Preliminarily approved by decision of the Board of Directors of PJSC MMK
Minutes dated 20/04/2018 No 15

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Minutes dated 01/06/2018 No. 49

MMK ANNUAL REPORT FOR 2017

CEO Pavel Shilyaev
Acting Director of MMK-UCHETNY CENTRE T.E. Berezina
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Letter from the Chairman of the Board of Directors

Dear Shareholders, colleagues and partners,

Global trends in the iron and steel industry in 2017 were the result of factors that had been developing over the past few years. The primary factor was overproduction of steel products and as a result heightened competition in global markets. Considerable surplus capacity remained in the steel industry in 2017 despite the closure of a number of obsolete and inefficient plants in China.

Trends in the Russian market are driven to a significant degree by global changes, and the global steel market has been marked by increased volatility over the past two years. While there were significant price fluctuations in 2017, the trend in prices for steel products has generally been positive following the declines of early 2016.

Based on analysis of market conditions and macro- and microeconomic factors, MMK's management crafted and have adopted the approaches to managing the Company set out in MMK Group's long-term growth strategy through 2025. The Company’s strategy specifies priority lines of activity in line with the requirements of the time. We made a strategic choice in favour of high-quality growth, strengthening MMK’s investment case and reinforcing the company’s positions in key markets.

The Company achieved impressive results in delivering on its strategic programme for 2000-2015. We substantially optimised the structure of our production and dramatically increased the proportion of HVA products, raised the share of deliveries to the domestic market across all main business lines, improved the availability of key raw materials and significantly reduced our debt burden.

The success of our programme for 2000-2015 established a solid foundation for our development strategy to 2025. During this new strategic phase, we are maintaining our steel products output capacity at 12 million tonnes, while working on increasing energy efficiency, reducing costs, improving the quality of products and services we offer our customers and creating innovative products. The Russian market remains our priority: we plan to maintain our target level for shipments to Russia and other CIS markets at 75-80% of total production volumes, and to continue increasing the share of HVA products. We are focusing on improving the Company's investment case still further by ensuring a high return on invested capital.

In terms of our results from the reporting period, strict adherence to key components of our corporate strategy meant MMK was able to cope with the challenges that arose during the year, and to finish 2017 with respectable production and financial results.

Demand for steel in Russia increased after the downturn of the previous few years thanks to a revival of investment activity in major steel-consuming sectors such as the construction, shipbuilding and automotive industries. That said, there was a clear decrease during the reporting period in demand for large-diameter pipes used in construction of oil and gas pipelines, but the options offered by our mill 5000 allowed MMK to diversify production in the face of fluctuations in demand.

In 2017, we commissioned continuous hot-dip galvanising line No 3, which has capacity of 360,000 tonnes per year. This project was implemented in line with the Company's priority of increasing its share of HVA products. The launch of the new line was recognised as Event of the Year in the Russian Steelmaking Industry by the organising committee of the Metal-Expo exhibition.
Other significant projects in 2017 included completion of the construction of aspiration systems for casting beds at blast furnaces Nos 9 and 10, as well as reconstruction of the gas-cleaning units at the electric arc furnace plant. Another noteworthy event was the acquisition of assets from Lysva Metallurgical Company, which will consolidate MMK Group’s market position by expanding our product line and increasing our overall efficiency and competitiveness through increased production volumes and sales of HVA products. 2017 was also marked by a number of significant production achievements. In May, for example, Thick Plate Mill 5000 exceeded 8 million tonnes since being commissioned. In October, steelmakers in Magnitogorsk surpassed 800 million tonnes of steel produced since the commissioning of the first open-hearth furnace in 1933.

2017 was declared the Year of the Environment in Russia. MMK pays special attention to environmental protection, and one of the Company’s priorities to 2025 will be to retain its multi-dimensional approach to reducing its environmental footprint. As part of the Company's long-term environmental programme, we will be adopting leading-edge technologies, particularly in the construction of our new sintering plant No 5, coke oven battery and blast furnace, along with the subsequent decommissioning of units that do not meet current environmental safety requirements. Our efforts in environmental protection in 2017 did not go unnoticed. For example, as of the end of the year, MMK was the only steel producer in the WWF’s list of Russia’s 10 most environmentally responsible metals and mining companies. In addition, we were honoured with an Eco-Technology award at the national ERAECO 2017 awards.

In its activities, MMK strictly follows the core principles of corporate social responsibility (CSR). We see CSR as a long-term investment that creates the foundation for the sustainable development of the Company and the region where it operates. MMK's personnel represent the Company’s core values and are its most important asset. During the reporting year, MMK continued to approach its CSR obligations without reservation. 2017 brought MMK some well-deserved recognition, both nationally and internationally. Notably, Forbes recognised MMK as Russia’s best employer, while towards the end of the year the Company was among the winners of the annual Leaders of Russian Business: Dynamics and Responsibility competition run by the Russian Union of Industrialists and Entrepreneurs, taking top spot in the Human Resources Development category.

MMK’s strategic goal through 2025 remains unchanged. We aim to be one of the world’s top steelmakers in terms of both production volumes and total returns for shareholders. To achieve this, we are working on a number of key priorities as part of several specially developed strategic initiatives.

Since its foundation, Magnitogorsk Iron and Steel Works has consistently risen to meet the challenges that have faced it, and its professional, tight-knit team has been able to deliver on even the most ambitious goals. We plan to keep moving forward, growing and developing. I am confident that all our planned programmes will be implemented on time and in full. In doing so, we will improve MMK Group’s global competitiveness and deliver attractive returns for shareholders. This in turn will improve working conditions and quality for employees of MMK companies operating in Russia and abroad.

I would like to offer my sincere thanks to the Company’s esteemed shareholders and partners, and to all of the staff of MMK and Group companies for their trust, cooperation and valuable contributions to our shared achievements.
MMK in 2017

MMK is one of the world’s largest steel producers and a leading Russian metals company.

The Company’s operations in Russia include a large steel-producing complex encompassing the entire production chain, from iron-ore processing to downstream production of rolled steel.

MMK’s output includes a broad range of steel products with a predominant share of high-value-added products.

### Key results for 2017

<table>
<thead>
<tr>
<th>MMK Group steel</th>
<th>MMK Group revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>12.9 million tonnes</strong></td>
<td><strong>USD 7.546 billion</strong></td>
</tr>
<tr>
<td>MMK Group steel products</td>
<td>EBITDA</td>
</tr>
<tr>
<td><strong>11.6 million tonnes</strong></td>
<td><strong>USD 2.032 billion</strong></td>
</tr>
<tr>
<td>Cash cost of slab, USD/t</td>
<td>EBITDA margin</td>
</tr>
<tr>
<td><strong>283</strong></td>
<td><strong>26.9%</strong></td>
</tr>
<tr>
<td>Share of HVA products across the Group</td>
<td>Net debt/EBITDA</td>
</tr>
<tr>
<td><strong>45.4%</strong></td>
<td><strong>-0.01x</strong></td>
</tr>
<tr>
<td>Share of the Russian market</td>
<td>Steel production capacity utilisation</td>
</tr>
<tr>
<td><strong>16.6%</strong></td>
<td><strong>92%</strong></td>
</tr>
</tbody>
</table>

Position in the Russian steel market

**#1**

(According to the Metal Expert News Agency)

**AWARDS, ACHIEVEMENTS AND KEY EVENTS IN 2017**

**February**

MMK turns 85. In 1932, MMK’s first blast furnace produced its first pig iron. That was the day our plant was born.

MMK completed reconstruction of the sulphur-capture systems designed to purify sulphur compounds and fine dust from waste gases at sintering plant No 2. During the
reconstruction, modern dust- and gas-capture systems were installed to clean sulphur compounds and fine dust from all waste gases. The sulphur-capture system at sintering plant No 2 removes 95% of sulphur dioxide from sintering gases.

**March**

Moody's confirmed MMK's corporate family rating at Ba1 and its probability of default at Ba1-PD. The outlook on the company's rating was revised from negative to stable.

**April**

MMK held a Capital Markets Day in London to celebrate the 10th anniversary of its listing on the London Stock Exchange. The Chairman of MMK's Board of Directors, Victor Rashnikov, and a team of the Company's top executives gave presentations to the investment community about MMK's development and progress made on execution of the Company's corporate strategy through 2025.

The oxygen-converter plant smelted its 200 millionth tonne of steel since being commissioned.

**May**

MMK was awarded several medals and certificates at the 20th Archimedes Moscow International Salon of Inventions and Innovative Technologies.

**July**

Continuous hot-dip galvanising unit No 3 was put into operation at Rolling Mill No 11. As a result, MMK's galvanised steel production capacity increased by almost 20%, to more than 2 million tonnes per year.

MMK-Metiz signed a special investment contract with the regional Ministry of Economic Development for modernising production of metalware. The contract calls for RUB 39 billion in production by 2025.

The aspiration systems for the casting beds at blast furnaces Nos 9 and 10 were put into operation. The new aspiration systems help resolve environmental issues and also significantly improve working conditions for blast furnace operators in Magnitogorsk.

Reconstruction of gas-cleaning units was carried out at the electric arc furnace plant. Two obsolete wet gas scrubbers (Nos 32 and 33) were replaced with modern dry gas scrubbers. The new equipment is designed to capture, cool and clean flue gases resulting from the operation of a dual-purpose steelmaking unit (DSA-32), as well as of fugitive emissions that previously did not enter the gas outlet. The system purifies gases with 99% efficiency, and will reduce dust emissions by 1,800 tonnes per year. This project won a special Eco-Technology prize at the national ERAECO 2017 awards.

MMK was among the winners in the Environmental Protection and Resource Conservation category at the 14th Mining and Metallurgical Companies with a Significant Social Impact – 2017 industry competition. The Company was awarded a certificate from the Ministry of Industry and Trade’s Metallurgy and Materials Department, the Association of Mining and Metallurgical Manufacturers of Russia and the Mining and the Metallurgical Trade Union of Russia.

MMK has developed unique technology to produce flat products for Arctic exploration, and won first prize at the 2017 International Competition of Scientific, Technical and Innovative Developments Aimed at the Development and Exploration of the Arctic and the Continental Shelf 2017.
October

The total amount of steel smelted at MMK throughout its entire history surpassed 800 million tonnes. This is a record for the metals industry in Russia.

Forbes magazine published its ranking of the world’s top 500 employers. MMK ranked 214th, the best result among Russian companies.

MMK was among the winners at the national Professional Procurement Leaders competition, one of the most important events in Russia for assessing companies' procurement activities.

MMK and the Skolkovo Development Foundation signed an agreement to establish a research centre. With the centre's assistance, MMK plans to implement a number of innovative projects at its main industrial site with annual economic impact of more than RUB 100 million.

November

MMK won the Metallurgy category at the national Priority-2017 competition in the field of import substitution for the development of capacity to produce high-quality galvanised steel.

MMK was a winner at the Event of the Year in the Russian Steelmaking Industry competition for the construction of its continuous hot-dip galvanising line, which was launched in July 2017.

The MMK Trading Company and its subsidiaries received several prestigious awards from the Russian Union of Metal and Steel Suppliers. Awards were received in the categories Best Steel and Metal Warehouse in Russia-2017, Best Steel Service Centre in Russia-2017 and Best Sales Network in Russia-2017.

As part of the Metal-Expo 2017 exhibition, MMK-Metiz was awarded a silver medal for developing and launching production of 9mm, 10mm and 12mm class 2B carbon steel wires.

December

MMK was named among the World Wildlife Fund’s 10 most environmentally responsible mining and metallurgical companies in Russia in 2017. MMK ranked in eighth place, the highest of any Russian steelmaker.

As of the end of 2017, MMK was the leader among Russian manufacturers of galvanised and coated steel products according to authoritative industry publication Metallosnabzhenie i sbyt (Metal Supply and Sales).

MMK completed the acquisition of 100% of the assets of Lysva Metallurgical Group (LMK), with LMK’s companies becoming part of MMK Group.

In 2017, MMK began renovating its recirculated water supply system with the expansion of the cooling tank. The goal of the project is to switch to a recirculated water supply system that is closed to the maximum extent possible, which will minimise the environmental burden on the Magnitogorsk Reservoir. Implementation of the project is scheduled for 2017-2018. Once completed, discharge volumes into surface waters will be reduced by about 90%.

In 2017, MMK donated a thousand trees to the children of Magnitogorsk. This was timed to coincide with the Year of the Environment and was organised jointly with the city administration. At the initiative of MMK’s management, maple and ash trees were planted on the grounds of sponsored schools. MMK also allocated funds for the purchase of 460 coniferous trees that have already been planted in the city.
Trends in markets for raw materials and rolled steel

Demand for rolled steel

According to preliminary data from the World Steel Association (WorldSteel), global steel consumption increased in 2017 by 2.8% y-o-y to 1,622 million tonnes. The trend in all key steelmaking regions – the CIS, Asia, the EU, Middle East and North America – was positive, with stable growth in demand for steel products for the second year in a row.

Consumption in Asia increased by 2.9% y-o-y to 1,099 million tonnes. In the CIS, market capacity increased by 3.6% y-o-y to 51 million tonnes. Demand for rolled steel in the EU continued its steady recovery for the fifth consecutive year, with growth of 2.4% y-o-y to 162 million tonnes. The Middle East improved by 1.5% y-o-y to 54 million tonnes, while NAFTA countries recorded some of the fastest growth, increasing 4.6% y-o-y to 138.7 million tonnes.

Steel production and capacity utilisation

According to WorldSteel, global steel production rose in 2017 by 5.3% to 1,691 million tonnes. The major steel-producing countries driving this production growth were: Vietnam (31.9% y-o-y), Iran (21.4%), Turkey (13.1%) and India (6.2% y-o-y).

<table>
<thead>
<tr>
<th>Year</th>
<th>World crude steel production, million tonnes</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td></td>
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<tr>
<td>2016</td>
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<td>2015</td>
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<td>2010</td>
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</tbody>
</table>

In 2017, steel production in China increased by 5.7%, or 24.7 million tonnes, over 2016 to 831.7 million tonnes. At the same time, exports from China decreased by 30.6% to 75.6 million tonnes y-o-y, while import volumes remained flat. The Chinese government continued its policy to stimulate economic growth, resulting in a 6.9% increase in GDP and a 7.2% increase in investments, including a 7% increase in the real-estate sector. In 2017, China's production of cars and commercial vehicles increased 3.2%, while truck output was up 13%. Despite the adoption of a number of restrictive measures designed to protect the environment, large and medium-sized metals companies in China were able to increase production.

Japan produced 104.7 million tonnes of steel in 2017, a 0.1% decrease compared to 2016, though the country did remain the world’s second-largest producer. At the same time, there was a redistribution of sales volumes in Japan – as in China – between the domestic market and exports. Consumption of steel products in the country increased, partly because of the start of construction for the 2020 Olympic Games in Tokyo. Exports decreased due to the high cost of Japanese rolled products and import substitution in India, Vietnam and China.
As in 2016, India continued to increase production in 2017. As a result, steel production amounted to 101.4 million tonnes, an increase of 6.2%, or 5.9 million tonnes, over 2016.

In the EU, steel production in 2017 was 168.7 million tonnes, an increase of 4.1% compared to 2016. The long-term policy of zero interest rates had an impact: engineering industries, including carmaking, and the construction sector experienced rapid growth rates in a number of EU countries in 2017.

In 2017, steel production in North America increased by 4.8% to 116 million tonnes, with production in the US growing by 4% to 81.6 million tonnes. A recovery in the oil sector and the new administration's policy aimed at protecting the domestic market and stimulating industry contributed to growth in the national steel industry.

In South Korea, steel production reached 71.1 million tonnes, 3.7% more than in 2016.

In Turkey, steel production increased by 13.1% in 2017 to 37.5 million tonnes compared to 2016. The increase in Turkish steel production was due to accelerated growth in the national economy in 2017 as a result of state investments, increased lending and favourable market conditions.

According to Metal Expert, steel production in Russia increased by 1.2% to 71.7 million tonnes. In the CIS region overall, according to WorldSteel, steel production remained flat in 2017, amounting to 102.1 million tonnes. In Ukraine, 22.7 million tonnes of steel was produced, down 6.4% from 2016.

Average utilisation of world steel-making capacity in 2017 increased by 2.9 percentage points y-o-y to 72.3%. This growth was primarily due to the reduction of surplus and semi-legal capacity in China in 2017.

**Commodity markets**

The competitiveness of Russian steelmaking companies continued to improve in 2017 due to a strong increase in prices for metal products (in absolute terms) compared to prices for basic raw materials, a trend that persisted throughout the year. In addition, every company in the Russian steel industry continued to reduce costs.

It is also worth noting that prices for raw materials in Russia follow world markets and export parity prices with a certain time lag, which also improves the competitiveness of Russian steelmakers during periods of rising raw-materials costs in comparison with a number of global competitors.

Prices of raw materials on global markets were volatile in 2017, with elevated prices at both the beginning and the end of the year. On average, global prices increased significantly in 2017 compared with 2016. The base price for iron ore (62% Fe) increased by more than 20% y-o-y, and spot prices for coking coal increased by about 30-40% (while coal prices in long-term contracts increased by 50-85% y-o-y).
An important factor behind the increase in prices for raw materials and rolled steel in international markets in 2017 was the acceleration of global economic growth, which was positively reflected in growth in steelmaking capacity utilisation. However, the programme to reduce surplus capacity in China's steel sector, which took out about 50 million tonnes of legal, obsolete capacity and about 140-150 million tonnes of illegal capacity, continued to play a key role. As a result, the profitability of the largest steelmaking companies continued to grow, leading to a reduction in volumes of steel exports from China and thus ensuring fairer competition in international markets.

According to CRU, MMK ranked among the top five companies globally in the cost curve for production of hot-rolled coils for the third consecutive year. This position gives the Company strong competitive advantages not only in its strategically important domestic market, but also in export markets, even despite growing protectionism around the world.

In 2017, the global average prime cost of hot-rolled coils increased by 13% y-o-y to USD 414/tonne for the first time in the last three years.
Two-thirds of the increase in global costs was the result of a rise in the cost of basic raw materials – coking coal, iron ore and ferrous scrap – in world markets. Nevertheless, prices for rolled steel grew at a faster pace, and the position of the global steelmaking industry and MMK in particular remained stable.

MMK's prime cost for hot-rolled coils remained significantly lower than the global average, although the appreciation of the rouble resulted in higher costs in dollar terms.

**Global markets**

In 2017, China reduced its exports of rolled steel by 30.6% y-o-y to 75.6 million tonnes, which was an important factor in supporting the increase in global prices. Export shipments from Russia decreased by 2.5% to 27.9 million tonnes. For Russian steelmakers, the domestic market is a priority; exports were therefore reduced against a backdrop of growing domestic consumption.

Turkey significantly strengthened its position as an exporter of flat products in 2017, increasing shipments by 39.2% y-o-y to 4.3 million tonnes. The EU became the largest export market for Turkey, which was aided to a significant degree by antidumping duties introduced in the EU against China and Russia.

Vietnam increased exports of steel products as competition declined with China in international markets, especially South-East Asia. According to preliminary data, exports of rolled steel from Vietnam increased by 27% y-o-y in 2017, with more than half of exports delivered to ASEAN countries.

**Prices for rolled steel in international markets**

Global prices for rolled steel not only recovered in 2017 following the decrease in 2015, but by December they had reached their highest level since 2013. Two major factors pushed prices upward:

1. Continuing restructuring in China's steelmaking industry: in China, the reduction in surplus steel capacity led to a reduction in competition between steelmakers in the domestic market and a decrease in exports. In addition, for the first time in recent years, the Chinese government restricted loading of blast furnaces in the winter of 2017-2018 to improve the environmental situation in large cities;
2. Increased protectionism around the world: the EU and the US continued to limit imports, which resulted in the strengthening of the market positions of domestic steelmakers and increases in their official price lists throughout 2017.

According to Platts, average annual export quotes for hot-rolled coils from China and the CIS increased by more than a third y-o-y to USD 505/tonne FOB and USD 496/tonne FOB, respectively.

In the rebar segment, 4Q 2017 saw a sharp increase in export prices from China as a result of a short-term deficit of long products in the domestic market due to the closure of induction furnaces. Export prices from the CIS were also up by the end of the year.
The Russian market

By and large, prices for rolled steel in the Russian market in 2017 continued to follow trends in global markets. Prices in the domestic market followed the downward trend in world prices in the first half of the year before returning to growth in the second half of the year. Overall, at the end of 2017, the average price in the Russian market was higher than in 2016 despite the strengthening of the rouble.

According to Platts, the average annual price in the Russian market for hot-rolled coil increased by 4.5%, while the price of rebars was up 10.5%.

Sales to Russia's domestic market continue to offer favourable prices compared to exports, thanks to modern equipment and technologies that allow Russian steelmakers to compete with international peers, a large share of HVA products and the provision of additional services to Russian customers.

Trends in metal consumption in the Russian market

The Russian market for metal products in 2017 was marked by the start of a recovery in domestic demand after declines seen in previous years. Stabilisation and positive changes in the economy contributed to a gradual revival in investment activity. According to Rosstat, industrial production increased by 1% in 2017 compared to 2016. According to Metal Expert, steel production in Russia totalled 71.7 million tonnes in 2017, up 1.2% y-o-y, while production of rolled steel (excluding re-rolled products) reached 66 million tonnes (up 1.4%).

According to Metal Expert, the apparent consumption of rolled steel in the Russian Federation amounted to 43.6 million tonnes (up 6.9% y-o-y). And while growth in domestic demand remains below pre-crisis levels, there were positive trends in all the main branches of steel consumption, to varying degrees.

Pipe industry

According to Metal Expert, production of welded pipes increased by 7% to 8.0 million tonnes. Increases were seen in the production of large-diameter pipes (LDP) (up 7.4% to 2.6 million tonnes) and pipes used in construction (up 4% to 3.9 million tonnes).

Apparent consumption of welded pipes in Russia decreased by 1% to 6.9 million tonnes. According to Metal Expert, consumption of LDPs in Russia in 2017 decreased by 20% y-o-y to 1.7 million tonnes. However, exports reached 1.08 million tonnes, a nearly threefold increase. The majority of this production was shipped to cement plants in Finland for the Nord Stream 2 pipeline. Demand for oil and gas pipelines increased by 5.9%. In the construction-pipes segment (up 7%), the main driver of growth were preparations for the World Cup in 2018, as well as state-run programmes for capital repairs and preferential mortgage lending. Demand for pipes for engineering increased by 4.9% due to increases in production in the engineering and automotive industries.

Most LDPs produced in Russia in 2017 were shipped for the construction of the Power of Siberia and Ukhta-Torzhok 2 gas pipelines, as well as for the expansion of the gas-turbine station on the section from Gryazovets to the Gulf of Finland, and for the Nord Stream 2 pipeline.

Production of welded pipes in 2017 recovered in all segments, along with an increase in the consumption of flat products. As of the end of the year, purchases of strips had increased by 7% y-o-y to 8.4 million tonnes. Purchases of thick sheets for LDP production increased by 6% and reached about 2.69 million tonnes.

In 2017, MMK delivered 1.9 million tonnes of rolled steel to the pipe industry (up 0.7% y-o-y).
Automotive manufacturing

In 2017, carmaking was the fastest growing Russian industry. According to an analytical survey by ASM-Holding, production of passenger vehicles increased in 2017 by 19.9% y-o-y to 1,348,000 units, trucks (including the chassis) increased by 18.6% to 160,800 units, while bus output decreased by 2.6% to 42,800 units.

Significant growth in automotive industry output was partly due to the steep decline of the four previous years, leading to an accumulation of deferred demand. The impetus for growth in demand for passenger cars was the stabilisation of the economy and the exchange rate, the reduction in lending rates, as well as a number of measures taken by the government to stimulate the economy, including programmes for recycling, preferential car loans, export support and the First Car and Family Car programmes. According to the National Bureau of Credit Histories (NBKI), 713,600 passenger cars were sold on credit, an increase of 29.2% compared to the previous year and almost reaching the level seen in 2014.

In 2017, MMK shipped 528,000 tonnes of metal products to automakers (up 11.6% compared to 2016).

Railroad machinery

There was a significant increase in production in the carriage-building industry in 2017. According to Rosstat, 58,300 freight carriages were produced, an increase of 28.8% compared to 2016, while 963 passenger carriages were produced, up 49.1% on the previous year.

In 2017, MMK supplied 380,000 tonnes of rolled steel to railway manufacturers (up 58% compared to 2016).

Shipbuilding

According to railroad statistics, 147,500 tonnes of rolled steel were delivered to Russian shipbuilding and ship-repairing companies in 2017, a 23% increase from 2016.

In 2017, MMK shipped 93,000 tonnes of rolled steel to the shipbuilding industry (up 29% compared to 2016).

Construction industry

In 2017, the housing sector continued to feel the effects of the crisis and return to growth, but the decrease in homebuilding volumes and in construction work overall in Russia slowed. According to Rosstat, the volume of housing construction in Russia in 2017 decreased by 2.1% y-o-y, amounting to 78.6 million square metres. The volume of like-for-like construction work fell by 1.4%. Nevertheless, the record increase in mortgage lending in 2017 due to lower interest rates created the prerequisites for future growth in housing construction.

Work was carried out on numerous projects financed by the federal budget in 2017. Preparations were also under way for the 2018 World Cup. As part of the urban environment improvement programme, more than 2,700 projects worth a total of RUB 42 billion to upgrade parks, squares, embankments, etc., were implemented.

In 2017, MMK shipped 723,000 tonnes to the construction industry (down 8.9% compared to 2016).

MMK’s position in the industry

MMK ranks among the world’s 30 largest steel producers. Among Russian steelmakers, MMK has firmly occupied a niche and in recent years has consistently ranked in the top three, maintaining market share of around 17%. MMK is well positioned to operate effectively with a high level of profitability thanks to its advantageous geographical location in the Russian market and its wide range of products, including high-margin steel products.
The main changes in the structure of the Russian market for steel products in 2017 were due to a 50.4% y-o-y increase in imports of rolled steel, according to Metal Expert, increasing its share in the Russian market to 12.9%. The main inflow of imports into Russia was the result of an increase in deliveries of metal products from Kazakhstan (up 79.6%), where producers enjoy state subsidies. Another factor contributing to import growth was an increase in imports of thick sheets for LDP production, mainly for international projects (a twofold increase compared to 2016), as well as long products from Ukraine (up 45.8%, not including rails).
**MMK’s strategic achievements**

On the whole, the economic situation worldwide, and in Russia in particular, as well as geopolitical instability, are having a significant impact on the steel industry.

