

In performing the impairment test, the following specific assumptions were used for cash generating unit Steel segment (Turkey):

- cash flow projections were based on financial forecasts approved by management covering a four year period; forecast sales of steel in 2017 showing a 9.5% increase comparing to the sales in the 2016. In 2018 the growth of sales is forecasted to be 12.8% to 2017. In 2018 the hot-rolled mill is planned to commence operations leading to an expected sales growth in 2019 by 103.9%, in 2020 – by 1.8% and remain stable at the level of sales in the 2020 year and thereafter;

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(In millions of U.S. Dollars, unless otherwise stated)

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

- steel sales prices in 2017 year increase in average by 1% to the level of 2016, increase by 8% in 2018, increase by 3% in 2019 and will increase by 2% on average thereafter;
- forecast operating costs in 2017 are expected to increase by 9% to the level of 2016, to decrease by 22% in 2018, increase by 102% in 2018 and will increase by 1% on average thereafter.

The basic assumptions on post-forecast period:

- the growth rate in the post-forecast period is 2%;
- capital investments are lower than amortization level by 18% in terminal period;
- a pre-tax discount rate was estimated in USD terms based on the weighhfted average cost of capital basis and was 12.4% (post-tax discount rate was 10.7%).

The estimates of future discounted cash flows and the results of the impairment test are particularly sensitive in the following areas:

- reasonably possible change in annual growth rate in the post-forecast period would not result in impairment;
- reasonably possible change in the discount rate would not result in impairment;
- a decrease in sales price above 4% would result in impairment.

16. INVENTORIES

	31 December	
	2016	2015
Raw materials	555	530
Finished goods and goods for resale	287	229
Work in progress	159	108
Deferred drifting costs	84	59
Goods in transit	3	-
Total	1,088	926
Less: Allowance for obsolete and slow-moving items and write down to net realisable value	(21)	(49)
Total inventories, net	1,067	877

The movement in the allowance for obsolete and slow-moving items and write down to net realisable value was as follows:

	2016	2015
Balance at the beginning of the year	49	28
Change in allowance	(24)	2
Write down to net realisable value	-	26
Provision utilised	(7)	-
Effect of translation to presentation currency	3	(7)
Balance at the end of the year	21	49

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(In millions of U.S. Dollars, unless otherwise stated)

17. TRADE AND OTHER RECEIVABLES

	31 December	
	2016	2015
Trade receivables	507	346
Allowance for doubtful receivables	(20)	(17)
Total financial assets within trade and other receivables	487	329
Advances paid	44	15
Prepaid expenses	5	8
Other receivables	22	23
Total trade and other receivables	558	375

Guarantee letters received in relation to trade receivables that are neither past due nor impaired amounted to USD 230 million (31 December 2015: USD 180 million).

As at 31 December 2016 and 31 December 2015 financial assets are presented by:

	Trade receivables	
	2016	2015
Neither past due nor impaired	453	297
Past due but not impaired	34	32
Individually determined to be impaired	20	17
Less impairment provision	(20)	(17)
Total financial assets	487	329

The ageing analysis of past due but not impaired trade receivables from past due date is:

	31 December	
	2016	2015
Less than 30 days	11	9
30-60 days	10	7
60-90 days	2	5
90-120 days	1	1
Over 120 days	10	10
Total	34	32

The management believes that receivables past due will be recovered in full. For the analysis of credit quality of trade receivables refer to Note 27.

