Open Joint Stock Company Magnitogorsk Iron & Steel Works and Subsidiaries

Unaudited Condensed Consolidated Interim Financial Statements

For the Three and Nine Months Ended 30 September 2016

OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

TABLE OF CONTENTS

OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2016

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

Management is responsible for the preparation of the unaudited condensed consolidated interim financial statements as at 30 September 2016 and for the three and nine months period then ended, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

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

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

Management is also responsible for:

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

The unaudited condensed consolidated interim financial statements for the three and nine months ended 30 September 2016 were approved on 3 November 2016 by:

P.V. Shilyaev
General Director

3 November 2016
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

Report on Review of Interim Financial Information

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

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Open Joint Stock Company Magnitogorsk Iron & Steel Works and its subsidiaries (the "Group") as of 30 September 2016 and the related condensed consolidated statements of comprehensive income for the three-month and nine-month periods then ended, and changes in equity and cash flows for the nine-month period then ended. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

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

Conclusion

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

AO PricewaterhouseCoopers Audit

3 November 2016
Moscow, Russian Federation

OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2016

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

		Three months ended 30 September		Nine months ended 30 September	
	Notes	**2016**	**2015**	**2016**	**2015**
REVENUE	4	1,478	1,502	4,080	4,658
COST OF SALES		(964)	(1,036)	(2,778)	(3,161)
GROSS PROFIT		**514**	**466**	**1,302**	**1,497**
General and administrative expenses	6	(50)	(51)	(151)	(168)
Selling and distribution expenses		(111)	(111)	(312)	(341)
Other operating income/(expenses), net	7	164	(8)	302	-
OPERATING PROFIT		**517**	**296**	**1,141**	**988**
Share of results of associates		-	-	-	1
Finance income		3	11	11	26
Finance costs		(21)	(39)	(100)	(113)
Reversal/(accrual) of impairment and provision for site restoration		4	(6)	13	(14)
Foreign exchange (loss)/gain, net		(4)	(135)	50	(120)
Other expenses		(15)	(9)	(50)	(40)
PROFIT BEFORE INCOME TAX		**484**	**118**	**1,065**	**728**
INCOME TAX		(67)	(40)	(162)	(182)
PROFIT FOR THE PERIOD		**417**	**78**	**903**	**546**
OTHER COMPREHENSIVE (LOSSES)/ INCOME					
Items, that will be reclassified subsequently to profit or loss					
Net change in fair value of available-for-sale investments		(125)	(33)	(121)	(124)
Translation of foreign operations		(15)	230	(158)	164
Items, that will not be reclassified subsequently to profit or loss					
Actuarial losses		(1)	-	(1)	(1)
Effect of translation to presentation currency		82	(803)	589	(699)
OTHER COMPREHENSIVE (LOSS)/ INCOME FOR THE PERIOD, NET OF TAX		**(59)**	**(606)**	**309**	**(660)**
TOTAL COMPREHENSIVE INCOME/ (LOSS) FOR THE PERIOD		**358**	**(528)**	**1,212**	**(114)**
Profit attributable to:					
Shareholders of the Parent Company		417	78	903	545
Non-controlling interests		-	-	-	1
		417	**78**	**903**	**546**
Total comprehensive income/(loss) attributable to:					
Shareholders of the Parent Company		358	(528)	1,209	(115)
Non-controlling interests		-	-	3	1
		358	**(528)**	**1,212**	**(114)**
BASIC AND DILUTED EARNINGS PER SHARE (U.S. Dollars)		0.037	0.007	0.081	0.049
Weighted average number of ordinary shares outstanding (in thousands)		11,174,150	11,169,570	11,173,769	11,158,855

The notes on pages 5 to 19 are an integral part of these unaudited condensed consolidated interim financial statements.

OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 SEPTEMBER 2016
(In millions of U.S. Dollars)

	Notes	30 September 2016	31 December 2015
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	8	4,182	3,764
Intangible assets		22	18
Investments in securities and other financial assets	9	4	214
Investments in associates		3	2
Deferred tax assets		73	65
Other non-current assets		20	30
Total non-current assets		**4,304**	**4,093**
CURRENT ASSETS:			
Inventories		871	877
Trade and other receivables		633	375
Investments in securities and other financial assets	9	142	359
Income tax receivable		-	14
Value added tax recoverable		81	70
Cash and cash equivalents	10	192	369
Total current assets		**1,919**	**2,064**
TOTAL ASSETS		**6,223**	**6,157**
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	11	386	386
Treasury shares	11	-	(1)
Share premium		968	969
Investments revaluation reserve	9	-	121
Translation reserve		(5,512)	(5,940)
Retained earnings		8,494	7,772
Equity attributable to shareholders of the Parent Company		4,336	3,307
Non-controlling interests		16	13
Total equity		**4,352**	**3,320**
NON-CURRENT LIABILITIES:			
Long-term borrowings	12	107	954
Retirement benefit obligations		17	13
Site restoration provision		149	126
Deferred tax liabilities		367	323
Total non-current liabilities		**640**	**1,416**
CURRENT LIABILITIES:			
Short-term borrowings and current portion of long-term borrowings	13	413	893
Current portion of retirement benefit obligations		2	3
Trade and other payables		792	516
Current portion of site restoration provision		8	8
Income tax payables		16	-
Net assets attributable to minority participants		-	1
Total current liabilities		**1,231**	**1,421**
TOTAL EQUITY AND LIABILITIES		**6,223**	**6,157**

Approved on 3 November 2016 by:

P.V. Shilyaev
General Director

ОАО "ММК" Для бухгалтерских документов
Российская Федерация • Открытое акционерное общество • Магнитогорский металлургический комбинат

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

The notes on pages 5 to 19 are an integral part of these unaudited condensed consolidated interim financial statements.

OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2016
(In millions of U.S. Dollars)

		Attributable to shareholders of the Parent Company								
	Notes	Share capital	Treasury shares	Share premium	Invest-ments revaluation reserve	Translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
BALANCE AT 1 JANUARY 2015		**386**	**(13)**	**995**	**224**	**(5,140)**	**7,458**	**3,910**	**32**	**3,942**
Profit for the period		-	-	-	-	-	545	**545**	1	**546**
Other comprehensive (losses)/income for the period, net of tax		-	-	-	(124)	(535)	(1)	**(660)**	-	**(660)**
Total comprehensive (losses)/income for the period		-	-	-	(124)	(535)	544	**(115)**	1	**(114)**
Purchase of treasury shares		-	(226)	-	-	-	-	**(226)**	-	**(226)**
Issuance of ordinary shares from treasury shares		-	238	(7)	-	-	-	**231**	-	**231**
Deferred tax asset write-off relating to disposal of treasury shares		-	-	(18)	-	-	-	**(18)**	-	**(18)**
Dividends		-	-	-	-	-	(99)	**(99)**	-	**(99)**
BALANCE AT 30 SEPTEMBER 2015		**386**	**(1)**	**970**	**100**	**(5,675)**	**7,903**	**3,683**	**33**	**3,716**
BALANCE AT 1 JANUARY 2016		**386**	**(1)**	**969**	**121**	**(5,940)**	**7,772**	**3,307**	**13**	**3,320**
Profit for the period		-	-	-	-	-	903	**903**	-	**903**
Other comprehensive income for the period, net of tax		-	-	-	(121)	428	(1)	**306**	3	**309**
Total comprehensive income for the period		-	-	-	(121)	428	902	**1,209**	3	**1,212**
Purchase of treasury shares		-	(204)	-	-	-	-	**(204)**	-	**(204)**
Issuance of ordinary shares from treasury shares		-	205	(1)	-	-	-	**204**	-	**204**
Dividends	11	-	-	-	-	-	(180)	**(180)**	-	**(180)**
BALANCE AT 30 SEPTEMBER 2016		**386**	**-**	**968**	**-**	**(5,512)**	**8,494**	**4,336**	**16**	**4,352**