There was noticeable economic growth in virtually every steelmaking country and region of the world in 2017. Particularly encouraging is the fact that there were positive developments even in regions like Japan and the EU, which, in just the recent past, were experiencing rather gloomy results. The US economy is also growing much better than expected. Accelerating economic growth in the world is having a positive impact on the steel market, contributing to increased demand and higher prices.

The significant reduction in surplus and inefficient production capacity in China is contributing to the growth in capacity utilisation in the steel sector throughout the world, while also creating positive expectations in the stock market. This is helping increase the market capitalisation and profitability of the most efficient global companies, especially those working in fast-growing markets (China and India) or occupying highly profitable market niches.

At the same time, protectionism is spreading throughout the global steelmaking industry, especially in developed countries. This is contributing to higher prices, while also increasing competition in other regional markets.

Therefore, those companies that are able to further reduce costs, introduce new technologies, develop innovative and customised products with high added value, and that offer high-quality ancillary services have a great opportunity to expand and improve their financial standing.

**MMK Group development strategy and priorities**

**Vision**

MMK Group is a highly efficient Russian metals producer that adheres to the best practices for occupational health and environmental safety, and ensures the retention of professional, proactive and motivated personnel focused on meeting the needs of customers in the Russian market.

**MMK Group mission**

The Company strives to be a reliable supplier of high-quality steel products, satisfying the needs of Russian customers with the aim of developing the Company into a world leader in terms of efficiency, generating value for shareholders and improving the quality of life of our employees and the people in the communities where our assets are located.

**Strategic objective**

MMK Group aims to be one of the world’s top steelmakers in terms of both production volume and total shareholder return (TSR).

These goals can be achieved by meeting key challenges in the Company's six priority focus areas.
Our strategy is focused on strengthening relationships with customers and improving operational and functional efficiency, while strengthening our investment case and ensuring quality growth.

In our operations, we engage in constant interaction and open dialogue with our stakeholders, which enables us to take into account their needs and expectations. In turn, they contribute to our development and increase the value of our business. Sustainable development is an integral component of our Company's strategy, and it serves as the basis for investment and production activities and our relationships with all stakeholders.

We continue to implement a portfolio of strategic initiatives comprising 13 of the most significant initiatives in the Company's priority focus areas, aimed primarily at improving business processes.

**Value creation for the Company**

**1. Strengthening of positions in priority markets.**

Our objectives:

- meeting the current and future needs of our customers by developing support systems for customers, identifying individual needs and encouraging customer feedback;
- strengthening positions in the most lucrative geographic, sectoral markets;
- increasing sales margins through the development of niche products.

The Russian market remains strategically important for us. In 2017, 64% of MMK's steel products were sold to the domestic market. As has traditionally been the case, the Ural and the Volga regions were the largest buyers, accounting for 66% of MMK's domestic sales.
The development of HVS production remains an important area of operations for MMK. During the reporting year, we maintained our sales volumes of HVA products.

Following the commissioning of continuous hot-dip galvanising line No 3 in mid-2017, MMK's capacity for the production of galvanised steel increased by almost 20%, exceeding 2 million tonnes per year. At the end of 2017, as part of MMK's strategy aimed at integrating assets to ensure large-scale processing of metal products, MMK acquired 100% of LMK Group's assets. The acquisition of LMK's assets will strengthen PJSC MMK's position by expanding its product line. In addition, it will improve the overall efficiency and competitiveness of MMK Group due to increased production and sales of HVA products.

The strengthening of our position in this market has been facilitated in part by the development of our Torgovy Dom MMK distribution network. In 2017, Torgovy DOM MMK'S share of the Russian metal warehousing market increased to 7.3%, with 65.6% of sales made directly to end users.

We constantly interact with our stakeholders and strive to meet their needs and expectations as much as possible. This can be attained only by focusing on quality, service and delivery times.

Therefore, our strategic initiatives include the Deliveries on Time initiative and the No 1 Supplier for the Most Demanding Customers in the Domestic Automotive Industry initiative, which we have been carrying out over the past two years. As a result, as of the end of 2017, there was a high degree of customer satisfaction with the quality of products and services delivered.

2. Improving operational and functional efficiency

Our objectives:

- strengthening our positions as a low-cost producer in the global steel industry through the rapid adoption of global best practices and best available technologies;
- improving functional development.

Maintaining and strengthening our positions as a low-cost producer and cutting costs, including through improved energy efficiency, are key priorities.

Conserving resources is a strategic objective in any industry, especially in an energy-intensive sector such as steel production. MMK operates an energy management system aimed at reducing the share of energy costs in the cost of production. The Company's energy management system is aimed at improving energy performance, including energy efficiency, energy production and energy use.

In 2017, we continued implementing our project to develop an automated energy management platform.

The project allows us to achieve the following objectives:

- increased energy efficiency through the implementation of energy conservation measures;
- the concentration, reproduction and rapid scaling of best practices in energy efficiency;
- the optimisation of operating modes for power supply systems and equipment for production units;
- the provision of information on energy costs by micro-cost centres;
- the optimisation of business processes for the management of energy conservation under the energy management system;
- a decrease in the volume of emergency water and energy losses.
From 12 to 15 September 2017, auditors from the TÜV Thüringen eV certification body (Germany) conducted a supervisory audit and subsequently confirmed the compliance of MMK's energy management system with the requirements of the ISO 50001:2011 international standard.

The implementation of these measures to lower operational expenses allowed us to achieve the following results in 2017:

- recycling of waste products containing iron — 1.95 million tonnes (11% of total iron-ore consumption);
- percentage of recycling of coke oven gas — 98.9%; of blast furnace gas — 98.2%;
- self-sufficiency in electricity — 61.1%.

Over a number of years, we have been implementing a programme to increase production efficiency, and we have been achieving significant reductions in the consumption of material, fuel, energy and other types of resources on an annual basis. As a result of measures to improve production efficiency, MMK Group generated cost savings totalling USD 69.0 million for the year in 2017. The main areas of cost reductions were:

- the implementation of organisational and technical measures aimed at improving the efficiency of technological processes and reducing the consumption of raw materials and basic materials, which provided an additional USD 35.6 million in savings;
- the introduction of low-cost, high-impact investment projects (Baby Capex), the economic impact of which was USD 11.9 million for the year;
- invention and innovation brought an additional USD 10.3 million in savings;
- the implementation of energy-saving measures resulted in an additional USD 11.2 million in savings.

Monitoring the use of resources and the search for internal reserves to reduce costs allow MMK to reduce the negative impact of market factors and ensure the competitiveness of its products.

In 2017, we continued implementing projects through our investment programme. Our investment programme includes planned projects for the modernisation of sintering, coking and blast furnace production capacity, as well as infrastructure, energy and environmental projects. These projects will cut our prime cost and significantly reduce the impact of our operations on the environment.

In addition to implementing major investment projects aimed at achieving our objectives, we are also utilising the following three instruments:

- innovation – broad engagement of personnel to enact labour-saving initiatives;
- low-cost, high-impact projects (investment up to RUB 100 million with a recoupment period of no longer than two years);
- energy service agreements.

In addition, to eliminate bottlenecks and improve operational and functional efficiency, we decided that an important step is the introduction of lean manufacturing. An equally important strategic initiative for increasing efficiency is our Deliveries on Time initiative. Domestic clients should also be satisfied with the terms of delivery and quality of goods and materials, including raw materials.

3. Strengthening our investment case.

Enhancing the Company’s investment profile is important as it helps increase market capitalisation and the value of the Company's assets.
Our objectives:

- return profits to our shareholders through growth in profitability, increase in valuation multiples and a reduction in debt;
- a prudent financial and dividend policy, predictable plans for the Company;
- improvements to corporate governance;
- the provision of strategic and operational stability and business development through risk management.

Our achievements in 2017:

- we continued the Company's financial recovery plan and reduced our debt burden; our debt/EBITDA ratio was 0.27;
- the Russian Institute of Directors, using an updated methodology, confirmed our National Corporate Governance Score at 7++ (Developed Corporate Governance Practice);
- the Annual General Shareholders’ Meeting approved the payout of dividends at RUB 1.242 per share based on the Company’s performance in 2016;
- Extraordinary General Shareholders' Meetings approved the payout of dividends at RUB 0.869 and 1.111 per share based on the Company’s performance in H1 and Q3 2017, respectively;
- the measures stipulated in the Corporate Governance Improvement Programme for 2017 were successfully implemented.

In this priority area, the Concentration on Key Business initiative is being implemented. This means that the Company will gradually exit non-core assets and simplify its structure, which will make it more manageable.

Since December 2016, MMK and Dzhoshkunoz Alabuga have been implementing a project to create a steel service centre called MMK-Dzhoshkunoz Alabuga, a manufacturer of fabrications for the automotive industry. The service centre is going to be located in Alabuga, Russia's largest special economic zone for industry. MMK's participation in this project is one of the points of the Company's strategy to increase its production of HVA products for the domestic market. The implementation of this project will enable MMK to maintain its position in the automotive sheet market, as well as to strengthen its presence in the Volga region market. The launch of production is scheduled for May 2018.

Sustainable development

We set ourselves the goal of further bolstering our sustainability through improved industrial safety, personnel development, strengthening of partnerships in the region and decreasing our environmental impact.

4. Industrial safety

Our objectives: ensuring healthy and safe working conditions, industrial safety.

Industrial safety is one of our Company’s top strategic priorities. Much attention is focused on improving our systems for industrial safety and occupational health and the formation of a conscientious and unwavering stance against violations on the part of our employees.

There is one extremely important initiative in this area: zero tolerance for violations of workplace safety regulations. A key role in this area is played by the introduction of our 24/7 programme, whose motto is 'Safety doesn't take days off!' The programme is being implemented through an wide range of activities, from employee training to increased investment in workplace safety to the active participation of management, who motivate employees through their own personal examples.
We are striving to achieve leading positions among Russian companies in terms of industrial safety. The key factors driving our success in this area are:

- 100% engagement on the part of personnel
- The personal example and personal responsibility of managers
- Employee awareness and training initiatives, competency development; and
- Zero tolerance for safety violations at all levels.

**5. Development of professional personnel**

Our objectives:
- motivating personnel to reach goals through professional development and job satisfaction;
- ensuring a high level of productivity;
- providing a social safety net.

Our people are a vitally important resource and the guarantee of our long-term competitiveness and the successful functioning of our Company. Concern for the workforce capacity and health of personnel is one of the Company's priorities. The implementation of our human resources policy and systemic work with personnel has helped boost productivity and improved the level of professionalism of our workers. In 2017, labour productivity increased 1.5% y-o-y and reached 66.7 conditional tonnes per employee.

The Company's successful operations would not be possible without the development of professional staff. In addition to compulsory training and personal growth, this strategic area also involves the initiative Building the Capacity of Employees to Enhance MMK's Operational Efficiency. This means that, in performing their duties, employees must aim to achieve corporate goals. And for this, every worker should have more opportunities for decision-making, but also more responsibility for the results of their work.

**6. Social strategy**

Our objectives:
- resolving the problems associated with a one-company town;
- a clean city;
- promoting the health of workers.

Together with the Magnitogorsk city administration, we are implementing a strategic initiative called Resolution of Problems Related to a One-Company Town. This is a complex task, including seeking out points of growth for small and medium-sized businesses, attracting investors, creating jobs, improving living conditions, as well as conditions for rest and relaxation for residents.

One of the priorities of our Strategy is to improve the environmental situation and reduce air pollution. The Environmental Management System, certified under ISO 14001:2015, has been implemented and is performing well.

In our long-term planning and sustainable development, we devote a great deal of attention to issues of environmental safety and improving our system for managing environmental conversation. Actual costs for the implementation of the Environmental Programme in 2017 amounted to RUB 4.78 billion, including RUB 4.16 billion for capital construction.

Thanks to the implementation of our Environmental Programme in 2017, we achieved:
- a decrease in carbon intensity of air pollutants by 1.4%;
- a decrease in the discharge of specific pollutants into waste water by 1.1%;
- an increase in the recycling of tailings and slag to 10.3 million tonnes.
The Clean City strategic initiative, included in our portfolio of initiatives, is aimed at reducing any negative impact on the environment from our operations and provides for a Comprehensive Air Pollution Index (CAPI) score of less than 5, which indicates a low level of atmospheric pollution. It also provides for the implementation of a serious programme of environmental measures and the introduction of the best available technologies in the implementation of our investment projects.

In addition, by 2025 we plan to meet technological standards for environmental impact corresponding with the best available technologies recommended for Russia. We also plan to completely eliminate the discharge of pollutants generated in technological processes into waste water.

We continue to implement our social responsibility policy, as well as planned activities as part of our Promoting the Health of Workers initiative. In 2017, MMK spent RUB 42,683 per employee on social and charity programmes.

Thus, we are actively working to improve our Company’s management system to meet the increasing requirements for health and the environment, safety, energy efficiency, as well as for product quality and customer satisfaction.

In the coming years, we will continue to focus on increasing efficiency and reducing costs. To achieve this, our strategic initiatives will focus on:

- the development of customer support systems to meet customers’ current and future requirements;
- safe working conditions and environmental protection measures;
- concern for human resources and employee health;
- optimisation of production, upgrading and renovation of primary divisions;
- the optimisation of business processes to reduce overhead and improve the Company’s management systems;
- interaction with municipal authorities to address social and cultural challenges.

Customer satisfaction

MMK places a strong emphasis on developing customer relations. For this reason, continuous and ongoing efforts are made at our facilities to improve customer satisfaction with regard to both product quality and the level of service. Every year, MMK surveys automotive manufacturers and pipe producers, subsidiaries of Gazprom and other similar organisations.

The results of the customer satisfaction surveys in 2017 were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Planned</th>
<th>Achieved</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>- overall</strong></td>
<td>7.50</td>
<td>8.18</td>
</tr>
<tr>
<td><strong>- customers in automotive manufacturing</strong></td>
<td>7.95</td>
<td>8.58</td>
</tr>
<tr>
<td><strong>- customers in the pipe-making sector</strong></td>
<td>7.50</td>
<td>8.63</td>
</tr>
<tr>
<td><strong>- including Gazprom and its suppliers</strong></td>
<td>7.95</td>
<td>8.20</td>
</tr>
</tbody>
</table>
The customer satisfaction survey shows an annual increase in satisfaction. The survey is also helpful in identifying which customers have expressed a lower level of satisfaction with product and service quality.

In order to achieve high levels of customer satisfaction for MMK products and services, the following measures are being implemented:

- a programme of corrective measures aimed at responding to critical feedback received through the surveys;
- the establishment of coordination councils with key customers;
- the development of innovative products.
**MMK Group**

MMK Group is a group of companies unified by a single management and oversight system whose activities are focused on the core strategic objective of maintaining long-term competitiveness and sustainable development.

<table>
<thead>
<tr>
<th>MMK (Magnitogorsk)</th>
<th>Mintha Holding Limited (Cyprus, Limassol)</th>
<th>MMK - Production of Steel Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>OJSC MMK-METIZ (Magnitogorsk)</td>
<td>LLC Interkos-TV (Leningrad Region, Gorelovo)</td>
<td>CJC Lysva Metallurgical Plant (Perm Territory, Lysya)</td>
</tr>
<tr>
<td>MMK Metalurjii Sanayi, Ticaret ve Liman İşletmeciliği Anonim Şirketi (Turkey, Iskenderun, Istanbul)</td>
<td></td>
<td>LLC Lysva Metallurgical Company (Perm Territory, Lysya)</td>
</tr>
<tr>
<td>LLC Torgovy Dom MMK (Magnitogorsk)</td>
<td>LLC Tamozhenny Broker (Magnitogorsk)</td>
<td>LLC TEK MMK (Magnitogorsk)</td>
</tr>
<tr>
<td>LLC MAGSTORN (Moscow)</td>
<td>MMK International SA (St Petersburg)</td>
<td>CJC Metalloservis (Magnitogorsk)</td>
</tr>
<tr>
<td>MMK Steel Trade AG (Lugano, Switzerland)</td>
<td>Insair-Autotrade-Ti Ltd. (Togliatti)</td>
<td></td>
</tr>
<tr>
<td>ELITE COAST MONTENEGRO d.o.o. Budva (Montenegro, Budva)</td>
<td>LLC Torgovy Dom MMK-Kazakhstan (Kazakhstan, Astana)</td>
<td></td>
</tr>
<tr>
<td>OJSC Belon (Belovo)</td>
<td>OAO MTSOZ (Magnitogorsk)</td>
<td>LLC Ogneupor (Magnitogorsk)</td>
</tr>
<tr>
<td>LLC Profit-Nizhniy Novgorod (Nizhny Novgorod)</td>
<td>CJC Profmet (Nizhnevartovsk)</td>
<td>LLC PromStroyTsentr (Tyumen)</td>
</tr>
<tr>
<td>LLC Profit-Vtormet (Perm)</td>
<td>CJC Tatmetlom (Kazan)</td>
<td>LLC Vyatka-MK (Kirov)</td>
</tr>
<tr>
<td>LLC Sevvotormet-Noyabrsk (Noyabrsk)</td>
<td>LLC Promsyre (Cheylabinsk)</td>
<td>LLC Profmettsentr (Moscow)</td>
</tr>
<tr>
<td>LLC Severo-Ural'skaya Transportnaya Kompaniya (Cheylabinsk Region, Kusa)</td>
<td>LLC Lider (Kurgan)</td>
<td>OOO Yamal Profit Center (Noyabrsk)</td>
</tr>
<tr>
<td>LLC ChernometInvest (Ekaterinburg)</td>
<td>LLC Eco-Invest (Nizhnevartovsk)</td>
<td>CJSC Ferrum (Perm)</td>
</tr>
<tr>
<td>LLC Uralkontakt (Orenburg)</td>
<td>LLC Yugansk Profit Center (Surgut)</td>
<td>CJSC Rosmetimpeks (Sverdlov Region, Upper Sinyachikha)</td>
</tr>
<tr>
<td>LLC Mekhanoremontny Komplex (Magnitogorsk)</td>
<td>LLC Stroitelny Kompleks (Magnitogorsk)</td>
<td>LLC ATU (Magnitogorsk)</td>
</tr>
<tr>
<td>LLC Shlakservis (Magnitogorsk)</td>
<td>LLC MMK-Informservis (Magnitogorsk)</td>
<td>LLC Remput (Magnitogorsk)</td>
</tr>
<tr>
<td>CJSC Magnitogorsky Zavod Prokatnyh Valkov (Magnitogorsk)</td>
<td>LLC MMK-UCHETNY CENTER (Magnitogorsk)</td>
<td></td>
</tr>
<tr>
<td>OOO MMK-PRAVO (Magnitogorsk)</td>
<td>LLC Stroitelny Fond-2 (Magnitogorsk)</td>
<td>LLC MMK-INDUSTRIAL PARK (Magnitogorsk)</td>
</tr>
<tr>
<td>LLC IK MMK Finance (Magnitogorsk)</td>
<td>LLC Region (Magnitogorsk)</td>
<td>LLC MIG (Magnitogorsk)</td>
</tr>
<tr>
<td>LLC Sanatorii Ybileyny (Bashkortostan Zelenaya Polyana)</td>
<td>LLC Abzakovo (Bashkortostan, Noveabzakovo)</td>
<td>LLC Sanatorii Metallurg (Yessentuki)</td>
</tr>
<tr>
<td>LLC MMK-Kurort Management Company (Magnitogorsk)</td>
<td>LLC Sanatorii Metallurg (Yessentuki)</td>
<td>LLC Interlux (Magnitogorsk)</td>
</tr>
</tbody>
</table>
**MMK Group’s financial results**

Under the existing corporate governance structure and reporting policy, MMK Group’s financial results are divided into the following segments: the Russian steel segment, including MMK and its subsidiaries engaged in the production of steel, wires and metalware—all major assets, production capacity, management and administrative resources for this segment are situated in Magnitogorsk, Russia; the Turkish steel segment, which includes the steelmaking company MMK Metalurji—this segment’s two production sites are located in Iskenderun and Istanbul, Turkey; and the coal segment, which includes Belon and MMK-Ugol, engaged in coal mining and processing.

This section provides a summary financial overview of MMK Group and its business segments.

**Revenue and operating profit**

The Russian steel segment accounts for the majority of MMK Group’s revenue (91%). The Turkish steel segment accounts for 9%. The coal segment accounts for just 0.04% of Group revenue due to the fact that the majority of this segment’s output is consumed within the Group.

<table>
<thead>
<tr>
<th>USD million</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>7,546</td>
<td>5,630</td>
</tr>
<tr>
<td>Operating profit</td>
<td>1,455</td>
<td>1,462</td>
</tr>
<tr>
<td>EBITDA</td>
<td>2,032</td>
<td>1,641</td>
</tr>
</tbody>
</table>

The Group’s revenue in 2017 amounted to USD 7,546 million, up by 34% compared to 2016. This growth was due to an increase in the average sales prices of steel products, the recovery of sales to the domestic market and the strengthening of the rouble exchange rate. By the end of 2017, shipments to the domestic market had grown by 3.6% y-o-y, accounting for 75% of total sales.

MMK Group’s operating profit amounted to USD 1,455 million. The decrease in operating profit compared to the previous year was the result of a 15% increase in prime cost and overhead, which are mostly denominated in roubles.

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1 The results for 2016 were adjusted to account for the sale of a stake in Fortescue Metals Group (FMG).
EBITDA for 2017 was USD 2,032 million, an increase of 23.8% compared to 2016. The significant y-o-y increase in EBITDA was the result of the greater impact of an increase in prices relative to the impact of rising raw material prices and the improved structure of the product range being sold.

<table>
<thead>
<tr>
<th>Analysis of EBITDA, USD million</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA</td>
<td>2,032</td>
<td>1,641</td>
</tr>
<tr>
<td>Change</td>
<td>391</td>
<td></td>
</tr>
<tr>
<td>Production volume</td>
<td>22</td>
<td></td>
</tr>
<tr>
<td>Product sales price</td>
<td>942</td>
<td></td>
</tr>
<tr>
<td>Product structure</td>
<td>76</td>
<td></td>
</tr>
<tr>
<td>Cost of raw materials, energy and services</td>
<td>-745</td>
<td></td>
</tr>
<tr>
<td>Raw materials and energy supply</td>
<td>-29</td>
<td></td>
</tr>
<tr>
<td>Overhead</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Other expenses contributing to prime cost</td>
<td>-79</td>
<td></td>
</tr>
<tr>
<td>Other factors</td>
<td>201</td>
<td></td>
</tr>
</tbody>
</table>

The cost of goods sold, including depreciation, increased by 38% y-o-y, primarily due to the increase in consumed resources and wage increases.

**Structure of the cost of goods sold**

- raw materials, 74%
- depreciation & amortisation, 10%
- salaries and social payments, 12%
- other costs, 5%

**Earnings per share and dividend yield**

Earnings per share was USD 0.106, while dividends for 2017 amounted to USD 413 million, representing a dividend yield (dividends to LSE capitalisation) of 6%.
Capital investments

In FY 2017, investments in fixed assets totalled USD 664 million for the year, an increase of USD 201 million, or 43%, compared to FY 2016. The increase in investments was due to the implementation of the investment programme as part of MMK Group's development strategy.

<table>
<thead>
<tr>
<th>Investment, USD million</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russian steel segment</td>
<td>611.9</td>
<td>431</td>
</tr>
<tr>
<td>Turkish steel segment</td>
<td>5.6</td>
<td>10</td>
</tr>
<tr>
<td>Coal segment</td>
<td>46.9</td>
<td>22</td>
</tr>
<tr>
<td>Group total</td>
<td>664</td>
<td>463</td>
</tr>
</tbody>
</table>

Cash flow

Cash flow from operations in 2017 amounted to USD 1,358 million (compared to USD 1,191 million in 2016). In 2017, the cash flow from working capital for the Group was USD 294 million.

In total for 2017, free cash flow amounted to USD 694 million, a slight decrease from the previous year despite the USD 201 million increase in capital expenditure.

<table>
<thead>
<tr>
<th>Cash flow, USD million</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flow from operations prior to changes in working capital (adjusted for interest paid and income tax)</td>
<td>1,652</td>
<td>1,248</td>
</tr>
<tr>
<td>Changes in working capital</td>
<td>-294</td>
<td>-57</td>
</tr>
<tr>
<td>Cash flow from operations</td>
<td>1,358</td>
<td>1,191</td>
</tr>
<tr>
<td>Cash flow directed to investment programme</td>
<td>-599</td>
<td>264</td>
</tr>
<tr>
<td><strong>Including investments</strong></td>
<td>-664</td>
<td>-463</td>
</tr>
<tr>
<td>Free cash flow</td>
<td>694</td>
<td>728</td>
</tr>
</tbody>
</table>
CAPEX and cash flow from operations

Debt

The generation of a healthy cash flow enabled the Company to reduce its net debt over the course of FY 2017 from USD 192 million as of 31 December 2016 to a net cash balance of USD 12 million as 31 December 2017. Moreover, at the end of the reporting period, the Company had USD 556 million in cash in its accounts.

The reduction in net debt led to a net debt/EBITDA ratio of x-0.01 (compared to x0.10 at the end of FY 2016).

At the end of 2017, total debt stood at USD 544 million, up by USD 44 million from the end of 2016.

As of 31 December 2017, short-term debt amounted to USD 308 million, which is fully covered by cash at the Company's disposal.

MMK's equity capital amounted to USD 5,497 million.