The movement in the allowance for doubtful trade receivables was as follows:

	31 December	
	2016	2015
Balance at the beginning of the year	17	26
Increase in allowance	4	3
Provision utilised	(3)	(7)
Effect of translation to presentation currency	2	(5)
Balance at the end of the year	20	17

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(In millions of U.S. Dollars, unless otherwise stated)

18. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

	31 December	
	2016	2015
Non-current		
Available-for-sale investments, at fair value		
Listed equity securities	-	212
Unlisted securities	3	2
Total non-current	3	214
Current		
Financial assets, at fair value through profit or loss		
Trading debt securities	6	4
Share in mutual investment fund	2	1
Bank deposits, USD bearing interest rate of 2.35% (31 December 2015: 1.2 – 3.70%)	5	260
Bank deposits, EUR bearing interest rate of 0.27 – 1.50% (31 December 2015: 0.7 – 2.00%)	37	90
Bank deposits, RUB bearing interest rate of 10.51%	-	4
Total current	50	359

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 31 December 2015, the revaluation reserve arising from unrealized holding gains on these securities was USD 121 million. During 2016 the Group has disposed of listed securities classified as available for sale. In 2016 the fair value gain on these financial assets recognised in investment revaluation reserve in other comprehensive income up to the date of sale was USD 124 million. During 2016 the revaluation reserve for available-for-sale financial assets recycled from other comprehensive income to profit or loss upon disposal was USD 245 million. Net gain on sale of available-for-sale investments was USD 315 million. This result is included in other operating income in the consolidated statement of comprehensive income.

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

No bank deposits are past due or impaired. The analysis of the credit quality of bank deposits are as follows:

	31 December	
	2016	2015
BBB-to BBB+ rated	-	228
BB-to BB+ rated	42	125
Total	42	354

Based on the credit ratings of independent rating agencies Standard&Poors and Fitch ratings.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(In millions of U.S. Dollars, unless otherwise stated)

19. CASH AND CASH EQUIVALENTS

	31 December	
	2016	2015
Cash in banks, RUB	23	18
Cash in banks, EUR	52	31
Cash in banks, USD	55	43
Cash in banks, TRY	-	1
Bank deposits, RUB bearing interest rate of 4.50%-9.50% (31 December 2015: 3.50%-11.30%)	57	66
Bank deposits, USD bearing interest rate of 0.35%-2.00% (31 December 2015: 0.62%-1.20%)	77	199
Bank deposits, TRY bearing interest rate of 9.50%-10%	2	-
Bank deposits, EUR (31 December 2015: 2.60%)	-	11
Total	266	369

No bank balances and deposits are past due or impaired. The analysis of the credit quality of bank balances and deposits are as follows:

	31 December	
	2016	2015
AA- to AA rated	3	4
BBB-to BBB+ rated	103	231
BB-to BB+ rated	156	132
Other	4	2
Total	266	369

Based on the credit ratings of independent rating agencies Standard&Poors and Fitch ratings.

20. SHARE CAPITAL

Common stock

	31 December	
	2016	2015
Authorised 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:

Number of ordinary shares in thousands	Issued	Treasury shares	Net outstanding
Balance at 1 January 2015	11,174,330	(28,168)	11,146,162
Acquisition of treasury shares	-	(967,590)	(967,590)
Re-issuance of treasury shares	-	993,922	993,922
Balance at 31 December 2015	11,174,330	(1,836)	11,172,494
Acquisition of treasury shares	-	(591,983)	(591,983)
Re-issuance of treasury shares	-	593,819	593,819
Balance at 31 December 2016	11,174,330	-	11,174,330

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(In millions of U.S. Dollars, unless otherwise stated)

20. SHARE CAPITAL (CONTINUED)

Treasury stock

At 31 December 2016 the Group did not hold issued common shares of the Parent Company as treasury stock. At 31 December 2015, the Group held 1,836 thousand issued common shares of the Parent Company as treasury stock.

Currency translation reserve

The currency translation reserve comprises all foreign exchange differences arising from the translation of the consolidated financial statements of foreign operations and translation to presentation currency. The reserve is dealt with in accordance with the accounting policies set out in Note 4.

Shareholders' voting rights

The shareholders of fully paid common stock are entitled to one vote per share at the annual general shareholders' meeting of the Parent Company.

