IMPORTANT NOTICE: NOT FOR DISTRIBUTION IN OR INTO THE UNITED STATES EXCEPT TO QUALIFIED INSTITUTIONAL BUYERS ("QIBs") AS DEFINED IN RULE 144A ("RULE 144A") UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), THAT ARE ALSO QUALIFIED PURCHASERS ("QPs") WITHIN THE MEANING OF SECTION 2(A)(51) OF THE U.S. INVESTMENT COMPANY ACT OF 1940 (THE "INVESTMENT COMPANY ACT") OR OTHERWISE TO PERSONS TO WHOM IT CAN LAWFULLY BE DISTRIBUTED.

IMPORTANT: You must read the following before continuing. The following applies to the attached prospectus (the "**Prospectus**"), and you are therefore advised to read this carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access. If you have gained access to this transmission contrary to any of the following restrictions, you are not authorised and will not be able to purchase any of the securities described in the Prospectus (the "**Securities**"). You acknowledge that this electronic transmission and the delivery of the Prospectus is intended for you only and you agree you will not forward this electronic transmission or the Prospectus to any other person. Any forwarding, distribution or reproduction of this document in whole or in part is unauthorised. Failure to comply with the following directives may result in a violation of the Securities Act or the applicable laws of other jurisdictions.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO.

THE SECURITIES REFERRED TO HEREIN HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, EXCEPT IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**") TO OR FOR THE ACCOUNT OR BENEFIT OF A PERSON NOT KNOWN TO THE TRANSFEROR TO BE A U.S. PERSON (AS DEFINED IN REGULATION S), BY PREARRANGEMENT OR OTHERWISE, OR WITHIN THE UNITED STATES ONLY TO QIBS THAT ARE ALSO QPS IN RELIANCE ON THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A, OR ANOTHER EXEMPTION THEREFROM, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES.

CONFIRMATION OF YOUR REPRESENTATION: In order to be eligible to view the Prospectus or make an investment decision with respect to the Securities, investors must be (i) non-U.S. persons (within the meaning of Regulation S under the Securities Act) outside the United States who are not acting for the account or benefit of U.S. persons or (ii) QIBs that are also QPs that are acquiring the Securities for their own account or the account of another QIB that is also a QP. By accepting this e-mail and accessing the Prospectus, you shall be deemed to have represented to us that: (I) (A) you and any customers you represent are not U.S. persons and/or are not acting for the account or benefit of any U.S. persons and the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the U.S. or (B) you are a QIB that is also a QP acquiring the Securities for your own account and/or for another QIB that is also a QP and (II) you consent to delivery of the Prospectus by electronic transmission.

The Prospectus may only be communicated or caused to be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 (the "**FSMA**") does not apply and may be distributed in the United Kingdom only to persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Order**"), or (ii) are persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated

associations etc.") of the Order (all such persons together being referred to as "**Relevant Persons**"). In the United Kingdom, the Prospectus is directed only at Relevant Persons and must not be acted on or relied on by persons who are not Relevant Persons. Any investment or investment activity to which the Prospectus relates is available only to Relevant Persons and will be engaged in only with Relevant Persons.

The Securities are not intended to be offered, sold or otherwise made available to and, with effect from such date, should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the "**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/E.U. ("**MiFID II**"); (ii) a customer within the meaning of Directive 2002/92/EC ("**IMD**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive. Consequently, no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Securities or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Securities or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.

The Securities are not eligible for placement and circulation in the Russian Federation, unless, and to the extent, otherwise permitted by Russian law. The information provided in the Prospectus is not an offer, or an invitation to make offers, to sell, exchange or otherwise transfer Securities in the Russian Federation or to or for the benefit of any Russian person or entity. The Prospectus and information contained herein does not constitute an advertisement or an offer of the Securities in the Russian Federation. It is not intended to be, and must not be, distributed or circulated in the Russian Federation unless and to the extent otherwise permitted under Russian law.

The Prospectus does not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of the issuer of the Securities in such jurisdiction.

The Prospectus is being sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and, consequently, none of MMK International Capital Designated Activity Company, Public Joint Stock Company Magnitogorsk Iron & Steel Works, Citigroup Global Markets Limited, J.P. Morgan Securities plc, Société Générale nor any of their respective affiliates accepts any liability or responsibility whatsoever in respect of any difference between the attached document distributed to you in electronic format and the hard copy version available to you on request.

You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

U.S.$500,000,000 4.375% Guaranteed Notes due 2024
to be issued by MMK International Capital Designated Activity Company
unconditionally and irrevocably guaranteed by
Public Joint Stock Company Magnitogorsk Iron & Steel Works

Issue Price: 100%

MMK International Capital Designated Activity Company, established as a special purpose vehicle for the purpose of issuing the Notes, is a designated activity company (limited by shares) incorporated under the laws of Ireland, having its registered office at 2nd Floor, Palmerston House, Fenian Street, Dublin 2, Ireland and registered under number 648776 (the "**Issuer**"). The Issuer is issuing an aggregate principal amount of U.S.$500,000,000 4.375% guaranteed notes due 2024 (the "**Notes**"). The Notes will be unconditionally and irrevocably guaranteed (the "**Guarantee**") by Public Joint Stock Company Magnitogorsk Iron & Steel Works ("**MMK**" or the "**Guarantor**"). The Notes will be constituted by, subject to, and have the benefit of, a trust deed to be dated 13 June 2019 (as may be amended or supplemented from time to time, the "**Trust Deed**") between the Issuer, the Guarantor and Citibank N.A., London Branch as trustee (the "**Trustee**") for the benefit of Noteholders (as defined in the "*Terms and Conditions of the Notes*").

Interest on the Notes will accrue from 13 June 2019 (the "**Closing Date**") and will be payable semi-annually in arrear on 13 June and 13 December of each year (each an "**Interest Payment Date**"), commencing on 13 December 2019.

The Notes mature on 13 June 2024 (the "**Maturity Date**") but may be redeemed before then at the option of either the Issuer (with the prior written consent of MMK) or MMK, in whole, but not in part, at any time, at a price equal to their principal amount together with any interest accrued and unpaid to the date fixed for redemption but otherwise without premium or penalty, if the Issuer (or the Guarantor, as the case may be) has or will become obliged to pay additional amounts and otherwise as described under "*Terms and Conditions of the Notes—Redemption and Purchase—Redemption for tax reasons*". The Notes are also subject to redemption, in whole or in part, at their principal amount, together with any accrued and unpaid interest and additional amounts (if any), at the option of the Issuer (with the prior consent of MMK) or MMK at any time on or after the date three months prior to the Maturity Date. See "*Terms and Conditions of the Notes—Redemption and Purchase—Optional Redemption at Par*". The Issuer (with the prior consent of MMK) or MMK also may, at its option, redeem the Notes, in whole, but not in part, at the price equal to the Make Whole Redemption Amount (as defined in the "*Terms and Conditions of the Notes*") plus accrued and unpaid interest that may be due thereon (if any) to but excluding the Make Whole Optional Redemption Date (as defined in the "*Terms and Conditions of the Notes*"). See "*Terms and Conditions of the Notes—Redemption and Purchase—Optional Redemption at Make-Whole*".

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. SEE "*RISK FACTORS*" BEGINNING ON PAGE 7.

The Notes and the Guarantee (together, the "**Securities**") have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("**Regulation S**")). The Notes may be offered and sold (i) within the United States only to qualified institutional buyers ("**QIBs**") (as defined in Rule 144A under the Securities Act ("**Rule 144A**")) that are also qualified purchasers ("**QPs**") (as defined in Section 2(a)(51) of the U.S. Investment Company Act of 1940 (the "**Investment Company Act**")), in reliance on the exemption from registration under Section 5 of the Securities Act provided by Rule 144A or on another exemption therefrom, (the "**Rule 144A Notes**") and (ii) to non-U.S. persons in offshore transactions (as defined in and in reliance on Regulation S (the "**Regulation S Notes**")). The Issuer has not been and will not be registered under the Investment Company Act. Prospective purchasers are hereby notified that sellers of the Rule 144A Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain further restrictions on offers, sales and transfers of the Notes and this distribution of the Prospectus (as defined below), see "*Subscription and Sale*" and "*Transfer Restrictions*".

Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/E.U. of the European Parliament and of the Council on markets in financial instruments (as amended, "**MiFID II**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "distributor") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for

undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

This prospectus (the "**Prospectus**") has been approved by the Central Bank of Ireland (the "**Central Bank**"), as competent authority under Directive 2003/71/EC. The Central Bank only approves this prospectus as meeting the requirements imposed under Irish and E.U. law pursuant to the Directive 2003/71/EC. Application has been made to the Irish Stock Exchange plc trading as Euronext Dublin ("**Euronext Dublin**") for the Notes to be admitted to the official list (the "**Official List**") and trading on its regulated market. References in this Prospectus to the Notes being listed (and all related references) shall mean that the Notes have been admitted to the Official List and have been admitted to trading on the regulated market of Euronext Dublin. The regulated market of Euronext Dublin is a regulated market for the purposes of Directive 2014/65/E.U. of the European Parliament and of the Council on markets in financial institutions

The Notes will be offered and sold in the minimum denomination of U.S.$200,000 and higher integral multiples of U.S.$1,000. The Regulation S Notes will initially be represented by interests in a global note certificate in registered form (the "**Regulation S Global Note Certificate**"), without interest coupons, which will be deposited with a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, S.A. ("**Clearstream, Luxembourg**"), and registered in the nominee name of a common depositary, on or about 13 June 2019 (the "**Issue Date**"). The Rule 144A Notes will initially be represented by interests in a global note certificate in registered form (the "**Rule 144A Global Note Certificate**" and, together with the Regulation S Global Note Certificate, the "**Global Note Certificates**"), which will be registered in the name of Cede & Co., as nominee of, and deposited with a custodian for, The Depository Trust Company ("**DTC**") on or about the Issue Date. Beneficial interests in the Global Note Certificates will be shown on, and transfers thereof will be effected only through records maintained by, DTC, Euroclear or Clearstream, Luxembourg (as the case may be) and their respective participants. See "*Clearing and Settlement*". Individual note certificates in registered form will only be available in certain limited circumstances as described herein.

The Notes are rated BBB by Fitch Ratings Ltd ("**Fitch**") and Baa2 by Moody's Investors Service Ltd ("**Moody's**"). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency. Fitch and Moody's are established in the European Union and are registered under Regulation (EC) No. 1060/2009, as amended (the "**CRA Regulation**"). As such, Fitch and Moody's are included in the list of credit rating agencies published by the European Securities and Markets Authority ("**ESMA**") on its website in accordance with the CRA Regulation.

Joint Lead Managers

CITIGROUP **J.P. MORGAN** **SOCIÉTÉ GÉNÉRALE CORPORATE & INVESTMENT BANKING**

The date of this Prospectus is 10 June 2019.

IMPORTANT INFORMATION ABOUT THE PROSPECTUS

This Prospectus comprises a prospectus for the purposes of the Prospectus Directive as implemented in Ireland by the Prospectus (Directive 2003/71/EC) Regulations 2005 (the "**Prospectus Regulations**") and has been for the purpose of giving information with regard to the Issuer, MMK and its consolidated subsidiaries taken as a whole (the "**Group**"), the Notes and Guarantee, which, according to the particular nature of the Issuer, MMK, the Group, the Notes and the Guarantee, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer, MMK and the Group and the rights attaching to the Notes and the Guarantee. The Issuer and MMK each accept responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer and MMK (each of which has taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

MMK, having made all reasonable enquiries, confirms that (i) the Prospectus contains all information with respect to the Issuer, MMK, the Group, the Notes and the Guarantee that is material in the context of the issue and offering of the Notes; (ii) the statements contained in the Prospectus relating to the Issuer, the Group and MMK, are in every material respect true and accurate and are not misleading; (iii) the opinions, expectations and intentions expressed in the Prospectus with regard to MMK and the Group, are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other facts with respect to the Issuer, MMK, the Group, the Notes or the Guarantee the omission of which would, in the context of the issue and offering of the Notes, make any statement in the Prospectus misleading in any material respect; and (v) all reasonable enquiries have been made by MMK to ascertain such facts and to verify the accuracy of all such information and statements. MMK accepts responsibility accordingly.

The Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer, MMK, the Joint Lead Managers (as defined in "*Subscription and Sale*") or the Trustee to subscribe for or purchase any Notes in any jurisdiction where it is unlawful to make such an offer or invitation. The distribution of the Prospectus and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession the Prospectus come are required by the Issuer, MMK, the Joint Lead Managers and the Trustee to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on offers and sales of Notes and distribution of the Prospectus, see "*Subscription and Sale*" and "*Transfer Restrictions*".

No person is authorised to provide any information or to make any representation not contained in the Prospectus and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer, MMK, the Joint Lead Managers or the Trustee. The delivery of the Prospectus at any time does not imply that the information contained in them is correct as at any time subsequent to its date. Neither the delivery of the Prospectus nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer, MMK or the Group since the date of the Prospectus.

None of the Issuer, MMK, the Joint Lead Managers, the Trustee or any of its or their respective representatives or affiliates makes any representation to any offeree or purchaser of the Notes offered hereby regarding the legality of an investment by such offeree or purchaser under applicable legal, investment or similar laws. Each investor should consult with its own advisers as to the legal, tax, business, financial and related aspects of the purchase of the Notes.

Prospective purchasers must comply with all laws that apply to them in any place in which they buy, offer or sell any Notes or possess the Prospectus. Any consents or approvals that are needed in order to purchase any Notes must be obtained. The Issuer, MMK, the Joint Lead Managers and the Trustee are

not responsible for compliance with these legal requirements. The appropriate characterisation of the Notes under various legal investment restrictions, and thus the ability of investors subject to these restrictions to purchase the Notes, is subject to significant interpretative uncertainties. No representation or warranty is made as to whether, or the extent to which, the Notes constitute a legal investment for investors whose investment authority is subject to legal restrictions, and investors should consult their legal advisers regarding such matters.

In connection with the issue of the Notes, J.P. Morgan Securities plc (the "**Stabilising Manager**") (or any person acting on behalf of the Stabilising Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or any person acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if commenced, may be discontinued at any time and must be brought to an end no later than the earlier of 30 days after the Issue Date of the Notes and 60 days after the date of the allotment of the Notes.

The contents of MMK's website do not form any part of the Prospectus.

No representation or warranty, express or implied, is made by the Joint Lead Managers, the Trustee or any of their or its affiliates or any person acting on their behalf as to the accuracy or completeness of the information set forth in the Prospectus. Nothing contained in the Prospectus is, or shall be relied upon as, a promise or representation, whether as to the past or the future.

Each person receiving the Prospectus acknowledges that such person has not relied on the Joint Lead Managers, the Trustee or any of its or their affiliates or any person acting on their behalf in connection with its investigation of the accuracy or completeness of such information or its investment decision. Each person contemplating making an investment in the Notes from time to time must make its own investigation and analysis of the creditworthiness of MMK and the Group and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience, and any other factors which may be relevant to it in connection with such investment.

This Prospectus has been filed with and approved by the Central Bank as required by the Prospectus Regulations. The Prospectus, as approved by the Central Bank, will be filed with the Irish Companies Registration Office in accordance with Regulation 38(1)(b) of the Prospectus Regulations.

Any investment in Notes does not have the status of a bank deposit and is not within the scope of the deposit protection scheme operated by the Central Bank of Ireland. The Issuer is not and will not be regulated by the Central Bank of Ireland as a result of issuing the Notes.

NOTICE TO UNITED KINGDOM RESIDENTS

THE PROSPECTUS IS ONLY BEING DISTRIBUTED TO AND IS ONLY DIRECTED AT (I) PERSONS WHO ARE OUTSIDE THE UNITED KINGDOM, (II) TO INVESTMENT PROFESSIONALS FALLING WITHIN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005 (THE "**ORDER**") OR (III) HIGH NET WORTH ENTITIES, AND OTHER PERSONS TO WHOM IT MAY LAWFULLY BE COMMUNICATED, FALLING WITHIN ARTICLE 49(2)(A) TO (D) OF THE ORDER (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS "**RELEVANT PERSONS**"). THE NOTES ARE ONLY AVAILABLE TO, AND ANY INVITATION, OFFER OR AGREEMENT TO SUBSCRIBE, PURCHASE OR OTHERWISE ACQUIRE SUCH NOTES WILL BE ENGAGED IN ONLY WITH, RELEVANT PERSONS. ANY PERSON WHO IS NOT A RELEVANT PERSON SHOULD NOT ACT OR RELY ON THE PROSPECTUS OR ANY OF THEIR CONTENTS.

NOTICE TO PROSPECTIVE U.S. INVESTORS

THE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION (THE "**SEC**"), ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF SECURITIES OR THE ACCURACY OR THE ADEQUACY OF THE PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

THIS OFFERING IS BEING MADE IN THE UNITED STATES IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT FOR AN OFFER AND SALE OF THE NOTES WHICH DOES NOT INVOLVE A PUBLIC OFFERING. IN MAKING YOUR PURCHASE, YOU WILL BE DEEMED TO HAVE MADE CERTAIN ACKNOWLEDGMENTS, REPRESENTATIONS AND AGREEMENTS. SEE "*SUBSCRIPTION AND SALE*" AND "*TRANSFER RESTRICTIONS*".

THE PROSPECTUS IS BEING PROVIDED TO (I) A LIMITED NUMBER OF INVESTORS IN THE UNITED STATES THAT THE ISSUER REASONABLY BELIEVES TO BE "QIBS" THAT ARE ALSO "QPS" FOR INFORMATIONAL USE SOLELY IN CONNECTION WITH THEIR CONSIDERATION OF THE PURCHASE OF THE NOTES AND (II) TO INVESTORS OUTSIDE THE UNITED STATES WHO ARE NOT U.S. PERSONS IN CONNECTION WITH OFFSHORE TRANSACTIONS COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S.

NOTICE TO RUSSIAN INVESTORS

THE PROSPECTUS OR INFORMATION CONTAINED THEREIN ARE NOT AN OFFER, OR AN INVITATION TO MAKE OFFERS, SELL, PURCHASE, EXCHANGE OR TRANSFER ANY SECURITIES IN THE RUSSIAN FEDERATION TO OR FOR THE BENEFIT OF ANY RUSSIAN PERSON OR ENTITY, AND DO NOT CONSTITUTE AN ADVERTISEMENT OR OFFERING OF ANY SECURITIES IN THE RUSSIAN FEDERATION WITHIN THE MEANING OF RUSSIAN SECURITIES LAWS. INFORMATION CONTAINED IN THE PROSPECTUS IS NOT INTENDED FOR ANY PERSONS IN THE RUSSIAN FEDERATION WHO ARE NOT "QUALIFIED INVESTORS" WITHIN THE MEANING OF ARTICLE 51.2 OF FEDERAL LAW NO. 39-FZ "ON THE SECURITIES MARKET" DATED 22 APRIL 1996, AS AMENDED ("**RUSSIAN QIS**"), AND MUST NOT BE DISTRIBUTED OR CIRCULATED INTO RUSSIA OR MADE AVAILABLE IN RUSSIA TO ANY PERSONS WHO ARE NOT RUSSIAN QIS, UNLESS AND TO THE EXTENT THEY ARE OTHERWISE PERMITTED TO ACCESS SUCH INFORMATION UNDER RUSSIAN LAW.

EEA RETAIL INVESTORS

The Securities are not intended to be offered, sold or otherwise made available to and, with effect from such date, should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the "**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/E.U. ("**MiFID II**"); (ii) a customer within the meaning of Directive 2002/92/EC ("**IMD**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive. Consequently, no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Securities or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Securities or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

MIFID II PRODUCT GOVERNANCE/PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET

Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes, taking into account the five categories referred to in item 18 of the Guidelines published by ESMA on 2 June 2017 has led to the conclusion in relation to the type of clients criteria only that: (i) the type of clients to whom the Notes are targeted is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "distributor") should take into consideration the manufacturers' type of clients assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' type of clients assessment) and determining appropriate distribution channels.

AVAILABLE INFORMATION

The Issuer and MMK have agreed that, for so long as any Notes are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, they will, during any period in which they are neither subject to Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner or to the Trustee for delivery to such holder, beneficial owner or prospective purchaser, in each case upon the request of such holder, beneficial owner, prospective purchaser or the Trustee, the information required to be provided by Rule 144A(d)(4) under the Securities Act.

The language of the Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

The financial information set forth herein has, unless otherwise indicated, been extracted, without material adjustment, from the Group's unaudited condensed consolidated interim financial statements for the three months ended 30 March 2019 prepared in accordance with IAS 34 Interim Financial Reporting (the "**Interim Financial Statements**") and the Group's audited consolidated financial statements for the years ended 31 December 2018 and 2017 (the "**Annual Financial Statements**" and, together with the Interim Financial Statements, the "**Financial Statements**"), set forth on pages F-2 through F-152 of this Prospectus. The Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as promulgated by the International Accounting Standards Board.

Non-IFRS Measures

The Prospectus includes certain financial measures that are not measures of performance specifically defined by IFRS. These include Adjusted EBITDA, Adjusted EBITDA Margin, Normalised Adjusted EBITDA, Normalised Adjusted EBITDA Margin, Free Cash Flow, Net Debt, Net Debt/Adjusted EBITDA, Net Working Capital and Total Debt/Adjusted EBITDA.

Throughout the Prospectus (unless stated otherwise), the following definitions are used:

- "**Adjusted EBITDA**" means, for any period, operating profit adjusted for depreciation and amortisation, loss on disposal of property, plant and equipment and share of results of associates for the relevant period;
- "**Adjusted EBITDA Margin**" means, for any period, Adjusted EBITDA for the relevant period divided by total revenue for the relevant period and expressed as a percentage;
- "**Free Cash Flow**" means, for any period, the net cash flows generated by operating activities less cash used for purchase of property, plant and equipment;
- "**Net Debt**" means total debt (the sum of long- and short-term borrowings, current portion of long-term borrowings and obligations under leases and finance leases) less total cash and cash equivalents and short-term deposits as at the end of the relevant period;
- "**Net Debt/Adjusted EBITDA**" means, for any period, Net Debt as at the end for the relevant period divided by Adjusted EBITDA for the relevant period. Net Debt/Adjusted EBITDA for three months ended 31 March 2019 and 2018 is represented by Net Debt as at the end of the reporting period and Adjusted EBITDA for 12 months ended 31 March 2019 and 2018, respectively.
- "**Net Working Capital**" means the sum of inventories, VAT recoverable, income tax and short-term trade and other receivables less trade and other payables (except for dividends payable), current portion of retirement benefit obligations, current portion of site restoration provision and income tax payable;
- "**Normalised Adjusted EBITDA**" means Adjusted EBITDA for 2016 adjusted for gain from disposal of shares in Fortescue Metals Group ("**FMG**");
- "**Normalised Adjusted EBITDA Margin**" means Normalised Adjusted EBITDA divided by total revenue for the relevant period and expressed as a percentage; and
- "**Total Debt/Adjusted EBITDA**" means total debt (the sum of long- and short-term borrowings, current portion of long-term borrowings and obligations under leases and finance leases) as at the end of the relevant period divided by Adjusted EBITDA for the relevant

period. Total Debt/Adjusted EBITDA for three months ended 31 March 2019 and 2018 is represented by Total Debt as at the end of the reporting period and Adjusted EBITDA for 12 months ended 31 March 2019 and 2018, respectively.

For a reconciliation of Non-IFRS measures for the relevant reporting periods, see "*Selected Consolidated Financial and Other Information — Non-IFRS Measures*".

MMK has included these measures because it believes that they enhance an investor's understanding of the Group's financial performance. Further, MMK uses the non-IFRS measures disclosed in the Prospectus in the Group's business operations to, among other things, evaluate the performance of operations and develop budgets and measure performance against those budgets. MMK also believes that these non-IFRS measures are commonly reported by comparable businesses and used by investors in comparing the performance of businesses. In addition, certain of the Group's financing facilities contain financial covenants that are based on similarly titled measures, calculated using the methodology set out in those facilities.

The non-IFRS measures disclosed in the Prospectus are unaudited supplementary measures of the Group's performance and liquidity that are not required by, or presented in accordance with, IFRS. These measures are not defined by IFRS and MMK's use and definition of these metrics may vary from other companies in its industry due to differences in accounting policies or differences in the calculation methodology. These non-IFRS measures have limitations and should not be considered in isolation, or as substitutes for financial information as reported under IFRS. Accordingly, undue reliance should not be placed on the non-IFRS measures presented in the Prospectus.

Presentation of Certain Operational Information

In this Prospectus, in addition to the financial and operating information with respect to the Group as a whole, certain operational information is represented for MMK on a stand-alone basis. This data has been historically generated for MMK only and been derived from MMK's unconsolidated internal management accounts.

MMK is the principal operating company of the Group which, subject to inter-segment eliminations and consolidation, is substantially all of the Steel (Russia) Segment as reported under IFRS. The Steel (Russia) Segment accounted for 92.5%, 91.8%, 90.8% and 90.6% of the Group's external revenue in the three months ended 31 March 2019 and in the years ended 31 December 2018, 2017 and 2016, respectively, and represented 89.7%, 89.5, 86.5% and 86.8% of the Group's total assets (before inter-segment eliminations) as at 31 March 2019 and 31 December 2018, 2017 and 2016, respectively.

The Group's management believes that in the context of statements where such information is included, the MMK stand-alone operational data accurately describes MMK being the Group's principal company which operates as a single-site production complex. The Group's management considers that the presentation of such stand-alone operational information for MMK would be appropriate to provide all material information to enable investors to assess the Group's business and make an investment decision in relation to the Notes.

Currency

Throughout the Prospectus, unless stated otherwise, the following definitions are used:

- "**EUR**" or "**euro**" means the lawful currency for the time being of the member states of the European Union that adopted the single currency in accordance with the Treaty of Rome establishing the European Economic Community, as amended;
- "**RUB**" or "**rouble**" means the lawful currency for the time being of the Russian Federation;
- "**Turkish lira**" means the lawful currency for the time being of the Republic of Turkey; and

- “**U.S.$**”, “**U.S. Dollar**” or “**dollar**” means the lawful currency for the time being of the United States.

Exchange Rate Information

The functional currency of the Group’s entities (except for MMK Metalurji and MMK Steel Trade AG) is the rouble. The functional currency of MMK Metalurji and MMK Steel Trade AG is the dollar. The currency in which the Group’s direct costs and other costs are denominated, likewise, varies depending on the subsidiary. However, the presentation currency of the Group is the dollar (management considers the dollar to be the most appropriate presentation currency for the understanding and comparability of the Group’s consolidated financial statements). As a result, fluctuations in the value of these functional currencies and, in particular, the value of the rouble against the dollar, may materially affect the results of the Group when translated into the dollar in the Group’s consolidated financial statements. See “*Risk Factors – The Group is exposed to foreign currency fluctuations which may affect its financial results*”.

The following table sets forth, for the periods and dates indicated, certain information regarding the exchange rate between the rouble and the dollar, based on the official exchange rate quoted by the Central Bank of the Russian Federation (the “**CBR**”). Fluctuations in exchange rates between the rouble and the dollar in the past are not necessarily indicative of fluctuations that may occur in the future. These rates may also differ from the actual rates used in the preparation of the Financial Statements and those used in relation to the other information presented in the Prospectus.

	Exchange Rate			
	High	**Low**	**Average**[(1)]	**Period End**
	(*rouble/dollar*)			
Year/Period				
2013	33.47	29.93	31.85	32.73
2014	67.79	32.66	38.42	56.26
2015	72.88	49.18	60.96	72.88
2016	83.59	60.27	67.03	60.66
2017	60.75	55.85	58.35	57.60
2018	69.97	55.67	62.71	69.47
2019 (up to 7 June 2019)	67.19	63.74	65.32	65.23

Source: www.cbr.ru.

Note:

(1) The average rates are calculated as the average of the daily exchange rates on each business day (which rate is announced by the CBR for each such business day) and on each non-business day (which rate is equal to the exchange rate on the previous business day).

References

In the Prospectus, all references to “United States” and “U.S.” are to the United States of America, its territories, its possessions and all areas subject to its jurisdiction, all references to “U.K.” are to the United Kingdom and all references to “European Union” and “E.U.” are to the European Union, being a political and economic union of 28 member states that are located primarily in Europe, and all such member states as at the date of the Prospectus. All references to “CIS” are to the countries that formerly comprised the Union of Soviet Socialist Republics and that are now members of the Commonwealth of Independent States (Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan and Uzbekistan) or associated members of the Commonwealth of Independent States (Turkmenistan and Ukraine).

Rounding

Some numerical figures included in the Prospectus have been subject to rounding adjustments. Accordingly, numerical figures shown as totals in certain tables may not be an arithmetic aggregation

of the figures that preceded them. Unless otherwise specified, all percentages have been rounded to the nearest one-tenth of one per cent.

Information Derived from Other Third Parties

MMK has derived certain information and statistics in the Prospectus, including certain information and statistics concerning the Russian steel industry, the Russian economy in general and related subjects from the CBR, the Federal Service for State Statistics of the Russian Federation ("**Rosstat**"), Turkstat, Metal–Expert, WorldSteel Association, Chermet, OJSC ASM-Holding, Analytical Reviews, Metal-Courier and Prommetiz. Such information is contained in the Prospectus under the headings "Presentation of Financial and Other Information", "Risk Factors", "Business" and "Operating and Financial Review". Where third-party information, data or statistics are set out, they have been accurately reproduced, and, as far as MMK is aware and is able to ascertain from relevant available information published by the aforementioned sources, no facts have been omitted which would render the reproduced information, data and statistics inaccurate or misleading. Neither the Issuer, MMK nor each of the Joint Lead Managers accepts liability for the accuracy of any such information, and prospective investors are advised to use such information with caution.

Investors should keep in mind that none of the Issuer, MMK or the Joint Lead Managers have independently verified information obtained from third-party sources, including from industry and Russian authorities. Furthermore, measures of the financial or operating performance of the Group's competitors used in evaluating the Group's comparative position may have been calculated in a different manner to the corresponding measures employed by the Group. This information from the internal estimates and surveys of the Group has not been verified by any independent sources.

ENFORCEABILITY OF JUDGMENTS

The Issuer is a designated activity company incorporated under the laws of Ireland. MMK is a public joint stock company incorporated under the laws of the Russian Federation. Most of the assets of the Issuer and most of the assets of MMK are located outside the United Kingdom and the United States. In addition, all of the directors of the Issuer and substantially all of the directors and executive officers of MMK named in the Prospectus reside outside the United Kingdom and the United States, and a substantial part of the assets of such persons are located outside the United Kingdom and the United States. As a result, it may not be possible for Noteholders or the Trustee to effect service of process within the United Kingdom or the United States upon any of the Issuer or MMK or their respective officers and directors or to enforce against any of them court judgments obtained in English or U.S. courts.

In addition, it may be difficult for the Noteholders or the Trustee to enforce, in original actions brought in courts in jurisdictions located outside the United Kingdom and the United States, liabilities predicated upon English laws or U.S. federal securities laws. Courts in the Russian Federation will generally recognise judgments rendered by a court in any jurisdiction outside the Russian Federation only if an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the jurisdiction where the judgment is rendered or a federal law is adopted in the Russian Federation providing for the recognition and enforcement of foreign court judgments. No such treaty for the reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters exists between the Russian Federation and certain other jurisdictions (including the United Kingdom and the United States), and no relevant federal law on enforcement of foreign court judgments has been adopted in the Russian Federation. As a result, new proceedings may have to be brought in the Russian Federation in respect of a judgment already obtained in any such jurisdiction against MMK or its officers or directors. These limitations, as well as the general procedural grounds set out in Russian legislation for the refusal to recognise and enforce foreign court judgments in the Russian Federation, may significantly delay the enforcement of such judgment or deprive the Issuer and/or the Noteholders of effective legal recourse for claims related to the investment in the Notes.

In the absence of an applicable treaty, enforcement of a final judgment rendered by a foreign court may still be recognised by a Russian court on the basis of reciprocity, if courts of the jurisdiction where the foreign judgment is rendered have previously enforced judgments issued by Russian courts. In a number of instances, Russian courts have recognised and enforced a foreign court judgment (including English court judgments) on the basis of a combination of the principle of reciprocity and the existence of a number of bilateral and multilateral treaties to which the Russian Federation and certain other jurisdictions, including the United Kingdom, are parties. The courts determined that such treaties constituted grounds for the recognition and enforcement of the relevant foreign court judgment in the Russian Federation. In the absence of established court practice, however, no assurances can be given that a Russian court would be inclined in any particular instance to recognise and enforce a foreign court judgment on these or similar grounds. The existence of reciprocity must be established at the time the recognition and enforcement of a foreign judgment is sought, and it is not possible to predict whether a Russian court will in the future recognise and enforce on the basis of reciprocity a judgment issued by a foreign court, including an English court.

Accordingly, it may be difficult or impossible for investors to:

- effect service of process within the United Kingdom or other jurisdictions in which investors may be located, on certain directors or members of senior management of MMK;
- enforce judgments obtained in courts in the United Kingdom or other jurisdictions in which investors may be located, against MMK's assets and against certain directors or members of senior management of MMK; or

- enforce, in original actions brought in courts in the Russian Federation, liabilities predicated upon the civil liability provisions of the laws of the United Kingdom or the laws of other jurisdictions in which investors may be located.

The Guarantee and any non-contractual obligations arising out of or in connection with the Guarantee is governed by English law and will provide for disputes, controversies and causes of action brought by any party thereto against MMK be referred to arbitration in London, England, in accordance with the rules of the LCIA (formerly the London Court of International Arbitration) (the "**LCIA Rules**"). The Russian Federation and the United Kingdom are parties to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards of 1958 (the "**New York Convention**"). Consequently, Russian courts should generally recognise and enforce in the Russian Federation an arbitral award from an arbitral tribunal in the United Kingdom on the basis of the rules of the New York Convention, subject to qualifications provided for in the New York Convention and compliance with Russian procedural regulations and other procedures and requirements established by Russian legislation.

Recognition and enforceability of any arbitral award may also be limited by mandatory provisions of Russian laws relating to the exclusive jurisdiction of Russian courts and the application of Russian laws with respect to bankruptcy, winding up or liquidation of Russian companies. The Arbitrazh Procedure Code of the Russian Federation (the "**Arbitrazh Procedure Code**") sets out the procedure for the recognition and enforcement of foreign awards by Russian courts. The Arbitrazh Procedure Code also contains an exhaustive list of grounds for the refusal of recognition and enforcement of foreign arbitral awards by Russian courts, which grounds are broadly similar to those provided by the New York Convention. The Arbitrazh Procedure Code and other Russian procedural legislation could change, and other grounds for Russian courts to refuse the recognition and enforcement of foreign courts' judgments and foreign arbitral awards could arise in the future.

FORWARD-LOOKING STATEMENTS

Certain statements in the Prospectus are not historical facts and are forward-looking statements. Forward-looking statements appear throughout the Prospectus, including, without limitation, under the headings "Overview", "Risk Factors", "Operating and Financial Review" and "Business". The Group may also from time to time make written or oral forward-looking statements in reports to shareholders and in other communications. Forward-looking statements include, but are not limited to, statements concerning the Group's plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions, its competitive strengths and weaknesses, its business strategy and the trends the Group anticipates in the industries and the political and legal environment in which it operates and other information that is not historical information.

Words such as "believes", "anticipates", "estimates", "expects", "intends", "predicts", "projects", "could", "may", "will", "plans" and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. These risks, uncertainties and other factors include, among other things, those listed under "Risk Factors", as well as those included elsewhere in the Prospectus. Each prospective investor should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include, among others:

- economic, social, legal and political developments in the Russian Federation and the international markets in which the Group operates;
- the state of Russian relations with other countries, which deterioration may lead to expansive sanctions targeting metals and mining companies or a broader segment of the Russian economy;
- an increase or decrease in demand for the Group's products and services, as well as the prices of the Group's steel products and the raw materials which it requires;
- tariffs and other restrictions on the import or export of steel or raw materials;
- the costs of energy and transportation;
- the Group's ability to fund its future operations and capital needs through borrowing or otherwise;
- the Group's ability to successfully implement any of its business strategies;
- the Group's ability to obtain the licences necessary for its businesses;
- the effects of competition;
- inflation, interest rate and exchange rate fluctuations; and
- the Group's success in identifying other risks to its businesses and managing the risks of the aforementioned factors.

This list of factors is not exhaustive. Some of these factors are discussed in greater detail in the Prospectus, in particular, but not limited to, discussion in "Risk Factors". When relying on forward-looking statements, each prospective investor should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in

which the Group operates. Such forward-looking statements speak only as of the date on which they are made. Accordingly, neither the Issuer nor MMK undertakes any obligation to update or revise any of them, whether as a result of new information, future events or otherwise, unless required to do so by applicable law. MMK does not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

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OVERVIEW

THE NOTES

Issuer:	MMK International Capital Designated Activity Company, a company incorporated under the laws of Ireland on 24 April 2019, number 648776, at the following address: 2nd Floor, Palmerston House, Fenian Street, Dublin 2, Ireland.
Guarantor:	Public Joint Stock Company Magnitogorsk Iron & Steel Works, a company incorporated under the laws of Russia on 17 October 1992, number 1027402166835, at the following address: Ul. Kirova 93, Magnitogorsk, 455000, Chelyabinsk Region, Russian Federation.
Joint Lead Managers:	Citigroup Global Markets Limited, J.P. Morgan Securities plc and Société Générale
Notes offered:	U.S.$500,000,000 4.375% Guaranteed Notes due 2024
Issue Price:	100% of the principal amount of the Notes
Issue Date:	13 June 2019
Maturity Date:	13 June 2024
Trustee:	Citibank, N.A., London Branch
Principal Paying Agent:	Citibank, N.A., London Branch
Transfer Agent:	Citibank, N.A., London Branch
Registrar:	Citigroup Global Markets Europe AG
Interest:	On each Interest Payment Date (being 13 June and 13 December in each year and commencing on 13 December 2019) and ending on the Maturity Date.
Risk Factors:	An investment in the Notes involves a high degree of risk. See "*Risk Factors*".
Form and Denomination:	The Notes will be issued in registered form, in denominations of U.S.$200,000 and higher multiples of U.S.$1,000. The Regulation S Notes and the Rule 144A Notes will be represented by a Regulation S Global Note Certificate and a Rule 144A Global Note Certificate, respectively. The Regulation S Global Note Certificate and the Rule 144A Global Note Certificate will be exchangeable for Definitive Certificates (as defined in the Trust Deed) in the limited circumstances specified in the Regulation S Global Note Certificate and the Rule 144A Global Note Certificate.
Initial Delivery of Notes:	On or before the Issue Date, the Regulation S Global Note Certificate shall be registered in the nominee name of a common depositary, and deposited with a common depositary for, Euroclear and Clearstream, Luxembourg and the Rule 144A Global Note Certificate shall be registered in the name of Cede & Co. as nominee of, and deposited with a custodian for, DTC.

Status of the Notes and the Guarantee:	The Notes constitute direct, unsubordinated and (subject to Condition 3.1) unsecured obligations of the Issuer and shall at all times rank *pari passu* and rateably without any preference among themselves. The Guarantee constitutes direct, unsubordinated and (subject to Condition 3.1) unsecured obligations of MMK. The Issuer and MMK shall ensure that at all times the claims of the Noteholders against them under the Notes and the Guarantee, respectively, rank in right of payment at least *pari passu* with the claims of all their other present and future unsecured creditors, save for those whose claims are preferred by any bankruptcy, insolvency, liquidation or similar laws of general application or any other mandatory provisions of applicable law.
Guarantee	The Guarantor has, pursuant to the Guarantee, unconditionally and irrevocably, guaranteed the payment when due of all sums expressed to be payable by, and all other obligations of, the Issuer under the Trust Deed and the Notes.
Withholding Tax:	All payments of principal and interest in respect of the Notes by or on behalf of the Issuer or MMK or under the Guarantee by MMK will be made without deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied, collected, withheld or assessed by or on behalf of any authority in Ireland or the Russian Federation having the power to tax, unless the deduction or withholding of such taxes or duties is required by law or regulation. In the event any such taxes, duties, assessments or governmental charges of whatever nature are imposed or levied, collected, withheld or assessed by or on behalf of, any authority in Ireland or the Russian Federation, or any political subdivision or any authority thereof or therein having the power to tax, the Issuer or (as the case may be) MMK will, subject to certain exceptions, make such additional payments as will result in the receipt by the Noteholders of such amount as would have been received by them if no such withholding or deduction had been required.
Optional Redemption by the Issuer or Guarantor for Taxation Reasons:	Subject to the Conditions and further described in "*Terms and Conditions of the Notes*", the Notes may be redeemed at the option of either the Issuer (with the prior written consent of MMK) or MMK, in whole, but not in part, at any time, on giving not less than 25 and nor more than 60 calendar days' written notice to the Trustee, the Principal Paying Agent and the Noteholders (which notice shall be irrevocable), at the principal amount thereof, together with interest accrued and unpaid to the date fixed for redemption but otherwise without premium or penalty, if (i) the Issuer or MMK satisfies the Trustee immediately prior to the giving of such notice that it has, or will, become obliged to pay additional amounts as provided or referred to in Condition 7 as a result of the application or official interpretation of, or any amendments to, or change in, or change in the application or official interpretation of the laws, treaties or regulations of the Russian

	Federation or Ireland, or as the case may be, the applicable jurisdiction for either of the Issuer or MMK if different from the aforementioned, or of any constituent part or political subdivision thereof or any authority having power to tax therein (including as a result of a judgment of a court of competent jurisdiction or a change in, or clarification of, the application or official interpretation of such laws or regulations) and (ii) such obligation cannot be avoided by the Issuer (or MMK, as the case may be) taking reasonable measures available to it.
Optional Redemption at Make Whole Call Option:	At any time prior to the Maturity Date, the Issuer (with the prior written consent of MMK) or MMK may, at its option, on giving not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and the Noteholders in accordance with Condition 14 (which notice shall be irrevocable and shall specify the date fixed for redemption (the "**Make Whole Optional Redemption Date"**)), redeem the Notes in whole, but not in part, at the price which shall be the Make Whole Redemption Amount (as defined in the "*Terms and Conditions of the Notes*") plus accrued and unpaid interest that may be due thereon (if any) to but excluding the Make Whole Optional Redemption Date.
Optional Redemption at Par Call Option:	At any time on or after the date three months prior to the Maturity Date, the Issuer (with the prior written consent of MMK) or MMK may, on giving not less than 10 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and the Noteholders in accordance with Condition 14 (which notice shall be irrevocable and shall specify the date fixed for redemption (the "**Par Optional Redemption Date**")), redeem the Notes in whole or in part at their principal amount plus accrued and unpaid interest on the Notes so prepaid to (but excluding) the Par Optional Redemption Date. Such redemption may occur on a number of occasions.
Negative Pledge and Other Covenants:	Conditions contain a negative pledge in relation to the creation of Security Interests (as defined in the "*Terms and Conditions of the Notes*") by the Guarantor and the Material Subsidiaries (as defined in the "*Terms and Conditions of the Notes*"), and contain restrictions on certain activities of the Guarantor and the Material Subsidiaries, including, without limitation: (i) limitation on engaging in certain types of mergers; (ii) requirement for the payment of taxes; (iii) requirement for the provision of certain financial information; and (iv) limitation on engaging in transactions with affiliates. Conditions also contain limitation on Issuer's indebtedness. See "*Terms and Conditions of the Notes*".
Events of Default:	If an Event of Default occurs and is continuing, the Trustee at its discretion may and, if so requested in writing by

	Noteholders of at least 25% of the aggregate principal amount of the outstanding Notes, or if so directed by an Extraordinary Resolution (as defined in the Trust Deed), shall (subject to the Trustee having been indemnified and/or secured and/or prefunded to its satisfaction) give written notice to the Issuer and MMK declaring the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest. See "*Terms and Conditions of the Notes*".
Rating:	The Notes are rated BBB by Fitch and Baa2 by Moody's. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of notes do not necessarily mean the same thing. The ratings do not address the likelihood that the principal on the Notes will be prepaid or paid on a particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes could adversely affect the price that a subsequent purchaser will be willing to pay for the Notes. The significance of each rating should be analysed independently from any other rating.
Listing:	Application has been made to Euronext Dublin for the Notes to be admitted to the Official List and trading on the regulated market. Regulated market of Euronext Dublin is a regulated market for the purposes of MiFID II.
Selling Restrictions:	The Notes are subject to selling restrictions in the United States, the United Kingdom, Ireland, the Russian Federation and any other applicable jurisdictions, and to retail investors in EEA. See "*Subscription and Sale*".
Governing Law:	The Notes, the Trust Deed and the Guarantee and any non-contractual obligations arising out of or in connection with them shall be governed by and construed in accordance with English law.
Use of Proceeds:	The gross proceeds to the Issuer from the offering of the Notes are expected to be U.S.$500,000,000, which the Issuer intends to use for the sole purpose of financing a loan (or loans) to MMK (a tax resident of the Russian Federation), which will use the proceeds for general corporate purposes. See "*Use of Proceeds*".
Clearing Systems:	DTC (in the case of the Rule 144A Notes) and Euroclear and Clearstream, Luxembourg (in the case of the Regulation S Notes).
Security Codes:	*Regulation S Notes:* Common Code: 184343495 ISIN: XS1843434959

	CFI Code: DYFXXR FISN Code: MMK INTERNATION/EUR NT 22001231 RES *Rule 144A Notes:* Common Code: 111730628 ISIN: US553142AA88 CUSIP: 553142AA8 CFI Code: DBFGGR FISN Code: MMK INTL CAP DE/GTD NT 20240612 GTD
Legal Entity Identifier of the Issuer:	635400CNBLB2PNXXQI80

RISK FACTORS

An investment in the Notes involves a high degree of risk. You should carefully consider the following information about these risks, together with the information contained elsewhere in the Prospectus before you decide to buy the Notes. Each of these risks could have a material adverse effect on the Group's business, financial condition, results of operations, prospects, or on the trading price of the Notes and you could lose all or part of your investment.

The Group has described the risks and uncertainties that the Group's management believes are material, but these risks and uncertainties may not be the only ones the Group faces. Additional risks and uncertainties, of which the Group's management is currently not aware or which the Group's management currently deems immaterial, may also adversely affect the Group's business, results of operations, financial condition and/or prospects and/or the Guarantor's ability to meet its payment obligations under the Guarantee and/or the Issuer's ability to make payments under the Notes.

Risk Factors Relating to the Group and the Steel Industry

The Group's business is dependent on the global economic environment

The global economic downturns, like the 2008-2009 global financial crisis, may have an extensive adverse impact on the steel industry by affecting both pricing and demand for steel products and iron ore. Following the 2008-2009 financial crisis, the world's economy has undergone volatile cycles, with two to three years' periods of limited growth followed by decline. This volatility is influenced by many factors, including certain structural problems in many developed economies, resulting in slowing down growth rates, as well as a long-term reduction with respect to Chinese industrial production and metallurgy largely due to China's transition to a larger share of services in its GDP composition. Despite the partial recovery of the global steel market and the price levels of steel and iron ore in 2016 - 2018, the market remains volatile and depends to a large extent on fluctuations in the Chinese economy and its steel industry. See "- *The Group operates in a cyclical industry and may be adversely affected by a downturn in the steel industry*" below. There is a risk of a possible cyclical downturn in the Chinese economy and other developing markets and a stagnation of European and U.S. economies, which could result in a global economic downturn and negatively impact the Russian economy in general and the Group's industry and business as a result.

The global economy continues to be subject to a number of uncertainties, including mounting government deficits, discontinuation of government stimulus programmes, deflation in certain markets and continuing concerns over the stability of monetary union in the European Union, as well as continued slow growth or contraction in some markets. If global economic conditions deteriorate, the resulting contraction in demand for many of the Group's products and the tightening of the credit markets could have a material adverse effect on the Group's business, results of operations and financial condition, its ability to service its payment obligations under the Guarantee and the Issuer's ability to make payments under the Notes.

In addition, the Group's largest market in terms of its revenue is Russia, and an economic downturn in Russia could have a material adverse effect on the Group's business and financial condition. The Group derived 86% of its total revenues from sales to customers in Russia and the CIS in the three months ended 31 March 2019 as compared to 75% in the three months ended 31 March 2018, 79% in 2018 and 77% in each of 2017 and 2016. The Russian economy has experienced fluctuating growth rates over the last two decades, especially given the negative developments affecting the Russian economy in 2014 and 2015, aggravated by the impact of the political and economic crisis in Ukraine and related sanctions imposed on certain Russian individuals and legal entities by the U.S. and the E.U. (as well as other nations, such as Australia, Canada, Japan, Norway and Switzerland). According to Rosstat, the Russian economy experienced a significant decline in 2015, when Russia's GDP declined by 2.5%. In 2016 the decline trend had changed to a moderate growth of 0.3% and in 2017 and 2018 grew moderately at the rate of 1.6% and 2.3%, respectively. According to preliminary estimates of the Ministry of Economic Developments of the Russian Federation, Russia's GDP is

expected to grow by 1.3% in 2019. Furthermore, a significant portion of the Group's products in Russia are used in the construction, infrastructure, automotive and engineering industries, which are particularly vulnerable to general economic downturns. A material downturn in the Russian economy could have a negative effect on the businesses of some of the Group's customers and reduce demand for the Group's products, which may have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The Group operates in a cyclical industry and may be adversely affected by a downturn in the steel industry and by protectionist measures applied in certain markets

The steel industry is cyclical in nature and the industries in which steel customers operate are cyclical and sensitive to changes in general economic conditions. The demand for steel products generally correlates to macroeconomic fluctuations in the economic areas in which steel producers sell their products, as well as in the global economy. The Group's results of operations are affected by many factors including adverse changes in the steel industry, and in particular, by changes in demand for manufactured metal products; changes in prices for manufactured metal products; intra-industry competition; introduction of additional duties on the import of Russian steel products and changes in prices for raw materials and services.

In 2016 and 2017, global steel prices grew at a modest rate. The main trend in 2016 and 2017 was a partial recovery of world prices for rolled steel after a sharp and prolonged decline in 2015. The demand for steel products as well as the global steel production capacity in recent years has been strongly influenced by the developing world, particularly China, as well as India and other emerging markets. China is the largest global steel producer and the balance between its domestic production and its consumption has been one of the major drivers of global steel prices. To the extent that the surplus of domestic steel production in China relative to its domestic steel demand results in increased volumes of export sales by Chinese producers, the global steel market may experience further downward pricing trends. In 2017, a significant level of global support for prices was provided by the recovery of export quotations for hot-rolled coils from China from U.S.$501 per tonne FOB at the end of 2016 to U.S.$564 per tonne FOB by December 2017. According to Platts, export prices for hot-rolled coils from the CIS in 2017 followed Chinese prices, reaching U.S.$544 per tonne FOB Black Sea by year-end.

The Group believes that the increase in steel prices in 2016 and 2017 can be attributed to (i) the restructuring of China's steel and coal industries by closing environmentally inefficient production; (ii) the transition of China's steel industry to the use of higher-quality metallurgical raw materials and the associated increase in prices for steel throughout the world; (iii) a gradual increase in demand for steel products in China and in other regions of the world; and (iv) the ongoing consolidation processes in China's steel industry. On the whole, the Group believes, that these measures led to a recovery in China's metals industry and a 31% decrease in steel exports during 2017 as compared to 2016. By virtue of rising prices in the domestic market in China and a reduction of steel exports from China, producers and exporters of metal products in other regions were able to increase their prices in 2017.

In early 2018, the global steel market expected the positive development trend to continue, which was reflected in the price growth. In the first three months of 2018, prices for hot-rolled coils in the ports of the Black Sea increased from U.S.$574 per tonne to U.S.$606 per tonne. The main contributors of the trend were China, the countries of Southeast Asia and Turkey. The production restrictions under the government's environmental programme in China contributed to a supply shortage throughout the region. In Turkey, the economy continued to grow in early 2018, which contributed to the stable demand for rolled metal products.

However, in June 2018, the United States approved 25% import duty on steel products from all countries. In addition, in August 2018, US import duty on Turkish steel products was increased to 50%. These measures became a catalyst for the growth of protectionist sentiment throughout the global steel industry and had a noticeable negative impact on the global market. With the closure of the US market, Turkish steel companies lost one of the key markets for their products. The countries

of the European Union, in turn, expressed their fears that the metal product streams that had previously been shipped to the United States would be redirected to and overflow their market. Therefore, in July 2018, the European Commission announced the introduction of preliminary protective measures (tariff-quota system) aimed at countering the redistribution of import flows and the protection of the E.U. market. In February 2019, these measures were approved. Further, in October 2018, Turkey retaliated with quotas and tariffs, similar to ones established by the US and the EU, with respect to the import of metal products from the US.

In 2017, the Ministry of Industry and Trade of the Russian Federation (Minpromtorg) initiated an antidumping investigation pursuant to Schedule 28 to the EEU Treaty in respect of steel shipments of sales from Kazakhstan by JSC "ArcelorMittal Temirtau" ("**ArcelorMittal**") based on petitions submitted by a number of major Russian steel producers, alleging that the sharp growth in shipments of sales of subsidised steel products from Kazakhstan inflicted damage on the Russian economy. As of the date of this Prospectus, the decision of the Government of the Russian Federation in this investigation remains pending. Recently, following an accident at ArcelorMittal's Kazakhstan production site in November 2018, ArcelorMittal's shipments of sales to Russia have significantly contracted. However, it is expected that following the resumption of operation of the respective facility, the shipments of sales are expected to substantially rebound in the second quarter of 2019, which would in turn result in excess supply in the Russian steel market and potential decrease in steel prices.

The trade wars between the largest economies of the world, the economic crisis in Turkey with a sharp devaluation of the national currency, the growing contraction of demand due to the weakening of consuming industries in Turkey and Europe and the redistribution of export flows led to a decrease in steel prices on the world market during the second to fourth quarters of 2018. Export quotations for hot-rolled coils in the ports of the Black Sea for 2018 decreased from U.S.$606 per tonne in March 2018 to U.S.$452 per tonne in January 2019. Nevertheless, in the first quarter of 2019, quotes grew in almost all regions, albeit at different rates. Prices for hot-rolled coils in the ports of the Black Sea increased from U.S.$452 per tonne in January 2019 to U.S.$512 per tonne in March 2019.

However, globally, demand for steel products is still noticeably lagging behind supply and there are no foreseeable factors for a significant expansion in demand in the near future. According to the WorldSteel Association's forecast, the growth in world steel consumption is expected to be 1.3% in 2019 and 1.0% in 2020. Considering the projected reduction in the global metal consumption growth, the Group's strategy for the coming years is expected to be based on reasonable management of production volumes, implementation of mutually beneficial cooperation programs with key customers and increasing the share of high value added products in the product portfolio that are less prone to price fluctuations.

In the future, demand for steel products and prices of steel may continue to experience significant fluctuations as a result of these and other factors, many of which are beyond the Group's control. Prolonged declines in global steel demand or prices could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The Group's operations are dependent on the Russian and CIS markets and, in particular, on the Russian pipe-manufacturing, automotive, construction and production of machinery and equipment industries

The Group derived 86% of its total revenues from sales to customers in Russia and the CIS in the three months ended 31 March 2019 as compared to 75% in the three months ended 31 March 2018, 79% in 2018 and 77% in each of 2017 and 2016. The Group's management aims to further increase the proportion of its domestic and CIS sales in the Group's total sales in the near future. The overall success of the Group's operations, therefore, is closely tied to the economic prosperity, stability and demand for its products from Russian and CIS customers. The Russian economy, however, has experienced significantly fluctuating growth rates over the past two decades. Moreover, since MMK's principal customers in Russia are in the (i) metal trade (which accounted for 32.4%, 34.1% and 34.6%

of MMK's shipments by volume in 2018, 2017 and 2016, respectively, and 34.0% and 30.8% of MMK's shipments by volume in the three months ended 31 March 2018 and 2019, respectively); (ii) pipe-manufacturing (which accounted for 26.1%, 26.0% and 25.9% of MMK's shipments by volume in 2018, 2017 and 2016, respectively, and 26.3% and 30.5% of MMK's shipments by volume in the three months ended 31 March 2018 and 2019, respectively); (iii) construction (which accounted for 8.3%, 10.0% and 11.0% of MMK's shipments by volume in 2018, 2017 and 2016, respectively, and 8.2% and 7.8% of MMK's shipments by volume in the three months ended 31 March 2018 and 2019, respectively); (iv) production of machinery and equipment (which accounted for 6.6%, 6.6% and 7.6% of MMK's shipments by volume in 2018, 2017 and 2016, respectively, and 5.9% and 7.4% of MMK's shipments by volume in the three months ended 31 March 2018 and 2019, respectively); and (v) automotive (which accounted for 7.1%, 7.3% and 6.5% of MMK's shipments by volume in 2018, 2017 and 2016, respectively, and 6.5% of MMK's shipments by volume in each of the three month periods ended 31 March 2018 and 2019). All of these sectors are vulnerable to general economic downturns, therefore leaving the Group also exposed to such downturns. Any significant downturn of the Russian economy, or in a particular sector, could result in a reduced demand for the Group's products, which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The Russian and global steel industries are highly competitive and the Group may not be able to compete successfully

The markets for steel and steel products are highly competitive. The Group faces significant competition in the Russian market from other steel producers (together with their subsidiaries), such as Severstal, NLMK, Evraz, Mechel, AO Arcelor-Mittal Temirtau (Kazakhstan) and Metinvest (Ukraine). The same steel producers and several other companies with steel production facilities in Ukraine compete with the Group in the CIS markets. As several of the Group's main competitors, such as Evraz, NLMK and Severstal, implement development projects aimed at increasing production capacity of hot rolled steel and value-added products, the growth in supply of steel products in the CIS market may outpace the potential growth in demand, leading to further tightening of competition. Competition outside the CIS is even stronger and the number of competitors is much higher. See "*Business – Competition*".

Steel producers are also in competition with producers of substitute materials, particularly in the automotive, construction and packaging industries. Such products, for example aluminium, are increasingly becoming a competitive threat to the steel industry in the long-term. The Group's competitors may be larger or have greater capital resources than the Group or, in some cases, have lower raw materials costs. Competitors may also have competitive advantages in terms of location and access to key suppliers and transport routes. The Group's competitive position may also be affected by the trend towards consolidation of players in the global steel industry (as well as in Russia and the CIS). Any of these events could lead to increased competition and adversely affect the Group's business, results of operations, financial condition and prospects. The highly competitive nature of the steel industry combined with excess production capacity for some steel products has exerted, and may in the future continue to exert, downward pressure on prices of the Group's products.

The Group is dependent on suppliers for many of the raw materials it uses

The Group requires substantial amounts of raw materials in its steel production process, in particular coal concentrate, iron-containing raw materials (principally iron-containing sinter, pellets and scrap) and, to a lesser extent, ferroalloys and natural gas. Thus, the Group is dependent on its relationships with its core external suppliers of iron-containing raw materials and coal concentrate. In 2018, the Group's self-sufficiency in iron-containing raw materials, coal concentrate and electricity was approximately 19%, 43% and 78%, respectively. To reduce the risk of adverse changes in supply of these key raw materials, the Group has entered into long-term contracts with its principal suppliers of iron-containing raw materials and natural gas. See "*Business – The Steel Segments (Russia and Turkey) – Supply of Raw Materials and Energy – Iron-containing Raw Materials*" and "*Business – The Steel Segments (Russia and Turkey) – Supply of Raw Materials and Energy – Natural Gas*".

However, for other raw material suppliers, contracts are typically concluded for one-year periods or longer periods with prices reviewed on a quarterly basis (in the case of coal concentrate and basic ferroalloys) or in the spot market (in the case of low-tonnage ferroalloys). Should the Group's relationships with any of its key suppliers (in particular ERG Sales AG and Metalloinvest) deteriorate, or one of its significant supply contracts terminate early or not be renewed on a timely basis on commercially acceptable terms, or at all, the Group's ability to operate its business may be adversely affected.

The availability of supplies of raw materials may be negatively affected by a number of factors largely beyond the control of the Group, including interruptions in production by suppliers, allocation of raw materials by suppliers to other purchasers, fluctuations in prices of raw materials and increased transportation costs. The existing technology involves the use of certain types of raw materials (coal concentrate and iron ore), the replacement of which by analogy will lead to a significant increase in price. In addition, the Group's operations require substantial amounts of other raw materials, including aluminium, nickel, copper, firebricks and zinc, the price and availability of which are subject to market conditions. There is no assurance that the Group's sources of supply will consistently meet its quality requirements, be delivered on schedule or be available on commercially reasonable terms. In addition, the Group is exposed to the risk of suppliers forming alliances or cartels that may put upward pressure on pricing for such materials.

Finally, some of the MMK's domestic competitors, such as Severstal and NLMK, have achieved a higher degree of self-sufficiency in key raw materials (in respect of iron ore and coking coal for Severstal and in respect of iron ore for NLMK) than MMK and, therefore, consequent increases in the prices of raw materials would more adversely affect MMK in comparison to those competitors that have greater control over the cost of their key raw materials. The Group may not be able to adjust its prices to recover the costs of increases in the prices of such raw materials.

For the reasons described above, any change in the prices or supply of raw materials could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The Group has limited ability to reduce the volumes of iron-containing raw materials that it is required to purchase under its long-term supply contracts with ERG Sales AG and Metalloinvest in the event that MMK's production levels decline

The volumes of supplies that the Group is required to purchase under MMK's long-term contracts with ERG Sales AG and Metalloinvest (for the supply of iron-containing raw materials) are fixed, and the Group has a limited right under these contracts to reduce the amounts that it is required to purchase under the terms of these contracts. See "*Business – The Steel Segments (Russia and Turkey) – Supply of Raw Materials and Energy – Iron-containing Raw Materials*". As a result, if the Group's production volumes decline, whether as a result of a decline in demand for steel or otherwise, the Group may be either required to purchase iron ore in excess of its requirements or try to renegotiate the terms. No assurance may be given that the Group will always be able to mitigate any possible risks inherent in the long-term contracts with its key suppliers in an effective or favourable manner, or at all. Any of this may ultimately result in the Group having to sell such supplies at prices less than the price for which they were purchased or purchase raw materials at prices higher than the then current market prices or in amounts exceeding the Group's then current production requirements, or could lead the Group to try to renegotiate these contracts on terms which may be less favourable than those of the existing contracts, which, in turn, may have an adverse effect on the Group's business, results of operations, financial condition and prospects.