The notes on pages 5 to 19 are an integral part of these unaudited condensed consolidated interim financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2016

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

		Nine months ended 30 September	
	Notes	**2016**	**2015**
OPERATING ACTIVITIES:			
Profit for the period		903	546
Adjustments to profit for the period:			
Income tax		162	182
Depreciation and amortization		347	392
(Reversal)/accrual of impairment losses and provision for site restoration		(13)	14
Finance costs		100	113
Loss on disposal of property, plant and equipment	7	12	12
Change in allowance for doubtful accounts receivable	7	3	-
Loss on disposal securities		-	2
Change in inventory allowance		(26)	1
Finance income		(11)	(26)
Foreign exchange (income)/loss, net		(50)	120
Income from available-for-sale investments	7	(3)	(6)
Gain on sale of available-for-sale investments	7	(315)	-
Share of results of associates		-	(1)
Gain on disposal of subsidiaries	7	-	(6)
		1,109	**1,343**
Movements in working capital			
Increase in trade and other receivables		(203)	(80)
Decrease in value added tax recoverable		7	16
Decrease in inventories		128	45
Increase in investments classified as trading securities		-	(1)
Increase in trade and other payables		61	77
Cash generated from operations		**1,102**	**1,400**
Interest paid		(80)	(97)
Income tax paid		(140)	(123)
Net cash from operating activities		**882**	**1,180**
INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(278)	(240)
Purchase of intangible assets		(6)	(3)
Proceeds from sale of property, plant and equipment		3	-
Proceeds from sale of subsidiaries		-	4
Interest received		13	19
Proceeds from sale available-for-sale investments		410	-
Dividends received from available-for-sale investments		3	4
Placement of short-term bank deposits		(650)	(938)
Withdrawal of short-term bank deposits		865	561
Net cash from/(used) in investing activities		**360**	**(593)**
FINANCING ACTIVITIES:			
Proceeds from borrowings		258	481
Repayments of borrowings		(1,637)	(899)
Purchase of treasury shares		(204)	(226)
Proceeds from issuance of ordinary shares from treasury shares		204	231
Dividends paid		(53)	-
Net cash used in financing activities		**(1,432)**	**(413)**
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(190)	174
CASH AND CASH EQUIVALENTS, beginning of period	10	369	327
Effect of translation to presentation currency and exchange rate changes on the balance of cash held in foreign currencies		13	(165)
CASH AND CASH EQUIVALENTS, end of period	10	**192**	**336**

The notes on pages 5 to 19 are an integral part of these unaudited condensed consolidated interim financial statements.

1. GENERAL INFORMATION

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

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

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

As at 30 September 2016 the Parent Company's major shareholders were Mintha Holding Limited with a 87.3% ownership interest (31 December 2015: 87.3%).

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

The effective and nominal ownership holdings of the Group's principal subsidiaries at 30 September 2016 did not change from 31 December 2015.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These unaudited condensed consolidated interim financial statements for the three and nine months ended 30 September 2016 have been prepared in accordance with IAS 34 "Interim financial reporting" ("IAS 34"). The consolidated statement of financial position at 31 December 2015 has been derived from the consolidated statement of financial position included in the Group's consolidated financial statements at 31 December 2015. 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 2015, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The same accounting policies and methods of computation have been followed in these unaudited condensed consolidated interim financial statements as were applied in the preparation of the Group's consolidated financial statements for the year ended 31 December 2015, except for changes made due to adoption of new Standards and Interpretations becoming effective from 1 January 2016. Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit and loss.

Adoption of new or revised standards and interpretations

The following new standards, amendments to standards and interpretations became effective for the Group from 1 January 2016:

- IFRS 14, Regulatory deferral accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016);
- 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);
- Agriculture: Bearer plants – Amendments to IAS 16 and IAS 41 (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016);

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

- Equity Method in Separate Financial Statements – Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016);
- 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 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);
- Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods on or after 1 January 2016).

