Open Joint Stock Company Magnitogorsk Iron & Steel Works and Subsidiaries

Consolidated Financial Statements
For the Year Ended 31 December 2015

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 CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Management is responsible for the preparation of consolidated financial statements that present fairly the financial position of Open Joint Stock Company Magnitogorsk Iron & Steel Works and its subsidiaries (the "Group") at 31 December 2015, and the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

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

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

Management is also responsible for:

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

The consolidated financial statements for the year ended 31 December 2015 were approved for issuance on 15 February 2016 by:

P. V. Shilyaev
General Director

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

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

15 February 2016
Magnitogorsk, Russia

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Open Joint Stock Company Magnitogorsk Iron & Steel Works and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2015 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

AO PricewaterhouseCoopers Audit

15 February 2016
Moscow, Russian Federation

OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015

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

	Notes	Years ended 31 December 2015	2014
REVENUE	6	5,839	7,952
COST OF SALES	8	(4,054)	(6,212)
GROSS PROFIT		**1,785**	**1,740**
General and administrative expenses	9	(221)	(381)
Selling and distribution expenses	10	(448)	(529)
Other operating expenses, net	11	-	(27)
OPERATING PROFIT		**1,116**	**803**
Share of results of associates		2	1
Finance income		37	13
Finance costs	13	(147)	(173)
Foreign exchange loss, net		(173)	(622)
Impairment losses / (reversal of impairment losses) and provision for site restoration	15, 22	(179)	20
Other income		-	2
Other expenses	12	(43)	(98)
PROFIT/(LOSS) BEFORE INCOME TAX		**613**	**(54)**
INCOME TAX	14	(192)	10
PROFIT/(LOSS) FOR THE YEAR		**421**	**(44)**
OTHER COMPREHENSIVE INCOME/(LOSSES)			
Items, that may be reclassified subsequently to profit or loss			
Decrease in fair value of available-for-sale investments	18	(103)	(394)
Translation of foreign operations		250	870
Items, that will not be reclassified subsequently to profit or loss			
Remeasurements of post-employment benefit obligations		(7)	7
Effect of translation to presentation currency		(1,070)	(3,232)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX		**(930)**	**(2,749)**
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(509)**	**(2,793)**
Profit/(Loss) attributable to:			
Shareholders of the Parent Company		420	(43)
Non-controlling interests		1	(1)
		421	**(44)**
Total comprehensive losses attributable to:			
Shareholders of the Parent Company		(490)	(2,792)
Non-controlling interests		(19)	(1)
		(509)	**(2,793)**
BASIC AND DILUTED PROFIT/(LOSSES) PER SHARE (U.S. Dollars)		0.038	(0.004)
Weighted average number of ordinary shares outstanding (in thousands)		11,162,183	11,154,352

The notes on pages 6 to 57 are an integral part of these consolidated financial statements.

OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

(In millions of U.S. Dollars)

	Notes	31 December 2015	2014
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	15	3,764	5,072
Other intangible assets		18	24
Investments in securities and other financial assets	18	214	352
Investments in associates		2	1
Deferred tax assets	14	65	144
Other non-current assets		30	4
Total non-current assets		4,093	5,597
CURRENT ASSETS:			
Inventories	16	877	1,007
Trade and other receivables	17	375	558
Investments in securities and other financial assets	18	359	230
Income tax receivable		14	26
Value added tax recoverable		70	112
Cash and cash equivalents	19	369	327
Total current assets		2,064	2,260
TOTAL ASSETS		**6,157**	**7,857**
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	20	386	386
Treasury shares	20	(1)	(13)
Share premium		969	995
Investments revaluation reserve	18	121	224
Translation reserve		(5,940)	(5,140)
Retained earnings		7,772	7,458
Equity attributable to shareholders of the Parent Company		3,307	3,910
Non-controlling interests		13	32
Total equity		3,320	3,942
NON-CURRENT LIABILITIES:			
Long-term borrowings	21	954	1,722
Retirement benefit obligations		13	10
Site restoration provision	22	[illegible]26	88
Deferred tax liabilities	14	323	487
Total non-current liabilities		1,416	2,307
CURRENT LIABILITIES:			
Short-term borrowings and current portion of long-term borrowings	25	893	863
Current portion of retirement benefit obligations		3	2
Trade and other payables	24	516	736
Current portion of site restoration provision	22	8	6
Net assets attributable to minority participants		1	1
Total current liabilities		1,421	1,608
TOTAL EQUITY AND LIABILITIES		**6,157**	**7,857**

P. V. Shilyaev
General Director

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

15 February 2016
Magnitogorsk, Russia

The notes on pages 6 to 57 are an integral part of these consolidated financial statements.

OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015
(In millions of U.S. Dollars)

	Notes	Share capital	Treasury shares	Share premium	Investments revaluation reserve	Translation reserve	Retained earnings	Total	Non-controlling interests	Total
BALANCE AT 1 JANUARY 2014		**386**	**(30)**	**1,020**	**618**	**(2,778)**	**7,612**	**6,828**	**33**	**6,861**
Loss for the year		-	-	-	-	-	(43)	**(43)**	(1)	**(44)**
Other comprehensive income/(loss) for the year, net of tax		-	-	-	(394)	(2,362)	7	**(2,749)**	-	**(2,749)**
Total comprehensive income/(loss) for the year		-	-	-	(394)	(2,362)	(36)	**(2,792)**	(1)	**(2,793)**
Purchase of treasury shares		-	(68)	-	-	-	-	**(68)**	-	**(68)**
Issuance of ordinary shares from treasury shares		-	85	(25)	-	-	-	**60**	-	**60**
Dividends	20	-	-	-	-	-	(118)	**(118)**	-	**(118)**
BALANCE AT 31 DECEMBER 2014		**386**	**(13)**	**995**	**224**	**(5,140)**	**7,458**	**3,910**	**32**	**3,942**
Profit for the year		-	-	-	-	-	420	**420**	1	**421**
Other comprehensive loss for the year, net of tax		-	-	-	(103)	(800)	(7)	**(910)**	(20)	**(930)**
Total comprehensive income/(loss) for the year		-	-	-	(103)	(800)	413	**(490)**	(19)	**(509)**
Purchase of treasury shares		-	(282)	-	-	-	-	**(282)**	-	**(282)**
Issuance of ordinary shares from treasury shares		-	294	(8)	-	-	-	**286**	-	**286**
Deferred tax asset write-off relating to disposal of treasury shares	14			(18)				**(18)**		**(18)**
Dividends	20	-	-	-	-	-	(99)	**(99)**	-	**(99)**
BALANCE AT 31 DECEMBER 2015		**386**	**(1)**	**969**	**121**	**(5,940)**	**7,772**	**3,307**	**13**	**3,320**

