

Open Joint Stock Company Magnitogorsk Iron & Steel Works and Subsidiaries

**Unaudited Condensed Consolidated Interim
Financial Statements**

For the Three Months Ended 31 March 2014

OPEN JOINT STOCK COMPANY MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

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

**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND
APPROVAL OF THE UNAUDITED CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2014**

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

Management is responsible for the preparation of the unaudited condensed consolidated interim financial statements as at 31 March 2014 and for the three-month period then ended, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

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


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

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group, and which enable them to ensure that the 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 unaudited condensed consolidated interim financial statements for the three months ended 31 March 2014 were approved on 18 June 2014 by:


S.A. Laskov
Acting General Director
18 June 2014
Magnitogorsk, Russia


M. A. Zhemchueva
Chief Accountant



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Auditors' Report on Review of Condensed Consolidated Interim Financial Statements

To the Shareholders
OJSC Magnitogorsk Iron & Steel Works

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of OJSC Magnitogorsk Iron & Steel Works (the "Company") and its subsidiaries (the "Group") as at 31 March 2014, and the related condensed consolidated statements of comprehensive income, changes in equity and cash flows for the three-month period then ended, and notes to the interim financial statements (the "condensed consolidated interim financial statements"). Management is responsible for the preparation and presentation of this condensed consolidated interim financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements as at 31 March 2014 and for the three-month period then ended are not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

Shvetsov A.V.,
General Director

ZAO KPMG

18 June 2014

Moscow, Russian Federation

Entity: Open Joint Stock Company Magnitogorsk Iron and Steel Works.

Registered by Administration of Magnitogorsk city, Chelyabinsk region on 17 October 1992, Registration No. 186 series GA № 002.

Entered in the Unified State Register of Legal Entities on 1 July 2002 by Department of Ministry of Taxes and Duties on Orjonikidze district of Magnitogorsk, Chelyabinsk region, Registration No. 1027402166835, Certificate series 74 No. 001284258.

93, Kirova street, Magnitogorsk, Chelyabinsk region, Russia, 455000.

Practitioner: ZAO KPMG, a company incorporated under the Laws of the Russian Federation, a part of the KPMG Europe LLP group, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

Entered in the Unified State Register of Legal Entities on 13 August 2002 by the Moscow Inter-Regional Tax Inspectorate No.39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

Member of the Non-commercial Partnership "Chamber of Auditors of Russia". The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.



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

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED 31 MARCH 2014
(In millions of U.S. Dollars, except per share data)**

	Notes	Three months ended 31 March	
		2014	2013
REVENUE	4	1,879	2,283
COST OF SALES		(1,529)	(1,968)
GROSS PROFIT		350	315
General and administrative expenses	6	(110)	(133)
Selling and distribution expenses		(144)	(172)
Other operating (expenses)/income, net	7	(18)	116
OPERATING PROFIT		78	126
Share of results of associates		-	1
Finance income		1	3
Finance costs		(51)	(49)
Impairment losses on non-current assets	8	-	(50)
Foreign exchange (loss)/gain, net		(118)	4
Change in net assets attributable to non-controlling interest		-	1
Other income		-	1
Other expenses		(24)	(44)
LOSS BEFORE INCOME TAX		(114)	(7)
INCOME TAX		35	26
(LOSS)/PROFIT FOR THE PERIOD		(79)	19
OTHER COMPREHENSIVE (LOSSES)/INCOME			
<i>Items, that will be reclassified subsequently to profit or loss</i>			
Net change in fair value of available-for-sale investments		(45)	(89)
Translation of foreign operations		185	13
<i>Items, that will not be reclassified subsequently to profit or loss</i>			
Actuarial gains		2	-
Effect of translation to presentation currency		(643)	(228)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX		(501)	(304)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(580)	(285)
(Loss)/profit attributable to:			
Shareholders of the Parent Company		(78)	29
Non-controlling interests		(1)	(10)
		(79)	19
Total comprehensive loss attributable to:			
Shareholders of the Parent Company		(579)	(275)
Non-controlling interests		(1)	(10)
		(580)	(285)
BASIC AND DILUTED (LOSSES)/EARNINGS PER SHARE (U.S. Dollars)		(0.007)	0.003
Weighted average number of ordinary shares outstanding (in thousands)		11,167,065	11,006,851

The notes on pages 8 to 20 are an integral part of these unaudited condensed consolidated interim financial statements.