<table>
<thead>
<tr>
<th>Capital structure and profitability</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total capital and obligations, USD million</td>
<td>7,924</td>
<td>6,501</td>
</tr>
<tr>
<td>Invested capital, USD million</td>
<td>5,474</td>
<td>4,892</td>
</tr>
<tr>
<td>Equity capital, USD million</td>
<td>5,497</td>
<td>4,711</td>
</tr>
<tr>
<td>Net debt, USD million</td>
<td>-12</td>
<td>192</td>
</tr>
<tr>
<td>Return on invested capital, %</td>
<td>27</td>
<td>30</td>
</tr>
<tr>
<td>Return on equity, %</td>
<td>22</td>
<td>24</td>
</tr>
<tr>
<td>Asset/equity ratio, %</td>
<td>69</td>
<td>72</td>
</tr>
<tr>
<td>Net debt/capital, %</td>
<td>-0.2</td>
<td>4</td>
</tr>
</tbody>
</table>

Russian steel segment results

Revenue is influenced by steel prices, demand for steel, sales volumes and exchange rates.
Segment's revenue in 2017 amounted to USD 7,216 million, up by 34.9% from 2016 due to higher prices for metal products, the recovery of sales to the domestic market and the conversion of RUB revenues into the reporting currency.

Operating profit is impacted not only by the factors mentioned above, but also by production volumes and operating costs.

Operating profit decreased by 2.5%.

<table>
<thead>
<tr>
<th>Russian steel segment, USD million</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>7,216</td>
<td>5,347</td>
</tr>
<tr>
<td>Operating profit</td>
<td>1,400</td>
<td>1,436</td>
</tr>
</tbody>
</table>

**Turkish steel segment results**

Revenue is influenced by steel prices, sales volumes and demand for products.

MMK Metalurji's revenue for 2017 amounted to USD 695 million, an increase of 33% y-o-y. This growth was due to a general increase in steel prices in Turkey's domestic market and an increase in production volumes. Operating profit was impacted by operating costs and production volumes. MMK Metalurji's operating loss for 2017 amounted to USD 11 million.

<table>
<thead>
<tr>
<th>Turkish steel segment, USD million</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>695</td>
<td>522</td>
</tr>
<tr>
<td>Operating profit</td>
<td>-11</td>
<td>-20</td>
</tr>
</tbody>
</table>

**Coal segment**

Revenue was influenced by sales volumes of commercial products and the exchange rate.

Total revenue for the coal segment in 2017 was USD 320 million, an increase of 55% compared to the same period in 2016. Revenue growth resulted from an increase in the average price of coal concentrate. Operating profit was impacted by production volumes and operating costs. The coal segment's operating profit for 2017 was USD 75 million.

<table>
<thead>
<tr>
<th>Coal segment, USD million</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>320</td>
<td>207</td>
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<tr>
<td>Operating profit</td>
<td>75</td>
<td>48</td>
</tr>
</tbody>
</table>

**Exclusion of inter-segment transactions**

All intragroup transactions and balances, income and expenses are excluded in consolidated results.

<table>
<thead>
<tr>
<th>Exclusion of inter-segment transactions, USD million</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>-685</td>
<td>-446</td>
</tr>
<tr>
<td>Operating profit</td>
<td>-9</td>
<td>-2</td>
</tr>
</tbody>
</table>
Results for the Russian steel segment

The Russian steel segment is centred around the Group’s parent Company, Magnitogorsk Iron and Steel Works. The critically important focus of this segment is to support MMK’s production and sales of metal products. Although the main production, management and administrative resources are concentrated at the industrial site in Magnitogorsk, the sphere of interests of the companies in this segment, their branch operations and business divisions cover the whole of Russia and other countries of the Customs Union. The results of the operations of the Russian steel segment to a significant degree shape the results of the Group as a whole. This also applies to industrial, financial and economic indicators.

In addition to MMK, the Russian steel segment includes the MMK-Metiz Metalware and Sizing Plant, Lysva Metallurgical Company, service and trading companies and a group of organisations in the social sphere. In 2017, MMK generated nearly 95% of the segment’s EBITDA and 88% of the Group’s EBITDA. For this reason, this section will be dedicated to MMK’s results (non-consolidated results according to RAS), as they determine the results for the segment and the Group.

Revenue and profit

MMK’s revenue in 2017 amounted to RUB 392.8 billion, an increase of RUB 53.7 billion from 2016. The main reason for this was the increase in prices for metal products in all markets where the Company operates. Traditionally, MMK’s domestic market has provided its best margins.

Sales profit totalled RUB 86.5 billion, which was 9% higher than in 2016 (RUB 79.7 billion). Thus, 2017 once again set a new record in the Company’s recent history. In addition to the price increase, profit growth was also the result of improvements in the structure of commercial metal products: export sales as a share of the total fell by almost 3 percentage points, and production streams were substantially optimised, making it possible to run the lowest-cost production chains at maximum capacity. However, increased prices for raw materials eliminated much of the positive impact of the rise in prices for metal products. In addition, MMK maintained and expanded programmes to cut costs and improve energy efficiency in the production process last year: as a result, the Company was able to reduce costs by RUB 4.0 billion.

### Key Results 2017 vs 2016

<table>
<thead>
<tr>
<th>Key Results</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue, RUB million</td>
<td>392 782</td>
<td>339 111</td>
</tr>
<tr>
<td>Cost of sales, RUB million</td>
<td>279 131</td>
<td>233 908</td>
</tr>
<tr>
<td>Selling and distribution expenses, RUB million</td>
<td>21 062</td>
<td>19 763</td>
</tr>
<tr>
<td>General and administrative expenses, RUB million</td>
<td>6 126</td>
<td>5 751</td>
</tr>
<tr>
<td>Profit from sales, RUB million</td>
<td>86 463</td>
<td>79 689</td>
</tr>
<tr>
<td>Average headcount, persons</td>
<td>17 955</td>
<td>18 077</td>
</tr>
<tr>
<td>EBITDA, USD млн</td>
<td>1 789</td>
<td>1 511</td>
</tr>
<tr>
<td>EBITDA margin, %</td>
<td>26.6%</td>
<td>29.6%</td>
</tr>
</tbody>
</table>

### Analysis of profit from sales, RUB million 2017 vs 2016

<table>
<thead>
<tr>
<th>Analysis of profit from sales, RUB million</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit from sales</td>
<td>86 463</td>
<td>79 689</td>
</tr>
<tr>
<td>Change</td>
<td>6 773</td>
<td></td>
</tr>
</tbody>
</table>

### Analysis of changes

| Production volume                         | 260    |
| Product prices                            | 60 084 |
| Product structure                         | 4 528  |
| Price of raw materials, fuel and energy   | -49 064|
| Specific costs                            | -457   |
| Supply structure                          | -1 693 |
| Fixed costs                               | -2 315 |
| Other expenses contributing to cost       | 529    |
| Other factors                             | -5 099 |
Revenue growth was mainly due to higher prices for metal products. The main reasons for the increased sales profit over the last few years are the favourable situation in the markets for rolled steel, as well as the company's effective cost management.

Like the previous year, the bulk of revenue (about 45%) in 2017 was derived from the sale of HVA products in the domestic market, which remains the key market for the company.

Traditional metallurgy is one of the most resource-intensive industries, with raw materials accounting for 65-75% of production costs. In 2017, the cash-cost of slab was 39% higher than in 2016 (in USD), mainly due to the increase in the cost of raw materials and the strengthening of the Russian rouble.

Production and shipping

Production of steel (+2.5%) and hot-rolled steel (+2.2%) and shipments of commercial metal products (+0.1%) were higher than the previous year. Growth in shipments of metal products lagged behind the increase seen in terms of steel production as a result of the transition to a less productive but higher-margin product mix for the domestic market and the recovery of warehouse stocks of finished products to normal levels. An additional trend in 2017 was the company's "return" to its key markets in Russia and CIS countries: compared to 2016, MMK significantly increased shipments to the CIS (+26.2%) and the domestic market (0.4%), while also reducing export sales by 9.2%.

Changes in shipments by product:
- Shipments of long products increased by 3.3% compared to the previous year and amounted to 1,787,000 tonnes. This growth was due to recovery of demand from the construction industry, which in turn was reflected in a greater increase in prices for these types of products (+39.5% compared to 2016).
- The 1.4% increase in shipments of hot-rolled steel compared to the previous year was mainly due to steady high demand from pipe-making companies, recovery of demand from the construction industry and an increase in shipments to MMK Metalurji.
- The volume of HVA products shipped decreased slightly compared to the previous year and amounted to 4,149,000 tonnes. This was mainly due to a reduction in shipments of cold-rolled coils and the restoration of warehouse stocks to normal levels.
- Shipments of cold-rolled steel decreased by 9.2% compared to 2016 due to increased production of polymer-coated rolled products and moulded sections.
Shipment of galvanised steel remained flat, and polymer-coated rolled products increased by 80,000 tonnes, or 22.1%. At the same time, the utilisation of units producing polymer-coated rolled products remained close to 100% throughout 2017. The lack of growth in the production of galvanised steel (despite the launch of a new galvanising unit in July 2017) was the result of increased production of polymer-coated rolled products, as well as increased shipments of galvanised steel with Group C coated surfaces for automakers (diversification of the product mix).

Utilisation of core production capacity was over 90%: sinter and blast furnace production was at 100%, coke production at 95% and oxygen-converter capacity at 100%. Mill 5000 was utilised to 98% capacity in 2017.

In 2017, shipments of metal products increased by 0.1% y-o-y and amounted to 11,333,000 tonnes. The share of HVA products (in tonnes) was 37%

Hot-rolled steel has historically accounted for the lion’s share of metal production at MMK, and it is the company’s primary export product. In recent years, thanks to major upgrades in production, the volume of HVA products has seen a significant increase.

In recent years, Russia has seen a substantial increase in demand for coated metals. MMK has a major market share for this type of product, as it has steadily increased its production capacity. The decrease in the production and shipments of cold-rolled steel was due to increased production and shipments of higher-margin coated metal products.
**Investments**

MMK’s 2017 investment programme totalled RUB 24.8 billion, which was 25% higher than in 2016. The main reason for this was the modernisation of the Company’s primary division (sintering, coking and blast furnace production). In 2017, construction of a new sintering plant got under way; aspiration systems for blast furnaces Nos 9 and 10 were built; the gas-cleaning unit at the electric arc furnace plant’s double-hearth furnace was rebuilt; modernisation of Hot-Rolling Mill 2500 continued; and construction work on a new continuous hot-dip galvanising line was completed.

The 2017 investment programme was driven by the principles of Strategy 2025: strict selection of projects based on a risk-weighted NPV evaluation; uniform distribution of capital expenditures for each period without peaks; and investments not exceeding operating profit.

**Business focus**

The Company’s main objectives for 2018-2020, according to Strategy 2025 (for more details, see the corresponding section) are improving operational efficiency, improving workplace safety, reducing environmental impact and developing human resources, as well as expanding client services, increasing transparency of execution of customer orders and digitising technological processes. The work of MMK’s management in 2017 represents strong progress in these areas, and has been recognised both by the Company’s Board of Directors and independent industry experts.

**Innovation**

Every major company has a serious interest in new technologies and technological progress, so it is only natural that the Company has set out to intensify its work in invention and innovation.

Innovation has been one of MMK’s priorities since 2015, when a system was developed and introduced that allows individuals to submit proposals for innovations, while also providing incentives for doing so. The system is still in operation today. This new approach for reviewing innovative proposals has greatly reduced organisational delays that were hampering the submission and implementation of ideas, while material incentives encourage the technical creativity of all staff. An important feature of this new approach is that it motivates employees to take initiatives aimed at improvement.

In terms of modern production, individual creativity has undoubtedly taken on special significance, with a focus on minimising the business-as-usual approach, seeing various possible solutions to problems, as well as modernising, improving processes and reducing costs.

The need to pay more attention to employees’ creative potential is dictated by time. Inventors and innovators propose new ideas and develop existing technologies to make them efficient and impactful in modern conditions.

In the end, both employees and the company win. Employees who show initiative are rewarded financially not only for final results but also for any economic benefits that stem from the implementation of their ideas, including at intermediate stages of implementation, based on a decision by an expert commission. In other words they are rewarded for their initiative and for the fact that their ideas have been implemented.

Based on the results of the measures taken during 2015-2017, there has been a significant increase in initiative on the part of employees. In 2017, for example, expert commissions in the Company’s structural divisions reviewed 5,665 ideas, while the percentage of ideas approved by shop committees for implementation increased from 57.4% to 63.9%.
The actual economic benefit resulting from innovative proposals adopted in 2017 amounted to RUB 599.3 million, compared to RUB 469 million in 2015 and RUB 584.5 million in 2016. The greatest economic benefits achieved in 2017 came from workshops subordinated to the chief metallurgist and the chief rolling mill operator, accounting for RUB 144.8 million and RUB 356.3 million, respectively. A total of RUB 23.5 million was paid out in remuneration to staff members for their innovative ideas and for facilitating the implementation of innovative proposals in 2017.

MMK management believes that broad involvement of employees in technical creativity is a worthwhile endeavour, including through competitions, seminars, exhibitions and other events. The following competitions are held on an annual basis: Best Young Innovator and Inventor at MMK, with awards for the 15 best innovators under 30 years of age; and Best Innovative Proposal at MMK in the categories of Materials and Equipment, Occupational Health and Safety and Energy Efficiency. The top proposals in each category receive awards.

In addition, a competition called "Best Problem-Solving Ideas" is held on a quarterly basis in the Company’s structural divisions.

MMK also conducts various training courses on innovation and invention. In March 2017, for example, the Personnel Training Centre conducted a training seminar called "Innovation Factory: Development and Support of Innovation at MMK" for young staff members at MMK responsible for innovation-related activities.

It is especially worth noting that, in addition to events held at the local level, MMK is a regular participant at leading international exhibitions, where innovative designs and inventions by MMK staff regularly win awards and distinctions. In May 2017, for example, MMK took part in the 20th Archimedes Moscow International Salon of Inventions and Innovative Technologies, where the following awards were received:

- A gold medal and certificate for the development and use of the MAGSTRONG trademark;
- A gold medal and certificate for the development of a method for the production of highly durable sheet steel;
- A bronze medal and certificate for the development of a method for the production of ultra-high-strength sheet steel;
- A bronze medal and certificate for the development of a method for the production of high-strength sheet steel.
- A Certificate of Honour and Gratitude for participation in the organisation and holding of the Archimedes Salon of Inventions and Innovative Technologies.

In addition, the Company received a certificate and the Regional Cup for its work on the development of invention of innovation, including for the development of measures aimed at improving the efficiency of management of innovation- and patent-related activities that were implemented for the first time by a Russian steelmaker.

Encouraging and popularising innovation- and invention-related work has, as noted above, yielded positive results. Another effective tool for getting more employees involved in technical creativity is the Fresh Ideas campaign, which is timed to coincide with Innovator and Inventor Day. Introduced in the late 1950s at the suggestion of the Academy of Sciences of the Soviet Union, this holiday is celebrated every year on the last Saturday in June. The Fresh Ideas summertime campaign – the campaign symbol and prize was an orange in 2016 and a pineapple in 2017 – is aimed primarily at popularising technical creativity in general and at promoting a specially developed mobile brainstorming app called Evolution. The app, which is available on both Android and iOS, allows staff members to submit ideas in a few easy steps either through their mobile phone or computer. At the same time, the app allows
anyone who submits an idea to track its progress, e.g., to find out the decision of the shop committee.

The wide distribution of the mobile app has led to a noticeable increase in the number of ideas submitted, which has in turn to an increase in the economic impact of the innovations that have been implemented.

In 2017, the Evolution app was integrated into the project-focused Energy Management Platform, which made it possible both to increase the percentage of ideas implemented and to shorten the time needed for the introduction of innovative ideas, thereby reducing the time needed before an economic impact was felt.
**Turkish steel segment results**

**Production figures**

In 2017, MMK Metalurji increased shipments of metal products by 71,500 tonnes, or 8.4%, compared to 2016. This included an increase in shipments of galvanised steel by 70,000 tonnes and of cold-rolled flat products by 37,000 tonnes, i.e., a fourfold increase over 2016. In general, this growth was due to the development of a new product in the form of cold-rolled sheet metal cut from coils produced by MMK, along with an increase in sales of galvanised steel.

The share of HVA products stood at 82%, or 762,000 thousand tonnes, the best result in the Company's history.

Production records were set in the following lines:

- In May  – Döştyol continuous hot galvanising unit, 34,400 tonnes;
- In October – continuous pickling line, 83,100 tonnes;
  - cold-rolling mill, 65,500 tonnes;
  - Dilovasi continuous hot galvanising unit, 35,200 tonnes.

Record shipments in May amounted to 94,400 tonnes.

In 2017, the Company set all-time records in terms of shipments from its pickling line (850,000 tonnes), reversing mill (677,000 tonnes) and both its galvanising lines, both in Döştyol (377,000 tonnes) and in Dilovasi (401,000 tonnes). The Company's service centres at both sites showed excellent results in terms of the production of cold-rolled products, setting a record at 224,000 tonnes.

In 2017, the Company shipped 925,000 tonnes, setting a new all-time record, beating the previous record from 2012, when its hot-rolling mill was in operation.

23% of the Company's production was exported in 2017, compared to 8.5% a year earlier. The increase in the share of exports was due to expansion of shipment geography and market conditions.

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total steel production at MMK Metalurji, including:</td>
<td>156</td>
<td>505</td>
<td>901</td>
<td>664</td>
<td>690</td>
<td>795</td>
<td>854</td>
<td>925</td>
</tr>
<tr>
<td>Sheets hot-rolled, cold-rolled</td>
<td>86</td>
<td>187</td>
<td>302</td>
<td>60</td>
<td>64</td>
<td>80</td>
<td>134</td>
<td>164</td>
</tr>
<tr>
<td>HVA products:</td>
<td>70</td>
<td>318</td>
<td>599</td>
<td>604</td>
<td>627</td>
<td>716</td>
<td>720</td>
<td>762</td>
</tr>
<tr>
<td>Galvanised</td>
<td>32</td>
<td>195</td>
<td>274</td>
<td>294</td>
<td>381</td>
<td>444</td>
<td>511</td>
<td>580</td>
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<td>Colour coated products</td>
<td>38</td>
<td>123</td>
<td>324</td>
<td>311</td>
<td>246</td>
<td>272</td>
<td>209</td>
<td>182</td>
</tr>
<tr>
<td>Share of high-value-added products</td>
<td>45%</td>
<td>63%</td>
<td>66%</td>
<td>91%</td>
<td>91%</td>
<td>90%</td>
<td>84%</td>
<td>82%</td>
</tr>
<tr>
<td>MMK Metalurji metal products made from metal supplied by MMK</td>
<td>0.0</td>
<td>0.0</td>
<td>22.6</td>
<td>273.1</td>
<td>189.0</td>
<td>623.2</td>
<td>615.3</td>
<td>640.1</td>
</tr>
</tbody>
</table>
Main economic indicators

MMK Metalurji’s total revenue amounted to USD 695.4 million in 2017. Revenue from sales of metal products amounted to USD 639.1 million, which was USD 161.3 million, or 33.7%, greater than in 2016. This was mainly due to a 23% increase in prices (the average price in 2017 was USD 691/tonne). EBITDA reached USD 50 million, up USD 7.0 million, or 16%, from 2016. It is also worth noting that EBITDA per tonne increased by 7.2%. EBITDA reached its highest level since the Company was founded. The main factors boosting profitability in 2017 were efforts to lower costs, increased shipments and work on the product mix (with a focus on products offering the highest margins), as well as efforts to find other areas where efficiency improvements could be made. Improvements in efficiency were due to a policy of targeted changes in product mix: an increase in the production of galvanised products and a reduction in the production of polymer-coated products due to the fact that galvanised steel offers a higher margin per hour relative to polymer-coated products. The cost-reduction programmed resulted in savings of USD 2.015 million in 2017.

In 2017, the average headcount was 1,229, which roughly corresponded to the 2016 headcount. Labour productivity was USD 47,000 per month, a record for the Company.

<table>
<thead>
<tr>
<th>Item</th>
<th>Unit</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shipments</td>
<td>ths</td>
<td>tonnes</td>
<td>tonnes</td>
<td>tonnes</td>
<td>tonnes</td>
<td>tonnes</td>
<td>tonnes</td>
<td>tonnes</td>
<td>tonnes</td>
</tr>
<tr>
<td>- domestic market</td>
<td></td>
<td>155.8</td>
<td>505.0</td>
<td>900.6</td>
<td>664.3</td>
<td>690.1</td>
<td>795.1</td>
<td>833.7</td>
<td>925.2</td>
</tr>
<tr>
<td>- export</td>
<td></td>
<td>152.1</td>
<td>438.3</td>
<td>756.8</td>
<td>563.4</td>
<td>615.8</td>
<td>733.0</td>
<td>781.4</td>
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<tr>
<td>Sales</td>
<td>ths</td>
<td>USD</td>
<td>USD</td>
<td>USD</td>
<td>USD</td>
<td>USD</td>
<td>USD</td>
<td>USD</td>
<td>USD</td>
</tr>
<tr>
<td>- domestic market</td>
<td></td>
<td>118.525</td>
<td>384.320</td>
<td>602.422</td>
<td>484.264</td>
<td>496.208</td>
<td>464.925</td>
<td>435.628</td>
<td>486.892</td>
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<tr>
<td>- export</td>
<td></td>
<td>3.091</td>
<td>57.618</td>
<td>137.025</td>
<td>98.372</td>
<td>66.788</td>
<td>41.064</td>
<td>42.254</td>
<td>727.0</td>
</tr>
<tr>
<td>Price of 1 tonne</td>
<td>USD/th</td>
<td>781</td>
<td>875</td>
<td>821</td>
<td>877</td>
<td>816</td>
<td>636</td>
<td>560</td>
<td>691</td>
</tr>
<tr>
<td>- domestic market</td>
<td></td>
<td>779</td>
<td>877</td>
<td>796</td>
<td>860</td>
<td>806</td>
<td>634</td>
<td>557</td>
<td>680</td>
</tr>
<tr>
<td>- export</td>
<td></td>
<td>848</td>
<td>864</td>
<td>953</td>
<td>975</td>
<td>898</td>
<td>660</td>
<td>585</td>
<td>727.0</td>
</tr>
<tr>
<td>Cost of commodity metal products</td>
<td>ths</td>
<td>USD</td>
<td>USD</td>
<td>USD</td>
<td>USD</td>
<td>USD</td>
<td>USD</td>
<td>USD</td>
<td>USD</td>
</tr>
<tr>
<td>- export</td>
<td></td>
<td>132.518</td>
<td>484.525</td>
<td>891.583</td>
<td>591.536</td>
<td>598.328</td>
<td>541.485</td>
<td>483.207</td>
<td>648.747</td>
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<tr>
<td>Sales profitability</td>
<td>ths</td>
<td>USD</td>
<td>USD</td>
<td>USD</td>
<td>USD</td>
<td>USD</td>
<td>USD</td>
<td>USD</td>
<td>USD</td>
</tr>
<tr>
<td>Profitability of commodity metal products</td>
<td>%</td>
<td>-8.2%</td>
<td>-8.8%</td>
<td>-17.1%</td>
<td>-1.5%</td>
<td>-5.9%</td>
<td>-6.6%</td>
<td>-1.1%</td>
<td>-1.5%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>ths</td>
<td>USD</td>
<td>USD</td>
<td>USD</td>
<td>USD</td>
<td>USD</td>
<td>USD</td>
<td>USD</td>
<td>USD</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>%</td>
<td>-9.6%</td>
<td>-13.4%</td>
<td>-9.8%</td>
<td>3.9%</td>
<td>4.4%</td>
<td>6.6%</td>
<td>8.2%</td>
<td>7.2%</td>
</tr>
<tr>
<td>EBITDA per tonne</td>
<td>USD/th</td>
<td>-0.08</td>
<td>-0.126</td>
<td>-0.85</td>
<td>0.38</td>
<td>0.41</td>
<td>0.46</td>
<td>0.50</td>
<td>0.54</td>
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<tr>
<td>Investment</td>
<td>mlnUSD</td>
<td>513.5</td>
<td>446.0</td>
<td>15.0</td>
<td>6.0</td>
<td>22.0</td>
<td>6.7</td>
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<tr>
<td>Headcount</td>
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<td>1 421</td>
<td>2 004</td>
<td>1 720</td>
<td>1 495</td>
<td>1 253</td>
<td>1 226</td>
<td>1 229</td>
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Cost structure

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Raw materials and basic supplies</td>
<td>6</td>
<td>35</td>
<td>59</td>
<td>12</td>
<td>10</td>
<td>11</td>
<td>9</td>
<td>8</td>
</tr>
<tr>
<td>Semi-processed products</td>
<td>78</td>
<td>39</td>
<td>11</td>
<td>66</td>
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Seaport

The seaport's cargo throughput volume in 2017 was 8.2 million tonnes, up 7.2% from 2016 and the Company's highest level since it started operations.

In September 2017, the Company received an ISO/TS 16949:2009 certificate confirming that its production facilities for the automotive sector are in compliance with ISO standards.

Despite the challenging political and economic events in Turkey and globally, the Company managed to achieve record high production and economic results. A successful cost-cutting programme, increased productivity and work to improve margins were the main factors behind these results.
Coal segment results

In this section, all results are provided in accordance with RAS, and "the Company" refers to all the companies in the coal segment.

In 2017, the reorganisation of Belon Group was completed. In July 2016, OJSC Belovskaya Central Coal Preparation Plant, a plant that has been around for half a century, whose main activity is the processing of ROM coal and the production of coal concentrate, was restructured into LLC MMK Coal. In December 2016, the companies belonging to the Belon Group – LLC Chertinskaya-Koksovaya Mine and LLC Kostromovskaya Mine – joined MMK Coal.

On 1 February 2017, the reorganisation was completed in the form of the merger of the remaining enterprises of Belon Group – LLC Chertinskaya-Yuzhnaya Mine and OJSC Belovopogruztrans – with MMK Coal. The functions of Belovopogruztrans are currently being performed by the Service and Logistics Shop.

Belovskaya Central Coal Preparation Plant. The Belovskaya Central Coal Preparation Plant enriches various grades of coking coal. Its production capacity is 6,160,000 tonnes of ROM coal, and the Company plans to use the plant at full capacity starting in 2019. Its main product is fat coal concentrate.