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

A number of new standards, amendments to standards and interpretations are not yet effective as at 30 September 2016, and have not been early adopted by the Group:

- IFRS 9, Financial Instruments: Classification and Measurement (issued in July 2014 and effective for annual periods beginning on or after 1 January 2018). The Group is currently assessing the impact of the standard on its consolidated financial statements;
- IFRS 15, Revenue from Contracts with Customers (issued in May 2014 and effective for the periods beginning on or after 1 January 2018);
- IFRS 16, Leases (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019);
- Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017);
- Disclosure Initiative - Amendments to IAS 7 (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017);
- Clarification of principles application - 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);
- Classification and measurement of share-based payment transactions – Amendments to IFRS 2 (issued in June 2016 and effective for annual periods beginning on or after 1 January 2018);
- Interaction of IFRS 4 and IFRS 9 – Amendments to IFRS 4 (issued in September 2016 and effective for annual periods beginning on or after 1 January 2018).

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

Estimates

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

In preparing these unaudited condensed consolidated interim financial statements, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2015.

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

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

Basis of preparation

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

Functional and presentation currency

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

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

The presentation currency of the Group is the US dollar since the management considers the US dollar to be more appropriate for the understanding and comparability of consolidated financial statements. The results and financial position of each of the Group's subsidiaries were translated to the presentation currency as required by IAS 21, "The Effects of Changes in Foreign Exchange Rates". At 30 September 2016, the official exchange rates were: US$ 1 = RUB 63.1581, US$ 1 = EUR 0.8910 (31 December 2015: US$ 1 = RUB 72.8827, US$ 1 = EUR 0.9145). Exchange rates for the nine months ended 30 September 2016 were used as: US$ 1 = RUB 67.8011, US$ 1 = EUR 0.8957 (nine months ended 30 September 2015: US$ 1 = RUB 59.4850, US$ 1 = EUR 0.8951).

3. SEASONAL OPERATIONS

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

4. REVENUE

	Three months ended 30 September		Nine months ended 30 September	
By product	**2016**	**2015**	**2016**	**2015**
Hot rolled steel	569	659	1,694	2,110
Galvanised steel	258	231	665	633
Cold rolled steel	164	128	432	457
Long steel products	144	136	370	408
Galvanised steel with polymeric coating	119	121	323	361
Hardware products	29	29	80	81
Tin plated steel	29	32	86	89
Wire, sling, bracing	28	31	74	89
Coking production	22	24	57	74
Band	14	15	47	65
Slabs	2	-	24	14
Tubes	10	10	26	28
Scrap	15	18	28	23
Formed section	12	3	16	14
Coal	4	3	6	7
Others	59	62	152	205
Total	**1,478**	**1,502**	**4,080**	**4,658**

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

4. REVENUE (CONTINUED)

	Three months ended 30 September		Nine months ended 30 September	
By customer destination	**2016**	**2015**	**2016**	**2015**
Russian Federation and the CIS	79%	79%	77%	76%
Middle East	13%	16%	14%	14%
Europe	5%	4%	5%	7%
Asia	1%	-	3%	1%
Africa	2%	1%	1%	2%
Total	**100%**	**100%**	**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 "Operating segments" requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker ("CODM") in order to allocate resources to the segments and to assess their performance, and for which discrete financial information is available.

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

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

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

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

5. SEGMENT INFORMATION (CONTINUED)

The following table presents measures of segment results for the three months ended 30 September 2016 and 2015:

	Three months ended 30 September									
	2016	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
	Steel		**Steel (Turkey)**		**Coal mining**		**Eliminations**		**Total**	
Revenue										
Sales to external customers	1,349	1,367	125	132	4	3	-	-	**1,478**	**1,502**
Inter-segment sales	78	64	-	-	43	50	(121)	(114)	-	-
Total revenue	**1,427**	**1,431**	**125**	**132**	**47**	**53**	**(121)**	**(114)**	**1,478**	**1,502**
Segment EBITDA	**639**	**402**	**1**	**12**	**13**	**16**	**-**	**-**	**653**	**430**
Depreciation and amortisation	(111)	(106)	(16)	(17)	(3)	(4)	-	-	**(130)**	**(127)**
Loss on disposal of property, plant and equipment	(5)	(6)	-	-	(1)	(1)	-	-	**(6)**	**(7)**
Operating profit/(loss) per IFRS financial statements	**523**	**290**	**(15)**	**(5)**	**9**	**11**	**-**	**-**	**517**	**296**

The following table presents measures of segment results for the nine months ended 30 September 2016 and 2015:

	Nine months ended 30 September									
	2016	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
	Steel		**Steel (Turkey)**		**Coal mining**		**Eliminations**		**Total**	
Revenue										
Sales to external customers	3,701	4,227	373	423	6	8	-	-	**4,080**	**4,658**
Inter-segment sales	173	193	-	-	125	156	(298)	(349)	-	-
Total revenue	**3,874**	**4,420**	**373**	**423**	**131**	**164**	**(298)**	**(349)**	**4,080**	**4,658**
Segment EBITDA	**1,429**	**1,311**	**35**	**30**	**36**	**54**	**-**	**(2)**	**1,500**	**1,393**
Depreciation and amortisation	(289)	(332)	(49)	(50)	(9)	(10)	-	-	**(347)**	**(392)**
Loss on disposal of property, plant and equipment	(11)	(11)	-	-	(1)	(1)	-	-	**(12)**	**(12)**
Share of results of associates	-	(1)	-	-	-	-	-	-	**-**	**(1)**
Operating profit/(loss) per IFRS financial statements	**1,129**	**967**	**(14)**	**(20)**	**26**	**43**	**-**	**(2)**	**1,141**	**988**

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

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

5. SEGMENT INFORMATION (CONTINUED)

At 30 September 2016 and 31 December 2015, the segments' total assets and liabilities were reconciled to total assets and liabilities as follows:

	30 September 2016				
	Steel	**Steel (Turkey)**	**Coal mining**	**Eliminations**	**Total**
Total assets	7,688	933	310	(2,708)	**6,223**
Total liabilities	1,759	101	83	(72)	**1,871**

	31 December 2015				
	Steel	**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**

6. GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended 30 September		**Nine months ended 30 September**	
	2016	**2015**	**2016**	**2015**
Payroll and social taxes	28	23	80	90
Taxes other than income tax	7	13	31	40
Professional services	4	7	11	15
Depreciation and amortisation	4	4	11	9
Insurance	1	1	2	4
Materials	1	1	2	3
Research and development costs	1	-	2	1
Other	4	2	12	6
Total	**50**	**51**	**151**	**168**

7. OTHER OPERATING (INCOME)/EXPENSES, NET

	Three months ended 30 September		**Nine months ended 30 September**	
	2016	**2015**	**2016**	**2015**
Loss on disposal of property, plant and equipment, net	6	7	12	12
Change in provision for doubtful debtors	1	2	3	-
Income from available-for-sale investments	-	(2)	(3)	(6)
Net gains on sale available-for-sale investments	(170)	-	(315)	-
Net gains on sale of other assets	(2)	(2)	(4)	(6)
Gain on disposal of subsidiaries	-	-	-	(6)
Other operating losses, net	1	3	5	6
Total	**(164)**	**8**	**(302)**	**-**

