

Open Joint Stock Company Magnitogorsk Iron & Steel Works and Subsidiaries

**Unaudited Condensed Consolidated Interim
Financial Statements**

For the Three and Six Months Ended 30 June 2015

OPEN JOINT STOCK COMPANY MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

TABLE OF CONTENTS

| | Page |
|--|-------------|
| STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2015 | 1 |
| AUDITOR'S REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS | 2 |
| UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2015: | |
| Unaudited condensed consolidated statement of comprehensive income | 3 |
| Unaudited condensed consolidated statement of financial position | 4 |
| Unaudited condensed consolidated statement of changes in equity | 5 |
| Unaudited condensed consolidated statement of cash flows | 6-7 |
| Notes to the unaudited condensed consolidated interim financial statements | 8-23 |

**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 SIX MONTHS ENDED 30 JUNE 2015**

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

Management is responsible for the preparation of the unaudited condensed consolidated interim financial statements as at 30 June 2015 and for the three and six months period then ended, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

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

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

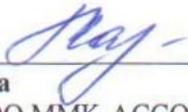
Management is also responsible for:

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

The unaudited condensed consolidated interim financial statements for the three and six months ended 30 June 2015 were approved on 11 August 2015 by:



11 August 2015
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 June 2015 and the related condensed consolidated statements of comprehensive income for the three-month and six-month periods then ended, and changes in equity and cash flows for the six-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

11 August 2015
Moscow, Russian Federation

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

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

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

| | Notes | Three months ended 30 June | | Six months ended 30 June | |
|--|-------|-------------------------------|------------|-----------------------------|--------------|
| | | 2015 | 2014 | 2015 | 2014 |
| REVENUE | 4 | 1,645 | 2,211 | 3,156 | 4,090 |
| COST OF SALES | | (1,107) | (1,764) | (2,125) | (3,293) |
| GROSS PROFIT | | 538 | 447 | 1,031 | 797 |
| General and administrative expenses | 6 | (56) | (109) | (117) | (219) |
| Selling and distribution expenses | | (131) | (146) | (230) | (290) |
| Other operating (expenses)/income, net | 7 | (3) | (3) | 8 | (21) |
| OPERATING PROFIT | | 348 | 189 | 692 | 267 |
| Share of results of associates | | - | 1 | 1 | 1 |
| Finance income | | 8 | 1 | 15 | 2 |
| Finance costs | | (36) | (46) | (74) | (97) |
| Provision for site restoration | | (8) | 7 | (8) | 7 |
| Foreign exchange gain/(loss), net | | 61 | 86 | 15 | (32) |
| Other income | | - | 2 | - | 2 |
| Other expenses | | (9) | (28) | (31) | (52) |
| PROFIT BEFORE INCOME TAX | | 364 | 212 | 610 | 98 |
| INCOME TAX | | (92) | (53) | (142) | (18) |
| PROFIT FOR THE PERIOD | | 272 | 159 | 468 | 80 |
| OTHER COMPREHENSIVE INCOME/ (LOSSES) | | | | | |
| <i>Items, that will be reclassified subsequently to profit or loss</i> | | | | | |
| Net change in fair value of available-for-sale investments | | (12) | (112) | (91) | (157) |
| Translation of foreign operations | | (55) | (133) | (66) | 52 |
| <i>Items, that will not be reclassified subsequently to profit or loss</i> | | | | | |
| Actuarial (losses)/gains | | (1) | - | (1) | 2 |
| Effect of translation to presentation currency | | 217 | 439 | 104 | (204) |
| OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX | | 149 | 194 | (54) | (307) |
| TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD | | 421 | 353 | 414 | (227) |
| Profit attributable to: | | | | | |
| Shareholders of the Parent Company | | 271 | 159 | 467 | 81 |
| Non-controlling interests | | 1 | - | 1 | (1) |
| | | 272 | 159 | 468 | 80 |
| Total comprehensive income/(loss) attributable to: | | | | | |
| Shareholders of the Parent Company | | 420 | 353 | 413 | (226) |
| Non-controlling interests | | 1 | - | 1 | (1) |
| | | 421 | 353 | 414 | (227) |
| BASIC AND DILUTED EARNINGS PER SHARE (U.S. Dollars) | | 0.024 | 0.014 | 0.042 | 0.007 |
| Weighted average number of ordinary shares outstanding (in thousands) | | 11,158,782 | 11,157,008 | 11,153,497 | 11,162,036 |

The notes on pages 8 to 23 are an integral part of these unaudited condensed consolidated interim financial statements.