MMK may be subject to increased prices and supply disruptions of key energy supplies

Energy costs (particularly the cost of natural gas used for electricity generation and in the production process) comprise a significant portion of MMK's cost of sales. While MMK met 58.3% and 58.0% of its electricity needs internally in the first quarter of 2019 and 2018, respectively, there can be no

assurance that it will be able to continue to generate similar or an increased proportion of its electricity requirements in the future or that its energy efficiency measures will be effectively implemented. MMK currently has several long-term gas supply contracts with the largest gas producers in Russia, which establish gas prices with a reference to the regulatory set prices (tariffs). MMK also has the opportunity to purchase gas at unregulated prices on commodity exchanges. The expansion of MMK's business and production capabilities, or disruptions to its ability to generate electricity, may require MMK to purchase significant supplies of electricity on the wholesale market in the future. Any increased prices or interruption in the supply of electricity or natural gas could adversely affect the Group's business, results of operations, financial condition and prospects.

The Group is exposed to the risk of non-payment by or loss of key customers

Large scale customers of the Group in 2018 included MMK Trading AG, PAO TMK, JSC Steel Industrial Company, PJSC Avtovaz, PAO ChTPZ and OJSC Ural Pipe Plant. The largest customer MMK Trading AG and the five largest customers of the Group accounted for 9.5% and 13.6%, respectively, of the Group's total volume of sales for 2018, 6.5% and 12.9%, respectively, of the Group's total volume of sales for 2017 and 10.5% and 11.8%, respectively, of the Group's total volume of sales for 2016.

If, due to severe macroeconomic conditions or otherwise, a number of the Group's key customers breach or terminate their contracts with the Group or renegotiate or renew them on terms significantly less favourable to the Group than those currently in effect, or if such customers materially decrease the amount of business they transact with the Group, this could have an adverse effect on the Group's business, results of operations, financial condition and prospects.

Furthermore, a significant downturn or deterioration in the business or financial condition of key customers supplied by the Group could affect its results of operations. The Group's customers may experience weak demand for their products, emergency shutdown of production, strikes, reduced liquidity or inaccessibility of credit and other difficulties. If the Group is not successful in replacing business lost from such customers, the Group's profitability may be adversely affected.

The Group may not be able to generate funding sufficient to complete the additional capital expenditures that the Group's management expects the Group to incur in order to continue modernising its existing production facilities

Steel production is a capital-intensive business. The Group spent U.S.$463 million, U.S.$664 million and U.S.$860 million on capital expenditures (including capitalised repairs) in 2016, 2017 and 2018, respectively. The Group's management currently plans to make expansion and maintenance capital expenditures in the amount of approximately U.S.$850 million in 2019. These planned expansion capital expenditure projects include the development capex of U.S.$501 million, which provides for financing of (i) completion of construction of the sinter plant No. 5; (ii) reconstruction of the hot rolling mill 2500; (iii) construction of the coke-oven battery complex No. 12; and (iv) purchase of equipment to minimise the negative impact on the environment. In addition, it includes approximately U.S.$348 million of capitalised repairs in 2019. Going forward, the Group also plans to (i) install a new coke battery at its facility in Magnitogorsk by the end of 2022, replacing existing batteries No. 13 and No. 14, in order to improve the quality of coke production and reduce the environmental impact of the production; (ii) build a new blast furnace in 2020–2024 to replace the existing blast furnaces No. 7 and No. 8, to increase the production capacity of pig iron, reduce production costs and impact on the environment; and (iii) build a steam turbine power station in 2020-2023. To finance its capital expenditures, the Group's management plans to rely on cash generated from the Group's operations and external debt financing. However, there can be no assurance that the Group will be able to generate sufficient cash from operations to finance such expenditures or that external financing will be available on reasonable terms, or at all.

In addition, capital expenditure programmes are subject to a variety of potential problems and uncertainties, including in completion, cost overruns and defects in design or construction, which may

require additional cash investment, as well as changes in economic conditions that may affect the economic viability of such investments. As a result, there is no assurance that the Group will successfully implement its capital expenditure programme, either in terms of the specific projects planned or the estimated costs.

A failure to obtain sufficient funding on commercially acceptable terms; or the occurrence of any problems and uncertainties in the Group's capital expenditures programme could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The Group is subject to mining risks

The Group's coal and iron ore mining operations are subject to the hazards and risks ordinarily associated with the exploration and extraction of natural resources, any of which could result in extraction shortfalls or damage to persons or property. In particular, hazards associated with the Group's open-pit iron ore mining operations include:

- flooding of the open pit;
- collapses of the open-pit walls;
- accidents associated with the operation of large open-pit mining and rock transportation equipment;
- accidents associated with large-scale open-pit blasting operations;
- production disruptions due to weather; and
- hazards associated with the disposal of waste water, such as groundwater and waterway contamination.

Hazards associated with the Group's underground coal mining operations include:

- insufficient ventilation of the underground parts of the mine;
- underground fires and explosions, including those caused by methane and coal dust;
- cave-ins or ground falls;
- discharges of gases (particularly methane) and toxic chemicals;
- flooding;
- sinkhole formation and ground subsidence; and
- other accidents and conditions resulting from drilling, blasting and removing and processing material from an underground mine.

The Group has been affected by some of these hazards in the past. The occurrence of any of these hazards could delay coal or iron ore extraction, increase production costs and result in injury to, or death of, the Group's employees or contractors and damage to property, as well as liability or reputational damage for the Group. The occurrence of serious accidents may shut down some or all operations of a mine. The occurrence of any serious accidents at any of the Group's mines could have a material adverse effect on the Group's business, results of operations, financial condition and prospects. See "*Business - Health, Safety and Environment*".

The Group may experience equipment failure or other interruptions in production processes, production curtailment and shutdowns

The Group's production of steel depends on the uninterrupted operation of critical pieces of steel-making facilities or equipment such as coke oven batteries, blast furnaces, basic oxygen furnaces, electric arc furnaces, continuous casting machines, rolling mills and other equipment. These facilities may, on occasion, experience shut-downs, down-time or periods of reduced production as a result of unanticipated malfunction, failure or defect, human error or as a result of the age of some of the Group's equipment or facilities or other circumstances. In addition, the Group's facilities are subject to the risk of damage due to unanticipated events, including the outbreak of fire, resulting in property damage, casualties and loss of life. Furthermore, the Group's principal production facilities are concentrated in the Magnitogorsk area. Any business interruption or accidental shutdowns, especially as a result of local problems in the Magnitogorsk area, or a result of force majeure or otherwise could adversely affect the Group's business. While the Group maintains certain types of insurance, it does not have insurance against loss of profit resulting from business interruption. In the event of equipment failure or damage to its facilities (in particular, those located in the Magnitogorsk area), the Group may experience loss of revenue due to the possible reduction in production volumes, which may require unexpected capital expenditures to repair or replace faulty machinery, equipment or facilities, any of which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The Group may be adversely affected by fluctuations in the foreign currency exchange rates

The Group is exposed to translational and transactional foreign currency exchange rate risks. Translational foreign currency exchange rate risks are the result of translating assets and liabilities denominated in currencies other than the U.S. Dollar into U.S. Dollar amounts for financial reporting purposes. Transactional foreign currency exchange rate risks arise as a result of payments the Group makes or receives that involve foreign currency exchange. The Group's Russian operations have revenues denominated in roubles and U.S. Dollars. Expenses are mostly in roubles and most borrowings are in U.S. Dollars and euros. See "*Operating and Financial Review - Risk Management Activities – Foreign Currency Risk*". As the Group reports its financial results in U.S. Dollars and must frequently exchange or translate foreign currency into roubles or roubles into foreign currency, fluctuations in foreign currency exchange rates could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Inflation could increase the Group's costs

Inflation in Russia was 4.3% in 2018, 2.5% in 2017 and 5.4% in 2016, according to Rosstat. Inflation in Turkey was 20.3% in 2018, 11.9% in 2017 and 8.5% in 2016, according to Turkstat. A significant portion of the Group's costs relating to its operations, such as wage, maintenance, construction and utilities costs, are sensitive to rises in general price levels. However, due to competitive pressures, the Group may not be able to raise prices sufficiently to preserve operating margins. Accordingly, high rates of inflation could increase the Group's costs and there can be no assurance that the Group will be able to maintain or increase its operating margins to cover such costs and failure to do so could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The Group may pursue opportunities to grow its operations through acquisitions

The Group's management may consider acquisitions of assets or companies that will enable the Group, separately or in the aggregate, to strengthen its market position, expand its product offering and reduce production costs through operational synergies and greater control of raw material supplies.

The success of any acquisition in the future will depend, in large part, on the Group's ability to manage the process of integration of the acquired assets or companies into the Group's corporate structure and operations and address such challenges as cultural differences, redundancies of

personnel, incompatibility of equipment and information technology, production failures or delays, loss of significant customers, conflicts with minority shareholders in acquired companies and their material subsidiaries, the possible disruption of the Group's own business, the assumption of liabilities relating to the acquired assets or businesses, the possibility that indemnification agreements with the sellers of such assets may be unenforceable or insufficient to cover potential liabilities, the impairment of relationships with employees and counterparties as a result of difficulties arising out of integration, poor records or internal controls and difficulty in establishing immediate control over cash flows. If the Group fails to integrate its acquisitions successfully, it could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

New or more stringent environmental or health and safety laws or stricter enforcement of existing environmental or health and safety laws in Russia and Turkey may affect the Group's operations

The Group operates in an industry that affects the environment and requires compliance with stringent regulatory requirements. The operations of steelmaking plants and other production facilities have potential environmental challenges, including the generation of pollutants and their decontamination, and storage and disposal of wastes and other hazardous materials. Pollutant emissions and discharges into the atmosphere contain such substances as benzopyrene, nitrogen oxides, sulphur dioxide and phenols. Discharges into water bodies contain phenols, oil, fluorides and sulfates, soluble metal oxides. Pollution risks and associated clean-up costs are often impossible to assess until audits of compliance with environmental standards have been performed and the extent of liability under environmental laws can be clearly determined. Environmental laws and regulations are regularly revised in Russia, and the Group regularly evaluates its obligations in line with new or amended legislation and regulations. New and stricter environmental requirements have recently been imposed, and fines and other payments have been significantly increased. In addition to its Russian operations, the Group now has significant operations in Turkey and must comply with the environmental laws and regulations in Turkey.

The Group's operations are associated with the emission of "greenhouse gases". Ongoing international negotiations that aim to limit greenhouse gas emissions may result in the introduction of new regulations, which may have an adverse impact on the Group's operations. The Group's compliance with these environmental, health and safety laws and regulations requires a commitment of significant financial resources. These laws and regulations may allow governmental authorities and private parties to bring lawsuits based upon damages to property and injury to persons resulting from environmental, health and safety incidents and other impacts of the Group's past and current operations, and could lead to the imposition of substantial fines, penalties, other civil or criminal sanctions, the curtailment or cessation of operations, orders to pay compensation, orders to remedy the effects of violations and/or orders to take preventative steps against possible future violations. In addition, the Group, has not been indemnified when it acquired businesses against (or released from) any environmental liabilities, or in respect of required expenses for the natural environment restoration, arising from activities that occurred prior to the acquisition of these businesses and the Group does not maintain insurance for such risks; therefore, the Group may be responsible for the entire amount of such liabilities (if any) and any expenses with regard to their discharge. Furthermore, evolving regulatory standards, enforcement and expectations may result in increased litigation or increased costs, all of which could have an adverse effect on the Group's business, results of operations, financial condition and prospects.

The Group may face the risk of product liability claims and adverse publicity in case of sale of substandard products

The Group is subject to certain production-related risks. In particular, operations of the Group are subject to risks of (i) non-compliance of its employees with production technology; (ii) ageing of main assets; (iii) receipt of raw materials and materials of inadequate quality; and (iv) poor quality of training of young specialists in higher and secondary educational institutions. The Group is continuously working on improving the quality of its products, pursuing a client-oriented policy, striving to meet the current and future needs of its customers. Even though in recent years the Group

has not received any material product liability claims or notifications, there can be no assurance that such claims do not arise against it in the future. In addition, even if a product liability claim is not successful or is not fully pursued, the negative publicity surrounding any assertion that the Group sells products of inadequate quality could harm its reputation with existing and potential customers. Any product liability claim brought against the Group whether or not successful, could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

An increase in existing export or import trade barriers or the imposition of new trade barriers may affect the Group's business

Currently, the Group's products are subject to trade restrictions on certain export markets, for example, in the US, EU, Indonesia, Mexico and Thailand. See – "*The Group's business is dependent on the global economic environment*". Trade barriers affect the demand for the Group's products by actually increasing the prices for such products in comparison with its counterparts in the domestic market of foreign countries. The strengthening of existing trade barriers or the introduction of new trade barriers can lead to a significant reduction in demand for the Group's products in its main export markets, which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The Group's insurance coverage may not be sufficient to cover operational risks

Although the Group's management believes that, in respect of its key production facilities, the Group maintains insurance at levels generally in line with the relevant local market standards, it does not have comprehensive business interruption insurance and does not maintain any kind of voluntary insurance covering environmental liabilities. The Group could, therefore, suffer significant losses in the event of business interruption as a result of damage to, or destruction of, certain uninsured production facilities or in the event that any claim is brought against the Group relating to environmental liabilities not covered by the existing policies covering civil liability of the owner of a hazardous facility for inflicting harm as a result of a failure of the hazardous facility. In addition, no assurance can be given that the Group will be able to maintain existing insurance or obtain additional insurance coverage at commercially reasonable rates, which could lead to future shortfalls between the Group's liability and its insurance coverage. Any such liability shortfalls could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The Group maintains a significant part of the social and physical infrastructure in the Magnitogorsk area and, in the event of an economic downturn or if driven by efficiency-enhancing plans, the Group's ability to reduce the number of its employees may be restricted

Historically, the Group has been responsible for establishing and maintaining a large part of infrastructure in the city of Magnitogorsk, including its social area. Although, in recent years, the economy of this region has become more diversified as a result of the development of other industries, the region remains economically dependent on the Group to a significant degree as the Group is by far the largest employer in Magnitogorsk. The Group's management expects that the City of Magnitogorsk will continue to rely on the Group for a substantial proportion of its budget revenue and that the Group will continue to maintain its current commitments in respect of social, employment and welfare infrastructure in the Magnitogorsk area. See "*Business – Social Projects and Commitments in Magnitogorsk*".

In the event of an economic downturn or as a result of the implementation of efficiency-enhancing plans, the Group's ability to reduce the number of its employees may be restricted by political and social considerations. This substantial commitment of resources and inability to make rapid or significant reductions in the number of its employees decreases the Group's flexibility to rapidly adjust its operations in response to changes in the market conditions. The Group's limited flexibility and significant level of additional fixed resource commitments could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The interests of the principal shareholder of the Group could conflict with those of the holders of the Notes

The Group is beneficially controlled by Mr. Rashnikov, who as at 31 March 2019 indirectly controlled 84.26% of shares of MMK, the parent company of the Group. See "*Shareholding Structure*". As a result, Mr. Rashnikov has the ability to exert significant influence over the Group. To the extent that the interests of Mr. Rashnikov were to conflict with the interests of the Noteholders, this could have a material adverse effect on the Group's business, results of operations, financial condition and prospects. See "- *Risk Factors Relating to Russia and Other Countries of Operation - Sanctions against Russia, certain industries or individuals may have a material adverse effect on the Russian economy and the Group*".

The Group has engaged and will continue to engage in related party transactions

In the past, the Group has engaged in transactions with related parties under common control of the principal shareholder. See "*Related Party Transactions*". The Group's management expects that the Group will continue to enter into related party transactions in the future. The Group enters into transactions with related parties in the ordinary course of business for the purchase and sale of goods and services and in relation to the provision of financing agreements to and from the Group entities. Transactions with related parties are performed on an arms' length basis. There can be no assurance that terms of such related party transactions will not in the future differ significantly from the terms on which third party transactions at arms' length are concluded. The practice of related party transactions may result in transactions concluded on terms less favourable to the Group than would otherwise have been negotiated with third parties. All of this could have an adverse effect on the Group's business, results of operations, financial condition and prospects.

The Group's competitive position and future prospects are dependent on the experience and expertise of Mr. Rashnikov and other senior management

Mr. Rashnikov, who acts as the chairman of MMK's board of directors, and other senior managers of MMK, have been and, the Group's management believes, will continue to be important in the implementation of the Group's strategy and the handling of the Group's day-to-day activities. The experience, personal connections and relationships of Mr. Rashnikov and other members of senior management are important to the conduct of the Group's business. There can be no assurance that these senior managers will continue to make their services available to the Group in the future. Moreover, competition in Russia for personnel with relevant expertise is intense due to the limited number of qualified individuals, and this situation could seriously affect the Group's ability to retain its existing senior managers and attract additional suitably qualified senior managers. The loss or diminution in the services of members of the Group's senior management team or an inability to attract and retain additional senior managers could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Disruption in rail transport and increased rail costs could significantly hinder the Group's operations and product distribution in Russia

Due to the location of its Russian single-site production complex at Magnitogorsk in the southern Urals, with no direct access to river or sea transportation routes, the Group depends on railway transportation to distribute its products to both the export and domestic markets, as well as to transport raw materials to its production facilities. The Group relies predominantly on the rail freight network operated by Russian Railways for transport of raw materials to its facilities and deliveries of its steel products to consignment agents and customers. Russian Railways is a state-owned company, the sole railway infrastructure operator in Russia.

The physical infrastructure and other assets owned and operated by Russian Railways, particularly its rail network, largely date back to Soviet times and have in many cases, not been adequately maintained. The Russian railway system is subject to risks of disruption as a result of the declining physical condition of the facilities and the limited capacity of border stations. There can be no

assurance that the age and insufficient funding and maintenance of a substantial part of the Russian railway network and other infrastructure operated by Russian Railways will not in the future lead to material disruptions of the Group's business or increase the Group's costs of doing business.

In addition, the federal government of the Russian Federation (the "**Russian Government**") sets rail tariffs and may further increase these tariffs, as it has done in the past. Railway tariff increases have resulted in significant increases in the Group's transportation costs. Both the privatisation of Russian Railways and the cost of upgrading its facilities could further contribute to increased tariffs. Any disruption in transportation or increase in tariffs could significantly increase the Group's costs, which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The severe climate conditions in Magnitogorsk or in the regions in which the Group's key customers or suppliers of raw materials are located may disrupt the Group's operations

The severe climate conditions in the Magnitogorsk area and in other regions of Russia or Kazakhstan in which the Group's suppliers of raw materials or customers are located can have an adverse effect on operations during certain times of the year. For example, heavy snow and ice can often restrict the shipment of steel products to customers in Siberia. Harsh winter and icy conditions in general can disrupt the transportation of steel products and necessary raw materials, including the export of steel products through sea ports, which could lead to significant increases in transportation and freight costs. Although the Group makes additional winter provisioning of supply of iron-containing raw materials, coal concentrate, as well as a supply of scrap, in order to ensure that the Group has the materials needed for on average one month of production in winter months (standard provisions vary for different types of raw materials from 11 days for pellets to two-three months for coal concentrate), no assurance can be given that any such additional supplies will be sufficient in case of prolonged transportation disruptions. In the event that harsh weather conditions impede the Group's ability to transport its products in a timely and anticipated manner, the Group's transportation costs may increase significantly, which could have a negative impact on the Group's business, results of operations, financial condition and prospects.

The Group is subject to Russian anti-monopoly laws which may result in certain limitations being imposed on the Group's activities, the violation of which may result in civil, administrative or criminal liability

Federal Law No. 135-FZ "On Protection of Competition" dated 26 July 2006, as amended (the "**Competition Law**"), generally prohibits any concerted action, agreement or coordination of business activity that results or may result in, among other things, (a) price fixing, discounts, extra charges or margins; (b) coordination of auction bids; (c) partition of a commodity market by territory, volume of sales or purchases, types of goods, customers or suppliers; (d) refusal to enter into contracts with buyers (customers) other than for economic or technological reasons; (e) imposing unfavourable contractual terms; (f) fixing disparate prices for the same goods, other than for economic or technological reasons; (g) creation of barriers to entering or exiting a market; and (h) restriction of competition in any other way. There is no established court practice on what concerted actions or coordination of business activity is and courts interpret these concepts inconsistently. As a result, there is significant uncertainty as to what actions may be viewed as violation of the Competition Law. In a number of cases, Russian courts found concerted actions where market participants acted in a similar way within the same period of time, although, arguably, there may have been legitimate economic reasons for such behaviour and the behaviour was not aimed at restriction of competition. Therefore, there is a risk that the Group can be found in violation of the Competition Law if its market behaviour vis-a-vis its customers or suppliers is viewed as being similar to behaviour of the Group's competitors and perceived by the Federal Anti-Monopoly Service of the Russian Federation ("**FAS**") as a purported restriction of competition. Such broad interpretations of the Competition Law may result in FAS imposing substantial limitations on the Group's activities, may limit operational flexibility and may result in civil, administrative and even criminal liability.

FAS has ample powers to investigate perceived violations of the Competition Law, has been very active over the last several years in policing marketing, sales and supply strategies of major participants of the Russian steel industry and has brought charges against certain market participants alleging concerted actions in violation of the Competition Law.

If the Group's activities are found to be in violation of the Competition Law in any of the cases described above or in any other cases, the Group could be subject to penalties or ordered to change its business operations in a manner that increases costs or reduces profit margin and revenue, which can adversely affect the Group's business, results of operations, financial condition and prospects.

Russian competition law may impose certain restrictions on the Group in those product areas in which the Group is deemed to have a dominant position

For some of the products sold by the Group (typically certain of its niche high value added products where no or few other Russian steel producers make such products), the Group's market share in Russia exceeds 50%, which means that it is deemed to have a dominant position in those product markets. Under the current Russian competition law, companies having a dominant position are subject to various restrictions aimed at preventing abuses of their dominant position, including, without limitation, restrictions on their ability to set prices for their products (the dominant company may not set or maintain high or low monopolistic product prices). Restrictions on the Group's ability to set prices for its products or challenges brought by third parties or other restrictions imposed by the Russian Government could have a material adverse effect on the Group's business, results of operations, financial condition and prospects. See "*Regulatory Matters – Regulation of Competition*".

The Group's business could be adversely affected if it fails to obtain or renew necessary licences or fails to comply with the terms of its licences

The Group's business depends on the continuing validity of its licences, the issuance to it of new licences and its compliance with the terms of its licences, including subsoil licences for the Group's mining operations in Russia. Regulatory authorities exercise considerable discretion in the timing of licence issuance and renewal and in monitoring of licensees' compliance with licence terms. Requirements imposed by these authorities may be costly and time-consuming and may result in delays in the commencement or continuation of exploration or production operations. Moreover, legislation on subsoil rights remains internally inconsistent and vague, and the acts and instructions of licensing authorities and procedures by which licences are issued are often arguably inconsistent with legislation. Furthermore, such licencing requirements may expand in the future as a result of more restrictive environmental standards, which could make it harder to obtain or renew the required licences.

In certain circumstances, state authorities in Russia may seek to interfere with the issuance of licences, for example, by initiating legal proceedings alleging that the issuance of a licence violates the civil rights or legal interests of a person or legal entity. The licensing process may also be influenced by outside commentary, political pressure and other extra-legal factors. In the case of subsoil licences, unsuccessful applicants may bring direct claims against the issuing authorities that the licence was issued in violation of applicable law or regulation. If successful, such proceedings and claims may result in the revocation or invalidation of the licence. Accordingly, licences that the Group requires may be invalidated or may not be issued or renewed. Licences that are issued or renewed may not be issued or renewed in a timely fashion or may involve conditions that restrict the Group's ability to conduct its operations or to do so profitably. As part of their obligations under licensing regulations and the terms of their licences, the Group's Russian subsidiaries are also required to comply with numerous industrial standards, maintain production levels, recruit qualified personnel, maintain necessary equipment and a system of quality control, monitor the Group's operations, maintain appropriate filings and, upon request, submit appropriate information to licensing authorities, which are entitled to control and inspect their activities. In most cases, a licence may be suspended or terminated if the licensee does not comply with the "significant" or "material" terms of the licence. However, the Ministry of Natural Resources and Ecology of Russia has not issued any new

interpretive guidance on the meaning of "significant" or "material" terms of licences. Court decisions on the meaning of these terms have been inconsistent and, under the Russian legal system, do not have significant value as precedents for future judicial proceedings. These deficiencies result in the regulatory authorities, prosecutors and courts having significant discretion over enforcement and interpretation of the law, which may be used arbitrarily to challenge the rights of subsoil licensees. As a result, while the Group seeks to comply with the terms of its subsoil licences and believes that it is currently in material compliance with the terms of such licences, there can be no assurance that its licences will not be suspended or terminated. In the event that the licensing authorities in Russia discover a material violation by a member of the Group, that member of the Group may be required to suspend its operations or to incur substantial costs in eliminating or remedying the violation, which could have an adverse effect on the Group's business, results of operations, financial conditions and prospects.

In addition, the Group's business in Turkey also depends on the continuing validity of licences, the issuance to them of new licences and compliance with the terms of such licences, which may involve uncertainties and costs to the Group.

The Group depends on specialist qualified personnel, including in particular qualified steel workers for the operation of its business

The operation of the Group's steel-making facilities requires qualified personnel with experience both in the steel industry and with particular machinery and processes. In Russia, there is a significant demand for such personnel from other major Russian and global steel companies, from pipe-manufacturing companies and from other metal producers, such as aluminium and zinc manufacturers. Such competition may hinder the Group's efforts to hire and retain suitably qualified staff. A lack of qualified staff could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The Group's existing arrangements with its trade union may not be renewed on terms favourable to the Group, and the Group's operations could be adversely affected by strikes and lockouts

As of 31 March 2019, 92.3% of the Group's employees were represented by one trade union (99.4% of MMK's employees). Large union representation subjects the Group's businesses to the threat of interruptions through strikes, lockouts or delays in renegotiations of the collective bargaining agreement. Between 2016-2018, the Group had no strikes, lockouts or any other material labour disputes. MMK's existing collective bargaining agreement with the Mining and Metallurgical Union of Russia was renewed in December 2017 and expires in 2020. Any failure to renew the collective bargaining agreement in the future may adversely affect the Group's business, results of operations, financial condition and prospects.

Estimates of reserves are subject to uncertainties

The estimates contained in the Prospectus concerning reserve deposits that the Group has an interest in are subject to considerable uncertainties. These estimates are based on interpretations of geological data obtained from sampling techniques and projected rates of production in the future. Moreover, actual production results may differ significantly from these estimates. In addition, it may take many years from the exploration phase before production is possible. During that time, the economic feasibility of exploiting a discovery may change as a result of changes in the market price of the relevant raw materials. The ability of the Group to develop these reserves is subject to its ability to maintain and renew the licences relating to those reserves. To the extent that the actual reserves are less than the estimated reserves, or cannot be extracted cost effectively, or at all, the Group may incur a significant write-down of such assets and the Group's security of supply of certain raw materials may decrease and its production costs may increase significantly, which may have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Failures of the Group's IT systems or third party intrusions into such systems could adversely affect its business

The Group's business and operations may be negatively affected by failures of the Group's key IT systems and equipment, unauthorised access to confidential information and a distortion of information during data transfers or a disruption of activities during the introduction of a new IT system. IT systems are vulnerable to a number of problems, such as software or hardware malfunctions, malicious hacking, cyber terrorism, physical damage to vital IT centres and computer virus infection. These factors may result in a lack of information or potential information inaccuracies that could cause disruptions in the Group's decision making process, as well as deterioration in the quality of the Group's operational and financial reporting and the overall manageability of the Group. The Group has invested in upgrading its technologies, centralising its information systems and controlling the operation of its hardware and software, taking into account international best practices. However, the Group cannot provide any assurance that its IT systems will continue to function in a manner that will not result in significant disruptions or temporary loss of functionality. Any of these factors could materially adversely affect the Group's business, results of operations, financial condition and prospects.

The Group's ability to operate its business depends on its ability to protect the computer systems and databases from the intrusion of third parties who have attempted in the past and may attempt in the future to gain access to the Group's computer systems, networks or databases through the Internet or otherwise. Although the Group has measures in place to ensure the cybersecurity of its computer systems and believes that its computer systems, networks and databases are well protected from unauthorised access, given the potential technical and financial resources of intruders, full assurance cannot be given that its computer systems, networks and databases will not suffer from such attacks in the future. A breach of the Group's cybersecurity systems might adversely affect the Group's ability to operate its business and materially adversely affect the Group's business, results of operations, financial condition and prospects.

The Group may not be able to protect adequately or enforce its intellectual property rights

The Group relies primarily on a combination of patents, registered trademarks, licensing agreements and restrictions on disclosure to protect the Group's intellectual property (see "*Business — Intellectual Property*"). Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use the Group's developed techniques, products, processes, brand names or other intellectual property without authorisation. In addition, certain inventions and trademarks of the Group have not yet been registered with the relevant Russian and foreign authorities and are therefore currently not protected from infringements, which is characteristic to all companies (both Russian and foreign). There may also be technologies licensed to and relied on by the Group that are subject to infringement or other corresponding allegations or claims by third parties which may damage the Group's ability to rely on such technologies. Russia generally offers less intellectual property protection than some more developed market economies such as the European Union or the United States. If the Group is unable to protect its proprietary rights against infringement or misappropriation, it could materially harm its future financial results and the ability to develop the Group's business. In addition, the Group may need to engage in litigation in order to enforce the Group's intellectual property rights in the future or to determine the validity and scope of the rights of others. Any litigation could result in substantial costs and diversion of management and other resources, either of which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The Group may be unable to apply Russian zero VAT rate and recover or obtain a refund of Russian VAT paid to vendors or at customs

Many Russian companies encounter difficulties with the recovery of VAT paid to vendors or at customs ("**input VAT**"). The procedure of confirming eligibility for zero VAT rate application on export of goods or provision of export-related services is complicated and requires substantive administrative efforts and paperwork. Under the Tax Code of the Russian Federation (the "**Tax**

Code"), the Group is entitled to recover the excess of input VAT over VAT payable upon supplies ("**output VAT**"), either through cash refunds or offsets against future tax liabilities, while the Company and its Russian subsidiaries are also entitled to earn interest on any excess input VAT amounts which have not been timely refunded by the Russian tax authorities. In practice, the receipt of cash refunds is normally a time- and resource-consuming process, which triggers special tax audit by the Russian tax authorities. For that reason, Russian companies often elect to seek recovery of excess input VAT through an offset against future tax liabilities (although this does not release from the special tax audit), while receipt of interest on any excess input VAT amounts is not likely. Furthermore, the Russian tax authorities often scrutinise more vigorously the companies that show substantial excess input VAT amounts in their tax declarations and use any pretext to refuse recovery/refund or to delay it. As a result, the Group may be unable to apply Russian zero VAT rate and recover or obtain a refund of all or part of the excess of input VAT and/or such recovery/refund may take a significant amount of time, which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The Group's MMK Metalurji assets are subject to impairment

As part of the strategy to strengthen its position in the Middle East market, in 2007 the Group decided to build a new integrated steel plant in Turkey. During 2008-2011, all primary and auxiliary facilities of MMK Metalurji were put into operation. The production capacity of the steel plant is designed to produce 2.3 million tonnes of hot rolled products per year, 750 thousand tonnes of cold-rolled products per year, 900 thousand tonnes of galvanised steel per year and 400 thousand tonnes of galvanised steel with polymeric coating per year. Changes in the global economic environment and developments in the metals industry have resulted in, among others, volatility of metal prices and unfavourable conditions, which led to the Group's decision to discontinue production at the hot rolled facility in 2013 and a recognition of the relevant provision. During 2018, Turkey went through a currency and debt crisis characterised by the Turkish lira decreasing in value, high inflation, rising borrowing costs and correspondingly rising loan defaults. As a consequence, the Group postponed its decision to commence the operation of a hot-rolled mill in Turkey.

On a regular basis, the Group updates the impairment test in respect of its assets in Turkey. As at 31 December 2018, property, plant and equipment at MMK Metalurji comprised 5% of the Group's total fixed assets with an aggregate value of U.S.$218 million, and revenue generated by MMK Metalurji was U.S.$620 million for 2018, or 8% of the Group's total revenue. Determining the recoverable amount of the assets requires a number of significant judgments and estimates, especially regarding the amount of future cash flows and the applied discount rate. For MMK Metalurji, the following impairment indicators were identified: a significant decrease of the Turkish lira to the U.S. Dollar, increase in inflation and borrowing costs. Based on the test performed impairment for MMK Metalurji was recognised in the amount of U.S.$258 million for 2018. For additional information, see Note 16 to the 2018 Annual Financial Statements. Should additional significant impairment be recognised for MMK Metalurji in the future, it may have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Risk Factors Relating to Russia and Other Countries of Operation

A substantial portion of the Group's production assets are located in Russia and a significant portion of the Group's revenue is derived from Russia, which is an emerging market. The Group also operates in Turkey, which is an emerging market, through MMK Metalurji, a consolidated subsidiary of the Group. Investors in emerging markets should be aware that these markets are subject to greater risk than the more developed markets, including in some cases significant economic, political, social and legal risks. Investors should also note that emerging economies, such as Russia, are subject to rapid change and that the information set forth herein may become outdated relatively quickly.

The majority of the Group's assets are located in emerging markets, which are subject to greater risks than the more developed markets

As is the case for other multinational companies, the Group sells its products throughout the world and produces them in a number of countries, which exposes it to a variety of risks associated with being a global business. The Group has production facilities in Russia, where a substantial number of its fixed assets are located, and Turkey. Because a substantial part of the Group's assets are located in Russia, the Group has significant exposure to risks relating to the country. The Group's operations in other emerging markets, predominantly, sales and distribution operations, expose it to similar risks that are common to most emerging markets. Some of the emerging market countries, including Turkey, in which the Group conducts its operations through MMK Metalurji, have experienced and continue to experience political, economic and social instability.

Generally, investments in securities issued by companies operating in emerging markets are only suitable for sophisticated investors who fully appreciate the significance of the risks involved in, and are familiar with, investing in emerging markets. In particular, investors should be aware that emerging markets such as Russia and Turkey are subject to greater risk than more developed markets, including significant political, economic and legal risks. Prospective investors should also note that emerging economies are subject to rapid change and that some or all of the information set out in the Prospectus may become outdated relatively quickly. Moreover, financial turmoil in any emerging market tends to adversely affect prices in debt and equity markets of all emerging markets, as investors move their money to more stable, developed markets. In case of a global economic downturn, financial problems caused by the global economic slowdown and an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in emerging markets, resulting in an outflow of capital and an adverse effect on these economies. Similarly, decisions by central banks of developed economies, such as the U.S. Federal Reserve System, to increase their lending rates may have a negative impact on emerging markets, prompting investors to sell their assets in emerging countries to invest in such developed countries' securities and assets. Accordingly, prospective investors should exercise particular care in evaluating the risks involved and must decide whether, in light of those risks, their investment is appropriate.

As with any investment, there exists the risk of adverse political or regulatory developments, including, but not limited to, nationalisation, appropriation without fair compensation, terrorism, war or currency restrictions, which could have a material adverse effect on the Group's business, financial condition, results of operations and future prospects. This risk is compounded in certain countries where political instability has been an inherent part of the country's development.

Political and governmental instability could have a material adverse effect on the value of investments in Russia (including the Notes) and the Group's business

There are a number of risks associated with operating in Russia, where most of the Group's fixed assets are located.

Political conditions in the Russian Federation were highly volatile in the 1990s, as evidenced by the frequent conflicts amongst executive, legislative and judicial branches of government, which negatively impacted Russia's business and investment climate. Although the political situation in Russia has stabilised since 2000, future political instability could result in a worsening overall economic situation, including capital flight and a slowdown of investment and business activity.

Russia is a federative state consisting of 85 constituent entities, or "subjects". The Russian Constitution reserves some governmental powers for the federal government, some for the subjects and some for areas of joint competence. The delineation of authority among and within the subjects is, in many instances, unclear and contested, particularly with respect to the division of tax revenues and authority over regulatory matters. Subjects have enacted conflicting laws in areas such as privatisation, land ownership and licensing. For these reasons, the Russian political system is vulnerable to tension and conflict between federal, subject and local authorities. This tension creates uncertainties in the

operating environment in Russia, which may prevent businesses from carrying out their strategy effectively.

In addition, ethnic, religious, historical and other divisions have on occasion given rise to tensions and, in certain cases, military conflict. Moreover, various acts of terrorism have been recently committed in various parts of the world. The risks associated with these events or potential events could materially and adversely affect the investment environment and overall consumer and entrepreneurial confidence in the countries where the Group operates, which in turn could have a material adverse effect on the Group's business, financial condition and results of operations and prospects.

Economic instability could have a material adverse effect on the Group's business

The Russian economy has been subject to abrupt downturns in the past, and may be subject to declining economic environment in the future. As Russia produces and exports large quantities of crude oil, natural gas, metal products and other commodities, its economy is particularly vulnerable to fluctuations in the prices of commodities on the world market.

The Russian economy faced a number of serious challenges in 2014-2017. In the period between July 2014 and the end of 2015, crude oil prices decreased significantly, which caused a shock to the Russian economy and contributed to a sharp depreciation of the rouble against the U.S. Dollar. The global benchmark Brent crude oil price decreased from U.S.$111 per barrel as of 4 July 2014 to U.S.$56 per barrel as of 31 December 2014 and to U.S.$37 per barrel as of 31 December 2015. While the Brent crude oil price recovered to U.S.$55 per barrel as of 31 December 2016 and was relatively stable in 2017 and 2018, no assurance can be given that the prices will not decrease significantly in the future.

In December 2014, in response to significant volatility on the financial markets, the CBR increased its key rate from 10.5% to 17.0%. As a result of the high volatility of financial markets in general, as well as the actions of the CBR, the cost of lending to Russian companies also increased in 2015-2016. After the stabilisation of the market, the CBR gradually reduced the base interest rate, reducing it to 7.25% in March 2018. After a gradual reduction in the CBR key rate, the cost and availability of financing for Russian companies gradually improved, however, the increase in tax burden and inflation in 2018 forced the CBR to take preventive measures, increasing the key rate to 7.50% in September 2018 and further to 7.75% in December 2018. This level continues to persist in 2019. However, there can be no assurance that the CBR will not further increase the key rate in case of high volatility of the rouble or other macroeconomic factors.

Whilst the Russian economy experienced some stabilisation in 2017 and 2018, any deterioration in the general economic conditions in Russia could adversely influence the level of demand for various products and services, including those provided by the Group, and therefore could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Turkey's volatile macroeconomic environment could have a material impact on the Group's Turkish operations

Turkey is located in a region that has been subject to ongoing political and security concerns, especially in recent years. Along with global macroeconomic factors, political uncertainty within Turkey and in certain neighbouring and nearby countries, such as Iraq, Syria, Iran, Georgia, Cyprus, Israel and Armenia, as well tension in relations between Turkey and the U.S., has in some instances negatively impacted Turkey's macroeconomic environment, and may continue to do so in the future. In 2016-2018, Turkey's GDP growth slowed down and amounted to 3.2% in 2016, largely as a result of the continuing political uncertainty following the coup attempt in July 2016, 7.4% in 2017 and 2.6% in 2018, following the deterioration in macroeconomic conditions mainly driven by the depreciation of the Turkish lira and tightening of global liquidity, as well as elevated inflation (see "—*Risk Factors Relating to the Group and the Steel Industry—Inflation could increase the Group's costs*") and interest rate levels.

The Turkish lira has demonstrated a significant degree of volatility in recent years, with particularly sharp depreciation in 2018. The value of the Turkish lira depreciated against major currencies in recent years due to factors including, *inter alia*, (i) increased risk perception in global markets regarding the market's expectation of the U.S. Federal Reserve's increase of the U.S. federal funds rate; (ii) uncertainty resulting from the elections in Turkey and other political events; (iii) concerns around the interest rate policy of the Central Bank of the Republic of Turkey ("**TCMB**"), particularly in relation to real interest rates; and (iv) investors' perception of the Turkish political and economic environment, especially with respect to the independence of Turkey's financial institutions, including the TCMB. In nominal terms, the Turkish lira depreciated against the U.S. Dollar by 7.2% between 31 December 2016 and 31 December 2017 and by 39.5% between 31 December 2017 and 31 December 2018. From 31 December 2018 to 1 May 2019, the Turkish lira depreciated against the U.S. Dollar by 12.6%. While exchange rates and general macroeconomic conditions have generally been less volatile in the first quarter of 2019, currency movements and certain other factors as outlined above have had, and will likely continue to have, a significant negative impact on Turkey's macroeconomic environment, which in turn could have an adverse effect on the results, financial conditions and prospects of the Group's Turkish operations.

Deterioration of Russia's relations with other countries could negatively affect the Russian economy and those of nearby regions

Over the past several years, Russia has been involved in conflicts, both economic and military, including conflicts with neighbouring states. On several occasions this involvement has resulted in the deterioration of Russia's relations with other members of the international community, including the United States and E.U. Many of these jurisdictions are home to financial institutions and corporations that are significant investors in Russia and whose investment strategies and decisions may have been affected by such conflicts and by the worsening relations between Russia and its immediate neighbours. For example, as a result of a wide-scale political crisis in Ukraine in late 2013 and the beginning of 2014, in March 2014, following a public referendum, the Crimean peninsula and the city of Sevastopol became new separate constituents of the Russian Federation. The events relating to Ukraine and Crimea have been strongly opposed by the E.U. and the United States on the basis of the perceived participation of Russia in the Ukrainian conflict, with a resulting material negative impact on their relationships with Russia and the imposition of sanctions against Russia, certain industries and individuals. See "- *Sanctions against Russia, its industries or individuals may have a material adverse effect on the Russian economy and the Group*".

In addition, Russia's involvement in the armed conflict in Syria since September 2015 has occasionally put and may continue to put pressure on international relations between Russia and other countries. Russia's involvement in this conflict could lead to an escalation of geopolitical tensions, the possible introduction or expansion of international sanctions against Russia by other countries and an increased risk of terrorist attacks.

The emergence of new or escalation of existing tensions between Russia and neighbouring states or other states could negatively affect the Russian economy. This, in turn, could result in a general lack of confidence among international investors in the region's economic and political stability and in Russian investments generally. Such lack of confidence could result in reduced liquidity, increased trading volatility and significant declines in the price of securities of Russian companies.

Sanctions against Russia, certain industries or individuals may have a material adverse effect on the Russian economy and the Group

The political instability and conflict in Ukraine, heightened levels of tension between Russia and other countries, the imposition by the U.S., the E.U. and other states (including Canada, Australia, Japan, Switzerland and Norway) of sanctions and restrictive measures against Russia, certain industries and individuals, as well as the imposition by Russia of counter-measures, including import and travel restrictions, have had in the past, and may continue to have in the future, an adverse effect on the Russian economy and the Group.

In response to the perceived role of the Russian Federation in events in Ukraine and Crimea, the U.S. and the E.U. (as well as other nations) imposed sanctions on certain Russian and Ukrainian persons and entities. A number of Russian officials, entrepreneurs, banks and companies, as well as companies owned or controlled by such persons or entities or certain entities that provide assistance to prohibited actions by such entities or persons have been subject to blocking sanctions by the inclusion of the Specially Designated Nationals and Blocked Persons List ("**SDN List**") published by the U.S. Office of Foreign Assets Control ("**OFAC**"). The sanctions imposed freeze all assets of the blocked persons and broadly prohibit transactions or other dealings (including the provision of services) for the benefit of the sanctioned persons, in each case involving U.S. persons or legal entities or any direct or indirect action within the United States (including the clearing of U.S. Dollar payments through the U.S. financial system). This sanction regime also extends by operation of law to any entity 50% or more owned by blocked or designated persons, either individually or in the aggregate.

In addition, the U.S. and E.U. have implemented "sectoral" sanctions, whereby entities in certain sectors of the Russian economy are designated as potential targets for sanctions (including metals and mining sectors). Currently, such sectors include defence and related materials, financial services and energy. The relevant sectoral sanctions currently provide for restrictions on new debt or equity transactions for designated entities in the financial sector, restrictions on new debt transactions for designated entities in the energy sector, restrictions on new debt transactions for designated entities in the defence sector, and restrictions on the provision of goods, services or technology in support of Russian Arctic offshore, deepwater or shale projects with the potential to produce oil. The U.S. has also significantly tightened export controls on the provision of U.S.-origin goods that may be used in the Russian defence or energy sectors.

In December 2016, the President of the United States issued an executive order, which allowed for the imposition of sanctions on individuals and entities determined to be responsible for tampering, altering, or causing the misappropriation of information with the purpose or effect of interfering with or undermining election processes or institutions in the United States. In accordance with the executive order, the OFAC extended its list of sanctioned Russian entities and individuals to include persons which are believed to have been involved in the alleged hacker attacks on the servers of the U.S. political parties during the 2016 presidential election.

In August 2017, the U.S. President signed into law the Countering America's Adversaries Through Sanctions Act (the "**CAATs Act**") that includes additional sanctions against Russian entities. The CAATs Act, *inter alia*, (i) codifies sanctions against Russia; certain industries and individuals established prior to the CAATs Act; (ii) reduces the permitted terms of financing under the existing sectoral sanctions and further restricts supplies of equipment to certain Russian energy companies; (iii) allows the U.S. President to extend sectoral sanctions to further sectors of the Russian economy (such as railways, metals and mining) and introduce additional sanctions against new persons; and (iv) provides for imposing a set of "secondary sanctions", which target activities of non-U.S. persons, such that foreign persons who engage in certain activities in Russia (in relation to, *inter alia*, construction, modernisation and repair of energy export pipelines, intelligence and defence sectors, sanctions evasion, privatisations and activities that undermine the cybersecurity of any person or government) now face the prospect of adverse economic consequences from the United States in the form of a denial of U.S. benefits.

The CAATS Act also requires the U.S. administration to submit various reports to the U.S. Congress, including reports on oligarchs and parastatal entities (submitted on 29 January 2018 under Section 241 of the CAATs Act (the "**Section 241 Report**")), on the effects of expanding sanctions to include sovereign debt and derivative products, and on illicit finance, which could lead to further sanctions. The Section 241 Report included Mr. Rashnikov, the beneficial shareholder of the Group and the Chairman of MMK's Board of Directors. Although inclusion of any person (or any family members of an individual categorised as such a person) affiliated with the Group, including Mr. Rashnikov, in the Section 241 Report does not automatically lead to the imposition of sanctions on such person or the Group, the trading price of the Notes may be adversely affected.

On 6 April 2018, the U.S. Department of the Treasury's Office of Foreign Assets Control added 38 Russian businessmen (including, among others, Oleg Deripaska and Victor Vekselberg), officials and entities (including EN+ Group plc, United Company RUSAL plc and Renova Group, among other businesses, some of which are entities with securities listed on the London Stock Exchange, the Hong Kong Stock Exchange and the Moscow Stock Exchange) to its SDN List, issued guidance on the application of these new sanctions, and published General License 12 and General License 13 for the wind-down of certain activities related to these persons and entities. These sanctions could have a significant impact on business dealings with the respective persons included the SDN List and the entities in which these persons have interests. Further, the sanctions may herald a new course of implementation and interpretation of U.S. sanctions targeting Russia due to the nature of the targets, the scope of prohibitions and the potentially unpredictable ramifications. It is currently unclear how long these sanctions will remain in place and whether further sanctions will be imposed. On 27 January 2019, however, the sanctions previously imposed on EN+ Group plc, United Company RUSAL plc and JSC EuroSibEnergo were lifted following negotiations between the U.S. Department of Treasury's Office of Foreign Assets Control and the above companies, which have agreed to provide additional information regarding their operations. In addition, Mr. Deripaska agreed to reduce his share in EN+ Group plc to 35% of the voting rights.

In addition, in August 2018, under the Chemical and Biological Weapons Control and Warfare Elimination Act (the "**CBW Act**"), the U.S. Department of State introduced additional sanctions in response to Russia's alleged involvement in the poisoning of former Russian intelligence officer Sergei Skripal and his daughter Yulia in Salisbury, UK, in March 2018. The restrictions provided for a total ban on the supply of electronic devices and other dual-use products to Russia and set forth a 90-day deadline for Russia to provide assurances to the U.S. that it was no longer using chemical or biological weapons, would not do so in the future and would be willing to allow onsite inspections by observers from international organisations, failing which a second round of sanctions could be triggered. In November 2018, the U.S. Department of State declared its intention to impose such additional sanctions following Russia's alleged failure to provide the respective assurances. On 13 February 2019, a bipartisan group of U.S. senators introduced an updated and expanded version of the sanctions bill initially proposed in August 2018, Defending American Security from Kremlin Aggression Act ("**DASKA**"). Among other measures, DASKA (i) introduces a prohibition for U.S. persons to hold and deal in Russian sovereign debt with a maturity exceeding 14 days; (ii) envisages the sanctioning of persons making a substantial investment in liquefied natural gas export facilities or other energy projects outside Russia if such facilities and projects are supported by a Russian parastatal entity or an entity owned or controlled by the Russian Government; and (iii) proposes to introduce blocking sanctions in respect of Russian financial institutions that provide financial or other support to Russian government interference in democratic processes and elections outside Russia. If imposed, such sanctions may have an adverse impact on the Russian economy in general and thus may negatively affect the Group's operations.

Further, in November 2018, a Russian coast guard fired upon and captured three Ukrainian navy vessels attempting to pass through the Kerch Strait on their way to the port of Mariupol, which has further escalated tensions between Russia and Ukraine over events relating to Crimea and led to a number of Western governments discussing the potential imposition of related sanctions. On 15 March 2019, the EU, Canada and the U.S. Department of the Treasury's Office of Foreign Assets Control designated several Russian individuals, including navy officials, and eight entities in response to the incident in the Kerch Strait and on-going perceived role of the Russian Federation in events in Ukraine and Crimea.

No sanctions have been imposed in respect of any individual or entity within the Group by either the U.S. or the EU. However, no assurance can be given that any of those persons or entities will not be so designated in the future, or broader sanctions against Russia that affect the Group, may not be imposed. Although no entity within the Group is a U.S. person, some entities of the Group, as well as the Issuer, are E.U. persons. Other entities within the Group, including MMK, are neither U.S. persons nor E.U. persons, and therefore are restricted in dealings with sanctioned persons only to the extent

those dealings are subject to U.S. and/or E.U. jurisdiction, such as through the involvement of U.S. and/or E.U. persons or entities, business conducted on the territory of the U.S. or E.U., clearing in U.S. Dollars, or some other nexus to the relevant jurisdiction. None of the proceeds of the issue of the Notes will be used to fund activities or persons that are subject to specifically targeted sanctions introduced by the U.S. and the E.U. See "*Use of Proceeds*". In the ordinary course of business, the Group, like many major Russian companies, has commercial operations with Russian persons and entities that are currently under sanctions. Such operations are limited to the territory of the Russian Federation and are permissible pursuant to applicable law. Although the Group's transactions and commercial relations with these entities are not prohibited or otherwise negatively affected by sanctions, should the sanctions regime in respect of these entities be widened or should new sanctions be introduced in respect of counterparties of the Group, the Group's business could be adversely affected. If the Group violates sanctions regimes to which it may be subject, penalties could include a prohibition or limitation on its ability to obtain goods and services in the international market or to access U.S. or other capital markets or financing. Any violations of sanctions by the Group could have a material adverse effect on the Group's business.

The sanctions imposed by the U.S. and the E.U. in connection with the Ukraine crisis so far have had an adverse effect on the Russian economy, to which the Group is exposed significantly, prompting the downgrading of the credit ratings of the Russian Federation and a number of major Russian companies that are ultimately controlled by the Russian Federation, causing extensive capital outflows from Russia and impairing the ability of Russian issuers to access international capital markets and increasing the cost of capital to these companies. The governments of the U.S. and certain E.U. member states, as well as certain E.U. officials have indicated that they may consider additional sanctions should tensions in Ukraine continue. Such additional sanctions may have an adverse effect on the Russian economy, its credit ratings, and consequently the credit ratings of the Group and the trading price of the Notes.

If the Group or its shareholders become a blocked person pursuant to U.S. or E.U. sanctions, either as a result of the above or through the targeting of a broader segment of the Russian economy, such sanctions will likely have a material adverse impact on the Group's business. For example, the Group might become unable to deal with persons or entities bound by the relevant sanctions, including international financial institutions and rating agencies, transact in U.S. Dollars, raise funds from international capital markets, acquire equipment from international suppliers or access the Group's assets held abroad. Moreover, investors in the Notes may be restricted in their ability to sell, transfer or otherwise deal in or receive interest payments with respect to the Notes because the investor is subject to the jurisdiction of an applicable sanctions regime, which could make such Notes partially or completely illiquid and have a material adverse effect on their market value. All of the above could have a material adverse impact on the Group's business, financial condition, results of operations or prospects.

The Russian Government may impose export tariffs or pricing restrictions on Russian steel and mining producers, which could adversely affect the demand for its products

Historically, the Russian Government has considered adopting export tariffs on certain steel and mining products, potentially including products produced by the Group. Certain of the Group's major customers, as well as other major consumers of steel products, have presented, and may in the future present, to the Russian Government initiatives to introduce such export tariffs in order to affect the pricing of steel and mining products in the domestic market. However, no decision has been made to this effect and, therefore, the impact of any such export tariffs or measures as may be adopted on the Group's business is currently uncertain. The Group's ability to determine prices for sales of its products in Russia could also be adversely affected to the extent that pricing ceilings or other restrictions are imposed. Any of these regulatory actions may adversely affect the Group's business, results of operations, financial condition and prospects.

Arbitrary or selective state action could have a material adverse effect on the Group's business

State authorities have a high degree of discretion in Russia, and some would argue they have in the past exercised their discretion arbitrarily, without due process, hearing or prior notice, and sometimes in a manner contrary to law. Unlawful and arbitrary government actions have reportedly included the withdrawal of licences, interference with or nullification of contracts and transactions entered into in connection with privatisations, sudden and unexpected tax audits, criminal prosecutions and civil actions.

Arbitrary or selective state action, if directed at the Group, in Russia or in any other jurisdiction where the Group undertakes projects or operations could lead to the loss of key licences, termination of contracts, invalidation of share issuances, civil litigation, criminal proceedings and imprisonment of key personnel, any of which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The Russian banking system remains underdeveloped

Russia's banking and other financial systems are in a period of ongoing development. There are currently a limited number of creditworthy Russian banks, most of which are headquartered in Moscow, with the capacity to service companies of the size of those found in the Group. Although the CBR has the mandate and authority to suspend banking licences of insolvent banks, many insolvent banks still operate. Many Russian banks also do not meet international banking standards, and the transparency of the Russian banking sector still does not meet all internationally accepted norms. In the fall and winter of 2017, the CBR announced its decision to implement measures aimed at improving the financial stability of several Russian banks, including PJSC Bank Otkritie Financial Corporation, PJSC B&N Bank and PJSC Promsvyazbank. Moreover, there has been media coverage relating to a significant increase in withdrawals by state-owned corporations from Russian private banks. Liquidity difficulties in the market could arise among the privately and state owned banks in Russia, which could undermine investors' confidence and lead to instability of the Russian banking system. There can be no assurance that such banks would not be subject to rehabilitation measures by the CBR, which would further exacerbate difficulties in the banking sector and the local financial markets.

The serious deficiencies in the Russian banking sector, combined with the deterioration in the credit portfolios of Russian banks, may result in the banking sector being more susceptible to the current worldwide credit market downturn and economic slowdown. A prolonged or serious banking crisis or the bankruptcy of a number of large Russian banks could, should they occur in the future, have a material adverse effect on the Group's business.

Further, the Group partially relies on debt financing from Russian banks. Accordingly, if a prolonged or serious banking crisis were to occur in Russia, the Group's ability to access this source of financing may be limited, which in turn could have a material adverse effect on the Group's business, financial condition and results of operations.

The condition of Russia's physical infrastructure could disrupt or impair the Group's normal business activity, and efforts by the Government to improve the country's infrastructure may result in increased costs for the Group

Russia's physical infrastructure largely dates back to Soviet times and some of it has not been adequately funded and maintained in recent years. Train and road networks, power distribution (low-voltage) facilities and building stock are particularly affected. The deterioration of Russia's physical infrastructure harms the national economy, disrupts the transportation of goods and supplies, adds costs to doing business in the Russian Federation and can interrupt business operations. Further deterioration in Russia's physical infrastructure could have a material adverse effect on the Group's business, financial condition and results of operations.

The Russian economy is dependent on the global economic environment

Russia's economy was adversely affected by the global financial and economic crisis and could be adversely affected by market downturns and economic crises or slowdowns elsewhere in the world in the future.

The global economic downturn which began in 2008 has had an extensive adverse impact on the Russian economy. While many economies have subsequently recovered from the economic crisis, growth in many markets remains slow, and many markets which previously had seen very high growth have exhibited slower growth in recent years. The global economic environment remained unstable in 2016-2018. The slowdown has been attributed to slowing growth rates in emerging and developing economies, among other developments. In particular, China has identified structural problems in its economy, which contributed to a long-term significant decline in the development of industrial production and metallurgy on the back of China's shift to services in its GDP growth structure. There is a risk of a possible cyclical downturn in the Chinese economy and other developing markets and a stagnation of European and U.S. economies, which would result in a global economic downturn and impact the Russian economy in general and the Group's industry and business as a result.

The global economic environment is subject to a number of uncertainties, including mounting government deficits, discontinuation of certain stimulus programmes, potential inflation or deflation, continuing high levels of unemployment, political tensions over global trade of goods, labour and capital mobility, terrorism and concerns over the stability of the monetary and political union in the E.U. Financial markets and the supply of credit are likely to continue to be impacted by concerns surrounding the sovereign debt of periphery and potentially other E.U. countries, the possibility of further credit rating downgrades of, or defaults on, such sovereign debt, as well as concerns about a slowdown in growth in certain economies. In June 2016, a majority of voters in the United Kingdom elected to withdraw from the E.U. in a national referendum. The British Government triggered the exit process on 29 March 2017. On 25 November 2018, the E.U. held a special Brexit summit and formally approved the final withdrawal treaty. The withdrawal treaty was forwarded to the House of Commons for approval and was subsequently rejected by a vote of the House of Commons on 15 January 2019. The United Kingdom was expected to officially leave the E.U. on 29 March 2019, however, on 14 March 2019 the House of Commons voted to delay the planned 29 March exit date, and existing UK laws are expected to be updated to reflect this. In April 2019, E.U. Member States approved an extension until 30 October 2019. It is currently uncertain if a two-year transition period, during which the UK is expected to continue enjoying access to the E.U. single market, which was provided for under the withdrawal treaty will be approved by the UK government before the official exit from the EU.

There is a possibility of trade barriers resulting from the UK leaving the E.U., which may affect the macroeconomic environment in Europe. The referendum has also given rise to calls for the governments of other E.U. member states to consider withdrawal. In addition, the latest U.S. presidential election, as a result of which the Republican Party nominee, Donald Trump, became the president of the United States, may impact the financial markets and lead to greater uncertainty on the status of trade relations between the U.S. and some of its largest trade partners, including the U.S.'s existing trade agreements. The worsening of such trade relations, in particular between the U.S. and China, could result in negative repercussions in these countries and have a knock-on effect on global trade and the economic environment. These developments, or the perception that any of them could occur, have had and may continue to have a material adverse effect on global economic conditions and the stability of global financial markets, and may significantly reduce global market liquidity and restrict the ability of key market participants to fund their capital and liquidity requirements and operate in certain financial markets. Any of these factors could depress economic activity, commodities markets and restrict access to capital. If the global economic conditions deteriorate, the resulting contraction in demand for many of the Group's products and the tightening of the credit markets could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

In addition, any future financial instability caused by downturns in the global economic environment, may lead to restrictions or prohibitions, in particular, in currency regulation and control regimes. Should restrictions or prohibitions on hard currency payments and operations be imposed in Russia and other countries where the Group operates, it could limit the Group's ability to invest in its capital improvement programmes, pursue attractive acquisition opportunities, purchase raw materials or sell its products internationally and limit the Group's ability to repatriate earnings from securities of its subsidiaries located in the country where such restrictions or prohibitions apply.

The above negative impacts from the global economic downturn could have a material adverse effect on the Group's business, financial condition, results of operations and future prospects.

Social risks and corruption could adversely affect the value of investments in Russia

In emerging markets like Russia, social risks and a high level of crime, as well as official corruption, are known to exist. There are cases when state officials have initiated selective investigations and prosecutions aimed at promoting the interests of public officials or certain individuals. In addition, there have been cases of publication by certain Russian mass media of biased and planted information. Corruption and other illegal activities may disrupt the Group's ability to effectively conduct business, and allegations of the Group's involvement in corruption or illegal activities can lead to negative press coverage that may harm the business and financial situation of the Group.

In addition, rising unemployment, forced unpaid leave, wages in arrears, and weakening economies, especially in single industry cities, have in the past led to and could in the future lead again to labour and social unrest, a mood of protest and a rise in nationalism against migrant workers. Such labour and social unrest could disrupt normal business operations, which also could materially adversely affect the Group's financial condition.

A reversal of reform or government policies targeted at specific individuals or companies could have an adverse effect on the Group's business as well as investments in Russia more generally

From 2001 until 2013, the political and economic situation in Russia became generally more stable, which accelerated the reform process and made Russia more attractive to investment. Such stability, however, has been negatively affected by the global financial crisis, the economic sanctions imposed by the United States and the E.U. and the on-going economic recession. Any significant further increases in political instability, a struggle over the direction of future reforms, or a reversal of the reform process, could lead to another deterioration in Russia's investment climate that might constrain the Group's ability to obtain financing in the international capital markets, limit its sales in Russia or otherwise have a material adverse effect on the Group's business, results of operations, financial condition, its ability to service its payment obligations under the Guarantee and the Issuer's ability to make payments under or the trading price of the Notes.

In the past, Russian authorities have prosecuted some Russian companies, their executive officers and their shareholders on tax evasion and related charges. In some cases, the result of these prosecutions has been the imposition of prison sentences for individuals and significant claims for unpaid taxes. Any similar actions by governmental authorities could lead to further negative effect on investor confidence in Russia's business and legal environment, which could have a material adverse effect on the Group's ability to raise equity and debt capital in the international markets, as well as the Group's business, results of operations, financial condition, the its ability to service its payment obligations under the Guarantee and the Issuer's ability to make payments under, or the trading price of, the Notes.

