

**APPROVED BY:**

**Decision of the Board of Directors  
of MMK OJSC.**

**Minutes #16 dated 21.04.2016**

**Chairman of the Board of Directors**

\_\_\_\_\_ **V. F. Rashnikov**

## **REGULATIONS**

**ON THE DIVIDEND POLICY  
OF THE OPEN JOINT-STOCK COMPANY  
MAGNITOGORSK IRON & STEEL WORKS**

**Magnitogorsk**

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## 1. Scope

1.1. These regulations determine the procedure and conditions for the calculation, accrual and payment of dividends on shares of the Open Joint Stock Company Magnitogorsk Iron and Steel Works.

1.2. The requirements of these regulations apply to all structural divisions of the Open Joint Stock Company Magnitogorsk Iron and Steel Works.

1.3. These Regulations are a document of the quality management system.

## 2. References

2.1. These Regulations have been developed based on the following documents:

- **Russian Federation Civil Code (Part I)** # 146-FZ dated 31.07.1998;
- **Russian Federation Civil Code (Part II)** # 117-FZ dated 05.08.2000;
- **Federal Law "On Joint Stock Companies"** # 208-FZ dated 26.12.1995;
- **Federal Law "On Securities Market"** # 39-FZ dated 22.04.1996;
- **Federal Law "On Accounting"** # 402-FZ dated 06.12.2011;
- **Corporate Governance Code** recommended for use by Bank of Russia's Letter # 06-52/2463 dated April 10, 2014;
- **Charter of the Magnitogorsk Iron and Steel Works Open Joint Stock Company** approved by decision of the Magnitogorsk Iron and Steel Works OJSC Annual General Shareholders' Meeting on 24.05.2013;
- **Corporate Governance Code of the Magnitogorsk Iron and Steel Works Open Joint Stock Company**, approved by the decision of the Board of Directors of Open Joint Stock Company Magnitogorsk Iron and Steel Works of September 21, 2001, Minutes # 7.

## 3. Terms, Definitions and Abbreviations

3.1. The following terms with their respective definitions are used herein:

**Dividend policy** is the Company's policy with respect to the use of profit and aimed at finding and balancing the interests of the Company and its shareholders when determining the size of dividend payments as well as increasing the current investment attractiveness of the Company and ensuring growth of its capitalization.

**Dividends** are part of the Company's net profit, distributed among shareholders in proportion to the number of shares held by them.

**Agent** is an organization engaged by the Company on the basis of an agreement for calculation and payment of dividends.

The Registrar is a professional participant of the securities market carrying out activities on keeping the register of holders of the Company's registered securities

on the basis of the contract with the Issuer and licensed to carry out this type of activities.

3.2. The following abbreviations and designations are used in the regulations:

**Law** is Federal Law "On Joint Stock Companies" # 208-FZ dated 26.12.1995;

**Company** is an open joint stock company Magnitogorsk Iron and Steel Works;

**Regulations** are the Regulations on the dividend policy of the open joint stock company Magnitogorsk Iron and Steel Works;

**Meeting** is a general meeting of shareholders of the open joint stock company Magnitogorsk Iron and Steel Works;

**Board of Directors** is the Board of Directors of the open joint stock company Magnitogorsk Iron and Steel Works;

**Charter of the Company** is the charter of the open joint-stock company Magnitogorsk Iron and Steel Works;

**CBRF** is the Central Bank of the Russian Federation.

#### **4. General Provisions**

4.1. The Company's dividend policy is based on the balance of interests of the Company and its shareholders, on increasing the Company's investment attractiveness and its capitalization, on respecting and strict observance of shareholder rights stipulated by the current legislation of the Russian Federation, the Company's Charter, the Company's Corporate Governance Code and its internal documents.

4.2. The Company may decide to pay (declare) dividends on placed shares based on the results of the first quarter, six months, nine months of the reporting year and (or) the results of the reporting year provided that its financial position is stable.

4.3. The decision to pay (declare) dividends on shares is the right and not the obligation of the Company.

4.4. The meeting may decide not to pay dividends on shares.

4.5. Dividends are paid in cash.

4.6. Payment of declared dividends is the responsibility of the Company. The Company is liable to shareholders for failure to perform this obligation in accordance with the current legislation.

4.7. The Company and the Registrar are not liable for losses incurred due to the fact that persons registered in the register of shareholders of the Company did not provide information in a timely manner, the duty of provision of which is established by the current legislation.