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

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 MARCH 2014
(In millions of U.S. Dollars)**

	Notes	31 March 2014	31 December 2013
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	8	7,856	8,618
Intangible assets		36	39
Investments in securities and other financial assets	9	779	830
Investments in associates		2	2
Deferred tax assets		171	171
Other non-current assets		11	12
Total non-current assets		8,855	9,672
CURRENT ASSETS:			
Inventories		1,292	1,478
Trade and other receivables		754	630
Investments in securities and other financial assets	9	139	17
Income tax receivable		6	9
Value added tax recoverable		141	173
Cash and cash equivalents	10	147	154
Assets classified as held for sale		14	15
Total current assets		2,493	2,476
TOTAL ASSETS		11,348	12,148
EQUITY AND LIABILITIES			
EQUITY:			
Share capital		386	386
Treasury shares		(24)	(30)
Share premium		1,016	1,020
Investments revaluation reserve		573	618
Translation reserve		(3,236)	(2,778)
Retained earnings		7,536	7,612
Equity attributable to shareholders of the Parent Company		6,251	6,828
Non-controlling interests		32	33
Total equity		6,283	6,861
NON-CURRENT LIABILITIES:			
Long-term borrowings	11	2,161	2,163
Retirement benefit obligations		21	27
Site restoration provision		167	181
Deferred tax liabilities		757	851
Total non-current liabilities		3,106	3,222
CURRENT LIABILITIES:			
Short-term borrowings and current portion of long-term borrowings	12	1,012	1,010
Current portion of retirement benefit obligations		4	4
Trade and other payables		931	1,037
Current portion of site restoration provision		11	11
Net assets attributable to minority participants		1	3
Total current liabilities		1,959	2,065
TOTAL EQUITY AND LIABILITIES		11,348	12,148

The notes on pages 8 to 20 are an integral part of these unaudited condensed consolidated interim financial statements.

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

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE THREE MONTHS ENDED 31 MARCH 2014
(In millions of U.S. Dollars)

	Attributable to shareholders of the Parent Company						Non-controlling interests	Total equity	
	Share capital	Treasury shares	Share premium	Investments revaluation reserve	Translation reserve	Retained earnings			Total
BALANCE AT 1 JANUARY 2013	386	(175)	1,108	596	(2,213)	9,963	9,665	155	9,820
Profit for the period	-	-	-	-	-	29	29	(10)	19
Other comprehensive losses for the period, net of tax	-	-	-	(89)	(215)	-	(304)	-	(304)
Total comprehensive losses for the period	-	-	-	(89)	(215)	29	(275)	(10)	(285)
Purchase of treasury shares	-	(1)	-	-	-	-	(1)	-	(1)
Issuance of ordinary shares from treasury shares	-	4	(3)	-	-	-	1	-	1
BALANCE AT 31 MARCH 2013	386	(172)	1,105	507	(2,428)	9,992	9,390	145	9,535
BALANCE AT 1 JANUARY 2014	386	(30)	1,020	618	(2,778)	7,612	6,828	33	6,861
Loss for the period	-	-	-	-	-	(78)	(78)	(1)	(79)
Other comprehensive losses for the period, net of tax	-	-	-	(45)	(458)	2	(501)	-	(501)
Total comprehensive losses for the period	-	-	-	(45)	(458)	(76)	(579)	(1)	(580)
Issuance of ordinary shares from treasury shares	-	6	(4)	-	-	-	2	-	2
BALANCE AT 31 MARCH 2014	386	(24)	1,016	573	(3,236)	7,536	6,251	32	6,283

The notes on pages 8 to 20 are an integral part of these unaudited condensed consolidated interim financial statements.