There can be no assurance as to the completeness, reliability or accuracy of official data and statistics in the Prospectus

The official data published by the Russian federal, regional and local government agencies are substantially less complete or reliable than those of some of the more developed countries of North America and Europe. Official statistics may also be produced on different bases than those used in

those countries. The Group relies on and refers to information from various third-party sources and its own internal estimates. The Group believes that these sources and estimates are reliable, but it has not independently verified them and, to the extent that such sources or estimates are based on official data released by Russian federal, regional and local government agencies, they may be subject to the same uncertainty as the official data on which they are based. Any discussion of matters relating to Russia in the Prospectus is, therefore, subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

Risks Related to the Russian Legal System and Russian Legislation

The Russian legal system and Russian legislation is in a developmental stage and this may create an uncertain environment for investment and business activity

The Russian legal framework applicable to a market economy is still under development. Since 1991, Soviet law has been largely, but not entirely, replaced by a new legal regime established by the 1993 Constitution of the Russian Federation, the Civil Code, other federal laws and decrees, orders and regulations issued by the Russian President, the Government and state authorities, which are, in turn, complemented by regional and local rules and regulations. These legal norms, at times, overlap with or contradict one another, or have substantial gaps. The recent nature of much Russian legislation and the rapid evolution of the Russian legal system may cast doubt on the enforceability and underlying constitutionality of certain laws and result in ambiguities, inconsistencies and anomalies. Russia is a civil law jurisdiction, and, as a rule, judicial precedents have no binding effect on subsequent decisions. The powers of various state authorities are not always clearly delineated, which may lead to administrative and/or legal conflicts. The Group can give no assurance that the development or implementation or application of legislation or regulations will not adversely affect foreign investors or private investors generally.

Among the risks of the current Russian legal system are:

- conflicting local, regional and federal rules and regulations;
- the limited availability of judicial and administrative guidance on interpreting Russian legislation;
- substantial gaps in the regulatory structure due to delay or absence of implementing legislation;
- the relative lack of independence of the judiciary;
- limited court personnel, especially in lower courts, with the ability to interpret developing Russian legislation, particularly business and corporate law;
- a high degree of discretion on the part of state authorities, which could result in arbitrary actions, and potentially corruption;
- bankruptcy procedures that are not well developed and potentially subject to abuse; and
- the difficulty in enforcing domestic and foreign court judgments, as well foreign arbitral awards in practice.

As a result of these factors, even the best efforts to comply with Russian law may not always result in full compliance. In addition, all of the above weaknesses could affect the Group’s ability to enforce its rights under contracts and licenses or to defend itself against claims by others and could affect the ability of investors to have their rights upheld in a Russian court.

Selective or arbitrary government action could materially adversely affect the Group's business

The Group operates in an uncertain regulatory environment. State authorities in Russia have a high degree of discretion and may at times exercise their discretion arbitrarily, without hearing or prior notice, or in a manner that could be unduly influenced by political or commercial considerations. Selective or arbitrary governmental actions have included unscheduled inspections by regulators, suspension or withdrawal of licenses and permits, unexpected tax audits, criminal prosecutions and civil actions. In addition, state authorities have also tried, in certain circumstances, by regulation or government act, to interfere with the performance of, nullify or terminate contracts. Furthermore, federal and local authorities have used common defects in matters surrounding the documentation of business activities as pretexts for court claims and other demands to invalidate such activities or to void transactions, sometimes to further interests different from the formal substance of the claims. In addition, there is no assurance that new regulations that impose restrictions in relation to the use by end-customer industries of the products the Group manufactures will not be adopted by government authorities in furtherance of various political or commercial interests. The occurrence of such selective or arbitrary action against the Group could have a material adverse effect on the Group's business, financial condition and results of operations or on the value of the Notes.

Difficulty in ascertaining the validity and enforceability of title to land or other real property in Russia and its encumbrances may have an adverse effect on the Group's business, financial condition and results of operations

The legal framework relating to the ownership and use of land and other real property in Russia is not yet sufficiently developed to support private ownership of land and other real property to the same extent as is common in countries with more developed market economies. Because of Russia's vast territory and difficulties of being in a transitional phase, the process of surveying and title registration may last for many years. Thus, it is often difficult to ascertain the validity and enforceability of title to land or other real property in Russia and the extent to which it is encumbered. These uncertainties may have an adverse effect on the Group's business, financial condition and results of operations.

Lack of developed corporate and securities laws and regulations in Russia may limit the Group's ability to attract future investment

The regulation and supervision of the securities market, financial intermediaries and issuers are relatively less developed in Russia than in the United States and certain members of the EU. While some important areas are subject to virtually no oversight, the regulatory requirements imposed on Russian issuers in other areas result in delays in conducting securities offerings and in accessing the capital markets. It is often unclear whether or how regulations, decisions and letters issued by the various regulatory authorities apply to the Group. As a result, the Group may be subject to fines or other enforcement measures despite its best efforts at compliance with the domestic securities laws and regulations.

Shareholder liability under Russian legislation could cause the Group to become liable for the obligations of its subsidiaries

Under Russian law, MMK may be primarily liable for the obligations of its Russian subsidiaries jointly and severally if: (i) MMK has the ability to make decisions for such Russian subsidiaries as a result of its ownership interest, the terms of a binding contract or in any other way; and (ii) the relevant Russian subsidiary concluded the transaction giving rise to the obligations pursuant to MMK's instructions or with the consent of MMK. In addition, MMK may have secondary liability for the obligations of its Russian subsidiaries if the subsidiary becomes insolvent or bankrupt as a result of the action of MMK. Accordingly, MMK could be liable in some cases for the debts of its subsidiaries, which could have a material adverse effect on the Group's business, results of operations, financial condition, its ability to service its payment obligations under the Guarantee and the Issuer's ability to make payments under, or the trading price of, the Notes.

Legislation to protect against nationalisation and expropriation may not be enforced in the event of a nationalisation or expropriation of the Group's assets

Although the Russian Government has enacted legislation to protect property against expropriation and nationalisation and to provide for fair compensation to be paid if such events were to occur, there can be no certainty that such protections will be enforced. This uncertainty is due to several factors, including the lack of state budgetary resources, the lack of an independent judicial system and sufficient mechanisms to enforce judgments, and corruption among Russian state officials. The concept of property rights is not well developed in Russia and there is not a great deal of experience in enforcing legislation enacted to protect private property against nationalisation and expropriation. As a result, the Group may not be able to obtain proper redress in the courts, and may not receive adequate compensation if, in the future, the Russian Government decides to nationalise or expropriate some or all of the Group's assets. While management considers that the Group's assets are not liable to be nationalised or expropriated, any expropriation or nationalisation of any of the Group's assets without fair compensation may have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

There can be no assurance as to how claims on behalf of the Issuer or the Trustee on behalf of the Noteholders against MMK would be resolved in the event of MMK's bankruptcy

Russian bankruptcy laws often differ from comparable laws in the United States and Western European countries and may be subject to varying interpretations. There is little precedent to predict how claims on behalf of the Noteholders or the Issuer against MMK would be resolved in the case of MMK's bankruptcy. In addition, under Russian law, MMK's obligations under a relevant loan agreement would be subordinated in the event of its insolvency to the following obligations: claims related to the administration of insolvency proceedings, including salaries of personnel involved in insolvency proceedings, utility bills, legal expenses and other payments; first priority claims (including claims in tort for damages in respect of physical persons' life or health, claims under employment contracts and other social benefits and copyright claims; and claims secured by a pledge of the credit organisation's assets. Any residual claims of secured creditors that remain unsatisfied after the sale of such collateral rank *pari passu* with claims of unsecured creditors.

Risks Relating to the Russian Taxation

The Russian taxation system is relatively underdeveloped

The Russian Government is continually reforming the tax system by redrafting parts of the Tax Code of the Russian Federation (the "**Russian Tax Code**"). Since 1 January 2009, the corporate profits tax rate has been 20%. For individuals who are tax residents in the Russian Federation the current personal income tax rate applicable to the most types of income is 13%. Since 1 January 2019, the general rate of VAT has been increased to 20%.

Russian tax laws, regulations and court practice are subject to frequent change, varying interpretations and inconsistent and selective enforcement. In accordance with the Constitution of the Russian Federation, laws that introduce new taxes or worsen a taxpayer's position cannot be applied retrospectively. Nonetheless, there have been several instances when such laws have been introduced and applied retrospectively.

There is a possibility that the Russian Federation could impose arbitrary or onerous taxes and penalties in the future. For instance, legislatures of the Russian Federation regions are currently empowered to provide wide-ranging incentives such as reduced income tax rates for business units operating within a region's territory. However, the federal government of the Russian Federation has recently initiated legislative amendments aimed at reducing region-level authority to stipulate such preferential taxation. Thus, a reduction of the corporate profits tax rate at the regional level will be available solely for targeted types of taxpayers, defined at the federal level. The present reduced regional profits tax rates will remain in effect until 1 January 2023 (at the latest). These conditions complicate tax planning and related business decisions. The consequent uncertainties could also expose the Group to significant

fines and penalties and potentially severe enforcement measures despite the Group's best efforts at compliance, and could result in a greater than expected tax burden. This, in turn, could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Generally, taxpayers are subject to tax audits for a period of three calendar years immediately preceding the year in which the decision to carry out a tax audit was taken. In certain circumstances, repeated tax audits (i.e. audits with respect to the same taxes and the same periods) are possible. Generally, the statute of limitations for a tax offence is three years after the date on which the tax offence was committed or from the date following the end of the tax period during which the tax offence was committed (depending on the nature of the tax offence). Nevertheless, according to the Russian Tax Code and based on current judicial interpretation, there may be cases where the statute of limitations for tax offences may extend beyond three years.

Tax audits or inspections may result in additional costs to the Group, in particular if the relevant tax authorities conclude that the Group did not satisfy its tax obligations in any given year. Such audits or inspections may also impose additional burdens on the Group by diverting the attention of management.

In October 2006, the Plenum of the Supreme Arbitrazh Court of the Russian Federation issued a resolution concerning judicial practice with respect to unjustified tax benefits. In this context, a tax benefit means a reduction in the amount of a tax liability resulting, in particular, from a reduction in the tax base, the receipt of a tax deduction or tax concession or the application of a lower tax rate or the receipt of a right to a refund (offset) or reimbursement of tax. The resolution provides that where the true economic intent of business operations is inconsistent with the manner in which it has been taken into account for tax purposes, a tax benefit may be deemed to be unjustified. The same conclusion may apply when an operation lacks a reasonable economic or business rationale. As a result, a tax benefit cannot be regarded as a business objective in its own right. On the other hand, the fact that the same economic result might have been obtained with a lesser tax benefit accruing to the taxpayer does not constitute grounds for declaring a tax benefit to be unjustified. Moreover, there are no rules and little case law applicable to distinguishing between lawful tax optimisation and tax avoidance or evasion. The tax authorities have actively sought to apply the resolution of the Supreme Arbitrazh Court when challenging tax positions taken by taxpayers in court, and are expected to extend its application in the future. Although the intention of this resolution is to combat tax abuses, in practice there can be no assurance that the tax authorities will not seek to apply this concept in a broader sense than may have been intended by the Supreme Arbitrazh Court.

The above approach was further developed in amendments to the Russian Tax Code, which became effective on 19 August 2017. The amendments introduce the new Article 54.1 to the Russian Tax Code, limiting activities aimed at reducing the amount of taxes payable. Under those provisions, a taxpayer may not reduce the tax base and/or the amount of tax payable by misrepresenting information on economic events or the objects of taxation which are required to be disclosed in a taxpayer's tax and/or accounting records or tax statements. A taxpayer has the right to reduce the tax base and/or the amount of taxes payable, provided that the following conditions are met: (i) it is not the principal objective of a transaction to cause an amount of tax not to be paid or to be refunded, or (ii) the obligation arising from a transaction was performed by a person who is a party to the contract concluded with the taxpayer and/or a person to whom such obligation was transferred by contract or law. The following circumstances do not on their own constitute grounds for regarding a tax benefit as unjustified: (i) if primary documents were signed by unidentified or unauthorised persons, (ii) if a taxpayer's counterparty violated the tax law or (iii) if the same economic result could have been obtained through other transactions.

As a result of these rules, it is possible that despite the best efforts of the Group to comply with Russian tax laws and regulations, certain transactions and activities of the Group that have not been challenged in the past may be challenged in the future, resulting in a greater than expected tax burden, exposure to significant fines and penalties and potentially severe enforcement measures for the Group.

Recent developments show that the Russian tax authorities are scrutinising various tax planning and mitigation techniques used by taxpayers, including international tax planning. In particular, the Russian Federation introduced "controlled foreign company" ("CFC") rules, the concept of "tax residency for an organisation" and the "beneficial ownership" concept, and is increasingly engaged in the international exchange of tax and financial information (including through country-by-country reporting standards and common reporting standards developed and approved by the Organisation for Economic Co-operation and Development (the "OECD")). In 2017, the Russian Federation signed the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS ("MLI") implementing a series of tax treaty measures to update international tax rules and lessen the opportunity for tax avoidance. The law ratifying the MLI became effective on 12 May 2019 and the MLI itself would apply in the Russian Federation from 2020.

It is currently unclear how the Russian tax authorities will interpret and apply the new tax provisions and what will be the possible impact on the Group. Therefore, it cannot be excluded that the Group might be subject to additional tax liabilities because these changes are applied to transactions carried out by the Group.

Furthermore, Russian tax legislation is consistently becoming more sophisticated. It is possible that new revenue-raising measures could be introduced. Although it is unclear how any new measures would operate, the introduction of such measures may affect the Group's overall tax efficiency and may result in significant additional taxes becoming payable. No assurance can be given that no additional tax exposures will arise for the Group.

All the aforesaid evolving tax conditions create tax risks in the Russian Federation that are greater than the tax risks typically found in countries with more developed taxation, legislative and judicial systems. These tax risks impose additional burdens and costs on the Group's operations, including management's resources. Furthermore, these risks and uncertainties complicate the Group's tax planning and related business decisions, potentially exposing the Group to significant fines, penalties and enforcement measures, and could materially adversely affect the Group's business, results of operations, financial condition, its ability to service its payment obligations under the Guarantee and the Issuer's ability to make payments under, or the trading price, of the Notes.

Russian transfer pricing rules may subject the Group's transfer prices to challenge by the Russian tax authorities

The Russian transfer pricing legislation allows the Russian tax authorities to make transfer pricing adjustments and impose additional tax liabilities with respect to "controlled" transactions. The list of "controlled" transactions under the transfer pricing legislation includes transactions performed with related parties and certain types of cross-border transactions with unrelated parties. Starting from January 2019, (i) transactions between related parties are no longer "controlled" if both related parties are located in the Russian Federation and apply the same corporate profits tax rate (i.e. 20%); and (ii) the minimum threshold of RUB 60 million is introduced for cross-border transactions between related parties. This legislation also shifts the burden of proving market prices from the Russian tax authorities to the taxpayer. Although Russian transfer pricing rules were modelled based on the transfer pricing principles developed by the OECD, there are some peculiarities as to how the OECD transfer pricing principles are reflected in the Russian rules. Special transfer pricing rules continue to apply to transactions with securities and derivatives.

Accordingly, due to uncertainties in the interpretation of the Russian transfer pricing legislation and undeveloped court practice, no assurance can be given that the Russian tax authorities will not challenge the Group's prices and make adjustments which could adversely affect the Group's tax position. The Russian transfer pricing rules could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Payments under the Guarantee made by MMK may be subject to Russian withholding tax or Russian personal income tax, as applicable

Payments following enforcement of the Guarantee to be made by MMK to non-resident Noteholders relating to interest on the Notes are likely to be characterised as Russian-source income. Accordingly, there is a risk that such payments may be subject to withholding tax at a rate of 20% in the event that a payment under the Guarantee is made to a non-resident Noteholder that is a legal entity or organisation which in each case is not organised under Russian law and which holds the Notes otherwise than through a permanent establishment in the Russian Federation. In the event a payment under the Guarantee is made to a non-resident individual, there is a risk that such payment may be subject to personal income tax at a rate of 30%. If tax is not withheld at source by MMK which is a Russian legal entity, non-resident Noteholders that are individuals may be obliged to pay Russian personal income tax on their own on the basis of a personal income tax return. Such tax, if it arises, would not be in any way indemnified by the Issuer and/or the Guarantor. We cannot offer any assurance that such withholding tax would not be imposed on the full amount of the payment under the Guarantee, including with respect to the principal amount of the Notes. The imposition or possibility of imposition of this withholding tax could adversely affect the value of the Notes. See "*Taxation — The Russian Federation*".

Under the gross up provisions for the Notes, if payments made under the Guarantee are subject to any withholding taxes for any reason (as a result of which MMK would be obliged to reduce the payments to be made under the Guarantee by the amount of such taxes to be withheld), MMK is required to increase the payments as necessary so that the net amounts received in respect of such payments after such withholding or deduction will equal the respective amounts that would have been received in respect of such payments in the absence of such withholding or deduction. It is unclear whether a tax gross-up clause such as that contained in this Prospectus is enforceable in the Russian Federation. There is a risk that the tax gross-up for withholding tax will not take place and that the full amount of the payments made by MMK, will be reduced by Russian withholding income tax at a rate of 20% (or 30% in respect of individual Noteholders). See "*Taxation — The Russian Federation*".

Tax might be withheld on disposals of the Notes in the Russian Federation, thereby reducing their value

If a non-resident Noteholder that is a legal entity or organisation, which in each case is not organised under Russian law and which holds and disposes of the Notes otherwise than through a permanent establishment in Russia, sells the Notes and receives proceeds from a source within the Russian Federation, there is a risk that any part of the payment that represents accrued interest may be subject to a 20% Russian withholding tax (even if a disposal is performed at a loss). The foreign Noteholder may be entitled to a reduction of such Russian withholding tax under an applicable double tax treaty.

Where proceeds from a disposal of the Notes are received from a source within the Russian Federation by a non-resident Noteholder that is an individual, there is a risk that Russian withholding tax would be charged (or such Noteholder would be required to pay Russian personal income tax on a self-assessment basis) at a rate of 30% on gross proceeds from such disposal of the Notes less any available documented costs (including the acquisition cost of the Notes).

Such tax may be reduced or eliminated under an applicable double tax treaty, subject to compliance with the treaty clearance formalities.

Obtaining a refund of taxes withheld can be extremely difficult, if not impossible. The imposition or possibility of imposition of the withholding tax could adversely affect the value of the Notes. See "*Taxation — The Russian Federation*".

Payments under the Notes may be subject to Russian withholding tax

Payments made by the Issuer under the Notes may be subject to Russian withholding tax if the Issuer is treated as a Russian tax resident or if the Issuer's activities lead to creation of a permanent

establishment for the Issuer in the Russian Federation. In these cases payments of interest under the Notes made by the Issuer to the Non-Resident Noteholders could be recognised by Russian tax authorities as subject to Russian withholding tax at a rate of 20% (or 30% in respect of Individual Non-Resident Noteholders).

However, the Russian Tax Code provides an exemption from the obligation to withhold tax from interest paid by a Russian organisation to Legal Entity Non-Resident Noteholders under the "quoted bonds" issued in accordance with the legislation of a foreign jurisdiction (this exemption is also applicable to foreign organisations, which are either recognised as Russian tax residents, or recognised as organisations, the activities of which lead to the creation of a permanent establishment in the Russian Federation). Based on the professional advice received, the Issuer believes that the Notes should be recognised as "quoted bonds" for the purposes of the Russian Tax Code. For details, see "*Taxation — The Russian Federation*".

Based on the professional advice received, the Issuer believes that it should be released from the obligation to withhold Russian withholding tax from interest payments made to the Legal Entity Non-Resident Noteholders under the Notes provided that the Notes continue to be recognised as "quoted bonds" for the purposes of the Russian Tax Code as outlined above.

If the Issuer's activities lead to the creation of a permanent establishment for the Issuer in the Russian Federation, the payments under the Notes (including interest and principal amounts under the Notes) made by the Issuer to Individual Non-Resident Noteholders less any available cost deduction could be subject to Russian taxation at a rate of 30% subject to any available double tax treaty relief (for details see "*Taxation — The Russian Federation — Double Tax Treaty Relief*").

Also, if the Issuer is treated as a Russian tax resident, or if the Issuer's activities lead to the creation of a permanent establishment in the Russian Federation, the Issuer will be fully subject to all applicable Russian taxes in accordance with the Russian tax law and will be exposed to all of the risks and implications associated with the Russian tax system. Such Russian tax consequences could have a material adverse effect on the Issuer's business, financial condition and results of operations and the Issuer's ability to make payments under, or the trading price, of the Notes.

Risks Related to Irish Taxation

OECD Action Plan on Base Erosion and Profit Shifting

Fiscal and taxation policy and practice is constantly evolving and recently the pace of change has increased due to a number of developments. In particular, a number of changes of law and practice are occurring as a result of the Organisation for Economic Co-operation and Development ("**OECD**") Base Erosion and Profit Shifting project ("**BEPS**"). Investors should note that certain action points which form part of the OECD BEPS project (such as Action 4, which can deny deductions for financing costs, see the risk factor entitled "E.U. Anti-Tax Avoidance Directive" below or Action 6 on the prevention of treaty abuse) may be implemented in a manner which affects the tax position of the Issuer.

E.U. Anti-Tax Avoidance Directive

As part of its anti-tax avoidance package, and to provide a framework for a harmonised implementation of a number of the BEPS conclusions across the EU, the E.U. Council adopted Council Directive (EU) 2016/1164 (the "**Anti-Tax Avoidance Directive**") on 12 July 2016.

The E.U. Council adopted Council Directive (EU) 2017/952 (the "**Anti-Tax Avoidance Directive 2**") on 29 May 2017, amending the Anti-Tax Avoidance Directive, to provide for minimum standards for counteracting hybrid mismatches involving E.U. member states and third countries.

E.U. member states must implement the Anti-Tax Avoidance Directive by 2019 (subject to derogations for E.U. member states which have equivalent measures in their domestic law) and have

until 31 December 2019 to implement the Anti-Tax Avoidance Directive 2 (except for measures relating to reverse hybrid mismatches, which must be implemented by 31 December 2021).

The Directives contain various measures that could, depending on their implementation in Ireland, potentially result in certain payments made by the Issuer ceasing to be fully deductible. This could increase the Issuer's liability to tax and reduce the amounts available for payments on the Notes.

There are two measures of particular relevance.

Firstly, the Anti-Tax Avoidance Directive provides for an "interest limitation rule" which restricts the deductible interest of an entity to 30% of its earnings before interest, tax, depreciation and amortisation. However, the interest limitation only applies to the net borrowing costs of an entity (being the amount by which its borrowing costs exceed its taxable interest revenues and other economically equivalent taxable revenues).

Secondly, the Anti-Tax Avoidance Directive (as amended by the Anti-Tax Avoidance Directive 2) provides for hybrid mismatch rules. These rules are designed to neutralise arrangements where amounts are deductible from the income of one entity but are not taxable for another, or the same amounts are deductible for two entities. These rules could potentially apply to the Issuer where: (i) the interest that it pays under the Notes, and claims deductions from its taxable income for, is not brought into account as taxable income by the relevant Noteholder, either because of the characterisation of the Notes, or the payments made under them, or because of the nature of the Noteholder itself; and (ii) the mismatch arises between associated enterprises, between the Issuer and an associated enterprise or under a structured arrangement.

The exact scope of these two measures, and impact on the Issuer's tax position, will depend on the implementation of the measures in Ireland.

Risks Related to the Notes

The Issuer's or the respective Guarantor's ability to fulfil its obligations under the Notes or the Guarantee is dependent on the Group

The Issuer will use the net proceeds from the issuance of the Notes to finance a loan (or loans) to MMK (a tax resident of the Russian Federation), which will use the proceeds for general corporate purposes. See "*Use of Proceeds*".

The Issuer has insufficient net assets, other than amounts due to it from the Group in respect of any inter-Group loans, to meet its obligations to pay interest and other amounts payable in respect of the Notes. The Issuer would, therefore, in the absence of other funding sources, have to rely on the Group providing sufficient funds to meet such obligations.

The Guarantor's ability to make payments under the Guarantee depends upon payments to it from its respective subsidiaries. Although the Guarantor controls its subsidiaries as the majority shareholders, these subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to pay any amounts due pursuant to the Guarantee or to make any funds available for these purposes, whether by dividends, loans, distributions or other payments, and do not guarantee the payment of interest on, or principal of, the Notes.

The Notes contain a non-petition provision relating to the Issuer

The Notes contain a non-petition provision which prevents the Noteholders from (i) instituting against the Issuer any bankruptcy or similar insolvency proceedings under any applicable bankruptcy or similar law and (ii) having any recourse against any director or officer of the Issuer, in each case in connection with any obligations of the Issuer under the Notes (except in the case of fraud, wilful default or negligence). As a result, although the Noteholders will be able to put a claim in an insolvency of the Issuer initiated by another person, the Noteholders' ability to recover against the assets of the Issuer or its directors is more limited as a consequence of these provisions.

The Issuer or, as the case may be, the Guarantor may be unable to redeem the Notes at maturity or redeem the Notes early upon the occurrence of certain events set forth in the Terms and Conditions of the Notes

At the time of maturity, the Issuer or, as the case may be, the Guarantor may not have the funds to fulfil their respective obligations under the Notes or the Guarantee and may not be able to arrange for additional financing. Furthermore, if the maturity date of the Notes occurs at a time when other arrangements prohibit the Guarantor from making payments to the Issuer under the relevant loans, the Guarantor would try to obtain waivers of such prohibitions from the lenders under those arrangements, or the Guarantor could attempt to refinance the borrowings that contain the restrictions. If the Guarantor was unable to obtain the requisite waivers or refinance these borrowings, the Guarantor would be unable to repay the loans and, consequently, the Issuer would not have the funds to redeem the Notes.

Credit rating

Outstanding Eurobonds of the Russian Federation are rated "Ba1" by Moody's, "BBB-" by Standard & Poor's Credit Market Services Europe Limited, a division of the McGraw Hill Companies Inc. ("**Moody's**") and "BBB-" by Fitch. The Notes are rated BBB by Fitch and Baa2 by Moody's. Each of Moody's and Fitch are established in the European Community and registered under the CRA Regulation. Moody's is not established in the European Union, has not applied for registration under the CRA Regulation and is not included in the list of registered credit rating agencies published on the website of European Securities and Markets Authority. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation. Any change in the credit rating of the Issuer, the Guarantor, the Notes or the Russian Federation could adversely affect the trading price for the Notes.

Noteholders' rights will be limited so long as the Notes are issued in book-entry interests

Owners of book-entry interests will not be considered owners or holders of Notes unless and until definitive notes are issued in exchange for book-entry interests. Instead, Euroclear, Clearstream, Luxembourg, or DTC or their nominees, will be the sole holders of the Notes.

Payments of principal, interest and other amounts owing on or in respect of the Notes in global form will be made as described in "*Summary of the Provisions Relating to the Notes in Global Form*" and none of the Issuer, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to, or payments of interest, principal or other amounts to, Euroclear, Clearstream, Luxembourg or DTC, or to owners of book-entry interests.

Owners of book-entry interests will not have the direct right to act upon any solicitation for consents or requests for waivers or other actions from holders of the Notes, including enforcement of security for the Notes. Instead, Noteholders who own a book-entry interest will be reliant on the nominees for the common depositary or Cede & Co. as nominee of DTC to act on their instructions and/or will be permitted to act directly only to the extent such holders have received appropriate proxies to do so from Euroclear, Clearstream, Luxembourg or DTC or, if applicable, from a participant. There can be no assurances that procedures implemented for the granting of such proxies will be sufficient to enable the Noteholders to vote on any requested actions or to take any other action on a timely basis.

Payments under the Guarantee are structurally subordinated to existing indebtedness of the Guarantor's subsidiaries, and these subsidiaries may incur further such indebtedness in the future

The Guarantee is structurally subordinated to the existing obligations of the Guarantor's subsidiaries. In addition, subject to certain limitations set forth in the Terms and Conditions of the Notes, the Guarantor and its respective subsidiaries may be able to incur substantial additional debt in the future, including debt that may be secured or structurally senior to the Guarantee. Any such additional debt incurred by the Guarantor's subsidiaries may be structurally senior to the obligations of the Guarantor under the Guarantee. Secured indebtedness of the Guarantor or any of its respective subsidiaries may

also rank effectively senior to the obligations of the Guarantor under the Guarantee. The incurrence of additional indebtedness by the Guarantor, including secured indebtedness, may have a material adverse effect on the value of an investment in the Notes.

There is no active trading market for the Notes

The Notes are new securities which may not be widely distributed and for which there is currently no active trading market. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Guarantor. Although application has been made to Euronext Dublin for the Notes to be admitted to the Official List and trading on its regulated market, there is no assurance that such application will be accepted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for the Notes.

Modification, waivers and substitution

The Trust Deed contains provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders which did not attend and vote at the relevant meeting and Noteholders which voted in a manner contrary to the majority. The Terms and Conditions of the Notes provide that the Trustee may, subject to the provisions of the Trust Deed, without the consent of Noteholders, agree to: (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes or the Trust Deed; or (ii) determine without the consent of the Noteholders that any event which would, or might otherwise give rise to a right of acceleration under the Notes shall not be treated as such; or (iii) the substitution of certain other entities in place of the Issuer, or of any previous substituted company, as principal debtor under the Trust Deed and the Notes, all as more fully described in Condition 10 (*Meetings of Noteholders, Modification and Waiver*) of the Terms and Conditions of the Notes.

The market price of the Notes may be volatile

The market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the Group's own, and the Group's competitors', operating results, adverse business developments, changes to the regulatory environment in which the Group operates, changes in financial estimates by securities analysts and the actual or expected sale of a large number of Notes, as well as other factors. In addition, in recent years, the global financial markets have experienced significant price and volume fluctuations which, if repeated, could adversely affect the market price of the Notes without regard to the Group's business, results of operations, financial condition or prospects.

The Notes may be redeemed prior to maturity

In the event that the Issuer (or if the Guarantee was called, the Guarantor) would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Ireland, the Russian Federation, or, as the case may be, the applicable jurisdiction for any of the Issuer or the Guarantor if different from aforementioned, or any political subdivision thereof or any authority therein or thereof having power to tax, the Issuer may redeem the Notes, in whole but not in part.

The Issuer may at its option redeem the Notes in whole, but not in part, at any time prior to the Maturity Date but on one occasion only, on giving not less than 30 and not more than 60 days irrevocable notice to the Noteholders, at a price equal to the aggregate of the principal amount thereof, plus the Make Whole Redemption Amount (as defined in the "*Terms and Conditions of the Notes*" herein), together with any accrued and unpaid interest to (but excluding) the date of redemption, as described under "*Terms and Conditions of the Notes*". The Notes are also subject to redemption, in

whole but not in part, at their principal amount, together with any accrued and unpaid interest, at the option of the Issuer at any time on or after the date three months prior to the Maturity Date. See "*Terms and Conditions of the Notes — Optional Redemption at Par*".

The Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Prospectus;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;
- understand thoroughly the terms of the Notes and be familiar with the behaviour of the relevant financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Notes may only be transferred in accordance with the procedures of the depositaries in which the Notes are deposited

Except in limited circumstances, the Notes will be issued only in global form, with interests therein held through the facilities of Euroclear, Clearstream, Luxembourg and/or DTC. Ownership of beneficial interests in the Notes is shown on, and the transfer of that ownership is effected only through, records maintained by Euroclear, Clearstream, Luxembourg and/or DTC or their nominees and the records of their participants. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. These laws may impair the ability to transfer beneficial interests in the Notes. Because Euroclear, Clearstream, Luxembourg and/or DTC can only act on behalf of their participants, which, in turn, act on behalf of owners of beneficial interests held through such participants and certain banks, the ability of a person having a beneficial interest in a Note to pledge or transfer such interest to persons or entities that do not participate in the Euroclear, Clearstream, Luxembourg and/or DTC systems may be impaired.

Enforcement under the Guarantee

The Guarantor is organised in the Russian Federation. Most of the assets of the Guarantor are located outside the United Kingdom and the United States. In addition, substantially all of the directors and executive officers of the Guarantor named in the Prospectus reside outside the United Kingdom and the United States, and a substantial part of the assets of such persons are located outside the United Kingdom and the United States. As a result, an arbitral award or a court decision taken against a Guarantor under the Guarantee, if any, may have to be enforced in the Russian Federation, as the case may be, which may be a time consuming and costly procedure.

The Prospectus does not contain separate single company accounts for the Guarantor

Although item 11.1 of Annex IX of Commission Regulation (EC) No. 809/2004 requires that the Prospectus include separate single company accounts for the Guarantor and the Issuer has submitted a request to the Central Bank for the omission of such single company accounts of the Guarantor from the Prospectus, and the Central Bank has granted such omission request. The Prospectus includes the Group's audited consolidated financial statements as at and for the year ended 31 December 2018 and

as at and for the year ended 31 December 2017, which consolidate the financial information of the Guarantor and the Group. As the Issuer was incorporated on 24 April 2019, the Group's audited consolidated financial statements as at and for the year ended 31 December 2018 and as at and for the year ended 31 December 2017 do not include the Issuer's financial results.

Irish Risk Factors

The Issuer is subject to certain legal risks, including the location of its centre of main interest, the appointment of an examiner in the event the Issuer experiences financial difficulties, the claims of examiners, preferred creditors under Irish law and floating charges

COMI

The Issuer has its registered office in Ireland. Under Regulation (EU) No. 2015/848 of the European Parliament and of the Council of 20 May 2015 on insolvency proceedings (recast) (the "**Recast E.U. Insolvency Regulation**"), the Issuer's centre of main interest ("**COMI**") is presumed to be the place of its registered office (i.e. Ireland) in the absence of proof to the contrary and provided that the Issuer did not move its registered office within the 3 months prior to a request to open insolvency proceedings.

As the Issuer's COMI is presumed to be Ireland, any main insolvency proceedings in respect of the Issuer would fall within the jurisdiction of the courts of Ireland. As to what might constitute "proof to the contrary" regarding the location of a company's COMI, the key decision is that in Re Eurofood IFSC Ltd (2004 4 IR 370 (Irish High Court); 2006 IESC 41 (Irish Supreme Court); 2006 Ch 508; ECJ Case C-341/04 (European Court of Justice)), given in respect of the equivalent provision in the previous E.U. Insolvency Regulation (Regulation (EC) No. 1346/2000). In that case, on a reference from the Irish Supreme Court, the European Court of Justice concluded that "factors which are both objective and ascertainable by third parties" would be needed to demonstrate that a company's actual situation is different from that which the location of its registered office is deemed to reflect. For instance, if a company with its registered office in Ireland does not carry on any business in Ireland, that could rebut the presumption that the company's COMI is in Ireland.

As the Issuer has its registered office in Ireland, has Irish directors, is registered for tax in Ireland and has retained an Irish corporate services provider, the Issuer does not believe that factors exist that would rebut the presumption that its COMI is located in Ireland, although this would ultimately be a matter for the relevant court to decide based on the circumstances existing at the time when it was asked to make that decision. If the Issuer's COMI was found to be in another E.U. jurisdiction and not in Ireland, main insolvency proceedings would be opened in that jurisdiction instead.

Examinership

Examinership is a court moratorium/protection procedure which is available under Irish company law to facilitate the survival of Irish companies in financial difficulties. Where a company, which has its COMI in Ireland (an Irish Company) is, or is likely to be, unable to pay its debts, an examiner may be appointed on a petition to the relevant Irish court under Section 509 of the Companies Act 2014. The Irish Company, the directors of the Irish Company, a contingent, prospective or actual creditor of the Irish Company, or shareholders of the Irish Company holding, at the date of presentation of the petition, not less than one-tenth of the voting share capital of the Irish Company are each entitled to petition the court for the appointment of an examiner. The examiner, once appointed, has the power to halt, prevent or rectify acts or omissions by or on behalf of the company after his appointment, and, in certain circumstances, a negative pledge given by the company prior to his appointment will not be binding on the company. Furthermore, where proposals for a scheme of arrangement are to be formulated, the company may, subject to the approval of the court, affirm or repudiate any contract under which some element of performance other than the payment remains to be rendered both by the company and the other contracting party or parties.

During the period of protection, the examiner will compile proposals for a compromise or scheme of arrangement to assist in the survival of the company or the whole or any part of its undertaking as a going concern. A scheme of arrangement may be approved by the relevant Irish court when (i) a minimum of one class of creditors, whose interests are impaired under the proposals, has voted in favour of the proposals, (ii) the relevant Irish court is satisfied that such proposals are fair and equitable in relation to any class of members or creditors who have not accepted the proposals and whose interests would be impaired by implementation of the scheme of arrangement and (iii) the proposals are not unfairly prejudicial to any interested party.

If an examiner were appointed to the Issuer while any amounts due by the Issuer under the Notes were unpaid the primary risks to the holders of Notes would be as follows;

- the Trustee, acting on behalf of Noteholders, would not be able to enforce rights against the Issuer during the period of examinership;
- a scheme of arrangement may be approved involving the writing down of the debt due by the Issuer to the Noteholders irrespective of the Noteholders' views;
- the examiner may set aside the negative pledge in the Notes prohibiting the creation of security or the incurrence of borrowings by the Issuer to enable the examiner to borrow to fund the Issuer during the protection period;
- in the event that a scheme of arrangement is not approved and the Issuer subsequently goes into liquidation, both the examiner's and liquidator's remuneration and expenses (including certain borrowings incurred by the examiner and approved by the relevant Irish Court) will take priority over the monies and liabilities which from time to time are or may become due, owing or payable by the Issuer to the Noteholders under the Notes or the transaction documents in connection therewith;
- while a company is under the protection of the relevant Irish court, no action can be taken to enforce guarantees against persons who have guaranteed the debts of the company. Whether this prohibition under Irish law would be effective in the pursuit of a foreign guarantee is a matter of the governing law of the guarantee and/or the guarantor's residence; and
- where a creditor receives notice of a meeting of creditors convened by the examiner to consider and vote on his proposals for a scheme of arrangement and that creditor's debt is guaranteed by a third party, then the creditor must, within very tight deadlines, offer the guarantor the opportunity to attend and vote at the meeting in place of the creditor. If this offer is not made in writing within the statutory time period, the creditor loses its right to pursue the guarantor pursuant to the guarantee.

Preferred Creditors

If the Issuer becomes subject to an insolvency proceeding and the Issuer has obligations to creditors that are treated under Irish law as creditors that are senior relative to the Noteholders, the Noteholders may suffer losses as a result of their subordinated status during such insolvency proceedings. In particular, under Irish law, the claims of unsecured creditors of the Issuer rank behind secured creditors (to the extent of their security) and certain other creditors (including fees, costs and expenses of any examiner appointed, certain capital gains tax liabilities and claims of the Irish Revenue Commissioners for certain unpaid taxes).

USE OF PROCEEDS

The Issuer is expected to receive gross proceeds of U.S.$500,000,000 from the offering of the Notes. The gross proceeds from the offering of the Notes will be used by the Issuer for the sole purpose of financing a loan (or loans) to MMK (a tax resident of the Russian Federation), which will use the proceeds for general corporate purposes.

The commissions, costs and expenses in connection with the issuance and offering of the Notes and the admission to trading thereof will be paid by MMK and are expected to amount to approximately U.S.$2,000,000.

Neither the Issuer nor MMK will, directly or indirectly, use the proceeds of the offering of the Notes, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other person or entity, for the purposes of financing, directly or indirectly, any activities in or involving any country or territory, or with or involving any person or entity, that is the subject of any sanctions or other similar restrictive measures administered and/or enforced by (a) the Security Council of the United Nations; and (b) the competent governmental institutions and agencies of the United States of America, the United Kingdom, the European Union, a member state of the European Union or any other relevant sanctions authority, including, without limitation, the Office of Foreign Assets Control of the US Department of the Treasury, the United States Department of State, the United States Department of Commerce and Her Majesty's Treasury.

CAPITALISATION

The following table sets forth the Group's consolidated capitalisation as at 31 March 2019, derived from the Interim Financial Statements included elsewhere in this Prospectus. This information should be read in conjunction with "*Selected Consolidated Financial and Other Information*", "*Operating and Financial Overview*" and the Financial Statements included elsewhere in this Prospectus.

	As at 31 March 2019	
	Actual	**As Adjusted[1]**
	(U.S.$ millions)	
Short-term borrowings and current portion of long-term borrowings	431	431
Long-term borrowings	66	566
Total borrowings	**497**	**997**
Equity:		
Share capital	386	386
Share premium	969	969
Translation reserve	(5,692)	(5,692)
Retained earnings	9,886	9,886
Equity attributable to shareholders of the Parent Company	**5,549**	**5,549**
Non-controlling interests	24	24
Total equity	**5,573**	**5,573**
Total capitalisation[(2)]	**6,070**	**6,570**

Notes:

(1) Adjusted figures correspond to the Group's capitalisation as at 31 March 2019 as adjusted to reflect the issue of the Notes.

(2) Total capitalisation is the sum of total borrowings and total equity.

On 31 May 2019, MMK held its Annual General Shareholders' Meeting, which, among other matters, approved the distribution of dividends for the year ended 31 December 2018 and the three months ended 31 March 2019. Based on MMK's financial performance for 2018, the Annual General Shareholders' Meeting approved the distribution of dividends in the amount of RUB1.398 per one outstanding ordinary share, which is expected to result in a total dividend payment of RUB15.6 billion (payable by the end of June 2019). Based on MMK's financial performance for the three months ended 31 March 2019, the Annual General Shareholders' Meeting approved the distribution of dividends in the amount of RUB1.488 per one outstanding ordinary share, which is expected to result in a total dividend payment of RUB16.6 billion (payable by 10 July 2019).

Other than described above, there have been no material changes in the consolidated capitalisation of the Group since 31 March 2019.

SELECTED CONSOLIDATED FINANCIAL AND OTHER INFORMATION

The following tables present selected consolidated financial information of the Group as at and for the three months ended 31 March 2019 and 2018 and for years ended 31 December 2016, 2017 and 2018 as derived from the Financial Statements included elsewhere in the Prospectus. This section should be read in conjunction with the Financial Statements included in the Prospectus and the notes thereto, as well as the sections of the Prospectus entitled "Presentation of Financial and Other Information" and "Operating and Financial Review".

The Group's Consolidated Statement of Comprehensive Income

	Three months ended 31 March		Year ended 31 December		
	2019	**2018**	**2018**	**2017**	**2016**
			(*U.S.$ millions*)		
Revenue	1,836	2,055	8,214	7,546	5,630
Cost of sales	(1,321)	(1,422)	(5,531)	(5,268)	(3,817)
Gross profit	**515**	**633**	**2,683**	**2,278**	**1,813**
General and administrative expenses	(51)	(61)	(238)	(238)	(207)
Selling and distribution expenses	(141)	(153)	(591)	(562)	(443)
Change in expected credit loss, net	(6)	(5)	(14)	-	-
Other operating income, net	3	-	(7)	(23)	299
Operating profit	**320**	**414**	**1,833**	**1,455**	**1,462**
Share of results of associates	-	-	-	5	1
Finance income	5	2	17	10	13
Finance costs	(7)	(7)	(31)	(44)	(117)
Foreign exchange (loss)/gain, net	(14)	(17)	41	(39)	60
(Reversal of impairment)/Impairment losses and provision for site restoration	(2)	(3)	-	136	(5)
Excess of the Group's share in the fair value of net assets acquired over the cost of acquisition	-	-	-	36	-
Other expenses	(22)	(30)	(85)	(64)	(72)
Profit before income tax	**280**	**359**	**1,775**	**1,495**	**1,342**
Income tax	(55)	(80)	(458)	(306)	(231)
Profit for the period	**225**	**279**	**1,317**	**1,189**	**1,111**
Other comprehensive income/(losses)					
Items that may be reclassified subsequently to profit or loss:					
Net change in fair value of available-for-sale investments		-	-	-	(121)
Translation of foreign operations	(100)	-	254	(43)	(237)
Items that will not be reclassified subsequently to profit or loss:					
Remeasurements of post-employment benefit obligations	-	1	-	(2)	-
Effect of translation to presentation currency	439	25	(1,147)	265	815
Other comprehensive income/(loss) for the period, net of tax	339	26	(893)	220	457
Total comprehensive income for the period	**564**	**305**	**424**	**1,409**	**1,568**
Net profit attributable to:					
Shareholders of the Parent Company	224	278	1,315	1,184	1,111
Non-controlling interests	1	1	2	5	-
	225	**279**	**1,317**	**1,189**	**1,111**
Total comprehensive income attributable to:					
Shareholders of the Parent Company	561	304	427	1,406	1,565
Non-controlling interests	3	1	(3)	3	3
	564	**305**	**424**	**1,409**	**1,568**

The Group's Consolidated Statement of Financial Position

	As at 31 March	As at 31 December		
	2019	2018	2017	2016
		(U.S.$ millions)		
ASSETS				
Non-current assets:				
Property, plant and equipment	4,716	4,370	4,874	4,345
Right of use assets	9	18	-	-
Intangible assets	33	24	27	22
Investments in securities and other financial assets	2	2	3	3
Investments in associates	2	1	2	6
Deferred tax assets	51	50	93	75
Other non-current assets	-	-	8	11
Total non-current assets	**4,813**	**4,465**	**5,007**	**4,462**
Current assets:				
Inventories	1,225	1,217	1,421	1,067
Trade and other receivables	775	697	782	558
Investments in securities and other financial assets	8	7	8	50
Income tax receivable	1	-	1	1
Value added tax recoverable	68	80	149	97
Cash and cash equivalents	710	739	556	266
Total current assets	**2,787**	**2,740**	**2,917**	**2,039**
TOTAL ASSETS	**7,600**	**7,205**	**7,924**	**6,501**
EQUITY AND LIABILITIES				
Equity				
Share capital	386	386	386	386
Share premium	969	969	969	969
Translation reserve	(5,692)	(6,029)	(5,141)	(5,365)
Retained earnings	9,886	9,662	9,259	8,703
Equity attributable to shareholders of the Parent Company	**5,549**	**4,988**	**5,473**	**4,693**
Non-controlling interests	24	21	24	18
Total equity	**5,573**	**5,009**	**5,497**	**4,711**
Non-current liabilities:				
Long-term borrowings	66	246	234	178
Obligations under leases	12	11	-	-
Obligations under finance leases	-	-	1	1
Retirement benefit obligations	16	15	19	16
Long-term other payables	8	9	16	-
Site restoration provision	144	132	158	155
Deferred tax liabilities	406	381	417	373
Total non-current liabilities	**652**	**794**	**845**	**723**
Current liabilities:				
Short-term borrowings and current portion of long-term borrowings	431	269	308	320
Current portion of obligations under leases	1	10	-	-
Current portion of obligations under finance leases	-	-	1	1
Current portion of retirement benefit obligations	3	3	3	3
Trade and other payables	917	1,095	1,236	710
Current portion of site restoration provision	9	8	11	10
Income tax payables	14	17	20	23
Net assets attributable to minority participants	-	-	3	-
Total current liabilities	**1,375**	**1,402**	**1,582**	**1,067**
TOTAL EQUITY AND LIABILITIES	**7,600**	**7,205**	**7,924**	**6,501**

The Group's Selected Consolidated Statement of Cash Flow Data

	Three months ended 31 March		Year ended 31 December		
	2019	2018	2018	2017	2016
			(U.S.$ millions)		
Net cash generated by operating activities ..	418	366	1,887	1,358	1,191
Net cash generated/(used) in investing activities	(159)	(220)	(848)	(599)	264
Net cash used in financing activities	(304)	(254)	(831)	(480)	(1,575)
Net change in cash and cash equivalents.....	(45)	(108)	208	279	(120)
Cash and cash equivalents at the beginning of the period	**739**	**556**	**556**	**266**	**369**
Effect of translation to presentation currency and exchange rate changes on the balance of cash held in foreign currencies...	16	(7)	(25)	11	17
Cash and cash equivalents at the end of the period...	**710**	**441**	**739**	**556**	**266**

Non-IFRS Measures

	As at or for the three months ended 31 March		As at or for the year ended 31 December		
	2019	2018	2018	2017	2016
			(U.S.$ millions, except for percentages)		
Adjusted EBITDA[(1)]...................................	440	560	2,418	2,032	1,956
Adjusted EBITDA Margin, %[(2)].................	24.0%	27.3%	29.4%	26.9%	34.7%
Free Cash Flow[(3)]	260	145	1,027	694	728
Net Debt[(4)]	(200)	76	(203)	(12)	192
Net Debt/Adjusted EBITDA[(5)]	(0.09)x	0.04x	(0.08)x	(0.01)x	0.10x
Total Debt/Adjusted EBITDA[(6)]	0.2x	0.2x	0.2x	0.3x	0.3x
Net Working Capital[(7)]	1,133	1,382	1,149	1,301	978
Normalised Adjusted EBITDA[(8)]	N/A	N/A	N/A	N/A	1,641
Normalised Adjusted EBITDA Margin[(9)]....	N/A	N/A	N/A	N/A	29.1%

Notes:

(1) Adjusted EBITDA for any period represents operating profit adjusted for depreciation and amortisation, loss on disposal of property, plant and equipment and share of results of associates for the relevant period.

(2) Adjusted EBITDA Margin for any period represents Adjusted EBITDA for the relevant period divided by total revenue for the relevant period and expressed as a percentage.

(3) Free Cash Flow means, for any period, the net cash flows generated by operating activities less cash used for purchase of property, plant and equipment.

(4) Net Debt represents total debt (the sum of long- and short-term borrowings, current portion of long-term borrowings and obligations under leases and finance leases) less total cash and cash equivalents and short-term deposits as at the end of the relevant period.

(5) Net Debt/Adjusted EBITDA means, for any period, Net Debt as at the end for the relevant period divided by Adjusted EBITDA for the relevant period. Net Debt/Adjusted EBITDA for three months ended 31 March 2019 and 2018 is represented by Net Debt as at the end of the reporting period and Adjusted EBITDA for 12 months ended 31 March 2019 and 2018, respectively.

(6) Total Debt/Adjusted EBITDA means total debt (the sum of long- and short-term borrowings, current portion of long-term borrowings and obligations under leases and finance leases) as at the end of the relevant period divided by Adjusted EBITDA for the relevant period. Total Debt/Adjusted EBITDA for three months ended 31 March 2019 and 2018 is represented by Total Debt as at the end of the reporting period and Adjusted EBITDA for 12 months ended 31 March 2019 and 2018, respectively.

(7) Net Working Capital means the sum of inventories, VAT recoverable, income tax and short-term trade and other receivables less trade and other payables (except for dividends payable), current portion of retirement benefit obligations, current portion of site restoration provision and income tax payable.

(8) Normalised Adjusted EBITDA means Adjusted EBITDA for 2016 adjusted for gain from disposal of shares in FMG.

(9) Normalised Adjusted EBITDA Margin means Normalised Adjusted EBITDA divided by total revenue for the relevant period and expressed as a percentage.

The following table sets forth a reconciliation of the Group's Adjusted EBITDA and Normalised Adjusted EBITDA to the Group's results from operating activities for the periods indicated:

	Three months ended 31 March		Year ended 31 December		
	2019	2018	2018	2017	2016
			(*U.S.$ millions*)		
Reconciliation of Adjusted EBITDA					
Operating profit for the period	**320**	**414**	**1,833**	1,455	1,462
Add:					
Depreciation and amortisation	**119**	**144**	**566**	544	479
Loss on disposal of property, plant and equipment	**1**	**2**	**19**	28	14
Share of results of associates	**-**	**-**	**-**	5	1
Adjusted EBITDA[(1)]	**440**	**560**	**2,418**	**2,032**	**1,956**
Less:					
Gain from disposal of shares in FMG	N/A	N/A	N/A	N/A	(315)
Normalised Adjusted EBITDA[(2)]	**N/A**	**N/A**	**N/A**	**N/A**	**1,641**

Notes:

(1) Adjusted EBITDA for any period represents operating profit adjusted for depreciation and amortisation, loss on disposal of property, plant and equipment and share of results of associates for the relevant period.

(2) Normalised Adjusted EBITDA means Adjusted EBITDA for 2016 adjusted for gain from disposal of shares in FMG.

The following table sets forth a reconciliation of the Group's Net Working Capital for the periods indicated:

	Three months ended 31 March		Year ended 31 December		
	2019	2018	2018	2017	2016
			(*U.S.$ millions*)		
Reconciliation of Net Working Capital					
Inventories	1,225	1,352	1,217	1,421	1,067
VAT recoverable	68	151	80	149	97
Trade and other receivables	775	829	697	782	558
Income tax receivable	1	1	-	1	1
Trade and other payables	(917)	(916)	(1,095)	(1,236)	(710)
except for dividends payable	7	-	278	218	1
Current portion of retirement benefit obligations	(3)	(3)	(3)	(3)	(3)
Current portion of site restoration provision	(9)	(11)	(8)	(11)	(10)
Income tax payable	(14)	(21)	(17)	(20)	(23)
Net working capital	**1,133**	**1,382**	**1,149**	**1,301**	**978**

OPERATING AND FINANCIAL REVIEW

The following discussion and analysis of the Group's operating and financial results is based on the Financial Statements prepared in accordance with IFRS, as well as management's internal financial and operating records. Prospective investors should read the following discussion together with the whole of the Prospectus, including "Risk Factors" and the Financial Statements (including the related notes) and should not rely solely on the information set out in this section.

The following discussion includes certain forward-looking statements that, although based on assumptions that the Group's management considers to be reasonable, are subject to risks and uncertainties that could cause actual events or conditions to differ materially from those expressed or implied in the Prospectus. Among the important factors that could cause the Group's actual results, performance or achievements to differ materially from those expressed in such forward-looking statements are those factors that are discussed in "Forward-Looking Statements" and "Risk Factors". All statements other than statements of historical fact, such as statements regarding the Group's future financial position, risks and uncertainties related to the Group's business, plans and objectives for future operations, are forward-looking statements.

Overview

MMK, the principal operating company of the Group, was the second largest steel producer in Russia by volume of steel products output, according to Metal Expert, and in the top-30 largest steel producers globally in 2017, according to WorldSteel Association. The Group produced 12.7 million tonnes, 12.9 million tonnes and 12.5 million tonnes of crude steel in 2018, 2017 and 2016, respectively. The principal production assets of the Group are located in the vicinity of Magnitogorsk in Russia.

The Group has a strong footing in the Russian and the CIS markets, generating 77%, 77% and 79% of its revenue from sales within Russia and the CIS in the years ended 31 December 2016, 2017, 2018 and 86% in the three months ended 31 March 2019, respectively. The Group's management aims to further increase the proportion of the Group's Russian and the CIS sales, targeting up to 85-90% by 2025, with a particular focus on high value added products (including galvanised steel, galvanised steel with polymer coating and tin plate). The Group's management believes that the Group's already strong position in the Russian domestic market and its focus on high value added products leave it well-placed to benefit from and attract customers in those sectors of the Russian market that are characterised by particularly high growth rates, such as shipbuilding and automotive industries. The Group also intends to further strengthen its competitive positions in certain economic sectors, which currently account for the largest share of total rolled metal sales, such as pipe production, construction and engineering. In addition, the Group's management believes that the Group benefits from a well-diversified Russian customer base with very little customer concentration. In 2018, 2017 and 2016 no single customer (excluding subsidiary traders) accounted for more than 10% of the Group's sales (by volume).

Over recent years, the Group has made significant investments to modernise and increase the effectiveness of its production facilities, reduce its environmental impact and continue to improve the quality and variety of its products. In 2016, 2017 and 2018, the Group made total capital expenditures of U.S.$463 million, U.S.$664 million and U.S.$860 million, respectively, helping to create what the Group's management believes to be one of the largest, most modern and efficient steel production facilities in Russia. See "*– The Steel Segments (Russia and Turkey) – Facilities*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Capital Expenditures*". Such capital expenditures have been and remain crucial to the Group's ability to compete in the steel and steel products markets and the Group's management expects that the Group will continue to make capital expenditures in the future.

The Group's revenue in the years 2016, 2017 and 2018 and the three months ended 31 March 2018 and 2019 was U.S.$5,630 million, U.S.$7,546 million, U.S.$8,214 million, U.S.$2,055 million and

U.S.$1,836 million respectively. Its profit for the period was U.S.$1,111 million, U.S.$1,189 million, U.S.$1,317 million, U.S.$279 million and U.S.$225 million in the years 2016, 2017 and 2018 and the three months ended 31 March 2018 and 2019, respectively. The Group's total assets amounted to U.S.$6,501 million as at 31 December 2016, U.S.$7,924 million as at 31 December 2017, U.S.$7,205 million as at 31 December 2018 and U.S.$7,600 million as at 31 March 2019, while its total equity as at such dates amounted to U.S.$4,711 million, U.S.$5,497 million, U.S.$5,009 million and U.S.$5,573 million, respectively.

Segment Information

Based on the current management structure and internal reporting, the Group has identified the following operating segments that are reportable under IFRS:

- *Steel Segment (Russia),* which includes MMK and its subsidiaries involved in the production of steel, wire and hardware products. All significant assets, production and management and administrative facilities of this segment are located in the city of Magnitogorsk, the Russian Federation;

- *Steel Segment (Turkey)*, which includes MMK Metalurji involved in the production of steel. The two sites of this segment are located in Iskenderun and Istanbul (Turkey); and

- *Coal Mining Segment*, which includes OJSC Belon ("**Belon**") and LLC MMK-UGOL involved in mining and refining of coal. All significant assets, production and management and administrative facilities of this segment are located in the city of Belovo, the Russian Federation.

Key Factors Affecting the Group's Results of Operations

The Group's management believes that the factors discussed below have significantly affected the development of the Group's business, results of operations, financial condition and prospects during the periods under review and that such factors are likely to continue to have an influence on the Group's business, financial condition, results of operations and prospects in the future.

Russian Macroeconomic Conditions

Most of the Group's assets are located in Russia, and the Group generated a substantial portion of its revenues in Russia. Accordingly, the Group is exposed to primarily the economic trends in Russia, which are influenced by the effects of the policies adopted by the Russian Government, global economic conditions and geopolitical factors. Russian macroeconomic trends, such as the rate of GDP growth in the economy overall and the rate of growth in the particular industry markets in which the Group's customers operate (for example, the automotive industry, pipe-manufacturing and construction) or its principal geographic markets, including the Urals, Volga and Central regions of Russia, could significantly influence the Group's performance.

The table below sets out certain key macroeconomic indicators relating to the Russian economy and information on certain industries that are particularly important for the Group's operations in 2016, 2017 and 2018.

	Three months ended 31 March	**Year ended 31 December**		
	2019	**2018**	**2017**	**2016**
Real GDP growth	0.5%	2.3%	1.6%	0.3%
Industrial production index (annualised)	2.1%	2.9%	2.1%	2.2%
Inflation (consumer price index, annualised)	1.8%	4.3%	2.5%	5.4%
Unemployment rate (annualised)	4.7%	4.8%	5.2%	5.6%
Per capita steel consumption in Russia	283.4 kg	280.6 kg	282.1 kg	268.5 kg
Pipe-manufacturing industry production growth/(decline)	(8.7)%	1.5%	8.1%	(9.8)%

	Three months ended 31 March	Year ended 31 December		
	2019	2018	2017	2016
– *including large-diameter pipe production growth/(decline)*	(26.3)%	0.0%	7.3%	(28.3)%
Automotive industry growth/(decline)	2.8%	13.9%	19.0%	(5.4)%

Sources: Rosstat, Ministry of Economic Development, CBR, Worldsteel Association, Metal Expert.

The Russian economy is, to a significant degree, dependent on exports of key commodities, such as oil, gas, iron ore and other raw materials. Dramatic decreases in the prices of these commodities in the world market lead to sharp decreases in the Russian Government's revenues, along with similarly sharp declines in the revenues of privately held Russian companies operating in the key commodity sectors, which, in turn, negatively impact the overall Russian economy. In 2016, commodity prices remained highly volatile, which, in turn, contributed to a significant depreciation of the rouble against both the U.S. Dollar and the euro.

According to Rosstat, the Russian economy experienced a significant decline in 2015, when Russia's GDP declined by 2.5%, though in 2016 the decline trend changed to a moderate growth of 0.3%. In 2017 and 2018, Russia's GDP improved which translated into a 1.6% and 2.3% growth, respectively. According to Rosstat, Russia's GDP grew by 0.5% in the first quarter of 2019 and, according to preliminary estimates of the Ministry of Economic Developments of the Russian Federation, is expected to grow by 1.3% in 2019. The contraction in economic activity in 2016 had a significant impact on both pricing and demand for steel products. During this year, growth in industries that are principal markets for the Group's products either slowed down significantly or turned negative. However, the demand for MMK's steel products improved in 2017 and 2018 as a result of the growth of the Russian economy. The per capita steel consumption in Russia also increased from 268.5 kg in 2016 to 280.6 kg in 2018.

Any deterioration of the Russian economy could adversely affect the industries that use the Group's products, which, in turn, could lead to a decline in the demand for and, therefore the prices, of the Group's products, and could, in turn, have a material adverse effect on the Group's business and results of operations.

Turkey Macroeconomic Conditions

Turkey's macroeconomic environment has been volatile in recent years due to a variety of geopolitical, global macroeconomic and domestic factors. Turkey's GDP grew by 3.2% in 2016, 7.4% in 2017 and 2.6% in 2018 according to TurkStat, and the new economic programme announced by the Ministry of Treasury and Finance of the Republic of Turkey in September 2018 forecasts a slowdown to 2.3% GDP growth in 2019. Growth in Turkey slowed in 2016 largely as a result of the continuing political uncertainty following the coup attempt in Turkey in July 2016, with Turkey's GDP contracting in the third quarter of 2016. GDP growth in 2016 was primarily driven by government consumption, while private consumption and investment activity slowed following the coup attempt. However, economic growth recovered in 2017 with the support of government stimuli such as the Credit Guarantee Fund and increasing domestic and external demand. Following growth in 2017, GDP growth remained strong in the first half of 2018 at 6.2%, mostly driven by contribution from private consumption. In the third quarter of 2018, however, quarterly GDP growth slowed down to 1.8%, and in the fourth quarter of 2018, Turkey's GDP declined by 3.0% year-on-year, according to TurkStat, with leading indicators suggesting that the Turkish economy will likely witness the continuation of economic slowdown for 2019, following the deterioration in macroeconomic conditions mainly driven by the depreciation of the Turkish lira and tightening global liquidity, as well as elevated inflation and interest rates levels.

While exchange rates and general macroeconomic conditions have been less volatile in the first quarter of 2019, currency movements and certain other factors as outlined above have had, and will

likely continue to have, a significant impact on Turkey's macroeconomic environment, which in turn could have an adverse effect on the results of the Group's Turkish operations.