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

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2015
(In millions of U.S. Dollars)**

| | Notes | 30 June 2015 | 31 December 2014 |
|---|-------|-----------------|---------------------|
| ASSETS | | | |
| NON-CURRENT ASSETS: | | | |
| Property, plant and equipment | 8 | 5,015 | 5,072 |
| Intangible assets | | 22 | 24 |
| Investments in securities and other financial assets | 9 | 231 | 352 |
| Investments in associates | | 2 | 1 |
| Deferred tax assets | | 120 | 144 |
| Other non-current assets | | 38 | 4 |
| Total non-current assets | | 5,428 | 5,597 |
| CURRENT ASSETS: | | | |
| Inventories | | 1,033 | 1,007 |
| Trade and other receivables | | 704 | 558 |
| Investments in securities and other financial assets | 9 | 432 | 230 |
| Income tax receivable | | 1 | 26 |
| Value added tax recoverable | | 82 | 112 |
| Cash and cash equivalents | 10 | 253 | 327 |
| Total current assets | | 2,505 | 2,260 |
| TOTAL ASSETS | | 7,933 | 7,857 |
| EQUITY AND LIABILITIES | | | |
| EQUITY: | | | |
| Share capital | 11 | 386 | 386 |
| Treasury shares | 11 | (1) | (13) |
| Share premium | | 970 | 995 |
| Investments revaluation reserve | 9 | 133 | 224 |
| Translation reserve | | (5,102) | (5,140) |
| Retained earnings | | 7,924 | 7,458 |
| Equity attributable to shareholders of the Parent Company | | 4,310 | 3,910 |
| Non-controlling interests | | 33 | 32 |
| Total equity | | 4,343 | 3,942 |
| NON-CURRENT LIABILITIES: | | | |
| Long-term borrowings | 112 | 1,414 | 1,722 |
| Retirement benefit obligations | | 12 | 10 |
| Site restoration provision | | 99 | 88 |
| Deferred tax liabilities | | 491 | 487 |
| Total non-current liabilities | | 2,016 | 2,307 |
| CURRENT LIABILITIES: | | | |
| Short-term borrowings and current portion of long-term borrowings | 13 | 922 | 863 |
| Current portion of retirement benefit obligations | | 2 | 2 |
| Trade and other payables | | 643 | 736 |
| Current portion of site restoration provision | | 6 | 6 |
| Net assets attributable to minority participants | | 1 | 1 |
| Total current liabilities | | 1,574 | 1,608 |
| TOTAL EQUITY AND LIABILITIES | | 7,933 | 7,857 |

Approved on 11 August 2015 by:



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

The notes on pages 8 to 23 are an integral part of these unaudited condensed consolidated interim financial statements.

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

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2015

(In millions of U.S. Dollars)

| | Attributable to shareholders of the Parent Company | | | | | | Non-controlling interests | Total equity | |
|--|--|-----------------|---------------|---------------------------------|---------------------|-------------------|---------------------------|--------------|--------------|
| | Share capital | Treasury shares | Share premium | Investments revaluation reserve | Translation reserve | Retained earnings | | | Total |
| BALANCE AT 1 JANUARY 2014 | 386 | (30) | 1,020 | 618 | (2,778) | 7,612 | 6,828 | 33 | 6,861 |
| Profit/(loss) for the period | - | - | - | - | - | 81 | 81 | (1) | 80 |
| Other comprehensive (losses)/income for the period, net of tax | - | - | - | (157) | (152) | 2 | (307) | - | (307) |
| Total comprehensive (losses)/ income for the period | - | - | - | (157) | (152) | 83 | (226) | (1) | (227) |
| Purchase of treasury shares | - | (13) | - | - | - | - | (13) | - | (13) |
| Issuance of ordinary shares from treasury shares | - | 14 | (4) | - | - | - | 10 | - | 10 |
| BALANCE AT 30 JUNE 2014 | 386 | (29) | 1,016 | 461 | (2,930) | 7,695 | 6,599 | 32 | 6,631 |
| BALANCE AT 1 JANUARY 2015 | 386 | (13) | 995 | 224 | (5,140) | 7,458 | 3,910 | 32 | 3,942 |
| Profit for the period | - | - | - | - | - | 467 | 467 | 1 | 468 |
| Other comprehensive (losses)/ income for the period, net of tax | - | - | - | (91) | 38 | (1) | (54) | - | (54) |
| Total comprehensive (losses)/income for the period | - | - | - | (91) | 38 | 466 | 413 | 1 | 414 |
| Purchase of treasury shares | - | (119) | - | - | - | - | (119) | - | (119) |
| Issuance of ordinary shares from treasury shares | - | 131 | (7) | - | - | - | 124 | - | 124 |
| Deferred tax asset write-off relating to disposal of treasury shares | - | - | (18) | - | - | - | (18) | - | (18) |
| BALANCE AT 30 JUNE 2015 | 386 | (1) | 970 | 133 | (5,102) | 7,924 | 4,310 | 33 | 4,343 |

The notes on pages 8 to 23 are an integral part of these unaudited condensed consolidated interim financial statements.