The notes on pages 6 to 57 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015

(In millions of U.S. Dollars)

		Years ended 31 December	
	Notes	**2015**	**2014**
OPERATING ACTIVITIES:			
Profit/(Loss) for the year		421	(44)
Adjustments to loss for the year:			
Income tax		192	(10)
Depreciation and amortisation	8, 9, 10	535	746
Finance costs	13	147	173
Loss on disposal of property, plant and equipment	11	15	57
Reversal of impairment losses /(impairment losses) and provision for site restoration	15, 22	179	(20)
Change in allowance for doubtful accounts receivable	11	1	3
Loss on disposal securities	11	2	-
Loss on revaluation of trading securities	11, 18	-	1
Change in allowance for obsolete and slow-moving inventory items and write down to net realisable value	16	28	14
Finance income		(37)	(13)
Gain on disposal of subsidiaries	11	(6)	-
Income from available-for-sale investments	11	(6)	(28)
Foreign exchange loss, net		173	622
Gain on sale of assets held for sale		-	(1)
Impairment losses on investments		-	1
Share of associates results		(2)	(1)
Operating cashflow before working capital changes		**1,642**	**1,500**
Movements in working capital			
Decrease/(increase) in trade and other receivables		59	(226)
Decrease in value added tax recoverable		1	23
Increase in inventories		(75)	(36)
(Increase) / decrease in investments classified as trading securities		(2)	1
Increase in trade and other payables		34	191
Cash generated from operations		1,659	1,453
Interest paid		(123)	(157)
Income tax paid		(180)	(40)
Net cash generated by operating activities		1,356	1,25
INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(348)	(497)
Purchase of intangible assets		(4)	(9)
Proceeds from sale of property, plant and equipment		15	11
Interest received		34	13
Proceeds from sale of assets classified as held for sale		-	19
Proceeds from sale of subsidiaries, net of disposed cash		4	7
Loans given		-	(4)
Loans repaid		-	24
Bank deposits, net		(128)	(222)
Dividends received from available-for-sale investments		6	28
Net cash used in investing activities		(421)	(630)

The notes on pages 6 to 57 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

(In millions of U.S. Dollars)

		Years ended 31 December	
	Notes	**2015**	**2014**
FINANCING ACTIVITIES:			
Proceeds from borrowings		548	1,353
Repayments of borrowings		(1,142)	(1,487)
Purchase of treasury shares		(282)	(68)
Proceeds from issuance of ordinary shares from treasury shares		286	60
Dividends paid to equity holders of the Parent Company	20	(103)	(117)
Net cash used in financing activities		(693)	(259)
NET INCREASE IN CASH AND CASH EQUIVALENTS		242	367
CASH AND CASH EQUIVALENTS, beginning of year		327	154
Effect of translation to presentation currency and exchange rate changes on the balance of cash held in foreign currencies		(200)	(194)
CASH AND CASH EQUIVALENTS, end of year	19	**369**	**327**

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

1. GENERAL INFORMATION

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

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

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

As at 31 December 2015 the Parent Company's major shareholder was Mintha Holding Limited with a 87.3% ownership interest (at 31 December 2014: Mintha Holding Limited with 87.3%).

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

At 31 December 2015 and 2014, the Group's principal subsidiaries were as follows:

		Effective % held at 31 December	
Subsidiary by country of incorporation	**Nature of business**	**2015**	**2014**
Russian Federation			
OJSC Metizno-Kalibrovochny Zavod "MMK-Metiz"	Production of metal hardware products	95.78	95.78
LLC IK MMK Finance	Investing activities	100.00	100.00
CJSC Stroitelny Fond	Renting services	100.00	100.00
CJSC Stroitelny Komplex	Construction	100.00	100.00
CJSC Ogneupor	Production of refractory materials	100.00	100.00
CJSC Mekhanoremontny Komplex	Maintenance of metallurgical equipment	100.00	100.00
CJSC Mechanoremont	Renting services	100.00	100.00
OJSC MTSOZ	Production of cement and refractory materials	100.00	100.00
CJSC Profit	Collection and processing of metal scrap	100.00	100.00
LLC Torgovy Dom MMK	Trading activities	100.00	100.00
OJSC Belon	Holding company, trading activities	95.40	95.40
CJSC Shakhta Kostromovskaya	Coal mining	99.98	95.40
LLC Shakhta Chertinskaya-Yuzhnaya	Coal mining	95.40	95.40
LLC Shakhta Chertinskaya-Koksovaya	Coal mining	95.40	95.40
Cyprus			
Onarbay Enterprises Ltd	Holding company	100.00	100.00
Turkey			
MMK Metalurji	Production of ferrous metal products	100.00	100.00
Switzerland			
MMK Steel Trade AG	Trading activities	100.00	100.00
Luxemburg			
MMK-Mining Assets Management S.A.	Holding company	100.00	100.00

1. GENERAL INFORMATION (CONTINUED)

The effective ownerships indicated in the table above are also the nominal holdings, except for LLC Shakhta Chertinskaya-Yuzhnaya and LLC Shakhta Chertinskaya-Koksovaya where 100% is held by OJSC Belon, Shakhta Kostromovskaya where 100% is held by OJSC Belon and OJSC MMK (0.37% and 99.63%, respectively).

2. ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

New Standards and Interpretations in issue not yet adopted

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2016 or later, and which the Group has not early adopted.

IFRS 9 "Financial Instruments: Classification and Measurement" (issued in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

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

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

The Group is currently assessing the impact of the new standard on its consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

The Group is currently assessing the impact of the new standard on its consolidated financial statements.

IFRS 16 "Leases" (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the consolidated statement of comprehensive income. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Group is currently assessing the impact of the new standard on its consolidated financial statements. Lease commitments are disclosed in Note 29.

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

- 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).

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

- Agriculture: Bearer plants – Amendments to IAS 16 and IAS 41 (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016).
- Equity Method in Separate Financial Statements – Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016).
- 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 on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017.
- 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).