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

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED 31 MARCH 2014
(In millions of U.S. Dollars)**

	Three months ended 31 March	
	2014	2013
OPERATING ACTIVITIES:		
(Loss)/profit for the period	(79)	19
Adjustments to profit for the period:		
Income tax	(35)	(26)
Depreciation and amortization	184	246
Impairment losses on non-current assets	8	50
Impairment losses on investments in securities	-	2
Finance costs	51	49
Loss on disposal of property, plant and equipment	32	8
Change in allowance for doubtful accounts receivable	(2)	4
Loss on revaluation of trading securities	-	2
Inventory allowance and impairment/(reversal of impairment)	(1)	2
Finance income	(1)	(3)
Foreign exchange loss/(gain), net	118	(4)
Income from available-for-sale investments	(14)	-
Share of results of associates	-	(1)
Gain on disposal of associates	7	(125)
Change in net assets attributable to non-controlling interest	-	(1)
	253	222
Movements in working capital		
Increase in trade and other receivables	(154)	(142)
Decrease in value added tax recoverable	22	1
Decrease in inventories	92	287
Decrease in investments classified as trading securities	5	2
Increase/(decrease) in trade and other payables	1	(63)
Cash generated from operations	219	307
Interest paid	(56)	(66)
Income tax received	1	30
Net cash from operating activities	164	271
INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(131)	(131)
Purchase of intangible assets	(2)	-
Proceeds from sale of property, plant and equipment	7	-
Proceeds from sale of associates	-	122
Loans repaid	6	-
Acquisition of associates	-	(1)
Interest received	1	5
Dividends received from associates	-	5
Bank deposits	(129)	-
Changes in letters of credit, net	-	(4)
Net cash used in investing activities	(248)	(4)

The notes on pages 8 to 20 are an integral part of these unaudited condensed consolidated interim financial statements.

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

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED 31 MARCH 2014 (CONTINUED)**

(In millions of U.S. Dollars)

	Three months ended 31 March	
	2014	2013
FINANCING ACTIVITIES:		
Proceeds from borrowings	609	222
Repayments of borrowings	(500)	(396)
Purchase of treasury shares	-	(1)
Proceeds from issuance of ordinary shares from treasury shares	2	1
Principal repayments of obligations under finance leases	-	(1)
Dividends paid to:		
- equity holders of the Parent Company	-	(96)
Net cash generated from/(used in) financing activities	111	(271)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		
	27	(4)
CASH AND CASH EQUIVALENTS, beginning of period	154	362
Effect of translation to presentation currency and exchange rate changes on the balance of cash held in foreign currencies	(34)	(11)
CASH AND CASH EQUIVALENTS, end of period	147	347

The notes on pages 8 to 20 are an integral part of these unaudited condensed consolidated interim financial statements.

OPEN JOINT STOCK COMPANY MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2014 (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 as defined by the Civil Code of the Russian Federation. The Parent Company was established as a state owned enterprise in 1932. It was incorporated as an open joint stock company on 17 October 1992 as part of and in accordance with the Russian Federation privatization program.

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

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

As at 31 March 2014 the Parent Company’s major shareholders were Mintha Holding Limited with a 46.3% ownership interest and Fulnek Enterprises Limited with a 41.0% ownership interest (31 December 2013: 46.3% and 41.0%, respectively.)

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

The effective and nominal ownership holdings of the Group’s principal subsidiaries at 31 March 2014 did not change from 31 December 2013.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These unaudited condensed consolidated interim financial statements for the three months ended 31 March 2014 have been prepared in accordance with IAS 34 “Interim financial reporting” (“IAS 34”). The statement of financial position at 31 December 2013 has been derived from the statement of financial position included in the Group’s financial statements at 31 December 2013. These unaudited condensed consolidated interim financial statements do not include all of the information and disclosure required in the annual consolidated financial statements and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2013, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The same accounting policies and methods of computation have been followed in these unaudited condensed consolidated interim financial statements as were applied in the preparation of the Group’s financial statements for the year ended 31 December 2013, except for changes made due to adoption of new Standards and Interpretations becoming effective from 1 January 2014.

Changes in accounting policies

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing these condensed consolidated interim financial statements, the Group has adopted these new and revised IFRSs where applicable:

Amendments to IFRS 10, IFRS 12 and IAS 27: Investment entities;

Amendments to IAS 32, Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities;

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MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES**

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2014
(In millions of U.S. Dollars, unless otherwise stated)**

Amendments to IAS 39, Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting; and

IFRIC 21, Levies.

However these new Standards and Interpretations do not have any significant impact on the Group’s financial position or performance.