Dividends

On 27 May 2016, the Parent Company declared a dividend of RUB 0.31 (USD 0.005) per ordinary share representing a total dividend of USD 53 million, net of dividends in respect of treasury shares. On 30 September 2016, the Parent Company declared a dividend of RUB 0.72 (USD 0.011) per ordinary share representing a total dividend of USD 127 million, net of dividends in respect of treasury shares. Dividends was paid out in 2016.

On 28 September 2015 the Parent Company declared an 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, net of dividends in respect to treasury shares. USD 103 million of dividend was paid out in 2015 and the difference with the declared amount is caused by the change in the exchange rates.

21. LONG-TERM BORROWINGS

	Type of Interest rate	Annual interest rate, actual at 31 December		31 December	31 December
		2016	2015	2016	2015
Secured loans, USD	Floating	-	6%	-	154
Secured loans, EUR	Fixed	-	6%	-	132
Unsecured loans, USD	Floating	4%	4%	2	571
Unsecured loans, RUB	Fixed	10%	-	140	-
Unsecured loans, EUR	Floating	1%	1%	36	97
				178	954

Loans

The company 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 December 2016 and 2015, the total unused element of all credit facilities was USD 1,415 million and USD 1,014 million, respectively.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(In millions of U.S. Dollars, unless otherwise stated)

21. LONG-TERM BORROWINGS (CONTINUED)

The bank loans are subject to certain restrictive covenants, including, but not limited to:

- the ratio of consolidated debt to consolidated EBITDA should not exceed 3.5:1;
- the ratio of consolidated debt to consolidated equity should not exceed 1:1.

At 31 December 2016 and 2015, the Group was in compliance with its debt covenants.

At 31 December 2015, long-term loans were secured by the Group's property, plant and equipment with a net carrying amount of USD 636 million and shares in a subsidiary with a carrying amount of net assets of USD 466 million.

Debt repayment schedule

Year ended 31 December 2016

2017 (presented as current portion of long-term borrowings, Note 25)	295
2018	108
2019	67
2020	1
2021 and thereafter	2
Total	473

Year ended 31 December 2015

2016 (presented as current portion of long-term borrowings, Note 25)	852
2017	681
2018	178
2019	95
2020 and thereafter	-
Total	1,806

22. SITE RESTORATION PROVISION

	31 December	
	2016	2015
Balance at the beginning of the year	134	94
Unwinding of discount rate	15	13
Change in estimates	(2)	64
Disposal of subsidiaries	-	(5)
Provision utilised	(10)	(9)
Effect of translation to presentation currency	28	(23)
Balance at the end of the year	165	134
Included in the consolidated statement of financial position as:		
Current portion of site restoration provision	10	8
Long-term portion of site restoration provision	155	126
Total	165	134

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(In millions of U.S. Dollars, unless otherwise stated)

22. SITE RESTORATION PROVISION (CONTINUED)

According to environmental regulation and Ecological program approved by the management in 2013 the Group recognised a provision for restoration of land and open pit in Magnitogorsk up to 2040. At the moment of provision recognition there were no assets in the consolidated statement of financial position related to this provision due the open pit was depleted long years ago.

In 2016 the management reassessed the cost of restoration of open pit due to changes in discount rate and capacity of open pit and decreased relative provision by USD 5 million accordingly (2015: USD 59 million) and recognized it as part of other expenses. Provision for restoration and closing mine of mine shaft was increased by USD 3 million (2015: USD 5 million) and capitalized to the costs of related assets. The Group used discount rate of 8,7% (2015: 9,72%) to calculate provision.

23. DEFINED CONTRIBUTION PLANS

Contributions to the Russian Federation State Pension Fund amounted to USD 104 million and USD 112 million for the years ended 31 December 2016 and 2015, respectively.