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

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2015**

(In millions of U.S. Dollars)

| | Six months ended 30 June | |
|---|---------------------------------|--------------|
| | 2015 | 2014 |
| OPERATING ACTIVITIES: | | |
| Profit for the period | 468 | 80 |
| Adjustments to profit for the period: | | |
| Income tax | 142 | 18 |
| Depreciation and amortization | 265 | 386 |
| Provision for site restoration | 8 | (7) |
| Finance costs | 74 | 97 |
| Loss on disposal of property, plant and equipment | 7 | 39 |
| Change in allowance for doubtful accounts receivable | (2) | (1) |
| Inventory allowance | - | 6 |
| Finance income | (15) | (2) |
| Foreign exchange (gain)/loss, net | (15) | 32 |
| Income from available-for-sale investments | 7 | (14) |
| Share of results of associates | (1) | (1) |
| Gain on disposal of subsidiaries | 7 | - |
| | 919 | 633 |
| Movements in working capital | | |
| Increase in trade and other receivables | (127) | (252) |
| (Increase)/decrease in value added tax recoverable | (1) | 31 |
| (Increase)/decrease in inventories | (8) | 235 |
| (Increase)/decrease in investments classified as trading securities | (1) | 6 |
| Decrease in trade and other payables | (100) | (13) |
| Cash generated from operations | 682 | 640 |
| Interest paid | (60) | (86) |
| Income tax paid | (98) | (16) |
| Net cash from operating activities | 524 | 538 |
| INVESTING ACTIVITIES: | | |
| Purchase of property, plant and equipment | (155) | (281) |
| Purchase of intangible assets | (2) | (4) |
| Proceeds from sale of property, plant and equipment | - | 8 |
| Proceeds from sale of assets classified as held for sale | - | 15 |
| Proceeds from sale of subsidiaries | 4 | - |
| Loans given | - | (4) |
| Loans repaid | - | 10 |
| Interest received | 15 | 2 |
| Dividends received from available-for-sale investments | 4 | 14 |
| Bank deposits | (205) | (129) |
| Net cash used in investing activities | (339) | (369) |

The notes on pages 8 to 23 are an integral part of these unaudited condensed consolidated interim financial statements.

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

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2015 (CONTINUED)**

(In millions of U.S. Dollars)

| | Six months ended 30 June | |
|--|---------------------------------|-------------------|
| | 2015 | 2014 |
| FINANCING ACTIVITIES: | | |
| Proceeds from borrowings | 382 | 864 |
| Repayments of borrowings | (594) | (820) |
| Purchase of treasury shares | (119) | (13) |
| Proceeds from issuance of ordinary shares from treasury shares | 124 | 10 |
| Net cash (used in)/generated from financing activities | <u>(207)</u> | <u>41</u> |
| NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS | | |
| EQUVALENTS | (22) | 210 |
| CASH AND CASH EQUIVALENTS, beginning of period | 327 | 154 |
| Effect of translation to presentation currency and exchange rate changes on the balance of cash held in foreign currencies | (52) | (4) |
| CASH AND CASH EQUIVALENTS, end of period | <u>253</u> | <u>360</u> |

The notes on pages 8 to 23 are an integral part of these unaudited condensed consolidated interim financial statements.

OPEN JOINT STOCK COMPANY MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2015 *(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 30 June 2015 the Parent Company’s major shareholders were Mintha Holding Limited with a 87.3% ownership interest (31 December 2014: 87.3%).

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

The effective and nominal ownership holdings of the Group’s principal subsidiaries at 30 June 2015 did not change from 31 December 2014.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These unaudited condensed consolidated interim financial statements for the three and six months ended 30 June 2015 have been prepared in accordance with IAS 34 “Interim financial reporting” (“IAS 34”). The consolidated statement of financial position at 31 December 2014 has been derived from the consolidated statement of financial position included in the Group’s consolidated financial statements at 31 December 2014. These unaudited condensed consolidated interim financial statements do not include all of the information and disclosure required in the annual consolidated financial statements and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2014, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The same accounting policies and methods of computation have been followed in these unaudited condensed consolidated interim financial statements as were applied in the preparation of the Group’s consolidated financial statements for the year ended 31 December 2014, except for changes made due to adoption of new Standards and Interpretations becoming effective from 1 January 2015. Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit and loss.