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements.

3. BASIS OF PREPARATION

Statement of compliance

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

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

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

Basis of preparation

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

Except for the changes below, the Group has consistently applied the accounting policies set out in Note 4 to all periods presented in these consolidated financial statements.

3. BASIS OF PREPARATION (CONTINUED)

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2015.

a. Defined Benefit Plans: Employee Contributions – Amendments to IAS 19 (issued in November 2013 and effective for annual periods beginning 1 July 2014);

b. 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).

The changes had no significant impact on the measurements of the Group's assets and liabilities or disclosures.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities, except as explained in Note 3, which addresses changes in accounting policies.

Basis of consolidation

Subsidiaries

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations". Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Functional and presentation currency

Different entities within the Group have different functional currencies, based on the underlying economic conditions of their operations.
The functional currency of the Group's entities except for MMK Metalurji and MMK Steel Trade AG is the Russian Rouble ("RUB"). The functional currency of MMK Metalurji and MMK Steel Trade AG is the United States Dollar ("USD").

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

The translation into presentation currency is made as follows:

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

	31 December	
	2015	**2014**
Russian Rouble/US Dollar		
Year-end rates	72.88	56.26
Average for the period	60.85	38.67

Foreign currency transactions

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

Business combinations

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

Goodwill

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Revenue recognition

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

The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. When the fair value of goods received in a barter transaction cannot be measured reliably, the revenue is measured at the fair value of the goods or service given up.

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

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

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

Borrowing costs

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax

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

Current tax

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

Deferred income tax

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Group controls the reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains upon their disposal. The Group does not recognise deferred tax liabilities on such temporary differences except to the extent that Management expects the temporary differences to reverse in the foreseeable future.

Uncertain tax positions

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

Property, plant and equipment

Manufacturing assets

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Mineral rights

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

Depreciation

Depreciation of manufacturing assets is computed under the straight-line method utilising useful lives of the assets which are:

Buildings	15-50 years
Machinery and equipment	2-30 years
Transportation equipment	3-20 years
Fixtures and fittings	3-30 years

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

Leased assets

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

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

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

Intangible assets, excluding goodwill

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of tangible and intangible assets, excluding goodwill

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

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

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

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

Inventories

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred drifting costs

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

Value added taxes

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

Financial instruments – key measurement terms

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Classification of financial assets

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Initial recognition of financial instruments

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

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

Derecognition of financial assets

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Offsetting financial instruments

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

Available-for-sale investments

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

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

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

Trade and other receivables

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

Cash and cash equivalents

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets carried at amortised cost

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

- any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty; or
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification of financial liabilities

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

Trade and other payables

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

Borrowings

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

Derecognition of financial liabilities

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

Financial guarantee contracts

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

Employee benefit obligations

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

Defined contribution plans

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Defined benefit plans

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

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

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

Restricted cash

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

Provisions

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Site restoration provision

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

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

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

Dividends

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

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

Segment information

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

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

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgements in applying accounting policies

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

Key sources of estimation uncertainty

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

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

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

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

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

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

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

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

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

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

Site restoration provision

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

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

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

Impairment of assets

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

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

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

Taxation

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

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

6. REVENUE

By product	2015	2014
Hot rolled steel	2,588	3,449
Galvanised steel	817	1,032
Cold rolled steel	585	793
Long steel products	502	758
Galvanised steel with polymeric coating	477	585
Wire, sling, bracing	111	188
Tin plated steel	109	131
Hardware products	104	134
Coking production	94	135
Band	80	107
Tubes	35	53
Scrap	29	8
Formed section	17	92
Slabs	14	37
Coal	13	5
Others	264	445
Total	**5,839**	**7,952**

6. REVENUE (CONTINUED)

By customer destination	2015	2014
Russian Federation and the CIS	77%	78%
Middle East	15%	14%
Europe	6%	5%
Africa	1%	1%
North America	-	1%
Asia	1%	1%
Total	**100%**	**100%**

7. SEGMENT INFORMATION

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

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

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

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

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

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

7. SEGMENT INFORMATION (CONTINUED)

The following table presents measures of segment results for the years ended 31 December 2015 and 2014:

	Steel (Russia)		Steel (Turkey)		Coal mining		Eliminations		Total	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Revenue										
Sales to external customers	5,272	7,303	554	643	13	6	-	-	5,839	7,952
Inter-segment sales	240	105	-	-	204	265	(444)	(370)	-	-
Total revenue	**5,512**	**7,408**	**554**	**643**	**217**	**271**	**(444)**	**(370)**	**5,839**	**7,952**
Segment EBITDA	**1,559**	**1,570**	**36**	**28**	**72**	**11**	**1**	**(2)**	**1,668**	**1,607**
Depreciation and amortisation	(455)	(646)	(67)	(65)	(13)	(35)	-	-	(535)	(746)
Loss on disposal of property, plant and equipment	(15)	(50)	2	-	(2)	(7)	-	-	(15)	(57)
Share of results of associates	(2)	(1)	-	-	-	-	-	-	(2)	(1)
Operating profit/(loss) per consolidated financial statements	**1,087**	**873**	**(29)**	**(37)**	**57**	**(31)**	**1**	**(2)**	**1,116**	**803**

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

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

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

	31 December 2014				
	Steel (Russia)	**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

The segmental additions on property, plant and equipment and intangible assets for the years ended 31 December 2015 and 31 December 2014 were:

	2015	**2014**
Steel (Russia)	319	429
Steel (Turkey)	7	12
Coal mining	29	40
Total capital expenditure	**355**	**481**

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

8. COST OF SALES

	2015	2014
Cost of production		
Raw materials used	2,871	4,479
Depreciation of property, plant and equipment	518	727
Payroll and social taxes	548	829
Other expenses	120	227
	4,057	**6,262**
Decrease in work in progress, finished goods and goods-in-transit	(3)	(50)
Total	**4,054**	**6,212**

9. GENERAL AND ADMINISTRATIVE EXPENSES

	2015	2014
Payroll and social taxes	116	205
Taxes other than income tax	45	92
Professional services	28	29
Depreciation and amortisation	14	17
Insurance	5	14
Materials	4	6
Research and development costs	2	3
Other	7	15
Total	**221**	**381**

10. SELLING AND DISTRIBUTION EXPENSES

	2015	2014
Transportation expenses	343	410
Payroll and social taxes	10	15
Materials	20	20
Advertising expenses	8	7
Depreciation	3	2
Other	64	75
Total	**448**	**529**

11. OTHER OPERATING EXPENSES/(INCOME), NET

	2015	2014
Loss on disposal of property, plant and equipment	15	57
Provisionfor doubtful debtors	1	3
Net loss on sale of trading securities	2	-
Net loss on trading securities revaluation	-	1
Dividends received from available-for-sale investments	(6)	(28)
Gain on disposal of subsidiaries	(6)	
Net gains on sale of other assets	(8)	(8)
Other operating losses, net	2	2
Total	**-**	**27**

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

12. OTHER EXPENSES

For the years ended 31 December 2015 and 2014, other expenses included USD 34 million and USD 70 million, respectively, related to mandatory and voluntary social programs and maintenance of social assets.