24. TRADE AND OTHER PAYABLES

	31 December	
	2016	2015
Trade accounts payable	416	339
Dividends payable	1	1
Total financial payables within trade and other payables	417	340
Advances from customers	154	87
Other taxes payable	63	35
Salaries payable	57	46
Other current liabilities	19	8
Total trade and other payables	710	516

The maturity profile of the Group's financial payables within trade and other payables was as follows:

	31 December	
	2016	2015
Due in:		
1 month or less	351	275
1-3 months	46	43
3 months to 1 year	20	22
Total	417	340

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(In millions of U.S. Dollars, unless otherwise stated)

25. SHORT-TERM BORROWINGS AND CURRENT PORTION OF LONG-TERM BORROWINGS

	Type of Interest rate	Annual interest rate, actual at 31 December		31 December	
		2016	2015	2016	2015
Short-term borrowings:					
Secured loans, USD	Floating	2%	1%	1	14
Secured loans, EUR	Floating	-	1%	-	3
Unsecured loans, USD	Fixed	-	1%	-	24
Unsecured loans, EUR	Fixed	1%	-	24	-
				25	41
Current portion of long-term borrowings:					
Unsecured listed bonds, RUB	Fixed	-	9%	-	71
Secured loans, USD	Floating	-	6%	-	63
Secured loans, USD	Fixed	-	4%	-	36
Unsecured loans, EUR	Floating	1%	1%	63	66
Secured loans, EUR	Fixed	-	6%	-	63
Unsecured loans, USD	Floating	3%	3%	207	327
Unsecured loans, RUB	Fixed	10%	10%	25	215
Unsecured loans, USD	Fixed	-	-	-	-
Unsecured loans, EUR	Fixed	-	3%	-	11
				295	852
Total				320	893

The weighted average interest rates of short-term borrowings at 31 December 2016 and 2015 were as follows:

	31 December	
	2016	2015
RUB-denominated	10%	10%
USD-denominated	3%	4%
EUR-denominated	1%	3%

At 31 December 2016 and 2015, short-term borrowings were secured by inventories of USD 1 million, and USD 16 million, respectively.

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

	31 December	
	2016	2015
Due in:		
1 month	3	97
1-3 months	72	225
3 months to 1 year	245	571
Total	320	893

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(In millions of U.S. Dollars, unless otherwise stated)

26. 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 arms length basis.

Details of transactions with and balances between the Group and related parties at 31 December 2016 and 2015 and for the years ended 31 December 2016 and 2015 are disclosed below.

a) Transactions with associates of the Group

	2016	2015
Purchases	102	92

	31 December	
Balances outstanding	2016	2015
Trade and other payables	3	1

b) Transactions with other related parties

	2016	2015
Revenue	345	266
Purchases	12	14
Bank charges	3	2

	31 December	
Balances outstanding	2016	2015
Cash and cash equivalents	48	69
Bank deposits	16	-
Trade and other receivables	18	21
Trade and other payables	1	1

Other related parties include entities under common control with the Group (see Note 1).

The amounts outstanding are unsecured and will be settled in cash.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(In millions of U.S. Dollars, unless otherwise stated)

27. RISK MANAGEMENT ACTIVITIES

Remuneration of the Group's key management personnel

Key management personnel of the Group receive only short-term employment benefits. For the years ended 31 December 2016 and 2015, key management personnel received as compensation USD 9 million and USD 12 million, respectively.

The main risks inherent to the Group's operations are those related to liquidity risk, credit risk exposures, market movements in interest rates, equity investment prices and fluctuations in foreign exchange rates. A description of the Group's risks and associated management policies in relation to these risks are detailed below.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall due.

The Group's liquidity position is carefully monitored and managed. The Group has in place a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations.