The Impact of Exchange Rate Fluctuations

The presentation currency for the Group's consolidated financial statements is the U.S. Dollar. In connection with the preparation of the Financial Statements, the results of operations and financial position of each of the Group's consolidated subsidiaries, which are initially prepared in each subsidiary's functional currency (which is the currency of the primary economic environment in which a subsidiary operates and, in most cases, is the rouble), are translated into U.S. Dollars. Assets and liabilities are translated at the exchange rate at the end of the relevant reporting period, and income and expenses are translated at average exchange rates.

Fluctuations in exchange rates impact the Group's consolidated results of operations and, depending on the magnitude of these fluctuations, could obscure underlying trends that would have been apparent if the Group's consolidated financial statements had been presented in Russian roubles. In 2016, the Russian rouble depreciated significantly against the U.S. Dollar when comparing average annual exchange rates, which resulted in a decrease in reported U.S. Dollar sales revenue and expenses for the Group's rouble-denominated sales and expenses. In 2018, the Russian rouble appreciated against the U.S. Dollar when comparing average annual exchange rates as compared to 2017, which in turn showed an appreciation against the 2016 level, which contributed to an increase in reported U.S. dollar sales revenue and expenses for the Group's rouble-denominated sales and expenses.

The Group's consolidated subsidiaries use their respective functional currency (which, in most cases, is the Russian rouble) when preparing their respective stand-alone financial accounts. In connection with the preparation of such accounts, a given subsidiary's monetary assets and liabilities denominated in currencies other than such subsidiary's functional currency are translated into its functional currency at the exchange rate at the end of the relevant reporting period, whereas transactions giving rise to income and expenses and denominated in currencies other than such subsidiary's functional currency are translated into its functional currency at spot exchange rates on the transaction dates. Foreign exchange gains or losses (resulting from the settlement of transactions denominated in currencies other than the functional currency and from the translation of monetary assets and liabilities into the functional currency) are recognised in each subsidiary's profit and loss statement through the year and subsequently in the Group's consolidated statement of comprehensive income.

The Group's results of operations for the periods under review have been significantly impacted by exchange rate fluctuations. As a portion of the Group's borrowings are denominated in foreign currencies, fluctuations in the rouble exchange rates against these currencies result in the recognition of foreign exchange gains or losses from borrowings as a result of foreign currency translation. MMK is the only entity in the Group that holds foreign currency-denominated borrowings whose functional currency is the rouble.

In addition, as the majority of the Group's operations are based in Russia, its expenses are generally denominated in roubles while its export sales are denominated in foreign currencies (primarily U.S. Dollars and euro). The mix in the Group's sales and expenses is such that appreciation of the rouble against the U.S. Dollar generally results in an increase of the Group's expenses relative to its sales, while depreciation of the rouble against the U.S. Dollar results in a decrease of the Group's expenses relative to its sales, which serves in part to offset foreign exchange losses arising from the Group's U.S. Dollar denominated borrowings and loans advanced described above.

The Group does not enter into foreign currency hedging contracts to manage its exposure to fluctuations in foreign exchange rates in the ordinary course of business. For information on foreign currency exchange rate risks, see "*Risk Factors— Risk Factors Relating to the Group and the Steel Industry — The Group may be adversely affected by fluctuations in the foreign currency exchange rates*".

Steel Demand and Pricing

The Group's revenue is influenced by fluctuations in prices for steel and steel products both in the domestic market (Russia and the CIS) and in other markets where the Group sells its products. The Group sells its products through short-term and long-term sales contracts, as well as through its own sales network of warehouse trade. The long-term contracts provide for periodic price adjustments based on the market prices of such products or market reference adjustments in case of pricing under particular formula. Prices for steel products that the Group sells both inside and outside Russia and the CIS are generally determined by market environment driven by such factors as supply and demand for rolled steel, production costs (including costs of raw materials), transportation expenses, activities of key competitors and economic conditions.

During the past several years, consumption of rolled steel and high value added products in Russia and the CIS market declined, however, in 2017 and 2018, the recovery of the Russian economy led to a moderate growth in steel consumption. In addition, steel prices increased due to global steel market growth, contributed to by China, the countries of Southeast Asia and Turkey. The production restrictions under the government's environmental programme in China contributed to a supply shortage throughout the region.

The table below presents Russian market consumption data and total imports of high value added products to Russia for the period under review and the Group's estimates for 2019.

	Year ended 31 December			
	2019E	2018	2017	2016
	(million tonnes)			
Consumption of rolled steel	43.9	44.1	43.6	40.8
Consumption of high value added products	9.1	9.0	8.5	8.6
Consumption galvanised steel	3.3	3.2	3.1	3.2
Imports of high value added products in Russia	1.7	1.8	2.1	1.8

Source: MMK's calculations based on data of Metal-Courier as of April 2019

Prices for MMK's steel products in Russia and CIS changed during the period under review in line with the market levels with the average price per tonne increasing by 15.7% from RUB28,982 per tonne in 2016 to RUB33,532 per tonne in 2017 and further by 16.2% to RUB38,952 per tonne in 2018. However, average price per tonne for steel products increased by 3.9% in the first quarter of 2019 as compared to the same period of 2018 due to market volatility.

Due to a larger share of high value added products, lower transportation costs, competitive advantages (as a result of higher prices for steel and steel products imported into Russia due to higher logistical and transportation expenses), prices for most steel products sold by the Group in the domestic market (Russia and the CIS) remained higher than prices for export sales throughout the period under review. In light of these factors, the Group's management expects that prices for steel and steel products in Russia and the CIS will remain higher than prices on international markets.

Cost of Sales

The Group's cost of production is principally affected by prices of raw materials used in steelmaking and labour costs (payroll and social taxes).

The Group uses substantial amounts of raw materials in order to manufacture its products, in particular iron-containing raw materials (principally iron-containing sinter, pellets and scrap), coal concentrate and other materials. The cost of the Group's raw materials amounted to U.S.$2,751 million, or 48.9% of revenue, in 2016, U.S.$3,978 million, or 52.7% of revenue, in 2017, U.S.$4,154 million, or 50.6% of revenue, in 2018, U.S.$1,052 million, or 51.2% of revenue, and U.S.$1,031 million, or 56.2% of revenue in the three months ended 31 March 2018 and 2019, respectively. In the period under review, the markets for primary raw materials used by the Group were generally characterised by increased

prices. Prices for iron ore and coal 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.

The Group's payroll expenses in respect of the Group's employees whose wages are counted as cost of sales (employees involved in the production process) and related social taxes are a significant components of the Group's cost of sales, which amounted to U.S.$530 million, or 9.4% of revenue, in 2016, U.S.$643 million, or 8.5% of revenue, in 2017, U.S.$641 million, or 7.8% of revenue, in 2018, U.S.$173 million, or 8.4% of revenue, and U.S.$155 million, or 8.4% of revenue in the three months ended 31 March 2018 and 2019, respectively. While the payroll and social taxes decreased in U.S. Dollar terms due to the translation effect, this cost increased in Russian roubles by 6.2% in 2017 as compared to 2016 and by 6.6% in 2018 as compared to 2017. According to Rosstat, real wages in Russia increased by 0.8% in 2016, 2.9% in 2017 and 6.8% in 2018.

In addition, the Group's operations require substantial amounts of other raw materials, including various types of ferroalloys, refractories, fuel and gas, the price and availability of which are also subject to market conditions.

Materials Sourced Internally

Scrap. LLC MMK Vtormet, the Group's own scrap collection and processing company, satisfies almost all of the Group's requirements for scrap metal necessary for steel-making at market prices.

Limestone. The Group also sources all of its limestone from the Group's own open-pits and the Group is able to produce limestone at lower cost than purchasing equivalent supplies at market prices.

Electricity. MMK's four power generation plants produced 4.5 billion kw/hours of electricity to cover approximately 58% of its power requirements in 2018. MMK's management estimates that, in 2018, MMK was able to generate electricity at a cost that is approximately 1.4 times lower than the price at which additional power was purchased in the market in that year (1.4 times lower in 2016 and 2017).

The ability to produce scrap, limestone and electricity at costs that are lower than the market prices for such commodities has a positive effect on the Group's profitability.

Expenses on Transportation of Raw Materials and Steel Products

At present, a significant part of the Group's product deliveries to customers are transported by rail. The Group relies on the freight rail network operated by Russian Railways, a state-controlled company, for the distribution of its products to customers within Russia and to the Russian seaports. The Russian Government sets rail tariffs, that have increased in recent years and may further increase, which could adversely affect the Group's transportation costs. In addition, portions of the Russian railway sector have been and are continuing to be reorganised and privatised, which could result in further increased tariffs and consequently increase the Group's transportation costs. In 2012, NPK and the Group entered into a long-term transportation services contract, which was extended a number of times and currently expires in 2020. The price for transportation services is fixed for the duration of the contract. In accordance with the agreement, NPK provides rail freight transportation and logistics services to the Group and undertakes to handle at least 70% of the Group's cargo for shipment. The contract ensures a predictable cost base for transportation expenses for the majority of the Group's products until 2020.

In the past, the Group generally has been able to pass to its customers a significant proportion of the increases in railway transportation costs. However, there can be no assurance that the Group will be able to do so in the future. See "*Risk Factors – Risk Factors Relating to the Group and the Steel Industry – Disruption in rail transport and increased rail costs could significantly hinder the Group's operations and product distribution in Russia*".

Impairment of property, plant and equipment of MMK Metalurji

As part of the strategy to strengthen its position in the Middle East market, in 2007 the Group decided to build a new integrated steel plant in Turkey. During 2008-2011, all primary and auxiliary facilities of MMK Metalurji were put into operation. The production capacity of the steel plant is designed to produce 2.3 million tonnes of hot rolled products per year, 750 thousand tonnes of cold-rolled products per year, 900 thousand tonnes of galvanised steel per year and 400 thousand tonnes of galvanised steel with polymeric coating per year. Changes in the global economic environment and developments in the metals industry have resulted in, among others, volatility of metal prices and unfavourable market conditions, which led to the Group's decision to suspend production at the hot rolled facility in 2013 and a recognition of the relevant provision. The Group may consider re-starting production at the hot-rolled facility once it considers that market conditions have improved sufficiently.

On a regular basis, the Group updates the impairment test in respect of its assets in Turkey. As at 31 December 2018, property, plant and equipment at MMK Metalurji comprised 5% of the Group's total fixed assets with an aggregate value of U.S.$218 million, and revenue generated by MMK Metalurji accounted for 8.2% of the Group's total revenue, or U.S.$620 million for 2018. In 2018, the general impairment of the Turkey Steel Segment was recognised at U.S.$258 million. Determining the recoverable amount of the assets requires a number of significant judgments and estimates, especially regarding the amount of future cash flows and the applied discount rate. The projected operating cash flows are significantly influenced by long-term assumptions concerning scrap and steel prices, as well as volumes of sales. See "*Risk Factors - Risk Factors Relating to the Group and the Steel Industry - The Group's MMK Metalurji assets are subject to impairment*".

Disposal of Shares in FMG

In 2016, the Group had net gains on sale of available for sale investments of U.S.$315 million due to a disposal of shares in FMG. This one-off event, that affected the Group's results of operations, did not occur in 2017 and 2018 and will not reoccur in the future. For example, if this disposal did not occur in 2016, the Normalised Adjusted EBITDA for 2016 would amount to U.S.$1,641 million as compared to the Group's actual Adjusted EBITDA of U.S.$1,956 million for 2016.

Seasonality

Seasonal effects have a relatively limited impact on the Group. The Group typically experiences a slowing of demand for certain of its products, such as tin plate, galvanised steel, colour-coated steel, long products and metalware in the winter period, principally as a result of a slowing of demand from construction industry. In addition, in view of the geographical location of the Group's principal production facilities (in a climate zone with severe climate conditions in winter months), the Group requires additional winter provisioning of one-month supply of iron ore and coal and two-month supply of scrap to provide the materials needed for approximately one month of production, as extremely low temperatures significantly limit the Group's capability to pre-process supplies for its production process. The Group maintains at all times an adequate reserve of raw materials to safeguard the business operations of the Group for a period of one month in the event of supplies being interrupted. The Group maintains minimum requirements (measured in days) for such reserves. During winter, additional reserves of certain raw materials are prepared. See "*Risk Factors – Risk Factors Relating to the Group and the Steel Industry – The severe climate conditions in Magnitogorsk or in the regions in which the Group's key customers or suppliers of raw materials are located may disrupt the Group's operations*".

Scheduled Maintenance of Production Facilities

One of the Group's key competitive strengths is its second largest single-site production facility in Russia (according to Chermet), which the Group's management believes to be one of the most modern in the country. Given that steel production is a capital-intensive business, in order to maintain and develop the production quality and cost and time effectiveness of its facilities, the Group maintains a

capital expenditure programme which includes a capitalised repairs component of approximately U.S.$300-350 million per year. However, certain maintenance works require production sites to be put out of operation for prolonged periods of time, thus decreasing the Group's production capacity and sale volumes, which in turn may lead to declines in revenue. For example, the scheduled maintenance-related shut down of the 2500 rolling mill, blast furnace and converter in the first quarter of 2019 in part led to a 1.8% decrease in total production volumes of the Group for the three months ended 31 March 2019 as compared to the same period of 2018 and served as one the main reasons for the 10.7% decrease in the Group's revenue for the corresponding period.

Results of Operations in the Three Months Ended 31 March 2018 and 2019

The table below sets out the Group's consolidated statement of comprehensive income for the periods indicated.

	Three months ended 31 March		**% change**
	2019	**2018**	
	(in millions of U.S. Dollars, except percentages)		
Revenue	1,836	2,055	(10.7)%
Cost of sales	(1,321)	(1,422)	(7.1)%
Gross profit	**515**	**633**	**(18.6)%**
General and administrative expenses	(51)	(61)	(16.4)%
Selling and distribution expenses	(141)	(153)	(7.8)%
Change in expected credit loss, net	(6)	(5)	20.0%
Other operating income/(expenses), net	3	-	n/a
Operating profit	**320**	**414**	**(22.7)%**
Finance income	5	2	150.0%
Finance costs	(7)	(7)	0.0%
Foreign exchange gain/(loss), net	(14)	(17)	(17.6)%
Impairment and provision for site restoration	(2)	(3)	(33.3)%
Other expenses	(22)	(30)	(26.7)%
Profit before income tax	**280**	**359**	**(22.0)%**
Income tax	(55)	(80)	(31.3)%
Profit for the year	**225**	**279**	**(19.4)%**

Revenue

General

The Group maintains a strong presence in the Russian and CIS markets, in which it focuses on increasing sales of high value added products. While the Russian and CIS markets have historically been a priority for MMK, the Group's flexibility in shipments allows it to redirect sales to other markets when domestic demand slows down through the optimisation planning programme. See "*Business – Strategy - Pursue operational excellence*".

The Group's revenue decreased by U.S.$219 million, or 10.7%, to U.S.$1,836 million for the three month ended 31 March 2019 from U.S.$2,055 million for the corresponding period of 2018. This decrease was mainly driven by the decline in revenue from hot rolled steel sales due to a drop in the sale price in the end of 2018 and beginning of 2019, a decrease in production and sale volumes of the Group due to the scheduled maintenance-related shut down of the 2500 rolling mill, blast furnace and converter in the first quarter of 2019, as well as a foreign currency translation from functional currency to presentation currency because of the slight depreciation of the Russian rouble against the U.S. Dollar.

Revenue by Segment

The following table sets out the external revenue of the Group's segments, the Group's total external revenue and the percentage of the Group's total revenue represented by external revenue generated by each segment for the periods indicated, as well as the percentage change in revenue from sales by each of the Group's segments between those periods.

Segment	Three months ended 31 March				
	2019	% of total revenue	2018	% of total revenue	% change
	(in millions of U.S. Dollars, except percentages)				
Steel (Russia)	1,699	92.5%	1,860	90.5%	(8.7)%
Steel (Turkey)	130	7.1%	189	9.2%	(31.2)%
Coal Mining	7	0.4%	6	0.3%	16.7%
Total external revenue	**1,836**	**100.0%**	**2,055**	**100.0%**	**(10.7)%**

The Steel (Russia) Segment's external revenue decreased by U.S.$161 million, or 8.7%, to U.S.$1,699 million for the three months ended 31 March 2019 from U.S.$1,860 million for the corresponding period of 2018. This decrease was mainly attributable to the decline in revenue from hot rolled steel sales on the back of a decrease in sale volumes due to the on-going scheduled maintenance of several production facilities and a drop in sale prices in the end of 2018 and beginning of 2019, as well as a foreign currency translation from functional currency to presentation currency because of the slight depreciation of the Russian rouble against the U.S. Dollar.

The Steel (Turkey) Segment's external revenue decreased by U.S.$59 million, or 31.2%, to U.S.$130 million for the three months ended 31 March 2019 from U.S.$189 million for the corresponding period of 2018. This decrease was mainly due to decline in revenue from steel sales on the back of a drop in sale prices at the end of 2018 and beginning of 2019.

In the three months ended 31 March 2019, 91.3% of revenue of the Coal Mining Segment was attributable to inter-segment sales (internal consumption) as compared to 92.9% for the corresponding period of 2018.

Revenue by product

The following table sets out revenue from sales of the Group's products and services, the Group's total revenue and the percentage of the Group's total revenue represented by revenue from sales of each product for the periods indicated, as well as the percentage change in revenue from sales of each product between the years.

Product	Three months ended 31 March				
	2019	% of total revenue	2018	% of total revenue	% change
	(in millions of U.S. Dollars, except percentages)				
Hot-rolled steel	791	43.1%	875	42.6%	(9.6)%
Galvanised steel	301	16.4%	332	16.2%	(9.3)%
Long-steel products	172	9.4%	173	8.4%	(0.6)%
Cold-rolled steel	154	8.4%	216	10.5%	(28.7)%
Galvanised steel with polymeric coating	136	7.4%	144	7.0%	(5.6)%
Wire, sling, bracing	32	1.7%	38	1.8%	(15.8)%
Hardware products	39	2.1%	37	1.8%	5.4%
Formed section	31	1.7%	30	1.5%	3.3%
Coking production	34	1.9%	32	1.6%	6.3%
Tin plated steel	25	1.4%	31	1.5%	(19.4)%
Band	20	1.1%	26	1.3%	(23.1)%
Coal	7	0.4%	6	0.3%	16.7%
Scrap	10	0.5%	14	0.7%	(28.6)%
Tubes	7	0.4%	8	0.4%	(12.5)%
Others	77	4.2%	93	4.5%	(17.2)%
Total	**1,836**	**100.0%**	**2,055**	**100.0%**	**(10.7)%**

The following table sets out sales volume and average sale prices of the Group's products for the periods indicated.

	Three months ended 31 March 2019			Three months ended 31 March 2018		
	Volume of sales	**Average price**	**Revenue**	**Volume of sales**	**Average price**	**Revenue**
	(in thousands of tonnes)	*(in U.S. Dollars per tonne)*	*(in millions of U.S. Dollars)*	*(in thousands of tonnes)*	*(in U.S. Dollars per tonne)*	*(in millions of U.S. Dollars)*
Hot-rolled steel	1,403	564	791	1,391	629	875
Galvanised steel	414	727	301	435	763	332
Long-steel products	329	517	172	284	609	173
Cold-rolled steel	257	599	154	338	639	216
Galvanised steel with polymeric coating	156	872	136	152	947	144
Wire, sling, bracing	55	582	32	60	633	38
Hardware products	38	1,026	39	35	1,057	37
Formed section	41	756	31	35	857	30
Coking production	140	243	34	108	296	32
Tin plated steel	32	781	25	36	861	31
Band	34	667	20	37	703	26
Coal	58	121	7	39	154	6
Scrap	27	370	10	38	368	14
Tubes	11	636	7	11	727	8
Others	N/A	N/A	77	N/A	N/A	93
Total	**N/A**	**N/A**	**1,836**	**N/A**	**N/A**	**2,055**

The decrease in revenue in the three months ended 31 March 2019, as compared to the corresponding period of 2018, was due to a decrease in revenue from the majority of the Group's products, most notably from: (i) a U.S.$84 million decrease in revenue from sales of hot rolled steel as a result of a decline in sale volumes, as well as a 10.3% decrease in average sale price; (ii) a U.S.$31 million decrease in revenue from sales of galvanised steel mainly due to a 4.7% decline in average sale price; and (iii) a U.S.$62 million decrease in revenue from cold-rolled steel as a result of a 6.3% decline in average sale price and a 24.0% decrease in sale volumes.

Revenue by Customer Destination

The following table sets out the breakdown of the Group's external revenue by customer destination, the percentage of the Group's total external revenue represented by revenue from sales for the periods indicated, as well as the percentage change in revenue from sales in each region between the periods.

	Three months ended 31 March				
Region	**2019**	**% of total revenue**	**2018**	**% of total revenue**	**% change**
	(in millions of U.S. Dollars, except percentages)				
Russia and the CIS	1,582	86%	1, 545	75%	2.4%
Middle East	143	8%	284	14%	(49.6)%
Europe	67	4%	79	4%	(15.2)%
Africa	33	2%	60	3%	(45)%
Asia	9	-	87	4%	(89.7)%
North America	2	-	-	-	n/a
Total	**1,836**	**100%**	**2,055**	**100%**	**(10.7)%**

<u>*Russian and the CIS sales*</u>

The Group's sales in the Russian and the CIS markets accounted for 86% of the Group's total revenue in the three months ended 31 March 2019 as compared to 75% in the corresponding period of 2018.

For the three months ended 31 March 2019, the Group's domestic sales increased by U.S.$37 million, or 2.4%, from U.S.$1,545 million in the three months ended 31 March 2018.

In Russia, customers in the pipe-manufacturing, automotive, construction and production of machinery and equipment industries collectively accounted for 46.9% and 52.2% of the Group's total shipments for the three months periods ended 31 March 2018 and 2019, respectively.

The following table sets out the percentage breakdown of MMK's sales by volume to principal industries for the periods indicated.

	Three months ended 31 March	
	2019	2018
	(in %)	
Metal trade	30.8	34.0
Pipe-manufacturing	30.5	26.3
Construction	7.8	8.2
Hardware and non-integrated plants	10.2	11.5
Production of machinery and equipment	7.4	5.9
Automotive	6.5	6.5
Other	6.9	7.7

Export sales outside of Russia and the CIS

The Group's sales outside of Russia and the CIS accounted for 14% of revenue for the three months ended 31 March 2019 as compared to 25% in the corresponding period of 2018.

For the three months ended 31 March 2019, the Group's export sales decreased by 50.2% to U.S.$254 million from U.S.$510 million in the corresponding period of 2018. The largest export market during the period under review was the Middle East, which accounted for 8% and 14% of export revenue in the three months periods ended 31 March 2018 and 2019, respectively.

Cost of Sales

The principal components of the Group's cost of sales are:

- raw materials used (principally iron-containing raw materials (sinter, pellets and scrap) and coking coal);
- payroll and social taxes in respect of employees involved in the production process; and
- depreciation of property, plant and equipment used in the production process.

These three components collectively accounted for 95.9% and 98.3% of the Group's total cost of sales in the three months periods ended 31 March 2018 and 2019, respectively.

The following table sets out the components of the Group's cost of sales in the periods indicated, the percentage of the Group's total revenue that each of the components of the Group's cost of sales represented in these three years and the percentage change in each of the components of the Group's cost of sales during the years.

	Three months ended 31 March				
	2019	% of total revenue	2018	% of total revenue	% change
	(in millions of U.S. Dollars, except percentages)				
Cost of production					
Raw materials used	1,031	56.2%	1,052	51.2%	(2.0)%
Payroll and social taxes	155	8.4%	173	8.4%	(10.4)%
Depreciation of property, plant and equipment	113	6.2%	139	6.8%	(18.7)%
Other expenses	41	2.2%	52	2.5%	(21.2)%
	1,340	**73.0%**	**1,416**	**68.9%**	**(5.4)%**
Change in work in progress, finished goods and goods-in-transit	(19)	(1.0)%	6	0.3%	(416.7)%

	Three months ended 31 March				
	2019	% of total revenue	2018	% of total revenue	% change
		(in millions of U.S. Dollars, except percentages)			
Total	**1,321**	**71.9%**	**1,422**	**69.2%**	**(7.1)%**

The Group's cost of sales decreased by U.S.$101 million, or 7.1%, from U.S.$1,422 million, or 69.2% of total revenue, in the three months ended 31 March 2018 to U.S.$1,321 million, or 71.9% of total revenue, in the three months ended 31 March 2019. This decrease was a result of slight declines in the majority of the cost of sales components on the back of the decline in production volumes as a result of the on-going scheduled maintenance of several production facilities.

At the beginning of the first quarter of 2019, global raw materials prices tended to decrease (save for iron ore), however stabilised in February on the back of general stock formation prior to Chinese public holidays. However, a force majeure on the iron ore production facility in Brazil in March 2019 led to a sharp additional growth of iron ore prices, affecting the Group's raw materials portion of cost of sales.

Gross Profit

As a result of the factors discussed above, the Group's gross profit decreased by U.S.$118 million, or 18.6%, to U.S.$515 million in the three months ended 31 March 2019 from U.S.$633 million in the three months ended 31 March 2018. While the Group's revenue decreased by 10.7%, the Group's cost of sales for the same period decreased by 7.1%.

General and Administrative Expenses

The following table sets out the components of the Group's general and administrative expenses in the periods indicated, the percentage of the Group's total revenue that each of the components of the Group's general and administrative expenses represented in these three years and the percentage change in each of the components of the Group's general and administrative expenses between the years.

	Three months ended 31 March				
	2019	% of total revenue	2018	% of total revenue	% change
		(in millions of U.S. Dollars, except percentages)			
Payroll and social taxes	28	1.5%	31	1.5%	(9.7)%
Taxes other than income tax	8	0.4%	13	0.6%	(38.5)%
Professional services	4	0.2%	4	0.2%	0.0%
Depreciation and amortisation	6	0.3%	5	0.2%	20%
Insurance	1	0.1%	1	0.1%	0.0%
Materials	-	-	1	0.1%	n/a
Research and development costs	-	-	1	0.1%	n/a
Other	4	0.2%	5	0.2%	(20.0%)
Total	**51**	**2.8%**	**61**	**3.0%**	**(16.4)%**

The Group's general and administrative expenses decreased by U.S.$10 million, or 16.4%, to U.S.$51 million in the three months ended 31 March 2019 from U.S.$61 million in the corresponding period of 2018. The decline in U.S. Dollar terms is mainly due to the 16.2% Russian rouble depreciation against the U.S. Dollar for the first quarter of 2019 as compared to the first quarter of 2018.

Selling and Distribution Expenses

The following table sets out the components of the Group's selling and distribution expenses in the periods indicated, the percentage of the Group's total revenue that each of the components of the Group's selling and distribution expenses represented in these three years and the percentage change in each of the components of the Group's selling and distribution expenses between the years.

	Three months ended 31 March				
	2019	% of total revenue	2018	% of total revenue	% change
	(in millions of U.S. Dollars, except percentages)				
Transportation expenses	112	6.1%	113	5.5%	(0.9)%
Payroll and social taxes	4	0.2%	4	0.2%	-
Materials	5	0.3%	7	0.3%	(28.6)%
Packing costs	10	0.5%	10	0.5%	-
Other	10	0.5%	19	0.9%	(47.4)%
Total	**141**	**7.7%**	**153**	**7.4%**	**(7.8)%**

The Group's selling and distribution expenses decreased by U.S.$12 million, or 7.8%, to U.S.$141 million in the three months ended 31 March 2019 from U.S.$153 million in the corresponding period of 2018. This decrease is mainly explained by the decline in other expenses.

Other Operating Income, Net

In the three months ended 31 March 2019, the Group recorded other operating income (net) of U.S.$3 million as compared to no operating income in the corresponding period of 2018. This income is primarily explained by a growth in provision for advances issued.

Operating Profit

The Group's operating profit decreased by U.S.$94 million, or 22.7%, to U.S.$320 million in the three months ended 31 March 2019 from U.S.$414 million in the corresponding period of 2018. This decrease was mainly attributable to the 10.7% decrease in revenue.

The Group's operating profit is mainly generated by the Steel Segment (Russia) which decreased by U.S.$90 million (before inter-segment eliminations) to U.S.$309 million in the three months ended 31 March 2019 as compared to U.S.$399 million in the corresponding period of 2018. This decrease was mainly driven by the decline in revenue from hot rolled steel sales on the back of the drop in the sale price in the end of 2018/beginning of 2019, the decrease in production and sale volumes of the Group due to the scheduled maintenance-related shut down of the 2500 rolling mill, blast furnace and converter in the first quarter of 2019, as well as foreign currency translation from functional currency to presentation currency because of the slight depreciation of the Russian rouble against the U.S. Dollar.

The operating loss of the Steel Segment (Turkey) increased by U.S.$1 million (before inter-segment eliminations) to U.S.$11 million in the three months ended 31 March 2019 as compared to U.S.$10 million in the corresponding period of 2018. This increase in operating loss is primarily explained by a decrease in revenue of Steel Segment (Turkey) in the first three months of 2019 due to the reduction of sale volumes and average sale price for steel products globally, as well as the continued influence of external adverse factors, the adverse economic and political situation in the Republic of Turkey.

The operating profit of the Coal Segment increased by U.S.$5 million (before inter-segment eliminations) to U.S.$25 million (before inter-segment eliminations) in the three months ended 31 March 2019 as compared to U.S.$20 million in the corresponding period of 2018, principally due to the increase in production volumes.

Finance Income

The Group's finance income increased by U.S.$3 million, or 150.0%, to U.S.$5 million in the three months ended 31 March 2019 as compared to U.S.$2 million in the corresponding period of 2018 mainly as a result of growth amount of cash the Group held as bank deposits.

Finance Costs

The Group's finance costs remained unchanged and amounted to U.S.$7 million in each of the three month periods ended 31 March 2019 and 2018, respectively.

Net Foreign Exchange Loss

The Group's net foreign exchange loss decreased by U.S.$3 million, or 17.6%, to U.S.$14 million in the three months ended 31 March 2019 as compared to U.S.$17 million in the corresponding period of 2018. The fluctuations in the Group's foreign exchange position were principally due to changes in the proportion of trade and other receivables to trade and other payables, as well as to foreign-currency denominated borrowings.

Other Expenses

The Group's other expenses decreased by U.S.$8 million, or 26.7%, to U.S.$22 million the three months ended 31 March 2019 as compared to U.S.$30 million in the corresponding period of 2018 mainly as a result of the 16.2% Russian rouble depreciation against the U.S. Dollar for the first quarter of 2019 as compared to the first quarter of 2018. Other expenses included U.S.$18 million and U.S.$15 million of expenses related to social programmes and maintenance of social assets in the three-month periods ended 31 March 2018 and 2019, respectively.

Income Tax

The Group's income tax expense decreased by U.S.$25 million, or 31.3% from U.S.$80 million in the three months ended 31 March 2018 to U.S.$55 million in the three months ended 31 March 2019. The decrease was primarily driven by a decline in profit before income tax by U.S.$79 million, or 22.0%, from U.S.$359 million in the three months ended 31 March 2018 to U.S.$280 million in the three months ended 31 March 2019.

Profit for the Period

For the reasons discussed above, the Group's profit for the period decreased by U.S.$54 million, or 19.4%, from U.S.$279 million in three months ended 31 March 2018 to U.S.$225 million three months ended 31 March 2019.

Results of Operations in the Years Ended 31 December 2016, 2017 and 2018

The table below sets out the Group's consolidated statement of comprehensive income for 2016, 2017 and 2018.

	Year ended 31 December			**% change between 2017 and 2018**	**% change between 2016 and 2017**
	2018	**2017**	**2016**		
	(in millions of U.S. Dollars, except percentages)				
Revenue	8,214	7,546	5,630	8.9%	34.0%
Cost of sales	(5,531)	(5,268)	(3,817)	5.0%	38.0%
Gross profit	**2,683**	**2,278**	**1,813**	**17.8%**	**25.6%**
General and administrative expenses	(238)	(238)	(207)	0%	15.0%
Selling and distribution expenses	(591)	(562)	(443)	5.2%	26.9%
Change in expected credit loss, net	(14)	-	-	n/a	n/a
Other operating income/(expenses), net	(7)	(23)	299	(69.6%)	n/a
Operating profit	**1,833**	**1,455**	**1,462**	**26.0%**	**(0.5)%**
Share of results of associates	-	5	1	n/a	400%
Finance income	17	10	13	70.0%	(23.1)%
Finance costs	(31)	(44)	(117)	(29.5%)	(62.4)%
Foreign exchange gain/(loss), net	41	(39)	60	n/a	n/a
(Accrual)/Reversal of impairment and provision for site restoration	-	136	(5)	n/a	n/a
Excess of the Group's share in the fair value of net assets acquired over the cost of acquisition	-	36	-	n/a	n/a
Other expenses	(85)	(64)	(72)	32.8%	(11.1)%
Profit before income tax	**1,775**	**1,495**	**1,342**	**18.7%**	**11.4%**
Income tax	(458)	(306)	(231)	49.7%	32.5%

	Year ended 31 December			% change between 2017 and 2018	% change between 2016 and 2017
	2018	2017	2016		
	(in millions of U.S. Dollars, except percentages)				
Profit for the year	**1,317**	**1,189**	**1,111**	**10.8%**	**7.0%**

Revenue

General

The Group records revenue as income arising in the course of its ordinary activities. Revenue is recognised in the amount of transaction price. Transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties.

Revenue is recognised net of discounts, returns and value added taxes, export duties, other similar mandatory payments.

The Group's contracts with customers are fixed-price contracts and generally include both advance payment and deferred payment for the same contracts. Generally, sales are made with a credit term of 30-60 days, which is consistent with market practice and consequently trade receivables are classified as current assets. A receivable is recognised when the goods are delivered or dispatched based on delivery terms as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. Contract assets are immaterial and therefore not presented separately in the consolidated financial statements. A contract liability is an entity's obligation to transfer goods or services to a customer for which the entity has received consideration from the customer. Contract liabilities are included in trade and other payables line as advances from customers.

The Group's revenue increased by U.S.$668 million, or 8.9%, to U.S.$8,214 million for 2018 from U.S.$7,546 million for 2017, which in turn was an increase of U.S.$1,916 million, or 34.0%, from U.S.$5,630 million for 2016. The increase in 2018 as compared to 2017 was mainly driven by increased sale volumes and average sale price for hot rolled and galvanised steel on the back of the growing global demand. The increase in 2017, as compared to 2016, was mostly attributable to the increased sale volumes and average sale price, as well as a foreign currency translation from functional currency to presentation currency because of the appreciation of the Russian rouble against the U.S. Dollar.

Revenue by Segment

The following table sets out the external revenue of the Group's segments, the Group's total external revenue and the percentage of the Group's total revenue represented by external revenue generated by each segment in 2016, 2017 and 2018, as well as the percentage change in revenue from sales by each of the Group's segments between these three years.

Segment	2018	Share of total external revenue in 2018	2017	Share of total external revenue in 2017	2016	Share of total external revenue in 2016	% change between 2017 and 2018	% change between 2016 and 2017
			(in millions of U.S. Dollars, except percentages)					
Steel (Russia)	7,541	91.8%	6,848	90.8%	5,101	90.6%	10.1%	34.2%
Steel (Turkey)	620	7.5%	695	9.2%	522	9.3%	(10.8%)	33.1%
Coal Mining	53	0.6%	3	0.0%	7	0.1%	1,666.7%	(57.1)%
Total external revenue	**8,214**	**100.0%**	**7,546**	**100.0%**	**5,630**	**100.0%**	**8.9%**	**34.0%**

The Steel (Russia) Segment's external revenue increased by U.S.$693 million, or 10.1%, to U.S.$7,541 million for 2018 from U.S.$6,848 million for 2017, which, in turn, was an increase of U.S.$1,747 million, or 34.2%, from U.S.$5,101 million for 2016. The increase in 2018 as compared to 2017 was mainly attributable to the growth in sale volumes and average sale price on the back of growing consumption of steel products in Russia and the CIS region. The increase in dollar terms in 2017, as compared to 2016, was mostly attributable to the increased sale volumes and average sale price, as well as a foreign currency translation from functional currency to presentation currency because of the appreciation of the Russian rouble against the U.S. Dollar.

The Steel (Turkey) Segment's external revenue decreased by U.S.$75 million, or 10.8%, to U.S.$620 million for 2018 from U.S.$695 million for 2017, which, in turn, was an increase of U.S.$173 million, or 33.1%, from U.S.$522 million for 2016. The decrease in 2018 as compared to 2017 was mainly due to a significant decrease of the Turkish lira against the U.S. Dollars. The increase in 2017, as compared to 2016, was mostly attributable to the increased sale volumes and average sale price.

In 2018, 84.4% of revenue of the Coal Mining Segment was attributable to inter-segment sales (internal consumption) as compared to 99.1% in 2017 and 96.6% in 2016.

Revenue by product

The following table sets out revenue from sales of the Group's products and services, the Group's total revenue and the percentage of the Group's total revenue represented by revenue from sales of each product in 2016, 2017 and 2018, as well as the percentage change in revenue from sales of each product between the years.

Product	2018	Share of total external revenue in 2018	2017	Share of total external revenue in 2017	2016	Share of total external revenue in 2016	% change between 2017 and 2018	% change between 2016 and 2017
	(in millions of U.S. Dollars, except percentages)							
Hot-rolled steel..........	3,362	40.9%	3,174	42.1%	2,371	42.1%	5.9%	33.9%
Galvanised steel	1,343	16.4%	1,203	15.9%	896	15.9%	11.6%	34.3%
Long-steel products...	799	9.7%	728	9.6%	508	9.0%	9.8%	43.3%
Cold-rolled steel........	765	9.3%	776	10.3%	628	11.2%	(1.4%)	23.6%
Galvanised steel with polymeric coating......	667	8.1%	571	7.6%	418	7.4%	16.8%	36.6%
Wire, sling, bracing...	158	1.9%	141	1.9%	102	1.8%	12.1%	38.2%
Hardware products	154	1.9%	149	2.0%	110	2.0%	3.4%	35.5%
Formed section..........	134	1.6%	89	1.2%	26	0.5%	50.6%	242.3%
Coking production.....	133	1.6%	115	1.5%	78	1.4%	15.7%	47.4%
Tin plated steel..........	108	1.3%	97	1.3%	108	1.9%	11.3%	(10.2)%
Band.........................	99	1.2%	89	1.2%	67	1.2%	11.2%	32.8%
Coal..........................	52	0.6%	2	0.0%	7	0.1%	2,500.0%	(71.4)%
Scrap	48	0.6%	62	0.8%	36	0.6%	(22.6)%	72.2%
Tubes........................	40	0.5%	41	0.5%	36	0.6%	(2.4)%	13.9%
Slabs.........................	-	-	2	0.0%	28	0.5%	(100.0)%	(92.9)%
Others.......................	352	4.3%	307	4.1%	211	3.7%	14.7%	45.5%
Total	**8,214**	**100.0%**	**7,546**	**100.0%**	**5,630**	**100.0%**	**8.9%**	**34.0%**

The following table sets out sales volume and average sale prices of the Group's products in 2016, 2017 and 2018.

	2018			**2017**			**2016**		
	Volume of sales	**Average price**	**Revenue**	**Volume of sales**	**Average price**	**Revenue**	**Volume of sales**	**Average price**	**Revenue**
	(in thousands of tonnes)	*(in U.S. Dollars per tonne)*	*(in millions of U.S. Dollars)*	*(in thousands of tonnes)*	*(in U.S. Dollars per tonne)*	*(in millions of U.S. Dollars)*	*(in thousands of tonnes)*	*(in U.S. Dollars per tonne)*	*(in millions of U.S. Dollars)*
Hot-rolled steel.............	5,628	597	3,362	5,774	550	3,174	5,671	418	2,371
Galvanised steel.............	1,743	771	1,343	1,658	726	1,203	1,598	561	896
Long-steel products........	1,389	575	799	1,374	530	728	1,325	383	508
Cold-rolled steel.............	1,209	633	765	1,287	603	776	1,385	453	628
Galvanised steel with polymeric coating..........	697	957	667	623	917	571	534	783	418
Wire, sling, bracing..........	258	612	158	248	569	141	232	440	102
Hardware products........	151	1.020	154	154	968	149	151	728	110
Formed section..........	169	793	134	114	781	89	41	634	26
Coking production....	492	270	133	525	219	115	484	161	78
Tin plated steel.............	133	812	108	113	858	97	137	788	108
Band............	143	692	99	128	695	89	128	523	67
Coal.............	423	123	52	36	56	2	144	49	7
Scrap............	126	381	48	361	172	62	193	187	36
Tubes...........	63	635	40	65	631	41	78	462	36
Slabs............	-	-	-	4	500	2	104	269	28
Others..........	N/A	N/A	352	N/A	N/A	307	N/A	N/A	211
Total	**N/A**	**N/A**	**8,214**	**N/A**	**N/A**	**7,546**	N/A	N/A	**5,630**

The increase in revenue in 2018, as compared to 2017, was due to an increase in revenue from the majority of the Group's products, most notably from: (i) a U.S.$188 million increase in revenue from sales of hot rolled steel as a result of a 8.5% increase in average sale price; (ii) a U.S.$140 million increase in revenue from sales of galvanised steel due to a 5.1% increase in sale volumes and a 6.2% growth in the average sale price; (iii) a U.S.$96 million increase in revenue from galvanised steel with polymeric coating as a result of a 11.9% increase in sales volumes and a 4.3% growth in the average sale price; (iv) a U.S.$71 million increase in revenue from long-steel products on the back of a 8.5% increase in the average sale price; and (v) a U.S.$45 million increase in revenue from formed section as a result of a 48.2% growth in the sale volumes.

The increase in revenue in 2017, as compared to 2016, was due to an increase in revenue from nearly all of the Group's products (except for slabs, coal and tin plated steel), most notably from: (i) a U.S.$803 million increase in revenue from sales of hot rolled steel as a result of a 31.6% increase in the average sale price; (ii) a U.S.$307 million increase in revenue from sales of galvanised steel as a result of a 29.4% increase in the average sale price; (iii) a U.S.$220 million increase in revenue from sales of long steel products as a result of a 38.4% increase in the average sale price; (iv) a U.S.$153 million increase in revenue from sales of galvanised steel with polymeric coating as a result of a 17.1% increase in the average sale price; and (v) a U.S.$148 million increase in revenue from sales of cold-rolled steel as a result of a 33.1% increase in the average sale price partially offset by a 7.1% decrease in sale volumes.

Revenue by Customer Destination

The following table sets out the breakdown of the Group's external revenue by customer destination, the percentage of the Group's total external revenue represented by revenue from sales in 2016, 2017 and 2018, as well as the percentage change in revenue from sales in each region between the periods.

Region	2018	Share of total external revenue in 2018	2017	Share of total external revenue in 2017	2016	Share of total external revenue in 2016	% change between 2017 and 2018	% change between 2016 and 2017
			(in millions of U.S. Dollars, except percentages)					
Russia and the CIS	6,489	79%	5,843	77%	4,331	77%	11.1%	34.9%
Middle East	751	9%	1,035	14%	801	14%	(27.4)%	29.2%
Europe	294	4%	256	3%	274	5%	14.8%	(6.6)%
Africa	237	3%	191	3%	68	1%	24.1%	180.9%
Asia	423	5%	188	3%	137	3%	125.0%	37.2%
North America...........	19	-	18	-	15	-	5.6%	20.0%
South America...........	1	-	15	-	4	-	(93.3)%	275.0%
Total	**8,214**	**100.0%**	**7,546**	**100.0%**	**5,630**	**100.0%**	**8.9%**	**34.0%**

<u>*Russian and CIS sales*</u>

The Group maintains a strong presence in the Russian and CIS markets, in which it focuses on increasing sales of high value added products. While the Russian and CIS markets have historically been a priority for MMK, the Group's flexibility in shipments allows it to redirect sales to other markets when domestic demand slows down. The Group's sales in the Russian and CIS markets accounted for 79% of the Group's total revenue in 2018 as compared to 77% in each of 2016 and 2017.

In 2018, the Group's Russian and CIS sales increased by U.S.$6,489 million, or 11.1%, from U.S.$5,843 million in 2017 due to an increase in average sale prices and a demand for steel products. According to Metal Expert, demand for steel products in Russia increased by 1.0% in 2018 as compared to 2017.

In 2017, the recovery in the domestic markets (Russia and the CIS) led to a 34.9% increase in the Group's domestic sales to U.S.$5,843 million from U.S.$4,311 million in 2016 due to an increase in average sale prices and a demand for steel products. According to Metal Expert, demand for steel products in Russia increased by 7% in 2017 as compared to 2016.

In Russia, customers in the pipe-manufacturing, automotive, construction and production of machinery and equipment industries collectively accounted for 51%, 50% and 48% of MMK's total shipments in 2016, 2017 and 2018, respectively.

Due to the downturn in the Russian economy in 2016 and insignificant growth in 2017 and 2018, the demand from principal steel consuming industries in Russia was unstable during these years. According to Metal-Courier, the welded pipe manufacturing (excluding wide pipes) grew by 1.3% in 2016, by 7% in 2017 and by 1.8% in 2018. According to Rosstat, the construction industry in comparable prices declined by 2.1% in 2016, by 1.2% in 2017 and grew by 5.3% in 2018. According to OJSC ASM-Holding, the automotive industry declined by 5.4% in 2016 and grew by 19.0% in 2017 and by 13.9% in 2018.

According to MMK's estimates based on the data of Metal-Courier, steel consumption by the Russian pipe manufacturing industry fluctuated significantly over the past three years, as it decreased (compared with the previous years) by 10.7% in 2016, increased by 7.1% in 2017, increased by 1.2% in 2018; steel consumption by the Russian automotive industry increased by 15.1% in 2016, by 7.5% in 2017 and by 1.5% in 2018; and steel consumption by the Russian construction industry decreased by 4.9%, in 2016, increased by 4.1% in 2017 and further increased by 0.4% in 2018.

The following table sets out the percentage breakdown of MMK's sales by volume to principal industries in 2016, 2017 and 2018.

	Year ended 31 December		
	2018	2017	2016
		(in %)	
Metal trade	32.4	34.1	34.6
Pipe-manufacturing	26.1	26.0	25.9
Construction	8.3	10.0	11.0
Hardware and non-integrated plants	11.4	8.9	8.9
Production of machinery and equipment	6.6	6.6	7.6
Automotive	7.1	7.3	6.5
Other	8.1	7.1	5.5

Export sales outside of Russia and the CIS

The Group's sales outside of Russia and the CIS accounted for 21% of revenue in 2018 as compared to 23% in each of 2016 and 2017.

In 2018, the Group's export sales increased by 1.3% to U.S.$1,725 million from U.S.$1,703 million in 2017, which, in turn, was an increase of 31.1% from U.S.$1,299 million in 2016. The largest export market during the period under review is the Middle East, which accounted for 44%, 61% and 62% of export revenue in 2016, 2017 and 2018, respectively.

Cost of Sales

The principal components of the Group's cost of sales are:

- raw materials used, including iron-containing raw materials (principally iron-containing sinter, pellets and scrap) and coking coal;
- payroll and social taxes in respect of employees involved in the production process; and
- depreciation of property, plant and equipment used in the production process.

These three components collectively accounted for 96.5%, 97.6% and 98.0% of the Group's total cost of sales in 2018, 2017 and 2016, respectively.

The following table sets out the components of the Group's cost of sales in 2016, 2017 and 2018, the percentage of the Group's total revenue that each of the components of the Group's cost of sales represented in these three years and the percentage change in each of the components of the Group's cost of sales during the years.

	2018	Share of total external revenue in 2018	2017	Share of total external revenue in 2017	2016	Share of total external revenue in 2016	% change between 2017 and 2018	% change between 2016 and 2017
			(in millions of U.S. Dollars, except percentages)					
Cost of production								
Raw materials used ...	4,154	50.6%	3,978	52.7%	2,751	48.9%	4.4%	44.6%
Payroll and social taxes	641	7.8%	643	8.5%	530	9.4%	(0.3)%	21.3%
Depreciation of property, plant and equipment ..	542	6.6%	520	6.9%	461	8.2%	4.2%	12.8%
Other expenses	206	2.5%	242	3.2%	100	1.8%	(14.9)%	142.0%
	5,543	**67.5%**	**5,383**	**71.3%**	**3,842**	**68.2%**	**3.0%**	**40.1%**
Change in work in progress, finished goods and goods-in-transit...	(12)	(0.1%)	(115)	(1.5)%	(25)	(0.4)%	(89.6)%	360.0%
Total	**5,531**	**67.3%**	**5,268**	**69.8%**	**3,817**	**67.8%**	**5.0%**	**38.0%**

The Group's cost of sales increased by U.S.$263 million, or 5.0%, from U.S.$5,268 million, or 69.8% of total revenue, in 2017 to U.S.$5,531 million, or 67.3% of total revenue, in 2018. The increase in 2018, as compared to 2017, was principally due to a U.S.$176 million or 4.4% increase in cost of raw materials as a result of an increase in the production volumes and general growth in raw materials prices.

The Group's cost of sales increased by U.S.$1,451 million, or 38.0%, from U.S.$3,817 million, or 67.8% of total revenue, in 2016 to U.S.$5,268 million, or 69.8% of total revenue, in 2017. The increase in 2017, as compared to 2016, was principally due to an increase in all components of cost of sales, in particular as a result of: (i) a U.S.$1,227 million increase in raw materials used which is explained by increased prices for raw materials; (ii) a U.S.$113 million increase in payroll and social taxes which is mainly explained by the appreciation of the Russian rouble against the U.S. Dollar (by 13.9% from the average exchange rate of RUB66.5 per U.S.$1.0 in 2016 to RUB58.4 per U.S.$1.0 in 2017), as well as salary growth in line with inflation; (iii) a U.S.$59 million increase in the depreciation of property, plant and equipment which is mainly explained by the appreciation of the Russian rouble against the U.S. Dollar; and (iv) a U.S.$142 million increase in other expenses which is mainly explained by the increase in repair and toll processing services provided to the Group and by the appreciation of the Russian rouble against the U.S. Dollar.

Prices for primary raw materials used by the Group in production (iron ore and coal concentrate) in Russia generally fluctuate in line with prices on the global markets, taking into account the quarterly lag in prices in the domestic market for coal concentrates.

Gross Profit

As a result of the factors discussed above, the Group's gross profit increased by U.S.$405 million, or 17.8%, to U.S.$2,683 million in 2018 from U.S.$2,278 million in 2017, which, in turn, was an increase of U.S.$465 million, or 25.6%, from U.S.$1,813 million in 2016. While the Group's revenue increased by 8.9% and 34.0% in 2018 and 2017, respectively, the Group's cost of sales for the same periods increased by 5.0% and 38.0%.

General and Administrative Expenses

The following table sets out the components of the Group's general and administrative expenses in 2016, 2017 and 2018, the percentage of the Group's total revenue that each of the components of the Group's general and administrative expenses represented in these three years and the percentage change in each of the components of the Group's general and administrative expenses between the years.

	2018	**Share of total external revenue in 2018**	**2017**	**Share of total external revenue in 2017**	**2016**	**Share of total external revenue in 2016**	**% change between 2017 and 2018**	**% change between 2016 and 2017**
	(in millions of U.S. Dollars, except percentages)							
Payroll and social taxes	114	1.4%	116	1.5%	108	1.9%	(1.7)%	7.4%
Taxes other than income tax	59	0.7%	55	0.7%	42	0.7%	7.3%	31.0%
Professional services	17	0.2%	17	0.2%	15	0.3%	-	13.3%
Depreciation and amortisation	22	0.3%	22	0.3%	15	0.3%	-	46.7%
Insurance	3	0.0%	3	0.0%	3	0.1%	-	-
Materials	3	0.0%	3	0.0%	3	0.1%	-	-
Research and development costs	-	0.0%	3	0.0%	2	-	(100.0)%	50.0%
Other	20	0.2%	19	0.3%	19	0.3%	5.3%	-
Total	**238**	**2.9%**	**238**	**3.2%**	**207**	**3.7%**	**0.0%**	**15.0%**

The Group's general and administrative expenses remained at the same level in 2018 as compared to 2017 showing insignificant fluctuations within the structure of expenses. Payroll and social taxes remain the main component of the general and social expenses accounting for 47.9%.

The Group's general and administrative expenses increased by U.S.$31 million, or 15.0%, to U.S.$238 million in 2017 from U.S.$207 million in 2016. The increase in dollar terms was principally due to the increase in key components of the Group's general and administrative expenses which are predominantly rouble-denominated as a result of the appreciation of the Russian rouble against the U.S. Dollar (by 13.9% from the average exchange rate of RUB66.5 per U.S.$1.0 in 2016 to RUB58.4 per U.S.$1.0 in 2017).

Selling and Distribution Expenses

The following table sets out the components of the Group's selling and distribution expenses in 2016, 2017 and 2018, the percentage of the Group's total revenue that each of the components of the Group's selling and distribution expenses represented in these three years and the percentage change in each of the components of the Group's selling and distribution expenses between the years.

	2018	Share of total external revenue in 2018	2017	Share of total external revenue in 2017	2016	Share of total external revenue in 2016	% change between 2017 and 2018	% change between 2016 and 2017
	(in millions of U.S. Dollars, except percentages)							
Transportation expenses	451	5.5%	437	5.8%	347	6.2%	3.2%	25.9%
Payroll and social taxes	15	0.2%	14	0.2%	12	0.2%	7.1%	16.7%
Materials	25	0.3%	25	0.3%	20	0.4%	0.0%	25.0%
Advertising expenses	2	0.0%	2	0.0%	2	0.0%	0.0%	0.0%
Depreciation	2	0.0%	2	0.0%	3	0.1%	0.0%	(33.3)%
Packing costs	38	0.5%	37	0.5%	30	0.5%	2.7%	23.3%
Other	58	0.7%	45	0.6%	29	0.5%	28.9%	55.2%
Total	**591**	**7.2%**	**562**	**7.4%**	**443**	**7.9%**	**5.2%**	**26.9%**

The Group's selling and distribution expenses increased by U.S.$29 million, or 5.2%, to U.S.$591 million in 2018 from U.S.$562 million in 2017. The increase is mainly explained by a U.S.$14 million increase in transportation expenses due the increased volume of sales and a U.S.$13 million increase in other expenses.

The Group's selling and distribution expenses increased by U.S.$119 million, or 26.9%, to U.S.$562 million in 2017 from U.S.$443 million in 2016. The increase is mainly explained by a U.S.$90 million increase in transportation expenses due the increased volume of sales. In addition, the increase in dollar terms was principally due to the increase in almost all components of the Group's selling and distribution expenses which are predominantly rouble-denominated as a result of an appreciation of the Russian rouble against the U.S. Dollar (by 13.9% from average exchange rate of RUB66.5 per U.S.$1.0 in 2016 to RUB58.4 per U.S.$1.0 in 2017).

Other Operating Expense, Net

In 2018, the Group had other operating expense (net) of U.S.$7 million as compared to other operating expense (net) of U.S.$23 million in 2017. The U.S.$16 million decline in expense in 2018 is primarily explained by a decrease in loss from the disposal of fixed assets and an increase in income from the disposal of other assets.

In 2017, the Group had other operating expense (net) of U.S.$23 million as compared to other operating income (net) of U.S.$299 million in 2016. The expense in 2017 is primarily explained by the loss on disposal of property, plant and equipment, while in 2016 the Group had net gains on sale of

available for sale investments of U.S.$315 million due to a disposal of shares in FMG recorded in 2016 (a one-off event that did not occur in 2017).

Operating Profit

The Group's operating profit increased by U.S.$378 million, or 26.0%, to U.S.$1,833 million in 2018 from U.S.$1,455 million in 2017, which, in turn, was a decrease of U.S.$7 million, or 0.5%, from U.S.$1,462 million in 2016. The increase in 2018 was mainly attributable to the 8.9% increase in revenue. The decrease in 2017 was principally due to net gains on sale of available for sale investments of U.S.$315 million due to a disposal of shares in FMG recorded in 2016 (a one-off event that did not occur in 2017), as well as increases in selling and distribution expenses and general and administrative expenses.

The Group's operating profit is mainly generated by the Steel Segment (Russia) which increased by U.S.$391 million (before inter-segment eliminations) to U.S.$1,791 million in 2018 as compared to U.S.$1,400 million in 2017, which, in turn, was a decrease of U.S.$36 million (before inter-segment eliminations) from U.S.$1,436 million (before inter-segment eliminations) in 2016. The increase in operating profit of the Steel Segment (Russia) in 2018 was mainly attributable to the general increase in revenue on the back of growth in sales volumes and prices. The decrease in the operating profit in 2017 was principally as a result of net gains on sale of available for sale investments of U.S.$315 million due to a disposal of shares in FMG recorded in 2016 (a one-off event that did not occur in 2017).

The operating loss of the Steel Segment (Turkey) increased by U.S.$59 million (before inter-segment eliminations) to U.S.$70 million in 2018 as compared to the operating loss of U.S.$11 million (before inter-segment eliminations) in 2017, which, in turn, was a decrease of U.S.$9 million (before inter-segment eliminations) from the operating loss of U.S.$20 million (before inter-segment eliminations) in 2016. The sharp increase in the operating loss of the Steel Segment (Turkey) in 2018 as compared to 2017 is mainly attributable to a significant depreciation of the Turkish lira against U.S. Dollar. The decrease in operating loss in 2017 is primarily explained by the increase in sales volumes and the decrease in cost of raw materials consumed by the Steel Segment (Turkey).

The operating profit of the Coal Segment increased by U.S.$29 million (before inter-segment eliminations) to U.S.$104 million (before inter-segment eliminations) in 2018 as compared to U.S.$75 million in 2017, which, in turn, was an increase of U.S.$27 million (before inter-segment eliminations) from U.S.$48 million (before inter-segment eliminations) in 2016 principally due to a corresponding increase in total revenues of this segment as a result of higher prices and sales volumes consumed by the Steel Segment (Russia).

Finance Income

The Group's finance income increased by U.S.$7 million, or 70.0%, to U.S.$17 million in 2018 from U.S.$10 million in 2017. This increase is explained by a higher amount of cash the Group held as bank deposits.

The Group's finance income decreased by U.S.$3 million, or 23.1%, to U.S.$10 million in 2017 from U.S.$13 million in 2016. This decrease is explained by a lower amount of cash the Group held as bank deposits as the Group utilised cash for repayment of debt in line with its deleveraging strategy.

Finance Costs

The Group's finance costs decreased by U.S.$13 million, or 29.5%, to U.S.$31 million in 2018 from U.S.$44 million in 2017. This decrease is explained by the reduction of interest expense on borrowings as a result of the repayment of debt in line with the Group's deleveraging strategy.

The Group's finance costs decreased by U.S.$73 million, or 62.4%, to U.S.$44 million in 2017 from U.S.$117 million in 2016. This decrease is explained by the reduction of interest expense on borrowings as a result of the repayment of debt in line with the Group's deleveraging strategy.

Net Foreign Exchange Gain or Loss

The Group had a net foreign exchange gain of U.S.$41 million in 2018 as compared to a foreign exchange loss of U.S.$39 million in 2017 and a net foreign exchange gain of U.S.$60 million in 2016. The fluctuations in the Group's foreign exchange position were principally due to changes in the proportion of trade and other receivables to trade and other payables, as well as to foreign-currency denominated borrowings.

Reversal/(Accrual) of Impairment Provision for Site Restoration

In 2017, the Group had a reversal of impairment losses and a provision for site restoration of U.S.$136 million as compared to U.S.$5 million of an accrual of impairment losses and a provision for site restoration in 2016. The reversal was principally due to the Group's management decision to restart the modernisation project which resulted in the reversal of a previously recognised provision of U.S.$150 million (including the effect of translation to presentation currency). In 2018, the Group did not record any accrual or reversal of impairment losses and a provision for site restoration.

Excess of the Group's Share in the Fair Value of Net Assets Acquired over the Cost of Acquisition

In 2017, the Group had an excess of share in the fair value of net assets acquired over the cost of acquisition of U.S.$28 million as a result of the acquisition of LMC Group in December 2017. In 2017, the Group completed the business combination achieved in stages (U.S.$8 million) that were accounted as the Group's associates as at 31 December 2016. In 2018, the Group did not record any excess of share in the fair value of net assets acquired over the cost of acquisition.

Other Expenses

The Group's other expenses increased by U.S.$21 million, or 32.8%, to U.S.$85 million in 2018 from U.S.$64 million in 2017. Other expenses included U.S.$51 million in 2018 and U.S.$44 million in 2017, which related to social programmes and maintenance of social assets. This increase was principally due to (i) a U.S.$5 million increase in various payments to support Magnitogorsk hockey club "Metallurg"; and (ii) a U.S.$2 million increase in expenses related to social programmes and maintenance of social assets and other expenses.

The Group's other expenses decreased by U.S.$8 million, or 11.1%, to U.S.$64 million in 2017 from U.S.$72 million in 2016. Other expenses included U.S.$44 million in 2017 and U.S.$46 million in 2016, which related to social programmes and maintenance of social assets. This decrease was principally due to (i) a U.S.$4 million increase in various payments to support Magnitogorsk hockey club "Metallurg" and (ii) a U.S.$6 million decrease in expenses related to social programmes and maintenance of social assets and other expenses.

Income Tax

The Group's income tax expense increased by U.S.$152 million, or 49.7% from U.S.$306 million in 2017 to U.S.$458 million in 2018. The increase was primarily driven by a growth in profit before income tax by U.S.$280 million, or 18.7%, from U.S.$1,495 million in 2017 to U.S.$1,775 million in 2018.

The Group's income tax expense increased by U.S.$75 million, or 32.5% from U.S.$231 million in 2016 to U.S.$306 million in 2017. The increase was primarily driven by a growth in profit before income tax by U.S.$153 million, or 11.4%, from U.S.$1,342 million in 2016 to U.S.$1,495 million in 2017.

Profit for the Year

For the reasons discussed above, the Group's profit for the year increased from U.S.$1,111 million in 2016 to U.S.$1,189 million in 2017 and further to U.S.$1,317 million in 2018.

Liquidity and Capital Resources

Sources and Uses

The Group funds its operations principally through net cash from operations and proceeds from debt financings. These funds are used principally to finance the Group's working capital and capital expenditure requirements, as well as dividend payments to shareholders. The Group also used proceeds from sale of shares in FMG (in 2016) as a source of liquidity.