Chertinskaya-Koksovaya Mine. The mine has been developing the reserves of the Chertinsky coal deposit in the Kuzbass for nearly 65 years. It mines high-value fat coal used for coke at metallurgical plants. Extraction of coal in vein No 3 has been completed, and production began in vein No 4 in October 2017.

The reconstruction of production facilities to prepare them for the launch of an inclined conveyor shaft continued throughout 2017, as did works aimed at opening up vein No 4 and preparations for mining the coal reserves there. The construction of the inclined conveyor shaft enabled the Company to transition coal extraction to a conveyor-only system, which in turn made it possible to reduce the prime cost of extracting coal, to simplify the logistics of coal transportation from the treatment and preparatory quarries to the Company's coal warehouse, and to optimise the number of workers involved. Preparations for the development of the coal reserves in vein No 4 made it possible to replace exhausted production capacity from vein No 3. The coal reserves in vein No 4 are located in more favourable geological conditions for mining purposes.

The new projects will increase the mine's production capacity to 2,000,000 tonnes as early as 2018 and will make it possible to maintain this level of production in subsequent years.

Kostromovskaya Mine. The mine was put into operation in 2008 and is one of the youngest coal mining enterprises in the Kuzbass. Nevertheless, due to its high productivity, the mine has completely developed the western flank of the mine field in recent years, and mining works have been relocated to the eastern flank. At present, only vein No 19 is being mined, which produces fat coal used in the production of high-quality coke. To ensure the possibility of future work for the Kostromovskaya Mine, the Company purchased the Nikitinsky subsurface site at auction, where the veins lie below vein No 19. In December 2015, the coal reserves at the Nikitinsky site were reviewed and confirmed by the State Commission on Reserves. As a result, the Company's coal reserves increased by 130.8 million tonnes.

Service and Logistics Shop. In 2017, the Services and Logistics Shop provided services in the following areas:

- maintenance of railway tracks and stations belonging to MMK Coal, delivery of cargo (materials, equipment, fuel and lubricants, etc.) by rail, transport of empty
carriages and carriages carrying ROM coal and concentrate between stations belonging to MMK Coal and the Ministry of Railways’ Belovo station;

- manufacturing of metal products for production divisions, assembly and dismantling of mining equipment (mechanised scrubbers, belt conveyors and other works);
- providing automobile services to transport workers to their places of work and to transport goods, maintenance of specialised and bulldozer equipment for the Company’s coal warehouses, removing and stacking rocks at the Belovskaya Central Coal Preparation Plant’s dumpsite and other works;
- drilling of degassing and dewatering boreholes, geological exploration and monitoring of the geological environment, as well as maintenance of pumps and pumping of groundwater from dewatering boreholes.

Design work and the start of reconstruction of the Kostromovskaya railway station are planned for 2018.

**Production**

In 2017, MMK Coal’s mining departments produced 3,614,000 tonnes of ROM coal, which was 198,000 tonnes (5.8%) higher than in 2016.

The Chertinskaya-Koksovaya Mine increased coal production by 500,000 tonnes compared to 2016, from 887,000 tonnes to 1,387,000 tonnes in 2017. In 2018, the plan is to increase coal mining to 2,000,000 tonnes while extracting coal from veins No 4 and No 5.

Coal production at the Kostromovskaya Mine decreased by 302,000 tonnes y-o-y in 2017 from 2,529,000 tonnes in 2016 to 2,227,000 tonnes last year. The main reason for the decrease was the need to bypass a geological fault in August-September 2017 in longwall 19-12bis. The two main obstacles were the unknown amplitude up to 7 metres in the longwall and the high degree of hardness in the roof rocks. In 2018, plans call for increasing coal production to 2,700,000 tonnes.

The Belovskaya Central Coal Preparation Plant processed 4,893,000 tonnes of ROM coal during the year, which was 65,000 tonnes less than in 2016. Some 2,725,000 tonnes of coal concentrate was produced, which was 145,000 tonnes less than in 2016. In 2018, plans call for processing 5,697,000 tonnes of ROM coal and producing 3,085,000 tonnes of coal concentrate.
Revenue and profit

The vast majority of the Company’s production is purchased by MMK, with a small percentage acquired by third parties. All sales are in line with market conditions.

The Company’s revenue increased 35.2% in 2017, reaching RUB 18,499 million, of which the total sum of revenue from transactions outside the Group amounted to RUB 65 million.

Profit from sales rose to RUB 4,913 million. The main reason for the increase in sales profit was the rise in coal concentrate prices. Factors affecting profit were an increase in the production cost of concentrate, as well as higher prices for raw materials and price and tariff hikes by natural monopolies.

Profit from the sale of 1,339,000 tonnes of Zh+KS (fat + coking cake), the main grades produced by Belon, totalled RUB 4,725 million.

 Provision of other services to third parties generated an additional profit of RUB 6 million.

The consolidated cost of production of coal concentrate prior to amortisation increased by 31% and totalled RUB 12,782 million. This includes an increase in expenditures on purchased materials in the amount of RUB 1,709 million, or 42%. Amortisation charges in 2017 amounted to RUB 1,401 million.

Expenditures on ongoing mine-development work (preparation of production units) totalled RUB 375 million; under the Company’s accounting policy, these are considered deferred expenses.

In 2017, the Company continued implementing its programme to improve operational efficiency. The programme includes measures aimed at reducing the prime cost of mining coal and reducing the consumption of process materials, as well as measures to improve energy efficiency. In total, these measures generated savings of RUB 226 million in 2017.

<table>
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<th>Profit analysis, RUB million</th>
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<td>3,682</td>
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<tr>
<td>Change</td>
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Analysis of changes

| Volume impact  | 4    |
| Product sales price | 5,289 |
| Sales structure of commercial products | -76 |
| Proceeds from sales of other products | -12 |
| Prime cost       | -3,814 |
| Amortisation     | -160 |
The increase in the prime cost of concentrate was the result of an increase in prices for purchased raw materials, changes in the delivery conditions for concentrate (costs for the transport of production on the basis of CPT are included) and an increase in the tariffs of natural monopolies.
**Investment**

MMK Coal’s main areas of investment were: acquisition of equipment for maintaining and boosting production levels, as well as improving labour productivity; mine development work to open up coal reserves and prepare for extraction; acquisition of equipment to create a safer working environment and improved results from the processing of ROM coal.

Capital investment in 2017 amounted to RUB 3,824.7 million, which was RUB 536.7 million more than planned in the annual development programme.

The largest capital investments were made in the development of the Chertinskaya-Koksovaya Mine (RUB 2,409.4 million), including the acquisition of a mechanised scouring unit for the development of longwall No 449 at a cost of RUB 1,186.0 million; the Kostromovskaya Mine (RUB 1,026.8 million); and the Belovskaya Central Coal Preparation Plant (RUB 286.3 million).

In 2018, plans call for the investment of RUB 3,619.8 million in production maintenance and development, including RUB 1,567.4 million for equipment purchases and RUB 1,132.9 million for capital construction.

**Business focus**

To improve financial results, optimise costs and improve production processes, MMK Coal introduced a number of development projects. In 2017, the following projects were implemented:

- Transition to the production of pure fat coal concentrate, which made it possible to eliminate shortcomings in the existing coal enrichment process that were reducing the quality of the concentrate;
- The acquisition of a belt conveyor for the development of longwall No 449 at the Chertinskaya-Koksovaya Mine made it possible to increase average monthly production by 25,000-30,000 tonnes;
- Optimisation of cargo delivery around the Chertinskaya-Koksovaya Mine: in 2017, an above-ground diesel-powered locomotive was purchased for the Chertinskaya-Koksovaya Mine; the launch in 2018 of an adhesion track will make it possible to reduce the length of the rail track and ensure uninterrupted deliveries of materials, as well as the transportation of workers to their workplaces.

In 2017, the reconstruction of drying tract No 1 was completed. The reconstruction of drying tract No 2 is planned for 2018, as is the implementation of a project called "Re-equipment of MMK Coal's central beneficiation plant to reduce ash content and increase concentrate yield". Implementation of this project will make it possible to steadily process hard-cleaning coal, increase the yield of ready production by more than 3.0%, and reduce the ash content in the concentrate to 9.5%.

One of the main achievements for the development of the Chertinskaya-Koksovaya Mine in 2017 was the construction of an inclined conveyor shaft, its commissioning in longwall No 449 in vein No 4 and the construction of water treatment facilities for the dewatering unit. The construction of the conveyor makes it possible to transition coal extraction to a conveyor-only system and eliminate electric locomotive transport, dumper cars and vertical skip hoisting. Transitioning coal extraction to the conveyor increased the mine’s production capacity to 2,000,000 tonnes annually.

The main area of activity at the Kostromovskaya Mine in 2017 was the construction of its east flank incline shaft. The launch of workings there made it possible to prepare for coal production across a longer length of the seam and consequently make more of the deposit accessible. Throughout the year, significant attention was paid to the replacement and repair of mining equipment to increase the length of longwall No 19-11 to 300 metres. Additional
sections of mechanised support, electric hydraulics for section management and an Anzher-38 armoured face conveyor were purchased for RUB 391.3 million. Construction of the east flank incline shaft and of production areas on the surface is expected to be finished in 2018.

**Developing the raw material base**

In 2010, the Chertinskaya-Yuzhnaya mine received a licence for the right to mine the subsoil in the Chertinskiy-glubokiy block.

Since the mine has been mothballed (the project provides for the conservation of mine workings for eight years) since 1 January 2015, coal reserves in the Chertinskiy-glubokiy block can be developed by the Chertinskaya-Koksovaya Mine in the future.

To fulfil the licence conditions for the Chertinskiy-glubokiy block of the Chertinskaya-Yuzhnaya Mine, a feasibility study for continued exploration to calculate the coal reserves was developed in 2016 and was submitted to the State Committee for Mineral Reserves.

The Company plans to defend its feasibility study and produce a geological report on coal reserves in early 2018, after which the coal reserves at the Chertinskiy-glubokiy block will be added to its reserves. This will result in an additional 58.5 million tonnes of coal being added to the Chertinskaya-Yuzhnaya Mine’s reserves.
### MMK’s core technological processes

#### Production

Sinter production and an ore-dressing mill are the first stage in metallurgical production at MMK. The main product of this stage is sinter, which is a coarse form of sintered iron ore concentrate. Iron ore concentrate cannot be used directly in blast furnaces (more on this later) because it contains a small mesh size and lacks the required gas permeability. To produce sinter, iron ore is blended in a certain proportion with metallurgical coke (more about coke later) and fluxing additives (materials that impart a given chemical composition to the sinter). The resulting mixture (sintering mix) is delivered to the belts of sintering machines, where the ignition furnaces ignite the coke in the sintering mix. This leads to the sintering of the sinter cake, which when it exits the sinter unit is crushed by special crushers to the best size for blast furnaces. The sintering process not only creates semi-finished steel for the blast-furnace shop, it also helps to partially remove harmful impurities (sulphur, phosphorus, zinc, etc.). Importantly, the sintering process enables the recycling and reuse in production of various fines of iron ore and coke, dust from gas cleaners and fine pulp, which lowers the cost of the end product and reduces the environmental impact. MMK produces sinter in three sinter plants with a total of 13 sintering machines.

A first stage of new sintering plant was built in 2017. The project involved the placement of equipment at a remote site to minimise environmental impact. As a result, the total volume of sinter production will reach 12.6 million tonnes per year.

#### Coke production

Coke production is also one of the key links in the first stage of steelmaking, providing fuel for blast furnaces. The main product of coke production is metallurgical coke produced by sintering (coking) coking coal in coke oven batteries without letting in air. An important feature of coking technologies is that fuel combustion in the coke oven batteries occurs in heating chambers without contacting the coal charge. Key indicators of coke quality are its hot strength, reactivity and volatile content. MMK’s coke production facility is the largest in Russia in terms of capacity and actual production volume. This technologically integrated coke production complex includes a coal preparation plant, three coke plants, two by-product recovery plants, a chemical by-product processing plant and a number of maintenance shops. Coke is produced in nine coke oven batteries. 92% of the coke produced covers the requirements of the blast furnace plant, while 8% is supplied to companies in the non-ferrous-metals, chemical and machinery industries, for which this is also fuel or feedstock. The second product from the coking process is coke gas. Coke gas is processed in two recovery plants. This generates valuable by-products such as benzene, ammonium sulphate, sulphur and tar pitch. Following preparation in recovery shops, coal-tar pitch is processed into black pitch, anthracene oil, naphthalene and absorbent oil, which are also valuable by-products.

#### Blast furnace production

Blast furnace production is fundamental to the steelmaking industry and to the production cost of the final product. The blast furnace process is unique and one of the most challenging in the industry. It has the highest efficiency among current industrial metallurgical processes. In essence, except for the equipment, the blast furnace process has remained the same for over 200 years. The main blast furnace product is pig (liquid) iron, which subsequently serves as the primary raw material for producing steel. Pig iron is an alloy of iron with a carbon content exceeding 2.14% and other chemical elements. Because of the high carbon content, pig iron is less malleable than steel and cannot be rolled. The blast furnace process is regarded as continuous. The blast furnace is a huge laboratory in which a counter-flow of a charge (top to bottom) and gas (bottom to top) is implemented,
transforming granular iron ore into liquid metal. Coke, sinter, pellets, iron ore and fluxes (blast charge) are delivered to the blast furnaces' receiving hoppers, where through a system of conveyors, dispensers and skip hoists in a certain sequence and proportion they are loaded into the charger, located at the very top of the furnace. Loading is carried out in the furnace in batches, but continuously, which ensures a constant stock level in the furnace. The charge is loaded in the top shaft of the furnace into a special charging device. A hot, oxygen-enriched blast and natural gas are supplied from the bottom of the furnace under high pressure through special devices called tuyeres located in the bottom of the furnace (the tuyere zone). In this part of the furnace, under the influence of the slag that is formed and hydrogen-rich gas, the reduction of iron oxides is completed, iron melt is formed, and harmful impurities are transformed into slag. The main products of the blast furnace are slag and pig iron, but most of all the blast furnaces produce blast furnace gas, which is used as fuel for MMK's technological and economic needs. MMK produces pig iron in eight blast furnaces with a total usable volume of 12,261 cubic metres.

**Steel production**

Chemically, steel production is the process of decarbonisation (reduction of the carbon content) of iron. MMK produces steel at two plants: its oxygen-converter plant (OCP) and its electric arc furnace plant (EAF).

**Oxygen-converter plant**

Steel is produced at the OCP using pig iron and prepared scrap metal. Metal scrap is essentially steel but in a solid form, and is used to reduce consumption of pig iron and to regulate the melting temperature. If necessary, pig iron can be pre-processed at the iron desulphurisation unit to remove up to 80% of the sulphur (a very harmful impurity in steel that reduces mechanical strength and weldability, and impairs electrical, anti-corrosive and other properties). Pig iron and scrap are loaded into an oxygen converter (essentially a huge pot lined with refractory brick that can hold up to 370 tonnes of molten liquid), and special additives are fed into the converter to produce the right composition (including lime and iron-rich dolomite), and the oxygen-lancing process is carried out in the tuyere in stages. The primary goal of the lancing is to remove carbon and other impurities from the metal and heat it to a predetermined temperature. After the lancing, the metal is poured from the converter (simply by tipping it) into a ladle. The resulting steel then undergoes the steel ladle treatment, and special materials are added (aluminium, ferroalloys, etc.) to give the metal the right chemical and physical properties. After the ladle treatment, the steel, now with the right chemical composition and at the right temperature, is delivered to the continuous casting machine (CCM), where it is cast and cut into slabs.

**Electric arc furnace plant**

At the EAF plant, steel is melted in a twin-bath steel-melting unit (TBSM) and two electric arc furnaces. In the EAF, steel production is based on intensive lancing with oxygen in a bath with iron and scrap using the heat from the gases released during the lancing to heat the charge in the next chamber. The technology includes two melting periods:

a) the cold period for the loading, filling, heating of the scrap and casting of the pig iron; and

b) the hot period for melting and refinement.

The EAF primarily uses an electric arc to heat and melt the metallic charge, which is where this plant derives its name from. The materials used for the charge are liquid pig iron, scrap iron, and ferroalloys. The EAF plant functions both without liquid iron (100% scrap with a melting cycle of 48 minutes) and with liquid iron (up to 40% with a melting cycle of 44 minutes).
After the right carbon content is reached, the melt is conveyed from the EAF or TBSM to the ladle slag cut-off. Then, as with the method for converting smelt, the steel undergoes secondary processing. After this, steel with the right chemical composition and temperature is conveyed to a CCM, where it is cast and cut into billets or slabs.

**Rolling production**

At MMK, rolling is considered the final stage in the production process. MMK’s diverse, state-of-the-art rolling mills give the Company the widest product range in the Russian steel sector. The rolling process entails pressing the metal not only to obtain the desired shape in the final product, but also to form a specific structure with complex properties. This complex of mechanical properties can also be achieved by applying heat during the manufacturing process. There are two basic types of metal rolling: hot and cold.

**Hot rolling** takes place at temperatures that are 60% of the metal's melting temperature or higher. At a higher temperature, the strength of the metal is reduced, thus reducing the effort required for its deformation. During the deformation process, the metal immediately undergoes recrystallisation, with the constant formation of new grains. The continuous formation of new grains ensures high plasticity, making it possible to achieve a high strain yield without damaging the metal. It is more difficult to control the finite dimensions during hot rolling due to scale formation and volume changes during the subsequent cooling.

**Cold rolling** is metal deformation at its actual temperature without any additional heating. The phenomenon associated with cold processing takes place when metal is deformed at temperatures of about 30% of its melting temperature or lower. During cold rolling, an increasing number of dislocations occur in the metal. The entanglement of these dislocations causes the metal to harden – cold hardening or strain hardening. With mechanical hardening, the metal strength increases with increasing deformation. To produce metal recrystallisation, special heat treatment is often required, known as tempering. During tempering, the strength of the metal can decrease sharply with a significant increase in plasticity. This increase in plasticity often enables further deformation of the metal without its destruction. Cold rolling generally permits better control over the dimensional tolerances of the final product, as well the quality of its surface, than is the case with hot rolling.

MMK’s rolling plants produce the two main types of rolled products: flat products and long products. MMK’S Flat Products Division consists of two hot-rolling plants, a coating shop, two cold-rolling plants and a downstream steel-processing plant.

**Flat Products Division**

**ROLLING MILL NO 10** consists of a 2,000-mm-wide strip continuous hot-rolling mill with a thickness of 1.2-20.0 mm and a width of up to 1,850 mm. The mill includes three reheating walking-beam furnaces, a roughing train, an intermediate table, a finishing train and clean-up line.

**ROLLING MILL NO 4** consists of a continuous 2,500-mm-wide strip hot-rolling mill capable of producing products 2.0-12.0 mm thick with a width of up to 2,200 mm, and three cut-to-length lines.

The hot-rolling plants include mills 4500, 2350 and 5000. Hot-Rolling Mill 2350 produces sheet-by-sheet slabs with a weight of up to 4.5 tonnes, a thickness of 10.0-30.0 mm and width of up to 2,000 mm. Hot-Rolling Mill 4500 produces sheet-by-sheet slabs 30.0-160.0 mm thick and up to 2,700 mm wide. Thick Plate Mill 5000 produces high-margin thick-plate steel up to 8.0-160.0 mm thick and 4,850 mm wide for the oil and gas industry, shipbuilding, bridge construction and engineering. Products from this mill are in high demand among manufacturers of large diameter pipes.
ROLLING MILL NO 5 is dedicated to producing cold-rolled sheets for the automotive industry, sheets for producing galvanised steel and tinplate, as well as enamelled and general-use products in coils and sheets. Rolling Mill No 5 has four sections: pickling, rolling, heat-treatment and finishing. The rolling section includes the four-stand Cold-Rolling Mill 2500 and a two-stand reversing cold-rolling mill.

ROLLING MILL NO 8 produces cold-formed sections, ERW pipe, including galvanised pipes, and cold-rolled and hot-rolled bands.

ROLLING MILL NO 11, the newest and most cutting-edge of MMK's plants, was commissioned in 2011-2012. The main equipment at this new cold-rolling mill includes a continuous hydrochloric acid turbulent pickling line combined with a five-stand cold-rolling mill with production capacity of 2.1 million tonnes per year; a continuous hot-dip galvanising line with production capacity of 450,000 tonnes per year; and a combined continuous annealing/hot-dip galvanising line with production capacity of 650,000 tonnes per year. The product mix ranges from cold-rolled and galvanised coils of up to 43.5 tonnes with a sheet thickness of 0.28-3.0 mm and a width of 850-1,880 mm. In July 2017, continuous hot dip galvanising line No 3 was put into operation at Rolling Mill No 11. As a result, MMK's capacity for the production of galvanised steel increased by almost 20%, exceeding 2 million tonnes per year.

Coated metal products. The Company produces hot-dip galvanised steel, polymer-coated rolled products, black and electrotin-plated sheet iron in sheets and coils, and includes modern equipment that ensures consistently high-quality production, which is usually final and does not undergo further redistribution. The main production units are Cold Rolling Mill 1200, two tempering mills, three continuous degreasing units, a continuous annealing unit, an electrolytic tinplating unit, continuous hot-dip galvanising line No 3, two electrolytic tinplate cut-to-length lines, a galvanised steel and polymer-coated steel cut-to-length line and two polymer-coating lines.

**Long products**

The state-of-the-art continuous-section long-products mills 450, 370 and 170 manufacture a large assortment of types and grades of long products. The blanks used for rolling in these mills are continuous-pour 150 x 150 mm and 152 x 170 mm billets up to 12 metres in length. The product mix produced at the long-products mills fully corresponds to market demand. These are primarily coils with a diameter of 5.5-9.0 mm, round long products with a diameter of 10-50 mm and rebars Nos 6-40. MMK's modern rolling mills manufacture products that meet the requirements of leading automotive companies, defence equipment manufacturers, railway equipment manufacturers, as well as producers of oil and gas pipelines. Mills 370 and 170 are equipped with high-efficiency accelerated water cooling lines, which make it possible to control the microstructure and properties of the finished rolled steel, as well as to produce heat-hardened rebars. Mill 170 is also equipped with a Stelmor line to produce sorbitised coils.

Products from MMK's rolling mills are used not only by major players in heavy industry, but also in consumer goods and for coin production by Russia's Central Bank.

**MMK's general product line-up**

**Hot-rolled steel**

- Etched coils and bands (used for forging various parts, baling strips, etc.)
- Flat products (used in industry, the construction sector, oil and gas, shipbuilding, bridge construction, engineering for producing a wide variety of metal structures, etc.).
• Pickled sheet (used for producing arc-welded pipe, shaped rolled steel channels, roll-formed corners, for applying protective coatings in the construction industry, in particular for the construction of staircases, fences, bridges, framework, prefabricated buildings, etc.).

• Coils and strips (used in the manufacture of shaped steel, a variety of metal structures, for the manufacture of cutting devices, baling strips and springs, and for manufacturing gas, water and other pipes, blanks for manufacturing stamping machines, etc)

• Moulded sections (used to produce a variety of metal frames in the construction industry, etc.).

**Long products**

Long and shaped rolled steel in bars: corners, channels, strips, circles, rebars, various special shapes are used in the construction industry both for monolithic construction and for manufacturing components of any configuration, in bridge construction, shipbuilding, and the production of parts for electric locomotives and carriages. Shaped rolled steel in the form of corners and channels is used for welded metal structures, frames, housing, casings. Round, square and hexagonal rolled steel is used for making automotive and engineering fasteners (bolts, nuts, screws, ball pins, etc.). Strip steel is used to manufacture springs and suspension components for specialised machinery. Mill 370 also produces billets for grinding balls. Coils are used for making wire for a wide range of applications (including welding wire, mattress springs, electrode rods), metal cord, cables and cold-worked rebars.

Shaped, strip, square and hexagonal rolled steel, circles with a diameter of 16-50 mm and rebars Nos 12-40 are produced in rods with a length of 5 to 12 m. Coils and round long products with a diameter of 10-31 mm are produced in coils weighing up to 2,200 kg.

**Cold-rolled steel**

• Sheets (used for the manufacture of automotive parts, aircraft, automotive and machine manufacturing, marine vessels, instrumentation and construction, the manufacture of corrugated steel, as well as sheets with an additional polymer coating, cold forging and construction, etc.).

• Bands (used to produce various metal structures, machine parts, manufacturing moulded parts, constructions for the production of road barriers, as well as uses in packaging for goods and equipment for various purposes, and also pipe production, bearings, etc.).

• Coils (used to produce forged parts for the manufacture of car bodies, construction, household appliances, etc.).

• Electrolytic tin plating, black tin (used for making all kinds of containers for storing food, beverages, perfumes, chemical paint and varnish and other materials, and is also used in radio electronics, instrument making and engineering).

• Galvanised sheet (used in the construction of roofs of residential buildings, wall cladding, enclosing structures, automotive manufacturing, construction of supporting structures).

• Galvanised baling strips (used for packaging goods and equipment).

• Coated coils and sheets (used in construction and engineering, roofing, sandwich panels, various types of corrugated steel, siding, metal shingles, mounting profiles, the manufacture of smoke extraction and drainage systems and other key parts required for operations in harsh environments or in high humidity).
Meeting MMK’s supply needs

Raw materials markets, trends and changes in market conditions

In 2017, markets for primary raw materials used by MMK were generally characterised by increasing prices, including for iron ore, coal concentrates and scrap.

Prices for iron ore raw materials and coal concentrate in Russia continue to change in close correlation with price trends and cyclical changes in global supply and demand, taking into account the quarterly lag in prices in the domestic market for coal concentrates.

In 2017, the price paid by MMK for iron ore increased, mirroring the upward trend for iron ore reported by Platts. Average annual purchase prices paid by MMK for iron ore concentrate in US dollars increased by 20-38% compared to 2016 (in rouble terms, prices rose by 4-15% due to the impact of the currency’s depreciation). Domestic prices for MMK, thanks to previously signed long-term contracts, increased at a significantly slower pace than the average for the Russian market of from 54% to 116% in dollar terms and 34% to 88% in roubles for various raw materials.