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

8. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Machinery and equipment	Trans-portation equip-ment	Fixtures and fittings	Mining assets	Construc-tion-in-progress	Total
Gross book value							
At 1 January 2015	**2,916**	**6,027**	**173**	**154**	**136**	**453**	**9,859**
Additions	-	107	1	2	2	138	250
Transfers	17	73	3	6	-	(99)	-
Disposals	(2)	(113)	(4)	(1)	-	(7)	(127)
Disposals of subsidiaries	-	-	-	-	(26)	-	(26)
Effect of translation to presentation currency	(344)	(772)	(22)	(24)	(19)	(71)	(1,252)
At 30 September 2015	**2,587**	**5,322**	**151**	**137**	**93**	**414**	**8,704**
Depreciation							
At 1 January 2015	**(1,195)**	**(3,234)**	**(114)**	**(88)**	**(108)**	**(48)**	**(4,787)**
Charge for the period	(50)	(322)	(8)	(12)	(3)	-	(395)
Impairment losses	(4)	(1)	-	-	-	-	(5)
Disposals	1	99	3	-	-	-	103
Disposals of subsidiaries	-	-	-	-	26	-	26
Effect of translation to presentation currency	142	418	15	16	15	6	612
At 30 September 2015	**(1,106)**	**(3,040)**	**(104)**	**(84)**	**(70)**	**(42)**	**(4,446)**
Carrying amount							
At 1 January 2015	**1,721**	**2,793**	**59**	**66**	**28**	**405**	**5,072**
At 30 September 2015	**1,481**	**2,282**	**47**	**53**	**23**	**372**	**4,258**
Carrying amount had no impairment taken place							
At 1 January 2015	**2,222**	**3,426**	**69**	**74**	**81**	**452**	**6,324**
At 30 September 2015	**1,929**	**2,804**	**54**	**59**	**47**	**412**	**5,305**
Gross book value							
At 1 January 2016	**2,405**	**4,954**	**141**	**129**	**87**	**382**	**8,098**
Additions	-	100	1	-	-	192	293
Transfers	18	77	3	-	-	(98)	-
Site restoration provision	-	-	-	-	7	-	7
Disposals	(12)	(92)	(3)	(1)	(1)	(3)	(112)
Effect of translation to presentation currency	276	623	19	20	15	65	1,018
At 30 September 2016	**2,687**	**5,662**	**161**	**148**	**108**	**538**	**9,304**
Depreciation							
At 1 January 2016	**(1,036)**	**(2,905)**	**(100)**	**(82)**	**(64)**	**(147)**	**(4,334)**
Charge for the period	(44)	(286)	(8)	(9)	(2)	-	(349)
Reversal of impairment	-	-	-	-	-	6	6
Disposals	5	80	2	1	1	-	89
Effect of translation to presentation currency	(119)	(358)	(13)	(13)	(9)	(22)	(534)
At 30 September 2016	**(1,194)**	**(3,469)**	**(119)**	**(103)**	**(74)**	**(163)**	**(5,122)**
Carrying amount							
At 1 January 2016	**1,369**	**2,049**	**41**	**47**	**23**	**235**	**3,764**
At 30 September 2016	**1,493**	**2,193**	**42**	**45**	**34**	**375**	**4,182**
Carrying amount had no impairment taken place							
At 1 January 2016	**1,784**	**2,522**	**48**	**54**	**45**	**382**	**4,835**
At 30 September 2016	**1,925**	**2,660**	**50**	**51**	**56**	**537**	**5,279**

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

8. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

During the nine months ended 30 September 2016 and 30 September 2015 the Group did not capitalize borrowing costs.

At 30 September 2016 the Group recognized partial reversal of previously recognized impairment in amount of USD 6 million. No further impairment or reversal of previously recorded impairment was identified by management.

At 30 September 2016, Group's property, plant and equipment with a net carrying amount of USD 593 million were pledged to third party bank. At 31 December 2015 property, plant and equipment with carrying amount of USD 636 million was pledged as security for certain long-term and short-term borrowings (Notes 12).

Capital commitments are disclosed in Note 15.

9. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

	30 September 2016	31 December 2015
Non-current		
Available-for-sale investments, at fair value		
Listed equity securities	-	212
Unlisted securities	3	2
Bank deposits, YTL bearing interest rate of 6.80%	1	-
Total non-current	**4**	**214**
Current		
Financial assets, at fair value through profit or loss		
Trading debt securities	5	4
Share in mutual investment fund	1	1
Bank deposits, USD bearing interest rate of 1.40 – 2.35% (31 December 2015: 1.2 – 3.70%)	96	260
Bank deposits, EUR bearing interest rate of 0.27 – 1.50% (31 December 2015: 0.7 – 2.00%)	40	90
Bank deposits, RUB bearing interest rate of 10.51%	-	4
Total current	**142**	**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. At 30 September 2016 the Group has disposed of listed securities classified as available for sale, net gain on sale of available-for-sale investments for the nine months ended 30 September 2016 was USD 315 million. This result is included in other operating income in the unaudited condensed consolidated statement of comprehensive income (Note 7).

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

10. CASH AND CASH EQUIVALENTS

	30 September 2016	31 December 2015
Cash in banks, USD	65	43
Cash in banks, EUR	55	31
Cash in banks, RUB	28	18
Cash in banks, TRY	2	1
Bank deposits, USD bearing interest rate of 1.90% (31 December 2015: 0.62% – 1.20%)	3	199
Bank deposits, EUR (31 December 2015: 2.60%)	-	11
Bank deposits, RUB bearing interest rate of 9.50% – 10.08% (31 December 2015: 3.50% – 11.30%)	36	66
Bank deposits, TRY bearing interest rate of 10%	3	-
Total	**192**	**369**

11. SHARE CAPITAL

Common stock

	30 September 2016	31 December 2015
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 2016	**11,174,330**	**(1,836)**	**11,172,494**
Acquisition of treasury shares	-	(589,633)	(589,633)
Re-issuance of treasury shares	-	591,389	591,389
Balance at 30 September 2016	**11,174,330**	**(80)**	**11,174,250**

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	-	(792,405)	(792,405)
Re-issuance of treasury shares	-	818,083	818,083
Balance at 30 September 2015	**11,174,330**	**(2,490)**	**11,171,840**

Treasury stock

At 30 September 2016 and 31 December 2015, the Group held 80 thousand and 1,836 thousand, respectively, issued common shares of the Parent Company as treasury stock.

All treasury stock is recorded at cost.

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. 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.

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

12. LONG-TERM BORROWINGS

	Type of interest rate	Annual interest rate, actual at 30 September 2016	Annual interest rate, actual at 31 December 2015	30 September 2016	31 December 2015
Secured loans, USD	Floating	-	6%	-	154
Secured loans, EUR	Fixed	-	6%	-	132
Unsecured loans, USD	Floating	5%	4%	2	571
Unsecured loans, EUR	Floating	1%	1%	33	97
Unsecured loans, RUR	Fixed	10%	-	72	-
Total				**107**	**954**

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

Loans

The Group has various borrowing arrangements in RUB, USD and EUR denominations with various lenders. Those borrowings consist of unsecured and secured loans and credit facilities. At 30 September 2016 and 31 December 2015, the total unused element of all credit facilities was USD 1,263 million and USD 1,014 million, respectively.

At 30 September 2016 there is no assets pledged by the Group as collateral for long-term loans. 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, respectively, and shares in a subsidiary with a carrying amount of net assets of USD 466 million.

Debt repayment schedule

	30 September 2016
Periods of twelve months ending on 30 September	
2017 (presented as current portion of long-term borrowings, Note 13)	370
2018	74
2019	33
Total	**477**

Debt repayment schedule

	31 December 2015
Periods of twelve months ending on 31 December	
2016 (presented as current portion of long-term borrowings, Note 13)	852
2017	681
2018	178
2019	95
Total	**1,806**

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

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

	Type of interest rate	Annual interest rate, actual at 30 September 2016	Annual interest rate, actual at 31 December 2015	30 September 2016	31 December 2015
Short-term borrowings:					
Secured loans, USD	Floating	2%	1%	2	14
Secured loans, EUR	Floating	-	1%	-	3
Unsecured loans, RUR	Fixed	11%	-	32	
Unsecured loans, USD	Fixed	2%	1%	9	24
				43	**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
Secured loans, EUR	Fixed	-	6%	-	63
Unsecured loans, USD	Floating	3%	3%	205	327
Unsecured loans, EUR	Floating	1%	1%	67	66
Unsecured loans, RUB	Fixed	10%	10%	87	215
Unsecured loans, EUR	Fixed	3%	3%	11	11
				370	**852**
Total				**413**	**893**