The Group's business is heavily dependent on plant, machinery and equipment for the production of steel and steel products. Investments to maintain the overall production capacity, selectively increase production capacity of certain facilities that currently operate at, or close to, their nominal or design production capacity, build certain new facilities for manufacturing products that are in particularly high demand, such as galvanised steel, and increase the efficiency of production facilities are, accordingly, an important priority for the Group's management and have a significant effect on the Group's cash flows and future results of operations.

In 2016, 2017 and 2018, the Group paid dividends of U.S.$180 million, U.S.$413 million and U.S.$833 million, respectively. The Group's dividend policy and the amount of any dividend payment for any particular period are subject to the recommendation of the Board of Directors of MMK, the approval by MMK's shareholders and requirements under Russian law.

Under MMK's current dividend policy, which was approved by MMK's Board of Directors in April 2017, the amount of dividends is calculated with reference to certain ratios calculated using amounts extracted from the Group's IFRS consolidated financial statements. If the Group's Net Debt/EBITDA is below 1.0x, the amount allocated for the payment of dividends may generally be at least 50% of the Free Cash Flow. If the Group's Net Debt/EBITDA ratio exceeds 1.0x, the amount allocated for dividend payment may generally be at least 30% of the Free Cash Flow.

Cash Flows

The following table sets out the Group's summary of cash flow for the periods indicated.

	Three months ended 31 March		Year ended 31 December		
	2019	2018	2018	2017	2016
	(in millions of U.S. Dollars)				
Cash and cash equivalents at 1 January	739	556	556	266	369
Net cash generated by operating activities	418	366	1,887	1,358	1,191
Net cash (used) in /generated from investing activities	(159)	(220)	(848)	(599)	264
Net cash used in financing activities	(304)	(254)	(831)	(480)	(1,575)
Effect of translations to presentation currency and exchange rate changes on the balance of cash held in foreign currencies	16	(7)	(25)	11	17
Cash and cash equivalents, end of period	710	441	739	556	266

Net Cash Generated from Operating Activities

Net cash generated from operating activities increased by U.S.$52 million, or 14.2%, from U.S.$366 million in the first three months of 2018 to U.S.$418 million for the corresponding period of 2019. This increase was mainly due to a decrease in payments to suppliers in the three months ended 31 March 2019 compared to the same period in 2018, which was partially offset by a decrease in proceeds received from customers.

Net cash generated from operating activities increased by U.S.$529 million, or 39.0%, from U.S.$1,358 million in 2017 to U.S.$1,887 million in 2018. This increase was principally caused by revenue growth as a result of higher volume of sales on the back of increased global demand, as well as a decrease in the working capital mainly due to a decrease in inventory caused by high turnover.

Net cash generated from operating activities increased by U.S.$167 million, or 14.0%, from U.S.$1,191 million in 2016 to U.S.$1,358 million in 2017. This increase was principally caused by revenue growth as a result of price recovery and higher volume of sales. The increase was partially offset by an increase in the working capital due to: (i) growth in inventory caused by the increased inventory turnover period; and (ii) an increase in trade and other receivables due to increased amount of deferred payments upon customer requests.

During 2016-2018, the Group's turnover periods for inventories, trade and other receivables, trade and other payables and net working capital were relatively stable. According to estimates based on the Group's internal management accounts, as at 31 December 2018, the Group's turnover period was 79 days for inventories, 23 days for trade and other receivables, 28 days for trade and other payables and 53 days for net working capital. As at 31 December 2017, the Group's turnover period was 99 days for inventories, 23 days for trade and other receivables, 30 days for trade and other payables and 61 days for net working capital. As at 31 December 2016, the Group's turnover period was 92 days for inventories, 19 days for trade and other receivables, 24 days for trade and other payables and 58 days for net working capital.

Net Cash Generated from/(Used) in Investing Activities

In the three months ended 31 March 2019, the Group had net cash used in investing activities of U.S.$159 million as compared to U.S.$220 million for the corresponding period of 2018. The main direction for net cash used in investing activities in the first three months of 2019 was purchase of property, plant and equipment in line with the Group's investment programme.

In 2018, the Group had net cash used in investing activities of U.S.$848 million as compared to U.S.$599 million in 2017. The main direction for net cash used in investing activities in 2018 was a U.S.$196 million increase in the purchase of property, plant and equipment in line with the Group's investment programme.

In 2017, the Group had net cash used in investing activities of U.S.$599 million as compared to net cash generated from investing activities of U.S.$264 million in 2016. The key driver for net cash used in investing activities in 2017 was a U.S.$201 million increase in the purchase of property, plant and equipment in line with the Group's investment programme, while in 2016 the Group received one-off proceeds of U.S.$410 million from the sale of available-for-sale investments.

Net Cash Used in Financing Activities

In the three months ended 31 March 2019, net cash used in financing activities amounted to U.S.$304 million. This resulted principally from a U.S.$282 million dividend paid to equity holders, as well as U.S.$22 million excess of repayment of borrowings over proceeds from borrowings in line with the Group's deleveraging strategy.

Net cash used in financing activities in 2018 amounted to U.S.$831 million. This resulted principally from a U.S.$833 million dividend paid to equity holders.

Net cash used in financing activities in 2017 amounted to U.S.$480 million. This resulted principally from a U.S.$413 million dividend paid to equity holders and a U.S.$66 million excess of repayment of borrowings over proceeds from borrowings in line with the Group's deleveraging strategy.

Net cash used in financing activities in 2016 amounted to U.S.$1,575 million. This resulted principally from a U.S.$1,396 million excess of repayments of borrowings over proceeds from borrowings in line with the Group's deleveraging strategy.

Liquidity

Historically, the Group has relied on cash from its operating activities and borrowings as its principal sources of liquidity. The Group had cash and cash equivalents of U.S.$266 million as at 31 December 2016, U.S.$556 million as at 31 December 2017, U.S.$739 million as at 31 December 2018 and U.S.$710 million as at 31 March 2019. The Group's total unused element of all credit facilities amounted to U.S.$1,415 million as at 31 December 2016, U.S.$1,287 million as at 31 December 2017, U.S.$1,307 million as at 31 December 2018 and U.S.$1,349 million as at 31 March 2019.

The Group's management believes that funds from operations, cash on hand, available funds under existing external borrowings and funds from new borrowings will be sufficient to satisfy the Group's working capital needs and service the Group's debt in the foreseeable future. The Group's management also believes that the Group's liquidity and capital resources give the Group adequate flexibility to manage its planned capital expenditures programmes and to address short-term changes in business conditions.

Other than as described above and elsewhere in the Prospectus, no significant change has occurred in the Group's liquidity position since 31 March 2019.

Indebtedness

The Group's short-term and long-term borrowings principally consist of unsecured bank loans and obligations under leases, denominated in U.S. Dollar, euro and rouble. As at 31 March 2019, U.S. Dollar-denominated borrowings represented 2.9% of the Group's total debt (as compared to 2.8% as at 31 December 2018, 0.4% as at 31 December 2017 and 42.0% as at 31 December 2016), Euro-denominated debt represented 63.9% of the Group's total debt (as compared to 66.0% as at 31 December 2018, 66.9% as at 31 December 2017 and 24.6% as at 31 December 2016) and rouble-denominated debt represented 33.1% of the Group's total debt (as compared to 31.2% as at 31 December 2018, 32.7% as at 31 December 2017 and 33.4% as at 31 December 2016).

The average cost of debt of the Group amounted to 4.93%, 3.37%, 3.00% and 3.35% as at 31 December 2016, 2017 and 2018 and as at 31 March 2019.

The following table sets out the Group's short-term borrowings, current portion of long-term borrowings and long-term borrowings as at the dates indicated.

	As at 31 March	As at 31 December		
	2019	2018	2017	2016
	(in millions of U.S. Dollars)			
Short-term borrowings:				
Secured loans (borrowed in U.S. Dollars)	—	—	—	1
Secured loans (borrowed in euro)	—	—	6	—
Unsecured loans (borrowed in U.S. Dollars)	15	15	—	—
Unsecured loans (denominated in roubles)	156	146	100	—
Unsecured loans (borrowed in euro)	75	100	110	24
	246	**261**	**216**	**25**
Current portion of long-term borrowings:				
Unsecured loans (borrowed in euro)	185	8	44	63
Unsecured loans (borrowed in U.S. Dollars)	—	—	2	207
Unsecured loans (borrowed in roubles)	—	—	46	25
	185	8	92	295
Sub-Total	**431**	**269**	**308**	**320**
Long-term borrowings:				
Unsecured loans (borrowed in U.S. Dollars)	—	—	—	2
Unsecured loans (borrowed in roubles)	—	—	30	140
Unsecured loans (borrowed in euro)	66	246	204	36
Sub-Total	**66**	**246**	**234**	**178**
Total borrowings	**497**	**515**	**542**	**498**
Obligations under leases	12	11	-	-
Obligations under finance leases	-	-	1	1

	As at 31 March	As at 31 December		
	2019	2018	2017	2016
		(in millions of U.S. Dollars)		
Current portion of obligations under leases	1	10	-	-
Current portion of obligations under finance leases	-	-	1	1
Total borrowings and obligations under finance leases	**510**	**536**	**544**	**500**
Net Debt	(200)	(203)	(12)	192
Net Debt/Adjusted EBITDA[1]	(0.09)x	(0.08)x	(0.01)x	0.10x

Notes:

(1) "Net Debt/Adjusted EBITDA" means, for any period, Net Debt as at the end for the relevant period divided by Adjusted EBITDA for the relevant period. Net Debt/Adjusted EBITDA for three months ended 31 March 2019 and 2018 is represented by Net Debt as at the end of the reporting period and Adjusted EBITDA for 12 months ended 31 March 2019 and 2018, respectively.

The increase in the Group's total borrowings and obligations under leases and finance leases from U.S.$500 million as at 31 December 2016 to U.S.$510 million as at 31 March 2019 was principally due to the Group's pre-emptive application of IFRS 16 –*"Leases"*.

Some of the Group's loan agreements contain financial covenants, including consolidated debt to consolidated Adjusted EBITDA (3.5 to 1) and consolidated debt to consolidated equity (1 to 1). The majority of the existing financial covenants are required to be calculated based on the consolidated IFRS numbers. Calculating methods specified in those loan agreements for these measures may differ from those used by the Group for its internal purposes, including for reporting certain components of these measures in its financial statements. As of the date of the Prospectus, the Group had been in compliance with these covenants at all dates when compliance with such covenants was tested.

As at 31 March 2019, the Group had approximately U.S.$1,300 million of available loans and credit lines, of which 2% accounted for committed facilities. Fixed-rate loans amounted to 86% of the Group's borrowings as at 31 March 2019.

As at 31 March 2019 and as at 31 December 2018, 2017 and 2016, there were no property, plant and equipment pledged under the borrowings. As at 31 March 2019 and as at 31 December 2018 short-term borrowings were not secured, and as at 31 December 2017 and 2016, short-term borrowings were secured by inventories U.S.$6 million and U.S.$1 million, respectively.

By adhering to a conservative leverage policy, the Group is able to keep its debt burden to a minimum. In 2016, the Group had significantly decreased its Net Debt by 82.9% or U.S.$932 million to U.S.$192 million as compared to 2015. As at 31 December 2017, the Group had negative Net Debt of U.S.$12 million due to an increase in cash and cash equivalents. As at 31 December 2018, the Group had negative Net Debt of U.S.$203 million due to an increase in cash and cash equivalents in 2018. As at 31 March 2019, the Group's negative Net Debt amounted to U.S.$200 million, representing a slight increase. Resources used to decrease the Net Debt included operational cash flow, proceeds from the sale of securities and cash account balances. In the periods under review, the Group generated sustainable cash flows, as at 31 December 2018, 2017 and 2016 the Group's free cash flow amounted to U.S.$1,027 million, U.S.$694 million and U.S.$728 million, respectively.

The average maturity of the Group's total borrowings, 2.3 years in 2016, 1.25 years in 2017, 1.12 years in 2018 and 1.0 years as at 31 March 2019.

The following table sets out the Group's long-term debt repayment schedule as at 31 March 2019.

	As at 31 March 2019
2020 (presented as current portion of long-term borrowings and loans)	185
2021	25
2022	24
2023	17
Total	**251**

Capital Expenditures

The Group made capital expenditures (comprising the purchase of property, plant and equipment (excluding purchase of intangible assets)) of U.S.$463 million, U.S.$664 million, U.S.$860 million and U.S.$158 million in 2016, 2017, 2018 and three months ended 31 March 2019, respectively. The Group funded its capital expenditures in these years principally through net cash generated by operating activities.

The following table sets out the Group's capital expenditures in 2016, 2017 and 2018 by segment.

	Three months ended 31 March	**Year ended 31 December**		
	2019	**2018**	**2017**	**2016**
Steel Segment (Russia)	140	799	611	431
Steel Segment (Turkey)	1	7	6	10
Coal Mining	17	54	47	22
Total capital expenditures	**158**	**860**	**664**	**463**

The Group's management currently plans to make expansion and maintenance capital expenditures in the amount of approximately U.S.$850 million in 2019. These planned expansion capital expenditure projects include the development capex of U.S.$501 million, which provides for financing of (i) completion of construction of the sinter plant No. 5; (ii) reconstruction of the hot rolling mill 2500; (iii) construction of the coke-oven battery complex No. 12; and (iv) purchase of equipment to minimise the negative impact on the environment. In addition, it includes approximately U.S.$348 million of capitalised repairs in 2019. Going forward, the Group also plans to (i) install a new coke battery at its facility in Magnitogorsk by the end of 2022, replacing existing batteries No. 13 and No. 14, in order to improve the quality of coke production and reduce the environmental impact of the production; (ii) build a new blast furnace in 2020–2024 to replace the existing blast furnaces No. 7 and No. 8, to increase the production capacity of pig iron, reduce production costs and impact on the environment; and (iii) build a steam turbine power station in 2020-2023.

To finance its capital expenditures, the Group's management plans to rely on cash generated from the Group's operations and external debt financing. However, there can be no assurance that the Group will be able to generate sufficient cash from operations to finance such expenditures or that external financing will be available on reasonable terms, or at all. See "*Risk Factors – Risk Factors Relating to the Group and the Steel Industry – The Group may not be able to generate funding sufficient to complete the additional capital expenditures that the Group's management expects the Group to incur in order to continue modernising its existing production facilities*".

According to environmental regulation and its ecological programme, the Group recognised a provision for the restoration of land and open pit in the Magnitogorsk and Kemerovo region until 2040. As at 31 March 2019, the Group's site restoration provision amounted to U.S.$153 million as compared to U.S.$140 million as at 31 December 2018, U.S.$169 million as at 31 December 2017 and U.S.$165 million as at 31 December 2016.

Commitments and Contingencies

Commitments for Expenditures

In the course of carrying out its operations and other activities the Group enters into various agreements which require the Group to invest in or provide financing to specific projects or undertakings. In the opinion of the Group's management, these commitments are entered into under standard terms, which are representative of each project's feasibility and should not result in unreasonable losses to the Group.

As at 31 December 2018, the Group had purchase agreements of U.S.$203 million to acquire property, plant and equipment in 2019 as compared to U.S.$238 million as at 31 December 2017 and U.S.$136 million as at 31 December 2016.

As at 31 December 2018, the Group had purchase agreements of U.S.$2,835 million to acquire in future periods through 2015-2022 coking coal, zinc, iron ore and natural gas as compared to U.S.$4,827 million as at 31 December 2017 and U.S.$5,863 million as at 31 December 2016.

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

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

Operating Leases

The land in the Russian Federation on which the Group's production facilities are located is partially owned by the state or the Group. With respect to the land owned by the Group, it pays land tax based on the total area and the location of the land occupied. The amount of land tax for 2016 and 2017 was U.S.$7 million and U.S.$8 million, respectively.

The Group leases land through operating lease agreements, which expire in various years. Minimum lease payments due under non-cancellable operating lease agreements as at 31 December 2016 and 2017 were as follows:

	As at 31 December	
	2017	**2016**
Due in one year	9	7
Due in the second year	6	5
Due thereafter	85	66
Total	**100**	**78**

Starting from 2018, the Group applies new accounting standard IFRS 16 – "*Leases*" and therefore did not report operating leases for the year ended 31 December 2018.

Letters of Guarantee

As at 31 March 2019, the Group had letters of guarantee obtained from banks and given to suppliers amounting to U.S.$215 million, as compared to U.S.$231 million as at 31 December 2018, U.S.$204 million as at 31 December 2017 and U.S.$121 million as at 31 December 2016.

Taxation Contingencies in the Russian Federation

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

The effective tax rate of the Group in 2016, 2017 and 2018 amounted to 17.2%, 20.5% and 25.8% respectively.

Risk Management Activities

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

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall due. The Group's liquidity position is carefully monitored and managed. The Group has in place a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations.

See Note 25 to the 2018 Financial Statements included elsewhere in the Prospectus (for a detailed description of the Group's financial liabilities within trade and other payables) and Note 28 to the 2018 Financial Statements included elsewhere in the Prospectus (for a detailed description of the Group's borrowings maturity profile).

Credit Risk

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

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

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

The following table sets out the Group's maximum exposure to credit risk for trade and other receivables (including trade and other receivables from related parties) by type of customers as at 31 December 2016, 2017 and 2018.

	As at 31 December		
	2018	**2017**	**2016**
Automobile producers	93	77	71
Traders	191	159	53
Tube plants	110	142	138
Other industries	227	299	225
Total	**621**	**677**	**487**

Foreign Currency Risk

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

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

The Group's management estimates that a 10% devaluation of the Russian rouble against the U.S. dollar or Euro, based on the Group's exposure as at 31 December 2018, would lead to a U.S.$66 million increase in the Group's profit for the year in case of 10% devaluation of the Russian rouble

against U.S. dollar and to a U.S.$33 million loss for the year in case of the depreciation of the Russian rouble against the Euro.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Group does not have a formal policy of determining how much of the Group's exposure should be to fixed or floating rates. However, at the time of additional debt financing, the Group's management uses its judgment to decide whether a fixed or floating rate would be more favourable over the expected term. Currently, the Group does not use hedging instruments to manage its interest rate risk exposures.

As at 31 December 2018 and based on the assumptions that the amount of liabilities outstanding at the date of statement of financial position was outstanding for the whole annual period, a 2% increase/decrease in floating rates (LIBOR, EURIBOR, Mosprime) would have decreased/increased the Group's profit or loss for the period by U.S.$1 million (by U.S.$1 million in 2017 and by U.S.$6 million in 2016).

Equity and Debt Investment Price Risk

Investment price risk arising from holding equity and debt investments is not material for the Group.

Critical Accounting Judgments and Key Sources of Estimation

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

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

Critical Judgements in Applying Accounting Policies

The following are the critical judgments, including those involving estimations, that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in consolidated financial statements and affect the amounts of assets and liabilities within the next financial year.

Key Sources of Estimation Uncertainty

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

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

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

Useful Economic Life and Residual Value of Property, Plant and Equipment

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

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

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

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

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

Site Restoration Provision

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

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

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

Impairment of Assets

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

Taxation

The Group is subject to income tax and other taxes in numerous jurisdictions. Significant judgement is required in determining the provision for income tax and other taxes due to the complexity of the tax legislation of the Russian Federation and of other countries, where the Group's entities operate. There

are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax inspection issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the amount of tax and tax provisions in the period in which such determination is made.

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

Adoption of New and Revised Standards and Interpretations

For recent accounting pronouncements, see Note 2 to the Interim Financial Statements included elsewhere in the Prospectus.

BUSINESS

Overview

MMK, the principal operating company of the Group, was the second largest steel producer in Russia by volume of steel products output, according to Metal Expert, and in the top-30 largest steel producers globally in 2017, according to WorldSteel Association. The Group produced 12.7 million tonnes, 12.9 million tonnes and 12.5 million tonnes of crude steel in 2018, 2017 and 2016, respectively. The principal production assets of the Group are located in the vicinity of Magnitogorsk in Russia.

The Group has a strong footing in the Russian and the CIS markets, generating 77%, 77% and 79% of its revenue from sales within Russia and the CIS in the years ended 31 December 2016, 2017, 2018 and 86% in the three months ended 31 March 2019, respectively. The Group's management aims to further increase the proportion of the Group's Russian and the CIS sales, targeting up to 85-90% by 2025, with a particular focus on high value added products (including galvanised steel, galvanised steel with polymer coating and tin plate). The Group's management believes that the Group's already strong position in the Russian domestic market and its focus on high value added products leave it well-placed to benefit from and attract customers in those sectors of the Russian market that are characterised by particularly high growth rates, such as shipbuilding and automotive industries. The Group also intends to further strengthen its competitive positions in certain economic sectors, which currently account for the largest share of total rolled metal sales, such as pipe production, construction and engineering. In addition, the Group's management believes that the Group benefits from a well-diversified Russian customer base with very little customer concentration. In 2018, 2017 and 2016 no single customer (excluding subsidiary traders) accounted for more than 10% of the Group's sales (by volume).

Over recent years, the Group has made significant investments to modernise and increase the effectiveness of its production facilities, reduce its environmental impact and continue to improve the quality and variety of its products. In 2016, 2017 and 2018, the Group made total capital expenditures of U.S.$463 million, U.S.$664 million and U.S.$860 million, respectively, helping to create what the Group's management believes to be one of the largest, most modern and efficient steel production facilities in Russia. See "*– The Steel Segments (Russia and Turkey) – Facilities*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Capital Expenditures*". Such capital expenditures have been and remain crucial to the Group's ability to compete in the steel and steel products markets and the Group's management expects that the Group will continue to make capital expenditures in the future.

The Group's revenue in the years 2016, 2017 and 2018 and the three months ended 31 March 2018 and 2019 was U.S.$5,630 million, U.S.$7,546 million, U.S.$8,214 million, U.S.$2,055 million and U.S.$1,836 million respectively. Its profit for the period was U.S.$1,111 million, U.S.$1,189 million, U.S.$1,317 million, U.S.$279 million and U.S.$225 million in the years 2016, 2017 and 2018 and the three months ended 31 March 2018 and 2019, respectively. The Group's total assets amounted to U.S.$6,501 million as at 31 December 2016, U.S.$7,924 million as at 31 December 2017, U.S.$7,205 million as at 31 December 2018 and U.S.$7,600 million as at 31 March 2019, while its total equity as at such dates amounted to U.S.$4,711 million, U.S.$5,497 million, U.S.$5,009 million and U.S.$5,573 million, respectively.

Incorporation and History

MMK is a public joint stock company incorporated under the laws of Russia. MMK is registered in the Uniform State Register of Legal Entities in Russia under registration number 1027402166835. Its registered address is 93 Kirova Street, Magnitogorsk, Chelyabinsk region, 455000, Russia, telephone number +7 (3519) 24 72 92.

The original steel making site now operated by the Group was established as a state-owned enterprise in February 1929, near a major iron deposit discovered at Mount Magnitnaya. MMK first produced

pig iron in February 1932, began smelting steel in 1933 and became an integrated steel mill in 1934 when production of rolled steel commenced. MMK's production of new steel grades and armoured plate started in 1941 and, in 1969, cold-rolled sheet was first produced on MMK's 2,500 mm cold-rolling mill. By 1990, MMK had commissioned its first basic oxygen furnace.

By resolution of the State Committee for the Management of State Property of the Russian Federation dated 8 October 1992 No. 531-r, and as part of the Russia's privatisation programme, state enterprise Magnitogorsk Iron & Steel Works was reorganised as OJSC Magnitogorsk Iron & Steel Works, an open joint stock company under the laws of Russia. MMK was registered by a resolution of the Mayor of Magnitogorsk No. 211-P dated 17 October 1992 (certificate of registration No. 186). MMK's privatisation was completed on 22 December 2004, when Russia disposed of its remaining 23.79% holding in the ordinary share capital of MMK to UFGIS Structured Holdings Limited via an auction administered by the Russian Federal Property Fund.

After MMK's initial privatisation, part of the assets of the privatised entity were spun off to subsidiaries, the majority of which were directly involved in MMK's production process. These subsidiaries, together with MMK, currently represent the major part of the Group.

MMK's ordinary shares began trading on the MICEX and RTS exchanges in Moscow in December 2005. In July 2006, these shares were listed on the "B" list of the MICEX and RTS exchanges. In April 2007, MMK completed an offering of its global depositary receipts ("**GDRs**"), with one GDR corresponding to 13 ordinary shares, listed on the Main Market of the London Stock Exchange. As of 31 March 2019, the public float of MMK's ordinary shares amounted to approximately 15.74% of its total ordinary shares.

In the period 2016-2018, MMK was awarded over 30 prestigious national and regional prizes and awards of the Russian Government, industry and non-profit organisations as well as leading Russian and international media for its contribution to the development of ferrous metallurgy, technological innovation, environmental and social responsibility, transparency of business, and for the contribution to the development of the territories where the Group has a corporate presence.

Key Strengths

The Group's management believes that the Group's key strengths are as follows:

The Group is Well Positioned in the Russian and the CIS Markets

The Group has become increasingly focused on the sizeable Russian and the CIS market, with 79% of the Group's total revenue in 2018 generated from sales to customers in Russia and the CIS. The Group's production of crude steel in Russia increased from 11.4 million tonnes in 2010 to 12.7 million tonnes in 2018, while the sales of its products to customers in Russia and the CIS increased from 7.0 million tonnes in 2010 to 9.0 million tonnes in 2018. According to Metal Expert, in 2018 MMK had the largest share of steel shipments in Russia (17.5% of total shipments).

The Group's large presence in the Russian and the CIS markets allows it to take advantage of the premium pricing levels for steel products in Russia and the CIS, relative to the pricing of products that the Group sells to customers abroad. The Group's management believes that the returning growth in the Russian market and favourable pricing conditions will continue to increase demand for the Group's products, and particularly high value added products, within Russia and the CIS.

High Product Diversification with Sophisticated High Value Added Products Production

According to Metal Expert, in 2018, the Group had the second largest share of Russian output of rolled products (16.9% of total Russian production output). The Group's product range is highly diversified and includes, *inter alia*, pig iron, crude steel, slabs and billet, long products, hot-rolled products and cold-rolled products, as well as high value added and downstream products. See "- *Types of Products*".

The Group produces the largest volume of certain high value added products (including galvanised steel, galvanised steel with polymer coating and tin plate) in Russia. In 2018, high value added products constituted 46.5% of the Group's total output by volume, as compared to 45.4% in 2017, 45.0% in 2016, 34.7% in 2010 and 26.6% in 2000. In particular, to expand its position in the galvanised steel market, in 2017 the Group acquired a galvanised steel production plant, CJSC Lysvenskiy Metallurgical Plant.

The Group is currently actively implementing a programme for the production of high-strength and wear-resistant steel grades for extensive applications, including the manufacture and repair of construction, quarry and other special equipment, equipment for processing rocks, equipment for drilling mines and external metal structures. These brands are grouped under the "Magstrong" brand. The range of these steels is expected to be expanded to create opportunities for Russian enterprises of any level to cover the full range of requirements in high-quality high-strength and wear-resistant metal products.

The Group, through its subsidiary MMK-Metiz, is also a leading participant in the downstream product market in Russia, with MMK-Metiz being the third-largest metalware manufacturer (by volume) in Russia in 2018 according to Prommetiz.

Developed Low-cost Production Facilities and Efficient Cost Optimisation

According to Chermet, the Group had the second largest single-site production facilities in Russia by volume of steel products output in 2018, which the Group's management believes to be one of the most modern in the country. The Group has made significant capital expenditures in the development and upgrade of the Group's production capacity and efficiency levels, including U.S.$860 million in 2018. The Group's capital expenditures for 2019 are currently planned at U.S.$850 million, including capitalised repairs of approximately U.S.$348 million. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Capital Expenditures*".

The Group's management also believes that the Group is at the forefront of research and development and production efficiency innovations within the Russian steel industry and that this has enabled the Group to lead the Russian market in the production of many high value added products. See "– *Research and Development*".

In addition, the Group implements cost reduction initiatives to mitigate the effect of metal price volatility. The Group's management believes that the Group also benefits from lower costs for labour, raw materials and transport as compared to many of the Group's international competitors based in other countries. The Group's management also believes that the Group benefits from operating the second largest single-site facility (by production output) in Russia, allowing it to exploit economies of scale and reduce costs in areas such as logistics through lower transportation costs. In addition, MMK's in-house power generation allows it to satisfy approximately 58% of its electricity requirements (based upon 2018 production levels), providing it with lower power costs as compared to the Group's competitors. Thus, according to CRU, in 2018 MMK's hot rolled coil cash cost amounted to U.S.$421 per tonne, placing MMK in the top-20 on the world hot rolled coil cash cost curve. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Key Factors Affecting the Group's Results of Operations – Supplies of Raw Materials – Materials Produced Internally – Electricity*".

The Group's management believes that low-cost and effective production allows the Group to substitute imports in the target domestic market with its products.

Strong Profitability, Low Leverage and Sustainable Cash Flow Generation

The Group believes that its balanced business model, conservative capital management and prudent execution of strategic initiatives have enabled it to achieve a high level of financial performance and stable debt position. For the years ended 31 December 2018, 2017 and 2016 and for the three months ended 31 March 2019 and 2018, the Group's revenue amounted U.S.$8,214 million, U.S.$7,546 million. U.S.$5,630 million, to U.S.$1,836 million and U.S.$2,055 million, respectively. The Group has been gradually decreasing its total debt from U.S.$4,416 million in 2011 to U.S.$500 million, U.S.$544 million, U.S.$536 million and U.S.$510 million as at 31 December 2016, 2017 and 2018 and as at 31 March 2019, respectively. The Group's Net Debt/Adjusted EBITDA ratio was (0.09)x, (0.08)x, (0.01)x and 0.10x as at 31 March 2019, 31 December 2018, 2017 and 2016, respectively.

The Group's management believes that it has a comfortable liquidity position and the funds from operations, cash on hand, available funds under existing external borrowings and funds from new borrowings will be sufficient to satisfy the Group's working capital needs and service the Group's debt in the foreseeable future. The Group's management also believes that the Group's liquidity and capital resources give the Group adequate flexibility to manage its planned capital expenditures programme and to address short-term changes in business conditions. See "*Operational and Financial Review - Liquidity and Capital Resources*".

By adhering to a conservative leverage policy, the Group is able to keep its debt burden to a minimum. In 2016, the Group has significantly decreased its Net Debt by 82.9% or U.S.$932 million to U.S.$192 million as compared to 2015 and by 95.2% as compared to U.S.$3,992 million as at 31 December 2011. As at 31 December 2017, the Group had negative Net Debt of U.S.$12 million due to an increase in cash and cash equivalents. High cash flow generation in 2017 enabled the Group to accumulate cash sufficient to fully cover its total debt and pay increased dividends of U.S.$413 million in 2017. As at 31 December 2018, the Group had negative Net Debt of U.S.$203 million due to an increase in cash and cash equivalents in 2018. As at 31 March 2019, the Group's negative Net Debt amounted to U.S.$200 million, representing a slight increase as compared to the corresponding period of 2017. Resources used to decrease the Net Debt included operational cash flow, proceeds from the sale of securities and cash account balances. In the periods under review, the Group generated sustainable cash flows, as at 31 December 2018, 2017 and 2016 the Group's free cash flow amounted to U.S.$1,027 million, U.S.$694 million and U.S.$728 million, respectively.

Experienced Management Team, High Standards of Corporate Governance and High Quality Workforce

The Group benefits from an exceptionally experienced management team. This is exemplified by MMK's chairman, Mr. Rashnikov, who has spent his entire 47-year career working with the Group in a number of different capacities. See "*Risk Factors – Risk Factors Relating to the Group and the Steel Industry – The Group's competitive position and future prospects are heavily dependent on the experience and expertise of the Chairman of MMK's Board of Directors and other senior management*". The Group's management has successfully overseen the implementation of a large-scale capital expenditures programme and has also focused on implementing corporate governance that adheres to best international practices and sustaining strong employee relations.

In conducting its business, the Group is guided by Russian and international corporate governance standards and follows best corporate governance practices applicable to MMK, including principals of transparency in cooperation with shareholders, timely disclosure of information, minimisation of the Group's environmental impact. MMK's Board of Directors currently consists of ten members, four of whom are independent directors.

The Group has also benefited from its high-quality workforce and the positive relationship that it has with its employees and the community. The Group has developed an extensive system of training and

educational development programmes to help its employees outperform their competitive peers. The Group's management believes that the skill, professionalism and commitment of the Group's workforce have been, and will continue to be, key to the implementation of its long-term development plan to 2025. Furthermore, the Group's management believes that the attractive compensation arrangements and other benefits offered by the Group will continue to contribute to its appeal as an employer of choice in the region.

Strategy

The Group's key strategies include the following:

Strengthen the Group's position in priority markets

The Group's strategic objectives with respect to strengthening its market position include, *inter alia*, (i) meeting the current and future needs of its customers by developing support systems for customers, identifying individual needs and encouraging customer feedback; (ii) strengthening positions in the most lucrative geographic and/or sectoral markets; and (iii) increasing sales margins through the development of niche and value added products.

The Group's continued focus on domestic customers remains strategically important. As the Group's production facilities are distanced from large ports and international transportation hubs, the Group focuses on serving primarily the Russian market (and to a lesser extent, the CIS market), supported by the export trade. In 2018, the Group sold 8.9 million tonnes of metal products in the Russian and the CIS market, representing 86% of total revenue. The strengthening of the Group's position in the local market was facilitated in part by the development of the Group's distribution capabilities. In 2018, LLC Torgovy Dom MMK made 66.1% of its sales directly to the end users.

The Group also continues to focus on quality, service and delivery times in order to meet the needs and expectations of its customers. In this regard, in 2016 the Group has adopted two strategic initiatives: the Deliveries on Time initiative and the No.1 Supplier for the Most Demanding Customers in the Domestic Automotive Industry initiative. The Group has adopted a detailed implementation plan for each of these initiatives, which includes development of new steel grades for the automotive industry, improvement of business processes in the Group and improvement of the accuracy of customer delivery system. In addition, to further develop cooperation with car manufacturers, which are the Group's key customers, the Group has implemented a project to create a service centre for the automotive industry in the special economic zone "Alabuga", through participation in a joint venture LLC MMK-Coskunoz-Alabuga. This is a joint project of the Group and Coskunoz, a manufacturer of stamped parts made of steel for automotive industry. The service centre is located in Alabuga, Russia's largest special economic zone for the automotive industry. LLC MMK-Coskunoz-Alabuga started production of steel feed (blanks) for automotive components in 2018. The implementation of this project is expected to allow the Group to maintain its position in the auto-sheet market, as well as to strengthen its presence in the Volga region market.

The Group aims to pursue the goal of strengthening its position in the Russian market, and will continue to improve customer service and add a flexible pricing policy to ensure that the Group's steel products are the best fit for its customers' needs in terms of price and quality. The Group's strategy does not exclude consideration of participation in beneficial partnerships with third parties and the acquisition of assets complementary to the MMK production process. However, the Group's strategy prioritises the further improvement of the Group's business.

The existing foreign presence in the Group through MMK Metalurji provides it with strategic access to the Turkish market and proximity to both emerging and developed markets. To this end, the Group implements a flexible sales policy that allows it to quickly redirect sales to the most profitable geographic markets.

Increase Volume and Proportion of High Value Added Products

The Group's management intends to further increase the Group's production levels of high value added products. In 2018, the Group produced over 5.4 million tonnes of high value added products. The proportion of high value added products in the Group's total output by volume amounted to 46.5% in 2018 as compared to 34.7% in 2010.

MMK offers its customers new products and solutions. In January 2016 the Group started sales of the MAGSTRONG brand products - products from high-strength and wear-resistant steel grades. This brand meets the quality standards of foreign analogues and is used for import substitution. The mechanical properties of these steels provide high resistance to abrasion and improved firmness, enhance its good weldability and machinability, allowing an increase to the service life of end products in comparison with traditionally used materials.

Pursue operational excellence

The Group's strategy is primarily aimed at improving operational and functional efficiency, as well as qualitative growth in order to retain the production volumes of commodity steel products at the level of 12 million tonnes annually. The Group's investment programme focuses on projects with the best strategic fit. In the long-term investment programme, the Group plans to modernise the agglomerate-coke-blast production, including the construction of a new sinter plant, coke oven battery and blast furnace. The implementation of the investment programme is expected to significantly improve the efficiency of production. The new facilities are expected to provide the most advanced environmental solutions that almost completely eliminate harmful emissions and to replace the outdated less efficient facilities. In addition, the Group implemented a capacity optimisation planning programme, which provides for monthly or weekly reviews of production and sales outlines and allows the Group to react to the market fluctuations in a timely manner to adjust production and sale volumes, inventories, as well as downstream production steps. These and other initiatives aim to improve the Group's operational efficiencies, enhance the Group's long-term competitiveness and support operating margins.

Stable Supply of Raw Materials

The Group, similar to other large domestic steel producers, is focused on increasing the level of vertical integration, particularly with respect to raw materials self-sufficiency. The Group constantly monitors commodity market conditions and evaluates assets that may be attractive as acquisition targets. In the absence of such attractive acquisition targets, the Group's key strategy in the raw materials markets is to maintain long-term contracts with a limited number of strategic partners for the supply of iron-containing raw materials and a relatively large number of coal concentrate suppliers. This ensures a high share of guaranteed supply of raw materials and diversification of supplier base. See "*– Supply of Raw Materials and Energy*".

Support Social Development Programmes

The Group considers its employees to be an integral part of its business, its most valuable resource and an important factor contributing to its long-term competitive position. Therefore, the development of personnel has been and remains one of the Group's strategic priorities. See "- *Employees*" and "- *Social Projects and Commitments in Magnitogorsk*" below.

To further strengthen its relationship with its employees, the Group has been historically responsible for establishing and maintaining a large part of the social and physical infrastructure in and around the City of Magnitogorsk. The region remains economically dependent on the Group to a significant degree as the Group is by far the largest employer in Magnitogorsk. The Group's management expects that the city of Magnitogorsk will continue to rely on the Group for a substantial proportion of its budget revenue and that the Group will continue to maintain its current commitments in respect of social, employment and welfare infrastructure in the Magnitogorsk area. In this regard, the Group has undertaken a strategy to assist in development and diversification of the monotown economy,

including finding growth points for the development of small and medium-sized businesses, attracting investment, creating new jobs, improving conditions for the life and leisure of citizens. The Group intends to implement it jointly with the city administration.

Organisational structure

As of 31 March 2019, the Group consisted of 69 consolidated companies under IFRS, with MMK being the parent and principal operating company. The following table sets forth a description of the activities of MMK's principal subsidiaries.

Subsidiary by country of incorporation	Nature of business	Effective share as at 31 March 2019
Russian Federation		
OJSC Metizno-Kalibrovochny Zavod "MMK-Metiz"	Production of metal hardware products	95.78
LLC LMZ	Production of ferrious metal products	100.00
LLC IK MMK Finance	Investing activities	100.00
LLC Stroitelny Komplex	Construction	100.00
LLC Ogneupor	Production of refractory materials	100.00
LLC Mekhanoremontny Komplex	Maintenance of metallurgical equipment	100.00
LLC OSK	Production of machinery and equipment for metallurgy	100.00
LLC MTSOZ	Production of cement and refractory materials	100.00
LLC MMK Vtormet	Collection and processing of metal scrap	100.00
LLC Torgovy Dom MMK	Trading activities	100.00
OJSC Belon	Holding company, trading activities	95.54
LLC MMK Ugol	Coal mining	98.56
Turkey		
MMK Metalurji	Production of ferrous metal products	100.00
Switzerland		
MMK Steel Trade AG	Trading activities	100.00
Luxemburg		
MMK-Mining Assets Management S.A.	Holding company	100.00

Segments and Overview of Production

The Group has the following three segments:

- *Steel segment (Russia*), includes MMK and its subsidiaries involved in the production of steel, wire and hardware products. All significant assets, production and management and administrative facilities of this segment are located in the cities of Magnitogorsk and Lysva in Russia;

- *Steel segment (Turkey)*, includes MMK Metalurji involved in the production of steel. The two sites of MMK Metalurji operations are located in Iskenderun and Istanbul in Turkey.

- *Coal mining segment*, includes OJSC Belon and LLC MMK-Ugol, both involved in mining and refining of coal. All significant assets, production and management and administrative facilities of this segment are located in the city of Belovo in Russia.

The following table sets forth the Group's sales highlights for the periods indicated.

	Three months ending 31 March		Year ending 31 December		
	2019	2018	2018	2017	2016
	(in thousands of tonnes, except percentages)				
Crude steel	**3,107**	**3,147**	**12,664**	**12,860**	**12,544**
MMK	3,107	3,147	12,664	12,860	12,544
Steel products[(1)]	**2,782**	**2,828**	**11,664**	**11,617**	**11,454**
MMK	2,731	2,830	11,411	11,333	11,323
MMK-Metiz	110	110	441	438	409
MMK-Metalurji	176	231	767	925	854
Lysvensky Metallurgical Plant	60	46	249	-	-

	Three months ending 31 March		Year ending 31 December		
	2019	2018	2018	2017	2016
	(in thousands of tonnes, except percentages)				
Group's volume of high value added products	1,342	1,345	5,426	5,270	5,153
Group's share of high value added products	48.2%	47.6%	46.5%	45.4%	45.0%
Coal concentrate production	**777**	**666**	**3,001**	**2,725**	**2,870**
Iron ore concentrate and slag processing	**716**	**751**	**3,185**	**3,275**	**3,260**

Note:

(1) Excluding intra-group sales.

The Steel Segments (Russia and Turkey)

Key production indicators for the steel segments

The following table sets forth information on production volumes of the Group's steel segment (Russia) for the periods indicated. For the discussion of the reasons for some of these changes and their impact on the Group's results of operations, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations - Revenue*".

	Three months ending 31 March		Year ending 31 December		
	2019	2018	2018	2017	2016
	(in thousands of tonnes)				
Pig iron	**2,396**	**2,404**	**9,860**	**10,163**	**9,652**
Crude steel	**3,107**	**3,147**	**12,664**	**12,860**	**12,544**
Finished products, of which	**2,731**	**2,830**	**11,411**	**11,333**	**11,323**
Slabs and billets	0	0	0	4	104
Long products	457	427	1,795	1,787	1,730
Flat hot-rolled products	1,180	1,277	5,236	5,397	5,320
High value added products, of which:	1,095	1,126	4,380	4,145	4,170
Thick plate (Mill 5000)	267	198	828	820	823
Flat cold-rolled products	319	377	1,430	1,318	1,456
Downstream products, of which:	508	551	2,121	2,007	1,892
Tin plate	34	37	133	117	140
Galvanised steel	311	330	1,269	1,133	1,136
Colour-coated steel	81	91	339	440	360
Band	28	39	139	127	124
Formed section	40	40	168	123	50
Pipes	14	14	73	65	83
Shipments by market					
Domestic[1]	2,442	2,225	9,029	8,528	8,236
Export	290	605	2,381	2,805	3,089

Note:

(1) Includes the CIS sales.

The following table sets forth information on production volumes of the Group's steel segment (Turkey) for the periods indicated.

	Three months ending 31 March		Year ending 31 December		
	2019	2018	2018	2017	2016
	(in thousands of tonnes)				
Finished products, of which	**176**	**231**	**767**	**925**	**854**
Flat hot-rolled products	5	24	35	114	122
Flat cold-rolled products	2	3	8	49	12
High value added products, of which:	169	204	724	762	720
Galvanised steel	129	148	566	580	511
Colour-coated steel	40	56	158	182	209

Types of Products

The diverse product lines of the Group's companies that manufacture steel products in Russia and Turkey include the following categories and types of steel products:

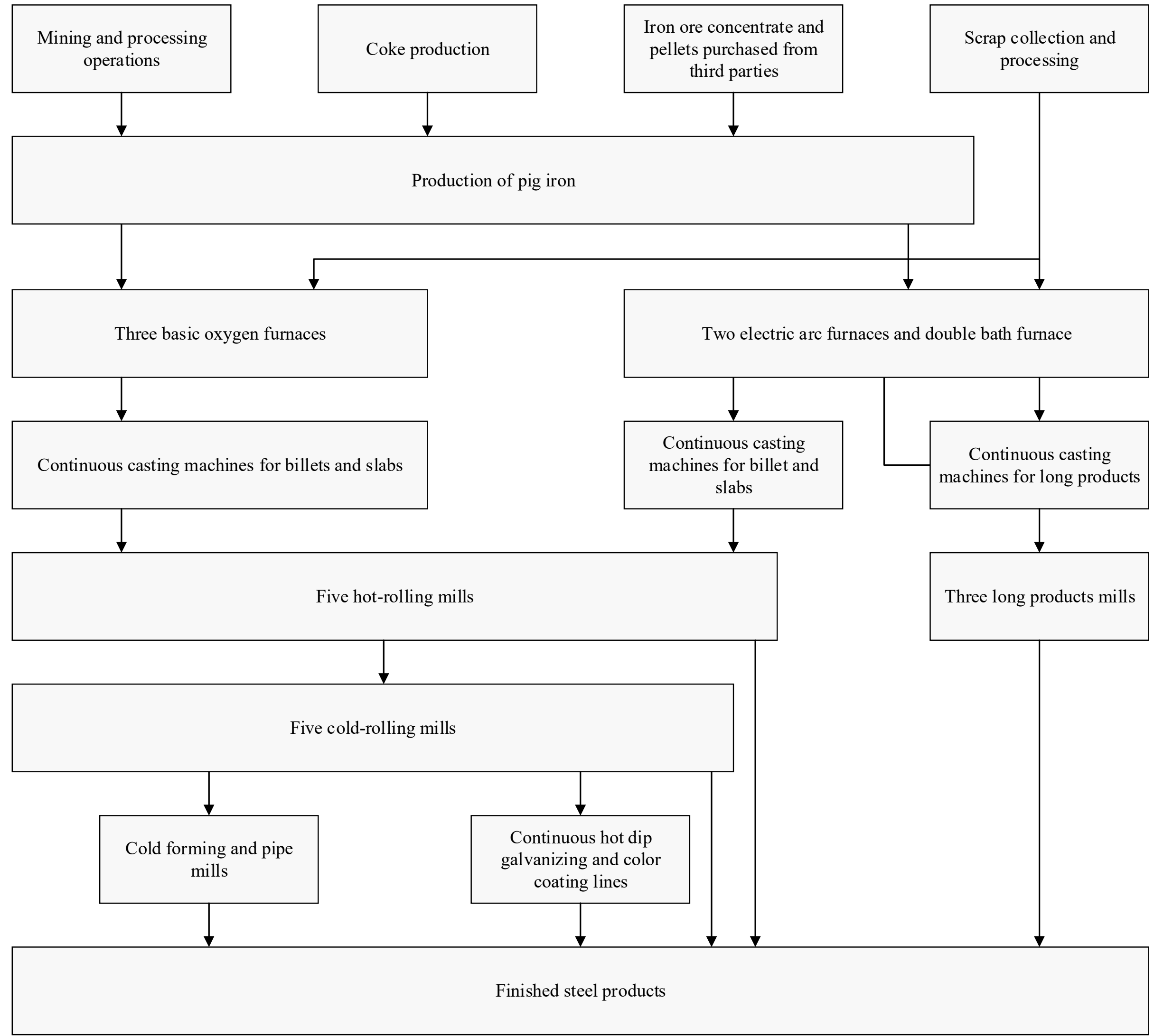
Category	Product	Uses
Slabs and billets	*Slabs*	Hot re-rolling
	Billets	Square billets and rectangular billets for re-rolling
Flat products (hot-rolled)	*Hot-rolled coils*	Cold rolling, welded pipes, welded, bolted and riveted structures, structural steel for construction, fabrication by forming, bending and welding, general purpose hot-rolled coils
	Hot-rolled sheets and plates	Large-diameter pipes for oil and gas industry. Welded, bolted and riveted structures, high-strength welded, bolted and riveted structures, structural steel for construction, fabrication by forming, bending and welding, bridge building, ship-building, boilers and pressure vessels, general purpose hot-rolled plates
	Hot-rolled strips and hot-rolled narrow coils	Cold re-rolling, welded pipes, general purpose hot-rolled narrow strips
Flat products (cold-rolled)	*Cold-rolled steel products (in sheets and coils)*	Cold stamping of car parts and mechanisms, cargo package, armour protection of cables, preparation of caps for electric lamps, machines and mechanisms, general purpose uses
	Black plate (coil and sheet)	Production of tin-plate, various purpose black plate in sheets
	Cold-rolled strips	Fabrication by bending and stamping, pipes, tubes, bearing components, carbon structural steel for manufacturing machines and structural components, spring steel for springs and measuring tapes, low-carbon and low-alloyed steel for cargo tying and fastening
	Cold-formed sections	Welded, bolted and riveted structures, cold-rolled channels, cold-bent angles, high strength grade sections for the automotive industry, roadside railings
Long products	*Square bars*	Structural steel and square-rolled products for further hot-setting of railway fastenings
	Wire rod	Wire drawing, packing, strapping, manufacturing thin wire and steel ropes, metal cord, telegraph lines
	Round stock	Bars and bundles for hot and cold blanking, cold drawing, chiselling or wheel grinding, automobile spare parts, fasteners, metalware
	Hexagonal bars	Fastenings
	Die-rolled bars	Construction
	Hot-rolled angles	Equal and unequal angles for welded, bolted and riveted structures
	U-channels	Channels with flanged internal sides slanted for welded, bolted and riveted structures
	Beams	Construction structures
	Special purpose profile	Extractive industry and motor and machinery-producing industries
High value added downstream products	*Galvanised steel in sheets and coils*	Hot dipped galvanised steel sheets and coils for cold stamping, cold shaping and colour coating for automotive industry and white goods manufacturers; general purpose hot dipped galvanised sheets

Category	Product	Uses
	Tin-plate in sheets and coils	Electrolytic tin-plate of canning quality for containers, vessels, cans and lids, electrolytic tin-plate for various purposes, electrolytic tin-plate with different coatings, general purpose electrolytic tin-plate, hot-tinning tin-plate of canning quality for containers, cans and lids, hot-dipped tin-plate for various purposes
	Polymer coated steel (cold-rolled galvanised and cold-rolled hot dipped galvanised)	Construction, household appliances, cover tile, other various purposes
	Electric-welded pipes	Galvanised pipes, water and gas supply pipes, metal construction
Metal components made of long products	*Wire made of low-, middle-and high-carbon steel with and without coating*	Armouring of reinforced-concrete products, production of nails, nets, electrodes, springs; production of cores of steel-aluminium wires, cellulose bundling, welding of pipes and car frames
	Cables (with and without coating)	Use in lifting devices
	Nails	Nailing together transportation crates, assembly of carcasses of wooden buildings
	Electrodes	Automatic and manual arc welding
	Railroad fittings (spikes, anti-theft, double coil washers, rod-shaped connectors, inserts, fish and terminal bolts with screws)	Materials of upper part of railway bed attaching rails to ties
	General-purpose fittings (bolts, screws, helical screws, self-tapping screws, concrete nails, rivets etc.)	Fastening of metal structures, car frames and elements
	Net	Production of net structures, fences, screening and separation of fractions of granular materials
	Flux cored wire	Out-of-furnace processing of pig iron and steel
Calibrated (cold-drawn) long products	*Long products made of low-, middle- and high-carbon, fine-machining and alloy steel with round and hexagonal section in bars and coils after cold drawing or chiselling*	Manufacturing of sections of machines and mechanisms, fasteners, springs, constructions

The Group's management believes that MMK is the only Russian steel company producing tin plate for the food industry. According to data from Metal Expert, in 2018 the Group was the largest manufacturer (by volume) of thick plate and polymer coating steel, and one of the leaders in the production of thin hot-rolled steel, cold-rolled products and rolled products with polymer coating.

The Production Process

The following diagram illustrates the principal steps in the production process for the Group's principal steel products. For further information on MMK's production facilities and a much more limited range of production facilities of MMK Metalurji, see "*– Facilities*".



Production of Coke

Coke contains 86% to 90% carbon and is used as the main fuel in blast furnaces that produce molten pig iron. For a brief description of the relationship between coking coal, coal concentrate and coke, see "*– The Steel Segments (Russia and Turkey) – Supply of Raw Materials and Energy – Coking Coal*".

The Group's coke production and coke by-products processing facility has an integrated technological structure, consisting of a coal preparation unit, three coking units, two units responsible for catching coke by-products and processing coke gas, a coke by-products processing unit and a number of maintenance units. The coal preparation unit accepts, stores and prepares coal for coking and supplies coke charges (a blended mixture of various types of coal concentrate and coal the exact composition of which depends on the type of coke to be produced) to the coke oven batteries. Coke is produced in nine coke oven batteries. The aggregate maximum production capacity of these batteries as of 31 March 2019 was 5.4 million tonnes of coke per year for coke of six per cent. humidity (as the humidity levels of coke produced in coke oven batteries are different for different seasons, six per cent. humidity level is used as a common base for calculating the maximum production capacity). In the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2018 and 2019, the Group produced 5.3 million tonnes, 5.5 million tonnes, 5.2 million tonnes, 1.2 million tonnes and 1.3 million tonnes of coke, respectively. The Group also plans to build an additional coke battery by 2021, see "- *Capital Expenditures*".

Sintering

Iron-containing raw materials are the key raw material in pig iron production and can be used in the blast furnace in two forms: sinter and pellets. Sinter is a product of the thermal processing of pre-mixed particles of sintering mixture, iron ore concentrate, iron-bearing tailings, fluxing additives (limestone and dolomite) and fuel (coke breeze or other types of coal fuel). The Group's sintering facilities consist of three sinter plants (containing in total 13 sinter machines with an aggregate production capacity of 11.2 million tonnes of sinter per year as at 31 March 2019). The Group produced 11.1, 10.6, 10.5 million tonnes, 2.5 million tonnes and 2.6 million tonnes of sinter in the years ended 31 December 2016, 2017 and 2018, and the three months ended 31 March 2018 and 2019. The Group also plans to build a new sinter plant by the end of 2019, see "- *Capital Expenditures*".

Production of Molten Pig Iron in Blast Furnaces

The Group has 8 blast furnaces, with a total useful volume of 12.260 cubic metres as at 31 March 2019 and a total maximum production capacity of 10.3 million tonnes per year as at 31 March 2019, to produce molten pig iron used in the production of steel. To produce molten pig iron, the charge, consisting of iron-containing raw materials and additives (such as limestone), is fed alternatively with coke through the top of the furnace in layers. Due to the impact of gravity, the charge moves downward through the furnace after loading. When the charge and coke descend down the furnace, they are heated by the ascending heated air enriched with natural gas and oxygen being blown through the furnace. The heat causes coke to burn and, as it and the natural gas added to the heated air burn, sinter and iron ore pellets begin to melt. Molten iron drips down through the remaining coke onto the heath at the very bottom of the blast furnace. In the lower part of the blast furnace, the limestone acts as a flux and draws together many impurities into a layer of slag. The molten pig iron and slag are drawn off periodically. The molten pig iron is poured into hot-metal ladle cars and mixers and taken to the basic oxygen furnaces, electric arc furnaces or the two-bath furnace for making into steel, while the slag is poured into slag ladle cars and taken to the slag plant for processing. The Group produced 9.7 million tonnes, 10.2 million tonnes, 9.9 million tonnes, 2.4 million tonnes and 2.4 million tonnes of pig iron in the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2018 and 2019, respectively. The Group also plans to build a new blast furnace by 2025, see "- *Capital Expenditures*".

Steel Making

Steel Making at MMK. MMK is the principal operating company of the Group. Molten pig iron is the main component of the metal charge used in the production of steel in the Group's basic oxygen furnaces. The Group produces all of its steel in three basic oxygen furnaces, two electric arc furnaces and one two-bath furnace. The Group's steel-smelting units also contain continuous casting machines and various steel finishing devices.

The Group's electric arc furnaces, manufactured by "VAI-FUCHS", have a nominal melting mass of 180 tonnes, the same as the Group's two-bath steel-making furnace. The aggregate production capacity of the two electric arc furnaces is 3.1 million tonnes of steel per year as at 31 March 2019. Electric furnaces may operate either without molten pig iron (with a 100% scrap metal charge and a standard melting cycle of 48 minutes) or with molten pig iron (with up to 40% molten pig iron in the charge and with a standard melting cycle of 44 minutes). The choice of which one of these processes is used more frequently depends principally on the price differential between the cost of producing molten pig iron and the price of scrap.

Molten pig iron is transported to the basic oxygen furnace unit in hot-metal ladle mixers and is poured into charging ladles and then into the furnaces. In addition to molten pig iron, the metal charge for these furnaces consists of scrap metal.

When the molten steel reaches a predetermined temperature, it is tapped from the furnaces into a ladle, processed at refining units to specified grades of steel through the addition of flux-cored wires and ferroalloys and is then cast into slabs and billets by one of the Group's six continuous casting

machines ready for use as a starting material in the production process of different steel products at the Group's various rolling facilities.

The Group produced 12.5 million tonnes, 12.9 million tonnes, 12.7 million tonnes, 3.1 million tonnes and 3.1 million tonnes of crude steel in the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2018 and 2019, respectively. Its total crude steel production capacity was approximately 14.0 million tonnes as of 31 March 2019.

Steel Making at MMK Metalurji. The production of hot-rolled steel at MMK Metalurji has been suspended starting from 2013 and is still suspended as of the date of this Prospectus.

Hot-Rolled Production

For the production of hot rolled slabs from oxygen converters and electric arc furnaces are fed to rolling mills. The slabs are heated (up to about 1,250 degrees Celsius) in furnaces intended for the production of hot-rolled products, and are rolled at various hot-rolling mills into hot-rolled coils and workpieces, which can then be cut or further processed in cold rolling mills. The structure of the hot rolling mill operating at the Group's facilities includes various specialised equipment for the production of long products, specialised reinforcement and structural profiles.

Cold-Rolled Production and Manufacturing of Downstream Products

Cold-rolling is a process whereby sheet steel produced as a result of hot-rolling is subjected to further rolling at a temperature lower than its recrystalisation point. This allows the production of steel sheet with a reduced strip width and other desirable properties, such as high quality of surface finish.

At the Group's cold-rolling facilities, hot-rolled coil is converted into various products through a series of intermediate processing phases, in which several processing methods and various equipment are used, depending on what type of product is being manufactured. These processing methods and equipment include pickling lines, cold-rolling mills, cutting and slitting lines, hot-dip tinning stacks and electrolytic tinning or zinc galvanising lines, moulded section production and electric welding pipe production. End products manufactured at the Group's cold-rolling facilities are hot-rolled pickled coils, cold-rolled coils and strip, cold-rolled sheets, galvanised sheets, black plate, electrolytic tin-plate, pipes, cold-formed sections, road barrier sections and die rolled sections. A significant proportion of cold-rolled products and galvanised steel produced by the Group is sold to the automotive industry and to the manufacturers of white goods.

Cold-rolling facilities at MMK Metalurji include one two-stand reversing cold rolling mill with a production capacity of 635 thousand tonnes of cold-rolled products per year.

Hot Dip Galvanising Steel

The cold-rolled unannealed coil is used as semi-finished material in the production of hot dip galvanised steel. In order for the coil to be processed, it is fed into the continuous hot dip galvanising line, where cleaning, annealing, zinc coating and coiling operations are performed. The coil may be cut into sheets at the cut-to-length line.

Colour Coated Steel

The hot dip galvanised coil is used as semi-finished material in the production of colour coated steel. In order for the coil to be processed, it is fed either into colour coating line No.1 or colour coating line No. 2. The technological process includes the following operations: the coil is loaded onto a decoiler, the strip is threaded in and decoiled; after that the strip is cleaned and pretreated and its surface is passivated in a chemical coater, following which the colour coating materials are prepared, applied and dried. The next steps include cooling, drying and final procession of the strip.

Tin Plated Steel

The cold-rolled coil is used as semi-finished material in the production of tin plate. The coils are fed into the electrolytic tinning line which is located in the electrolytic tinning division of the colour coating facilities. To produce electrolytic tin plate, the cold-rolled coils supplied from rolling shop No. 3 are used. Further, the black plate is fed into the strip preparation unit. Then, the black plate coils are fed into the electrolytic tinning unit.

After tinning, the strips are coiled into coils weighing up to seven tonnes and transferred to the packaging area where they are rewound into coils weighing up to 15 tonnes, after which the tin plate is cut into sheets on cut-to-length lines No. 1 and No. 2. Further, the sheets are sorted by thickness and finished condition and stacked into pockets. The manual sorting of tin plate sheets into bundles of the same size takes place at the inspection unit. The bundles of tin plate are delivered to the packaging area. The tin plate is packed and transported to the finished goods warehouse, from which it is shipped to customers by rail.

Facilities

The following table sets out the Group's principal production facilities, their aggregate production capacity and their output in 2016, 2017 and 2018.

Type of processing stage	Key facilities	Aggregate production capacity as of 31 March 2019	Actual output: Three months ended 31 March 2019	2018	Year Ended 31 December 2018	2017	2016	Capacity utilisation as of 31 March 2019
		(in millions of tonnes per year)	*(in millions of tonnes)*					*(in %)*
MMK:								
Production of coke and coke by-products.........	nine coke oven batteries	5.3	1.3	1.2	5.2	5.5	5.3	98.7
Sintering............	three sintering plants	10.5	2.56	2.5	10.5	10.6	11.1	100
Molten pig iron production	eight blast furnaces	9.9	2.4	2.4	9.9	10.2	9.7	100
Steel-making	three basic oxygen furnaces	9.8	2.39	2.4	9.8	9.9	9.8	100
	two electric arc furnaces	2.6	0.48	0.5	1.9	1.9	2.0	64.2
	one two-bath steel-making furnace	1.2	0.24	0.2	1.0	1.1	0.7	75
Long products	three long products mills	1.9	0.46	0.4	1.8	1.8	1.7	98.8
Flat products.......	five hot rolling mills	11.1	2.54	2.6	10.5	10.7	10.4	92.6
	four cold rolling mills	4.0	0.84	0.9	3.5	3.4	3.3	83.9
Downstream products.............	six hot galvanising units	1.7	0.42	0.4	1.6	1.6	1.5	98
	one electro-tinning line	0.17	0.033	0.038	0.13	0.12	0.15	81.9
	two colour-coating lines	0.40	0.076	0.076	0.33	0.37	0.36	78.6
	four cold forming mills	0.70	0.040	0.041	0.17	0.12	0.05	23.2
	three pipe welding mills	0.10	0.010	0.014	0.06	0.06	0.08	39.2

Type of processing stage	Key facilities	Aggregate production capacity as of 31 March 2019	Actual output					Capacity utilisation as of 31 March 2019
			Three months ended 31 March		Year Ended 31 December			
			2019	2018	2018	2017	2016	
		(in thousands of tonnes per year)	*(in thousands of tonnes)*					
MMK Metalurji:								
	one continuous pickling line	206	189	170	749	850	711	92
	one double-faced reversing cold rolling mill	167	160	143	621	677	570	96
Metal products of deep processing..	two hot-dip galvanizing lines	195	175	186	739	778	729	90
	two lines of applying polymer coatings	42	34	50	158	194	212	82
Metal Service Center................	two longitudinal and one combined cutting line	45	19	44	118	243	216	43

In 2018, 2017 and 2016, MMK's total capacity utilisation amounted to 94%, 92% and 89% respectively, for crude steel, 95%, 97% and 93%, respectively, for hot rolled coils and 96%, 96% and 99%, respectively, for galvanised steel. In 2018, 2017 and 2016, MMK Metalurji's total capacity utilisation amounted to 97%, 105% and 106% respectively, for galvanised steel, 58%, 81% and 92%, respectively, for polymer coated steel.