The maximum increase in average purchase prices for coal concentrate in Q1 occurred in February 2017, amounting to 48% for MMK and 50% on average for the market compared to December 2016, thus beating the increase in world markets at the end of 2016. In subsequent periods before the end of the year, taking into account changes in world markets, the average annual price increase across Russia for 2017 was 55%, and for MMK 46%, compared to 2016. At the same time, MMK was able to increase the delta to the domestic market from RUB -530 per tonne to RUB -1,245 per tonne.

In 2017, prices for scrap in Russia trended upwards due to high levels of domestic competition and the increasing attractiveness of scrap exports from Russia. Considering the significant growth in demand from Russian steelmakers (in 2017, Russian plants experienced a total purchasing deficit of 1.6 million tonnes), the increase in average annual rouble prices for purchased scrap for MMK was 22% compared to 2016, while prices in the central region of Russia increased by 24% compared to 2016.

Interaction with suppliers

In all of its operations, MMK strives to comply with applicable legislation, contractual obligations and good business practices.

MMK’s official website (http://www.mmk.ru) is a digital resource that provides comprehensive information about requirements for raw materials and natural resources, as well as related services, tenders and electronic trading, suppliers and goods and services to be provided.

One of the basic principles of interaction with contractors and suppliers is the arrangement of long-term, mutually beneficial cooperation.

Constructive bilateral dialogue with key suppliers of raw materials, as well as the development and timely adoption of mutually beneficial agreements, substantially mitigated the adverse impact of market conditions on MMK’s production-related activities.

Self-sufficiency in raw materials

MMK’s use of its own iron ore in production amounted to 19% in 2017; the share of coal purchased by MMK from its subsidiary MMK Coal for the production of metallurgical coke totalled 37%.
To reduce the risk of adverse changes in the supply of key raw materials, the MMK Group previously concluded long-term contracts (for up to three to five years) with major suppliers of iron ore and coking coal.

**Long-term contracts**

The following are MMK’s key suppliers providing fixed supply volumes:

- **ERG Sales AG (JSC SSGPO, Kazakhstan)** – long-term contract with MMK has been prolonged until 2020 inclusive. The minimum supply volumes of iron ore pellets and concentrate under the contract is 7.7 million tonnes in 2017, 7.6 million tonnes in 2018 and 8.7 million tonnes in 2019-2020;
- **Metalloinvest Holding (Mikhailovsky MPP and Lebedinsky MPP, Russia)** – long-term contracts with MMK in effect until Q1 2019 inclusive. Supply volumes of iron ore pellets and concentrate under the contracts are 5.0 million tonnes in 2017, 5.0 million tonnes in 2018 and 1.25 million tonnes in the Q1 of 2019;
- **MMK Coal** – contract with MMK is valid until the end of 2018. In 2017, 2.7 million tonnes of coal concentrate were supplied to MMK, and supplies of 2.6 million tonnes are planned for 2018.
- **JSC Raspadskaya Ugolnaya Kompania (Russia)** has a long-term contract with MMK until December 2018 to supply a minimum of 0.84 million tonnes of coal concentrate per year.
- **Novatek-Chelyabinsk LLC** has a long-term contract with MMK through the end of 2022; in 2017, shipments of natural gas amounted to 4,241,854 million cubic metres.

Through its long-term contracts, MMK is currently guaranteed at least 85% of its demand for outside iron ore and at least 50% of its demand for coal concentrate (at least until the end of 2018).

Supplies of natural gas under MMK’s long-term contract with Novatek-Chelyabinsk will secure 75% of the Company’s needs through the end of 2022.
Risk management

Description of MMK’s Integrated Risk Management System

Financial and economic activities are always subject to various risks. MMK’s risk-oriented thinking helps us achieve our goals by aiming to prevent adverse effects and make the most of emerging opportunities.

MMK was one of the first Russian steelmaking companies to develop and implement an integrated risk management system (IRMS) that meets international best practices in risk management. The IRMS is an integral part of the Company’s corporate governance system. The general principles of MMK’s risk management system and the distribution of the main functional features among those who play a role in the process are set out in the annex.

In May 2017, a new version of the Company’s risk management standards was adopted. A pilot module of the IRMS can be found in MMK’s corporate information system, making it possible for authorised users to keep the IRMS up to date.

Personnel in the Risk Management Unit are qualified risk management professionals, and take part in in-service training and risk-management conferences on a regular basis. In 2017, they took part in the 15th Risk Management international forum and in the first Baikal Risk Forum 2017, an international practical forum on risk management.
<table>
<thead>
<tr>
<th>Category</th>
<th>Risk</th>
<th>Description of risk and consequences</th>
<th>Risk management</th>
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<tbody>
<tr>
<td><strong>Industry risks</strong></td>
<td>Risks associated with changes in demand and in the price of steel products</td>
<td>MMK’s performance results largely depend on changes in demand and in the price of rolled steel products. Globally, demand for steel in 2017 showed a positive trend. According to preliminary data from the World Steel Association, global steel consumption increased in 2017 by 2.8% y-o-y to 1,622 million tonnes. All key steelmaking regions – the CIS, Asia, the European Union, the Middle East and North America – showed positive trends, ensuring stable growth in demand for steel products for the second year in a row. Global steel production in 2017 increased by 5.3% to 1,691.2 million tonnes. According to forecasts, an increase in demand in the Russian market is expected in 2018. Forecasts are predicting that recovery in investment, increased lending and government support measures will lead to around 4% growth in steel consumption in Russia in 2018. The increase in steel consumption will equally affect both flat products and long products. The increased demand for flat products will mainly come from the automotive and pipe industry, while the construction sector will drive increased demand for long products and coated steel. In addition to increased demand, one of the factors contributing to the growth in supply on the part of Russian producers of coated steel products will be the substitution of imports from non-CIS countries. According to estimates from the World Steel Association, global steel consumption will increase by 1.6% y-on-y in 2018 to 1,684 million tons. World prices for rolled steel not only recovered in 2017 following the decrease in 2015; by December they had reached their highest level since 2013. According to the consensus forecast of banks and industry agencies, the average prices for cold-rolled coils in international markets in 2018 will remain at 2017 levels. If that turns out to be the case, it will be a positive result, given the relatively high prices of cold-rolled coils at the end of 2017. In addition, the situation at the beginning of 2018 should facilitate an increase rather than a decrease in world prices for steel products. Moreover, some experts are predicting a new jump in prices in the spring, after the lifting of production restrictions in China. A hike in prices will undoubtedly increase the volume of steel produced.</td>
<td>MMK has adopted the following measures to reduce the risks associated with changes in demand for and prices of its products: • diversification of the range of consumers; • active marketing policy; • conclusion of long-term contracts for the shipment of steel products; • development of its sales network; • reorientation of production for products that are more marketable; • flexible pricing policy; • reduction of production costs; • expansion of the product mix, including through the production of unique products and high-value-added products.</td>
</tr>
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</table>
production worldwide, but with moderate volumes of Chinese exports, it is unlikely that any player would be able to disrupt the balance of the global market. A significant increase is unlikely, but there are no conditions in place for a collapse either. Russian prices for rolled steel in 2018 will, of course, continue to generally follow the ups and downs of the world market. At the same time, due to stable exchange rates against the rouble, domestic prices in dollar and rouble terms will fluctuate in tune with one another.

<table>
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<tr>
<th>Risks associated with rising prices for raw materials, services</th>
</tr>
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<tbody>
<tr>
<td>MMK consumes a significant amount of raw materials, and raw materials account for the bulk of MMK's production costs. MMK does not have enough of its own raw material assets, and therefore must procure raw materials. Supplies of raw materials are subject to risks depending on the specific nature of each segment of the commodities markets. World markets for raw materials at the end of 2017 showed a significant increase in average annual prices, which meant that spot prices for the Company's main raw materials were in the range of 20-30% higher than the average prices for 2016. The key factors in increasing world prices were:</td>
</tr>
<tr>
<td>1. Growth in capacity of legal producers of pig iron and steel in China due to restructuring programmes in the industry and an increase in the profitability of Chinese steelmakers due to the accelerated increase in the price of rolled steel;</td>
</tr>
<tr>
<td>2. Increase in demand and in prices/price premiums for high-quality raw materials to provide for the increase in productivity of steelmakers and for a reduction in specific consumption indices;</td>
</tr>
<tr>
<td>3. Significant decline in exports of steel products from China (more than 30% y-o-y) in 2017 and increased protectionism led to growth in capacity utilisation in other regions of the world. For the countries of Southeast Asia and the Middle East and Turkey, this led to an increase in smelting of arc-furnace steel and an increase in global demand for scrap (pig iron and HBI).</td>
</tr>
<tr>
<td>At the end of 2017, the average annual price on the Platts iron ore index (62% Fe) increased to USD 71 per tonne CFR China. The level of spot prices for premium grades of coking coal rose to USD 180-187 per tonne FOB Australia (depending on the direction of shipment), while the average annual prices of these grades under long-term contracts were USD 210 per tonne FOB. The average price of scrap in Turkey in 2017 was USD 300 per tonne CFR.</td>
</tr>
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</table>

| MMK is taking necessary and reasonable steps to reduce this risk: |
| • expansion of its own raw materials base; |
| • conclusion of long-term contracts for the supply of raw materials with fixed terms and pricing formulas; |
| • diversification of its key raw material suppliers. |
The significant increase in the costs of steelmaking companies in 2017 was also due to the increase in global prices in the markets for ferroalloys and refractory materials. In the graphite electrodes market, there was at certain times a 1,000% increase in spot prices, but prices adjusted somewhat thereafter. Nevertheless, the increase in prices for Russian steelmakers reached 200-300% by the end of 2017. The main reason for the increase in prices for these types of raw materials were increased environmental restrictions on manufacturers in China, which reduced the availability of materials for steelmakers in China and for other global consumers.

In 2018, demand for the main raw materials will depend primarily on the situation in the Chinese market. According to the estimates of the World Steel Association, steel consumption in China in 2018 may remain at 2017 levels. In this scenario, China's need to import raw materials will not change significantly and there could even be decreases for certain materials. A reduction of imports might lead to a correction in spot prices, which is what most forecasts are currently predicting. At the same time, the average costs for ferroalloys and electrodes in 2018 are likely to remain above 2017 prices.

| Risks associated with intra-industry competition | Markets for steel and steel products are highly competitive. The steel market in Russia is characterised by a high degree of consolidation, whereby most major steelmakers are part of larger holdings. The Group's main competitors in the Russian market are large, integrated steelmakers, such as Severstal, NLMK, OMK, Evraz, Mechel, Amet, Metalloinvest, ArcelorMittal Temirtau (Kazakhstan) and Metinvest (Ukraine).

With respect to its export markets (outside the CIS), the Group's management considers its main competitors to be: Ertemir Group in Turkey; Mobarakeh Steel Company, Esfahan Steel Company and Khouzestan Steel Company in Iran; Dillinger Hutte GTS and ThyssenKrupp in Germany; Riva Group in Italy; U.S. Steel Kosice in Slovakia and Serbia; China Baowu Group, HBIS Group and Shagang Group in China; Tata Steel in India; and POSCO in South Korea.

The Group's two main competitors in the Russian Federation are Severstal and NLMK. Geographically, each of these major competitors has different strengths and focuses on different regional markets in Russia. This regional division allows companies to reduce the level of competition, while maintaining higher profitability from sales in the Russian market. | The main competitiveness factors that make it possible to reduce the risks of intra-industry competition are price, quality, meeting customers’ specifications and delivery schedules, technological equipment, location in relation to key customers and suppliers, and more favourable transportation routes. Competitive advantages were also created by maximising the capacity utilisation of MMK’s subsidiaries by keeping the growth rate of semi-fixed costs below inflation levels. |
Steel producers also compete with producers of substitute materials, especially in the automotive, construction and packaging industries, i.e. in the fastest-growing or high-margin markets. There is less competition in Russia and the CIS, however, than in global markets. Therefore, the margins in the CIS and Russian markets remain above the global average, so MMK's focus on profitability from sales should potentially be directed at the Russian Federation and the CIS.

<table>
<thead>
<tr>
<th>Country risks</th>
<th>Country risks</th>
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<tbody>
<tr>
<td>MMK’s production activity is carried out in the Russian Federation. MMK owns shares (stock) in companies incorporated in foreign jurisdictions, which creates certain risks associated primarily with the political situation and legislation in those countries. The Company is also exposed to risks associated with the introduction by foreign regulators of restrictions on the sale of steel products in specific markets.</td>
<td></td>
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<tr>
<td>The situation in markets of interest for MMK is constantly being monitored. To minimise the potential consequences of country risk and protect MMK's interests, the Company will take all reasonable steps required for interaction with regulators, industry organisations and associations, and priority partners.</td>
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<tr>
<th>Social risks</th>
<th>Social risks</th>
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<tbody>
<tr>
<td>MMK’s personnel represent the Company’s core values and are its most important asset. A decline in the social well-being and the overall disposition of our personnel could negatively affect the Company’s operations.</td>
<td></td>
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<tr>
<td>MMK is a socially oriented company and has voluntarily committed itself to socially responsible behaviour with regard to the people of Magnitogorsk and the Urals Region. As part of the system of social protection of employees and other categories of citizens, MMK has developed and successfully implements social programmes for its employees based on the creation of favourable living conditions. Among the Company’s major social concerns are medical treatment and healthcare programmes for its employees; rehabilitation of employees and their families; social support for non-working pensioners, the disabled and other categories of disadvantaged people; support for families with three or more children, mothers and programmes to encourage families to have children; implementation of housing and youth programmes, the organisation of cultural and sporting events, etc.</td>
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<table>
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<tr>
<th>Financial risks</th>
<th>Currency risk</th>
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</thead>
<tbody>
<tr>
<td>MMK exports a portion of its products for foreign currency, and a portion of the Company’s liabilities (including loans) are also denominated in foreign currency. Thus, there is a likelihood of transactional currency risks and foreign exchange differences that impact the Company.</td>
<td></td>
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<tr>
<td>Currently, MMK’s expenditures and revenues in foreign currencies are balanced, and currency fluctuations have a minimal impact on the Company’s earnings. MMK takes measures to reduce natural currency risks by optimising the foreign exchange position for each currency.</td>
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</table>
Interest rate risk

For MMK, interest-rate risk does not have a significant impact on the value of the Company’s equity and debt, or, consequently, on the final results of its operations. In 2017, MMK was not impacted by interest-rate risks. The share of floating-rate loans decreased in 2017 from 62% to 12%. In addition, against the background of rising LIBOR rates and given the historically low interest rates for loans denominated in euros, adjustable-rate loans denominated in US dollars were refinanced as fixed-rate euro-denominated loans. LIBOR and EURIBOR rates are not expected to increase significantly in the near future. The Bank of Russia continued to cut its key rate from 10% to 7.5% in 2017, which had a positive impact on the debt capital market as a whole. For MMK, this could be felt in the lowering of interest rates on rouble-denominated loans, as well as in lower commission rates for the issuance of bank guarantees.

MMK takes measures to reduce its interest-rate risk by maintaining an optimal structure in its loan portfolio of fixed and floating interest rates, as well as by monitoring the level of its interest-rate risk.

Credit risk

Reduced customer solvency and non-fulfilment by customers of payment obligations might adversely impact the Company’s financial performance.

In order to minimise risk, customers’ credit rating is checked when shipping goods under deferred payment, limits are set, various types of collateral are required, and factoring is carried out on payment plans. A standing committee determines the list of contractors that do not require collateral.

Legal risks

Risks associated with changes in tax legislation

The basic principles of Russian tax law have been established, and the Russian tax system is becoming more and more stable, while the activity of Russia’s economic entities in terms of tax consequences is more predictable. However, one cannot rule out the possibility of an increasing tax burden due to changes in individual elements of taxation, the abolition of tax breaks, increases in fees etc.

The Company carries out the real-time monitoring of changes in tax legislation and changes in the enforcement of existing regulations. In addition, the Company is involved in the legislative process through the assessment of tax bills. MMK assesses and predicts the degree of any possible adverse effects that changes in tax legislation may have, focusing its efforts on minimising the risks associated with such changes.

Risks associated with changes in currency regulation

Domestic market

The policy of currency regulation carried out by the Russian Government can be assessed as favourable. No changes that could adversely affect MMK are expected.

Foreign market

If it were necessary to increase the proportion of payments denominated in a

The Company constantly monitors changes in currency legislation to evaluate their possible impact on the Company.
| Risks associated with changes in customs regulations and duties | In carrying out procurements of raw materials and other materials and equipment from foreign suppliers, and exporting its own products, MMK is subject to certain risks associated with changes in legislation in state regulation of foreign trade, as well as the customs legislation of the Customs Union, which regulates the movement of goods across the customs border of the Customs Union, the establishment and application of customs procedures, and the establishment, introduction and collection of customs duties. | The Company complies with the requirements of customs control, provides all the documents necessary for the implementation of both export and import operations in a timely manner and has sufficient financial and human resources to comply with the rules and regulations in the field of customs regulation. In case of the introduction of customs duties on certain types of imported and exported goods, MMK will take all necessary measures to reduce this risk. |
| Risks associated with environmental and occupational health, and industrial safety | In the course of its production operations, MMK emits pollutants into the atmosphere, discharges pollutants into water and disposes of industrial waste. Therefore, MMK is subject to environmental risks that are significant for the Company. | The Company operates in respect of environmental protection in accordance RF legislation and the requirements of ISO 14001:2015, "The Environmental Management System", which is confirmed by the relevant certificate. MMK has all the approvals and permits related to environmental protection:  
- atmospheric pollutant emission permit;  
- water pollutant discharge permit;  
- waste generation standards and waste disposal limits;  
- decision on the granting of water bodies for use;  
- licence for waste management activities;  
- certificates of accreditation for laboratories performing environmental monitoring;  
- licence for environmental monitoring activities (air, surface water).  
The Company is committed to enacting measures aimed at reducing emissions into the atmosphere and discharges of pollutants into water. These measures are included in MMK's environmental programme until 2025. All investment projects implemented by MMK undergo a state environmental review and public hearings on environmental issues.  
MMK's Board of Directors conducts an annual review of the implementation of environmental policies and measures to minimise its environmental impact, thereby enabling the effective
**Risks of occupational health and industrial safety**

The issue of occupational health and industrial safety is relevant for MMK, as the Company’s integrated steel mills house a large number of hazardous production facilities, as well as complicated production equipment and technologies.

The Company has built a system of occupational health and industrial safety that is constantly being improved. MMK was one of the first Russian companies to receive a certificate according to OHSAS 18001. The strategic objective of MMK’s policy in the sphere of industrial safety is the complete elimination of fatal accidents and the attainment of a leading position among steelmaking companies in regard of key indicators in the field of occupational health and industrial safety, and the continuous improvement of safety standards. The relevant departments at MMK pay close attention to working conditions, sanitary facilities, the provision of personal protective equipment, etc. In accordance with the policy in the sphere of occupational health and industrial safety, MMK is constantly improving its system of occupational health and industrial safety, considering it one of the pillars of the Company’s sustainable development. One of the Company’s goals is the gradual reduction of occupational injuries. With the support of the trade union committee, there is a system of elected commissioners for health and safety in production shops. There are annual contests for safety and reduction of occupational injuries, as well as special workplace evaluations, medical examinations and training on the principles of industrial safety and occupational safety. The annual costs for health and safety, including the improvement of employees’ working conditions, amount to hundreds of millions of Russian roubles.
Human Resources

MMK’s employees are the key resource that ensure the Company’s long-term competitive advantage. In the current labour market, the preservation and development of human resources is a priority for MMK.

Main Principles:
1. A unified approach and consistency in human resources management.
2. Continuity of personnel development.
3. Ensuring a balance between the social and economic impact of measures taken in the area of personnel management.
4. Flexibility in terms of labour management and regulations.
5. Enhancing the prestige associated with working for MMK, and ensuring continuity of the Company’s traditions of corporate ideology and culture.

MMK considers projects in the field of personnel development to be long-term investments that establish the basis for the Company’s sustainable development and form an interest in new products and technologies. Enhancing moral and material incentives, on both a collective and individual basis, results in continuous improvement, depending on the changes occurring at MMK. The constant monitoring of the social climate among workers makes it possible to determine their job satisfaction in real time. Incentivising staff to develop their knowledge and professional skills makes it possible to react in a flexible manner to ongoing production requirements and minimise costs during the start-up period of new facilities.

Thanks to investments in its staff, MMK has established a highly professional team with a responsible approach to achieving the Company’s strategic goals. In the labour market in both the city and the region, there is high demand for jobs within MMK Group, which has a reputation as a socially responsible company. The Company’s investments in its personnel are repaid by the significant competitive advantages that it gains by having highly qualified and motivated staff.

<table>
<thead>
<tr>
<th>No</th>
<th>Indicator</th>
<th>2016</th>
<th>2017</th>
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<tbody>
<tr>
<td>1</td>
<td>Average number of employees</td>
<td>18,077</td>
<td>17,955</td>
</tr>
<tr>
<td>2</td>
<td>Total payroll, RUB thousands</td>
<td>11,988,815</td>
<td>12,646,513</td>
</tr>
<tr>
<td>3</td>
<td>Average monthly wage, RUB</td>
<td>55,131</td>
<td>58,545</td>
</tr>
<tr>
<td>4</td>
<td>Labour productivity</td>
<td>tonnes/person</td>
<td>65.7</td>
</tr>
<tr>
<td></td>
<td></td>
<td>RUB ths of commercial product/person</td>
<td>1,570.2</td>
</tr>
<tr>
<td>5</td>
<td>Subsistence minimum for the able-bodied population of the Chelyabinsk Region, RUB per month</td>
<td>12,532</td>
<td>12,820</td>
</tr>
<tr>
<td>6</td>
<td>Ratio exceeding the subsistence minimum</td>
<td>4.40</td>
<td>4.57</td>
</tr>
</tbody>
</table>

Investment in human resources

MMK’s HR strategy, which ensures the successful operations of the Group, still has at its core the principle that employees with a broad range of skills and a high level of qualifications are the Company’s main resource for ensuring a long-term competitive advantage in the steel industry. The preservation and development of human resources is ensured through continuous training and ongoing mutually beneficial cooperation with municipal educational institutions. To help motivate students professionally, 129 excursions
were organised in 2017 to museums and the Company’s various structural divisions. In addition, Group companies carried on the tradition of providing a wide variety of assistance to 49 general education institutions in the city of Magnitogorsk, and MMK took part in the Teacher of the Year competition. For over 15 years, MMK has been providing funding for the Gifted Children of Magnitogorsk charitable programme.

**Human resources capacity-building**

The main sources of qualified workers and specialists for the Group remain the Polytechnic College and the Magnitogorsk State Technical University, which produce graduates in more than 50 trades and professions. Thanks to the strong foundation provided to graduates of these institutions, MMK Group continues to occupy a leading position among industrial enterprises. Some 83.3% of the Group's employees possess vocational education. MMK easily holds the top spot in terms of the number of employees in the steel sector with higher education. In 2017, 472 graduates with professional education were hired for production positions at MMK.

**Staff development**

In order to develop employees’ skills and prepare a staff reserve for the Group, MMK is continuously carrying out staff training through a variety of educational programmes.

Managers at various levels are trained at leading Russian and international business schools after passing a competitive selection procedure. Employees at MMK Group's production facilities receive training in a second specialisation and also take part in courses to improve their qualifications. As part of the development of the Group’s management capacity, it co-operates with leading Russian financial and management schools’ MBA programmes. To expand and develop the skills of Group employees, regular on-the-job training is provided to give workers opportunities in other divisions, which then makes it possible for Group companies to fill staffing vacancies through their own personnel.

**Support for talented young people**

In order to successfully attract and retain talented employees at Group enterprises, MMK has set up vocational, production and pre-graduation training for students, providing them with opportunities to acquire practical skills lending to their qualifications upon graduation. In 2017, 351 students who received practical training were able to participate directly in the manufacturing process, where they acquired practical skills at the production facilities of MMK Group companies. In May 2017, work was completed on MMK's Sixteenth International Scientific and Technical Conference of Young Specialists, aimed at developing the scientific potential of personnel. The conference was held in three stages: the final stage had 370 participants, and 33 people from outside Magnitogorsk took part in the intercity stage. As in previous years, the conference participants were visionary young people, whose scientific and technical development will exert a real economic impact on the implementation of projects in the Company's production and management activities. In order to promote and enhance the prestige of MMK’s young employees in service jobs, a competition was held for 41 different professions called MMK's Best Young Worker by Profession.

**Diversity and equal opportunities**

MMK Group’s employees include individuals of different ages, length of service and education levels, more than 30% of whom are women. Women and men have equal opportunities for career advancement in the Company, depending on their education, skills and professional knowledge. There are equal numbers of men and women working in managerial, professional and staff positions at our plants.

As a socially oriented enterprise, MMK Group continues to employ persons with disabilities and takes their physical abilities and health into account.
**Occupational safety**

In accordance with MMK Group’s Development Strategy, its top priority is safe production, one of the most important parts of which is ensuring healthy and safe working conditions, as well as industrial safety.

To achieve this, the Company has introduced a strategic initiative: a zero-tolerance policy for safety violations. A new edition of MMK’s Policy in the Field of Industrial Safety and Occupational Health has been approved, which has as its strategic goal the complete elimination of fatal accidents and becoming a leader among steelmaking companies in regard of key indicators in the area of occupational health and industrial safety, continuous improvement and raising workplace safety standards.

**Creating a safe working environment**

As a company engaged in the entire steelmaking process, MMK includes: production through open pit mining; beneficiation of iron ore; sinter, coke and blast-furnace coke production; steelmaking; production of hot-rolled sheets and long steel products; and the production of cold-rolled sheets, and galvanised and polymer-coated products. In addition to the above-mentioned items, the plant also has facilities for the production of thermal energy, steam, electricity and oxygen, as well as facilities for waste disposal. This alone shows the variety of existing occupational hazards inherent to these production processes and that have an impact on the health of workers.