Estimates

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

In preparing these unaudited condensed consolidated interim financial statements, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2013.

Basis of preparation

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

3. SEASONAL OPERATIONS

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

4. REVENUE

By product	Three months ended 31 March	
	2014	2013
Hot rolled steel	791	1,098
Galvanized steel	233	223
Cold rolled steel	205	191
Long steel products	191	221
Galvanized steel with polymeric coating	132	168
Wire, sling, bracing	40	48
Hardware products	34	44
Tin plated steel	36	41
Coking production	32	39
Band	30	29
Formed section	25	24
Tubes	9	16
Coal	4	14
Scrap	2	8
Slabs	3	-
Others	112	119
Total	1,879	2,283

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

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2014
(In millions of U.S. Dollars, unless otherwise stated)**

By customer destination	Three months ended 31 March	
	2014	2013
Russian Federation and the CIS	77%	74%
Middle East	11%	15%
Europe	9%	6%
North America	2%	-
Asia	1%	4%
Africa	-	1%
Total	100%	100%

5. SEGMENT INFORMATION

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

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

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

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

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

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

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

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2014
(In millions of U.S. Dollars, unless otherwise stated)**

The following table presents measures of segment results for the three months ended 31 March 2014 and 2013:

	Three months ended 31 March									
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	Steel		Steel (Turkey)		Coal mining		Eliminations		Total	
Revenue										
Sales to external customers	1,741	2,118	134	151	4	14	-	-	1,879	2,283
Inter-segment sales	33	44	-	24	65	74	(98)	(142)	-	-
Total revenue	1,774	2,162	134	175	69	88	(98)	(142)	1,879	2,283
Segment EBITDA	267	247	13	2	15	6	(1)	126	294	381
Depreciation and amortisation	(162)	(205)	(16)	(26)	(6)	(15)	-	-	(184)	(246)
Loss on disposal of property, plant and equipment	(30)	(8)	-	-	(2)	-	-	-	(32)	(8)
Share of results of associates	-	(1)	-	-	-	-	-	-	-	(1)
Operating profit/(loss) per IFRS financial statements	75	33	(3)	(24)	7	(9)	(1)	126	78	126

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

At 31 March 2014 and 31 December 2013, the segments' total assets and liabilities were reconciled to total assets and liabilities as follows:

	31 March 2014				
	Steel	Steel (Turkey)	Coal mining	Eliminations	Total
Total assets	12,069	1,244	541	(2,506)	11,348
Total liabilities	4,258	743	291	(227)	5,065
	31 December 2013				
	Steel	Steel (Turkey)	Coal mining	Eliminations	Total
Total assets	12,810	1,332	593	(2,587)	12,148
Total liabilities	4,398	860	321	(292)	5,287

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

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2014
(In millions of U.S. Dollars, unless otherwise stated)**

6. GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended 31 March	
	2014	2013
Payroll and social taxes	60	69
Taxes other than income tax	21	32
Professional services	11	14
Depreciation and amortisation	5	4
Insurance	4	5
Materials	2	2
Research and development costs	1	1
Other	6	6
Total	110	133

7. OTHER OPERATING (INCOME)/EXPENSES, NET

	Three months ended 31 March	
	2014	2013
Loss on disposal of property, plant and equipment, net	32	8
Provision/(reversal of provision) for doubtful debtors	5	(1)
Gain on disposal of associates (a)	-	(125)
Net loss on trading securities revaluation	-	2
Income from available-for-sale investments	(14)	-
Net gains on sale of other assets	(3)	(2)
Other operating (losses)/gains, net	(2)	2
Total	18	(116)

- (a) On 12 February 2013 the Group disposed of its investment in LLC MMK Trans. Final consideration was agreed in July 2013 based on certain ratios derived from the approved financial statements of LLC MMK Trans for the year ended 31 December 2012 prepared in accordance with IFRS and amounted to USD 131 million (at 31 March 2013: USD 125 million). As a part of this deal a five-year shipping contract between the parties to transport at least 70% of cargoes of the Group was signed.