4.8. Restrictions on payment of dividends by the Company are provided for by Article 43 of the Law.

4.9. If the Company generates fractional shares, it shall be guided by the current legislation of the Russian Federation when determining the procedure for calculating and paying dividends thereon.

4.10. The Company's shares, being the underlying asset of depositary receipts, entitle their holders to receive dividends. Declaration, calculation and payment of dividends on depositary receipts is carried out in the manner prescribed by these regulations subject to the deposit agreement between the Company, the depositary bank and the holders of depositary receipts.

## **5. Procedure for calculating dividends**

5.1. The dividends shall be paid out of the Company's net profits determined according to accounting (financial) statements of the company.

5.2. When making recommendations on the amount of dividends, the Board of Directors is guided by the following principles:

5.2.1. Provided that the "net debt/EBITDA" ratio calculated based on the consolidated financial statements is below the value of 1.0x, the amount allocated for the payment of dividends will generally be at least 50% of the free cash flow calculated based on the consolidated financial statements of OJSC MMK prepared in accordance with international financial reporting standards.

5.2.2. If the "net debt/EBITDA" ratio exceeds the value of 1.0x, the amount allocated for dividend payment will generally be at least 30% of the free cash flow calculated on the basis of the Company's consolidated financial statements prepared in accordance with international financial reporting standards.

Calculation of dividends on shares of the company at the end of the reporting year are based on a formula (1)

Calculation of dividends on shares of the Company at the end of the reporting year is made according to the following formula (1)

$$D = D_0 \times Q_0, \quad (1)$$

where D is the amount of dividends paid by the Company, RUB;

$D_0$  is the amount of dividends per one ordinary share recommended by the Board of Directors for approval by the Meeting, RUB;

$Q_0$  - quantity of ordinary shares issued by the Company, pcs.

The following condition should be satisfied (2)

$$D \geq FCF_I \times R_{FCF} / 100 - D_{PR}, \quad (2)$$

Where  $FCF_I$  is the free cash flow calculated on the basis of the Company's consolidated financial statements prepared in accordance with international financial reporting standards, RUB;

$R_{FCF}$  is the ratio reflecting the share of free cash flow allocated for payment of dividends in accordance with paragraph 5.2;

$D_{PR}$  is the amount of dividends accrued for the periods included in the reporting year.

The Board of Directors may use other indicators in developing recommendations on the amount of dividends, in addition to the free cash flow calculated on the basis of the Company's consolidated financial statements prepared in accordance with international financial reporting standards. As such, the following indicators can be used: net profit determined on the basis of the Company's consolidated financial statements prepared in accordance with international financial reporting standards, or the net profit determined on the basis of the Company's accounting (financial) statements drawn up in accordance with Russian accounting standards.

The recommended dividends per share are determined on the basis of the amount allocated to dividend payments (converted into rubles at the exchange rate of the CBRF at the end of the reporting period for which dividends are accrued) and the number of shares placed and outstanding.

The recommendations of the Board of Directors regarding the amount of dividends for the first quarter, six months and nine months of the reporting year (usually based on the results of the first half of the reporting year) are based on the Company's consolidated financial statements prepared in accordance with international financial reporting standards or on the Company's accounting (financial) statements prepared in accordance with Russian accounting standards for the relevant period.

## **6. Making decision to pay (declare) dividends**

6.1. The decision to pay (declare) or not to pay dividends is made by the Meeting.

6.2. Decision to pay (declare) dividends shall determine the amount of dividends on shares of each category (type), the procedure and form of their payment, the date on which the persons entitled to dividends should be determined. The decision to set out the date for determination of persons entitled to dividends shall be adopted at the proposal of the Board of Directors only.

6.3. The amount of dividends approved by the Meeting may not exceed the amount of dividends recommended by the Board of Directors. Such decision shall be made by the Board of Directors not later than 30 days prior to the date of the Meeting.

6.4. The declared amount of dividends includes the amount of taxes established by the current legislation of the Russian Federation.

## **7. List of persons entitled to dividends**

7.1. The date on which the persons entitled to dividends are determined shall be adopted by the Company's Meeting only upon the proposal of the Board of Directors of the Company.

7.2. The date on which, in accordance with the decision to pay (declare) dividends, the persons entitled to dividends are determined cannot be set earlier than 10 days from the date of the decision to pay (declare) dividends and later than 20 days after the date of such decision.