In 2017, there were 48 accidents involving 50 workers at MMK, including one fatal and two other serious accidents, including one group-related incident leaving three injured. In 2016, there were 46 accidents involving 46 injured workers, including two serious accidents. The frequency of accidents involving employees of MMK (LTIFR) in 2017 was 2.68, up from 2.54 in 2016. The increase in 2017 in the number of registered accidents on the job and the frequency of accidents, respectively, is associated with the target of achieving zero tolerance for concealing on-the-job accidents.

**Measures to improve safety**

Efforts to ensure healthy and safe working conditions for employees are undertaken by Company management in collaboration with the trade union and medical staff in accordance with the provisions of Russian legislation, MMK’s collective bargaining agreement and other legal acts establishing requirements in the area of health and technical safety. Protecting and improving the health of workers is ensured by a wide range of organisational, technical, sanitary and preventive measures. The most important element in ensuring workplace safety is the efficient functioning of the Occupational Health and Safety Management System (OHS). The basis of the system involves the identification of hazards and the assessment and management of the risk of a hazardous event occurring, whether it be an incident, accident or occupational illness.

Systematic efforts are made to assess working conditions and to identify possible risks of injury to workers, the results of which are developed into technical measures that are implemented with the aim of ensuring healthy and safe working conditions.

Taking into account that the vast majority of accidents are caused by human negligence, MMK, in accordance with best practices in this area, focused in 2017 on working with staff to ensure that workers make a conscious effort to comply with safety requirements. For this purpose, the following was done:

- a new concept was implemented for reviewing the safe behaviour of employees: if an employee works in a safe manner, taking steps to avoid dangerous actions, we note their positive work and discuss how they can improve safety in their workplace.
If a dangerous action is brought to light, we contact the employee responsible and then stop and correct the dangerous action;

- a new procedure was introduced for dealing with repeat offenders of our safety regulations;
- in order to ensure that meeting targets in terms of quality, occupational health and safety and production were of equal value, the bonus percentages for these targets were changed. To meet targets concerning compliance with requirements in the area of occupational health and safety (33%), a shift turnover system is gradually being introduced, whereby teams assess one another in terms of meeting performance assessment criteria;
- a competition was held for teams made up of both production workers and management called "safety isn’t work, it’s a way of life!";
- a system employing the so-called five-whys method was introduced to investigate the root causes of all accidents so as to develop and implement measures to prevent their recurrence;
- an evaluation list has been developed for production divisions, according to which the level of workplace safety at MMK as a whole and in each production subdivision has been digitised. Assessments are conducted on a five-point scale from 1, where each unit is aware of the fact that it has to deal with occupational health and safety, to 5, where the enterprise as a whole is operating as a team and taking care of its employees;
- The Company’s Safety School was launched in early 2018, where workers improve their skills in areas such as working at height, fire safety, first aid, and working in areas where there is a gas hazard. Computer testing is conducted to assess what staff members have learned.

Within the framework of the "Programme of Technical Measures Aimed at Reducing the Risk of Accidents", 54 measures were implemented in 21 structural divisions at a total cost of RUB 204.9 million.

The priorities for MMK and MMK Group in the field of workplace health and safety for 2018 have been approved:

1. Instituting a unified system for evaluating MMK’s structural divisions and managers by introducing an integrated safety indicator (including workplace health and safety as part of a comprehensive indicator of workplace safety in the management incentivisation system).
2. Implementing a project to develop the system of behavioural safety audits for employees at all levels, along with the development of a mobile application.
3. Continuing the implementation of projects to streamline documentation related to MMK’s system of occupational health and industrial safety.
4. Completing the project "Automated Positioning System for Workers at Blast Furnace No 6".
5. Completing work on the Safety School project.
6. Implementing "WKS Incident Management" (Visitech) project.
7. Implementing the 24/7 Safety programme.
8. Preparing MMK’s system of occupational health and industrial safety for the transition from OHSAS 18001:2007 to ISO 45001:2016;
9. Arranging the introduction of a unified IT management system for managing workplace health and safety at MMK.

In addition, the CEO approved the "Programme of Measures to Improve Existing and Introduce New Working Methods (Systems) Concerning Workplace Health and Safety for 2018".
The Agreement on Occupational Safety for 2017 provided for the implementation of 79 measures. All 79 measures were fully implemented.

No major accidents took place in 2017.

**Actual costs of occupational safety, RUB million.**

<table>
<thead>
<tr>
<th>No</th>
<th>Description of costs</th>
<th>2016</th>
<th>2017</th>
<th>+, −</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Treatment and preventive care, including:</td>
<td>78.4</td>
<td>71.6</td>
<td>− 6.8</td>
</tr>
<tr>
<td>1.1</td>
<td>Medical examinations</td>
<td>52.0</td>
<td>49.0</td>
<td>− 3.0</td>
</tr>
<tr>
<td>1.2</td>
<td>Purchase of first-aid kits, medical supplies</td>
<td>0.4</td>
<td>0.4</td>
<td>0.0</td>
</tr>
<tr>
<td>1.3</td>
<td>Preventive nutrition</td>
<td>2.3</td>
<td>2.3</td>
<td>0.0</td>
</tr>
<tr>
<td>1.4</td>
<td>The provision of beverages (sparkling mineral water, tea, milk or other equivalent food products (fruit drinks, vitamin drinks))</td>
<td>23.7</td>
<td>19.9</td>
<td>− 3.8</td>
</tr>
<tr>
<td>2</td>
<td>Assessment of workplaces with respect to working conditions, production laboratory inspection</td>
<td>22.7</td>
<td>21.3</td>
<td>− 1.4</td>
</tr>
<tr>
<td>3</td>
<td>Disinfection, deratisation costs</td>
<td>2.2</td>
<td>2.3</td>
<td>+ 0.1</td>
</tr>
<tr>
<td>4</td>
<td>Safety signs</td>
<td>1.7</td>
<td>2.5</td>
<td>+ 0.8</td>
</tr>
<tr>
<td>5</td>
<td>Consulting services related to the system of occupational health and industrial safety</td>
<td>5.6</td>
<td>3.4</td>
<td>− 2.2</td>
</tr>
<tr>
<td>6</td>
<td>External audit</td>
<td>0.4</td>
<td>0.8</td>
<td>+ 0.4</td>
</tr>
<tr>
<td>7</td>
<td>Training and assessment of employees’ knowledge regarding compliance with the requirements of the system of occupational health and industrial safety</td>
<td>9.4</td>
<td>14.1</td>
<td>+ 4.7</td>
</tr>
<tr>
<td>8</td>
<td>Current PPE costs, including:</td>
<td>161.6</td>
<td>222.5</td>
<td>+ 60.9</td>
</tr>
<tr>
<td>8.1</td>
<td>PPE costs (write-off)</td>
<td>151.8</td>
<td>212.0</td>
<td>+ 60.2</td>
</tr>
<tr>
<td>8.2</td>
<td>Washing, drying, repairing PPE</td>
<td>3.6</td>
<td>2.9</td>
<td>− 0.7</td>
</tr>
<tr>
<td>8.3</td>
<td>Detergents</td>
<td>6.2</td>
<td>7.6</td>
<td>+ 1.4</td>
</tr>
<tr>
<td>9</td>
<td>Organisational and technical measures (including equipment) to improve conditions and consumer services</td>
<td>223.1</td>
<td>305.7</td>
<td>+ 82.6</td>
</tr>
<tr>
<td>10</td>
<td>Salaries of employees of the system of occupational health and industrial safety and labour protection</td>
<td>36.4</td>
<td>32.4</td>
<td>− 4.0</td>
</tr>
<tr>
<td>11</td>
<td>Salary of occupational health engineers in structural units</td>
<td>20.3</td>
<td>3.0</td>
<td>− 17.3</td>
</tr>
<tr>
<td><strong>Total labour safety costs</strong></td>
<td><strong>561.9</strong></td>
<td><strong>679.7</strong></td>
<td><strong>+117.8</strong></td>
<td></td>
</tr>
<tr>
<td>% of labour safety costs in production expenses:</td>
<td>0.22</td>
<td>0.22</td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>
Environmental protection

Procedures used by senior management to oversee the organisation's assessment of its environmental performance

MMK’s top management is constantly evaluating the Company’s environmental performance. For this purpose, a quarterly analysis of the environmental management system is carried out. The results of this analysis are then reviewed at a meeting of the Council on Quality, Environment, Industrial Safety and Occupational Health.

The Board of Directors conducts a review of MMK’s Environmental Policy every year. At the meeting of the Board on 29 September 2017, the issue of the implementation of the MMK's Environmental Policy was addressed.

Environmental organisations

The environmental and energy rating agency Interfax-ERA published environmental ratings for the top 150 companies in Russia in 2017 (https://interfax-era.ru/reitingi/2017). The following five figures are factored into fundamental efficiency:

- the eco-energy efficiency of production (energy, resources, waste, emissions, waste per unit of output or work);
- technological efficiency (resources, waste, emissions, waste per unit of energy expended);
- ecosystem efficiency (resources, waste, emissions, waste per hectare of sustainable ecosystems);
- performance dynamics (change in relation to the previous year);
- transparency (% of the disclosed indicators).

MMK was ranked 54th out of Russia’s top 150 companies in 2017 (compared to 134th in 2016). Companies in the ferrous metals industry were ranked as follows: Severstal, 103rd (60th in 2016); NLMK, 44th (104th in 2016).

The environment and conservation

In planning its long-term and sustainable development, MMK always pays a great deal of attention to issues of environmental safety and improvement of its environmental management system.

MMK’s production activities comply with both Russian Federation environmental protection laws and ISO 14001:2015 international standards.

Currently, the environmental safety of MMK’s production activities is ensured by a number of environmentally friendly facilities, including:

- 274 gas scrubbers (mainly sock filters and electro-filters), as well as wet scrubbers (hollow scrubbers and high-velocity washers);
- 45 local water recirculation machines and 53 wastewater treatment plants (radial and vertical settling tanks, neutralising stations);
- 16 specialised facilities for processing industrial waste.

Every year, MMK spends about RUB 2.5 billion on maintaining environmental facilities (capital and current repairs and maintenance).
Environmental management system

MMK’s environmental management system (EMS) is one of the main elements of the Company’s overall management system, and it is aimed at reducing the Company’s environmental impact.

Since 2004, MMK has been implementing and successfully operating an environmental management system certified for compliance with the ISO 14001 international standard. On 25-26 October 2017 (in accordance with Order No GD-01/427 of 18 October 2017), a certification audit of MMK's environmental management system was conducted to verify compliance with the 2015 edition of the ISO 14001 international standard. Based on the results of the audit, conducted by specialists from the established certification body, TUV NORD CERT GmbH (Germany), sinter production was added to the area covered by the certification of the Company’s EMS, and it was concluded that the EMS was performing well.

The certification of MMK’s EMS includes the processing and production of: sinter, limestone, lime, dolomite, gravel; coke and coke-chemical products; steel; continuous-cast slabs for hot rolling; hot-rolled and cold-rolled coils and sheets; long steel products; cold-rolled strip; tin; galvanised steel; coated steel, rolled products for the automotive industry, electro-fused and galvanised pipes; formed steel sections; electricity and heat-transfer agents.

Environmental Policy and performance

By a decision of MMK’s Board of Directors and an order from the General Director, a new Environmental Policy has entered into force.

MMK’s Environmental Policy is publicly available to all interested parties. The policy is based on MMK’s development strategy and is aimed at the environmentally friendly development of the Company’s production capacity to meet the needs of present and future generations in a healthy environment.

MMK has positioned itself as Russia’s leading steelmaker in implementing cutting-edge technologies.

An indispensable element in MMK’s strategy for its long-term and sustainable development is the ongoing reduction and prevention of its negative impact on the environment.

MMK’s goals in key areas in the field of environmental protection:

1. By 2025, to reduce a Comprehensive Air Pollution Index (CAPI) score in the city of Magnitogorsk to the level of 5 units;
2. Achieving by 2025 the technological standards for environmental impact corresponding with the best available technologies recommended for implementation in the Russian Federation;
3. To fully eliminate discharges of industrial waste water into surface water bodies by 2025;
4. To provide the best possible waste management and storage of all wastes in hazard classes 3, 4, 5 in environmentally safe facilities;
5. To complete the reclamation of iron pits and slag dumps.

In order to implement the Company’s Environmental Policy, a long-term MMK Environmental Programme until 2025 was approved and adopted for implementation. The measures that were introduced through this programme to reduce the Company’s harmful impact on the environment require significant capital investments.

In order to develop the Company’s Environmental Policy, annual targets for environmental protection are established.
Implementation of MMK’s targets in the field of environmental protection in 2017

<table>
<thead>
<tr>
<th>No</th>
<th>Indicator</th>
<th>Planned for 2017</th>
<th>Actual implementation in 2017</th>
<th>Implementation, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Reduction of total emissions of pollutants into the atmosphere, tonnes per year</td>
<td>2,500</td>
<td>2,536</td>
<td>100</td>
</tr>
<tr>
<td>2</td>
<td>Achieving standards on gross emissions of dust into the atmosphere (no more than), kg per tonne of steel</td>
<td>2.10</td>
<td>1.80</td>
<td>100</td>
</tr>
<tr>
<td>3</td>
<td>Reduction in specific discharge of pollutants into water, kg per tonne of metal production</td>
<td>5.41</td>
<td>5.49</td>
<td>98.5</td>
</tr>
<tr>
<td>4</td>
<td>Reduction in the concentrations of pollutants in the waters discharged into the Magnitogorsk Reservoir (issue No 1) to the level of: petroleum products, mg/litre; iron, mg/litre; ammonium nitrogen, mg/litre.</td>
<td>0.05 0.10 0.40</td>
<td>0.06 0.07 0.39</td>
<td>94.3</td>
</tr>
<tr>
<td>5</td>
<td>Reduction in the concentrations of pollutants in the waters discharged into the Magnitogorsk Reservoir (issue No 7) to the level of: petroleum products, mg/litre; iron, mg/litre.</td>
<td>0.05 0.10</td>
<td>0.05 0.08</td>
<td>100</td>
</tr>
<tr>
<td>6</td>
<td>Recycling (operating and waste) metallurgical slag, mln tonnes/year</td>
<td>11.2</td>
<td>11.4</td>
<td>100</td>
</tr>
<tr>
<td>7</td>
<td>Using wastes as secondary material resources in sinter production, mln tonnes/year</td>
<td>2.29</td>
<td>2.35</td>
<td>100</td>
</tr>
<tr>
<td>8</td>
<td>Termination of the dumping of ash at the thermal power station’s ash dump (class 5 waste hazard), ths tonnes/year (based on 100,000 tonnes of coal)</td>
<td>10.0</td>
<td>7.0 (based on a recalculation of 100,000 tonnes of coal)</td>
<td>100</td>
</tr>
<tr>
<td>9</td>
<td>Performing land reclamation (primarily the Western Pit) in an area of 2 hectares, %</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>10</td>
<td>Caring for a previously reclaimed area of 13.4 hectares, %</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

MMK achieved 99.3% of its annual environmental targets in 2017.
In order to achieve the stated environmental targets for the year, MMK developed an Environmental Programme for 2017. As part of that Programme, MMK implemented 48 specific technical measures (21 have been extended into 2018), with varying degrees of complexity, aimed at minimising the Company’s environmental impact.

Actual costs for the implementation of MMK’s Environmental Programme in 2017 amounted to RUB 4,777.0 million (including RUB 4,157.8 million for capital construction), including:

- RUB 3,076.3 million was spent on the reduction of emissions into the atmosphere (including capital construction worth RUB 2,577.8 million);
- RUB 660.4 million was spent on the reduction of emissions into surface water (including capital construction worth RUB 562.8 million);
- RUB 1,040.3 million was spent on industrial waste disposal and reclamation (including capital construction worth RUB 1,017.2 million).

Key environmental protection measures under MMK’s Environmental Programme implemented in 2017

<table>
<thead>
<tr>
<th>No</th>
<th>Shop</th>
<th>Measure</th>
<th>Execution Period</th>
<th>Expenses, RUB millions</th>
<th>Effect</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>for 2017</td>
<td>Since the beginning of construction</td>
</tr>
<tr>
<td>1</td>
<td>EAF</td>
<td>Revamping of the gas cleaning unit of twin-bath steel-melting unit 32 and LMF treatment units</td>
<td>2016–2017</td>
<td>1,067.0</td>
<td>1,529.9</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Blast Furnace Shop</td>
<td>Blast furnace No 10. Casting bed aspiration system</td>
<td>2017</td>
<td>504.9</td>
<td>504.9</td>
</tr>
<tr>
<td>3</td>
<td>Blast Furnace Shop</td>
<td>Blast furnace No 9. Casting bed aspiration system</td>
<td>2017</td>
<td>493.2</td>
<td>493.2</td>
</tr>
<tr>
<td>4</td>
<td>Blast Furnace Shop</td>
<td>Transmission of gases from the stock houses for blast furnaces Nos 8 and 9 into the stock house electrostatic precipitator for blast furnace No 10.</td>
<td>2017</td>
<td>58.5</td>
<td>58.5</td>
</tr>
</tbody>
</table>
MMK's senior management provides constant support to, and plays a leading role in the efficient operation of, MMK's environmental management system.

The person responsible for the environmental management system is MMK’s CEO. The person responsible for ensuring environmental oversight over industrial production is the Director for Labour Safety, Industrial Safety and the Environment. The Council on Quality, Environment, Industrial Safety and Labour Safety, which includes the directors in each of these areas, is headed by MMK’s CEO.

At MMK, the oversight function for compliance with the requirements of environmental legislation and ISO 14001:2015 international standards is performed by the Environmental Protection Laboratory under the Director for Occupational Health, Industrial Safety and the Environment. A total of 68 staff work at the Laboratory. The Laboratory has been accredited for its technical competence in the Gosstandart accreditation system of analytical laboratories (centres).

**Emissions into the atmosphere**

Reducing air pollution is a priority for MMK’s environmental activities. Emissions from the sintering shop, blast furnace plant, power plants and from coke production have the most significant impact on the atmosphere. The main pollutants emitted into the atmosphere as a result of MMK’s production activities include particulate matter (dust), nitrogen dioxide, ammonia, hydrogen sulphide, sulphur dioxide, carbon monoxide and phenol.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th>Reduction of emissions in 2017: sulphur dioxide at 1,120 t/y</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>Sintering Shop</td>
<td>Renovation of Sulphur Catching Unit No 2</td>
<td>2017</td>
<td>146.9</td>
<td>146.9</td>
</tr>
<tr>
<td>6</td>
<td>Central Water System</td>
<td>Construction of</td>
<td>2015-2017</td>
<td>12.6</td>
<td>24.3</td>
</tr>
<tr>
<td>7</td>
<td>Mining Plant</td>
<td>Land reclamation (primarily the Western Pit).</td>
<td>2017</td>
<td>9.8</td>
<td>9.8</td>
</tr>
<tr>
<td>No</td>
<td>Pollutant</td>
<td>Volume of pollutants discharged into the atmosphere, tonnes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>----</td>
<td>----------------------------------------</td>
<td>-------------------------------------------------------------</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>2016</td>
<td>2017</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Particulate matter (dust)</td>
<td>23,425</td>
<td>23,165</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Nitrogen dioxide</td>
<td>10,378</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Sulphur dioxide (SO$_2$)</td>
<td>11,645</td>
<td>9,370</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Carbon monoxide</td>
<td>150,350</td>
<td>150,374</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Phenol</td>
<td>14</td>
<td>14</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Total emissions** | 201,820 | 199,284

Total emissions in 2017 amounted to 199,284 tonnes, with emissions per tonne of steel coming to 17.58 kg/t.

---

**Discharges of pollutants into surface water**

<table>
<thead>
<tr>
<th>No</th>
<th>Pollutant</th>
<th>Amount of pollutants discharged into surface water, tonnes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2016</td>
</tr>
<tr>
<td>1</td>
<td>Ferrum, total</td>
<td>44.2</td>
</tr>
<tr>
<td>2</td>
<td>Manganese</td>
<td>6.77</td>
</tr>
<tr>
<td>3</td>
<td>Petroleum products</td>
<td>43.6</td>
</tr>
<tr>
<td>4</td>
<td>Sulphates</td>
<td>20,629</td>
</tr>
<tr>
<td>5</td>
<td>Fluorides</td>
<td>198.7</td>
</tr>
</tbody>
</table>

**Total emissions** | 62,876 | 62,178
In 2017, total discharges into surface water amounted to 62,178 tonnes, with discharges of pollutants per tonne of steel coming to 5.49 kg/t.

**Waste management**

In the course of the production process, MMK's facilities generate industrial waste from hazard classes 1-5. Throughout 2017, wastes from hazard classes 3, 4 and 5 were placed in specialised facilities for storage and disposal. Wastes from hazard classes 1 and 2 were neutralised.

**Storage volumes (accumulation, disposal) of wastes**

<table>
<thead>
<tr>
<th>Type of wastes</th>
<th>Waste storage in 2016, tonnes</th>
<th>Waste storage in 2017, tonnes</th>
</tr>
</thead>
<tbody>
<tr>
<td>class 1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>class 2</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>class 3</td>
<td>0.3</td>
<td>0</td>
</tr>
<tr>
<td>class 4</td>
<td>58,244.1</td>
<td>60,922.5</td>
</tr>
<tr>
<td>class 5 (without waste ore)</td>
<td>1,340,844.6</td>
<td>1,259,884.9</td>
</tr>
<tr>
<td><strong>TOTAL (without waste ore)</strong></td>
<td><strong>1,399,089</strong></td>
<td><strong>1,320,807</strong></td>
</tr>
</tbody>
</table>
Waste treatment and disposal

MMK pays significant attention to its comprehensive work to recycle industrial waste in its own production and to the reclamation of depleted pits at Magnitnaya Mountain.

<table>
<thead>
<tr>
<th>No</th>
<th>Waste treatment and disposal</th>
<th>Amount of waste, million tonnes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2016</td>
</tr>
<tr>
<td>1</td>
<td>Total sintering slag processed, including:</td>
<td>11.042</td>
</tr>
<tr>
<td></td>
<td>- operating steelmaking</td>
<td>2.216</td>
</tr>
<tr>
<td></td>
<td>operating blast-furnace slag</td>
<td>1.35</td>
</tr>
<tr>
<td></td>
<td>- steelmaking dump</td>
<td>4.95</td>
</tr>
<tr>
<td></td>
<td>- blast-furnace dump</td>
<td>2.53</td>
</tr>
<tr>
<td>2</td>
<td>Shipped to consumers, including:</td>
<td>1.45</td>
</tr>
<tr>
<td></td>
<td>slag gravel</td>
<td>0.59</td>
</tr>
<tr>
<td></td>
<td>granulated slag</td>
<td>0.86</td>
</tr>
<tr>
<td>3</td>
<td>Pieces of metal retrieved from slag</td>
<td>0.98</td>
</tr>
<tr>
<td>4</td>
<td>Slag and wastes used for reclamation of abandoned open-pit mines at Magnitnaya Mountain</td>
<td>10.28</td>
</tr>
<tr>
<td>5</td>
<td>Industrial waste used in GOP sinter mix</td>
<td>2.32</td>
</tr>
<tr>
<td>6</td>
<td>Waste oil provided for regeneration (tonnes)</td>
<td>1,359</td>
</tr>
</tbody>
</table>
Reclamation of damaged land

From 2012 through 2017, work was carried out on the biological reclamation of 154,000 square metres (including 20,000 square metres in 2017) of damaged land in the West abandoned iron ore pit at Magnitnaya Mountain. A fertile layer has been formed, vegetation and perennial grasses have been planted at a cost of RUB 85 million (including RUB 9.8 million in 2017). In total, 5,423 saplings and 6,471 shrubs have been planted since 2012, including 920 saplings and 1,540 shrubs since 2017.

Inspections by state bodies regarding incidents at environmental protection facilities

The Department of the Russian Environmental Monitoring Service for the Chelyabinsk Region fined MMK RUB 100,000 in 2017.

As of 31 December 2017, no legal claims seeking the suspension of activities or revocation of permits had been filed against MMK in regard of environmental protection or causing environmental damage.

In 2017, MMK made payments in the amount of RUB 44 million, which was paid in full, for environmental pollution.

Results of laboratory testing related to the work of MMK’s environmental protection facilities

<table>
<thead>
<tr>
<th>Type of Laboratory Testing</th>
<th>Number of measurements</th>
<th>Number of measurements in excess of requirements</th>
<th>Percentage of measurements in excess of beyond requirements, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Control standards for gas-cleaning units</td>
<td>481</td>
<td>336</td>
<td>18</td>
</tr>
<tr>
<td>Control standards for wastewater treatment plants</td>
<td>2,515</td>
<td>1,972</td>
<td>66</td>
</tr>
</tbody>
</table>

Cost of environmental activities

<table>
<thead>
<tr>
<th>Type of charges</th>
<th>Amount, RUB millions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2016</td>
</tr>
<tr>
<td>Capital construction</td>
<td>2,482.3</td>
</tr>
<tr>
<td>Capital repairs</td>
<td>141.7</td>
</tr>
<tr>
<td>Maintenance (ongoing maintenance and operational costs)</td>
<td>2,683.8</td>
</tr>
<tr>
<td>R&amp;D in environmental protection</td>
<td>2.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>5,309.8</strong></td>
</tr>
</tbody>
</table>
## Energy resources consumed in 2017

<table>
<thead>
<tr>
<th>Description</th>
<th>Units</th>
<th>Quantity</th>
<th>Expenses for Energy Resources, million rub.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural gas</td>
<td>ths m³</td>
<td>3 940 307</td>
<td>14 642.4</td>
</tr>
<tr>
<td>Blast furnace gas</td>
<td>ths m³</td>
<td>13 765 894</td>
<td>6 681.2</td>
</tr>
<tr>
<td>Coke gas</td>
<td>ths m³</td>
<td>1 922 157</td>
<td>3 602.7</td>
</tr>
<tr>
<td>Coal burnt at stations</td>
<td>tonnes</td>
<td>51 808</td>
<td>124.6</td>
</tr>
<tr>
<td>Diesel fuel</td>
<td>tonnes</td>
<td>26 400</td>
<td>822.3</td>
</tr>
<tr>
<td>Electric energy</td>
<td>ths kWh</td>
<td>7 547 332</td>
<td>14 752.5</td>
</tr>
<tr>
<td>Heat energy contained in steam</td>
<td>Gcal</td>
<td>5 041 150</td>
<td>3 719.2</td>
</tr>
<tr>
<td>Heat energy contained in hot water</td>
<td>Gcal</td>
<td>785 922</td>
<td>569.9</td>
</tr>
</tbody>
</table>
Corporate governance

Statement by the Board of Directors of OJSC MMK on compliance with corporate governance principles: MMK is committed to meeting high international and national standards of corporate governance. The Company’s strong governance, combined with its solid financial performance, makes it a reliable partner for investors.