In 2018, approximately 67% of a total of 767 thousand tonnes of products produced by MMK Metalurji were made out of supplies provided by MMK.

In 2018, approximately 3.9% of the Group's Russian facilities production was delivered to its subsidiary MMK-Metiz, which specialises in the production of metal ware products. The following table sets out the production capacity (as of 31 December 2018) and output for MMK-Metiz's key products in 2018.

Type of product	Nameplate production capacity	Actual output in 2018	Capacity utilisation in 2018
	(in thousands of tonnes per annum)	*(in thousands of tonnes)*	*(in %)*
General-purpose fittings.....................................	47,532	31,503	66.3
Railroad fittings	59,880	20,718	34.6
Wire nails..	27,600	18,393	66.6
General-purpose wire...	363,744	260,524	71.6
Steel wire	62,016	36,473	58.8
Steel ropes...	51,000	29,978	58.8
Steel net	2,280	1,310	57.5
Calibrated steel..	154,200	32,920	21.3
Strip	7,800	2,248	28.8
Flux cored wire	17,676	6,493	36.7
Total	**794,340**	**440,561**	**55.5**

Supply of Raw Materials and Energy

The main raw materials which the Group has to source for the production of pig iron and steel are coal concentrate, iron-containing raw materials (principally sinter, pellets and iron ore concentrate that is used to produce sinter) and, to a lesser extent, scrap, ferroalloys and natural gas. In addition, MMK takes limestone that is used in the production of molten pig iron from its own pits and also produces

electricity, covering around 58% of its electricity consumption needs in 2018. The Group provides heat for its various facilities, as well as heat and hot water for the city of Magnitogorsk.

Coking Coal

Coking coal is a type of coal used by metallurgical plants to produce coke, a substance used as a principal fuel source in blast furnaces to produce molten pig iron. Before it can be used for coke production, raw coal from a mine has to go through various stages of processing at a washing plant. As a result of this processing, a cleaner, or "washed", type of coal, from which various impurities have been removed, is produced. This washed coal is also called coal concentrate. Coal concentrate constitutes the main component of a coke charge that goes into a coke oven battery to produce coke.

The Group receives a substantial part of its supplies of coking coal from the Kuznetsk Coal Basin and Yuzhno-Yakutskiy Coal Basin in Russia, which accounted for 98.6%, 98.5%, 97.7%, 98.0% and 98.2% of the Group's total coking coal needs in in the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2018 and 2019, respectively.

The Group used 6.9 million tonnes of coking coal concentrate in 2018. Of this amount, 38% came from LLC MMK-Ugol, the Group's subsidiary and the largest supplier to the Group of coal concentrate. For the description of Belon and LLC MMK-Ugol operations, see "– *Coal Mining Segment*". LLC MMK-Ugol supplied 2.76 million tonnes of coal concentrate to the Group in 2016, 2.71 million tonnes in 2017 and 2.57 million tonnes in 2018.

In 2018, the Group had contracts with 18 other principal coking coal suppliers, which allows the Group to achieve a significant degree of diversification and mitigate dependency on any one supplier. Any shortfalls in deliveries under these mostly one-year contracts can be compensated by purchasing coal on a spot basis. Coking coal is generally sold by external suppliers in Russia to the Group at prices below average global prices because of the lower transportation and logistics costs for coal suppliers when they sell to domestic customers compared with export customers and volume discounts on purchases of large volumes of coal from principal coal suppliers.

Iron-containing Raw Materials

The proportion of the Group's internally produced iron-containing raw materials in the total amount of iron containing materials it consumed in 2016, 2017 and 2018 was 27.2%, 28.8% and 28.1%, respectively. For the three month period ended 31 March 2019 and 2018, internally produced iron-containing raw materials amounted to 26.8% and 28.8% of the Group's total consumption.

The Group owns iron ore reserves at an open-pit mine in Malyi Kuybas. The following table provides the description of iron ore extraction levels at the Group's mine in 2016, 2017 and 2018 and certain operating characteristics of the Group's mine.

	Malyi Kuybas
	(in thousands of tonnes)
Volume of iron ore extraction in 2018	2,641.0
Volume of iron ore extraction in 2017	2,471.5
Volume of iron ore extraction in 2016	2,510.6
Design extraction capacity	2,470.0
"On balance" reserves[(1)]	73,926.0

Note:

(1) Reserves and resources in a Russian reporting system that can be matched to the usual international categories are classified into five main classes designated by symbols A, B, C1, C2 and P1. "On balance" reserves include reserves of minerals the extraction of which is commercially reasonable using the existing or newly developed machinery and equipment and extraction techniques and conducted in compliance with the existing legislation on the use mineral resources and environmental protection. "On balance" reserves include classes A, B, C1 and C2 under the Russian reporting system for mineral reserves that satisfy (i) conditions related to quality, quantity and technological properties of relevant minerals and (ii) mining conditions related to extraction operations at a particular deposit taking into consideration the extent of exploration of such deposit and its geographic and economic characteristics. The state approved and published Russian "on balance" reserves for a mining operation do not account for either dilution or mining recoveries at such operation.

In addition to its iron ore extracting and processing operations, the Group obtains a significant amount of iron-containing raw materials suitable for use in steel smelting operations, from its own slag processing facilities. The Group currently has four slag processing units in operation: Roxon, Amcom-1, Amcom-2 and Amcom-3. They collectively produced 874.8 thousand tonnes, 963.8 thousand tonnes and 914 thousand tonnes of iron-containing materials in 2016, 2017 and 2018, respectively. For the three-month period ended 31 March 2019 and 2018, the production amounted to 204.5 thousand tonnes and 162.9 thousand tonnes, respectively.

Further, blast-furnace slags are processed to produce slag crushed stone and a blast-furnace slag granulation unit. The total capacity of slag processing facilities was 9.0 million tonnes per year as at 31 March 2019. The total amount of metallurgical slag in the Group dumps exceeds 42 million tonnes. While maintaining the current levels of production, all this slag is expected to be completely reworked within 10 years.

The principal external supplier of iron ore to the Group is ERG Sales AG, the mining facilities of which are located in Kazakhstan. The Group receives iron-containing raw materials (iron ore concentrate and pellets) from ERG Sales AG under the terms of a ten-year formula pricing based contract that will remain in effect until 2020 inclusive. In 2018, ERG Sales AG supplied to MMK 86% and 39% of the total supply of iron ore concentrate and pellets, respectively.

In December 2012 MMK signed long-term contracts for the supply of iron-containing raw materials with Metalloinvest Group (JSC Lebedinsky GOK and PJSC Mikhailovsky GOK, Russia), maturing in late 2019 with prices linked to a formula. In 2018, these entities supplied 30%, 5% and 65% of the total volume of agglomeration, concentrates and pellets, respectively, supplied to MMK. MMK also purchases agglomeration ores (with iron content up to 57%) from various enterprises in Russia and the Republic of Kazakhstan, the price of which is set quarterly by agreement of the parties. For the description of the risks of these arrangements, see "*Risk Factors – Risk Factors Relating to the Group and the Steel Industry – The Group has limited ability to reduce the volumes of iron-containing raw materials that it is required to purchase under its long-term supply contracts with ERG Sales AG and Metalloinvest in the event that MMK's production levels decline*".

The existing long-term contracts with external suppliers currently cover approximately 89% of the Group's need for iron-containing raw materials. See "*Risk Factors – Risk Factors Relating to the Group and the Steel Industry – The Group is dependent on suppliers for many of the raw materials it uses and is, therefore, exposed to adverse changes in the supply or prices of such raw materials*".

Scrap

In 2018, the Group used 2.6 million tonnes of scrap. The Group's largest supplier of scrap is LLC MMK Vtormet, a subsidiary of the Group that provided 45% of scrap consumed at the Group's Russian facilities in 2018. The remaining portion is sourced from suppliers in Russian and Kazakhstan.

Limestone

In 2018, the Group used 1.5 million tonnes of limestone. The Group sources all limestone from its own mines located approximately 30 kilometres from Magnitogorsk, which allows the Group to have full control over limestone supply and is less expensive than purchasing equivalent supplies at market prices. Limestone is used in iron and steel production as a flux to separate molten pig iron or steel from various impurities. It is also used in the production of sinter from iron ore concentrate.

Ferroalloys

The Group used 170.1 thousand tonnes of ferroalloys in 2018. The Group has an agreement with the largest producer of base ferroalloys in Russia, AO CHEMK, for a "package" supply of ferrosiliconomanganese, ferrosilicon and ferrochrome with formula pricing. Ferromanganese is also

supplied with formula pricing under the annual contract. Other low-capacity ferroalloys are mainly traded on the electronic trading platform, depending on the production needs.

Electric Power

MMK is the principal user of electric power within the Group. MMK consumed 7.6 billion kw/hours of electricity in 2018 (in addition, the Group's Magnitogorsk-based subsidiaries consumed 0.3 billion kw/hours). In that year, MMK's four power generation plants that use natural gas and either blast-furnace gas and coke gas or coal as fuel produced 4.5 billion kw/hours of electricity to cover approximately 58% of its power requirements. MMK purchased the remaining amount from OOO Magnitogorsk Energy Company (3.2 billion kw/hours of electricity in 2018; in addition, the Group's Magnitogorsk-based subsidiaries purchased 0.3 billion kw/hours). The average electricity purchase price for MMK in 2018 amounted to RUB2.4 thousand per 1 kw/hour. The Group's management estimates that, in 2018, MMK was able to generate electricity at a cost that is approximately 1.4 times lower than the price at which additional power was purchased in the market in that year.

Natural Gas

In 2018, MMK consumed 4.2 billion cubic metres of natural gas. In 2018, the average cost of natural gas to MMK was RUB3.8 thousand per thousand cubic metres of natural gas (including transportation to the MMK's sites by pipelines but excluding VAT).

In June 2012, MMK entered into a 10.5-year long contract (until 31 December 2022) with PJSC NOVATEK Chelyabinsk, a wholly-owned subsidiary of PJSC NOVATEK, for the supply of natural gas to MMK. PJSC NOVATEK Chelyabinsk supplied 3.2 billion cubic metres of natural gas to the Group in 2018. Currently gas supply by PJSC NOVATEK Chelyabinsk contributes approximately 76% of the gas required by MMK for its operations.

In June 2017, MMK concluded a contract for 10.5 years with OOO Gazprom Mezhregiongaz Kurgan, for the supply of natural gas for MMK. OOO Gazprom Mezhregiongaz Kurgan supplied 1.0 bcm of natural gas to MMK in 2018. Currently gas supply by Gazprom contributes approximately 24% of the gas required by MMK for its operations.

Water

The Group has its own water catch basin at its site in Magnitogorsk, which provides all of the water required in the production process.

Seasonality

In view of the fact that the geographical location of the Group's main production site in Magnitogorsk is in a climate zone with severe climate conditions in winter months, the Group requires additional winter provisioning of one month's supply of iron ore and coal and two months' supply of scrap to provide the materials needed for approximately one month of production, as extremely low temperatures significantly limit the Group's capability to prepare supplies for its production process. The Group's policy is to maintain at all times an adequate reserve of raw materials to safeguard the business operations of the Group for a period of one month in the event of supplies being interrupted. The Group maintains minimum requirements (measured in days) for such reserves. During winter, additional reserves of certain raw materials are prepared. See "*Risk Factors – Risk Factors Relating to the Group and the Steel Industry – The severe climate conditions in Magnitogorsk or in the regions in which the Group's key customers or suppliers of raw materials are located may disrupt the Group's operations*".

Sales and Marketing

The Group mainly trades in the following markets: the CIS, Middle East (including Turkey), Africa, Europe and Asia (including the Far East). The Group has been active in international steel markets since 1991. The priority direction of sales for the Group is the domestic market (Russia and the CIS)

and deliveries are increasing as the state of the Russian and the CIS economies improve and domestic demand increases as a result. In 2018, 21% of the Group's revenue from sales was received in the export market, compared to 34% in 2007. This reflects the Group's strategy to benefit from a higher share of sales of high-value products to customers in Russia and the CIS and the current level of prices in Russia and the CIS with a premium on exports.

The following table sets out information on the volume of the Group's steel products sold (including sales to subsidiary traders) by type for the periods indicated.

	Three months ending 31 March				Year ending 31 December					
	2019		2018		2018		2017		2016	
	(in thousands of tonnes, except percentages)									
Billets and slabs .	0.2	0.0%	0.1	0.0%	-	-	4	0.0%	104	0.9%
Long products	329	11.9%	284	10.1%	1,389	12.0%	1,374	11.9%	1,325	11.6%
Flat products.......	1,661	59.9%	1,729	61.4%	6,836	59.0%	7,061	61.2%	7,056	62.0%
Downstream products..........	782	28.2%	801	28.5%	3,357	29.0%	3,103	26.9%	2,899	25.5%
Total	**2.772**	**100.0%**	**2.814**	**100.0%**	**11,583**	**100.0%**	**11,542**	**100.0%**	**11,384**	**100.0%**

The largest share in the Group's export deliveries (by volume) is attributable to flat products, mostly hot-rolled.

The share of flat rolled products in the Group's sales (by volume) decreased from 62.0% in 2016 to 61.2% in 2017 and further to 59.0% in 2018. The share of long products in the Group's sales (by volume) increased from 11.6% in 2016 to 11.9% in 2017 and further to 12.0% in 2018. At the same time, the total sales of high-value added products increased by 1.2% in 2018 or 16 thousand tonnes as compared to 2017. The share of sales of metal products of deep processing (high value added products) increased from 25.5% in 2016 to 26.9% in 2017 and reached 29.0% in 2018. The volume of deep processed metal products sold grew by 8.2% in 2018 or 254 thousand tonnes as compared to 2017. The total sales of metal products grew by 1.8% or 200 thousand tonnes from 11,384 thousand tonnes in 2016 to 11,583 thousand tonnes in 2018.

Analysis of Domestic and Export Sales

The following is an analysis of the domestic and export sales of MMK, the principal operating company of the Group.

Domestic sales. MMK sells most of its products in the markets of the Russian Federation and the CIS, approximately 79.1% by volume in the year ended 31 December 2018 and 89.4% in the three months ended 31 March 2019.

The main domestic sales of MMK are directed at industrially developed regions, namely the Urals region (approximately 32.6% of all domestic sales by volume), the Volga region (approximately 17.9% of all domestic sales by volume) and the Central region (approximately 14.8% of all domestic sales by volume), which the Group's management believes have the highest demand for steel products.

MMK sells most of its products to companies within the pipe-manufacturing, production of machinery and equipment (including automotive) and construction and construction materials production industries. The Group's management strategic focus on the domestic market includes the aim of making MMK the principal strategic steel supplier to major customers in these industries.

The following table sets out the main third-party customers of MMK in the Russian and the CIS market by volume of steel products purchased.

Third-party consumer	Three months ended 31 March 2019		Year ended 31 December 2018	
	(in thousands of tonnes)	*(in % of total volume of sales of MMK)*	*(in thousands of tonnes)*	*(in % of total volume of sales of MMK)*
AO Steel Industrial Company	116	4.2%	348	3.0%
PJSC Seversk Pipe Plant	66	2.4%	324	2.8%
PJSC Chelyabinsk Pipe-Rolling Plant	74	2.7%	240	2.1%
OJSC Ural Pipe Plant	44	1.6%	203	1.8%
PJSC Avtovaz	74	2.7%	281	2.4%
JSC Zagorsk Pipe Plant	81	2.9%	183	1.6%
LLC Company Metal Profile	38	1.4%	191	1.6%
AO Volzhsky Pipe Plant	99	3.6%	162	1.4%
AO Almet'evsky Pipe Plant	22	0.8%	160	1.4%
AO Metallokomplekt-M	62	2.2%	201	1.7%
Total (10 largest)	**676**	**24.5%**	**2,293**	**19.8%**
Total for Russia and the CIS	**2,442**	**88.1%**	**9,029**	**78.0%**

The following table sets out a breakdown of MMK's volume of third party sales by industry sector within the Russian and the CIS market in 2018.

Industrial sector	Flat products	High value added products	Long products	Total
		(in %)		
Steel trade	24.0	39.9	49.8	32.4
Pipe production	44.3	1.1	0.5	26.1
Metalware and processing plants	7.3	2.3	36.2	11.4
Construction	2.3	27.2	2.8	8.3
Production of machinery and equipment	4.4	11.1	8.1	6.6
Rail car building	6.6	8.0	2.4	6.2
Automotive industry	8.6	9.0	0.1	7.1
Bridge building	0.4	-	0.1	0.2
Ship building	2.2	-	0.1	1.3
Food industry	0.01	1.3	-	0.3
Total Russian market	**100**	**100**	**100**	**100**

Export sales. In 2018, MMK sold its steel products in 37 countries.

The following table sets out, by volume, the regions in which the products of the Group were sold (including by traders to end customers) for the periods indicated.

Regions	Three months ended 31 March		Year ended 31 December		
	2019	2018	2018	2017	2016
			(in %)		
Russian Federation and the CIS	86	75	79	77	77
Middle East	8	14	9	14	14
Asia	-	4	5	3	3
Europe	4	4	4	3	5
Africa	2	3	3	3	1
Total	**100**	**100**	**100**	**100**	**100**

Exported products are principally sold through two companies - MMK Steel Trade AG (consolidated in the Group) and MMK Trading AG (a related party). In 2018, MMK Steel Trade AG and MMK Trading AG were responsible for 54% and 46%, respectively, of MMK's export sales. All trades between the operational companies of the Group and trading companies are entered into on arms-length basis. The Group's management believes that this distribution structure provides for a stable distribution network. Export deliveries are generally made on Free Carrier ("**FCA**") terms (delivery to

a specified point at the seller's expense, with the buyer being responsible for the principal costs of carriage, insurance and other costs and risks), and then further deliveries by the Group's traders to customers are typically performed on Free on Board ("**FOB**") terms (the delivery of goods on board a vessel at port at the seller's expense with the buyer responsible for main costs of carriage, insurance and other costs), on Delivery to Destination ("**DAP**") terms (the delivery to the destination means that the seller delivers when the goods are placed at the disposal of the buyer on the arriving vehicle ready for unloading at the destination, the seller bears all risks associated with the delivery of goods) or Cost and Freight ("**CFR**") terms (delivery to a port of destination, under which the seller does not have to procure marine insurance against the risk of loss or damage to the goods during transit). The Group's sales policy is flexible in terms of currency, while the majority of contracts are entered into in Russian roubles, U.S. dollars and euros.

Sales of MMK Metalurji's Steel Products

The following table sets out information on the volume of MMK Metalurji's steel products sold (including sales to subsidiary traders) by type and market for the periods indicated.

	Three months ended 31 March				**Year ended 31 December**					
	2019		**2018**		**2018**		**2017**		**2016**	
	(in thousands of tonnes, except percentages)									
Hot-rolled steel products	**5**	**100%**	**24**	**100%**	**35**	**100%**	**114**	**100%**	**122**	**100%**
Turkey	5	100%	24	100%	34	97%	99	87%	97	80%
Middle East	-	-	-	-	1	3%	13	11%	24	20%
Other	-	-	-	-	-	-	2	2%	1	1%
Galvanised steel	**129**	**100%**	**148**	**100%**	**566**	**100%**	**580**	**100%**	**511**	**100%**
Turkey	81	63%	106	72%	395	70%	408	70%	448	88%
Russia	-	-	-	-	-	-	-	-	-	-
Middle East	3	2%	3	2%	11	2%	42	7%	45	9%
CIS	-	-	-	-	1	0.2%	3	1%	3	1%
Other	45	35%	39	26%	159	28%	127	22%	15	3%
Colour-coated steel	**40**	**100%**	**56**	**100%**	**158**	**100%**	**182**	**100%**	**209**	**100%**
Turkey	29	72.5%	46	82%	117	74%	136	75%	185	89%
Russia	-	-	-	-	-	-	4	2%	-	-
Middle East	-	-	-	-	-	-	3	2%	4	1%
CIS	-	-	-	-	-	-	1	1%	1	1%
Other	11	27.5%	10	18%	41	26%	38	21%	19	9%
Other	**2**	**100%**	**3**	**100%**	**8**	**100%**	**49**	**100%**	**12**	**100%**
Turkey	2	100%	3	100%	8	100%	47	96%	6	50%
Middle East	-	-	-	-	-	-	1	2%	6	50%
Other	-	-	-	-	-	-	1	2%	-	-
Total	**176**	**100%**	**231**	**100%**	**767**	**100%**	**925**	**100%**	**854**	**100%**
Turkey	117	66%	179	77%	554	72%	690	75%	736	86%
Russia	-	-	-	-	-	-	4	0.5%	-	-
Middle East	3	2%	3	1%	12	2%	59	6%	79	9%
CIS	-		-	-	1	0.2%	4	0.5%	5	1%
Other	56	32%	49	21%	200	26%	168	18%	34	4%

Coal Mining Segment

The Group's coal mining segment is represented by LLC MMK-Ugol and OJSC Belon. MMK-Ugol owns two operating mines: Chertinskaya-Koksovaya and Kostromovskaya, which extract coal from the valuable Russian grade ZH, supply of which on the market is relatively limited. Chertinskaya-South mine has been conservated. MMK-Ugol also owns the Belovskaya coal preparation plant with a nominal production capacity of approximately 6.0 million tonnes of coal, as well as a service and logistics workshop. The subdivisions of MMK-Ugol constitute a unified technological complex in the Kemerovo region. The production system is interconnected, geographically compact and has a developed infrastructure. The Group's goal is to ensure the raw material stability through operations of its coal segment.

In 2018, MMK-Ugol extracted 4.9 million tonnes of coking coal and produced 3.0 million tonnes of coal concentrate, covering 38% of the Group's coal concentrate requirements in that year, compared to 37% and 41% in 2017 and 2016, respectively.

Coal Mining

The following table provides the description of coking coal extraction levels at the Group's mines in the periods indicated and certain operating characteristics of the Group's mines.

	Chertinskaya-Koksovaya	**Kostromovskaya**
Russian grade(s) of coking coal	ZH	ZH
Volume of coking coal production in 2018 (*in thousands tonnes*)	2,149	2,778
Volume of coking coal production in 2017 (*in thousands tonnes*)	1,387	2,227
Volume of coking coal production in 2016 (*in thousands tonnes*)	887	2,529
Design extraction capacity (*in thousands tonnes per year*)	2,400	2,700
Reserves life (2018 production/reserves for operating mines) (*in years*)	21	30
Number of employees as of 31 December 2018	1,136	696

Coking Coal Reserves

The following table sets forth the Group's coal reserves based on Russian resource/reserve reporting system (which is very different both in principle and in detail from the principal reporting codes used internationally) as stated in reports of GKZ, the State Commission on Mineral Reserves, as of 1 January 2019.

Mine or licensed deposit	**Grade of coal**	**Remainder of "on balance" reserves[(1)]**	**"Operational reserves"[(2)]**
		(in thousands of tonnes)	
Chertinskaya-Koksovaya	ZH	69,141	51,149
Chertinskaya-Yuzhnaya	ZH	6,824	3,199
Kostromovskaya	ZH	136,581	7,367
		68,102	-
Total for grade Zh		**280,648**	**61,715**

Notes:

(1) Reserves and resources in a Russian reporting system that can be matched to the usual international categories are classified into five main classes designated by symbols A, B, C_1, C_2 and P_1. "On balance" reserves include reserves of minerals the extraction of which is commercially reasonable using the existing or newly developed machinery and equipment and extraction techniques and conducted in compliance with the existing legislation on the use mineral resources and environmental protection. "On balance" reserves include classes A, B, C_1 and C_2 under the Russian reporting system for mineral reserves that satisfy (i) conditions related to quality, quantity and technological properties of relevant minerals and (ii) mining conditions related to extraction operations at a particular deposit taking into consideration the extent of exploration of such deposit and its geographic and economic characteristics. The state approved and published Russian "on balance" reserves for a mining operation do not account for either dilution or mining recoveries at such operation.

(2) "Operational reserves" account for dilution, recovery, losses and gains and are generally initially determined in a feasibility study with the parameters based on the mining method to be used by the operation. The "operational reserves" are estimated on a yearly basis and the dilution, recovery and losses and gains can change from year to year based on the previous year's performance.

Production of Coal Concentrate

Supplies of Raw Coal

The washing plant is located in the town of Belovo. The Belovskaya coal washing plant produces coal concentrate from coal received from the Chertinskaya-Koksovaya and Kostromovskaya underground mines and third-party suppliers.

The following table sets forth information on volumes of raw coal supplied to the Belovo washing plant by MMK-Ugol in the periods indicated.

	Three months ended 31 March		Year ended 31 December		
	2019	2018	2018	2017	2016
	(in thousands of tonnes, except percentages)				
Purchases of raw coal:					
Coal from Chertinskaya-Koksovaya mine...	619	583	2,159	1,306	961
Coal from Kostromovskaya mine................	784	360	2,803	2,163	2,613
Total coal from the Group's own mines ..	**1,403**	**943**	**4,962**	**3,469**	**3,574**
Coal from third-party suppliers	19	316	678	1,424	1,384
Total	**1,422**	**1,259**	**5,640**	**4,893**	**4,958**
Ratio of total purchases of coal from the Group's own mines to total purchases of coal *(in percentages)*...............................	99%	75%	88%	71%	72%

Sales of Coal Concentrate

The following table sets forth information on volumes of coal concentrate supplied by MMK-Ugol to MMK and other customers in the periods indicated.

	Three months ended 31 March		Year ended 31 December		
	2019	2018	2018	2017	2016
	(in thousands of tonnes, except percentages)				
Sales of coal concentrate:					
MMK..	725	622	2,570	2,707	2,790
Other	58	39	423	9	93
Total	**783**	**661**	**2,993**	**2,716**	**2,883**
Ratio of coal concentrate supplied to MMK to total sales of coal concentrate..............	92.6%	94.1%	85.9%	99.7%	96.8%

Capital Expenditure

Given that steel production is a capital-intensive business, as part of its competitive strategy, the Group maintains a capital expenditure programme which includes a capitalised repairs component of approximately U.S.$300-350 million per year and annually set short-term investment capital expenditure limits. This programme is primarily financed by cash generated from the Group's operations and external debt financing.

The table below presents the Group's capital expenditures for the years indicated:

Capital Expenditures	*(U.S.$ millions)*
2010..........	2,200
2011..........	1,154
2012..........	674
2013..........	622
2014..........	497
2015..........	348
2016..........	463
2017..........	664
2018..........	860

The Group's management currently plans to make expansion and maintenance capital expenditures in the amount of approximately U.S.$850 million in 2019. These planned expansion capital expenditure projects include the development capex of U.S.$501 million, which provides for financing of (i) completion of construction of the sinter plant No. 5 to increase capacity from 4.5 million tonnes of sinter per annum to 5.5 million tonnes per annum (with indicative capital expenditures of U.S.$311 million); (ii) reconstruction of the hot rolling mill 2500 to increase capacity from 3.7 million tonnes of

hot rolled coil per annum to eventually 5.0 million tonnes per annum (with indicative capital expenditures of U.S.$223 million); (iii) construction of the coke-oven battery complex No. 12; and (iv) purchase of equipment to minimise the negative impact on the environment. In addition, it includes approximately U.S.$348 million of capitalised repairs in 2019.

Going forward, the Group also plans to (i) install a new coke battery at its facility in Magnitogorsk by the end of 2022, replacing existing batteries No. 13 and No. 14, in order to improve the quality of coke production, reach capacity of 2.5 million tonnes of coke per year and reduce the environmental impact of the production (with indicative capital expenditures of U.S.$466 million); (ii) build a new blast furnace in 2020–2024 to replace the existing blast furnaces No. 7 and No. 8, to increase the production capacity of pig iron to 3.5 million tonnes per year, reduce production costs and impact on the environment (with indicative capital expenditures of U.S.$393 million); and (iii) build a steam turbine power station in 2020-2023 (with indicative capital expenditures of U.S.$153 million).

Research and Development

The Group operates a central control laboratory and a research and development centre and has contracts for research in place with various Russian scientific and technological institutions. The Group spent approximately RUB211.9 million (U.S.$3.3 million) on research and development in 2018.

The Group's research and development activity is principally aimed at expediting the development of new high value added products and improving the characteristics of the existing products, as well as at achieving improvements in the Group's environmental protection efforts. To achieve these goals, the Group's focuses its research and development activities on:

- the implementation of new technologies at its metallurgical plants and advanced processing of metals;
- expanding the range of its product lines (product sizes and grades of steel); and
- the reduction of production costs.

Amongst the most significant research and development projects in 2018 were those related to works concerning the development of technology for the production of hot-rolled steel plate for gas-oil pipes with the provision of increased cold resistance, rolled hot-rolled steel coils intended for the production of electrically welded corrosion-resistant pipes and pipes for seismic resistant high pressure pipelines, as well as works aimed at mastering the production of cryogenic steel for the production, transportation and storage of liquefied natural gas.

In 2018, the Group received patents for 6 inventions and models and applied for 2 patents. Among particularly important inventions were *"Method for the production of high-strength cold-resistant sheet steel plate from low-alloy steel", "Pipe with increased deformation capacity and high ductility of the welded joint and method of its manufacture" and "Method for the production of thick plates for the manufacture of electric-welded gas and oil large diameter pipes with strendth X42-X56 resistant to hydrogen-induced cracking in H2S-containing media".*

Intellectual Property

As at 31 March 2019, the Group had 473 patents for inventions, 26 patents for models, 70 certificates of registration for various computer programmes and databases, three trademark certificates registered in Russia and 10 registered abroad.

The Group's patents for inventions and models protect its findings on new steel qualities and the new technologies for the production of steel with such qualities, new technologies for the production of the Group's steel products or for improving the quality of such products, as well as findings on design improvements for steel production equipment or designs of new equipment and machinery. The Group's software is aimed at improving management, analysis, control over technological equipment

and at achieving greater productivity in work with informational sources. The Group maintains all necessary licences (including those for the production of steel in basic oxygen furnaces, the production of molten pig iron and construction and materials production licences) that it requires to operate its business. The Group's patents department is responsible for the upkeep and maintenance of the Group's intellectual property rights.

Quality Assurance Programme

The Group's current quality management system was introduced in 1999 in order to ensure that all of its products meet or exceed the requirements of customers and regulators.

The Group's quality management system passed its certification audits for the compliance with the following standards: ISO 9001:2000 (since 2002); ISO/TS16949:2002 (since 2005) and STO Gazprom 9001-2006 (since 2010). At present, the Group has certificates of compliance with the following standards: ISO 9001:2015 (valid until 8 November 2020) and IATF 16949:2016 (valid until 23 September 2021) issued by TUV NORD CERT (Germany) and STO Gazprom 9001-2012 (valid until 2 July 2020) issued by OS OOO Pronap, in each case authorised audited entities. In June 2019, MMK is expected to be certified for compliance with STO Gazprom 9001-2018 under the existing contract. Upon the expiration of these certificates, the Group's management plans to request re-certification audits from the relevant auditors.

The Group's certificates of compliance with the standards cover the following areas:

- ISO 9001: in relation to design, development and production of metallic charge from ferrous scrap, coke and chemical products, limestone, lime, dolomite, crushed stone, clay, sinter, pig iron, continuously cast slabs for hot rolling, steel billets, hot-rolled plates, hot-rolled and cold-rolled coils, strips and sheets, cold-rolled and hot-rolled bands, tin plates, galvanised and colour-coated steel products, electric welded and galvanised pipes, formed steel sections and long products;

- IATF 16949: in relation to design and manufacturing of cold- and hot-rolled steel in coils and sheets from low-carbon steel, hot- and cold-rolled carbon and low-carbon steel strips, hot-dip galvanised low-carbon and extra low-carbon rolled steel, as well as processed hot-rolled steel strip; and

- STO Gazprom 9001: in relation to design, development and production of continually cast slabs for hot-rolling; hot-rolled coils and sheets, hot-rolled thermo-treated thick plate for PJSC "Gazprom" and its suppliers.

Information Technology

In 2004, the Group introduced the Enterprise Resource Planning ("**ERP**") system.

Since its introduction, the system has become an integral part of the Group's business management system. Today, the ERP system is an integrated set of Oracle application software, including the following functional areas: production management, financial management, material flow management, customer relationship management, enterprise asset management, maintenance and repair management, personnel management, product life cycle management, logistics management and business efficiency management.

In 2017, MMK's management decided to modernise the ERP system and expand its functionality to include the Group's companies engaged in the production and sales activities.

The main objectives set by the management under the project were to optimise and standardise business processes, improve the manageability of the Group's companies, minimise time and material costs associated with the business processes, and improve conditions for the development of the Group's business.

The project migrating MMK's ERP system and scaling it up to the entire Group was split into several stages. The first stage of the process, which comprises migration of MMK's ERP system to Oracle E-Business Suite v12, implemented and, on 1 April 2019, the system was put into pilot operation. As of the date of this Prospectus, the process is in the second stage, which comprises the deployment of the system in the United Service Company and MMK-Metiz (planned to be implemented in July 2019).

MMK's production and quality management architecture combines the resources of four main systems:

- The master data management (MDM) ensures the integration and interaction of all systems within a single information space;

- The MES systems at the production units provide real-time management of production and product quality records;

- The technology and product quality management (big data) integrates the technological history of production of each item and provides solutions allowing to regulate and monitor compliance with technology and product quality at the corporate level using modern statistical methods of big data processing; and

- The supply chain planning is a complex of interconnected automated systems of production process control at different levels: from units, shops and plants to the corporate management level.

The main feature of the MMK IT infrastructure is the location of almost all computing resources at one site in the city of Magnitogorsk, which is due to the peculiarities of the existing business model (the main production facilities and, correspondingly, the main IT infrastructure and information management functions are concentrated in the city of Magnitogorsk). This explains an insignificant use of cloud technologies such as IaaS and PaaS. These technologies have been developed exclusively within the MMK's internal private cloud.

The existing MMK's IT infrastructure consists of two data processing centres, the main and backup, providing information support for operations at the corporate level, one production data centre and more than 30 local computer centres and production sites providing information support at the shop floor level. All data centres are interconnected and exchange data via a local area network using classic data transfer protocols (TCP/IP, Ethernet). The core network at the physical level is a system of fiber-optic communication lines, forming a star-type topology with redundant optical channels. The total number of corporate network nodes is more than 2000. The server infrastructure is based on two platforms - RISC and Intel - with distributed storage systems, and virtualisation is actively used. The total number of servers (physical and virtual) is approximately 1000. The operating environments are Solaris, Windows and Linux. The main types of DBMS are Oracle, MSSQL and Sybase. In addition to classical computer (PC) solutions, VDI technologies are also used in the workstation infrastructure.

Due to the risk of cyber threats and related legal and regulatory requirements, MMK actively uses and develops technical information security tools (NG Firewall, DLP, anti-virus and anti-spam protection, IDS/IPS, vulnerability management, etc.). Active work is also underway to implement measures in accordance with the Federal Law No. 187-FZ "On the critical information infrastructure".

Competition

According to Metal Expert, MMK was the second largest steel producer in Russia by volume of steel products output in 2017 and in 2018 MMK had the largest share of steel shipments in Russia (17.5% of total shipments).

Large steel groups based in Russia, Kazakhstan, Ukraine, Turkey and China are the Group's principal competitors in its key markets, such as Russia and the CIS, the Middle East and Europe. The most significant among them are groups with large production facilities located in Russia and the CIS.

The steel market in Russia is characterised by a high level of consolidation, with most major metallurgical plants already forming part of larger holdings. In the Russian market the Group faces competition from Severstal, NLMK, OMK Evraz, Mechel, Ashinskiy MZ, Metalloinvest and AO Arcelor-Mittal Temirtau (located in Kazakhstan), as well as Metinvest (located in Ukraine).

In respect of its export markets (outside the CIS) the Group's management views Erdemir Group in Turkey; Dillinger Hutte GTS and ThyssenKrupp in Germany, Riva Group in Italy, U.S. Steel Kosice in Slovakia and Serbia; China Baowu Group, Shagang Group and HBIS Group in China; Tata Steel in India and POSCO in South Korea as its principal competitors

Based on data derived from Metal Expert, the following table sets out the share of volume of sales of MMK and its main competitors in the Russian market in the periods indicated.

	Three months ended 31 March		**Year ended 31 December**		
	2019	**2018**	**2018**	**2017**	**2016**
			(in %)		
MMK	19.3	18.3	17.5	16.3	18.1
Severstal	15.7	13.9	14.4	14.6	15.7
NLMK	8.4	9.3	8.7	8.9	8.4
Other Russian companies	46.8	45.7	46.6	47.5	48.4
Import	9.7	12.9	12.8	12.7	9.4
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Metal Expert. Data for MMK is aligned based on internal accounts.2019 data is based on January-February 2019 data.

The Group's two main competitors in Russia are Severstal and NLMK.

The main production facilities of Severstal are located in relative proximity to the ports of the North-West region, which allows it to significantly reduce the cost of delivery for sales to export markets by sea. It should also be noted the proximity of Severstal to the most metal-intensive region of Russia - the Central Federal District, allows the company to have relatively low transportation costs. The main production site of NLMK is located in the area of the Kursk iron ore deposit. Immediate proximity to raw materials can significantly reduce the cost of delivering iron ore as the main raw material, thereby increasing the advantage in terms of costs for production. The location of NLMK in the most metal-intensive region of Russia - the Central Federal District, as well as the relative proximity to the Black Sea ports, allows the company to have low costs for transporting products when selling to the domestic market and exporting by sea. The main areas of sales of MMK products are the Urals, Siberia and the Volga regions. The share of sales in these regions is more than 63% of all sales in the domestic market. Relative proximity to the main sales regions also allows MMK to have relatively low transportation costs.

Steel producers generally are also in competition with producers of substitute materials, particularly in the automotive, construction and packaging industries. Such products, for example aluminium, are increasingly becoming a competitive threat to the steel industry in the long-term.

Health, Safety and Environment

The Group constantly strives to improve industrial and occupational safety at all of its facilities and seeks to ensure that the system for industrial and occupational safety is in compliance with the relevant Russian legislation.

The following table sets out certain information about industrial accidents at the Group's facilities in the periods indicated.

	Three months ended 31 March		Year ended 31 December		
	2019	2018	2018	2017	2016
Number of industrial accidents	25	25	99	113	131
Number of people affected	25	25	99	118	133
Fatalities	0	1	3	5	4
Severe injuries	4	2	6	11	17
LTIFR ratio	1.01	1.00	1.02	1.13	1.16

One of the Group's strategic priorities is to ensure the safety of its employees and facilities. To this end, the Group implements measures to decrease the LTIFR ratio to 1.0, including regular facility maintenance and independent evaluation of safety standards. The fatalities recorded by the Group in the periods under review were mainly due to negligent actions of the employees. The Group provides compensation to employees injured in industrial accidents or suffering from work-related illnesses in accordance with current Russian legislation. This compensation is based on accident insurance and insurance payments from the Russian Social Insurance Fund. The Group maintains certain specific types of insurance to cover the risk of injury or fatalities at its production facilities and mining operations, including mandatory liability insurance for the owners of hazardous industrial objects and voluntary employee insurance for accident or professional illness. The Group also regularly conducts safety trainings for its employees.

In addition to these compensation amounts, MMK provides additional payments to injured or deceased employees and their families under the terms of the collective bargaining agreement with its employees and provides certain other types of social and economic aid to the injured employees and their dependents.

The Group carries out its activities in accordance both with Russian environmental protection laws as well as the ISO 14001:2004 international standard. The Group also received an independent environmental standard certification in 2016 and currently all of the Group's assets are certified. Steel-making activities require large quantities of raw materials and energy and have, by their very nature, a significant impact on the environment. Due to the location of its production facilities, the Group is subject to Russian and Turkish environmental legislation and regulations regarding the emission of pollutants into the atmosphere and water, the placement and disposal of waste products, the use and processing of environmentally hazardous materials. See "*Regulatory Matters*".

	Three months ended 31 March		Year ended 31 December		
	2019	2018	2018	2017	2016
			(thousand tonnes)		
MMK emissions of pollutants	49.5	49.5	198.5	199.3	201.8
MMK weight of discharges of polluting substances	6.4	15.1	58.2	62.2	62.9

The Group's management believes that there are no material environmental penalties, sanctions, liabilities or contingencies that are not reflected in the Financial Statements or which could have a material adverse effect on the Group's business, results of operations, financial position and/or prospects.

The amount of all payments made by the Group during 2018 in relation to the adverse effect of its operations on the environment under existing regulations was RUB45.3 million (approximately U.S.$0.7 million). There is no practice imposing payments on the companies for adverse impact on the environment under the Turkish regulatory framework for environmental protection.

MMK's total atmospheric emissions in 2016, 2017 and 2018 amounted to 201.8 kt, 199.3 kt and 198.5 kt respectively, while per unit emissions in the same periods equalled to 17.8 kg/t, 17.6 kg/t and 17.4 kg/t, respectively.

The Group spent a total of RUB13.4 billion (approximately U.S.$207.1 million) on technical maintenance and operation of environmental protection facilities and equipment in 2016, 2017, 2018 and the first three months of 2019. Capital expenditures for construction and reconstruction of environmental facilities in this period amounted to RUB9.8 billion (approximately U.S.$151.2 million).

In accordance with its strategy, the Group intends to further reduce its impact on the environment through upgrading its equipment and construction of state-of-art production facilities. See "- *Capital Expenditures*". By implementing its strategy, the Group aims to cut atmospheric emissions by 10% by 2025, reduce effluent discharges by 70% by 2025 and continuously reduce slag heap volumes. In order to implement these measures, the Group plans to invest approximately RUB40 billion (approximately U.S.$689.7 million) in environmental projects.

Each Group company has persons, or a separate department, which exercise control over compliance with environmental standards and environmental protection legislation and regulations. At MMK, the environmental control function is performed by the laboratory for environmental protection, which reports to the director for employment, industrial and occupational safety and environmental protection. The Group's management believes that the Group conducts its activities in compliance with the applicable environmental legislation and regulations in all material respects. In addition, the Group requires its supplies and agents to conform to the highest standards on environmental protection measures.

Litigation

No member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are on-going, pending or threatened of which the Group's management is aware) during the 12 months preceding the date of the Prospectus that may have, or have had in the recent past, a significant effect on the financial position or profitability of the Group.

Insurance

The Group maintains insurance against loss and damage to its properties and equipment at the main production facilities of the Group through various insurance companies, including AlfaStrakhovanie, Sogaz and Aon, in amounts that are consistent with customary industry practices both in Russia and internationally. In particular, the Group maintains insurance of its principal property, plant and equipment, construction in progress as described in the table below. The Group also insures against certain other risks including third-party liability. The Group's property, plant and equipment is insured in accordance with its replacement or actual cost as determined by licensed appraisers. See "*Risk Factors – Risk Factors Relating to the Group and the Steel Industry – The Group's existing and future insurance coverage may not be sufficient to cover costs arising from hazards and other operational risks arising from its steel-making and other operations*". Insurance companies in the Russian market are selected through annual closed tenders from companies with a security rating of at least A under the rating system maintained by Expert RA rating agency. Russian insurance companies reinsure substantial proportion of their obligations with the largest Russian and international reinsurance companies (save for those obligations that cannot be reinsured under Russian law).

The following table sets out the categories of mandatory insurance and voluntary insurance maintained by the Group.

Mandatory insurance	Voluntary insurance
Accident insurance of gas-rescuers	Accident insurance for employees (for employees of Group companies subject to such risk, including employees of MMK)
Civil liability of the owner of a hazardous facility for inflicting harm as a result of a failure of the	Medical insurance

Mandatory insurance	Voluntary insurance
hazardous facility	
Civil liability of vehicle owners	Property insurance (fire and associated risks, equipment and machinery breakdowns) for properties and equipment at the main production facilities of the Group (including MMK and MMK Metalurji); insurance of leased property
	Vehicle insurance (carjacking, accident and fire)
Civil liability insurance for companies that operate facilities using nuclear energy	Construction risks insurance in respect of construction at the main production facilities of the Group (including MMK)
	Insurance of employees going on business trips outside of the region of their permanent residence
Civil liability for inflicting harm as a result of deficiencies in work relating to capital construction	Liability insurance for directors and officers

The Group does not insure against loss of profits due to business interruption.

Social Projects and Commitments in Magnitogorsk

The Group funds or contributes to a number of social and community projects in and around the city of Magnitogorsk. The Group's expenses related to charity and maintenance of social assets amounted to U.S.$46 million in 2016, U.S.$44 million in 2017 and U.S.$51 million in 2018.

In 2018, more than 16,500 employees and their family members accessed holiday centres or sanatoriums on preferential terms as part of the Group's wellness programme. The Group maintains a comprehensive programme of leisure activities and recreation for its employees. The Group also arranges a large number of sporting events for the participation of its employees and their families annually. It also finances two cultural centres which provide facilities for a number of amateur talent groups composed of employees, their family members and other citizens.

The Group assists its employees with meeting their housing needs through its "Klyuch" programme. Under this programme, employees make monthly contributions totalling up to 30% of the value of an apartment for a year and a half during which the housing is constructed. Upon completion of construction, the difference is covered from proceeds from the sale of the apartment or through a mortgage. In 2018, the construction of the Klyuch complex, consisting of five 4-storey apartment buildings, was completed and commissioned. The complex has a fenced area, equipped with children's and sports facilities, parking spaces. 147 employees of the Group entered into equity agreements and purchased apartments through the programme.

The Group supports pensioners and veterans through its charitable foundation "Metallurg". This foundation is involved in a number of charity projects, including the monthly payment of pensions to approximately eight thousand non-working pensioners and veterans of the Group, which amounted to RUB81 million (approximately U.S.$1.3 million) in 2018. MMK is the main benefactor of this foundation, and in 2018, it spent RUB560.3 million (approximately U.S.$8.7 million) to finance charity projects through "Metallurg".

The Group recognises the importance of investing in the development of the communities in which it conducts business in order to maintain a favourable social climate and sustainable business development. To this end, the Group supports socially-oriented activities of municipal, regional and non-profit organisations, provides sponsorship assistance to schools in the city of Magnitogorsk,

supports gifted and talented children by offering monthly scholarships. In addition, the Group directly participated in the landscaping of streets and schools in the city of Magnitogorsk in 2018, as well as in the capital reconstruction of the main park area of the city of Magnitogorsk near the "Tyl-Front" monument. In total, more than RUB50 million have been allocated for landscaping and landscaping programs of the city's parks.

Currently, as part of the development of the urban environment and the city economy, with the support of the Group, the project "Attraction" is being implemented, the goal of which is to create conditions for the improvement in the quality of life in the city, to create modern education formats, conditions for mass sports, to arrange a comfortable environment for citizens construction of a sports cluster with indoor and outdoor areas, a museum-educational complex and medical centres, a residential sector with new comfortable living conditions. All objects will be integrated into the general park space, which will allow concentrating modern objects of the highest level in the landscaped area, allowing active rest, increasing the educational and cultural level, and receiving high-quality medical services. When all the work is completed, citizens will get a new, modern format of life in the city, new opportunities for self-development, training, and career.

Employees

The following table sets out the Group's average number of employees in 2016, 2017 and 2018. MMK received an OHSAS certification in 2004.

Year	MMK	MMK-Ugol	MMK Metalurji	Other	Total for the Group
2018	17,887	2,966	1,202	33,398	55,453
2017	17,955	3,121	1,229	33,276	55,581
2016	18,077	3,268	1,226	34,143	56,714

To date, neither MMK nor any Group company has experienced any strikes, labour disputes, work stoppages or actions that have materially affected the operation of their businesses and the Group's management considers the Group's relationship with its employees and the trade union to be good.

As of 31 March 2019, 92.3% of the Group's employees belonged to one trade union (the Mining and Metallurgical Trade Union of Russia). The activities of the trade union include the negotiation and entry into the collective bargaining agreements at MMK (the collective bargaining agreement between MMK as the employer and the trade union, regulating social and labour relations within MMK, including negotiation of wages, entered into every three years). The trade union organisation operating in MMK-Ugol is the Russian Independent Trade Union of Coal Industry Workers. The trade union organisation operating in MMK-Metalurji is Demir, Celik, Metal Mu Metal Mamulleri Iscileri Sendikasi (Celik-Is).

The average monthly wage of the Group's employees was U.S.$711.0 in 2016, U.S.$864.7 in 2017 and U.S.$854.7 in 2018, which exceeds the region's average The Group's management plans to increase employees' wages in the future in line with changes in the rate of inflation and subject to increases in labour productivity.

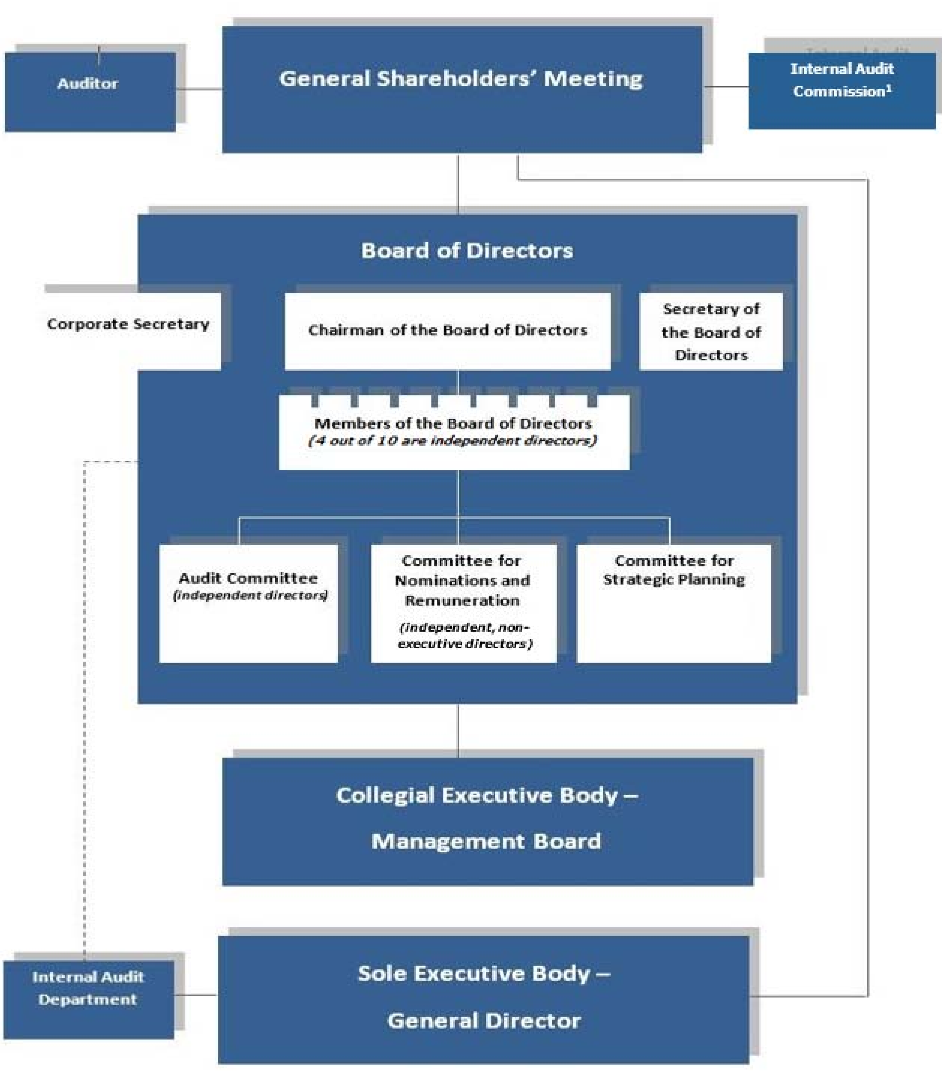
While the Group does not have or plans to create any employee share ownership plans, the Group's employees are entitled to benefits, the amount of which depends on their monthly productivity, quality of performance, cost-savings and other performance indicators.

MANAGEMENT AND CORPORATE GOVERNANCE

Overview

In accordance with Federal Law No. 208-FZ dated 26 December 1995 "On Joint Stock Companies", as amended (the "**JSC Law**"), the Civil Code of the Russian Federation and MMK's charter, the management bodies of MMK are the General Shareholders' Meeting, the Board of Directors and executive bodies comprising the collegial executive body – the Management Board, and the sole executive body – the General Director (Chief Executive Officer). The highest governing body is the General Shareholders' Meeting. The Board of Directors carries out the general management of MMK's business. The General Director and the Management Board are responsible for the day-to-day management of MMK in accordance with their competence.

MMK manages its operations in compliance with applicable Russian corporate governance requirements. MMK's key decision-making bodies are structured as demonstrated below.



Note:

(1) On 25 February 2019, the Extraordinary General Shareholders' Meeting adopted amendments to the Charter of MMK, whereby the Internal Audit Commission was dissolved, and the powers of the members of the Internal Audit Commission were early terminated.

A brief description of each of the General Shareholders Meeting, the Board of Directors, the Management Board and the General Director is set out below.

General Shareholders' Meeting

The Annual General Shareholders' Meeting is MMK's highest governing body, vested with exclusive powers to take certain decisions by a vote of the ordinary shares represented at the Meeting. The powers of MMK's shareholders, acting through the General Shareholders' Meeting, are derived from, and their scope is limited to, the powers set forth in the JSC Law and MMK's charter. Voting at the General Shareholders' Meeting is generally based on the principle of one vote per ordinary share, with the exception of the election of the Board of Directors, which must be conducted through cumulative voting. Ordinarily, a majority vote of the voting shares present at the General Shareholders' Meeting is required for a decision of the General Shareholders' Meeting to be valid. However, a three quarters majority vote of the voting shares present at the General Shareholders' Meeting may be required to approve certain decisions.

The Annual General Shareholders' Meeting is convened by the Board of Directors on a yearly basis, and its agenda spans the following items:

- election of the members of the Board of Directors;
- approval of the annual report and annual financial statements;
- approval of the distribution of profits and losses; and
- approval of the appointment of an independent auditor.

Extraordinary General Shareholders' Meetings may be convened by the Board of Directors on its own motion, the independent auditor or any shareholder owning, individually or collectively with other shareholders, at least 10% of MMK's issued voting shares at the date of the request.

Board of Directors

Pursuant to the JSC Law and MMK's charter, the Board of Directors is responsible for the general management of MMK, except for matters reserved for the exclusive competence of the General Shareholders' Meeting, and also exercises control over MMK's executive bodies and execution of resolutions of the General Shareholders' Meeting.

Pursuant to MMK's charter, the Board of Directors consists of ten members. The members of the Board of Directors are elected at the General Shareholders' Meeting for a period up until the next annual shareholders' meeting. The powers of the Board of Directors may be terminated early pursuant to a resolution of the General Shareholders' Meeting. If the Annual Shareholders' meeting does not take place within the time provided by the JSC Law, the Board of Directors' powers shall terminate, save for the powers related to preparation, convening and holding of the Annual General Shareholders' Meeting. Only an individual may be a member of the Board of Directors. The members of the Board of Directors are elected through cumulative vote. Under cumulative voting, the number of votes of each shareholder is multiplied by the number of persons to be elected to the Board of Directors, and a shareholder may give all votes for one candidate or spread them among two or more candidates. The candidates who get the maximum number of votes are deemed to be elected to the Board of Directors. Persons elected to the Board of Directors may be re-elected an unlimited number of times.

The table below shows the current members of the Board of Directors. All of the current directors were elected on 1 June 2018, and their terms expire on the date of the next Annual General Shareholders' Meeting, which is expected to be held on 31 May 2019. The business address for all directors is 93 Kirova Street, Magnitogorsk, Chelyabinsk region, 455000, Russia.

The name, position and certain other information for each member of the Board of Directors are set forth below.

Name	Year of birth	Current position
Viktor F. Rashnikov	1948	Chairman of the Board of Directors
Ruben A. Aganbegyan	1972	Member of the Board of Directors, Independent Director
Kirill Yu. Liovin	1968	Member of the Board of Directors, Independent Director
Nikolai V. Lyadov	1956	Member of the Board of Directors
Valeriy Ya. Martsinovich	1973	Member of the Board of Directors, Independent Director
Olga V. Rashnikova	1977	Member of the Board of Directors
Zumrud Kh. Rustamova	1970	Member of the Board of Directors
Pavel V. Shilyaev	1970	Member of the Board of Directors, General Director
Ralph Tavakolian Morgan	1968	Member of the Board of Directors, Independent Director
Sergei N. Ushakov	1969	Member of the Board of Directors, Deputy General Director for Sales

The table below sets forth the biography of each member of the Board of Directors.

Viktor F. Rashnikov	Mr. Rashnikov graduated from the Magnitogorsk Institute of Mining and Metallurgy in 1974 with a degree in Metal Forming. In 1993, he underwent a requalification programme in Industrial Management Organisation at the same Institute. Mr. Rashnikov holds a doctoral degree in Technical Sciences. He has worked at MMK since 1967, initially as a fitter in MMK's Equipment Repair Shop No. 2, then as an operator, foreman, shift and workshop head and deputy chief engineer – head of the production and delivery department. Further, since 1991, Mr. Rashnikov served as the Chief Engineer – First Deputy General Director. In 1997, Mr. Rashnikov was appointed as the General Director of MMK. Since 2005 to the date of this Prospectus, he has been the Chairman of the Board of Directors of MMK. From 2006 to 2014, he served as the President of OOO MMK Managing Company. In addition, until 2016. Mr. Rashnikov served as the Chairman and member of the Board of Directors of MMK Metalurji Sanayi, Ticaret ve Liman Isletmeciligi Anonim Sirketi ("**MMK Metalurji**"). Mr. Rashnikov currently serves as Chairman of the Committee for Strategic Planning. Outside MMK, Mr. Rashnikov holds the posts of member of the Supervisory Board of the Non-Commercial Partnership Consortium

Russian Steel, member of the Board of Directors of LLC Continental Hockey League, President of ANO Metallurg-Magnitogorsk Ice Hockey Club and member of the Board of Directors of the World Steel Association. In addition, Mr. Rashnikov serves as President of the Chelyabinsk Regional Non-Governmental Organisation Union of Industrialists and Entrepreneurs and the Chelyabinsk Regional Association of Employers Union of Industrialists and Entrepreneurs.

Olga V. Rashnikova	Ms. Rashnikova graduated in 2000 from the Franklin College in Lugano, Switzerland, with a degree in Finance and Economics, and in 2009, obtained an MBA degree from the State Management University, Moscow. From 2005 to 2008, Ms. Rashnikova worked as a Senior Manager in the Economics Department of MMK. From 2008 to 2009, Ms. Rashnkiova held the position of Senior Manager at MMK. From 2009 to 2011, Ms. Rashnikova headed MMK's Government Relations and Markets Protection Department. In 2011, Ms. Rashnikova was appointed to the position of the Director for Financial Resources and Control of MMK, and in May 2011, Ms. Rashnikova obtained the post of MMK's Director for Finance, a position she held until 2016. From March to October 2016, Ms. Rashnikova held the position of the Head of Financial Resources Administration at MMK. Subsequently, from October 2016 to November 2017, Ms. Rashnikova served as the Head of Financial Department at MAGSTORN LLC, and from 2011 to 2017, she held the position of a member of the Board of Directors of JSC Credit Ural Bank.
Ruben A. Aganbegyan	Mr. Aganbegyan graduated from the Moscow State Law Academy in 1995 with a degree in Law. Mr. Aganbegyan is an Independent Director at MMK and has been a member of MMK's Board of Directors since 30 May 2014. Mr. Aganbegyan is the Chairman of the Audit Committee and member of the Committee for Strategic Planning. Outside MMK, until 2017, Mr. Aganbegyan held the positions of President and Chairman of the Board of Directors of Bank FC Otkritie PJSC, member of the Management Board of the Russian Union of Industrialists and Entrepreneurs, Chairman of the Board of Directors of Otkritie Capital LLC and member of the Board of Directors of Otkritie Holding JSC. Until 2018, Mr. Aganbegyan held the position of Chairman of the Board of Directors of National Bank Trust. Currently, Mr. Aganbegyan is a member of the Board of Directors of Rostelecom PJSC. In addition, from 2018 to April 2019, Mr. Aganbegyan served as Adviser to the General Director of LLC Investment Company of Vnesheconombank (VEB Capital). Starting from April 2019, Mr. Aganbegyan has been appointed as the Adviser to the General Director of VEB Infrastructure (InfraVEB) JSC.
Kirill Yu. Liovin	Mr. Liovin graduated from the Moscow Aviation Institute named after Ordzhonikidze in 1990 with a degree in Economics and Management of Scientific Research and Design. Mr. Liovin currently serves as First Deputy Chairman of the Management Board of Rosselkhozbank JSC. Since 2014, Mr. Liovin has served as a member of the Board of Directors of Belgazprombank OJSC, and from November 2016 to November 2017, Mr. Liovin was a

member of the Board of Directors of IC RSHB Insurance JSC. Since November 2017, Mr. Liovin has been a member of the Board of Directors of Rosselkhozbank–Life Insurance LLC and a member of the Board of Directors of Rosselkhozbank Asset Management LLC. Since December 2017, Mr. Liovin is the Chairman of the Board of Directors of Rosselkhozbank Asset Management LLC. Mr. Liovin has been an Independent member of MMK's Board of Directors since 2014. Mr. Liovin is a member of the Audit Committee and the Strategic Planning Committee.