7.3. The list of persons entitled to dividends is provided by the Company's Registrar by order of the Company on the date set by the Meeting.

7.4. The list of persons entitled to dividends shall contain information on the said persons provided for by the agreement between the Company and the Registrar.

7.5. A shareholder whose rights to shares are recorded in the shareholder register may apply to the Company or the Company's Registrar with a request to include it in the list of persons entitled to dividends and an inquiry on the procedure of calculation of dividends, procedure of accrual and taxation of dividends, the terms of payment.

7.6. The Company or the Registrar shall prepare and provide a reply to the shareholder within 7 working days from the receipt of the request.

## **8. Organization of payment (accrual) of dividends**

8.1. Preparation, coordination and all arrangements aimed at organizing the Company's payment of dividends provided for by these Regulations shall be performed by the sole executive body - the General Director of the Company.

8.2. The dividends shall be paid in cash through a bank by an Agent on behalf of the Company and (or) by the Company itself.

8.3. For each person entitled to dividends, the Company and (or) the Agent calculates the following:

8.3.1. the amount of accrued dividends;

8.3.2. the amount of taxes to be withheld;

8.3.3. the amounts to be paid (the difference between the amount of accrued dividends and the amount of taxes to be withheld).

8.4. If one share belongs to several persons, dividends are distributed among them in proportion to their share in the value of the share, unless otherwise provided by the agreement between those persons.

8.5. The amount of accrued dividends for each shareholder is determined by multiplying the amount of dividends per one share approved by the Meeting by the number of shares held by the shareholder.

8.6. The amount of accrued dividends containing fractional parts of a kopeck is rounded to a whole kopeck according to the rules of mathematics.

8.7. Dividends are not accrued and are not paid on shares:

8.7.1. that are not issued (not placed);

8.7.2. that are being on the balance of the Company;

8.7.3. in other cases provided for by the current legislation.

8.8. The dividends are paid to persons who are holders of shares of the relevant category (type) or persons performing the rights on these shares in accordance with the Federal laws at the end of the business day of the date on which the persons entitled to dividends are nominated in accordance with the decision to pay dividends.

## **9. Procedure for payment of dividends**

9.1. The declared dividends on shares of each category (type) shall be paid within the time limits established by the Law.

9.2. The payment of dividends in cash to individuals whose rights to shares are recorded in the register of the Company's shareholders shall be made by transferring money to their bank accounts, the details of which are available to the Registrar, or in the absence of information on bank accounts by mail transfer of funds, and to other persons, whose rights to shares are recorded in the register of shareholders of the Company, by transferring funds to their bank accounts.

Persons who are entitled to dividends and whose rights to shares are recorded by the nominal holder of shares receive dividends in cash in the manner prescribed by the securities legislation of the Russian Federation.

9.3. The Company's obligation to pay dividends to such persons is considered to be executed from the date of reception of transferred funds by the federal post office organization or from the date of receipt of funds by the credit organization in which the bank account of the person entitled to dividends is opened, and in case such person is a credit organization, to its account.

The nominal holder, to whom the dividends were transferred and who did not fulfill the obligation to transfer them established by the legislation of the Russian Federation on securities, for reasons beyond its control, shall return them to the Company within 10 days after the expiration of one month from the date of expiry of the dividend payment period.

9.4. Repeated transfer of dividends to the shareholder's corrected bank details shall be made at the written request and at the expense of the shareholder.



9.5. A person who has not received declared dividends due to the fact that the Company or Registrar does not have accurate and necessary address data or bank details or due to another delay by the creditor may request payment of such dividends (unclaimed dividends) within three years from the date of making a decision to pay dividends.

At the expiration of the term for making a request to pay the declared dividends, the declared dividends unclaimed by a shareholder shall be restored in retained earnings of the Company and the obligation to pay them shall cease.

## **10. Informing shareholders on the dividend policy of the Company**

10.1. The Company places these Regulations, amendments thereto as well as the dividend history of the Company on the Company's Internet site.

10.2. The Company discloses information on the payment (declaration) of dividends in accordance with the procedure established by the applicable legislation and the Charter of the Company.

10.3. The Company communicates information on the dividend paying Agent, including information on its replacement and termination of its term of office, to the shareholders in the manner provided for in paragraph 10.1 hereof.