The overall objective of MMK’s corporate governance is to increase the Company’s value while balancing the interests of all stakeholders.

The Company aims to achieve this objective by:

1. Protecting the rights and interests of all shareholders;
2. Ensuring transparency of information on the Company’s activities;
3. Establishing a governance structure to support the Company’s strategic management, as well as to oversee and ensure accountability of management; and
4. Building trusted relations with all key stakeholders, including shareholders, suppliers, customers and employees.

MMK’s corporate governance guidelines and procedures are set forth in the Company’s Corporate Governance Code, which was approved by the Board of Directors of 21 September 2001 (posted on MMK’s website: http://mmk.ru/corporate_governance/internal_documents/code_of_corporate_governance/).

Interactions with MMK’s shareholders. The basic principles for building relationships with the Company’s shareholders and investors are the protection of shareholder and investor rights; the principle of equal treatment of all shareholders, including minority and foreign shareholders; and the principle of fair management. The Company aims to support activities to protect the environment while new technologies are developed.

The Company has also adopted a Code of Business Ethics, which was approved by the Board of Directors (last revision on 15 June 2016). The Code of Business Ethics and other internal documents approved by the Company that specify its fundamental business principles are posted on MMK’s website: http://eng.mmk.ru/corporate_governance/internal_documents/.

The Board of Directors is confident that this approach to shareholders instils confidence in the investment community and promotes the loyalty of the shareholders.

Compliance with the best practice corporate governance recommendations. The Company generally adheres to the principles of corporate governance recommended by the Bank of Russia on 21 March 2014.

Since 2003, MMK has commissioned annual independent assessments of the quality of its corporate governance. In 2017, the Russian Institute of Directors (RID) confirmed MMK’s National Corporate Governance Score at 7++ (Developed Corporate Governance Practice) according to the National Corporate Governance Rating scale. This means that "the Company meets the requirements of Russian legislation related to corporate governance and follows a significant number of recommendations found in the Russian Code of Corporate Governance. The Company has a rather low risk of shareholders selling their shares for reasons related to corporate governance."
In 2017, new editions of the Company's Charter and regulations governing MMK's management bodies were approved at the Annual General Meeting of Shareholders: Regulations on the General Shareholders’ Meeting, Regulations on the Board of Directors, Regulations on the Management Board, Regulations on the General Director and Regulations on the Audit Commission. These documents were amended in accordance with changes in Russian legislation, the adoption of the Russian Corporate Governance Code and changes in the Listing Rules of Moscow Exchange. According to the changes, the deadline for shareholders to submit proposals for the agenda of the Annual General Meeting was increased to 60 days after the end of the financial year. The Regulation on the General Shareholders’ Meeting sets forth rules for responding to shareholders' questions during the meeting. The Company's bylaws stipulate the deadline for providing information on the list of persons entitled to participate in the General Shareholders’ Meeting. An additional means of communicating with shareholders was also introduced, with the creation of the special email address shareholder@mmk.ru.

The new version of the Charter and the Regulation on the General Shareholders’ Meeting provide for the creation of an electronic voting system for shareholders, which is consistent with the recommendation of the Code and allows each shareholder to freely exercise the right to vote in the simplest and most convenient way for them.

Amongst other positive changes, the list of issues that are to be decided by a majority vote of all elected members of the Board of Directors and the list of issues decided by the Board of Directors through in-person voting have been expanded in the Charter. A decision was also taken to change the Company’s name from OJSC MMK to PJSC MMK to bring it into conformity with the provisions of Chapter 4 of the Civil Code of the Russian Federation.

In April 2017, the Board of Directors approved a new version of the Regulation on the Dividend Policy. In accordance with the new Dividend Policy, the Board of Directors, in formulating a recommendation on the amount of dividends to be paid out, will be guided primarily by the amount of free cash flow as calculated in accordance with IFRS reporting, but they may also use other indicators to determine the amount of dividends: net profit based on IFRS reporting or net profit determined on the basis of RAS reporting.

In September 2017, the Company reported the sale (placement) by its controlling shareholder (Mintha Holding Limited) of a 3% stake in MMK. As a result of the transaction, MMK’s free float increased to 15.7%, and the stake held by Victor Rashnikov (the beneficiary of Mintha Holding Limited) decreased to 84.3%. The transaction contributed to an increase in the liquidity of MMK shares and facilitated the Company’s inclusion in the MSCI Index.

**Assessment of the activities of the Board of Directors.** Since 2008, the Board of Directors has been assessing, on an annual basis, the state of corporate governance in the Company, as well as its own activities and those of its committees. The results of this assessment are reflected in the Company’s annual report. When making its assessment, each member of the Board of Directors fills out a questionnaire in which they state whether they feel that the principles of corporate governance are being sufficiently complied with in the Company. They can also write their opinions about the strengths and weaknesses of the Company’s approach to corporate governance as a whole and of the work of the Board of Directors, its committees and individual directors. The results of the assessment are passed on to the Nominations and Remuneration Committee and published in the annual report.
In 2017, in order to comply with best practices of corporate conduct, the recommendations of the Corporate Governance Code, and also in accordance with the recommendation of MMK’s Internal Audit Department (according to the results of an analysis and assessment of corporate governance at MMK), the Board of Directors decided to arrange an assessment of the performance of the Board of Directors by a qualified independent external consultant.

As a result of a competitive tender process, the international consultancy Odgers Berndtson was selected.

The main objectives of the evaluation were to determine the degree of compliance of the activities of the Board of Directors with the Code of Corporate Governance and best practices, to assess the performance of the Board of Directors in terms of strategy implementation and its compliance with MMK’s development needs, the engagement of the Board of Directors and its committees, and to identify priorities and areas for further improvement of their work.

To achieve these goals, the following tasks were carried out:

- an analysis of up-to-date information on the activities of the Board of Directors, its committees and the Corporate Secretary;
- an assessment of the quality of interaction between shareholders, the Board of Directors, the committees of the Board of Directors, the Corporate Secretary and key executives;
- an evaluation of approaches to the organisation of the activities of the Board of Directors and its committees;
- a comparison of several aspects of the activities of the Board of Directors with best Russian and international practices in the field of corporate governance;
- preparation of a report on the results of the evaluation containing the consultant’s conclusions and recommendations.

In accordance with the methodology proposed by the consultant, the following were subject to evaluation:

- the activities of the Board of Directors;
- the activities of the committees of the Board of Directors;
- the activities of the Chairman of the Board of Directors;
- the activities of the Secretary of the Board of Directors and the Corporate Secretary.
Nine out of 10 (90%) members of the Board of Directors and management representatives who work closely with the Board of Directors and its committees took part in the evaluation process.

<table>
<thead>
<tr>
<th>Evaluation participants</th>
<th>Total number of people</th>
<th>Number of people who took part in the questionnaire</th>
<th>Number of people interviewed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent directors</td>
<td>5</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Non-executive directors</td>
<td>2</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Executive directors</td>
<td>3</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Representatives of management who are not members of the Board of Directors</td>
<td>6</td>
<td>N/A</td>
<td>6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>16</strong></td>
<td><strong>9</strong></td>
<td><strong>11</strong></td>
</tr>
</tbody>
</table>

The questionnaire and interviews allowed the consultant to obtain sufficient information to form an objective opinion, as reflected in the evaluation report.

The following aspects of the activities of the Board of Directors received a positive evaluation:

- preparation and holding of meetings;
- activities of the Chairman of the Board of Directors;
- activities of the Company’s Corporate Secretary.

The areas identified for further improvement included:

- updating the process of strategic management of the Company taking into account technological challenges, the development of new strategic initiatives and increasing the degree of involvement of the Board of Directors in the strategic process;
- improving the incentive system for key executives;
- development of the risk management system;
- development of relations with the Company’s minority shareholders;
- development of the Corporate Secretary function;
- improvement of document distribution on the part of the Board of Directors and its committees;
- improvement of communication between committees, the Board of Directors and management;
- strengthening the core expertise of the Strategic Planning Committee and the Audit Committee;
- updating of the regulations governing the activities of the committees of the Board of Directors.

**Online service for shareholders.**

In accordance with a decision of MMK’s management in 2017, the Company’s shareholders were granted free access to the Shareholder Dashboard in the STATUS Online information system. A link to the service is posted on MMK’s public website at:
http://www.mmk.ru/contacts/corporate_secretary/

The Shareholder Dashboard is a safe, multifunctional information service that shareholders can use for remote service and to take part in the Company's corporate actions (e-voting at General Shareholders’ Meetings).

**Awards and achievements.**

As part of the 12th National Director of the Year Award awards, several representatives of MMK were honoured, including Victor Rashnikov in the category of the 25 Best Board Chairmen, Valeriy Martsinovich and Tav Morgan in the category of the 50 Best Independent Directors, and Sergey Krivoshchekov in the category of the 25 Best Corporate Governance Directors and Corporate Secretaries.

Sergei Krivoshchekov, MMK's Director for Corporate Matters and Social Programmes, was selected as one of the Top 50 Managers in the Area of Corporate Social Responsibility, as selected by the Association of Managers.

In 2017, MMK was one of the winners in the "Social Performance among Mining and Metallurgical Companies" competition, taking first place in the category of Social and Economic Performance in the Collective Agreement. MMK and the companies that make up MMK Group were selected as the winners in a regional competition called "Collective Agreement: The Basis for Protecting the Social and Labour Rights of Workers".

The Metallurg charitable foundation, of which MMK is a major benefactor, won the 12th regional "Changing the World Competition" for social achievements in the category of Charity Work by Non-profit Organisations.
A brief description of the corporate governance model and practices.

Governance structure of MMK:

In 2017, General Shareholders' Meetings were held.

On 26 May 2017, the Annual General Shareholders' Meeting considered the following items:

1. Approval of the annual report and annual accounting (financial) statements of MMK for 2016.
2. Distribution of profit, including payment (declaration) of dividends for the results of FY 2016.
3. Election of members of the MMK Board of Directors.
4. Election of members of the MMK Audit Commission.
5. Approval of the MMK auditor.
6. Approval of the amount of remuneration and compensation paid to the members of the MMK Board of Directors.
7. Approval of the amount of remuneration and compensation paid to the members of the MMK Audit Commission.
8. Approval of a new version of MMK's Charter.
9. Approval of new versions of MMK's regulations governing the activities of its management bodies:
   9.1 Approval of the Regulations on the General Shareholders' Meeting of PJSC MMK;
   9.2 Approval of the Regulations on the Board of Directors of PJSC MMK;
   9.3 Approval of the Regulations on the Management Board of PJSC MMK;
   9.4 Approval of the Regulations on the General Director of PJSC MMK;
   9.5 Approval of the Regulations on the Audit Commission of PJSC MMK.

The quorum at the meeting was 91.54% of the total number of votes of the Company's outstanding ordinary shares.

On 29 September 2017, an Extraordinary General Shareholders' Meeting was held with the following agenda:

1. Payment of dividends on outstanding shares based on MMK's results for H1 2017.

The quorum at the meeting was 88.87% of the total number of votes of the Company's outstanding ordinary shares.

On 8 December 2017, an Extraordinary General Shareholders' Meeting was held with the following agenda:

1. Payment of dividends on outstanding shares based on MMK's results for the first nine months of 2017.

The quorum at the meeting was 89.68% of the total number of votes of the Company's outstanding ordinary shares.
Quorum of MMK General Shareholders' Meetings

08.12.2017
29.09.2017
26.05.2017
30.09.2016
27.05.2016
18.12.2015
28.09.2015
29.05.2015
12.12.2014
30.05.2014

Board of Directors MMK

The Company's Board of Directors is in charge of managing the Company's activities (except for matters for which the General Shareholders’ Meeting has responsibility), and it is also responsible for overseeing the implementation of resolutions by the Company’s executive bodies adopted by the Board of Directors or the General Shareholders’ Meeting. The Board of Directors includes 10 people. Candidates to the Board of Directors are elected by cumulative voting. Meetings of the Board of Directors are convened by the Chairman of the Board of Directors and held both in person and in the form of absentee voting. The operation of the Board of Directors is determined by the Regulations on the Board of Directors (http://eng.mmk.ru/corporate_governance/internal_documents/regulations_approved/). The Board of Directors includes three committees: the Committee for Strategic Planning, the Committee for Audit and the Committee for Nominations and Remuneration. The operation of the committees is governed by the Regulations on the Committees (http://eng.mmk.ru/corporate_governance/internal_documents/group_documents/).

The composition of the Board of Directors

Independent directors. The Board of Directors is accountable to the General Shareholders’ Meeting. Independent directors are elected annually to the Board of Directors. During the Annual General Shareholders' Meeting held on 26 May 2017, three independent directors were elected to the Board of Directors — Ruben Aganbegyan, Valeriy Martsinovich and Tav Morgan — who meet all the independence criteria as outlined in the Code of Corporate Governance.
On 26 May 2017, the Board of Directors, guided by Subparagraph 2 of Paragraph 2.18 of Appendix 2 and by Appendix 4 to the Listing Rules of CJSC MICEX Stock Exchange, named Zumrud Rustamova and Kirill Liovin to the Board of Directors as independent directors. Thus, the Board of Directors has five independent directors.

The independent directors play an important role in the Company. Thanks to their qualifications, experience and constructive criticism, the Board of Directors, when considering agenda items, takes more informed decisions. The independent directors played a major role in the improvement of the Strategic Development Plan for MMK Group for the period until 2025 and in the assessment of its performance, in the formation of KPIs and assessments of the activities of executive bodies, in the assessment of the efficiency of the risk management and internal control system, as well as in the assessment of the Company’s performance in the field of industrial and environmental safety.

Gender composition of the Board of Directors

Age of the members of Board of Directors

The term of service of the Board of Directors
Information about changes in membership of the Board of Directors in 2017

In 2017, Sergey Sulimov left the Board of Directors, and Sergey Ushakov joined the Board.

Functions of the Chairman of the Company’s Board of Directors

Pursuant to Article 7 of the Regulation on the Board of Directors of PJSC MMK, the following functions of the Chairman of the Company’s Board of Directors were approved by General Shareholders’ Meeting Decision No 46 of 26 May 2017.

Committees of the Board of Directors

To improve the efficiency of the Board of Directors’ work and their resolutions, MMK has set up the following committees:

- Audit Committee;
- Staff and Remuneration Committee;
- Committee for Strategic Planning.

These committees submit performance reports to the Board of Directors not later than 30 business days before the date of the Annual General Shareholders’ Meeting.

<table>
<thead>
<tr>
<th>Committee Functions</th>
<th>Audit Committee</th>
<th>Staff and Remuneration Committee</th>
<th>Committee for Strategic Planning</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- Selection of the independent Auditor.</td>
<td>- Approval of long-term plans, programmes, policies and key guidelines of the Company and of the Group as a whole, amendments to such documents and monitoring of implementation thereof with regard to: human resources policy and management structure, motivation and wage policy, promotion of career growth and formation of candidate pools, corporate governance;</td>
<td>- Identifying priority areas of activity and the development strategy of the Company and of the Group as a whole.</td>
</tr>
<tr>
<td></td>
<td>- Supervision of the Company’s financial and business activities.</td>
<td>- Review of proposals from shareholders on the nomination of candidates to the Board of Directors, the Audit Commission and the position of the Company’s General Director.</td>
<td>- Approval of long-term plans, programmes, policies and guidelines for the Company and Group companies, introduction of amendments to such documents, monitoring their implementation in the areas of: investment, innovation and integration activities; determination of prioritised areas of activity regarding sales and procurement, production activities, placement and borrowing of funds, property management, social policy, management of Group companies, investor relations, etc.</td>
</tr>
<tr>
<td></td>
<td>- Interaction with the Company’s Auditor.</td>
<td>- Making recommendations to the Board regarding remuneration and compensation for members of the Board of Directors (including executive directors of the Board) and members of the Company’s Audit Commission.</td>
<td>- Approval of the Company’s financial and business operations plan (budget) for the financial year and supervision of its implementation.</td>
</tr>
<tr>
<td></td>
<td>- Oversight over the reliability and efficiency of the risk management and internal control system.</td>
<td></td>
<td>- Calling of Annual and Extraordinary General Shareholders’ Meetings.</td>
</tr>
<tr>
<td></td>
<td>- Independent supervision of the financial reporting internal control system and evaluation of performance of the Company’s financial reporting internal control system.</td>
<td>- Approval of the Company’s corporate key performance indicators.</td>
<td>- Preparation of recommendations for the General Shareholders’ Meeting on profit distribution.</td>
</tr>
<tr>
<td></td>
<td>- Making recommendations to the Board of Directors for decision-making on risk management, implementation of oversight over the functioning of the Company’s risk management system and analysis of the effectiveness of risk management.</td>
<td>- Preliminary review of candidates for positions of members of the Company’s Board of Directors, the Audit</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Reviewing and making recommendations to the Board of Directors on the approval of long-term plans, programmes, policies and guidelines, introduction of amendments to such documents, and performance oversight regarding industrial and occupational safety and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Committee</td>
<td>for 2017</td>
<td>for 2017</td>
<td>for 2017</td>
</tr>
<tr>
<td>------------</td>
<td>---------</td>
<td>---------</td>
<td>---------</td>
</tr>
<tr>
<td>Chairman</td>
<td>Ruben Aganbegyan (independent director)</td>
<td>Valery Martsinovich (independent director)</td>
<td>Victor Rashnikov</td>
</tr>
<tr>
<td>Committee Members</td>
<td>Kirill Liavin (independent director); Tav Morgan (independent director)</td>
<td>Zumrud Rustamova (independent director); Tav Morgan (independent director)</td>
<td>Ruben Aganbegyan (independent director); Nikolai Lyadov; Olga Rashnikova (non-executive director); Sergey Ushakov; Pavel Shilyaev</td>
</tr>
<tr>
<td>Total meetings in 2017</td>
<td>12</td>
<td>7</td>
<td>7</td>
</tr>
</tbody>
</table>
| Key issues | - Report on the results an audit by JSC PricewaterhouseCoopers Audit of MMK’s consolidated financial statements (IFRS-compliant).  
- The conclusion of the auditor of JSC PricewaterhouseCoopers Audit on its audit of MMK’s financial statements (RAS-compliant).  
- Determination of remuneration for the services of MMK’s auditor. Recommendations to MMK’s Annual General Shareholders’ Meeting on the candidacy of the MMK auditor.  
- The conclusion of MMK’s Audit Commission on the results of verification of the reliability of data contained in MMK’s annual report and financial reporting.  
- The system of internal control and internal audit at MMK and the companies that make up MMK Group.  
- The priority areas of MMK’s activities—safe production: implementation of the strategic initiative Zero Tolerance for Safety Violations.  
- Implementation of MMK’s Environmental Programme. MMK Group’s Environmental Policy. The implementation of the Clean City strategic initiative.  
- Efficient performance of the economic security system within MMK and MMK Group.  
- Efficient performance of MMK and MMK Group’s risk management. | - Consideration of proposals submitted by shareholders regarding candidates for the Board of Directors and Audit Commission.  
- Recommendations to the Annual General Shareholders’ Meeting regarding the amount of remuneration and compensation payable to the members of the Board of Directors and the Audit Commission.  
- The inclusion of candidates on the list of candidates for voting for MMK’s Board of Directors.  
- Approval of the organisational structure of MMK.  
- Evaluation of the activities of the Company’s Board of Directors and its committees.  
- An analysis and evaluation of MMK’s corporate governance.  
- Conducting an independent evaluation of the performance of the work of the Board of Directors, its committees and members of the Board of Directors of MMK. | - Analysis of the results of the financial and business activities of MMK and MMK Group.  
- Approval of the financial and business operations plan (budget) for MMK and MMK Group for the 2018 financial year.  
- Implementation and approval of guidelines for sales, procurement policy, investor relations, etc.  
- Implementation of guidelines for the management of Group companies. An analysis of the financial and economic activities of MMK-METIZ.  
- Calling and holding the Annual General Shareholders’ Meeting.  
- Implementation of the strategic initiatives Supplier No 1 for the Most Demanding Customers in the Automotive Industry in the Domestic Market, Deliveries on Time, Material Flows, Big Data, Procurement: Deliveries of Goods and Materials on Time, Solving the Problem of a One-Industry Town, Focus on Key Business.  
- Approval of the Report of the Board of Directors on the results of priority activities. |


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<table>
<thead>
<tr>
<th>Full name</th>
<th>Board of Directors Meetings</th>
<th>Meetings of the Audit Committee</th>
<th>Meetings of the Nominations and Remuneration Committee</th>
<th>Meetings of the Strategic Planning Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Participation in meetings</td>
<td>Total meetings</td>
<td>Participation in meetings</td>
<td>Total meetings</td>
</tr>
<tr>
<td>VICTOR RASHNIKOV</td>
<td>15</td>
<td>15</td>
<td>12</td>
<td>7</td>
</tr>
<tr>
<td>RUBEN AGANBEGYAN</td>
<td>14</td>
<td>12</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>KIRILL LIOVIN</td>
<td>14</td>
<td>12</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>NIKOLAI LYADOV</td>
<td>15</td>
<td></td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>VALERY MARTSINOVICH</td>
<td>15</td>
<td>11</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>TAV MORGAN</td>
<td>15</td>
<td></td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>OLGA RASHNIKOVA</td>
<td>15</td>
<td></td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>ZUMRUD RUSTAMOVA</td>
<td>15</td>
<td></td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>SERGEY SULIMOV*</td>
<td>0</td>
<td></td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>SERGEY USHAKOV**</td>
<td>10</td>
<td></td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>PAVEL SHILYAEV</td>
<td>15</td>
<td></td>
<td>7</td>
<td></td>
</tr>
</tbody>
</table>

*   Sergey Sulimov was a member of the Board of Directors of PJSC MMK until 26 May 2017.
**  Sergey Ushakov joined the Board of Directors of PJSC MMK as of 26 May 2017.

**INFORMATION ABOUT THE MEMBERS OF THE BOARD OF DIRECTORS (BACKGROUND PROFILE AND SHAREHOLDINGS WITHIN THE FINANCIAL YEAR) (as of 1 January 2018)**

**VICTOR RASHNIKOV** (Born in 1948) – Chairman of the PJSC MMK Board of Directors; Russian citizen; member of the Board of Directors since 2 April 1993; President of the Metallurg Ice Hockey Club since 1999; since 2005, member of the Board of Directors of the World Steel Association (known as the Russian Steel Consortium until December 2016); since 2008, member of the Board of Directors of the LLC Continental Hockey League; from 2011, member of the Supervisory Board of the Russkaya Stal metallurgical association; and member of the Chelyabinsk Region’s Legislative Assembly.

Education: Graduate of the Magnitogorsk Institute of Mining and Metallurgy in metallurgical engineering (1974), graduate of the Magnitogorsk Academy of Mining and Metallurgy in management (1993), PhD, Professor.

Holds no shares of PJSC MMK.

**ZUMRUD RUSTAMOVA** (born in 1970) – Deputy CEO of JSC Polymetal UK; Russian citizen; member of the PJSC MMK Board of Directors since 21 April 2006; since 2009, Deputy CEO (part-time) of JSC Polymetal; since 2011, member of the Board of Directors of PJSC PIK Group; since 2012, Deputy CEO (part-time) of ICT Group; since 2007, member of the Board of Trustees of the Foundation for Support of Chess Creativity (non-profit organisation). Since 11 August 2016, the Foundation has been known as the Ladya Foundation for Support of Social, Innovative and Sport Projects.

Recognised as an independent member of the Board of Directors of PJSC MMK (Board of Directors decision of 16 September 2016).

Holds no shares of PJSC MMK.

**RUBEN AGANBEGYAN** (born in 1972) – Russian citizen; member of MMK’s Board of Directors since 30 May 2014; since 2013, member of the Board of Directors of PJSC Rostelecom; since 2015, Chairman of Board of Directors of National Bank Trust; since 2016, member of the Supervisory Board of the Russian Foundation for Technological Development.

Education: Graduate of the Moscow State Law Academy.

Meets the criteria of independence specified in PJSC MMK’s internal documents.

Holds no shares of PJSC MMK.

**KIRILL LIOVIN** (born in 1968) – member and Deputy Chairman of the Management Board of OJSC Rosselkhozbank; Russian citizen; member of MMK’s Board of Directors since 30 May 2014; since 2014, member of the Board of Directors of OJSC Belgazprombank; since 2017, member of the Board of Directors of LLC IC RSHB Insurance and Chairman of the Board of Directors of LLC RSHB Asset Management.

Education: Graduate of the Moscow Aviation Institute in economics and management of scientific research and design.

Recognised as an independent member of the Board of Directors of OJSC MMK (Board of Directors decision of 26 May 2017).

Holds no shares of PJSC MMK.

**VALERIY MARTSINOVICH** (born in 1973) – since 2014, Strategic Director at Hay Group LLC for rapidly emerging markets in the European cluster; citizen of Poland; since 2014, member of the Board of Directors of PJSC MMK.

Education: Graduate of Gdańsk University (Poland), Faculty of Economics, Foreign Trade (1991-1996), Master’s Degree in economics.

Post-graduate studies in Investment Banking at London Guildhall University (1996-1997).

Meets the criteria of independence specified in PJSC MMK’s internal documents.

Holds no shares of PJSC MMK.

**TAV MORGAN** (born in 1968) – Department Director at Baring Vostok Capital Partners Group Limited; citizen of the USA; since 2014, Non-executive Director at Tigers Realm Coal LTD; member of the Board of Directors of PJSC MMK since 2015.

Education: Graduate of Yale University, Bachelor of Arts in Political Science and International Relations; St Antony’s College, Oxford University, Master’s in Russian and East European Economics and Law.