Nikolai V. Lyadov	Mr. Lyadov graduated from the Magnitogorsk Institute of Mining and Metallurgy in 1978, specialising in Industrial Transport. Mr. Lyadov started his career path at MMK in the same year, holding various positions including dispatcher, Head of Railway District, Director in Vneshtransservis, Head of Transportation and Shipping Administration of LLC Torgovy Dom MMK and Head of the Economic Security Department. From 2002 to 2008, Mr. Lyadov served as Director for Security at MMK. From 2008 to 2009, Mr. Lyadov held the positions of the Commercial Director for Raw Materials in MMK and a member of the Board of Directors of Belon OJSC. During 2009, Mr. Lyadov was the Director for Sales of MMK. During 2011, he acted as the Key Client Relationship Director in MMK and concurrently as the Vice President for Sales in LLC MMK Management Company. From 2011 to 2012, Mr. Lyadov acted as a member of the Board of Directors of Intercos-IV CJSC. From 2011 to 2018, Mr. Lyadov has held the position of the Deputy General Director for Sales in MMK. Mr. Lyadov has been a member of the Board of Directors of MMK since 2011.
Valery Ya. Martsinovich	Mr. Martsinovich graduated from Gdańsk University (Poland) in 1996 with a Master's degree in Economics. In 1996-1997, Mr. Martsinovich undertook postgraduate studies in Investment Banking at London Guildhall University. Mr. Martsinovich has been a member of MMK's Board of Directors (in the capacity of an Independent Director) since 2014. In 2012-2014, Mr. Martsinovich served as General Director at Hay Group Eastern Europe LLC, and since 2014, Mr. Martsinovich has served as Strategic Director for the European Fast Growing Markets Cluster at Hay Group LLC.
Zumrud Kh. Rustamova	Mrs. Rustamova graduated from the Moscow Economics and Statistics Institute in 1992 with a degree in Statistics. From 2000 to 2004, Mrs. Rustamova was the Deputy Minister for Property Relations of the Russian Federation, and from 2004 to 2006, the Vice President of the Siberian Coal Energy Company. In 2006, Mrs. Rustamova was appointed to the position of the Deputy Chairman of the Management Board of Russian Development Bank OJSC. From 2006 to 2009, Mrs. Rustamova held various management positions in the Nafta group of companies. From 2009 to 2012, Mrs. Rustamova was a member of the Boards of Directors of Khanty-Mansiysk Bank PJSC and of Polyus Gold OJSC. Since 2006, Mrs. Rustamova has been a member of the Board of Directors of MMK. Until 2017, Mrs. Rustamova served as a member of the Board of Directors of United Wagon Company Research and Production Corporation PJSC. Currently,

Mrs. Rustamova is a member of the Board of Directors of PIK Group PJSC. Mrs. Rustamova also holds the posts of Deputy General Director in Polymetal PJSC, Deputy General Director in Polymetal Management Company PJSC and Deputy General Director in IST JSC.

Pavel V. Shilyaev

Mr. Shilyaev graduated from the Chelyabinsk State Technological University in 1992 with a degree in Electric Drive and Industrial Units Automation. In 2006, Mr. Shilyaev completed courses in Performance Management at the Stockholm School of Economics. Mr. Shilyaev holds a Ph.D. in Technical Sciences. Mr. Shilyaev started his career at MMK as an engineer. From 2005 to 2009, Mr. Shilyaev was the Deputy Chief Power Engineer at MMK and the Deputy Head of Directorate for Technical Maintenance and Repair of Equipment at MMK. From 2009 to 2010, Mr. Shilyaev acted as Head of the Centre for Technical Maintenance and Repair at MMK. Since 2011, Mr. Shilyaev first served as the Chief Engineer of MMK, and later, as the Deputy General Director for Production. From 2011 to 2012, he chaired the Board of Directors of MMK Metiz. In January 2014, Mr. Shilyaev was appointed Acting CEO of MMK, and in February 2014, he was nominated to the post of CEO. Until 2016, Mr. Shilyaev was a member of the Board of Directors of MMK Metalurji. Currently, Mr. Shilyaev serves as a member of the Committee for Strategic Planning. Additionally, Mr. Shilyaev is a member of the Board of Directors of Credit Ural Bank JSC and a member of the Management Board of the Central Clinical Medical and Sanitary Unit (Autonomous Non-Commercial Organisation). Mr. Shilyaev is a Member of the Chelyabinsk Region Legislative Assembly.

Ralph Tavakolian Morgan

Mr. Morgan graduated from Yale University (B.A. in Political Science and International Relations) and Oxford University, St. Anthony's College (M.Phil in Economics and Law, Russian and East European studies). Mr. Morgan is an Independent Director at MMK, and is a member of the Audit Committee and the Committee for Nominations and Remuneration. Outside MMK, Mr. Morgan serves as Director of Department at Baring Vostok Capital Partners and Non-Executive Director at Tigers Realm Coal Limited. Since October 2017, Mr. Morgan is a member of the Board of the U.S.-Russia Business Council (USRBC). Since February 2019, Mr. Morgan holds the post of Alternate Director at Nostrum Oil & Gas PLC.

Sergei N. Ushakov

Mr. Ushakov graduated from the Magnitogorsk State Technical University with a degree in Metallurgy. Mr. Ushakov began his career in the sphere of steel production in 1989 as an assistant steelmaker at Chelyabinsk Metallurgical Plant. From 1991 to 2002, Mr. Ushakov worked as a caster in the oxygen converter shop at MMK OJSC. Subsequently, Mr. Ushakov held various roles in the open-hearth shop and smelting shop. From 2006 to 2008, Mr. Ushakov was deputy chief metallurgist and head of the oxygen conversion shop, chief blast furnace operator and chief engineer at MMK OJSC. From 2009 to 2011, Mr. Ushakov served as CEO of MMK Atakash in Turkey. From 2012 to 2014, Mr. Ushakov served as director of MMK Metiz OJSC, director of Elektroremont LLC,

director of United Service Company LLC, and director for technical service and repair at MMK OJSC. From December 2014 to 2017, Mr. Ushakov held the post of Deputy General Director for Commercial Affairs of MMK. From 2017 to 2018, Mr. Ushakov served as Deputy General Director for Production of MMK. Since December 2018, Mr. Ushakov holds the post of Deputy General Director for Sales of MMK.

At the Annual General Shareholders' Meeting on 31 May 2019, the Board of Directors was appointed and as of the date of this Prospectus consists of the following individuals:

- Viktor F. Rashnikov;
- Olga V. Rashnikova;
- Kirill Yu. Liovin;
- Valery Ya. Martsinovich;
- Zumrud Kh. Rustamova;
- Pavel V. Shilyaev;
- Ralph Tavakolian Morgan;
- Sergei N. Ushakov;
- Andrey A. Eremin (see "—*Management Board*" below); and
- Nikolay A. Nikiforov.

Nikolay A. Nikiforov

Mr. Nikiforov graduated from the Kazan Federal University named after V.I. Ulyanov-Lenin in 2004 with a degree in Theoretical Economics and holds a Ph.D. in Economics. From 2012 to 2018, Mr. Nikiforov held the post of Minister of Communications and Mass Media of the Russian Federation, and from 2016 to 2018, he served as Chairman of the Supervisory Board of Pochta-Bank PJSC. Since 2012, Mr. Nikiforov has served as Chairman of the Supervisory Board of the Autonomous Non-Profit Educational Organisation of Higher Professional Education Innopolis University. Since 2018, Mr. Nikiforov serves as Chairman of the Board of Directors of Diginavis LLC, CEO of Innopolis Depvelopment LLC and member of the Board of Directors of Rostelecom PJSC.

Management Board

The Management Board is the collective executive body of MMK which, together with the General Director described below, manages the business of MMK. The members of the Management Board are appointed by the Board of Directors. The powers of the members of the Management Board terminate immediately upon the Board of Directors' approving a new Management Board.

The members of the Management Board may be re-elected an unlimited number of times. The total number of members and the membership of the Management Board are approved by the Board of Directors at the proposal of the General Director, who allocates duties and responsibilities among the Members of the Management Board.

Meetings of the Management Board are arranged by the General Director, who signs on behalf of MMK all documents and minutes of meetings of the Management Board and acts without a power of attorney on behalf of MMK in accordance with decisions of the Management Board adopted within its competence. Meetings of the Management Board are held at least as often as twice a month, pursuant to a timetable approved on a yearly basis.

The table below lists the current members of the Management Board. The business address for all members of the Management Board is 93 Kirova Street, Magnitogorsk, Chelyabinsk region, 455000, Russia.

Name	Year of birth	Current position
Pavel V. Shilyaev	1970	Chairman of the Management Board, General Director
Andrey A. Eremin	1972	Member of the Management Board, Director for Economics
Oleg V. Kiykov	1961	Member of the Management Board, Director for Human Resources
Pavel A. Kravchenko	1975	Member of the Management Board, Head of Logistics Administration
Sergey V. Krivoshchekov	1961	Member of the Management Board, Director for Corporate Matters and Social Programs
Alexey Yu. Kuzmin	1977	Member of the Management Board, Head of the Russian Domestic Sales Department
Sergei A. Nenashev	1979	Member of the Management Board, Commercial Director
Maria V. Nikulina	1983	Member of the Management Board, Head of Financial Resources
Vladimir E. Ruga	1970	Member of the Management Board, Deputy General Director for External Communications, Director of MAGSTORN LLC (on a concurrent basis)
Sergey E. Semenov	1960	Member of the Management Board, Director for Security
Vadim N. Feoktistov	1969	Member of the Management Board, Director of MMK-Informservis LLC, Chief IT Specialist of MMK (on a concurrent basis)

Name	Year of birth	Current position
Oleg P. Shiryaev	1965	Member of the Management Board, Deputy General Director for Production
Sergei V. Shepilov	1971	Member of the Management Board, Chief Legal Officer of MMK, Director of MMK Pravo LLC (on a concurrent basis)
Grigory V. Schurov	1976	Member of the Management Board, Director for Occupational Health and Safety and Environmental Protection

The name, position and certain other information for each member of the Management Board are set forth below.

Pavel V. Shilyaev	See "*Board of Directors*" above.
Andrey A. Eremin	Mr. Eremin graduated from the State Academy of Management in 1995 with a degree in Economics and Management in the Metallurgical Industry and obtained an MBA degree from the Academy of National Economy of the Government of the Russian Federation in 2007. From 2006 to 2011, he was in charge of the Economics Administration of MMK. From May to October 2009, he held the office of the Director for Economics of MMK. From 2010 to 2011, Mr. Eremin held the post of Chairman of the Board of Directors of MMK-METIZ. During 2012, Mr. Eremin was a Member of the Board of Directors of Belon PJSC. Since 2011, Mr. Eremin has held the office of the Director for Economics in MMK, and from 2012 to 2013, Mr. Eremin was a member of the Board of Directors of MMK-METIZ. Since 2017, Mr. Eremin has been a member of the Board at ANO "Hockey Club Metallurg".
Oleg V. Kiykov	Mr. Kiykov graduated from the Kuibyshev S.P. Korolev Aviation Institute in 1985 with a degree in Engineering. Between 2001 and 2006, he acted as the Director for Regional Manager's Staff with Yukos Oil Company and as the Deputy General Director for HR matters with Kuibyshev Oil Refinery. From 2006 till 2011, Mr. Kiykov held the positions of the HR Director at North Ore Mining and Processing Plant OJSC and further, in Metinvest Holding LLC's ore mining division. Since 2011, Mr. Kiykov has held the office of the Director for Human Resources at MMK.
Pavel A. Kravchenko	Mr. Kravchenko graduated from the Magnitogorsk State Technical University named after G.I. Nosov with a degree in Metal Forming in 2001. Mr. Kravchenko started his career at Magnitogorsk Iron and Steel Works in 1995 as a mill operator at the Rolling Shop, where he subsequently worked as a shift foreman, section superintendent and deputy shop manager. From 2009 to 2012, Mr. Kravchenko worked as deputy shop manager and shop manager at Rolling Shop No. 9. In 2012-2016, Mr. Kravchenko served as Deputy Head of Production Administration, and subsequently as Head of Production Administration. Since June

2016, Mr. Kravchenko holds the role of the Head of Logistics Administration.

Sergey V. Krivoshchekov	Mr. Krivoshchekov graduated from the Magnitogorsk Institute of Mining and Metallurgy in 1983 with a degree in Metal Forming. Mr. Krivoshchekov holds a doctorate degree in Economics. Mr. Krivoshchekov started his professional career with MMK, where he acted as an operator, rollerman, senior foreman, shift manager, deputy shop manager, Head of Financial Department and Deputy Director of the Investment Administration. From 1997 to 2005, Mr. Krivoshchekov held the positions of Deputy Director for Finance and Economics, Director for Real Estate and Securities and Deputy General Director for Strategic Planning and Property. From 2006 to 2010, Mr. Krivoshchekov held the office of the Vice President for Property Administration and Commerce of MMK Managing Company LLC. From 2008 to 2012, Mr. Krivoshchekov held offices as a Member of the Board of Directors and the Chairman of the Board of Directors of Coal Company Kazankovskaya CJSC. From 2010 to 2011, he held the office of the Director for Property Management at MMK. Since 2011, Mr. Krivoshchekov has held the post of Director of the Property Management Department in MMK Managing Company LLC. From July 2013, Mr. Krivoschchekov holds the post of Director for Corporate Matters and Social Programs of MMK.
Alexey Yu. Kuzmin	Mr. Kuzmin graduated in 2001 with a degree in Law from the Magnitogorsk State Technical University. Mr. Kuzmin underwent a professional conversion training course under the Executive MBA General Management programme in the Stockholm School of Economics in Saint-Petersburg (in Russian). From 2001 to 2006, Mr. Kuzmin was head of regional sales at FHKI CJSC (Bakery and Pastry Plant). From 2004 to 2011, Mr. Kuzmin was Deputy Director, and subsequently Director, of Industrial Company of Uralmetprom CJSC (concurrently, up to 2007). From 2011 to 2016, Mr. Kuzmin was deputy director for sales and director of LLC Torgovy Dom MMK. From January 2016, Mr. Kuzmin was the acting director of domestic sales of MMK OJSC. Since March 2016, Mr. Kuzmin has served as Head of the Russian Domestic Sales Department.
Sergei A. Nenashev	In 2001, Mr. Nenashev graduated from Magnitogorsk State Technical University with a degree in Economics and Management in Metallurgical Industry Enterprises, and in 2005, from the Finance Academy under the Government of the Russian Federation with a degree in Finance and Credit. From 1999 to 2005, Mr. Nenashev served as economist at Interregional Operation Company CJSC, chief economist at Magnitogorskmezhraigas OJSC and chief specialist at Magnitogorsk Energy Company LLC. From 2005 to 2007, Mr. Nenashev served as General Director at Upper Urals Distilling Company Yanvar LLC. From 2007 to 2015, Mr. Nenashev served as director of Magnitogorsk Service Centre LLC. From 2011 to 2013, Mr. Nenashev served as Director at Metallurgremont-1 CJSC (on a concurrent basis). In January 2015, Mr. Nenashev was named Director for Occupational Health and Safety and the Environment at MMK. Since 2017, Mr. Nenashev

has served as MMK's Commercial Director.

Maria V. Nikulina

In 2005, Ms. Nikulina graduated magna cum laude from the Russian Peoples' Friendship University. In 2010, Ms. Nikulina obtained a qualification from the UK Association of Chartered Certified Accountants (ACCA). From 2004 to 2016, Ms. Nikulina worked in the Moscow and London offices of PricewaterhouseCoopers Audit as an Auditor-Consultant, Manager in the Large Companies' Audit Department, and subsequently – as Senior Manager and Audit Director. As of October 2016, Ms. Nikulina serves as Head of Financial Resources of MMK.

Vladimir E. Ruga

Mr. Ruga graduated from the Moscow State Pedagogical University named after V.I. Lenin in 1993 with a degree in history. Mr. Ruga holds a doctoral degree in History. From 1998 to 2003, Mr. Ruga headed the Public Relations Department of Siberian Oil Company PJSC. From 2003 to 2010, he worked at TNK-BP Management OJSC as Vice President – First Deputy Head of the Office of the President for Public Relations and Press Communications, and subsequently held the post of Vice President for Public Relations of TNK-BP Management OJSC. From 2008 to 2010, he was a member of the Board of Directors of Uralkaliy PJSC. During 2009 and 2010, Mr. Ruga was a member of the Board of Directors of OISC State Joint Stock Company All-Russian Exhibition Centre. In 2010 and 2011, Mr. Ruga acted as the Director for External Communications of MMK. From February 2011 to December 2014, Mr. Ruga served as Vice President for External Communications at MMK Managing Company LLC. Since December 2014, Mr. Ruga has served as Deputy General Director for External Communications of MMK. Since March 2016, Mr. Ruga has concurrently held the post of Director at MAGSTORN LLC.

Sergey E. Semenov

In 1987, Mr. Semenov graduated with a degree in Law from the correspondence department of the Sverdlovsk Law Institute (currently – the Ural State Law University). Having completed his studies at the Magnitogorsk Industrial Technical School, Mr. Semenov worked as a furnace helper in the open-hearth furnace shop of the Cherepovets Metallurgical Plant. After serving in the army, from 1982 to 2009, Mr. Semenov held various positions in the police department of Magnitogorsk, serving as Head of the Department from 2001 to 2009. From 2009 to 2011, Mr. Semenov was Deputy Chief of the Central Internal Affairs Directorate and served as Chief of Staff of the Central Internal Affairs Directorate of the Chelyabinsk Region. From 2011 to 2015, Mr. Semenov held the post of Minister of Internal Affairs of the Chuvash Republic. From December 2015, Mr. Semenov has served as Director for Security of MMK.

Vadim N. Feoktistov

Mr. Feoktistov graduated from the Magnitogorsk Institute of Mining and Metallurgy with a degree in Automation of Metallurgical Production Facility in 1992. In 2003, Mr. Feoktistov completed an advanced training course at the Magnitogorsk Higher School of Business, specialising in Management. In 2008, Mr. Feoktistov completed his training under the MBA programme

"Information Management" at the Academy of National Economy of the Government of the Russian Federation. Mr. Feoktistov started his career with MMK as an engineer-programmer at the Automated Production Management Systems Division and further worked as Head of Laboratory and Deputy Head of a Center in the IT Administration. From 2003 to 2009, Mr. Feoktistov served as Deputy Head and further as Head of the Corporate Developments Administration. Since 2010, Mr. Feoktistov holds the office of Director of MMK-Informservice LLC. From 2014 to 2016, Mr. Feoktistov served as the Head of IT Department of MMK, and since 2016, he holds the office of Chief IT Specialist of MMK (on a concurrent basis).

Oleg P. Shiryaev

Mr. Shiryaev graduated from the Magnitogorsk Institute of Mining and Metallurgy named after G. I. Nosov in 1987 with a degree in Metal Forming Process. Mr. Shiryaev started his career with MMK at the pressing site, progressing to Deputy Site Head, and further served as Head of the Long Products Site. In 2006, Mr. Shiryaev transitioned to the Production Administration of MMK, where he first served as Deputy Head, and from 2009 to 2012, as Head of the Production Administration. From 2008 to 2009 and further from 2011 to 2013, Mr. Shiryaev worked as Director for Production of MMK, and from 2013 to 2018, served as Director of MMK-METIZ. Since December 2018, Mr. Shiryaev has served as Deputy General Director for Production of MMK.

Sergei V. Shepilov

Mr. Shepilov graduated from the Magnitogorsk Mining and Metallurgy Institute in 1994 with a degree in Electric Drives and Industrial Automation. In 1998, he obtained a degree in Law from the Ural Public Administration Academy. In 2002, Mr. Shepilov completed a professional conversion training in Strategic Management. Mr. Shepilov started his professional career with MMK as an electrician, subsequently transitioning to the Legal Department. From 2005 to 2012, Mr. Shepilov held the posts of the Deputy Head of Legal Administration, Head of Legal Support Administration and Head of MMK's Legal Administration. In 2012-2016, Mr. Shepilov served as Director for Legal Matters at MMK. From March 2014, Mr. Shepilov has held the post of director of MMK-Pravo LLC (on a concurrent basis). Since March 2016, Mr. Shepilov has held the post of Chief Legal Officer of MMK. Mr. Shepilov is a Member of the Chelyabinsk Region Legislative Assembly.

Grigory V. Schurov

In 1998, Mr. Schurov graduated from the Magnitogorsk State Steel and Mining Academy named after G.I. Nosov with a degree in Metallurgical Machinery and Equipment. In 2012, Mr. Schurov graduated from the Russian Presidential Academy of National Economy and Public Administration with a degree in Technological Management. From 2005 to 2009, Mr. Schurov served as deputy head of shop in Sheet-Rolling Shops No. 7 and 10 and as head of shop at Sheet-Rolling Shop No. 7. From 2009 to 2013, Mr. Schurov served as Deputy Head of Technological Administration, and subsequently as Head of Technological Administration, of MMK. In 2013-2016, Mr. Schurov served at MMK as Technical Director. In 2016-2017, Mr. Schurov served as

Head of Technical Department at MMK. Since February 2017, Mr. Schurov has held the post of Director for Occupational Health and Safety and Environmental Protection. In September 2018, Mr. Schurov was elected to the post of Chairman of the Management Board of the Central Clinical Medical and Sanitary Unit (Autonomous Non-Commercial Organisation).

General Director (Chief Executive Officer)

The General Director is the Chairman of MMK's Management Board and acts as MMK's sole executive body. The General Director implements MMK's strategy and development objectives with regard to economic and financial issues, accounting and reporting, operational and commercial activities, personnel, research and development, and investment and corporate policy. He is also responsible for the health and safety policy, the legal framework of MMK's business and MMK's day-to-day business. The General Director also represents MMK in relations with third parties. A person acting as the General Director is required to have Russian citizenship and relevant management experience of not less than five years. The General Director is accountable to both the Board of Directors and the General Shareholders' Meeting. The General Director is appointed by the General Shareholders' Meeting of MMK for a period of four years and may at any time be dismissed by the General Shareholders' Meeting. Shareholders owning not less than 2% of voting shares in MMK have a right to nominate a person to the position of the General Director.

Mr. Pavel Shilyaev was elected by the General Shareholders' Meeting to the position of the General Director on 26 February 2014 for a five-year term and was reappointed for a further four-year term on 25 February 2019.

Audit Committee of the Board of Directors

MMK's Audit Committee is responsible for selecting candidates for the position of MMK's auditor, evaluating Auditors' reports and evaluating MMK's internal control, risk management systems, production protection, safety and environmental policy issues.

The Audit Committee consists of four members of the Board of Directors:

- Ruben A. Aganbegyan;
- Kirill Yu. Liovin;
- Ralph Tavakolian Morgan; and
- Valeriy Ya. Martsinovich.

The Audit Committee is chaired by Ruben A. Aganbegyan.

Committee for Strategic Planning of the Board of Directors

MMK's Committee for Strategic Planning is responsible for strategic planning, economics, finance, credit and dividend policy of MMK.

The Committee for Strategic Planning consists of seven members of the Board of Directors:

- Viktor F. Rashnikov;
- Pavel V. Shilyaev;
- Nikolai V. Lyadov;
- Olga V. Rashnikova;

- Sergei N. Ushakov;
- Ruben A. Aganbegyan; and
- Kirill Yu. Liovin.

The Committee for Strategic Planning is chaired by Viktor F. Rashnikov.

Committee for Nominations and Remuneration

MMK's Committee for Nominations and Remuneration is responsible for MMK's corporate management issues, staff policy, setting standards for the selection of candidates to MMK's governing bodies and making recommendations on remuneration of the members of MMK's governing bodies.

The Committee for Nominations and Remuneration consists of three members of the Board of Directors:

- Valeriy Ya. Martsinovich;
- Ralph Tavakolian Morgan; and
- Zumrud Kh. Rustamova.

The Committee for Nominations and Remuneration is chaired by Valeriy Ya. Martsinovich.

Remuneration of the members of the Board of Directors and the Management Board

Pursuant to Paragraph 2 of Article 64 of the JSC Law, 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.

The criteria for determining the remuneration of members of the Board of Directors are set out in the Regulations on the Procedure for Remuneration and Compensation of Expenses of members of the Board of Directors of MMK. The amount of remuneration and reimbursement of expenses of members of 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. 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. In the years ended 31 December 2018, 2017 and 2016, the members of the Board of Directors were entitled to yearly remuneration and compensation in the total aggregate amount of approximately U.S.$0.8 million, U.S.$1.0 million and U.S.$0.9 million, respectively.

Members of the Management Board are not entitled to remuneration during the performance of their duties as the members of the Management Board. Instead, their remuneration is provided within individual employment contracts and comprises fixed salary, bonuses and other benefits. The aggregate amount of the remuneration provided by MMK to the members of the Management Board for the years ended 31 December 2018, 2017 and 2016 amounted to approximately U.S.$4.7 million, U.S.$5.7 million and U.S.$5.1 million, respectively.

Russia does not require disclosure of individual remuneration details of the members of the Board of Directors and the Management Board and it is not otherwise publicly disclosed by MMK.

Employment contracts with MMK's key managers are concluded on standard terms, including, among other, conditions providing for compensation in an aggregate amount of up twelve monthly salaries payable upon (i) recognition of the employee unable to perform its duties under employment contract according to the medical report (ii) termination of the employment contract by mutual agreement and

(iii) termination of the employment contract due to employees' death (compensation is accordingly assigned to employees' family members).

Corporate Governance

MMK's corporate governance principles are based on its Corporate Governance Code, Russian law, requirements of the Stock Exchanges MMK has listing on, MMK's charter and MMK's internal rules of procedure. These principles are intended to ensure that MMK is managed and monitored in a responsible and value-driven manner. They include the protection of minority shareholders' rights, comprehensive disclosure and transparency requirements and rules governing conflicts of interest. MMK is committed to continually revising and improving MMK's corporate governance principles in accordance with best industry practices. MMK's corporate governance principles are reflected in MMK's corporate documents, such as:

- the Charter;
- the bylaws on the General Director;
- the bylaws on the Management Board;
- the bylaws on the Board of Directors;
- the bylaws on the General Shareholders' Meeting;
- the bylaws on the Dividend Policy;
- the Code of Corporate Governance;
- the Code of Business Ethics; and
- the bylaws on Insider Information.

MMK also complies with the corporate governance requirements applicable to Russian public companies listed on Russian stock exchanges. Such requirements include: (i) having at least three independent directors (MMK has four); (ii) adoption of an internal audit policy; and (iii) implementation of internal control system. Although MMK complies with the corporate governance regime established by the above documents in all material respects, many principles of corporate governance that are prevalent in North America and Western Europe are considerably less developed in Russia.

Litigation Statement Concerning Management

For the previous five years, none of the members of the Board of Directors or the Management Board:

- has had any convictions in relation to fraudulent offences;
- has held an executive function in the form of a senior executive officer or a member of the administrative, management or supervisory bodies of any company at the time of or preceding any bankruptcy, receivership or liquidation; or
- has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) or has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

Other Interests

No actual or potential conflicts of interest exist between the duties that any member of the Board of Directors or the Management Board owes to MMK and such member's private interests or other duties.

SHAREHOLDERS

As at the date of this Prospectus, MMK's charter capital consists of 11,174,330,000 ordinary shares, all of which are fully paid, issued and outstanding and have a nominal value of 1 rouble per share. MMK completed its initial public offering of global depositary receipts on the regulated main market of the London Stock Exchange in April 2007 (listed under the ticker "MMK"). MMK's ordinary shares are also admitted to trading in the "Level One" part of the List of Securities Admitted to Trading on the Moscow Exchange (under the symbol "MAGN") and are traded on the Saint Petersburg Exchange (without inclusion into quotation lists). As at 31 March 2019, MMK's free float constituted 15.74% of its share capital.

The following table sets forth the shareholders of record of MMK as of 31 March 2019.

Shareholder	Number of shares	Percentage of the MMK's share capital
Mintha Holding Limited[1]	9,415,824,422	84.26%
The Bank of New York Mellon[2]	441,664,548	3.95%
Other legal entities	1,200,822,123	10.75%
Other individuals	116,018,907	1.04%
Total	**11,174,330,000**	**100.000%**

Notes:

(1) The beneficial owner of Mintha Holding Limited is Mr. Viktor Rashnikov, Chairman of MMK's Board of Directors. On 5 September 2017, Mintha Holding Limited sold 335,229,000 ordinary shares in MMK's share capital (comprising 3% of MMK's share capital) to Goldman Sachs International. As a result of this sale, the share of Mintha Holding Limited in MMK's share capital decreased to 84.26%, and MMK's free float increased to 15.74%.

(2) The Bank of New York Mellon is acting as a depositary under MMK's global depositary receipts programme.

MMK is not aware of any arrangements in existence as of the date of this Prospectus which could reasonably be expected to result in a change of control of MMK.

RELATED PARTY TRANSACTIONS

General

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operation decisions or these parties are under common ownership or control, as defined in IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The Group is, and has been, a party to various agreements and other arrangements with certain related parties, which are shown and described in more details below.

Transactions and Balances Outstanding with Related Parties

Transactions between MMK and its consolidated subsidiaries, which are related parties of MMK, have been eliminated on consolidation and are not disclosed in the Financial Statements.

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

Transactions with Associates of the Group

	As at 31 March		As at 31 December		
	2019	2018	2018	2017	2016
			(U.S.$ millions)		
Revenue	1	-	2	-	-
Purchases	2	3	18	135	102
Balances outstanding:					
Trade and other payables	1	-	1	-	3

Purchases for 2017 were comprised of electricity purchases from Magnitogorsk Energy Company LLC which increased as compared to 2016 due to the volumes of purchased electricity and increased electricity prices.

Transactions with Other Related Parties

	As at 31 March		As at 31 December		
	2019	2018	2018	2017	2016
			(U.S.$ millions)		
Revenue	46	147	636	401	345
Purchases	6	4	20	17	12
Bank charges	-	-	1	1	3
Balances outstanding:					
Cash and cash equivalents	30	41	24	75	48
Bank deposits	-	-	-	-	16
Trade and other receivables	17	74	108	92	18
Trade and other payables	-	1	1	-	1

Remuneration of the Group's Key Management Personnel

Key management personnel of the Group receive only short-term employment benefits. For 2016, 2017 and 2018, key management personnel received as compensation, U.S.$9 million, U.S.$10 million and U.S.$10 million, respectively.

REGULATORY MATTERS

General

The Russian Federation has not enacted any specific legislation governing the operation of the steel industry and the business of steel-manufacturing companies. The production, sale and distribution of steel in the Russian Federation is regulated by general civil legislation and administrative and special legislation relating to quality standards, industrial safety, environmental, employment and other rules.

The Ministry of Industry and Trade of the Russian Federation on 5 May 2014 approved the Strategy for the Development of the Ferrous Metal Manufacturing Industry of the Russian Federation for the Period from 2014 until 2020 and until 2030 in perspective and the Strategy for the Development of the Non-Ferrous Metal Manufacturing Industry of the Russian Federation for the Period from 2014 until 2020 and until 2030 in perspective (the "**Strategies**"). The Strategies supersede the Strategy for the Development of the Metal Manufacturing Industry of the Russian Federation for the Period until 2020 dated 18 March 2009. The Strategies, among other things, outlined the key trends and factors relevant for the development of national ferrous and non-ferrous metallurgy, set out four stages for the development of Russian metallurgy (2014-2016, 2017-2020, 2021-2025 and 2026-2030) and determined that promotion of investments and development of innovation technologies would be the state priorities in the sphere of metal manufacturing industry. Other targets for development of the Russian steel industry (including, among others, import substitution, promotion of internal demand for metal products and protection of Russian exporters on foreign markets) are set forth in the Subprogramme "Metal Industry" of the State Programme for Development of Industry and Increase of Its Competitive Abilities approved by the Government of the Russian Federation on 15 April 2014 and the Industrial Plan of Measures for Import Substitution in Steel Industry approved by the Ministry of Industry and Trade of the Russian Federation.

The Federal Law "On Technical Regulation" No. 184-FZ dated 27 December 2002, as amended (the "**Technical Regulation Law**"), introduced a new regime for the development, enactment, application and enforcement of obligatory technical requirements and development of voluntary standards relating to products, manufacturing, storage, transportation, sales and utilisation. Under the Technical Regulation Law, technical rules and regulations can be enacted only by treaties to which the Russian Federation is a party, decrees of the Russian President, resolutions of the Russian Government, and by-laws adopted by state authorities responsible for technical regulation.

In cases where the Technical Regulation Law provides for mandatory confirmation of product conformity to the established technical regulations (standards), certain Group companies are obliged to obtain certificates of compliance evidencing that their products meet the requirements of the technical regulations, standards, codes of practice or terms and conditions of contracts. Where Russian laws and regulations relating to industrial safety provide for mandatory issuance of permits to use technical equipment at hazardous production facilities, certain Group companies are obliged to obtain the required permits which prove that their products meet the relevant industrial safety requirements. Where certification is not mandatory, a company may elect for voluntary certification by applying for a compliance certificate from the relevant authorities. Following the issuance of that certificate, the applicant has the right to use the relevant compliance mark on its products.

Federal, regional and local regulatory authorities governing the steel industry

At the federal level, regulatory authority over the steel industry is divided primarily between the Ministry of Industry and Trade of the Russian Federation and the Ministry of Natural Resources and Ecology of the Russian Federation. The Ministry of Industry and Trade of the Russian Federation is responsible for the development of governmental policy in respect of, and regulation of, the steel industry. In addition, it regulates certain aspects of the export from and import into Russia of steel products. The Ministry of Natural Resources and Ecology of the Russian Federation is responsible for the development of governmental policy in respect of, and regulation of, natural resources, including

subsoil. In particular, the Ministry of Natural Resources and Ecology of the Russian Federation passes regulations setting, *inter alia*:

- the rules for determining the amounts of regular payments for subsoil use;
- the order of re-issuance and transfer of subsoil licences;
- the procedure for filing "pay-to-pollute" declarations; and
- the accounting rules in respect of on-balance sheet natural resources belonging to the state and classification and evaluation of natural resources.

The federal ministries in Russia are generally not responsible for compliance control or management of state property and provision of services, which are exercised by the federal services and the federal agencies, respectively. The federal services and agencies that are relevant to the Group's activities include:

- the Federal Service for Ecological, Technological and Nuclear Supervision ("**Rostekhnadzor**"), which sets procedures for, and oversees compliance with, industrial safety and environmental rules and issues licences for certain industrial activities and activities relating to safety and ecological protection;
- the Federal Agency for Subsoil Use ("**Rosnedra**"), which organises tenders, auctions and issues licences for subsoil use and approves design documentation for subsoil geological research activities;
- the Federal Agency for Technical Regulation and Metrology, which determines and oversees levels of compliance with obligatory state standards and technical regulations; and
- the Federal Service for the Supervision of the Use of Natural Resources ("**Rosprirodnadzor**"), which exercises supervision over the observance of environmental legislation (including legislation relating to handling of hazardous waste), geological exploration, the rational use and protection of subsoil (including compliance with the relevant terms and conditions of subsoil licences) and exercises land control.

Aside from the above-mentioned federal executive bodies, which are directly involved in regulating and supervising the steel sector in Russia, there are a number of other federal regulators that, together with their structural subdivisions, have authority over general issues relevant to the Russian steel industry, such as defence, internal affairs, security, border services, justice, tax enforcement, rail transport and other matters.

Generally, regional and municipal authorities with jurisdiction over the specific territory in which a steel-producing enterprise is located have authority in certain matters, in particular with regard to land-use allocations with fresh ground water production volume less than 500 cubic meters per day.

Licensing of Operations

The Group is required to obtain numerous licences, authorisations and permits from Russian authorities for its operations. Federal Law No. 99-FZ "On Licensing of Certain Types of Activities" of 4 May 2011, as amended (the "**Licensing Law**"), as well as other laws and regulations, set forth the activities which are subject to licensing and establishes the procedures for issuing licences. In particular, some of the Group's Russian companies need to obtain licences, permits and approvals of executive authorities to carry out certain activities, including, among others:

- the use of subsoil, which is described in more detail below in "– *Subsoil Licensing*";
- the exploitation of explosive, flammable and chemically hazardous industrial objects of hazard classes I to III;

- surveying works;
- the gathering, transportation, processing, utilisation, deactivation and disposal of waste of hazard classes I to IV;
- the collection, storage, processing and sale of ferrous steel scrap; and
- the treatment of explosives for industrial use.

Under the Licensing Law, licences are issued for an unlimited term. Licences issued prior to, and valid as at the date of, the Licensing Law entering into force, also have unlimited duration. Nevertheless, licences can be suspended by the licensing authority and/or revoked by court decision for non-compliance with the licence requirements or conditions. Licensing regulations and the terms of licences and permits require compliance with numerous industrial standards. In particular, the Group must employ qualified personnel, provide advanced training, maintain equipment which meets the applicable normative requirements and an adequate system of quality controls, monitor operations, maintain and make appropriate filings and, upon request, submit specified information to the licensing authorities that control and inspect their activities.

Subsoil Licensing

In Russia, the mining of minerals requires a subsoil licence with respect to an identified mineral deposit, as well as the right (through ownership or lease) to use the land where such licensed mineral deposit is located. In addition, as discussed above, applicable licences are required for all types of operations associated with subsoil use.

The licensing regime for the use of subsoil for geological research, exploration and production of mineral resources is established primarily by the Law of the Russian Federation "On Subsoil" No. 2395-1 dated 21 February 1992, as amended (the "**Subsoil Law**"). The procedure for subsoil use licensing, as well as certain rules in respect of the exploration and production of mineral resources, was established by Resolution No. 3314-1 of the Supreme Soviet of the Russian Federation on 15 July 1992, as amended (the "**Licensing Regulation**").

There are several types of licence applicable to the exploration, development and production of natural resources, including:

- licences for geological exploration and assessment of a subsoil plot ("**exploration licences**");
- licences for production of natural resources ("**production licences**"); and
- combined licences for geological research, exploration, assessment and production of natural resources ("**exploration and production licences**").

Issuance of licences

Subsoil licences are generally issued by Rosnedra. Most of the currently existing production licences owned by companies derive from (1) pre-existing rights granted during the Soviet era and up to the enactment of the Subsoil Law to state-owned enterprises that were subsequently reorganised in the course of post-Soviet privatisations; or (2) tender or auction procedures held in the post-Soviet period. The Subsoil Law and the Licensing Regulation contain the principal requirements relating to tenders and auctions.

In general, production licences and exploration and production licences are currently issued by tender or auction. The tenders (auctions) for licences in respect of subsoil deposits are conducted by special commissions of Rosnedra. While the auction or tender commission formed by Rosnedra must include a representative of the relevant region, the Subsoil Law no longer requires the separate approval of regional authorities in order to issue subsoil licences. The Subsoil Law provides that, in a tender, the

main criteria for determining the bidder to whom the licence should be awarded are the scientific and technical level of programmes of geological exploration of subsoil and exploitation of subsoil plots, the fullness of extraction of natural resources, contribution to the socioeconomic development of the respective territory, period of implementation of the respective programmes, efficiency of measures aims at preserving the subsoil and environment and ensuring national defence and security. In turn, the primary criterion for determining the winning bid in an auction is the proposed amount of the one-off payment for the use of the subsoil plot. In limited circumstances defined by law, production licences may also be issued without holding an auction or tender, including, for instance, to holders of exploration licences that discover natural resource deposits through exploration work at their own expense. Regional authorities may also issue production licences for "common" mineral resources, such as clay, sand or limestone. A tender or auction in respect of subsoil plots of federal importance (as defined by Article 2.1 of the Subsoil Law) and in certain other cases is arranged by the Russian Government, which may set forth limitations for Russian legal entities with foreign shareholders to participate in tenders and auctions in respect of subsoil plots of federal importance. In the interests of national defence and security, a Russian legal entity with foreign participation may also be denied by the Russian Government the right to conduct exploration and production if geological research conducted at a subsoil site has identified a deposit falling under the classification of a subsoil plot of federal importance (even if a combined licence has already been issued to such subsoil user, which would entail the revocation of the licence subject to payment of compensation to the subsoil user for expenses incurred in conducting the geological research and reimbursement of the lump sum payment upon issue of the licence).

Exploration licences are generally awarded, without a tender or auction process, by a special commission formed by Rosnedra, which includes representatives of the relevant regional executive authority. The Ministry of Natural Resources and Ecology of the Russian Federation maintains an official list of deposits in respect of which exploration licences can be issued. A company may obtain a licence for geological exploration (to be conducted at the company's own expense) of a deposit included in the abovementioned list by filing an application with Rosnedra (or its regional department). The special commission decides whether to grant the licence based upon the merits of the application, unless there is more than one application with respect to the same deposit (in which case Rosnedra sets up an auction for an exploration and production licence for the deposit).

In respect of subsoil plots of federal importance, only production licences and combined licences may be issued. A licence for a subsoil plot of federal importance can be issued by Rosnedra only on the basis of a relevant decision of the Russian Government made either upon the results of a tender or auction, or upon the discovery of natural resources within such subsoil plot or subsoil plot deemed as of federal importance as a result of discovery of such natural resources. Under a combined licence, advanced exploration and production of natural resources on a subsoil plot of federal importance by a foreign investor or entity controlled by a foreign investor may only commence after the geological research of the subsoil plot is fully completed, in contrast to the general rule applicable to combined licences, in accordance with which advanced exploration and mining operations may be conducted simultaneously with geological research.

Extension of licences

In accordance with the current Subsoil Law, subsoil plots are provided for use for a certain period or an unlimited period.

Subsoil plots may be provided for use for a specified period for the following purposes: geological research – up to 5 years or up to 7 years for geological research of subsoil plots fully or partially located in the Republic of Sakha (Yakutia), the Kamchatka Krai, the Krasnoyarsk Krai, the Khabarovsk Krai, the Republic of Komi, the Irkutsk Region, the Magadan Region, the Sakhalin Region, the Nenets Autonomous District, the Chukotka Autonomous District, the Yamalo-Nenets Autonomous District, or for up to 10 years for the geological research of subsoil plots under inland sea waters, territorial waters and continental shelf of the Russian Federation; production of natural resources – for the useful life of a mineral reserves field, calculated on the basis of a feasibility study

for exploration and production that ensures rational use and protection of the subsoil; ground water production – for up to 25 years; production of natural resources based on a short-term right for subsoil use – up to 1 year.

Subsoil plots may be provided for an unlimited period for construction and operation of underground facilities not related to the production of natural resources, construction and operation of underground facilities related to landfilling, construction and operation of oil and gas holders, disposal in rock formations of associated waters and waters used by subsoil users for their own production and process requirements in exploration and production of raw hydrocarbons, as well as for the setup of specially protected geological sites and other purposes. The period of subsoil plot use shall be extended upon the initiative of a subsoil user if necessary to complete search and evaluation or development of a mineral deposit or winding up of operations, provided that no licence terms are violated by such subsoil user. The extension procedure for the period of subsoil plot use on the terms of production-sharing agreement shall be determined by the said agreement. Subsoil plot use period shall be calculated from the date of state registration of licences for those subsoil plots.

The Subsoil Law permits a subsoil licensee to request an extension of a production licence in order to complete production or vacate the land once the use of the subsoil is complete. In order to amend any condition of a subsoil licence, including through extension of its term, a company should file a relevant application with the federal authorities.

In practice, the factors that may affect a company's ability to obtain approval for the amendment of a licence include its compliance with the terms and conditions of the licence and its management's experience and expertise relating to subsoil issues, including experience in amending licences.

Maintenance of licences

A licence granted under the Subsoil Law is generally accompanied by a licensing agreement. The licensing agreement sets out the terms and conditions for the use of the subsoil licence. Currently, Rosnedra and the licensee are the only parties to licensing agreements.

Licensing agreements for subsoil use identify the terms and conditions for the use of the subsoil, the rights and obligations of the licensee and the manager of the subsoil plot and the amounts of payments to be made by the licensee on the terms of the licence. Although most of the conditions set out in a licence are based on mandatory rules, the parties may negotiate a number of provisions in a licensing agreement.

Under a licensing agreement, the licensee makes certain environmental, safety and production commitments, including (i) extracting an agreed target amount of reserves per annum; (ii) conducting agreed mining and other exploratory and development activities; (iii) protecting the environment in the licence areas from damage; (iv) providing geological information and data to the relevant authorities; (v) submitting on a regular basis formal progress reports to regional authorities; (vi) making all obligatory payments when due and (vii) participating in the social and economic development of the region. If the licence holder fails to fulfill the licence conditions, upon notice, the licence may be terminated by the governmental authorities that issued the licence. However, if a licence holder cannot meet certain deadlines or achieve certain volumes of exploration work or production output as set forth in the licence due to material changes in circumstances, it may apply to amend the relevant licence conditions.

Moreover, pursuant to Instructions of the President of the Russian Federation No. Pr-254 dated 12 February 2015 and the order established by the Regulations on One-off Updating of Subsoil Licences approved by Order of Rosnedra No. 427 dated 25 June 2015, each subsoil user shall be entitled to apply to a territorial authority of Rosnedra for licence updating and make justified amendments to the licence. All major mining companies of the Group have completed the one-off updating of subsoil licences. As a result of the one-off updating, the conditions and terms of subsoil use were reconsidered in favour of the mining companies of the Group and the licences were renewed.

Termination of licences

Governmental authorities may undertake periodic reviews for ensuring compliance by subsoil users with the terms of their licences and applicable legislation. The Subsoil Law contains extensive provisions for licence termination. A licensee can be fined or the licence can be limited, suspended or terminated for a number of reasons, including repeated breaches of the law, the occurrence of a direct threat to the lives or health of people working or residing in the local area, or the occurrence of certain emergency situations. A licence may also be limited, suspended or terminated for violations of "material" licence terms. Although the Subsoil Law does not specify which terms are material, failure to pay subsoil taxes and failure to commence operations in a timely manner have been common grounds for suspension or termination of licences. Consistent underproduction and failure to meet obligations to finance a project or to submit data reports (as required by law) would also likely constitute violations of material licence terms. In addition, certain licences provide that the violation by a subsoil licensee of any of its obligations may constitute grounds for limiting, suspending or terminating the licence.

If the licensee does not agree with a decision of the licensing authorities, including a decision relating to a licence limitation, suspension or termination or the refusal to reissue an existing licence, the licensee may appeal the decision through administrative or judicial proceedings. In certain cases of termination, the licensee has the right to attempt to cure the violation within three months of its receipt of notice of the violation. If the issue has been resolved within such a three-month period, the licensing authorities may decide not to terminate the licence but may still take other action against the licensee. For the violation of licence terms, the subsoil user can also be held administratively or criminally liable.

Conversion of licences

Licences may be converted (transferred) only under certain limited circumstances that are identified in the Subsoil Law, including the reorganisation of the licence holder or in the event that an initial licence holder transfers its licence to a legal entity that has been established for the purpose of continuing operations at the relevant subsoil site and in which the initial licence holder has an ownership interest of at least 50%. Licences can also be transferred from a parent company to its subsidiary, from a subsidiary to its parent company, between two subsidiaries of the same parent company (provided that a transferee is a Russian company), as well as in the case of the acquisition of the property complex of the previous subsoil user in the course of bankruptcy proceedings. In any of the above instances, a licence may be transferred (by way of cancellation and reissuance by Rosnedra) only if the transferee possesses the equipment and authorisations necessary to conduct the exploration or production activity that is covered by the transferred licence. A subsoil licence may also be transferred in the event of a reorganisation of the relevant licence holder to a successor of such licence holder.

Generally, the Subsoil Law prohibits the transfer of rights of subsoil use over the subsoil plots of federal importance to a Russian legal entity in which a foreign investor or a group of persons including a foreign investor hold an interest if such foreign investor or such group of persons including a foreign investor: (i) directly or indirectly possess more than 10% of the total number of votes conferred by voting shares in the share capital of that entity; or (ii) have the right, on the basis of a contract or another ground, to issue binding instructions to that entity, including control over the business operations; or (iii) have the right to appoint the chief executive officer and/or more than 10%of the members of the collective executive body, and/or have an unconditional right to elect more than 10% of the board of directors or another collective management body of that entity. Such entities may obtain a subsoil use right over the subsoil plots of federal importance in exceptional cases at the discretion of the Russian Government.

Mining Allotments

Pursuant to the Subsoil Law, a subsoil plot is provided to a subsoil user as a "mining allotment", i.e., a geometric block of subsoil. Rosnedra determines preliminary mining allotment boundaries at the time it issues the licence, which is subject to approval of the territorial bodies of Rostekhnadzor. Following the preparation of a development plan by the licensee, which the state mining supervision authorities and an environmental examination committee must approve, Rostekhnadzor approves the exact mining allotment boundaries based on the report and certifies such boundaries in a mining allotment act, which it issues to the licence holder. The licence will then incorporate the exact mining allotment boundaries.

System of payments for the use of subsoil

Pursuant to the Subsoil Law, the payment system for the use of subsoil currently consists of the following payment obligations: (i) one-off payments in cases specified in the licence; (ii) regular payments for subsoil use; (iii) fees for the right to participate in tenders and auctions; and (iv) other payments and fees set by the applicable Russian tax and duty legislation.

The Subsoil Law contains a range of minimum and maximum rates of regular payments for the use of subsoil land plots, and the Russian Tax Code contains the relevant rates of mineral extraction tax and water extraction tax. The state authorities have authority to set the rates as they see fit for each individual licence.

Land Use Rights

Land use rights are generally needed and obtained for only the portions of the licence area actually being used, including the plot being mined, access areas, and areas where other mining-related activity is occurring. Under the Land Code of the Russian Federation No. 136-FZ of 25 October 2001, as amended (the "**Land Code**"), companies may have ownership or lease rights with regard to land in the Russian Federation.

Russian law currently categorises all land as having a particular designated purpose, for example: agricultural land, industry land, settlement lands, lands under specially protected territories and objects. Land should be used in accordance with the purpose designated by the relevant category.

Most land in the Russian Federation is owned by federal, regional or municipal authorities, which can sell, lease or grant other rights of use to third parties, including through auctions. Under Russian law, land that is owned by state or municipal authorities and is required for subsoil use may be leased to subsoil users without holding an auction or a tender. Generally, a lessee has no pre-emptive right as to entering into a new land lease agreement with a lessor upon the expiration of the lease of the land owned by federal, regional or municipal authorities. However, a new lease agreement can be concluded without holding an auction when the following criteria have been met: (i) a lessee applies for conclusion of a new agreement before the expiration of lease, (ii) no one has an exclusive right to obtain the relevant land plot, (iii) previous lease agreement had not been terminated on any of the grounds provided by the Civil Code or the Land Code (improper use of the land plot and etc.) and (iv) as of the date of entering into a new lease agreement, the legal grounds for provision of the land plot to the lessee without conducting a public auction remain. Any lease agreement of a land plot for a period of one year or more must be registered with the Russian Federal Service for State Registration, Cadastre and Cartography ("**Rosreestr**").

The Group's mining subsidiaries generally have a property right to their land plots or a long-term lease. Rosreestr records details of land plots, including their measurements and boundaries, in a unified register. A landowner must obtain a state cadastre number for a land plot as a condition to selling, leasing or otherwise transferring interests in that plot. Rosreestr maintains the Unified State Register of Immovable Property (the "**Register of Immovable Property**") containing data on the specifications of immovable property (cadastral record data) and the rights to immovable property. Generally, under the Civil Code, the right of ownership and other rights to real estate property (such as

buildings, land plots and other real estate items), the restriction of these rights, their creation, transfer and cessation shall be registered with the Register of Immovable Property. Federal Law No. 218-FZ on State Registration of Immovable Property dated 13 July 2015, as amended, regulates the procedure for the state registration of rights and transactions. A person may acquire rights to a real estate object only upon the state registration of such right in the Register of Immovable Property. A person whose right has been registered in the Register of Immovable Property earlier has a right to register an objection note with respect to the subsequently registered right of another person. However, if the person who registered the objection has not pursued such challenge in court within three months, the objection note must be cancelled and further objection by the same person will not be allowed.

Environmental Considerations

The Group is subject to laws, regulations and other legal requirements relating to the protection of the environment, including those governing the discharge of polluting substances into the air and water, the management and disposal of hazardous substances and wastes (including their neutralisation, where applicable), the rehabilitation of contaminated areas on production sites, as well as the protection of natural environment. Issues of environmental protection in Russia are regulated primarily by the Federal Law "On Environmental Protection" No. 7-FZ of 10 January 2002, as amended (the "**Environmental Protection Law**"), as well as by a number of other federal and regional legal acts.

Payments for negative impact on the environment

The Environmental Protection Law establishes a "pay-to-pollute" regime administered by federal and local authorities. MMK must receive approval with respect to emissions and disposals of substances and waste from the federal or regional authorities depending on the type and scale of the resulting environmental impact. As a condition for such approval, a plan for the reduction of emissions or disposals must be developed by the company and cleared with an appropriate governmental authority. Fees, as set forth in the Decree of the Russian Government on Calculation and Collection of Payments for Negative Impact on the Environment No. 255 dated 3 March 2017, are assessed on a sliding scale for both the statutory and individually approved limits on emissions and effluents and for pollution in excess of these limits. Under this sliding scale, the lowest fees are imposed for pollution within the statutory limits, higher fees are imposed for pollution within the individually approved limits, and the highest fees are imposed for pollution exceeding such limits. Payments for negative impact on the environment do not relieve a company from the responsibility to take environmental protection measures and undertake restoration of the territory after the activities are completed.

The Russian Government has established fees for the statutory approved limits on emissions and effluents and for pollution in excess of these limits. The fees may be increased by statutory approved multiples. Under the Environmental Protection Law, multiples that may reach up to 25 for emissions and effluents in excess of statutory limits will be effective until 31 December 2019. Starting from 1 January 2020, the highest multiple will be increased to 100 and will apply to companies exceeding such pollution limits and having a significant negative environmental impact. Payments of such fees do not relieve a company from its responsibility to take environmental protection measures and undertake restoration and clean-up activities.

Environmental permits

On 1 January 2019, amendments to the Environmental Protection Law came into force that significantly changed the regulation of environmental permits. In accordance with the amendments, production facilities are divided into four categories depending on their negative impact on environment. For facilities of the I category (significant impact), a complex environmental permit shall be obtained from Rosprirodnadzor. Meanwhile, for facilities of the II category (moderate impact), only a declaration of negative impact shall be filed with Rosprirodnadzor. No such documents shall be obtained or filed in relation to other facilities. Previously obtained environmental permits are effective until the date of their expiry and, until then or until 1 January 2025 (whichever is sooner), no complex permit or declaration shall be obtained or filed.

In order to obtain the complex environmental permit, the relevant entities shall develop technological standards of emission which comply with the technological standards for the best available technologies set out pursuant to the Environmental Protection Law. In case the technological standards of the facilities do not comply with the said standards, a temporary emissions permit shall be obtained from Rosprirodnadzor for a period of no longer than seven years, during which a company shall modernise their facilities to comply with the best available technologies. The amendments also provide for stimulus for the companies to apply the best available technologies in their facilities of the I and II category. In particular, starting from 1 January 2020, companies which have implemented the best available technologies shall pay no charges for a negative impact on the environment within the emissions range set out under technological standards for the best available technologies.

Industrial environmental monitoring

Under the Environmental Protection Law, objects having a negative environmental impact are divided into four categories based on the level of impact: objects having a significant negative environmental impact (I category), objects having a moderate negative environmental impact (II category), objects having a low negative environmental impact (III category) and objects having a minimal negative environmental impact (IV category). The criteria for determining the appropriate category of impact are determined by the Russian Government and take into account such factors as the level of negative environmental impact on business and/or production activity, toxic levels and the carcinogenic property of polluting substances and the classification of industrial facilities.

All objects having a negative environmental impact are to be registered with state authorities. The Environmental Protection Law requires companies operating businesses and activities at a specified impact level to carry out industrial environmental monitoring, which includes implementation of a programme of industrial environmental monitoring.

Ecological approval

The Federal Law dated 23 November 1995 No. 174-FZ "On Ecological Expert Examination", as amended (the "**Ecological Examination Law**"), provides for mandatory ecological approval by a state ecological expert of certain documentation required for the implementation of certain types of business activities in order to prevent the negative impact of such activities on the environment, and the receipt of a positive conclusion of the state ecological expert examination comprises one of the key preconditions for financing and implementation of a relevant project. State ecological approval must be obtained from federal or regional authorities. Violation of the requirements of the Ecological Examination Law may result in administrative fines, civil liability (to compensate for damages and losses) and criminal liability as described below in "*– Environmental Considerations – Environmental liability*".

Environmental protection authorities

Rosprirodnadzor, Rostekhnadzor, the Russian Federal Service for Hydrometeorology and Environmental Monitoring, Rosnedra, the Russian Federal Agency of Forestry and the Russian Federal Agency of Water Resources (along with their regional branches) are primarily responsible for environmental control, and the monitoring, implementation and enforcement of the relevant laws and regulations. The Russian Government and the Ministry of Natural Resources and Ecology of the Russian Federation are responsible for the development of regulatory documents in the sphere of environmental protection and for the coordination of activities of the regulatory authorities in this area. Such regulatory authorities, along with other state authorities, individuals and public and non-governmental authorities also have the right to initiate lawsuits for the compensation of damage caused to the environment. The statute of limitations for such lawsuits is 20 years.

Environmental liability

If the operations of a company violate environmental requirements or cause harm to the environment or any individual or legal entity, the environmental authorities may suspend these operations (for up to

90 days) or a court action may be brought to suspend or terminate these operations and require the company to remedy the effects of the violation. Any company that fails to comply with environmental regulations may incur administrative or civil liability, and its employees may be held disciplinary, administratively or criminally liable. A court may impose an obligation to conduct reclamation measures pursuant to a plan of restorative works.

As of 1 January 2012, owners of specified types of hazardous facilities are required to obtain insurance for liability for harm caused to third parties as a result of accidents at the respective facilities.

The Group has, in the past, been subject to fines and, in some cases, court actions in relation to breaches of environmental regulations. Although none of these court actions and fines have had, individually or in aggregate, a material adverse effect on the business and performance results of the Group, its business and results of operations, there can be no assurance that any such court actions or fines will not have a material adverse effect on the Group in the future.

Reclamation

Reclamation activities such as re-cultivation, restoration, regeneration and other methods of rehabilitation are prescribed in the Decree No. 800 dated 10 July 2018 of the Russian Government on Reclamation and Conservation of Land. In general, the reclamation activities of the Group involve both a technical stage and a biological stage. At the first, technical, stage, the Group performs landscaping operations (backfilling of the pits, grades and terraces mound slopes, levelling of the surface of the mounds, and adding clay rock on top for greater adaptability of young plants). At the second, biological, stage, the Group plants seedlings of trees and bushes such as ash, birch, apple, rosehip, acacia, and oversees the care and maintenance of the respective landscaped territory for a period of five years. The stipulations of the Russian environmental regulations do not require the reclaimed sites to achieve the approximate original contour of the property as is required, for example, in the United States. For 2018, 2017 and 2016, the Group's reclamation (site restoration) provisions amounted to U.S.$140 million, U.S.$169 million and U.S.$165 million, respectively. For additional information, see Note 23 to the Annual Financial Statements.

Environmental protection programs

The Group has been developing and implementing environmental protection programs. The Group's programs include measures aimed at achieving compliance with limits imposed on air and water pollution and storage of industrial waste, in particular the introduction of environmentally friendly industrial technologies, the construction of purification and filtering facilities, the repair and reconstruction of industrial water supply systems, the installation of metering systems, reforestation and the treatment of water and industrial waste recycling.

As a result of recent amendments to the Environmental Protection Law, the scope of state support for business activities carried out by companies and individual entrepreneurs in order to protect the environment has been significantly extended. State support is provided by way of tax benefits, benefits with respect to payments for negative impact on the environment and funding from federal and regional budgets. It is also provided that other measures of state support can be established in federal and regional legislation.

Health and Safety

Due to the nature of the Group's business, many of its activities are conducted at industrial sites by large numbers of workers, and occupational and industrial safety issues are of significant importance to the operation of these sites.

The principal law regulating industrial safety is Federal Law No. 116-FZ "On Industrial Safety of Dangerous Industrial Facilities" dated 21 July 1997, as amended (the "**Safety Law**"). The Safety Law applies to industrial facilities, plants, sites and production units, as well as to other industrial venues

where companies undertake certain activities, including activities related to the extraction, usage, processing, production, storage, transportation or disposal of fuels and oxidising, flammable, explosive, toxic and environmentally dangerous substances, as well as to the usage of equipment operating under excess pressure, the usage of lifting machines, the production, transportation and usage of the molten mass of ferrous and non-ferrous metals, or alloys of ferrous and non-ferrous metals, and to conducting certain types of mining and minerals processing activities. The Safety Law also contains a list of dangerous substances, and, in the event of concentration of these dangerous substances at the industrial facility or any other industrial object at levels in excess of the applicable statutory thresholds, a company is obliged to adopt an industrial safety declaration.

Dangerous industrial facilities under the Safety Law are divided into four categories based on the level of hazard that varies from level one (extremely dangerous industrial sites) to level four (least dangerous industrial sites) depending on the amount of hazardous substances which are, or could potentially be, simultaneously located on the premises of the dangerous industrial facility (save for certain industrial facilities which are assigned a hazard category based on the level of hazard of the machinery used, and (or) the nature of works conducted, at such facility). Dangerous industrial facilities are classified at the time of their state registration with the state register of dangerous industrial facilities. Such registration is conducted by the Rostekhnadzor and some other federal services in accordance with the rules adopted by the Russian Government. For the purposes of state registration, companies are to file the information regarding the facilities with the relevant authority within 10 days after they start to operate the facility.

Other Russian regulations address safety rules for coal mines, the production and processing of ore and alloy production.

Additional safety rules also apply to certain industries, including metallurgical and coke chemical enterprises, and the foundry industry.

Any construction, reconstruction, liquidation or other activity in relation to regulated industrial facilities is subject to an industrial safety review. Any deviation from project documentation in the process of construction, reconstruction and liquidation of industrial sites is prohibited, unless the amended documentation undergoes an industrial safety examination, and the respective examination is registered with the competent bodies of Rostekhnadzor.

Maintenance of Industrial Safety

Companies that operate hazardous industrial sites have a wide range of obligations under the Safety Law and the Labour Code of the Russian Federation No. 197-FZ dated 30 December 2001, as amended (the "**Labour Code**"). In particular, they must limit access to such sites to qualified specialists, maintain industrial safety controls and carry mandatory civil liability insurance for damage resulting from accidents or incidents which have occurred as a result of emergency at a hazardous industrial facility.