**OPEN JOINT STOCK COMPANY
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**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2014
(In millions of U.S. Dollars, unless otherwise stated)**

8. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Machinery and equipment	Trans- portation equipment	Fixtures and fittings	Mining assets	Construction -in-progress	Total
<i>Gross book value</i>							
At 1 January 2013	4,673	9,835	298	253	323	893	16,275
Additions	12	38	1	-	-	52	103
Transfers	13	19	1	1	-	(34)	-
Disposals	(1)	(38)	(1)	-	-	-	(40)
Reclassification to other non-current assets	(8)	-	-	-	-	-	(8)
Effect of translation to presentation currency	(92)	(205)	(6)	(5)	(8)	(21)	(337)
At 31 March 2013	4,597	9,649	293	249	315	890	15,993
<i>Depreciation</i>							
At 1 January 2013	(936)	(3,190)	(148)	(92)	(76)	(2)	(4,444)
Charge for the period	(38)	(194)	(7)	(7)	(5)	-	(251)
Disposals	-	25	1	-	-	-	26
Impairment loss	-	-	-	-	(50)	-	(50)
Effect of translation to presentation currency	22	71	4	3	2	-	102
At 31 March 2013	(952)	(3,288)	(150)	(96)	(129)	(2)	(4,617)
<i>Carrying amount</i>							
At 01 January 2013	3,737	6,645	150	161	247	891	11,831
At 31 March 2013	3,645	6,361	143	153	186	888	11,376
<i>Gross book value</i>							
At 1 January 2014	4,529	9,446	283	250	256	772	15,536
Additions	-	57	1	1	-	58	117
Transfers	(13)	51	-	-	-	(38)	-
Disposals	(15)	(92)	(3)	(1)	-	(3)	(114)
Effect of translation to presentation currency	(323)	(704)	(23)	(20)	(21)	(65)	(1,156)
At 31 March 2014	4,178	8,758	258	230	235	724	14,383
<i>Depreciation</i>							
At 1 January 2014	(1,751)	(4,598)	(176)	(127)	(178)	(88)	(6,918)
Charge for the period	(26)	(148)	(5)	(5)	(2)	-	(186)
Disposals	8	62	2	1	-	-	73
Effect of translation to presentation currency	122	339	13	9	14	7	504
At 31 March 2014	(1,647)	(4,345)	(166)	(122)	(166)	(81)	(6,527)
<i>Carrying amount</i>							
At 1 January 2014	2,778	4,848	107	123	78	684	8,618
At 31 March 2014	2,531	4,413	92	108	69	643	7,856
<i>Carrying amount had no impairment taken place</i>							
At 1 January 2014	3,515	5,880	127	139	180	771	10,612
At 31 March 2014	3,214	5,353	110	123	158	722	9,680

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During the three months ended 31 March 2014 the Group capitalized borrowing costs of USD nil million (31 March 2013: USD 1 million).

At 31 March 2014 and 31 December 2013, property, plant and equipment with carrying amounts of USD 747 million and USD 761 million, respectively, was pledged as security for certain long-term and short-term borrowings (Notes 11 and 12).

Management identified specific assets that are no longer in use and therefore are not considered to be recoverable amounting to USD nil million and USD 50 million at 31 March 2014 and 2013, respectively. These assets have been impaired in full. No further impairment was identified by management.

Capital commitments are disclosed in Note 14.

9. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

	<u>31 March 2014</u>	<u>31 December 2013</u>
Non-current		
Available-for-sale investments, at fair value		
Listed equity securities	756	801
Unlisted securities	9	9
Loans and receivables, at amortised cost		
Long-term loans	<u>14</u>	<u>20</u>
Total non-current	<u>779</u>	<u>830</u>
Current		
Held-to-maturity investments, at amortized cost		
Promissory notes receivable, bearing interest of 2.8% per annum	-	1
Financial assets, at fair value through profit or loss		
Trading equity securities	3	7
Trading debt securities	4	5
Share in mutual investment fund	3	4
Bank deposits, RUB bearing interest rate of 8.7 - 9.3%	<u>129</u>	<u>-</u>
Total current	<u>139</u>	<u>17</u>

Non-current listed equity securities classified as available for sale represent investments in equity securities of a foreign entity, where the Group has less than a 20% equity interest and is unable to exercise significant influence. At 31 March 2014 and 31 December 2013, the revaluation reserve arising from unrealized holding gains on these securities was USD 573 million and USD 618 million, respectively.