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

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

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

Adoption of new or revised standards and interpretations

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

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

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

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

- IFRS 9, Financial Instruments: Classification and Measurement (issued in July 2014 effective for annual periods beginning on or after 1 January 2018). The Group is currently assessing the impact of the standard on its consolidated financial statements;
- IFRS 14, Regulatory Deferral Accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016);
- Amendments to IFRS 11 – Accounting for Acquisitions of interests in Joint Operations (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016);
- Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016);
- IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2017). The Group is currently assessing the impact of the standard on its consolidated financial statements;
- Amendments to IAS 16 and IAS 41, Agriculture: Bearer plants (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016);
- Amendments to IAS 27, Equity Method in Separate Financial Statements (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016);
- Amendments to IFRS 10 and IAS 28 regarding the sale or contribution of assets between an investor and its associate or joint venture (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016);
- Annual Improvements to IFRS 5, IFRS 7, IAS 19, IAS 34 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016);
- Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016);
- Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods on or after 1 January 2016).

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

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

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2015**

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

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

Estimates

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

In preparing these unaudited condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2014.

Basis of preparation

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

Functional and presentation currency

The functional currency of each of the Group's entities is the currency of the primary economic environment in which the entity operates. 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 June 2015, the official exchange rates were: US\$ 1 = RUB 55.5240, US\$ 1 = EUR 0.9026 (31 December 2014: US\$ 1 = RUB 56.2584, US\$ 1 = EUR 0.8232). Average rates for the six months ended 30 June 2015 were used as: US\$ 1 = RUB 57.6504, US\$ 1 = EUR 0.8933 (six months ended 30 June 2014: US\$ 1 = RUB 35.0197, US\$ 1 = EUR 0.7292).

3. SEASONAL OPERATIONS

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

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

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2015**

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

4. REVENUE

| By product | Three months ended 30 June | | Six months ended 30 June | |
|---|----------------------------|--------------|--------------------------|--------------|
| | 2015 | 2014 | 2015 | 2014 |
| Hot rolled steel | 770 | 951 | 1,451 | 1,742 |
| Galvanised steel | 201 | 280 | 402 | 513 |
| Cold rolled steel | 173 | 225 | 329 | 430 |
| Long steel products | 137 | 193 | 272 | 384 |
| Galvanised steel with polymeric coating | 121 | 168 | 240 | 300 |
| Wire, sling, bracing | 30 | 52 | 58 | 92 |
| Tin plated steel | 29 | 42 | 57 | 78 |
| Hardware products | 30 | 41 | 52 | 75 |
| Coking production | 28 | 37 | 50 | 69 |
| Band | 28 | 29 | 50 | 59 |
| Formed section | 3 | 23 | 11 | 48 |
| Tubes | 10 | 15 | 18 | 24 |
| Coal | 4 | 1 | 4 | 5 |
| Scrap | 2 | 2 | 5 | 4 |
| Slabs | 6 | 30 | 14 | 33 |
| Others | 73 | 122 | 143 | 234 |
| Total | 1,645 | 2,211 | 3,156 | 4,090 |

| By customer destination | Three months ended 30 June | | Six months ended 30 June | |
|--------------------------------|----------------------------|-------------|--------------------------|-------------|
| | 2015 | 2014 | 2015 | 2014 |
| Russian Federation and the CIS | 77% | 77% | 76% | 77% |
| Middle East | 12% | 15% | 13% | 13% |
| Europe | 8% | 5% | 8% | 7% |
| North America | - | 1% | - | 2% |
| Asia | 1% | 1% | 1% | - |
| Africa | 2% | 1% | 2% | 1% |
| 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);

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

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

5. SEGMENT INFORMATION (CONTINUED)

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

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

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

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

| | Three months ended 30 June | | | | | | | | | |
|---|-----------------------------------|--------------|-----------------------|-------------|--------------------|-------------|---------------------|-------------|--------------|--------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| | Steel | | Steel (Turkey) | | Coal mining | | Eliminations | | Total | |
| Revenue | | | | | | | | | | |
| Sales to external customers | 1,488 | 2,038 | 152 | 171 | 5 | 2 | - | - | 1,645 | 2,211 |
| Inter-segment sales | 86 | 9 | - | - | 63 | 70 | (149) | (79) | - | - |
| Total revenue | 1,574 | 2,047 | 152 | 171 | 68 | 72 | (149) | (79) | 1,645 | 2,211 |
| Segment EBITDA | 463 | 403 | 14 | 2 | 19 | (8) | (3) | 2 | 493 | 399 |
| Depreciation and amortisation | (122) | (176) | (16) | (16) | (4) | (10) | - | - | (142) | (202) |
| Loss on disposal of property, plant and equipment | (3) | (6) | - | - | - | (1) | - | - | (3) | (7) |
| Share of results of associates | - | (1) | - | - | - | - | - | - | - | (1) |
| Operating profit/(loss) per IFRS financial statements | 338 | 220 | (2) | (14) | 15 | (19) | (3) | 2 | 348 | 189 |