13. FINANCE COSTS

	2015	**2014**
Interest expense on borrowings	134	155
Interest expense on provisions	15	23
Net gains on interest rate swaps	(2)	(5)
Total	**147**	**173**

14. INCOME TAX

The Group's income tax expense/(benefit) attributable to different tax jurisdictions for the years ended 31 December 2015 and 2014 was:

	2015	**2014**
Current income tax	191	20
Adjustments recognised in current year relating to prior year current tax	(1)	(3)
Deferred income tax benefit, net	2	(27)
Total income tax expense/(benefit)	**192**	**(10)**

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

	2015	**2014**
Profit/(Loss) before income tax	613	(54)
Theoretical income tax charge/(benefit) computed at the Parent Company's statutory rate of 20%	123	(11)
Adjustments due to:		
Expenses not deductible and income not taxable for tax purposes	3	7
Adjustments of prior years deferred income tax expense	(1)	(3)
Change in unrecognized deferred tax assets	52	15
Other	15	(18)
Income tax expense/(benefit)	**192**	**(10)**

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

14. INCOME TAX (CONTINUED)

The movement in the Group's deferred tax position during the current and prior reporting period was as follows:

	31 December 2015	31 December 2014
Net deferred tax liability at the beginning of the year	**343**	**680**
Deferred tax (benefit)/expense	2	(27)
Deferred tax asset write-off relating to disposal of treasury shares	18	
Effect of translation to presentation currency	(105)	(310)
Net deferred tax liability at the end of the year	**258**	**343**

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

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

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

14. INCOME TAX (CONTINUED)

	31 December 2014	Charged/ (credited) to profit or loss	Effect of translation to presentation currency	31 December 2013
Accounts receivable	10	8	(2)	4
Unused tax losses	80	22	(28)	86
Investment tax credits	49	(4)	(1)	54
Accounts payable	22	(9)	(18)	49
Property, plant and equipment	22	(44)	(18)	84
Investments	3	1	(2)	4
Inventories	15	11	(4)	8
Assets classified as held for sale	-	(1)	(1)	2
Deferred tax set off	(57)	32	31	(120)
Deferred income tax assets	144	16	(43)	171
Property, plant and equipment	(483)	31	351	(865)
Investments	-	4	-	(4)
Inventories	(36)	(17)	20	(39)
Accounts receivable	(12)	25	9	(46)
Loans	(11)	(8)	4	(7)
Accounts payable	(2)	8	-	(10)
Deferred tax set off	57	(32)	(31)	120
Deferred income tax liabilities	(487)	11	353	(851)
Net deferred income tax liabilities	**(343)**	**27**	**310**	**(680)**

Recognised tax losses expire in the following years:

	31 December	
Year of expiry	**2015**	**2014**
From 6 to 10 years	17	37
From 2 to 5 years	35	43
	52	**80**

At 31 December 2015 and 2014, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was USD 372 million and USD 439 million, respectively. No liabilities have been recognised in these consolidated financial statements in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

Based upon historical taxable income and projections for future taxable income over the periods in which deferred income tax assets are deductible, management of the Group believes it is more likely than not that Group will realise the benefits of the deductible differences.

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

14. INCOME TAX (CONTINUED)

Deferred tax assets of USD 15 million have not been recognised in 2014 (of which USD 15 million related to tax losses) and USD 52 million have not been recognised in 2015 (of which USD 52 million related to tax losses) because it is not probable that future taxable profits will be available against which the Group can utilise the benefits therefrom. Tax losses expire in the following years:

Year of expiry	**2015**	**2014**
From 6 to 10 years	1	15
From 2 to 5 years	51	-
	52	**15**

In 2014, the Controlled Foreign Company (CFC) legislation introduced Russian taxation of profits of foreign companies and non-corporate structures (including trusts) controlled by Russian tax residents (controlling parties). Starting from 2015, CFC income is subject to a 20% tax rate. This legislation had no material impact on remeasurement of Group's income tax liabilities.

15. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	**Machinery and equipment**	**Transpor-tation equipment**	**Fixtures and fittings**	**Mining assets**	**Construc-tion-in-progress**	**Total**
Cost							
At 1 January 2014	**4,529**	**9,446**	**283**	**250**	**256**	**772**	**15,536**
Additions	1	256	3	5	-	207	472
Transfers	43	133	10	6	-	(192)	-
Site restoration provision	-	-	-	-	(16)	-	(16)
Disposals	(24)	(185)	(11)	(3)	-	(10)	(233)
Effect of translation to presentation currency	(1,633)	(3,623)	(112)	(104)	(104)	(324)	(5,900)
At 31 December 2014	**2,916**	**6,027**	**173**	**154**	**136**	**453**	**9,859**
Additions	-	140	1	5	-	205	351
Transfers	34	106	4	7	-	(151)	-
Site restoration provision	-	-	-	-	5	-	5
Disposals	(21)	(145)	(3)	(1)	-	(14)	(184)
Disposals of subsidiaries	-	-	-	-	(26)	-	(26)
Effect of translation to presentation currency	(524)	(1,174)	(34)	(36)	(28)	(111)	(1,907)
At 31 December 2015	**2,405**	**4,954**	**141**	**129**	**87**	**382**	**8,098**
Depreciation							
At 1 January 2014	**(1,751)**	**(4,598)**	**(176)**	**(127)**	**(178)**	**(88)**	**(6,918)**
Charge for the year	(97)	(596)	(16)	(22)	(6)	-	(737)
Impairment loss	-	-	-	-	-	5	5
Disposals	12	126	8	2	-	-	148
Effect of translation to presentation currency	641	1,834	70	59	76	35	2,715
At 31 December 2014	**(1,195)**	**(3,234)**	**(114)**	**(88)**	**(108)**	**(48)**	**(4,787)**