The weighted average interest rates of short-term borrowings and current portion of long-term borrowings at 30 September 2016 and 31 December 2015 were as follows:

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

At 30 September 2016 and 31 December 2015, short-term borrowings were secured by inventories of USD 2 million and USD 16 million, respectively.

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

	30 September 2016	31 December 2015
Due in:		
1 month	33	97
1-3 months	103	225
3 months to 1 year	277	571
Total	**413**	**893**

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

14. RELATED PARTIES

Transactions and balances outstanding with related parties

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

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

Details of transactions with and balances between the Group and related parties at 30 September 2016 and 31 December 2015 and for the three and nine months ended 30 September 2016 and 2015 are disclosed below.

a) Transactions with associates of the Group

	Three months ended 30 September		Nine months ended 30 September	
	2016	**2015**	**2016**	**2015**
Purchases	28	21	74	74

Balances outstanding	**30 September 2016**	**31 December 2015**
Accounts payable	3	1

b) Transactions with other related parties

	Three months ended 30 September		Nine months ended 30 September	
	2016	**2015**	**2016**	**2015**
Revenue	88	54	262	215
Purchases	3	-	9	-
Bank charges	-	-	1	2

Balances outstanding	**30 September 2016**	**31 December 2015**
Cash and cash equivalents	64	69
Bank deposits	16	-
Accounts receivable	39	21
Accounts payable	-	1

Remuneration of the Group's key management personnel

Key management personnel of the Group receive only short-term employment benefits. For the nine months ended 30 September 2016 and 2015, key management personnel received as compensation USD 7 million and USD 10 million, respectively.

15. COMMITMENTS AND CONTINGENCIES

Capital commitments

At 30 September 2016, the Group executed purchase agreements of approximately USD 134 million to acquire property, plant and equipment (31 December 2015 – USD 130 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.

Assets restricted in use

At 30 September 2016, 70% of shares in subsidiary were restricted in use and held by third party bank (31 December 2015: shares in a subsidiary were pledged to secure long-term loans as disclosed in Note 12).

Contingencies

Taxation contingencies in the Russian Federation

Russian tax legislation, which was enacted or substantively enacted at the end of the reporting period is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged tax authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties.

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

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

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

Russian business environment

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. During 2015 and nine month 2016 the Russian economy was 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.

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

16. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

The carrying amounts of financial instruments such as cash and cash equivalents, bank deposits, trade and other receivables, short-term and floating rate long-term borrowings (except for listed bonds), trade and other payables are reasonable approximation their fair values as at 30 September 2016 and 31 December 2015 (Level 3 of fair value hierarchy).

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

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

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

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

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

	Level 1	**Level 2**	**Level 3**	**Total**
30 September 2016				
Available for sale investments, unlisted equity securities	-	-	3	3
Trading debt securities	5	-	-	5
Share in mutual investment fund	1	-	-	1
Total assets	**6**	**-**	**3**	**9**
Listed bonds	-	-	-	-
Total liabilities	**-**	**-**	**-**	**-**
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**

17. EVENTS AFTER THE DATE OF UNAUDITED CONDENSED STATEMENT OF FINANCIAL POSITION

In October 2016 the Group has paid dividends relating to the six month ended 30 June 2016 of USD 127 million (Note 11).
In November 2016 the Group has signed a contract with Sinosteel Equipment & Engineering Co., Ltd (China) regarding the supply of equipment for new sinter plant №5. The contract value of the equipment is USD 106 mln.

18. APPROVAL OF THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements for the three and nine months ended 30 September 2016 were approved by the Group's management and authorized for issue on 3 November 2016.