Presented below is the maturity profile of the Group's borrowings (the maturity profiles for financial liabilities within trade and other payables are presented in Notes 24) based on contractual undiscounted payments, including interest:

2016	Weighted average effective interest rate, %	Total	Due within one month	Due from one to three months	Due from three to twelve months	Due in one year to later
Fixed rate borrowings						
Principal	9%	189	-	-	34	155
Interest		32	1	3	12	16
		221	1	3	46	171
Floating rate borrowings						
Principal	2%	314	2	68	204	40
Interest		4	1	1	2	-
		318	3	69	206	40
Total fixed and floating rate borrowings		539	4	72	252	211

2015	Weighted average effective interest rate, %	Total	Due within one month	Due from one to three months	Due from three to twelve months	Due in one year to later
Fixed rate borrowings						
Principal	8%	561	50	75	286	150
Interest		46	9	6	18	13
		607	59	81	304	163
Floating rate borrowings						
Principal	4%	1,300	31	141	275	853
Interest		82	7	9	27	39
		1,382	38	150	302	892
Total fixed and floating rate borrowings		1,989	97	231	606	1,055

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(In millions of U.S. Dollars, unless otherwise stated)

27. RISK MANAGEMENT ACTIVITIES (CONTINUED)

Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk arises from cash and cash equivalents and deposits with banks as well as credit exposures to customers, including outstanding uncollateralised trade and other receivables.

Prior to acceptance of a new customer, the Group assesses the customer's credit quality and defines credit limits. Credit limits attributable to customers are regularly reviewed, at a minimum annually.

The Group's maximum exposure to credit risk is represented by the carrying amount of financial assets recorded in the consolidated financial statements, net of any impairment losses, and the amount of financial guarantees for trade receivables obtained by certain related and third parties of the Group.

At 31 December 2016 and 2015, the Group's maximum exposure to credit risk for trade and other receivables including trade and other receivables from related parties by type of customers was as follows:

	31 December	
	2016	2015
Automobile producers	71	33
Traders	53	48
Tube plants	138	56
Other industries	225	192
Total	487	329

Foreign currency risk

Foreign currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed.

The objective of the Group's foreign exchange risk management is to minimise the volatility of the Group's cash flows arising from fluctuations in foreign exchange rates. Management focuses on assessing the Group's future cash flows in foreign currencies and managing the gaps arising between inflows and outflows. Currently, the Group does not use hedging instruments to manage exchange rate exposures.

At 31 December 2016 and 2015, the carrying amounts of the Group's monetary assets and liabilities denominated in foreign currencies other than its functional currency were as follows:

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(In millions of U.S. Dollars, unless otherwise stated)

27. RISK MANAGEMENT ACTIVITIES (CONTINUED)

	31 December 2016		31 December 2015	
	EUR	USD	EUR	USD
Assets				
Cash and cash equivalents	51	122	42	210
Deposites	37	5	90	260
Trade receivables	47	84	26	68
Total assets	135	211	158	538
Liabilities				
Trade payables	(95)	(66)	(47)	(102)
Borrowings	(130)	(209)	(373)	(898)
Total liabilities	(225)	(275)	(420)	(1,000)
Total net position	(90)	(64)	(262)	(462)

The table below details the Group's sensitivity to devaluation of the RUB against USD and EUR by 20% (2015: 20%), which management believes is an appropriate measure in the current market conditions and which would impact its operations.

	EUR impact		USD impact	
	2016	2015	2016	2015
Loss	(18)	(52)	(13)	(92)
Capital	(18)	(52)	(13)	(92)

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments.

The table below details the Group's annualised sensitivity to change of floating rates (LIBOR, EURIBOR, Mosprime) by 2% (2015: 2%), which management believes is an appropriate measure in the current market conditions and which would impact its operations. The analysis was applied to borrowings based on the assumptions that amount of liability outstanding at the date of statement of financial position was outstanding for the whole annual period.

	31 December	
	2016	2015
Profit or loss	6	26
Capital	6	26

Equity and debt investment price risk

Investment price risk arising from holding equity and debt investments is not material for the Group.

28. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of debt and equity.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(In millions of U.S. Dollars, unless otherwise stated)

28. CAPITAL MANAGEMENT (CONTINUED)

As at 31 December 2016 the capital structure of the Group consists of debt in the amount of USD 500 million (31 December 2015: USD 1,847 million), share capital of USD 386 million (31 December 2015: USD 386 million) and retained earnings of USD 8,703 million (USD 7,772 million).

The management of the Group reviews the Group's capital structure on an annual basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital. Based on their recommendations, the Group balances its overall capital structure through the payment of dividends as well as the issue of new debt or the redemption of existing debt. Additionally the Group monitors the adequacy of its debt levels using the debt to EBITDA ratio and debt to equity. Details of ratios are disclosed in Note 21.

There were no significant changes in the Group's approach to capital management during the year ended 31 December 2016 in comparison to the prior period.

29. COMMITMENTS AND CONTINGENCIES

Commitments for expenditure

In the course of carrying out its operations and other activities the Group enters into various agreements which require the Group to invest in or provide financing to specific projects or undertakings.

In the opinion of the Group's management, these commitments are entered into under standard terms, which are representative of each project's feasibility and should not result in unreasonable losses to the Group.

At 31 December 2016, the Group had purchase agreements of approximately USD 136 million to acquire property, plant and equipment in 2017 (at 31 December 2015 – USD 130 million).

At 31 December 2016, the Group had purchase agreements of approximately USD 5,863 million to acquire in future periods through 2015-2022 coking coal, zinc, iron ore and natural gas (at 31 December 2015 – USD 3,126 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.

In the past, the Group transferred social assets to local municipal authorities. The Group's management expects that the Group will continue to partly fund these social operations for the foreseeable future. These costs are recognised in the consolidated statement of comprehensive income as incurred (Note 12).

Operating leases

The land in the Russian Federation on which the Group's production facilities are located is owned by the State. The Group pays land tax based on the total area and the location of the land occupied. The amount of land tax for the years ended 31 December 2016 and 2015 was approximately USD 7 million and USD 6 million, respectively.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(In millions of U.S. Dollars, unless otherwise stated)

29. COMMITMENTS AND CONTINGENCIES (CONTINUED)

The Group leases land through operating lease agreements, which expire in various years minimum lease payments due under non-cancellable operating lease agreements at 31 December were as follows:

	2015	2015
Due in one year	7	5
Due in the second year	5	5
Due thereafter	66	68
	78	78

Letters of guarantee

At 31 December 2016 the Group had letters of guarantee obtained from banks and given to suppliers amounted to USD 121 million (31 December 2015: no).

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 continuing 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.

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 incompliant 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.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(In millions of U.S. Dollars, unless otherwise stated)

29. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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) but has specific characteristics. 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.

Tax liabilities arising from transactions between companies within the Group 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.

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). The 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. Refer to Note 14.

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.

30. 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.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(In millions of U.S. Dollars, unless otherwise stated)

30. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The carrying amounts of financial instruments such as cash and cash equivalents, bank deposits, trade and other receivables, short-term and long-term borrowings with fixed and floating rates (except for listed bonds), trade and other payables are reasonable approximation their fair values as at 31 December 2016 and 31 December 2015 (Level 3 of fair value hierarchy). The level three debt instruments are valued at the net present value of estimated future cash flows. The Group also considers liquidity, credit and market risk factors, and adjusts the valuation model as deemed necessary.

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.

The following table presents the fair value of financial instruments (carried at fair value) 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.

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

	Level 1	Level 2	Level 3	Total
31 December 2015				
Available-for-sale investments, listed equity securities	212	-	-	212
Available-for-sale investments, unlisted equity securities	-	-	2	2
Trading debt securities	4	-	-	4
Share in mutual investment fund	1	-	-	1
Total assets	217	-	2	219
Listed bonds	68	-	-	68
Total liabilities	68	-	-	68

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(In millions of U.S. Dollars, unless otherwise stated)

31. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2016 were approved by the Group's management and authorised for issue on 13 February 2017.