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

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land and buildings	Machinery and equipment	Transpor-tation equipment	Fixtures and fittings	Mining assets	Construc-tion-in-progress	Total
Charge for the year	(66)	(440)	(11)	(16)	(4)	-	(537)
Impairment loss	(4)	(1)	-	-	-	(115)	(120)
Disposals	10	125	2	-	-	5	142
Disposals of subsidiaries	-	-	-	-	26	-	26
Effect of translation to presentation currency	219	645	23	22	22	11	942
At 31 December 2015	**(1,036)**	**(2,905)**	**(100)**	**(82)**	**(64)**	**(147)**	**(4,334)**
Carrying amount							
At 31 December 2014	**1,721**	**2,793**	**59**	**66**	**28**	**405**	**5,072**
At 31 December 2015	**1,369**	**2,049**	**41**	**47**	**23**	**235**	**3,764**
Carrying amount had no impairment taken place							
At 31 December 2014	**2,222**	**3,426**	**69**	**74**	**81**	**452**	**6,324**
At 31 December 2015	**1,784**	**2,522**	**48**	**54**	**45**	**382**	**4,835**

For the years ended 31 December 2015 and 2014, the interest on borrowings of USD nil million, was capitalised to property, plant and equipment.

At 31 December 2015 and 2014, property, plant and equipment with a carrying amount of USD 636 million and USD 706 million, respectively, were pledged as security for certain long-term borrowings (Notes 21).

Capital commitments are disclosed in Note 29.

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

At 31 December 2015, management analysed changes in the economic environment and developments in the metals industry and the Group's operations since 31 December 2014 and considered it necessary to carry out impairment tests for all significant cash-generating units of the Group. For the purpose of impairment testing, MMK groups its assets into three cash generating units, which are equivalent to the operating segments: Steel (Russia), Steel (Turkey) and Coal. Based on the impairment analysis performed no impairment or reversal of previously recorded impairment was recognised as at 31 December 2015.

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

In performing the impairment test, the following specific assumptions were used for each cash generating unit:

Steel segment (Russia)

- cash flow projections were based on financial forecasts approved by management covering a five year period;
- forecast sales volume of steel increases by 1% in 2016 and remains stable at the level of sales in 2016;
- forecast steel sales prices decrease by 15% in 2016, increase by 9% in 2017, increase by 8% in 2018 and increase by 2% on average thereafter;
- forecast operating costs decrease by 2% in 2016, increase by 5% in 2017 and by 2% on average thereafter.

The basic assumptions on post-forecast period:

- the growth rate in the post-forecast period is 2%;
- EBITDA margin equals to the average EBITDA margin for the period of 10 years (actual dynamic for the period of 5 years plus 5-year forecast period);
- a discount rate was estimated in USD terms based on the weighted average cost of capital basis and was 10.6%.

The estimates of future discounted cash flows and the results of the impairment test are not particularly sensitiveas a 1% decrease in annual growth rate in the post-forecast period; or a 1% increase in the discount rate; or a 10% decrease in future planned volume of sales would not lead to an impairment of property, plant and equipment.

Coal segment

- cash flow projections were based on financial forecasts approved by management covering a period of time equal to the term depletion;
- forecast volume of gathered coal remains stable in 2016 on the level of 2015, increase by 43% in 2017-2022 and will decrease by 9% on average in 2023-2025;
- forecast sales volume of coal concentrate remains stable in 2016 on the level of 2015, increase by 17% in 2017 and remains stable in average thereafter;
- forecast coal sales prices decrease by 5% in 2016,increase by 6% in 2017 and increase by 3% on average thereafter;
- forecast operating costs increase by 18% in 2016, increase by 16% in 2017 and will increase by 2% on average thereafter;
- a discount rate was estimated in USD terms based on the weighted average cost of capital basis and was 14.6%.

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

- a 1% increase in the discount rate would not lead to impairment losses;
- a 15% decrease in sales volumes would lead to impairment losses of USD 25 million, a 20% decrease - would lead to impairment losses of USD 68 million.
- a 15% decrease in volumes of gathered coals would lead to impairment losses of USD 24 million, a 20% decrease - would lead to impairment losses of USD 67 million.

Steel segment (Turkey)

- cash flow projections were based on financial forecasts approved by management covering a five year period;forecast sales volume of steel in 2016 remain stable at the level of sales in the 2015. In 2017 the growth of sales volume is forecasted to be 17% to 2016. In 2017 the hot-rolled mill is planned to commence operations leading to an expected sales growth in 2018 by 83%, in 2019 - by 4% and remain stable at the level of sales in the 2019 year and thereafter;
- average steel sales prices in 2016 year decrease in average by -3% to the level of 2015, decrease by 2% in 2017, decrease by 7% in 2018 and will increase by 2% on average thereafter;
- forecast operating costs in 2016 are expected to remain stable at the level of 2015, to increase by 12% in 2017, increase by 55% in 2018 and will increase by 1% on average thereafter.

The basic assumptions on post-forecast period:

- the growth rate in the post-forecast period is 2%;
- capital investments are lower than amortization level by 18% in terminal period;
- a discount rate was estimated in USD terms based on the weighted average cost of capital basis and was 10.6%.

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

- a 1% decrease in annual growth rate in the post-forecast period would not lead to impairment;
- a 1% increase in the discount rate would not lead to impairment;
- a 10% decrease in sales (in monetary terms) would lead to impairment losses of USD 16 million.