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

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

5. SEGMENT INFORMATION (CONTINUED)

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

| | Six months ended 30 June | | | | | | | | | |
|--|--------------------------|--------------|-------------------|-------------|-------------|-------------|--------------|--------------|--------------|--------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| | Steel (Russia) | | Steel (Turkey) | | Coal mining | | Eliminations | | Total | |
| Revenue | | | | | | | | | | |
| Sales to external customers | 2,860 | 3,779 | 291 | 305 | 5 | 6 | - | - | 3,156 | 4,090 |
| Inter-segment sales | 129 | 42 | - | - | 106 | 135 | (235) | (177) | - | - |
| Total revenue | 2,989 | 3,821 | 291 | 305 | 111 | 141 | (235) | (177) | 3,156 | 4,090 |
| Segment EBITDA | 909 | 670 | 18 | 15 | 38 | 7 | (2) | 1 | 963 | 693 |
| Depreciation and amortisation | (226) | (338) | (33) | (32) | (6) | (16) | - | - | (265) | (386) |
| Loss on disposal of property, plant and equipment | (5) | (36) | - | - | - | (3) | - | - | (5) | (39) |
| Share of results of associates | (1) | (1) | - | - | - | - | - | - | (1) | (1) |
| Operating profit/(loss) per IFRS financial statements | 677 | 295 | (15) | (17) | 32 | (12) | (2) | 1 | 692 | 267 |

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

At 30 June 2015 and 31 December 2014, the segments' total assets and liabilities were reconciled to total assets and liabilities as follows:

| | 30 June 2015 | | | | |
|-------------------|------------------|-------------------|----------------|--------------|-------|
| | Steel | Steel (Turkey) | Coal mining | Eliminations | Total |
| Total assets | 8,819 | 1,120 | 300 | (2,306) | 7,933 |
| Total liabilities | 2,976 | 625 | 169 | (180) | 3,590 |
| | 31 December 2014 | | | | |
| | Steel | Steel (Turkey) | Coal mining | Eliminations | Total |
| Total assets | 8,632 | 1,222 | 277 | (2,274) | 7,857 |
| Total liabilities | 3,221 | 686 | 163 | (155) | 3,915 |

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

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2015**

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

6. GENERAL AND ADMINISTRATIVE EXPENSES

| | <u>Three months ended 30 June</u> | | <u>Six months ended 30 June</u> | |
|--------------------------------|-----------------------------------|-------------------|---------------------------------|-------------------|
| | <u>2015</u> | <u>2014</u> | <u>2015</u> | <u>2014</u> |
| Payroll and social taxes | 33 | 55 | 67 | 115 |
| Taxes other than income tax | 15 | 31 | 27 | 52 |
| Professional services | 3 | 5 | 8 | 16 |
| Depreciation and amortisation | 3 | 4 | 5 | 9 |
| Insurance | 1 | 4 | 3 | 8 |
| Materials | 1 | 1 | 2 | 3 |
| Research and development costs | - | 1 | 1 | 2 |
| Other | - | 8 | 4 | 14 |
| Total | <u>56</u> | <u>109</u> | <u>117</u> | <u>219</u> |

7. OTHER OPERATING (INCOME)/EXPENSES, NET

| | <u>Three months ended 30 June</u> | | <u>Six months ended 30 June</u> | |
|--|-----------------------------------|-----------------|---------------------------------|------------------|
| | <u>2015</u> | <u>2014</u> | <u>2015</u> | <u>2014</u> |
| Loss on disposal of property, plant and equipment, net | 3 | 7 | 5 | 39 |
| (Reversal of provision)/provision for doubtful debtors | (2) | (2) | (2) | 3 |
| Income from available-for-sale investments | - | - | (4) | (14) |
| Net (gains)/losses on sale of other assets | (2) | 2 | (4) | (1) |
| Gain on disposal of subsidiaries | - | - | (6) | - |
| Other operating gains, net | 4 | (4) | 3 | (6) |
| Total | <u>3</u> | <u>3</u> | <u>(8)</u> | <u>21</u> |