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

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

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Net loss on revaluation of trading securities for the three months ended 31 March 2014 and 2013 was USD nil million and USD (2) million, respectively. These results are included in other operating income in the unaudited condensed consolidated statement of comprehensive income.

10. CASH AND CASH EQUIVALENTS

	<u>31 March 2014</u>	<u>31 December 2013</u>
Cash in banks, USD	25	36
Cash in banks, RUB	23	15
Cash in banks, EUR	48	5
Bank deposits, USD bearing interest rate of 0.25%-2.03%	38	38
Bank deposits, EUR bearing interest rate of 0.5%	-	41
Bank deposits, TRY bearing interest rate of 0.25%-3.05%	2	4
Bank deposits, RUB bearing interest rate of 8.05% (31 December 2013: 7.75%)	11	15
Total	<u>147</u>	<u>154</u>

11. LONG-TERM BORROWINGS

	Type of interest rate	Annual interest rate, actual at		31 March 2014	31 December 2013
		31 March 2014	31 December 2013		
Unsecured listed bonds, RUB	Fixed	9%	9%	263	287
Secured loans, USD	Floating	5%	5%	228	257
Secured loans, EUR	Fixed	6%	6%	243	275
Unsecured loans, USD	Floating	3%	3%	669	796
Unsecured loans, USD	Fixed	5%	5%	50	50
Unsecured loans, RUB	Fixed	9%	8%	465	212
Unsecured loans, EUR	Fixed	4%	4%	1	1
Unsecured loans, EUR	Floating	2%	2%	242	285
Total				<u>2,161</u>	<u>2,163</u>

The information provided below refers to total long-term borrowings, including current portion, identified in Note 12.

Bonds

On 27 February 2014, MMK redeemed in full unsecured listed bonds with the principal amount of RUB 5,000 million (USD 140 million at the date of redemption of the bonds).

Loans

The Group has various borrowing arrangements in RUB, USD and EUR denominations with various lenders. Those borrowings consist of unsecured and secured loans and credit facilities. At 31 March 2014 and 31 December 2013, the total unused element of all credit facilities was USD 1,687 million and USD 1,819 million, respectively.

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At 31 March 2014 and 31 December 2013, long-term loans were secured by the Group's property, plant and equipment with a net carrying amount of USD 747 million and USD 761 million, respectively, and shares in a subsidiary with a carrying amount of net assets of USD 501 million and USD 472 million, respectively.

Debt repayment schedule

Year ending 31 March,	
2015 (presented as current portion of long-term borrowings, Note 12)	797
2016	946
2017	807
2018	275
2019 and thereafter	133
Total	2,958

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

	Type of interest rate	Annual interest rate, actual at		31 March 2014	31 December 2013
		31 March 2014	31 December 2013		
Short-term borrowings:					
Secured loans, USD	Floating	2%	2%	27	23
Secured loans, EUR	Floating	2%	1%	11	14
Unsecured loans, USD	Floating	2%	2%	55	55
Unsecured loans, RUB	Fixed	8%	-	122	-
				<u>215</u>	<u>92</u>
Current portion of long-term borrowings:					
Unsecured listed bonds, RUB	Fixed	8%	8%	307	495
Secured loans, USD	Floating	5%	5%	86	130
Secured loans, EUR	Fixed	6%	6%	71	74
Unsecured loans, USD	Floating	2%	1%	182	89
Unsecured loans, EUR	Floating	2%	2%	88	89
Unsecured loans, RUB	Fixed	9%	8%	40	18
Unsecured loans, USD	Fixed	5%	5%	20	20
Unsecured loans, EUR	Fixed	4%	4%	3	3
				<u>797</u>	<u>918</u>
Total				<u>1,012</u>	<u>1,010</u>

The weighted average interest rates of short-term borrowings at 31 March 2014 and 31 December 2013 were as follows:

	31 March 2014	31 December 2013
RUB-denominated	8%	8%
USD-denominated	3%	3%
EUR-denominated	3%	3%

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At 31 March 2014 and 31 December 2013, short-term borrowings were secured by inventories and/or trade receivables of USD 39 million and USD 36 million, respectively.