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

16. INVENTORIES

	31 December	
	2015	**2014**
Raw materials	530	549
Finished goods and goods for resale	229	293
Work-in-progress	108	133
Deferred drifting costs	59	60
Total	**926**	**1,035**
Less: Allowance for obsolete and slow-moving items and write down to net realisable value	(49)	(28)
Total inventories, net	**877**	**1,007**

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

	2015	**2014**
Balance at the beginning of the year	**28**	**25**
Change in allowance for slow-moving items	2	14
Write down to net realisable value	26	-
Effect of translation to presentation currency	(7)	(11)
Balance at the end of the year	**49**	**28**

17. TRADE AND OTHER RECEIVABLES

	31 December	
	2015	**2014**
Trade receivables	346	520
Allowance for doubtful receivables	(17)	(26)
Total financial assets within trade and other receivables, net	**329**	**494**
Advances paid	15	30
Prepaid expenses	8	6
Other receivables	23	28
Total trade and other receivables, net	**375**	**558**

Guarantee letters received in relation to trade receivables that are neither past due nor impaired amounted to USD 180 million (31 December 2014: USD 159 million).

As at 31 December 2015 and 31 December 2014 financial assets are presented by:

	Trade receivables	
	2015	**2014**
Neither past due nor impaired	297	452
Past due but not impaired	32	42
Individually determined to be impaired	17	26
Less impairment provision	(17)	(26)
Total financial assets	**329**	**494**

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

17. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

	31 December	
	2015	**2014**
Less than 30 days	9	28
30-60 days	7	4
60-90 days	5	2
90-120 days	1	1
Over 120 days	10	7
Total	**32**	**42**

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

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

	31 December	
	2015	**2014**
Balance at the beginning of the year	**26**	**42**
Increase in allowance	3	3
Provision utilised	(7)	(7)
Effect from sale of subsidiaries	-	-
Effect of translation to presentation currency	(5)	(12)
Balance at the end of the year	**17**	**26**

18. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

	31 December	
	2015	**2014**
Non-current		
Available-for-sale investments, at fair value		
Listed equity securities	212	348
Unlisted securities	2	4
Total non-current	**214**	**352**
Current		
Financial assets, at fair value through profit or loss		
Trading equity securities	-	3
Trading debt securities	4	3
Share in mutual investment fund	1	2
Bank deposits, USD bearing interest rate of 1.2 – 3.70%	260	222
Bank deposits, EUR bearing interest rate of 0.7 – 2.00%	90	-
Bank deposits, RUB bearing interest rate of 10.51%	4	-
Total current	**359**	**230**

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

18. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS (CONTINUED)

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 no significant influence. At 31 December 2015 and 2014, the investments revaluation reserve resulting from unrealised holding gains and losses on these securities was USD 121 million and USD 224 million, respectively, net of related income tax effect of USD nil million, respectively. Fair value of non-current listed equity securities is based on the public shares quotes. Investment is BB rated based on the credit ratings of independent rating agency Standard&Poors.

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

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

The net loss on revaluation of trading securities for the years ended 31 December 2015 and 2014 was USD nil million and USD 1 million, respectively. These results are included in other operating income/expenses in the consolidated statement of comprehensive income.

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

	31 December	
	2015	**2014**
BBB-to BBB+ rated	228	125
BB-to BB+ rated	125	97
Total	**354**	**222**

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

19. CASH AND CASH EQUIVALENTS

	31 December	
	2015	**2014**
Cash in banks, RUB	18	144
Cash in banks, EUR	31	25
Cash in banks, USD	43	38
Cash in banks, TRY	1	1
Bank deposits, RUB bearing interest rate of 3.50%-11.30% (31 December 2014: 8.00%)	66	12
Bank deposits, USD bearing interest rate of 0.62%-1.20% (31 December 2014: 3.00%-4.00%)	199	84
Bank deposits, TRY bearing interest rate of 0.25%-3.05% 31 December 2014	-	2
Bank deposits, EUR bearing interest rate of 2.60% (31 December 2014:2.60%)	11	21
Total	**369**	**327**

19. CASH AND CASH EQUIVALENTS (CONTINUED)

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

	31 December	
	2015	**2014**
A to AAA rated	4	3
BBB-to BBB+ rated	231	96
BB-to BB+ rated	132	219
Other	2	9
Total	**369**	**327**

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

20. SHARE CAPITAL

Common stock

	31 December	
	2015	**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 2014	11,174,330	(10,698)	11,163,632
Acquisition of treasury shares	-	(320,530)	(320,530)
Re-issuance of treasury shares	-	303,060	303,060
Balance at 31 December 2014	**11,174,330**	**(28,168)**	**11,146,162**
Acquisition of treasury shares	-	(967,590)	(967,590)
Re-issuance of treasury shares	-	993,922	993,922
Balance at 31 December 2015	**11,174,330**	**(1,836)**	**11,172,494**

Treasury stock

At 31 December 2015 and 2014, the Group held 1,836 thousand and 28,168 thousand, respectively, issued common shares of the Parent Company as treasury stock.

Investments revaluation reserve

The investments revaluation reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the reporting date and is dealt with in accordance with the accounting policies set out in Note 4.

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

20. SHARE CAPITAL (CONTINUED)

Currency translation reserve

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

Shareholders' voting rights

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

Dividends

On 28 September 2015 the Parent Company declared an interim dividend of RUB 0.58 (USD 0.01) per ordinary share in respect of the six months ended 30 June 2015 representing a total dividend of USD 99 million, net of dividends in respect to treasury shares. USD 103 million of dividend was paid out in 2015 and the difference with the declared amount is caused by the change in the exhange rates.

On 12 December 2014 the Parent Company declared a interim dividend of RUB 0.58 (USD 0.01) per ordinary share in respect of the nine months ended 30 September 2014 representing a total dividend of USD 118 million, net of dividends in respect to treasury shares. USD 117 million was paid out in 2014 and the difference with the declared amount is caused by the change in the exhange rates.

21. LONG-TERM BORROWINGS

	Type of Interest rate	Annual interest rate, actual at 31 December 2015	Annual interest rate, actual at 31 December 2014	31 December 2015	31 December 2014
Unsecured listed bonds, RUB	Fixed	-	9%	-	84
Secured loans, USD	Floating	6%	5%	154	206
Secured loans, USD	Fixed	-	4%	-	10
Secured loans, EUR	Fixed	6%	6%	132	195
Unsecured loans, USD	Floating	4%	3%	571	794
Unsecured loans, RUB	Fixed	-	9%	-	254
Unsecured loans, EUR	Floating	1%	2%	97	179
				954	**1,722**

Loans

The company has various borrowing arrangements in RUB, USD and EUR denominations with various lenders. Those borrowings consist of unsecured and secured loans and credit facilities. At 31 December 2015 and 2014, the total unused element of all credit facilities was USD 1,014 million and USD 1,114 million, respectively.