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

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2015
(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 2014 | 4,529 | 9,446 | 283 | 250 | 256 | 772 | 15,536 |
| Additions | 1 | 146 | 1 | 1 | - | 106 | 255 |
| Transfers | (5) | 67 | 6 | 4 | - | (72) | - |
| Disposals | (16) | (127) | (6) | (1) | - | (4) | (154) |
| Effect of translation to presentation currency | (106) | (224) | (7) | (7) | (6) | (21) | (371) |
| At 30 June 2014 | 4,403 | 9,308 | 277 | 247 | 250 | 781 | 15,266 |
| <i>Depreciation</i> | | | | | | | |
| At 1 January 2014 | (1,751) | (4,598) | (176) | (127) | (178) | (88) | (6,918) |
| Charge for the period | (53) | (306) | (10) | (11) | (4) | - | (384) |
| Reversal of impairment | - | - | - | - | - | 7 | 7 |
| Disposals | 8 | 89 | 4 | 1 | - | - | 102 |
| Effect of translation to presentation currency | 37 | 102 | 4 | 2 | 5 | 2 | 152 |
| At 30 June 2014 | (1,759) | (4,713) | (178) | (135) | (177) | (79) | (7,041) |
| <i>Carrying amount</i> | | | | | | | |
| At 01 January 2014 | 2,778 | 4,848 | 107 | 123 | 78 | 684 | 8,618 |
| At 30 June 2014 | 2,644 | 4,595 | 99 | 112 | 73 | 702 | 8,225 |
| <i>Carrying amount had no impairment taken place</i> | | | | | | | |
| At 01 January 2014 | 3,515 | 5,880 | 127 | 139 | 180 | 771 | 10,612 |
| At 30 June 2014 | 3,348 | 5,544 | 119 | 129 | 164 | 781 | 10,085 |
| <i>Gross book value</i> | | | | | | | |
| At 1 January 2015 | 2,916 | 6,027 | 173 | 154 | 136 | 453 | 9,859 |
| Additions | - | 73 | 1 | 2 | 3 | 88 | 167 |
| Transfers | 9 | 40 | 3 | 5 | - | (57) | - |
| Disposals | (1) | (76) | (3) | - | - | (2) | (82) |
| Disposals of subsidiaries | - | - | - | - | (26) | - | (26) |
| Effect of translation to presentation currency | 31 | 68 | 3 | 2 | (1) | 7 | 110 |
| At 30 June 2015 | 2,955 | 6,132 | 177 | 163 | 112 | 489 | 10,028 |
| <i>Depreciation</i> | | | | | | | |
| At 1 January 2015 | (1,195) | (3,234) | (114) | (88) | (108) | (48) | (4,787) |
| Charge for the period | (34) | (218) | (7) | (7) | (2) | - | (268) |
| Disposals | 1 | 68 | 2 | - | - | - | 71 |
| Disposals of subsidiaries | - | - | - | - | 26 | - | 26 |
| Effect of translation to presentation currency | (11) | (39) | (3) | (2) | 1 | (1) | (55) |
| At 30 June 2015 | (1,239) | (3,423) | (122) | (97) | (83) | (49) | (5,013) |
| <i>Carrying amount</i> | | | | | | | |
| At 1 January 2015 | 1,721 | 2,793 | 59 | 66 | 28 | 405 | 5,072 |
| At 30 June 2015 | 1,716 | 2,709 | 55 | 66 | 29 | 440 | 5,015 |
| <i>Carrying amount had no impairment taken place</i> | | | | | | | |
| At 1 January 2015 | 2,222 | 3,426 | 69 | 74 | 81 | 452 | 6,324 |
| At 30 June 2015 | 2,207 | 3,309 | 66 | 73 | 58 | 488 | 6,201 |

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

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

8 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

During the six months ended 30 June 2015 and 30 June 2014 the Group did not capitalize borrowing costs.

At 30 June 2015 and 31 December 2014, property, plant and equipment with carrying amounts of USD 677 million and USD 706 million, respectively, was pledged as security for certain long-term and short-term borrowings (Notes 12 and 13).

Capital commitments are disclosed in Note 15.

9. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

| | <u>30 June 2015</u> | <u>31 December 2014</u> |
|---|-------------------------|-----------------------------|
| Non-current | | |
| Available-for-sale investments, at fair value | | |
| Listed equity securities | 227 | 348 |
| Unlisted securities | 4 | 4 |
| Total non-current | <u>231</u> | <u>352</u> |
| Current | | |
| Financial assets, at fair value through profit or loss | | |
| Trading equity securities | - | 3 |
| Trading debt securities | 3 | 3 |
| Share in mutual investment fund | 2 | 2 |
| Bank deposits, USD bearing interest rate of 3.70-5.90% (31 December 2014: 2.0 – 3.55%) | 365 | 222 |
| Bank deposits, EUR bearing interest rate of 3.65 – 4.00% | 62 | - |
| Total current | <u>432</u> | <u>230</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 30 June 2015 and 31 December 2014, the revaluation reserve arising from unrealized holding gains on these securities was USD 133 million and USD 224 million, respectively.