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

	<u>31 March 2014</u>	<u>31 December 2013</u>
Due in:		
1 month	56	126
1-3 months	86	293
3 months to 1 year	<u>870</u>	<u>591</u>
Total	<u>1,012</u>	<u>1,010</u>

13. RELATED PARTIES

Transactions and balances outstanding with related parties

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

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

Details of transactions with and balances between the Group and related parties at 31 March 2014 and 31 December 2013 and for the three months ended 31 March 2014 and 2013 are disclosed below.

a) Transactions with associates of the Group

	<u>Three months ended 31 March</u>	
	<u>2014</u>	<u>2013</u>
<i>Purchases</i>	44	37
	<u>31 March 2014</u>	<u>31 December 2013</u>
Balances outstanding		
<i>Accounts payable</i>	4	4

b) Transactions with entities under common control

	<u>Three months ended 31 March</u>	
	<u>2014</u>	<u>2013</u>
<i>Finance income</i>	-	1

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c) Transactions with other related parties

	Three months ended 31 March	
	2014	2013
<i>Revenue</i>	56	-
<i>Purchases</i>	-	29
<i>Bank charges</i>	1	1
	31 March	31 December
	2014	2013
Balances outstanding		
<i>Cash and cash equivalents</i>	73	34
<i>Accounts receivable</i>	21	14
<i>Advances received</i>	-	3

Remuneration of the Group's key management personnel

Key management personnel of the Group receive only short-term employment benefits. For the three months ended 31 March 2014 and 2013, key management personnel received as compensation USD 3 million and USD 8 million, respectively.

14. COMMITMENTS AND CONTINGENCIES

Capital commitments

At 31 March 2014, the Group executed non-binding purchase agreements of approximately USD 79 million to acquire property, plant and equipment (31 December 2013 – USD 69 million). Penalties are payable or receivable under these agreements in certain circumstances and where supply terms are not adhered to. Management does not expect such conditions to result in a loss to the Group.

Contingencies

Taxation contingencies in the Russian Federation

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

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

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Russian business environment

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

15. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Where it was available, management of the Group determined fair value of unlisted shares using a valuation technique that was supported by publicly available market information. In the absence of such information available-for-sale investments were presented at cost, net of impairment.

The Group has not disclosed the fair values for financial instruments such as cash and cash equivalents, bank deposits, trade and other receivables, loans given and promissory notes, short-term and long-term borrowings, trade and other payables, because their carrying amounts are reasonable approximation of fair values as at 31 March 2014 and 31 December 2013.

The following table presents the carrying value of financial instruments measured at fair value at the end of reporting period across the three levels of the fair value hierarchy defined in IFRS 7, *Financial Instruments: Disclosures*, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value management. The levels are defined as follows:

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

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

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

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	Level 1	Level 2	Level 3	Total
31 March 2014				
Available for sale investments, listed equity securities	756	-	-	756
Available for sale investments, unlisted equity securities	-	-	9	9
Trading equity securities	3	-	-	3
Trading debt securities	4	-	-	4
Share in mutual investment fund	3	-	-	3
Total assets	766	-	9	775
Listed bonds	556	-	-	556
Interest rate swaps	-	-	5	5
Total liabilities	556	-	5	561
31 December 2013				
Available for sale investments, listed equity securities	801	-	-	801
Available for sale investments, unlisted equity securities	-	-	9	9
Trading equity securities	7	-	-	7
Trading debt securities	5	-	-	5
Share in mutual investment fund	4	-	-	4
Total assets	817	-	9	826
Listed bonds	766	-	-	766
Interest rate swaps	-	-	7	7
Total liabilities	766	-	7	773

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

Derivative financial instruments:	USD million
At 1 January 2014	7
Changes in fair value estimation recognized during the year	(2)
Balance at 31 March 2014	5

16. EVENTS SUBSEQUENT TO THE REPORTING DATE

Disposal of assets held for sale

In May 2014 the Group disposed of its assets held for sale for a consideration of USD 15 million.

Dividends received

Subsequent to 31 March 2014 the Group has received dividends from its available for sale investments in amount of USD 14 million.

17. APPROVAL OF THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements for the three months ended 31 March 2014 were approved by the Group's management and authorized for issue on 18 June 2014.