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

21. LONG-TERM BORROWINGS (CONTINUED)

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

- the ratio of consolidated debt to consolidated EBITDA should not exceed 3.5:1;
- the ratio of consolidated EBITDA to consolidated debt service should not be less than 1.3:1; and
- the ratio of consolidated debt to consolidated equity should not exceed 1:1.

At 31 December 2015 and 2014, the Group was in compliance with its debt covenants.

At 31 December 2015 and 2014, long-term loans were secured by the Group's property, plant and equipment with a net carrying amount of USD 636 million and USD 706 million, respectively, and shares in a subsidiary with a carrying amount of net assets of USD 466 million and USD 536 million, respectively.

Debt repayment schedule

Year ended 31 December 2015	
2016 (presented as current portion of long-term borrowings, Note 25)	852
2017	681
2018	178
2019	95
2020 and thereafter	-
Total	**1,806**

Year ended 31 December 2014	
2015 (presented as current portion of long-term borrowings, Note 25)	702
2016	849
2017	643
2018	143
2019 and thereafter	87
Total	**2,424**

22. SITE RESTORATION PROVISION

	31 December	
	2015	**2014**
Balance at the beginning of the year	**94**	**192**
Unwinding of discount rate	13	20
Change in estimates	64	(29)
Disposal of subsidiaries	(5)	-
Provision utilised	(9)	(10)
Effect of translation to presentation currency	(23)	(79)
Balance at the end of the year	**134**	**94**
Included in the consolidated statement of financial position as:		
Current portion of site restoration provision	8	6
Long-term portion of site restoration provision	126	88
Total	**134**	**94**

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

22. SITE RESTORATION PROVISION (CONTINUED)

According to environmental regulation and Ecological program approved by the management in 2013 the Group recognised a provision for restoration of land and open pit in Magnitogorsk up to 2037. At the moment of provision recognition there were no assets in the consolidated statement of financial position related to this provision due the open pit was depleted long years ago.

In 2015 the management reassessed the cost of restoration of open pit due to increase in land rent costs and changes in discount rate and increased relative provision by USD 59 million accordingly and recognized it as part of other expenses. Provision for restoration and closing mine of mine shaft was increased by USD 5 million and capitalized to the costs of related assets. The Group used discount rate of 9,72% (2014:12,59%) to calculated provision.

23. DEFINED CONTRIBUTION PLANS

Payments to the Russian Federation State Pension Fund amounted to USD 112 million and USD 173 million for the years ended 31 December 2015 and 2014, respectively.

24. TRADE AND OTHER PAYABLES

	31 December	
	2015	**2014**
Trade accounts payable	339	387
Dividends payable	1	2
Total financial payables within trade and other payables	340	389
Advances from customers	87	190
Other taxes payable	35	75
Salaries payable	46	59
Interest rate swaps	-	2
Other current liabilities	8	21
Total trade and other payables	**516**	**736**

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

	31 December	
	2015	**2014**
Due in:		
1 month or less	275	379
1-3 months	43	10
3 months to 1 year	22	-
Total	**340**	**389**

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

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

	Type of Interest rate	Annual interest rate, actual at 31 December		31 December	
		2015	**2014**	**2015**	**2014**
Short-term borrowings:					
Secured loans, USD	Floating	1%	2%	14	28
Secured loans, USD	Fixed	-	2%	-	27
Secured loans, EUR	Floating	1%	2%	3	3
Unsecured loans, USD	Fixed	1%	2%	24	50
Unsecured loans, RUB	Fixed	-	17%	-	53
				41	**161**
Current portion of long-term borrowings:					
Unsecured listed bonds, RUB	Fixed	9%	9%	71	97
Secured loans, USD	Floating	6%	5%	63	65
Secured loans, USD	Fixed	4%	3%	36	10
Unsecured loans, EUR	Floating	1%	2%	66	78
Secured loans, EUR	Fixed	6%	6%	63	62
Unsecured loans, USD	Floating	3%	3%	327	323
Unsecured loans, RUB	Fixed	10%	9%	215	66
Unsecured loans, USD	Fixed	-	-	-	-
Unsecured loans, EUR	Fixed	3%	4%	11	1
				852	**702**
Total				**893**	**863**

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

	31 December	
	2015	**2014**
RUB-denominated	10%	11%
USD-denominated	4%	3%
EUR-denominated	3%	3%

At 31 December 2015 and 2014, short-term borrowings were secured by inventories and/or trade receivables of USD 16 million, and USD 30 million, respectively.

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

	31 December	
	2015	**2014**
Due in:		
1 month	97	180
1-3 months	225	158
3 months to 1 year	571	525
Total	**893**	**863**

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

26. RELATED PARTIES

Transactions and balances outstanding with related parties

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

The Group enters into transactions with related parties in the ordinary course of business for the purchase and sale of goods and services and in relation to the provision of financing agreements to and from the Group entities. Transactions with related parties are performed on arms length basis.

Details of transactions with and balances between the Group and related parties at 31 December 2015 and 2014 and for the years ended 31 December 2015 and 2014 are disclosed below.

a) Transactions with associates of the Group

	2015	2014
Purchases	92	192

	31 December	
Balances outstanding	**2015**	**2014**
Accounts payable	1	3

b) Transactions with other related parties

	2015	2014
Revenue	266	252
Purchases	14	-
Bank charges	2	3

	31 December	
Balances outstanding	**2015**	**2014**
Cash and cash equivalents	69	62
Accounts receivable	21	23
Accounts payable	1	-

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

Remuneration of the Group’s key management personnel

Key management personnel of the Group receive only short-term employment benefits. For the years ended 31 December 2015 and 2014, key management personnel received as compensation USD 12 million and USD 13 million, respectively.