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

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

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

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2015**

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

10. CASH AND CASH EQUIVALENTS

| | 30 June 2015 | 31 December 2014 |
|--|-------------------------|-----------------------------|
| Cash in banks, USD | 76 | 38 |
| Cash in banks, RUB | 15 | 144 |
| Cash in banks, EUR | 34 | 25 |
| Cash in banks, TRY | 1 | 1 |
| Bank deposits, USD bearing interest rate of 0.25%-2.03% (31 December 2014: 3.00%-4.00%) | 14 | 84 |
| Bank deposits, EUR bearing interest rate of 0.5% (31 December 2014: 2.60%) | 16 | 21 |
| Bank deposits, TRY bearing interest rate of 0.25%-3.05% | - | 2 |
| Bank deposits, RUB bearing interest rate of 11.45%-12.00% (31 December 2014: 8.00%) | 97 | 12 |
| Total | 253 | 327 |

11. SHARE CAPITAL

Common stock

| | 30 June 2015 | 31 December 2014 |
|--|-------------------------|-----------------------------|
| Issued and fully paid common shares with a par value of RUB 1 each (in thousands) | 11,174,330 | 11,174,330 |

Issued and net outstanding shares comprised the following:

| Number of ordinary shares in thousands | Issued | Treasury shares | Net outstanding |
|---|-------------------|------------------------|------------------------|
| Balance at 1 January 2015 | 11,174,330 | (28,168) | 11,146,162 |
| Acquisition of treasury shares | - | (441,667) | (441,667) |
| Re-issuance of treasury shares | - | 462,804 | 462,804 |
| Balance at 30 June 2015 | 11,174,330 | (7,031) | 11,167,299 |

| Number of ordinary shares in thousands | Issued | Treasury shares | Net outstanding |
|---|-------------------|------------------------|------------------------|
| Balance at 1 January 2014 | 11,174,330 | (10,698) | 11,163,632 |
| Acquisition of treasury shares | - | (71,784) | (71,784) |
| Re-issuance of treasury shares | - | 51,671 | 51,671 |
| Balance at 30 June 2014 | 11,174,330 | (30,811) | 11,143,519 |

Treasury stock

At 30 June 2015 and 31 December 2014, the Group held 7,031 thousand and 28,168 thousand, respectively, issued common shares of the Parent Company as treasury stock.

All treasury stock is recorded at cost.

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

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

12. LONG-TERM BORROWINGS

| | Type of interest rate | Annual interest rate, actual at | | 30 June 2015 | 31 December 2014 |
|-----------------------------|--------------------------|------------------------------------|---------------------|-----------------|---------------------|
| | | 30 June 2015 | 31 December 2014 | | |
| Unsecured listed bonds, RUB | Fixed | 9% | 9% | 85 | 84 |
| Secured loans, USD | Floating | 5% | 5% | 166 | 206 |
| Secured loans, USD | Fixed | - | 4% | - | 10 |
| Secured loans, EUR | Fixed | 6% | 6% | 156 | 195 |
| Unsecured loans, USD | Floating | 3% | 3% | 712 | 794 |
| Unsecured loans, RUB | Fixed | 10% | 9% | 164 | 254 |
| Unsecured loans, EUR | Floating | 1% | 2% | 131 | 179 |
| Total | | | | 1,414 | 1,722 |

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 June 2015 and 31 December 2014, the total unused element of all credit facilities was USD 1,122 million and USD 1,114 million, respectively.

At 30 June 2015 and 31 December 2014, long-term loans were secured by the Group's property, plant and equipment with a net carrying amount of USD 677 million and USD 706 million, respectively, and shares in a subsidiary with a carrying amount of net assets of USD 495 million and USD 536 million, respectively.

Debt repayment schedule

| | <u>31 June 2015</u> |
|--|---------------------|
| 2016 (presented as current portion of long-term borrowings, Note 13) | 837 |
| 2017 | 743 |
| 2018 | 530 |
| 2019 | 111 |
| 2020 and thereafter | 30 |
| Total | 2,251 |