Meets the criteria of independence specified in PJSC MMK’s internal documents.

Holds no shares of PJSC MMK.
NIKOLAI LYADOV (born in 1956) – since 2011, MMK’s Deputy General Director for Sales; since 2011, member of MMK’s Board of Directors; Russian citizen.

Education: Graduate of the Magnitogorsk Institute of Mining and Metallurgy, specialising in transport organisation and administration.

Holds 288,200 shares (0.0026%) of PJSC MMK.

OLGA RASHNIKOVA (born in 1977) - Non-executive director; Russian citizen; member of the Board of Directors of PJSC MMK since 2012; since 2013, member of the Board of Directors of MEK LLC and of LLC Energopark.

Graduate of Franklin College, Lugano, Switzerland, in economics, finance and enterprise management (2000);

MBA (executive class) from the State Management University, Moscow (2009).

Holds no shares of PJSC MMK.

SERGEY USHAKOV (born in 1969) - Deputy General Director for Production and member of the Board of Directors of PJSC MMK since 2017; Russian citizen.

Education: Magnitogorsk State Technical University, Metallurgy (2017).

Holds 166,900 shares (0.0015%) of PJSC MMK.

PAVEL SHILYAEV (born in 1970) – since 2014, member of the Board of Directors and General Director of PJSC MMK; Chairman of the Management Board of PJSC MMK; Russian citizen; since 2017, member of the Board of Directors of JSC Credit Ural Bank.

Education: Chelyabinsk State Technical University, degree in electric drive and industrial automation, 1992.

In 2006, he completed courses in performance management at the Stockholm School of Economics in Russia (St Petersburg).

Candidate of Engineering Sciences (2010).

Holds 319,100 shares (0.00285%) of PJSC MMK.

Report of the Board of Directors on the Results of Priority Activities for 2017

In 2017, the MMK Board of Directors held 15 meetings and considered 83 different issues.

The most important issues considered by the Board of Directors were:

In the field of strategic management:

• implementation of strategic initiatives in priority areas identified and approved in the Strategic Development Plan of MMK Group for the period until 2025;
• approval of key corporate performance indicators;
• management of the companies that make up MMK Group.

In the sphere of corporate governance:
• preparations for the PJSC MMK Annual General Shareholders' Meeting and the PJSC MMK Extraordinary General Shareholders' Meetings;
• organisation of activities of the Board of Directors of PJSC MMK;
• implementation of PJSC MMK's Dividend Policy: recommendations to the Extraordinary General Shareholders' Meetings on the amount and payment procedure for dividends on ordinary shares of PJSC MMK for the results of H1 and the first nine months of 2017;
• specification of priorities for corporate governance within MMK;
• analysis and evaluation of corporate governance at MMK;
• the formation of a collegial executive body – the MMK Management Board;
• consideration of the report on compliance with the MMK Code of Ethics;
• operations with investors;
• the internal control system (including internal control over financial reporting) within MMK and MMK Group in 2017, an assessment of its effectiveness;
• the performance of risk management at MMK and MMK Group in 2017.
• approval of MMK's internal documents, including:
  ➢ Internal Audit Policy of PJSC MMK and the Companies of PJSC MMK;
  ➢ Regulations on MMK Dividend Policy;
  ➢ Regulations on the Procedure for Preparing MMK's Annual Report;

In the field of budgeting and financing activities:
• analysis of the results of the financial and economic activity of MMK and MMK Group in terms of key performance indicators for the period compared to MMK’s major competitors and approval of the financial plan (budget) for MMK and MMK Group for FY 2018;
• MMK's activities for 2017;
• raising and placing funds within MMK Group;
• using securities in MMK's financial and economic activities;
• decision-making on transactions, including transactions made in the ordinary course of business within MMK, the value of which is more than 10% of MMK's book value as determined by its financial statements as of the last reporting date, as well as the approval of transactions related to the disposal of immovable property irrespective of the value of the transaction;
• approval of related-party transactions.

In addition, the Board of Directors considered issues related to the implementation and approval of the main areas of MMK's marketing policy, procurement policy for 2017, personnel policy at MMK and MMK Group, the effectiveness of the economic security system at MMK and MMK Group, the implementation of the environmental programme at MMK and the environmental policy at MMK Group in 2017.

In accordance with the Federal Law on Joint Stock Companies, the Board of Directors performs general management of the Company, ensures the rights of shareholders, determines the Company’s development strategy, and takes decisions on the Company’s financial and business issues and other matters stipulated by law and the Company's Charter.

In the reporting year, all measures included in the Programme for the Improvement of OJSC MMK’s Corporate Governance until 2017, which was approved by the OJSC MMK Board of Directors on 26 September 2014 (Minutes No 8), were implemented.
In 2017, the Russian Institute of Directors (RID), using an updated methodology, confirmed MMK's National Corporate Governance Score at 7++ (Developed Corporate Governance Practice).

All the activities of the Board of Directors and the Company in the reporting year were transparent to shareholders and other interested parties, and information about said activities has been disclosed appropriately and in full.

**The Company’s executive bodies are the Management Board and the sole executive body, i.e. the General Director.**

The activities of the executive bodies are governed by the Regulations on the Collegial Executive Body, i.e. the Management Board, and the Regulations on the Sole Executive Body, i.e. the General Director (http://eng.mmk.ru/corporate_governance/internal_documents/regulations_approved/).

The executive bodies regularly report at meetings of the Board of Directors in accordance with the approved plan of operation of the Board of Directors.

The competence of the Company’s management bodies is set forth in PJSC MMK’s Charter.

**Information on the Person Performing the Functions of the Company's Sole Executive Body, the Members of the Company’s Management Board, and the Company's Corporate Secretary.**

**PAVEL SHILYAEV** (born in 1970) – since 2014, member of the Board of Directors and General Director of PJSC MMK; Chairman of the Management Board of PJSC MMK; Russian citizen; since 2013, member of the Board of Directors of MMK Metalurji Sanayi, Ticaret ve Liman İşletmeciliği Anonim Şirketi; since 2012, member of PJSC MMK’s Management Board, since 2017, member of the Board of Directors of JSC Credit Ural Bank

Holds 319,100 shares (0.00285%) of PJSC MMK.

Education: Chelyabinsk State Technical University, degree in electric drive and industrial automation, 1992.

In 2006, he completed courses in performance management at the Stockholm School of Economics in Russia (St Petersburg).

Candidate of Engineering Sciences.

**Information on MMK’s Management Board**

The collegial executive body, the Management Board of the Company, directs the Company’s day-to-day activities in accordance with its competence as defined by the Charter of OJSC MMK and the Regulations approved by the General Shareholders’ Meeting.

In 2017, the Management Board held 38 meetings, which reviewed the following issues:

- Analysis of the results of MMK Group’s financial and business activities.
- Key figures related to MMK Group’s financial and business operations plan (budget).
- Performance reports by the companies of MMK Group on their production, financial and economic activities.
- Business processes within MMK Group by areas of activity.
- The implementation of programmes of measures for strategic initiatives.
- Approval of the Company's representatives and instructions for the Company's representatives to the companies of MMK Group.

### The Management Board of MMK (as of 31 December 2017)*

<table>
<thead>
<tr>
<th>Composition of the Management Board</th>
<th>13 members</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Chairman</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Pavel Shilyaev</strong> (born 1970), MMK's General Director, member of the Management Board since 25 May 2012. In 1992, graduated from the Chelyabinsk State Technological University with a degree in electrical actuation and industrial automation; in 2006, he completed a course in performance management at the Stockholm School of Economics in Russia (St Petersburg). Holds 319,100 shares (0.00285%) of PJSC MMK.</td>
<td></td>
</tr>
<tr>
<td><strong>Members of the Management Board</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Andrey Yeryomin</strong> (born in 1972), Director for Economics; member of the Management Board since 25 May 2012. In 1995, he graduated from the State Academy of Management with a degree in economics and management in the steelmaking industry, and in 2007, he graduated from the Academy of National Economy under the Government of the Russian Federation, where he received a Euromanagement MBA. Holds 114,700 shares (0.0010%) of PJSC MMK.</td>
<td></td>
</tr>
<tr>
<td><strong>Oleg Kiykov</strong> (born in 1961), Director for Human Resources; member of the Management Board since 25 May 2012. In 1985, he graduated from the Kuibyshev Aviation Institute with a degree in aircraft engineering. Holds 52,000 shares (0.0005%) of PJSC MMK.</td>
<td></td>
</tr>
<tr>
<td><strong>Pavel Kravchenko</strong> (born in 1975) – Head of Logistics; member of the Management Board since 2 September 2016. In 2001, he graduated from Magnitogorsk State Technical University with a degree in plastic metalworking. Holds no shares of PJSC MMK.</td>
<td></td>
</tr>
<tr>
<td><strong>Sergey Krivoshchekov</strong> (born in 1961), Director for Corporate Matters and Social Programmes; member of the Management Board since 25 May 2012. In 1983, he graduated from the Magnitogorsk Institute of Mining and Metallurgy with a degree in plastic metalworking. PhD in Economics. Holds no shares of PJSC MMK.</td>
<td></td>
</tr>
<tr>
<td><strong>Alexey Kuzmin</strong> (born in 1977) – Head of Sales in the Russian Federation; member of the Management Board since 9 February 2016. In 2001, he graduated from Magnitogorsk State Technical University with a degree in law. Holds no shares of PJSC MMK.</td>
<td></td>
</tr>
</tbody>
</table>
Maria Nikulina (born in 1983) – Head of Financial Resources Department; member of the Management Board since 11 November 2016. In 2005, she graduated with honours from the Peoples' Friendship University of Russia with a degree in global economics; in 2013, she earned an auditor's qualification certificate; in 2010, she joined the Association of Chartered Certified Accountants (ACCA) of Great Britain. Holds no shares of PJSC MMK.

Vladimir Ruga (born in 1970) – Deputy General Director for External Communications; member of the Management Board since 25 May 2012. In 1993, he graduated from Moscow State Pedagogical University with a degree in teaching history and social science. PhD in History. Holds no shares of PJSC MMK.


Sergey Ushakov (born in 1969) – Deputy General Director for Commerce; member of the Management Board since 13 February 2015. In 2017, he graduated from Magnitogorsk State Technical University with a degree in metallurgy. Holds 166,900 shares (0.0015%) of PJSC MMK.

Sergey Shepilov (born in 1971) – Chief Legal Officer, member of Management Board since 25 May 2012. In 1994, he graduated from the Magnitogorsk Mining and Metallurgy Institute with a degree in electrical actuation and industrial automation and technological complexes. In 1998, he graduated from the Urals Public Administration Academy with a degree in law. Holds 63,900 shares (0.0006%) of PJSC MMK.

Grigory Shchurov (born in 1976) – Director for Occupational Health and Safety and the Environment; member of the Management Board since 24 March 2017. In 1998, he graduated from Magnitogorsk State Technical University with a degree in metallurgical machinery and equipment. In 2012, he graduated from the Russian Presidential Academy of National Economy and Public Administration with a degree in technological management. Holds 113,100 shares (0.001%) of PJSC MMK.

*Sergei Laskov was a member of the Management Board until 24 March 2017; Grigory Shchurov became a member of the Management Board on 24 March 2017.*

**Information on the Corporate Secretary**

Pavel Chereshenkov (born in 1971) - Corporate Secretary of PJSC MMK since 2017; Russian citizen.

Holds 100 shares (0.000001%) of PJSC MMK.

Remuneration of Members of the Board of Directors and the Company’s Management

Remuneration of Members of the Board of Directors

Pursuant to Paragraph 2 of Article 64 of the Federal Law on Joint Stock Companies, members of the Board of Directors may receive remuneration and/or reimbursement of expenses related to the performance of their duties as members of the Board of Directors during their term of office according to a resolution of the General Shareholders’ Meeting. The amount of such remuneration and compensation is determined by the General Shareholders’ Meeting.

Criteria for determining remuneration

Criteria for determining the remuneration of Board members are set out in the Regulations on the Procedure for Remuneration and Compensation of Expenses of Members of the Board of Directors of PJSC MMK.

The amount of remuneration and reimbursement of expenses of members of PJSC MMK’s Board of Directors is approved by the General Shareholders’ Meeting on an annual basis according to recommendations made by the Board of Directors.

PJSC MMK compensates documented expenses on the part of members of the Board of Directors related to the performance of their duties as a member of the Board of Directors (travel expenses, including accommodations; communication and mail expenses).

In 2017, the amount of remuneration and reimbursement of expenses for members of PJSC MMK’s Board of Directors totalled RUB 59,878,600, including RUB 58,736,000 for remuneration for participation in the activities of the Company’s governing bodies and RUB 1,142,600 for reimbursement of expenses.

Remuneration of members of PJSC MMK’s Management Board

Management Board members, during the period in which they perform their duties as members of the MMK Management Board, are not paid a separate fee and do not receive reimbursement for expenses as members of the Board. Board members are paid wages for the performance of their official duties within PJSC MMK. Remuneration (wages) of the General Director of PJSC MMK and of the top managers includes their monthly salary, a regional coefficient and an annual bonus.

Remuneration of the 13 members of the Management Board for 2017 amounted to RUB 331,511,900, including an annual bonus in the amount of RUB 129,283,000.

Information about Transactions for the Acquisition or Disposal of Shares of PJSC MMK Effected by the Person Performing the Functions of the Company’s Sole Executive Body, Members of the Management Board and/or Members of the Board of Directors.

<table>
<thead>
<tr>
<th>No</th>
<th>Full name</th>
<th>Job title</th>
<th>Transaction date</th>
<th>Subject of transaction</th>
<th>Type (category) of shares</th>
<th>Number of shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Oleg Kiykov</td>
<td>Member of the PJSC MMK Management Board</td>
<td>8 September 2017</td>
<td>Disposal of shares</td>
<td>registered ordinary shares</td>
<td>150,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>11 July 2016</td>
<td>Disposal of shares</td>
<td>registered ordinary shares</td>
<td>80,000</td>
</tr>
</tbody>
</table>
2. Nikolai Lyadov
Member of PJSC MMK Board of Directors
8 August 2017
Disposal of shares
registered ordinary shares
288,200

3. Pavel Shilyaev
Member of PJSC MMK Board of Directors
Member of the PJSC MMK Management Board
9 November 2017
Acquisition of shares
registered ordinary shares
12,400

4. Grigory Shchurov
Member of the PJSC MMK Management Board
9 June 2017
Acquisition of shares
registered ordinary shares
50,400

The Audit Commission.
To exercise control over the Company’s financial and economic activities, the General Shareholders’ Meeting elects an Audit Commission. The Audit Commission consists of three members. The Audit Commission carries out its activities in accordance with the Regulations on the Audit Commission (http://eng.mmk.ru/corporate_governance/internal_documents/regulations_approved/).

Information on the Audit Commission

<table>
<thead>
<tr>
<th>Functions</th>
<th>Internal audit of the Company’s financial and business operations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of members:</td>
<td>3</td>
</tr>
<tr>
<td>Chairman:</td>
<td>Alexander Maslennikov (born in 1969)</td>
</tr>
<tr>
<td>Remuneration of the Audit Commission</td>
<td>On 26 May 2017, MMK’s Annual General Shareholders’ Meeting approved remuneration and compensation for members of the Audit Commission totalling RUB 15 million.</td>
</tr>
<tr>
<td>Regulatory documents:</td>
<td><a href="http://eng.mmk.ru/corporate_governance/internal_documents/">http://eng.mmk.ru/corporate_governance/internal_documents/</a></td>
</tr>
</tbody>
</table>

Mechanisms and Instruments of Corporate Governance used at PJSC MMK.
In addition to the mechanisms and instruments of corporate governance recommended by the Corporate Governance Code, the Company also uses other mechanisms and tools:

1. The Company has formed a collegial executive body, the Management Board, the main functions of which are the review of MMK Group’s financial and economic plan (budget), forecasting the financial and economic indicators for the Group, approval of representatives in MMK Group’s companies and approval of directives to the representatives to take decisions at General Shareholders’ Meetings (participants) and meetings of the Board of Directors.
2. The Board of Directors takes decisions not only on those transactions that are provided for by the legislation of the Russian Federation, but also on transactions with a value of more than 10% of the book value of the Company’s assets, as well as on transactions on the disposal of immovable property regardless of the transaction value.

3. To improve manageability in the companies of MMK Group, the Group has representatives in Group companies. The representatives perform their activities on the basis of the Regulations on the Representatives approved by the General Director of the Company and in accordance with the directives approved by PJSC MMK’s Management Board.

4. The Board of Directors performs an annual assessment of the state of corporate governance at PJSC MMK and of the operations of the Board of Directors and its committees. The criteria for such an assessment, the analysis of the assessment and the conclusions of the assessment are adopted by the Committee for Nominations and Remuneration. At the end of 2017, an independent external evaluation of the activities of the Board of Directors of PJSC MMK was carried out.
Information for Shareholders and Investors

Information on the Company's Registrar

CJSC Registrar Company STATUS (licence #10-000-1-00304, issued for an indefinite period on 12 March 2004 by the Federal Agency for Financial Markets) is responsible for maintaining OJSC MMK's share register.

The Registrar’s registered office is located at:
Ul. Novorogozhskaya 32, Building 1, Moscow, 109544, Russian Federation
Tel.: (495) 974-83-50
Fax: (495) 678-71-10.
E-mail: office@rostatus.ru

Magnitogorsk Branch of STATUS:
Pr. Karla Marksa 212, Magnitogorsk, 455008 Russian Federation
Tel.: (3519) 25-60-22, 25-60-23

Information on changes in equity during the year

MMK's authorised capital totals RUB 11,174,330,000 and is comprised of 11,174,330,000 ordinary registered shares with a par value of RUB 1 each. All shares are placed securities. The Company is entitled to place, in addition to those already placed, ordinary shares amounting to 26,299,840,577 shares, with a par value of RUB 1 each (declared shares). Declared ordinary shares grant the same rights as placed ordinary shares.

Number of shareholders included in the list of persons entitled to participate in the Annual General Shareholders' Meeting on 1 June 2018 as of 8 May 2018:

<table>
<thead>
<tr>
<th>Name</th>
<th>Share, % of authorised capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mintha Holding Limited*</td>
<td>84.26%</td>
</tr>
<tr>
<td>Non-bank credit organization Joint Stock Company &quot;National Settlement Depository&quot;</td>
<td>14.67%</td>
</tr>
<tr>
<td>Other</td>
<td>1.07%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
</tr>
</tbody>
</table>

*The Chairman of PJSC MMK's Board of Directors, Victor Rashnikov, is the beneficiary of Mintha Holding Ltd.

MMK’s management is not aware of any shareholders holding over 5% of the Company’s shares other than those disclosed above.
Report on the Payment of Announced (Accrued) Dividends on MMK Shares

The Board of Directors of MMK on 21 April 2017 approved the new Regulations on the Dividend Policy of PJSC MMK.

MMK’s dividend policy is based on shareholders' interests and the Company’s requirements for further growth and technological upgrades.

In making recommendations on the size of dividends the Board of Directors is guided by the following principles:

- provided that the net debt/EBITDA ratio calculated on the basis of the Company's consolidated financial statements is below 1.0x, the amount allocated for dividend payments will generally be at least 50% of the free cash flow calculated on the basis of MMK’s consolidated financial statements prepared in accordance with International Financial Reporting Standards;
- if the net debt/EBITDA ratio is 1.0x, the amount allocated for dividend payments will generally be at least 30% of the free cash flow calculated on the basis of MMK’s consolidated financial statements prepared in accordance with International Financial Reporting Standards.

MMK is committed to the annual payment (declaration) of dividends, as a rule based on the results for H1 and the first nine months of the reporting year and the FY results.

In recommending the size of dividends, the Board of Directors may also use other indicators in addition to free cash flow determined on the basis of the consolidated financial statements of PJSC MMK, prepared in accordance with International Financial Reporting Standards. Such indicators may include: net profit, as reported in the Company’s IFRS consolidated financial statements, or net profit determined on the basis of financial statements of PJSC MMK, prepared in accordance with Russian Accounting Standards.

The Regulations on the Dividend Policy can be found online at the following address: [http://eng.mmk.ru/corporate_governance/internal_documents/group_documents/](http://eng.mmk.ru/corporate_governance/internal_documents/group_documents/).

The Board of Directors of MMK on 21 April 2017 recommended that MMK’s Annual Shareholders’ Meeting approve a dividend payout based on results for FY 2016 (taking into account the dividend payout based on the results for H1 2016 in the amount of RUB 0.72 per share) in the amount of RUB 1.242 per share.

On 26 May 2017, the Annual General Shareholder's Meeting of MMK approved the payout of dividends in the amount recommended by the Board of Directors of MMK.

The dividend was paid in the term stipulated by law: to nominal shareholders of MMK and trust managers by 21 June 2017 and to other shareholders in the register of shareholders by 12 July 2017.

The Board of Directors of MMK on 25 August 2017 recommended that an Extraordinary General Shareholders' Meeting of MMK approve a dividend payout based on the results for H1 2017 amounting to RUB 0.869 per share.

On 29 September 2017, an Extraordinary General Shareholders' Meeting of MMK approved the payout of dividends in the amount recommended by the Board of Directors of MMK.

The dividends were paid in the term stipulated by law: to nominal shareholders of MMK and trust managers by 24 October 2017 and to other shareholders in the register of shareholders by 15 November 2017.
The Board of Directors of MMK on 8 August 2017 recommended that an Extraordinary General Shareholders' Meeting of MMK approve a dividend payout based on results for Q3 2017 in the amount of RUB 1.111 per share.

On 8 December 2017, an Extraordinary General Shareholders' Meeting of MMK approved the payout of dividends in the amount recommended by the Board of Directors of MMK.

The dividends were paid in the term stipulated by law: to nominal shareholders of MMK and trust managers by 10 January 2018 and to other shareholders in the register of shareholders by 31 January 2018.

**Dividend payouts for MMK shares over the last five years**:  

<table>
<thead>
<tr>
<th>Basis year for dividend accrual</th>
<th>Dividend per share, RUB</th>
<th>Dividends accrued</th>
<th>Dividend as a proportion of IFRS net profit, %</th>
<th>Dividend yield according to share price at year-end, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>0.00</td>
<td>0.00 RUB ths</td>
<td>0%</td>
<td>-</td>
</tr>
<tr>
<td>2014 (for 9 months of)</td>
<td>0.580</td>
<td>6,481,111.40 RUB ths</td>
<td>-</td>
<td>5.53%</td>
</tr>
<tr>
<td>2015 (for H1 and FY)</td>
<td>0.890</td>
<td>9,945,153.70 RUB ths</td>
<td>36%</td>
<td>4.82%</td>
</tr>
<tr>
<td>2016 (for H1)</td>
<td>0.720</td>
<td>8,045,517.60 RUB ths</td>
<td>26%</td>
<td>2.18%</td>
</tr>
<tr>
<td>2015 (for H1 and FY)</td>
<td>0.890</td>
<td>9,945,153.70 RUB ths</td>
<td>36%</td>
<td>4.82%</td>
</tr>
<tr>
<td>2016 (for H1 and FY)</td>
<td>1.962</td>
<td>21,924,035.46 RUB ths</td>
<td>34%</td>
<td>5.93%</td>
</tr>
<tr>
<td>for 2017 (for H1 and 9 months)</td>
<td>1.980</td>
<td>22,125,173.40 RUB ths</td>
<td>46%</td>
<td>4.68%</td>
</tr>
</tbody>
</table>

* A detailed report on the amount of dividends on shares of OJSC MMK can be found online at: [http://eng.mmk.ru/for_investor/shares/dividends/](http://eng.mmk.ru/for_investor/shares/dividends/).

**MMK shares**

MMK shares are traded on the London Stock Exchange (LSE) and the Moscow Stock Exchange (MOEX). In 2017, the stock price rose by about 40%, which was one of the best results among Russian steelmaking companies. As a result of the last three years (2015-2017), the total increase in the Company's market capitalisation was approximately 306%.
On the London Stock Exchange, MMK shares are traded in the form of Global Depositary Receipts (GDRs). One GDR represents 13 shares. PJSC MMK’s free float amounts to 15.7% of its shares.

Some 89% of the trading volume in 2017 took place on Moscow Exchange, with the remaining 11% on the LSE. On average, there was a total of USD 10.8 million in trading in MMK shares per session, an increase of 1.5 times in comparison with 2016.

Price trends

The price of MMK shares on the LSE rose by 40% in 2017, compared with the FTSE 100 index, which increased by less than 8%, and the MICEX index, which fell by 5.5%.

This trend in the Company’s share price was the result of favourable conditions in core markets, the preservation of high margins, its low debt levels and the high quality of communications between the Company and the investment community.

The Company's increased value in 2017 was also the result of the sale, by MMK's main shareholder, of a 3% stake in the Company. As a result of this transaction, the Company's free float increased to 15.7%, which not only had a positive impact on trading volumes on major exchanges, but also allowed the Company's shares to be taken into account in calculating the MSCI Russia Index.

At the end of 2017, the price of one MMK GDR on the LSE was USD 9.74, representing a market capitalisation of USD 8.4 billion.

Information for Shareholders on the Company's website

MMK's website, www.mmk.ru, provides general information about the Company, MMK share prices, financial reports, a list of analysts covering MMK and contact information. Corporate presentations and financial statements can also be found on the site.
Information on shares, Moscow Stock Exchange

Name: Magnitogorsk Iron and Steel Works
Ticker symbol: Magn
ISIN: RU0009084396
Maximum price, 2017: 46.475
Minimum price, 2017: 28.82
Price as of 29 December 2017: 41.86
Market capitalisation, 29 December 2017, RUB: 467,757,458,000
Number of shares in circulation: 11,174,330,000

Information on GDRs, London Stock Exchange

Name: Magnitogorsk Iron and Steel Works
Ticker symbol: MMK
ISIN: US5591892048
Maximum price, 2017: 10.6
Minimum price, 2017: 6.42
Price as of 29 December 2017: 9.74
Average daily trading volumes, 2017, USD: 1
Market capitalisation, 29 December 2017, RUB: 8,372,151,862