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

27. RISK MANAGEMENT ACTIVITIES

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

Liquidity risk

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

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

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

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

2014	**Weighted average effective interest rate, %**	**Total**	**Due within one month**	**Due from one to three months**	**Due from three to twelve months**	**Due in the second to fifth years**
Fixed rate borrowings						
Principal	8%	**927**	63	18	249	597
Interest		**103**	11	7	38	47
		1,030	**74**	**25**	**287**	**644**
Floating rate borrowings						
Principal	3%	**1,687**	97	129	237	1,224
Interest		**111**	8	10	30	63
		1,798	**105**	**139**	**267**	**1,287**
Total		**2,828**	**179**	**164**	**554**	**1,931**

Credit risk

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

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

27. RISK MANAGEMENT ACTIVITIES (CONTINUED)

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

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

At 31 December 2015 and 2014, the Group's maximum exposure to credit risk for trade and other receivables including trade and other receivables from related parties by type of customers was as follows:

	31 December	
	2015	**2014**
Automobile producers	33	44
Traders	48	67
Tube plants	56	151
Other industries	192	232
Total	**329**	**494**

Foreign currency risk

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

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

At 31 December 2015 and 2014, the carrying amounts of the Group's monetary assets and liabilities denominated in foreign currencies other than its functional currencywere as follows:

	31 December 2015		31 December 2014	
	EUR	**USD**	**EUR**	**USD**
Assets				
Cash and cash equivalents	42	210	46	82
Deposites	90	260		222
Trade receivables	26	68	51	53
Total assets	**158**	**538**	**97**	**135**
Liabilities				
Trade payables	(47)	(102)	(35)	(75)
Borrowings	(373)	(898)	(525)	(1,215)
Total liabilities	**(420)**	**(1,000)**	**(560)**	**(1,290)**
Total net position	**(262)**	**(462)**	**(463)**	**(1,155)**

The table below details the Group's sensitivity to devaluation of the RUB against USD and EUR by 20% (2014: by 10%), which management believes is an appropriate measure in the current market conditions and which would impact its operations.

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

27. RISK MANAGEMENT ACTIVITIES (CONTINUED)

	EUR impact		USD impact	
	2015	**2014**	**2015**	**2014**
Loss	(52)	(46)	(92)	(116)

Interest rate risk

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

The table below details the Group's annualised sensitivity to change of floating rates (LIBOR, EURIBOR, Mosprime) by 2% (2014:1%), which management believes is an appropriate measure in the current market conditions and which would impact its operations. The analysis was applied to borrowings based on the assumptions that amount of liability outstanding at the date of the consolidated statement of financial position was outstanding for the whole annual period.

	31 December	
	2015	**2014**
Profit or loss	26	17

Equity and debt investment price risk

The Group is also exposed to investment price risk arising from holding equity and debt investments. Certain portion of the Group's investments is held for strategic, rather than trading, purposes. The sensitivity analysis below has been determined based on the exposure to equity and debt price risks at the reporting date.

If equity and debt prices had been 5% higher/lower:

- the investment revaluation reserve within equity would increase/decrease by USD 11 million (2014: increase/decrease by USD 17 million), as a result of changes in fair value of listed securities available-for-sale; and
- profit for the year would increase/decrease by USD nil million (2014: increase/decrease by USD 1 million), as a result of changes in fair value of listed debt and equity securities classified as fair value through profit or loss.

28. CAPITAL MANAGEMENT

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

As at 31 December 2015 the capital structure of the Group consists of debt in the amount of USD 1,847 million (31 December 2014: USD 2,585 million), share capital of USD 386 million (31 December 2014:USD 386 million) and retained earnings of USD 7,772 million (USD 7,458 million).

28. CAPITAL MANAGEMENT (CONTINUED)

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

There were no significant changes in the Group's approach to capital management during the year ended 31 December 2015 in comparison to the prior period.

29. COMMITMENTS AND CONTINGENCIES

Commitments for expenditure

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

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

At 31 December 2015, the Group had commitments under purchase agreements of approximately USD 130 million to acquire property, plant and equipment in 2015 (at 31 December 2014 – USD 75 million).

At 31 December 2015, the Group had commitments under purchase agreements of approximately USD 3,126 million to acquire in future periods through 2015-2022 coking coal, zinc, iron ore and natural gas (at 31 December 2014 – USD 5,215 million).

Penalties are payable or receivable under these agreements in certain circumstances and where supply terms are not adhered to. Management does not expect such conditions to result in a loss to the Group.

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

Operating leases

The land in the Russian Federation on which the Group's production facilities are located is owned by the State. The Group pays land tax based on the total area and the location of the land occupied. The amount of land tax for the years ended 31 December 2015 and 2014 was approximately USD 6 million and USD 10 million, respectively.

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

29. COMMITMENTS AND CONTINGENCIES (CONTINUED)

The Group leases land through operating lease agreements, which expire in various years through 2063. Future minimum lease payments due under non-cancellable operating lease agreements at 31 December were as follows:

	2015	2014
Due in one year	5	8
Due in the second year	5	6
Due thereafter	68	189
	78	**203**

Letters of guarantee

At 31 December 2015 and 2014, the letters of guarantee obtained from banks and given to suppliers and various government authorities amounted to USD nil million and USD 17 million respectively.

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 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.

Taxation contingencies in the Russian Federation

Russian tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged tax authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decisions about the review was made. Under certain circumstances reviews may cover longer periods.

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.

29. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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.

The Group includes companies incorporated outside of Russia. The tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax, because they do not have a permanent establishment in Russia. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the Group. In 2014, the Controlled Foreign Company (CFC) legislation introduced Russian taxation of profits of foreign companies and non-corporate structures (including trusts) controlled by Russian tax residents (controlling parties). Starting from 2015, CFC income is subject to a 20% tax rate. As a result, management reassessed the Group’s tax positions and recognised current tax expense as well as deferred taxes for temporary differences that arose from the expected taxable manner of recovery of the relevant Group’s operations to which the CFC legislation applies to and to the extent that the Group (rather than its owners) is obliged to settle such taxes. Refer to Note 14.

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

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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 31 December 2015 and 31 December 2014 (Level 3 of fair value hierarchy).

For assets and liabilies 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.

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

30. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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**
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**

	Level 1	**Level 2**	**Level 3**	**Total**
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:	**USD million**
At 1 January 2015	2
Changes in fair value estimation recognized during the year	(2)
Balance at 31 December 2015	**-**

31. EVENTS AFTER THE DATE OF STATEMENT OF FINANCIAL POSITION

In February 2016 European Union made decision to impose a provisional duty on imports of some cold-rolled steel products for Russian steel producers. The share of cold-rolled steel products in the Group's export is not significant. The Group is currently assessing the impact of the duty on it's financial results.

32. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2015 were approved by the Group’s management and authorised for issue on 15 February 2016.