Debt repayment schedule

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

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

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2015**
(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 June 2015 | 31 December 2014 |
|---|--------------------------|------------------------------------|---------------------|-------------------|---------------------|
| | | 30 June 2015 | 31 December 2014 | | |
| Short-term borrowings: | | | | | |
| Secured loans, USD | Floating | 2% | 2% | 26 | 28 |
| Secured loans, USD | Fixed | - | 2% | - | 27 |
| Secured loans, EUR | Floating | 1% | 2% | 9 | 3 |
| Unsecured loans, USD | Fixed | 2% | 2% | 50 | 50 |
| Unsecured loans, RUB | Fixed | - | 17% | - | 53 |
| | | | | <u>85</u> | <u>161</u> |
| Current portion of long-term borrowings: | | | | | |
| Unsecured listed bonds, RUB | Fixed | 9% | 9% | 98 | 97 |
| Secured loans, USD | Floating | 5% | 5% | 70 | 65 |
| Secured loans, USD | Fixed | 4% | 3% | 36 | 10 |
| Secured loans, EUR | Fixed | 6% | 6% | 56 | 62 |
| Unsecured loans, USD | Floating | 3% | 3% | 301 | 323 |
| Unsecured loans, EUR | Floating | 1% | 2% | 69 | 78 |
| Unsecured loans, RUB | Fixed | 10% | 9% | 165 | 66 |
| Unsecured loans, USD | Fixed | 2% | - | 42 | - |
| Unsecured loans, EUR | Fixed | - | 4% | - | 1 |
| | | | | <u>837</u> | <u>702</u> |
| Total | | | | <u>922</u> | <u>863</u> |

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

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

At 30 June 2015 and 31 December 2014, short-term borrowings were secured by inventories and/or trade receivables of USD 35 million and USD 30 million, respectively.

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

| | 30 June 2015 | 31 December 2014 |
|--------------------|-------------------|---------------------|
| Due in: | | |
| 1 month | 87 | 180 |
| 1-3 months | 220 | 158 |
| 3 months to 1 year | 615 | 525 |
| Total | <u>922</u> | <u>863</u> |

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

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2015**
(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 June 2015 and 31 December 2014 and for the three and six months ended 30 June 2015 and 2014 are disclosed below.

a) Transactions with associates of the Group

| | Three months ended | | Six months ended | |
|-------------------------|---------------------------|-------------|-------------------------|-------------|
| | 30 June | | 30 June | |
| | 2015 | 2014 | 2015 | 2014 |
| <i>Purchases</i> | 26 | 62 | 53 | 106 |
| | | | | |
| | 30 June | | 31 December | |
| | 2015 | | 2014 | |
| Balances outstanding | | | | |
| <i>Accounts payable</i> | | 3 | | 3 |
| <i>Advance paid</i> | | 1 | | - |

b) Transactions with other related parties

| | Three months ended | | Six months ended | |
|----------------------------------|---------------------------|-------------|-------------------------|-------------|
| | 30 June | | 30 June | |
| | 2015 | 2014 | 2015 | 2014 |
| <i>Revenue</i> | 90 | 72 | 161 | 128 |
| <i>Bank charges</i> | 1 | 1 | 2 | 2 |
| | | | | |
| | 30 June | | 31 December | |
| | 2015 | | 2014 | |
| Balances outstanding | | | | |
| <i>Cash and cash equivalents</i> | | 84 | | 62 |
| <i>Accounts receivable</i> | | 44 | | 23 |

Remuneration of the Group's key management personnel

Key management personnel of the Group receive only short-term employment benefits. For the six months ended 30 June 2015 and 2014, key management personnel received as compensation USD 8 million and USD 7 million, respectively.

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

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

15. COMMITMENTS AND CONTINGENCIES

Capital commitments

At 30 June 2015, the Group executed purchase agreements of approximately USD 114 million to acquire property, plant and equipment (31 December 2014 – USD 75 million). Penalties are payable or receivable under these agreements in certain circumstances and where supply terms are not adhered to. Management does not expect such conditions to result in a loss to the Group.

Contingencies

Taxation contingencies in the Russian Federation

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

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

Russian business environment

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

16. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

16. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

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

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

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

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

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---|----------------|----------------|----------------|--------------|
| 30 June 2015 | | | | |
| Available for sale investments, listed equity securities | 227 | - | - | 227 |
| Available for sale investments, unlisted equity securities | - | - | 4 | 4 |
| Trading debt securities | 3 | - | - | 3 |
| Share in mutual investment fund | 2 | - | - | 2 |
| Total assets | 232 | - | 4 | 236 |
| Listed bonds | 177 | - | - | 177 |
| Total liabilities | 177 | - | - | 177 |
| 31 December 2014 | | | | |
| Available for sale investments, listed equity securities | 348 | - | - | 348 |
| Available for sale investments, unlisted equity securities | - | - | 4 | 4 |
| Trading equity securities | 3 | - | - | 3 |
| Trading debt securities | 3 | - | - | 3 |
| Share in mutual investment fund | 2 | - | - | 2 |
| Total assets | 356 | - | 4 | 360 |
| Listed bonds | 166 | - | - | 166 |
| Interest rate swaps | - | - | 2 | 2 |
| Total liabilities | 166 | - | 2 | 168 |

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

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

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

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

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

The unaudited condensed consolidated interim financial statements for the three and six months ended 30 June 2015 were approved by the Group's management and authorized for issue on 11 August 2015.