The Safety Law also requires these companies to enter into contracts with professional accident-rescue service companies or create their own accident-rescue units in certain cases, conduct personnel training programmes, create systems to cope with and inform Rostekhnadzor of accidents and maintain these systems in good working order. In certain cases, companies operating hazardous industrial sites must also prepare declarations of industrial safety that summarise the risks associated with operating such sites and the measures that the company has taken and will take to mitigate such risks. Such declarations must be adopted by the chief executive officer of the company, who is personally responsible for the completeness and accuracy of the data contained therein. Declarations of industrial safety are filed with Rostekhnadzor or its territorial body for further submission to the register of declarations of industrial safety. An industrial safety declaration and various other documents, including an industrial safety expert review, are required for the issuance of a licence permitting the operation of a dangerous industrial facility (in cases when such licence is required).

State Oversight of Industrial Safety

Rostekhnadzor has broad authority in the area of industrial safety. In the event of an accident, a special commission led by a representative of Rostekhnadzor conducts a technical investigation of the causes of the accidents in cases envisaged by the Safety Law. The company operating the industrial facility where the accident took place bears all costs of such investigation. Rostekhnadzor has the right to access industrial sites and may inspect documents to ensure a company's compliance with safety rules. Rostekhnadzor may also impose administrative liability on a company or its officials, as well as suspend a company's operations for failure to comply with health and occupational and industrial safety legislation.

Liability

Any company or individual violating industrial safety rules may incur administrative and/or civil liability, and individuals may also incur criminal liability. A company that violates safety requirements in a way that negatively impacts the health of an individual may also be liable to compensate the individual for lost earnings and health-related damages, and, in certain cases, its activity may be suspended.

Regulation of Competition

The antimonopoly regulation of the Russian Federation is based primarily on Federal Law No. 135-FZ "On Protection of Competition" dated 26 July 2006, as amended (the "**Competition Law**"), and other federal laws and regulations governing antimonopoly issues. Compliance with antimonopoly legislation in the Russian Federation is monitored by FAS.

Under the current Russian competition law, companies having a dominant position in a particular goods market are prohibited from, among other things, entering into agreements which have the effect of limiting competition, including artificially limiting the supply of goods, maintaining high or low monopolistic prices and arbitrarily refusing to sell goods to third parties. Under recent amendments to the Competition Law, FAS no longer keeps a register of companies which have more than a 35% share or a dominant position in a particular goods market. Therefore, a company will be deemed to have a dominant position if the criteria set forth by the Competition Law are met (generally, if its share exceeds 50%, although, in some circumstances, its market share may be below 35%).

Prior antimonopoly clearance from FAS is required in respect of any acquisition of: (i) more than 25% of the voting shares in a Russian joint stock company (or a one-third interest in a Russian limited liability company) and any subsequent increase of that stake to more than 50% or more than 75% of the voting shares (or a one-half and two-third interest in a Russian limited liability company); (ii) subject to certain exceptions, fixed production assets or goodwill of a company located in Russia in an amount exceeding 20% of the aggregate balance sheet value of all fixed production assets and goodwill of such company; (iii) the right to control the business activities of another Russian company or perform the functions of its executive body; or (iv) more than 50%of the voting shares (or a 50% interest) in, or other right to control the business activities or perform the functions of the executive body of, a company registered outside Russia, which, during the previous year, delivered or provided goods or services into Russia for an aggregate total amount exceeding RUB1 billion (approximately U.S.$17 million). Certain other transactions are also subject to a prior antimonopoly clearance from FAS.

Any of the above acquisition transactions would require prior approval by FAS if, according to the latest balance sheet: (i) the aggregate asset value of a purchaser (and its group) together with the target (and its group) exceeds RUB7 billion (approximately U.S.$109 million), or the total revenues of such persons for the preceding calendar year exceed RUB10 billion (approximately U.S.$156 million); and (ii) the total asset value of the target (and its group) exceeds RUB400 million (approximately U.S.$6 million). The obligation to obtain a prior approval by FAS due to appearance of either a target or a purchaser on the register maintained by FAS was abolished under the recent amendments to the

Competition Law. Transactions within the same group are exempt from pre-transactional clearance by FAS, subject to compliance with certain reporting requirements.

The Competition Law expressly provides for extraterritorial application to transactions which are made outside of the Russian Federation but lead, or may lead, to the restriction of competition in the Russian Federation and which relate to assets located in the Russian Federation or to shares (or participation interests) in Russian companies or rights in relation to such companies.

Under the Competition Law, if an acquirer has acted in violation of the merger control rules and acquired, for example, shares without obtaining the prior approval of FAS, the transaction may be invalidated by a court in proceedings initiated by FAS, provided that such transaction has led or may lead to the restriction of competition, for example, by means of strengthening of a dominant position in the relevant market. More generally, Russian legislation provides for civil, administrative and criminal liability for the violation of antimonopoly legislation.

Antitrust proceedings

Since January 2015, the EEC has also become an authority responsible for antimonopoly regulation in the Eurasian Economic Union, including Russia. As a result, the Group is now subject to the Commission's antimonopoly regulation regime.

Regulation of Natural Monopolies

Federal Law No. 147-FZ "On Natural Monopolies" dated 17 August 1995, as amended (the "**Natural Monopolies Law**"), defines a "natural monopoly" as a condition of the commodities market whereby the demand for particular products or services is satisfied more effectively in the absence of competition and where the monopoly product or service cannot be easily replaced. MMK is entered on the list of natural monopolies in respect of electricity transmission services, water supply and water discharge with the use of a centralised system in the Magnitogorsk industrial hub. Consequently, the rendering of the respective services by MMK is subject to the terms of Federal Law No. 35-FZ "On Electric Energy" dated 26 March 2003, as amended, Resolution No. 861 of the Government of the Russian Federation "On the Adoption of Rules of Non-Discriminatory Access to Electricity Transmission Services and the Rendering of Such Services" dated 27 December 2004, as amended ("**Resolution No. 861**"), alongside with other acts in the sphere of electric energy, the Natural Monopolies Law and Federal Law No. 416-FZ "On Water Supply and Water Discharge" dated 7 December 2011, as amended.

Pursuant to Resolution No. 861, owners of electricity grid facilities are allowed to render electricity transmission services through the use of such facilities after setting a tariff for the respective electricity transmission services. Owners of electricity grid facilities through which the power receiver of the end user is connected to the electricity grid of the grid company are not allowed to hinder the crossflow of such end user's energy through their electricity grid facilities and cannot charge any kind of payment for this crossflow. If necessary, MMK may refuse to conduct the regulated activity, and can consequently allow the overflow of energy for other end users through its electric power facilities.

Under recent amendments to the Natural Monopolies Law, prior regulatory approval of particular transactions (certain investments that exceed 10% of a natural monopoly equity capital) is required only when such transactions relate to production of goods not governed by the Natural Monopolies Law and the revenue obtained by a natural monopoly from its activities in the sphere of natural monopolies exceeds 1% of its total revenue. The share of MMK's revenue derived from rendering electricity supply services in 2018 comprised 0.126%. Therefore, MMK is not subject to the abovementioned regulatory approval requirements.

The competent supervising authority can adopt binding decisions in the case of a breach of the Natural Monopolies Law and issue binding instructions to a natural monopoly to remedy the breach or cease or refrain from conduct in breach of the Natural Monopolies Law, including instructions on eliminating the consequences of a breach.

Investments in Russian Companies of Strategic Importance

Federal Law No. 57-FZ "On the Procedure for Making Foreign Investments in the Companies of Strategic Importance for the Defense and Security of the State", as amended (the "**Strategic Investments Law**"), came into force in May 2008 and was recently amended in July 2017 and further in June 2018. The Strategic Investments Law establishes certain restrictions for foreign investments into Russian companies involved in certain types of activities that, pursuant to the Strategic Investments Law, are deemed to be of strategic importance for national defence and national security. The Strategic Investments Law establishes an exhaustive list of such strategic activities, including operations of companies included in the register of natural monopolies (with certain exceptions), geological exploration and/or production on subsoil plots of federal importance.

The Strategic Investments Law sets forth a general prohibition on transactions resulting in the acquisition of control over strategic companies by foreign states, international organisations or offshore companies or an entity controlled by any of them; and requires other foreign investors to obtain prior approval of competent Russian state authorities for the acquisition of control over a strategic company. The Strategic Investments Law contains special rules for obtaining control over, and regulating, strategic companies engaged in the geological exploration of subsoil plots and/or production of natural resources on subsoil plots of federal importance (a "**Strategic Subsoil User**").

A person is deemed to control a strategic company if such person: (i) (directly or indirectly) holds more than 50% (25% or more in the case of a Strategic Subsoil User) of the total number of votes attributable to the voting shares or stakes making up the share capital of a strategic company; (ii) has the right (on the basis of an agreement or otherwise) to direct the decisions of a strategic company, including the terms of its business operations; (iii) has the right to appoint the sole executive body of a strategic company and/or more than 50% (25% or more in the case of a Strategic Subsoil User) of the members of its collective executive body; (iv) has an unconditional ability to procure the election of more than 50% (25% or more in the case of a Strategic Subsoil User) of the members of a strategic company's board of directors or other management body; or (v) acts as a management company for a strategic company. Additionally, a strategic company is deemed to be controlled by a foreign entity if the respective foreign entity controls (directly or indirectly) less than 50% of the total number of votes attributable to the voting shares or stakes making up the share capital of a strategic company, provided that the proportion between the number of votes available to the foreign entity and the number of votes available to other shareholders provides the foreign entity with an opportunity to determine the decisions of the strategic company. Finally, a strategic company is deemed to be controlled by foreign investors if more than 50% of the total number of votes attributable to the voting shares or stakes making up the share capital of a strategic company, or, in the case described above, less than 50% of the total number of votes attributable to the voting shares or stakes making up the share capital of a strategic company, belong in aggregate to foreign investors which are not included in one group of persons and are under the control of foreign states, international organisations, organisations controlled by foreign states, international organisations, and/or are foreign states, international organisations, offshore companies and/or organisations controlled by foreign states, international organisations or offshore companies.

If the proportion of votes available to a foreign entity changes as a result of: (i) a buyback of or transfer to the strategic company of its own shares and, consequently, the formation of a block of treasury shares; (ii) the distribution of treasury shares among the strategic company's shareholders; (iii) the conversion of preferred stock into ordinary stock; or (iv) any other reason provided by law; and the foreign entity subsequently obtains control over the strategic company, such foreign entity is obliged under the Strategic Investments Law to file an application to the Governmental Commission on Foreign Investments of the Russian Federation (the "**Governmental Commission**") within three months upon obtaining control over the strategic company.

Prior approval of the Governmental Commission is also required if a foreign state, international organisation, an offshore company or an entity controlled by any of them acquires direct or indirect control over more than 25% (more than 5% in the case of a Strategic Subsoil User) of the votes

represented by shares in a strategic company or other ability to block decisions of the management bodies of such strategic company or direct decisions of a strategic company, including the terms of its business operations. In addition, foreign investors are required to notify the Governmental Commission of any transaction resulting in the acquisition of 5% or more in the charter capital of a strategic company.

The Strategic Investments Law provides for certain exceptions to the general rules described above. No prior approval or post-closing notification is required for transactions in respect of strategic companies if the acquirer under such transactions is an organisation controlled by the Russian Federation or by a constituent entity of the Russian Federation, or by a Russian citizen who is, in accordance with the legislation of the Russian Federation on taxes and fees, a tax resident of the Russian Federation (except for citizens of the Russian Federation who also have a citizenship of another country). Prior approval or post-closing notification are also not required for making foreign investments in the Russian Federation, if such investment is an activity governed by other federal laws or international treaties ratified by the Russian Federation, including treaties on military and technical cooperation.

The Strategic Investments Law governs the procedure of review by the Governmental Commission of an application by a foreign investor seeking to obtain control over a strategic company. A foreign investor initiates this process by filing an application with FAS. The term for review of such an application is three months and may be extended for a further three months. FAS will issue its approval upon confirmation from the Russian Federal Security Service and the Governmental Commission that the acquisition of control does not threaten the national defence or national security of the Russian Federation.

Transactions which are subject to review under the Strategic Investments Law and are not subsequently approved by the Governmental Commission are void, and the foreign investor, by order of the Russian courts, may be denied its right to vote at shareholders' meetings of the strategic company.

Trade Barriers and Anti-Dumping Regulations

General

Steel producing countries tend to believe that the steel industry is of strategic importance and, therefore, requires protection from foreign competition. In addition, some governments have in recent years increasingly resorted to protective measures to protect the development of their steel industry. Such measures usually aim at establishing an equilibrium in the economy between the level of production, the range of products and the level of consumption, but often their application becomes protectionist and leads to a reduction in imports of steel products.

Currently, the export and import of steel into the Russian Federation is regulated by the Treaty on the Eurasian Economic Union and its executive orders. After the accession of the Russian Federation to the WTO on 22 August 2012, steel exports from the Russian Federation are also subject to relevant WTO documents, including the Protocol on Russia's Accession to the WTO and the 1994 General Agreement on Tariffs and Trade ("**GATT**").

In general, there has been a recent increase in protective measures in the world, as well as an increase in investigations on trade issues. The largest importers of the Group's products are the countries of the Middle East and Africa, the countries of Europe, Asia and the Far East. Restrictions on steel imports imposed by some countries of Latin America and the US have not adversely affected the Group's business due to the geographical location of the Group.

Anti-Dumping proceedings

As of April 2019, 21 non-tariff regulation measures were introduced against Russian steel producers, 12 of which were introduced as a result of anti-dumping investigations. The E.U. authorities

introduced an anti-dumping duty of 36.1% for cold-rolled steel sheets in August 2016. In addition, on 7 October 2017, the E.U. established anti-dumping duties in the amount of 17.6 euros to 96.5 euros per tonne for imports of hot-rolled steel products from Brazil, Iran, Russia and Ukraine. As of 2 February 2019, the E.U. imposed further safeguard measures on imports of steel products. The measures concern 26 steel product categories and consist of tariff-rate quotas above which a duty of 25% will apply. These measures, replacing the provisional measures introduced in July 2018, are designed to address the diversion of steel from other countries to the E.U. market as a result of the imposition of duties by the US in March-June 2018.

In the US market, the following restrictions apply to the import of metal products manufactured by MMK. The import of hot-rolled sheets is carried out within the framework of the agreement on the suspension of anti-dumping measures. In turn, imports of hot-rolled coils in rolls and thin-sheet products are subject to an anti-dumping duty of 73.59% for products of PJSC Severstal and 184.56% for products of all other Russian companies. Further, in March 2018, the US introduced a 25% duty on imports of steel from, *inter alia*, Russia, China, Japan, Canada, Mexico and the E.U. in response to the national security threat allegedly posed by imported steel products. Since the share of MMK's supplies to the US is immaterial, MMK does not expect the introduction of this duty to have a direct impact on MMK's operations.

In April 2017, India introduced anti-dumping duties on imports of hot-rolled steel products that were produced or exported from six countries, including the Russian Federation, in the amount of U.S.$478 per tonne of hot rolled steel in rolls and U.S.$561 per tonne for a period of five years.

Employment and Labour

The Labour Code is the key law in Russia which governs labour matters. In addition to this core legislation, various federal laws, such as the Law dated 19 April 1991 "On Employment of Population in the Russian Federation" No. 1032-1, as amended, regulate relationships between employers and employees.

Employment contracts

As a general rule, employers must conclude employment contracts for an indefinite term with all employees. Russian labour legislation expressly limits the possibility of entering into fixed term employment contracts. Employers and employees may only enter into an employment contract for a fixed term of up to five years in a limited number of cases where it is not possible to establish labour relations for an indefinite term due to the nature of the duties or the conditions of the performance of such duties, as well as in some other cases expressly identified by federal law.

In certain cases specifically provided for by the Labour Code the employer is obliged to enter into a fixed term employment contract. A fixed term employment contract must be entered into, *inter alia*, with an employee employed to:

- perform the job duties of another employee for the period of his/her temporary leave of absence;
- work abroad (i.e., if the employee is sent by his/her Russian employer to work outside Russia); and
- perform work outside the scope of the employer's ordinary activity (reconstruction, erection/installation, start-up work and other work) and work specifically related to a temporary (up to one year) extension of production or scope of services provided.

In certain other cases provided for by the Labour Code the employer may, but is not obliged to, enter into a fixed term employment contract subject to the parties' mutual agreement. In particular, a fixed term employment contract may be entered into, *inter alia*, with:

- the company's chief executive officer, his/her deputies, and the chief accountant;
- old-age retirees and persons who are only allowed temporary work in accordance with a medical certificate;
- persons hired by companies located in the Far North areas, or in areas qualifying as such, if this involves relocating to the place of employment; and
- secondary employees.

An employer may terminate an employment contract only on the basis of the specific grounds stated in the Labour Code, including, among others:

- the liquidation of the company or downsizing of its staff;
- the failure of the employee to comply with the position's requirements due to incompetence as confirmed by the results of an evaluation;
- the systematic failure of the employee to fulfil his or her job duties if he or she was subject to disciplinary measures;
- a single gross violation by the employee of his or her job duties in the events expressly specified in the Labour Code; and
- the provision by the employee of false documents upon entering into the employment contract.

Regardless of the grounds for employment termination, on the employee's last day of work (which is the date of employment termination) the employer must pay the employee his/her salary, compensation for unused vacation and other outstanding payments (such as bonuses).

Depending on the grounds for employment termination and provisions of the employment contract, the employee may also be entitled to a severance payment. The severance payment amount depends on the grounds for employment termination. For example, as a general rule, an employee dismissed due to a reduction of personnel (downsizing) or the company's liquidation is entitled to the following severance payments: (i) one month's average salary; plus (ii) an average month's salary payable for the second month following the employment termination date; plus (iii) an additional average month's salary if the employee applies for jobs with the local employment service within two weeks of the employment termination date and is not offered a new job within three months of the redundancy/liquidation.

The Labour Code also provides protection against dismissal at the employer's initiative for specified categories of employees. For example, except in limited circumstances, an employer cannot dismiss expectant mothers, mothers with a child under the age of three, single mothers caring for a child under the age of 14 (or for a disabled child under the age of 18) or other persons caring for a child under the age of 14 (or for a disabled child under the age of 18) without a mother.

Any employment termination that is inconsistent with the Labour Code requirements may be invalidated by a court which may require the employer to reinstate such employee. Lawsuits resulting in the reinstatement of illegally dismissed employees and the payment of damages for wrongful dismissal are increasingly frequent and Russian courts tend to support employees' rights in most cases. Where a court reinstates an employee, the employer must compensate the employee for unpaid salary for the period between the wrongful termination and reinstatement, for any mental distress and the employee's legal and other expenses incurred as a result of the litigation.

Additionally, the Labour Code provides an employee with certain minimum rights, which an employer may extend by an employment contract, including the right to a working environment that complies with health and safety requirements, the right to receive a salary on a timely basis and the right to

participate in the management of the company, whether directly or through an authorised party, including in connection with the approval of any collective agreements, resolution of labour disputes or electing representatives to the employer's labour disputes committee (if applicable).

Work time

The Labour Code generally sets the regular working week at 40 hours. In general, an employer must compensate an employee for any time worked beyond 40 hours per week, as well as work on public holidays and weekends, at a higher rate or with additional days of paid vacation.

Annual paid vacation leave under the law is generally 28 calendar days. Employees who perform underground and open-pit mining works or other work in harmful conditions may be entitled to additional paid vacation. The duration of additional annual paid vacation provided to such employees is determined based on the provisions of an industrial agreement or a collective bargaining agreement and cannot be less than 7 calendar days.

Prior to 1 January 2019, the retirement age in Russia comprised 60 years for men and 55 years for women. Starting from 1 January 2019, the retirement age in Russia will be gradually raised to 65 for men and 60 for women by 2028.

At the same time, the retirement age thresholds applicable to certain categories of individuals have remained unchanged following the reform discussed above. In particular, the retirement ages of males who have worked in arduous working conditions for at least 12 years and six months and whose length of pensionable service is not less than 25 years is 55 years. The retirement age of females who have worked in arduous working conditions for at least 10 years and whose length of pensionable service is not less than 20 years is 50 years. In the case of work involving underground operations, hazardous conditions or hot workshops, the retirement age is 50 years for males who have worked in such conditions for at least 10 years and whose length of pensionable service is not less than 20 years, and 45 years for females who have worked in such conditions for at least 7 years and six months, provided that their length of pensionable service is not less than 15 years. Persons who have worked as miners in open-pit mines or underground mines for at least 25 years, and, in specified circumstances, for at least 20 years, may also retire, regardless of age.

Salary

The minimum monthly salary in Russia is established by federal law from time to time. Starting from 1 January 2019, the minimum monthly salary is set at the amount of RUB11,280 (approximately U.S.$176 as at the date of the Prospectus). The salaries of the Group's employees are higher than the statutory minimum in the region and none are below such minimum.

Employees working in localities with abnormal climatic conditions are entitled to regional quotient salary increase and percentage salary increase related to the duration of work in such conditions. The respective quotients are generally aimed at compensating for unfavourable climatic or other conditions in particular regions.

Strikes

The Labour Code defines a strike as the temporary and voluntary refusal of employees to fulfil their work duties with the intention of settling a collective labour dispute. Russian legislation contains several requirements which must be met for strikes to be legal. An employer may not use an employee's participation in a legal strike as grounds for terminating an employment contract, although Russian law generally does not require employers to pay salaries to striking employees for the duration of the strike. Furthermore, an employee's participation in an illegal strike may entail the imposition of a disciplinary penalty for labour misconduct.

Trade unions

Trade unions are defined by the Federal Law dated 12 January 1996 No. 10-FZ "On Trade Unions, Their Rights and Guaranties of Their Activity", as amended (the "**Trade Union Law**"), as voluntary unions of individuals with common professional interests which are created for the purposes of representing and protecting social and labour rights and interests of their members. Russian law also permits national trade union associations, which coordinate activities of trade unions throughout Russia.

Although Russian labour regulations have curtailed the authority of trade unions, they still retain significant influence over employees and, as such, may affect the operations of large industrial companies in Russia. The Group's management routinely interacts with trade unions in order to ensure the appropriate treatment of its employees and the stability of the Group's business.

The activities of trade unions are generally governed by the Trade Union Law and applicable legal acts including the Labour Code.

As part of their activities, trade unions may:

- negotiate and enter into collective bargaining agreements between employees and employers, conduct collective bargaining and enter into agreements on behalf of employees on a federal, industrial or territorial level;
- monitor compliance with labour laws, collective bargaining and other agreements;
- access work sites and offices, and request information relating to labour issues from the management of companies and state and municipal authorities;
- represent their members and other employees in individual and collective labour disputes with employers;
- participate in strikes, meetings to protect social and labour rights of employees; and
- monitor the redundancy of employees and seek action by municipal authorities to delay or suspend mass redundancies.

Russian laws require that companies cooperate with trade unions and do not interfere with their activities. Trade unions and their managers and members enjoy certain guarantees as well, such as:

- members of a trade union enjoy protection from dismissal due to redundancy, failure to pass the evaluation and repeated failure, without justification, to perform their duties. The employer must obtain the trade union's substantiated opinion and consider it in order to dismiss the trade union's members based on the listed grounds for termination of employment;
- dismissal of a manager of a trade union due to redundancy or failure to pass an appraisal requires the consent of the relevant supreme elected trade union body. Dismissal of a manager of a trade union due to repeated failure, without justification, to perform his/her duties requires a substantiated opinion of the relevant supreme elected trade union body;
- employees who stop working due to their election to the management of a trade union retain their job position;
- employees who previously served in the management of a trade union are protected against dismissal at the employer's initiative for two years after the termination of the office term (such protection does not apply to employment termination due to the company's liquidation or dismissal due to the employee's misconduct); and

- the employer must provide a trade union with necessary equipment, premises and transportation vehicles, in accordance with a collective bargaining or other agreement.

If a trade union discovers any violation of work conditions requirements, notification is sent to the employer with a request to cure the violation and to suspend work if there is an immediate threat to the lives or health of employees.

The trade union may receive information on social and labour issues from an employer (or employers' unions) and state and local authorities, as well as cooperate with state authorities for the purposes of supervision of compliance with Russian labour laws. Trade unions may also initiate collective labour disputes, which may lead to strikes.

To initiate a collective labour dispute, trade unions must present their demands to the employer. The employer is then obliged to consider the demands and notify the trade union of its decision. If the dispute remains unresolved, a reconciliation commission attempts to end the dispute. If this proves unsuccessful, collective labour disputes are generally referred to mediation or labour arbitration.

The Trade Union Law provides that those who violate the rights and guarantees of trade unions and their officers may be subject to disciplinary, administrative and criminal liability. Although neither the Russian Code on Administrative Offences No. 195-FZ dated 30 December 2001, as amended, nor the Russian Criminal Code No. 63-FZ dated 13 June 1996, as amended, currently has provisions specifically relating to these violations, general provisions and sanctions may be applicable.

DESCRIPTION OF THE ISSUER AND THE GUARANTOR

Issuer

General

MMK International Capital Designated Activity Company was incorporated in Ireland on 24 April 2019, with registered number 648776, as a designated activity company under the Companies Act 2014 (as amended) of Ireland. The registered office of the Issuer is 2nd Floor, Palmerston House, Fenian Street, Dublin 2, Ireland, and its telephone number is +353 1 905 8020.

The authorised share capital of the Issuer is EUR100 divided into 100 ordinary shares of par value EUR1 each (the "**Shares**"). The Issuer has issued 1 Share, which is fully paid and held on trust under the terms of a declaration of trust (the "**Declaration of Trust**") dated 29 April 2019, under which the Shares are held on trust for charity by Cafico Trust Company Limited (the "**Share Trustee**"). The Share Trustee has no beneficial interest in and derives no benefit (other than any fees for acting as Share Trustee) from its holding of the Shares. The Share Trustee will apply any income derived from the Issuer solely for the above purposes.

Cafico Corporate Services Limited (the "**Corporate Services Provider**"), an Irish company, acts as the corporate services provider for the Issuer. The office of the Corporate Services Provider serves as the general business office of the Issuer. Through the office and pursuant to the terms of the corporate services agreement entered into on or about the Closing Date between the Issuer and the Corporate Services Provider (the "**Corporate Services Agreement**"), the Corporate Services Provider performs various management functions on behalf of the Issuer, including the provision of certain clerical, reporting, accounting, administrative and other services until termination of the Corporate Services Agreement. In consideration of the foregoing, the Corporate Services Provider receives various fees and other charges payable by the Issuer at rates agreed upon from time to time plus expenses. The terms of the Corporate Services Agreement provide that either party may terminate the Corporate Services Agreement upon the occurrence of certain stated events, including any material breach by the other party of its obligations under the Corporate Services Agreement which is either incapable of remedy or which is not cured within 30 days from the date on which it was notified of such breach. In addition, either party may terminate the Corporate Services Agreement at any time by giving at least 90 days' written notice to the other party. The Corporate Services Agreement contains provisions for the appointment of a replacement corporate services provider if necessary. The Corporate Services Provider's principal office is Palmerston House, Fenian Street, Dublin 2, Ireland.

Principal Activities

The principal objects of the Issuer are set forth in clause 3 of its Memorandum of Association (as currently in effect) and permit the Issuer, inter alia, to lend money and give credit, secured or unsecured, to issue debentures and otherwise to borrow or raise money and to grant security over its property for the performance of its obligations or the payment of money.

The Issuer is organised as a special purpose company. The Issuer was established to raise capital by the issue of debt securities and to use an amount equal to the proceeds of each such issuance to advance loans to MMK or other members of the Group.

Since its incorporation and prior to the issuance of the Notes, the Issuer has not engaged in any material activities. The Issuer has no employees.

Directors and Company Secretary

The Issuer's Articles of Association provide that the board of directors of the Issuer will consist of at least two Directors.

The Directors of the Issuer are Rolando Eduna and Lester Almojuela.

The business address of the Directors is at: 2nd Floor Palmerston House, Fenian Street, Dublin 2, Ireland.

The Company Secretary is Cafico Secretaries Limited.

The Directors do not hold any direct, indirect, beneficial or economic interest in any of the Shares. The directorship of the Directors is provided as part of the Corporate Services Provider's overall corporate administration services provided to the Issuer pursuant to the Corporate Services Agreement. The Directors of the Issuer may engage in other activities and have other interests which may conflict with the interests of the Issuer.

Financial Statements

Since its date of incorporation, save as disclosed herein, the Issuer has not commenced operations and no financial statements of the Issuer have been prepared as at the date of this Prospectus. The Issuer will not prepare interim financial statements. The financial year of the Issuer ends on 31 December in each year.

MMK intends to start consolidating the Issuer's financial position and results of operations into the Group's financial statements under IFRS (IFRS 10 – "*Consolidated Financial Statements*") with effect from consolidated interim financial statements of the Group as at and for the six months ended 30 June 2019. As IFRS 10 – "*Consolidated Financial Statements*" establishes control as the key basis for consolidation, in order to determine whether MMK controls the Issuer under IFRS as a special purpose company, the Group's management has considered factors determining such control provided for in the IFRS 10 – "*Consolidated Financial Statements*" and concluded that the Issuer is controlled by MMK for the purposes of IFRS (*inter alia*, the sole purpose of the Issuer being raising capital by the issue of debt securities and using an amount equal to the proceeds of each such issuance to advance loans to MMK) and, as such, will be consolidated to the Group's financial results.

Each year, a copy of the audited profit and loss account and balance sheet of the Issuer together with a report of the directors and the auditors thereon is required to be filed in the Irish Companies Registration Office within 28 days of the annual return date of the Issuer and is available for inspection. The profit and loss account, the financial statements of the Issuer and balance sheet can be obtained free of charge from the registered office of the Issuer.

The Issuer has appointed BDO Ireland as its auditors, who are chartered accountants and are members of the Institute of Chartered Accountants in Ireland and registered auditors qualified to practice in Ireland.

Guarantor

Legal and commercial name	Public Joint Stock Company Magnitogorsk Iron & Steel Works
Registration number	1027402166835
Date and place of incorporation	17 October 1992, Russian Federation
Duration of existence	Indefinite
Place of domicile	Russian Federation
Legal form	public joint stock company
Registered office	Ul. Kirova 93, Magnitogorsk, 455000, Chelyabinsk Region, Russian Federation

Telephone number of the registered office	+7 (3519) 24 72 92
Principal place of business	Ul. Kirova 93, Magnitogorsk, 455000, Chelyabinsk Region, Russian Federation
Directors	See - “*Management*”.
Independent auditors	AO PricewaterhouseCoopers Audit
Principal activities	See - “*Business*”

TERMS AND CONDITIONS

The following is the text of the Terms and Conditions of the Notes, which contains summaries of certain provisions of the Trust Deed and which (subject to completion and amendment) will be attached to the Notes in definitive form (if any) and (subject to the provisions thereof) will apply to the Global Certificates.

The U.S.$500,000,000 4.375% Guaranteed Notes due 2024 (the "**Notes**" which expression includes any further Notes issued pursuant to Condition 15 and forming a single series herewith), without coupons, of MMK International Capital DAC (the "**Issuer**" which expression shall include any entity substituted for the Issuer in accordance with the Trust Deed) and unconditionally and irrevocably guaranteed by Public Joint Stock Company Magnitogorsk Iron & Steel Works (the "***Guarantor***" or "***MMK***") are constituted by, are subject to, and have the benefit of a trust deed (the "**Trust Deed**", which expression includes such trust deed as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so modified) dated 13 June 2019 and made between the Issuer, MMK and Citibank, N.A., London Branch (the "**Trustee**", which expression shall include any successor as trustee) as trustee for the Noteholders.

These terms and conditions (the "***Conditions***") include summaries of, and are subject to, the detailed provisions of the Trust Deed. The Issuer and MMK have entered into a paying agency agreement (the "**Paying Agency Agreement**") dated 13 June 2019 and made between the Issuer, MMK, Citibank, N.A., London Branch as the principal paying agent and as transfer agent (the "**Principal Paying Agent**", together with any other paying agents appointed pursuant to the Paying Agency Agreement (the "**Paying Agents**") and the "**Transfer Agent**", which expressions shall include any successors), Citigroup Global Markets Europe AG as the registrar (the "**Registrar**", which expression shall include any successors) and the Trustee. References herein to the "**Agents**" are to the Registrar, the Paying Agents and the Transfer Agent and any reference to an "**Agent**" is to any one of them.

Copies of the Trust Deed and the Paying Agency Agreement are available to the Noteholders for inspection during normal business hours by appointment at (i) the registered office of the Trustee being, at the date hereof, at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom; (ii) the registered office of the Issuer being, at the date hereof, 2nd Floor, Palmerston House, Fenian Street, Dublin 2, Ireland; and (iii) at the specified office of the Principal Paying Agent being, at the date hereof, at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom.

Certain provisions of these terms and conditions (the "**Conditions**") are summaries or restatements of, and are subject to, the detailed provisions of the Trust Deed and the Paying Agency Agreement. Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of all the provisions of the Paying Agency Agreement that are applicable to them.

Unless otherwise stated, terms not defined herein shall have the meanings given to them in the Trust Deed.

The Trust Deed and the Paying Agency Agreement provide that the Issuer and/or MMK will make payments directly to the Principal Paying Agent. As such, once a payment is made by MMK or the Issuer to the Principal Paying Agent, it will *pro tanto*, to the extent of such payment, satisfy the obligations of the Issuer in respect of the Notes and MMK in respect of the Guarantee (as defined below), unless, upon the due presentation of a Note, payment is improperly withheld or refused.

The Issuer is not a subsidiary of MMK and is organised as a special purpose company to raise capital by the issue of debt securities and to use an amount equal to the proceeds of each such issuance to advance loans to MMK or other members of the Group.

1 Form, Denomination, Register and Transfers

1.1 Form and denomination: The Notes are issued in registered form, in the denominations of U.S.$200,000 or integral multiples of U.S.$1,000 in excess thereof (each an "**Authorised Holding**"), without coupons attached.

The Notes will be initially issued in global, fully registered form, and represented by (i) a Rule 144A Global Certificate (the "**Rule 144A Global Certificate**"), interests in which are to be sold to qualified institutional buyers (each a "**QIB**") within the meaning of, and pursuant to, Rule 144A ("**Rule 144A**") under the Securities Act that are also Qualified Purchasers ("**QPs**") within the meaning of Section 2(a)(51) of the U.S. Investment Company Act of 1940 and (ii) a Regulation S Global Certificate (the "**Regulation S Global Certificate**" and, together with the Rule 144A Global Certificate, the "**Global Certificates**"), interests in which are to be offered outside the United States to non-U.S. persons within the meaning of, and pursuant to, Regulation S under the Securities Act ("**Regulation S**") which will each be exchangeable for Notes in definitive, fully registered form in the limited circumstances specified in the Global Certificates and the Paying Agency Agreement.

2 Guarantee and Status

2.1 Guarantee

MMK has in the Trust Deed unconditionally and irrevocably guaranteed the payment when due of all sums expressed to be payable by the Issuer under the Trust Deed and the Notes (the "**Guarantee**"). The Guarantee constitutes a direct, unsubordinated and (subject to Condition 3) unsecured obligation of MMK. MMK shall ensure that at all times the claims of the Noteholders against it under the Guarantee and the payment obligations of MMK under the Guarantee, rank in right of payment at least *pari passu* with the claims of all its other present and future unsecured creditors, save for those whose claims are preferred by any bankruptcy, insolvency, liquidation or similar laws of general application or any other mandatory provisions of applicable law.

2.2 Status

The Notes constitute direct, unsubordinated and (subject to Condition 3.1) unsecured obligations of the Issuer and shall at all times rank *pari passu* and rateably without any preference among themselves. The Issuer shall ensure that at all times the claims of the Noteholders against them under the Notes and the payment obligations of the Issuer under the Notes, rank in right of payment at least *pari passu* with the claims of all their other present and future unsecured creditors, save for those whose claims are preferred by any bankruptcy, insolvency, liquidation or similar laws of general application or any other mandatory provisions of applicable law.

2.3 Register, Title and Transfers:

(a) *Register*

The Registrar will maintain a register (the "**Register**") in respect of the Notes outside the United Kingdom at the specified office for the time being of the Registrar in accordance with the provisions of the Paying Agency Agreement and shall record in the Register the names and addresses of the Noteholders, particulars of the Notes and all transfers and redemptions thereof. In these Conditions the "**holder**" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly. In the limited circumstances provided in the Global Certificate, a definitive certificate (a "**Definitive Certificate**") will be issued to each Noteholder in respect of its registered holding of Notes.

(b) *Title*

Title to the Notes will pass by and upon registration in the Register. The holder of each Note shall (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Definitive Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Definitive Certificate) and no person shall be liable for so treating such holder.

(c) *Transfers*

Subject to the terms of the Paying Agency Agreement and paragraphs (d), (e), (f) and (g) of this Condition 2.3, a Note may be transferred upon surrender of the relevant Definitive Certificate, with the endorsed form of transfer duly completed, at the specified office of the Registrar or at the specified office of the Transfer Agent, together with such evidence as the Registrar or the Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; provided however, that a Note may not be transferred unless the principal amount of the Notes transferred and (where not all of the Notes held by a holder are being transferred) the principal amount of the balance of the Notes not transferred are Authorised Holdings. Where not all the Notes represented by the surrendered Definitive Certificates are the subject of the transfer, a new Definitive Certificate in respect of the balance of the Notes not transferred will be issued to the transferor.

(d) *Registration and delivery of Definitive Certificates*

Subject to paragraph (e) of this Condition 2.3, within five business days of the surrender of a Definitive Certificate in accordance with paragraph (c) above, the Registrar will register the transfer in question and deliver a new Definitive Certificate to each relevant holder at its specified office or (at the request and risk of such relevant holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant holder. In this paragraph, "**business day**" means a day on which commercial banks are open for business (including dealings in foreign currencies) in the city where the Registrar has its specified office. In the case of the transfer of only a part of the Notes, a new Definitive Certificate in respect of the balance of the Notes not transferred will be so delivered or (at the risk and, if mailed at the request of the transferor otherwise than by ordinary uninsured mail, at the expense of the transferor) sent by mail to the transferor.

(e) *No charge*

The transfer of Notes will be effected without charge to the holder or transferee thereof but against such indemnity as the Registrar or the Transfer Agent, as applicable, may require from such holder or transferee in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(f) *Closed periods*

Noteholders may not require transfers to be registered (i) during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes and (ii) after any Note has been called for redemption.

(g) *Regulations concerning transfers and registration*

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Paying Agency Agreement. The regulations may be changed by the Issuer (with the prior written consent of MMK) or MMK, in each case with the prior written approval of the Trustee and the Registrar. A copy of the current

regulations will be mailed (free of charge) by the Registrar or Transfer Agent to any Noteholder who requests in writing a copy of such regulations and who can confirm they are a Noteholder to the satisfaction of the Registrar or Transfer Agent and a copy of such regulations will also be available at the specified office of the Registrar and Transfer Agent.

3 Covenants

3.1 *Negative Pledge*

For so long as any Note remains outstanding (as defined in the Trust Deed), MMK shall not, and shall procure that no Material Subsidiary will, create or permit to subsist any Security Interest other than a Permitted Security Interest upon the whole or any part of its respective undertaking, property, assets or revenues, present or future, to secure for the benefit of the holders of any Relevant Indebtedness:

(a) payment of any sum due in respect of any such Relevant Indebtedness;

(b) any payment under any guarantee of any such Relevant Indebtedness; or

(c) any payment under any indemnity or other like obligation relating to any such Relevant Indebtedness,

without at the same time or prior thereto (i) securing the Notes equally and rateably therewith or (ii) providing such other arrangement (whether or not comprising a Security Interest) as may be approved by an Extraordinary Resolution or by a Written Resolution (each as defined in the Trust Deed) of Noteholders.

3.2 *Mergers*

MMK shall not, without the prior written consent of the Trustee (which consent may only be given by the Trustee if it is of the opinion that to do so would not be materially prejudicial to the interest of the Noteholders) enter into or become subject to, and shall not permit any Material Subsidiary to enter into or become subject to, any reorganisation (as such term is construed by applicable legislation, including, without limitation and where applicable, any amalgamation, demerger, merger or corporate reconstruction) or other analogous event (as determined by the legislation of the relevant jurisdiction) (together and individually, a "***Reorganisation***") if such Reorganisation would have a Material Adverse Effect. Notwithstanding anything set out in this Condition 3.2, a Reorganisation wholly (i) between Subsidiaries of MMK and (ii) between MMK and its Subsidiaries, provided that the surviving entity will succeed and fully assume MMK's obligations under the Guarantee and otherwise in connection with the Notes, shall be permitted.

3.3 *Payment of Taxes*

MMK shall pay or discharge or cause to be paid or discharged, before the same shall become overdue, all taxes, levies, imposts or duties levied or imposed upon, or upon the income, profits or assets of MMK (a "***Relevant Tax***"), provided, however, that MMK shall not be required to pay or discharge or cause to be paid or discharged any Relevant Tax (x) whose amount, applicability or validity is being contested in good faith by appropriate proceedings or for which adequate reserves in accordance with IFRS or other appropriate provision has been made or (y) where such non-payment or failure to discharge, together with non-payment or failure to discharge any other unpaid or undischarged Relevant Taxes, does not have in the aggregate a Material Adverse Effect, and provided further that in the case of either (x) or (y) above if any Relevant Tax (including any applicable penalties) is paid or discharged after becoming overdue, such payment or discharge shall be deemed to remedy any breach of this Condition 3.3 with respect to such Relevant Tax.

3.4 ***Delivery of Information***

(a) MMK shall make available on its website copies of the annual consolidated financial statements of the Group audited and prepared in accordance with IFRS.

(b) MMK shall make available on its website copies of semi-annual consolidated financial statements of the Group reviewed and prepared in accordance with IFRS.

(c) MMK shall ensure that each set of consolidated financial statements made available pursuant to this Condition 3.4 and delivered to the Trustee pursuant to the Trust Deed is accompanied by an audit or review report thereon by or of its auditors (including any accompanying notes).

(d) MMK undertakes to furnish to the Irish Stock Exchange plc (trading as Euronext Dublin) (the "**Stock Exchange**") (or any other or further stock exchange or stock exchanges on which the Notes may, from time to time, be listed or admitted to trading) such information as may be required in respect of MMK or the Group as necessary in connection with the listing or admission to trading on such stock exchange of such instruments.

3.5 ***Transactions with Affiliates***

(a) MMK shall not, and shall ensure that none of its Material Subsidiaries will, directly or indirectly, conduct any business, enter into or permit to exist any transaction (including the purchase, sale, transfer, assignment, lease, conveyance or exchange of any property or the rendering of any service) with, or for the benefit of, any Affiliate (an "**Affiliate Transaction"**), including inter-company loans, unless the terms of such Affiliate Transaction are (taking into account the standing and credit rating of the relevant Affiliate) no less favourable to MMK or such Material Subsidiary, as the case may be, than those that could be obtained in a comparable arm's-length transaction for Fair Market Value with a person that is not an Affiliate of MMK or any of its Material Subsidiaries and such terms are in compliance with all applicable laws and regulations.

(b) This Condition does not apply to (i) compensation or employee benefit arrangements with any officer or director of MMK or any of its Subsidiaries, as the case may be, arising as a result of their employment contract, (ii) any Affiliate Transaction between MMK and any of its Subsidiaries or between any Subsidiaries of MMK, (ii) any Affiliate Transaction that is made pursuant to a contract existing on the Closing Date, or (iii) any Affiliate Transaction undertaken by MMK or any of its Subsidiaries not involving, individually or in aggregate, payments or value in excess of U.S.$75,000,000.

3.6 ***Issuer Covenant***

So long as any Note remains outstanding, the Issuer, without the prior written consent of the Trustee or an Extraordinary Resolution or a Written Resolution, shall not, *inter alia,* incur any other indebtedness for borrowed money (other than the issue of Notes, any further Notes in accordance with Condition 15 or any other notes or debt securities issued for the purpose of making loans to MMK or any member of the Group, engage in any business (i) other than entering into any agreements related to the Notes or any other issue of notes as aforesaid (including any repurchase or exchange thereof), activities reasonably required to maintain its existence or comply with any applicable law, regulation, judgment or its constitutional documents and performing any acts incidental to or necessary in connection with the Notes or any other issue of notes as aforesaid or such related agreements (including the holding of any security in connection with any of the foregoing), (ii) making any loans to MMK and the Group in connection with the issue of the Notes or other notes as aforesaid and (iii) performing any act or executing any document incidental to or necessary in connection therewith, declare

any dividends, have any subsidiaries or employees, purchase, own, lease or otherwise acquire any real property, consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety (to the extent the same is within the control of the Issuer) to any person (otherwise than as contemplated in these Conditions and the Trust Deed), issue any further shares (other than those required to convert the Issuer's status to that of a public limited company or as are in issue as at the date of the Trust Deed) (to the extent the same is within the control of the Issuer) or make any distribution to its shareholders, give any guarantee or assume any other liability (other than in connection with any act or agreement permitted pursuant to this Condition 3), or, unless required under the laws of Ireland, petition for any winding-up or bankruptcy.

4 Interest

The Notes bear interest from and including the Closing Date at the Rate of Interest, payable semi-annually in arrear on 13 June and 13 December in each year (each an "**Interest Payment Date**"), the first such Interest Payment Date being on 13 December 2019. Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which event interest will continue to accrue (before or after any judgement) at the Rate of Interest to but excluding the date on which payment in full of the principal thereof is made.

In these Conditions, the period beginning on and including the Closing Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an "**Interest Period**".

Interest in respect of any Note shall be calculated per U.S.$1,000 in principal amount of the Notes (the "**Calculation Amount**"). The amount of interest payable per Calculation Amount for any Interest Period shall be calculated by applying the Rate of Interest to the Calculation Amount, dividing the resulting product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). If interest is required to be calculated for any other period, it will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of actual days elapsed.

The Issuer is not a subsidiary of MMK and is organised as a special purpose company to raise capital by the issue of debt securities and to use an amount equal to the proceeds of each such issuance to advance loans to MMK or other members of the Group.

5 Redemption and Purchase

(a) *Final redemption*

Unless previously redeemed or purchased and cancelled, the outstanding Notes will be redeemed or repaid by the Issuer at 100% of the principal amount thereof together with accrued interest on 13 June 2024 (the "**Maturity Date**").

(b) *Redemption for tax reasons*

The Notes may be redeemed at the option of either the Issuer (with the prior written consent of MMK) or MMK, in whole, but not in part, at any time, on giving not less than 25 and not more than 60 calendar days' written notice to the Trustee, the Principal Paying Agent and the Noteholders in accordance with Condition 14(which notice shall be irrevocable), at the principal amount thereof, together with interest accrued and unpaid to the date fixed for redemption but otherwise without premium or penalty, if (i) the Issuer or MMK satisfies the Trustee immediately prior to the giving of such notice that it has, or will, become obliged to pay additional amounts as provided or referred to in Condition 7 as a result of the application or official interpretation of, or any amendments to, or change in, or change in the application

or official interpretation of the laws, treaties or regulations of the Russian Federation or Ireland, or as the case may be, the applicable jurisdiction for either of the Issuer or MMK if different from the aforementioned, or of any constituent part or political subdivision thereof or any authority having power to tax therein (including as a result of a judgment of a court of competent jurisdiction or a change in, or clarification of, the application or official interpretation of such laws or regulations) and (ii) such obligation cannot be avoided by the Issuer (or MMK, as the case may be) taking reasonable measures available to it. Prior to the publication of any notice of redemption pursuant to this Condition 5(b), MMK shall deliver to the Trustee an Officer's Certificate confirming that the Issuer (or MMK, as the case may be) would be obliged to pay additional amounts as provided or referred to in Condition 7 supported by evidence from the relevant tax authorities in the relevant tax jurisdiction and the Trustee shall be entitled to accept such Officer's Certificate as sufficient evidence of the satisfaction of the conditions precedent set out in (i) and (ii) above without further investigation or enquiry and without liability, in which event it shall be conclusive and binding on the Noteholders. All Notes in respect of which any such notice of redemption is given under and in accordance with this Condition shall be redeemed on the date specified in such notice in accordance with this Condition 5(b).

(c) *Purchases*

The Issuer, MMK or any member of the Group may, among other things, purchase Notes from time to time, in the open market or by tender or by private agreement at any price. Such Notes may, at the option of the Issuer (with the prior written consent of MMK), MMK or such member of the Group, be held, reissued, resold or, in the case of MMK or such member of the Group, delivered to the Issuer together with a request for the Issuer to present such Notes to the Principal Paying Agent or the Registrar for cancellation, whereupon the Issuer shall, pursuant to the Paying Agency Agreement, instruct the Principal Paying Agent or the Registrar to arrange the cancellation of such Notes. Upon the cancellation of such Notes, no further payment shall be made or required to be made by the Issuer in respect of such Notes.

The Issuer may compel any beneficial owner of Rule 144A Certificates to certify that it is a qualified institutional buyer (as defined in Rule 144A under the Securities Act) and a qualified purchaser (as defined in Section 2(a)(51)(A) of the U.S. Investment Company Act of 1940) and may compel any such beneficial owner to sell its interest in such Rule 144A Certificates, or may sell such interest on behalf of such holder, if such holder is a U.S. person that is not a qualified institutional buyer (as defined in Rule 144A under the Securities Act) and a qualified purchaser (as defined in Section 2(a)(51)(A) of the U.S. Investment Company Act of 1940).

(d) ***Optional Redemption at Make-Whole***

At any time prior to the Maturity Date, the Issuer (with the prior written consent of MMK) or MMK may, at its option, on giving not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and the Noteholders in accordance with Condition 14 (the "***Call Option Notice***") (which notice shall be irrevocable and shall specify the date fixed for redemption (the "**Make Whole Optional Redemption Date"**)), redeem the Notes in whole but not in part, at the price which shall be the following:

(i) the Make Whole Redemption Amount; plus

(ii) accrued and unpaid interest that may be due thereon (if any) to but excluding the Make Whole Optional Redemption Date.

The Call Option Notice shall specify the Make Whole Optional Redemption Date.

(e) ***Optional Redemption at Par***

The Issuer (with the prior written consent of MMK) or MMK may, at any time on or after the date three months prior to the Maturity Date, on giving not less than 10 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and the Noteholders in accordance with Condition 14 (which notice shall be irrevocable and shall specify the date fixed for redemption (the "**Par Optional Redemption Date**")), redeem the Notes in whole or in part at their principal amount plus accrued and unpaid interest on the Notes so prepaid to (but excluding) the Par Optional Redemption Date. Such redemption may occur on a number of occasions.

(f) ***Cancellation***

All Notes redeemed or purchased pursuant to this Condition shall be either cancelled forthwith, held or, to the extent permitted by law, resold. Any Notes so cancelled may not be reissued.

6 Payments

(a) *Principal and interest*

Payment of principal and interest in respect of the Notes will be made to the person(s) shown as the holder in the Register at the opening of business on the Record Date (as defined below). Payments of all amounts other than as provided in this Condition 6(a) will be made as provided in these Conditions.

(b) *Payments*

Each payment in respect of the Notes pursuant to Condition 6(a) shall be made by transfer to a U.S. Dollar account maintained by or on behalf of the payee with a bank in New York City and (in the case of interest payable on redemption) upon surrender of the relevant Definitive Certificates at the specified office of the Principal Paying Agent or at the specified office of a Transfer Agent.

(c) *Payments subject to fiscal law*

All payments in respect of the Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), or otherwise imposed pursuant to FATCA, or (without prejudice to the provisions of Condition 8) any law implementing an intergovernmental approach thereto. No commission or expenses shall be charged to the Noteholders in respect of such payments. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(d) *Payments on business day*

A Note may only be presented for payment on a day which is a business day in the place of presentation. If the due date for payment of interest or principal is not a business day, the holder of a Note shall not be entitled to payment of the amount due until the next following business day and shall not be entitled to any further interest or other payment in respect of any such delay. In this paragraph, "**business day**" means a day on which (i) the London interbank market is open for dealings between banks generally and (ii) if on that day a payment is to be made hereunder, commercial banks generally are open for business in Dublin, New York City and in the city where the specified office of the Principal Paying Agent is located.

(e) *Record Date*

Each payment in respect of a Note will be made to the person shown as the holder in the Register at the opening of business (in the place of the Registrar's specified office) on the fifteenth day before the due date for each payment (the "**Record Date**").

(f) *Agents*

The Paying Agency Agreement provides that the Issuer (with the prior written consent of MMK) or MMK may at any time, in each case with the prior written approval of the Trustee appoint a successor Registrar, Transfer Agent or Principal Paying Agent and/or additional or successor paying agents or transfer agents provided that for so long as the Notes are listed on the Stock Exchange, MMK and the Issuer shall use their best efforts to ensure that they maintain (i) a Principal Paying Agent, (ii) a Registrar, (iii) a Transfer Agent, and (iv) such other agents as may be required by any stock exchange on which the Notes may be listed. Any such appointment of successor or other Agents shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not more than 45 days' and not less than 30 days' notice thereof shall have been given by the Issuer or MMK to the continuing Agents, the Trustee and to the Noteholders in accordance with Condition 14.

In acting under the Paying Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer and MMK and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

7 Taxation

All payments in respect of the Notes by or on behalf of the Issuer or MMK or under the Guarantee by MMK shall be made without deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied, collected, withheld or assessed by or on behalf of any authority in Ireland or the Russian Federation having the power to tax, unless the deduction or withholding of such taxes or duties is required by law or regulation.

In the event any such taxes, duties, assessments or governmental charges of whatever nature are imposed or levied, collected, withheld or assessed by or on behalf of, any authority in Ireland or the Russian Federation, or any political subdivision or any authority thereof or therein having the power to tax, the Issuer or (as the case may be) MMK shall, except as provided below, make such additional payments as shall result in the receipt by the Noteholders of such amount as would have been received by them if no such withholding or deduction had been required, except that no such amounts shall be payable:

(i) to a Noteholder who (A) is liable for such taxes or duties by reason of his having some connection with Ireland or the Russian Federation other than the mere holding of such Notes or the benefit of the Guarantee or the receipt of payments in respect thereof or (B) is able to avoid such withholding or deduction by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the tax authority;

(ii) in respect of a Note presented for payment of principal more than 30 days after the Relevant Date except to the extent that such additional payment would have been payable if such Note had been presented for payment on such thirtieth day;

(iii) in respect of a Note held by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by arranging to receive the relevant payment through another Paying Agent in a Member State of the European Union;

(iv) where such withholding or deduction is required pursuant to Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any amended or successor version), any current or future regulations or agreements (including any intergovernmental agreements) thereunder, official interpretations thereof or any law, regulation or official interpretation implementing any of the foregoing; or

(v) any combination of the above.

As used herein, "**Relevant Date**" means the later of (i) the date on which the payment in question first becomes due and (ii) if the full amount payable has not been received by, or for the account of, the Principal Paying Agent or the Trustee on or prior to such due date, the date on which such full amount shall have been so received and notice to that effect shall have been duly given to the Noteholders by or on behalf of the Issuer in accordance with Condition 14.

Any reference herein or in the Trust Deed to payments in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable in accordance with the Trust Deed and this Condition 7 or any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed. If the Issuer or MMK becomes subject to any taxing jurisdiction other than or in addition to Ireland or the Russian Federation, references in these Conditions to Ireland shall be construed as references to Ireland, the Russian Federation and/or such other jurisdiction.

8 Events of Default

If one or more of the following events shall occur and be continuing (each, an "***Event of Default***"), the Trustee at its discretion may and, if so requested in writing by Noteholders of at least 25% of the aggregate principal amount of the outstanding Notes, or if so directed by an Extraordinary Resolution, shall (subject to the Trustee having been indemnified and/or secured and/or prefunded to its satisfaction) give written notice to the Issuer and MMK declaring the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality:

(a) *Non-payment / breach of obligations*

(i) any amount of principal in respect of any of the Notes is not paid by the tenth Business Day after the due date for payment thereof or any amount of interest is not paid by the fourteenth Business Day after the due date for payment thereof; or

(ii) MMK fails to perform or comply with, or is otherwise in breach of, any other obligation expressed to be assumed by it under or in respect of the Notes or the Trust Deed, and (except in any case where the Trustee considers failure or breach to be incapable of remedy), and such failure or breach, remains unremedied for 45 calendar days after the Trustee has given written notice of it to MMK.

(b) *MMK*

(i) any present or future Indebtedness of MMK or any Material Subsidiary (i) is not paid upon the later of (a) when due upon final maturity or (b) if there is an originally applicable grace period in respect of such Indebtedness at final maturity, upon the expiration of such originally applicable grace period or (ii) becomes due and payable prior to its specified maturity as a result of an event of default (however described); provided that, either, (x) the individual amount of such Indebtedness that is not so paid (after the expiration of any such originally applicable grace period) or so due and payable equals or exceeds U.S.$50,000,000 or (y) the aggregate amount of such Indebtedness that is not so paid (after the expiration of any such originally applicable grace period) or so due and payable equals or exceeds U.S.$150,000,000 or, in the case of an amount specified in (i) or (ii) above, its U.S. Dollar Equivalent; or

(ii) an effective resolution is passed by MMK or an order of a court of competent jurisdiction is made (and has come into force) that MMK be wound-up or

dissolved, in each case otherwise than for the purposes of or pursuant to a Reorganisation permitted by these Conditions; or

(iii) an effective resolution is passed by a Material Subsidiary or an order of a court of competent jurisdiction is made (and has come into force) for the winding-up or dissolution of any Material Subsidiary except (i) for the purposes of or pursuant to a Reorganisation with or merger into MMK or any other Subsidiary (provided such Subsidiary will be a Material Subsidiary following such Reorganisation or merger), (ii) for the purposes of or pursuant to a Reorganisation permitted by these Conditions or (iii) by way of a voluntary winding-up or dissolution and there are surplus assets in any Material Subsidiary and any such surplus assets attributable to MMK and/or any Material Subsidiary are distributed to MMK and/or any other Subsidiary (provided such Subsidiary will be a Material Subsidiary following such winding-up or dissolution); or

(iv) an encumbrancer takes possession or a receiver is appointed of the whole or a material part of the assets or undertaking of MMK or any Material Subsidiary and the same has a Material Adverse Effect, if such possession or appointment is not discharged or rescinded within 150 days thereof (or such longer period as the Trustee, at its discretion, may consider appropriate in relation to the jurisdiction concerned); or

(v) a distress, execution or seizure before judgment is levied or enforced upon the whole or a material part of the property of MMK and the same has a Material Adverse Effect, unless such distress, execution or seizure is stayed or discharged within 150 days of its commencement (or such longer period as the Trustee, at its discretion, may consider appropriate in relation to the jurisdiction concerned); or

(vi) MMK or any Material Subsidiary through an official action of the board of directors of MMK or such Material Subsidiary (as the case may be) announces its inability to pay, or is unable to pay its debts generally as and when they fall due; or

(vii) proceedings shall have been initiated against the MMK or any Material Subsidiary for its liquidation, insolvency, bankruptcy or dissolution under any applicable bankruptcy or insolvency law and, in respect of a Material Subsidiary only, such liquidation, insolvency, bankruptcy or dissolution would have a Material Adverse Effect, and such proceedings shall not have been discharged or stayed within a period of 150 days unless, and for so long as, it is being contested in good faith; or

(viii) MMK or any Material Subsidiary shall initiate or consent to proceedings for its liquidation, insolvency, bankruptcy or dissolution relating to itself under any applicable bankruptcy, or insolvency law or make a general assignment for the benefit of, or enters into any general composition with, its creditors generally, unless, in respect of a Material Subsidiary only, such liquidation, insolvency, bankruptcy or dissolution would not have a Material Adverse Effect; or

(ix) a moratorium is agreed or declared in respect of any Indebtedness of MMK and the same has a Material Adverse Effect, or any governmental authority or agency condemns, seizes, compulsorily purchases, transfers or expropriates all or a material part of the assets, licences or shares of MMK; or

(x) any event occurs which under the laws of the Russian Federation or, in the case of a Material Subsidiary (where applicable), the jurisdiction of its incorporation (if different), has an analogous effect to any of the events referred to in sub-clauses (ii) - (ix) above.

(c) *Issuer*

(i) MMK fails to effect a substitution of the Issuer in accordance with clause 18 of the Trust Deed within 90 calendar days of the Issuer being legally unable to perform its obligations in respect of the Notes (whether by reason of its insolvency or otherwise).

9 Enforcement

The Trust Deed provides that only the Trustee may pursue the remedies under the general law, the Trust Deed or the Notes to enforce the rights of the Noteholders and no Noteholder will be entitled to pursue such remedies unless the Trustee (having become bound to do so in accordance with the terms of the Trust Deed) fails to do so within a reasonable period and such failure is continuing.

At any time after an Event of Default has occurred and for as long as it is continuing, the Trustee may, at its discretion and without further notice, institute such proceedings and/or take such steps or actions against MMK as it may think fit to enforce the terms of the Trust Deed and/or the Notes, but the Trustee shall not be bound to institute such proceedings and/or take or omit to take any step or action unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least 25% in principal amount of the Notes outstanding and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. No Noteholder may proceed directly against the Issuer or MMK unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

10 Meetings of Noteholders; Modification of Notes and Trust Deed; Waiver; Substitution of the Issuer

(a) *Meeting of Noteholders*

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including any modification of, or any arrangement in respect of, the Notes, the Trust Deed or the Guarantee. Noteholders will be entitled to one vote per U.S.$1,000 in principal amount of Notes held by them. Such a meeting may be convened by the Issuer, MMK or the Trustee and shall be convened by the Issuer or by the Trustee, subject to its being indemnified and/or secured and/or prefunded to its satisfaction, upon the request in writing of holders of the Notes holding not less than one tenth of the aggregate principal amount of the outstanding Notes. The Trust Deed provides that special quorum provisions apply for meetings of Noteholders convened for the purpose of amending certain terms concerning, *inter alia*, the amount payable on, and the currency of payment in respect of, the Notes. Under the terms of the Trust Deed, an Extraordinary Resolution means a resolution passed at a meeting of the Noteholders duly convened and held in accordance with the provisions contained therein by (i) the affirmative vote of holders of outstanding (as defined in the Trust Deed) Notes present in person or represented by proxy or representative owning in the aggregate more than 50% in principal amount of the outstanding Notes owned by the Noteholders who are so present or represented at the meeting or (ii) in respect of an Extraordinary Resolution the business of which includes the modification of certain terms, conditions and provisions as listed in the proviso to paragraph 6 (Powers of Meetings) of Schedule 3 (Provisions for Meetings of the Noteholders) of the Trust Deed the affirmative vote of holders of outstanding Notes present in person or represented by proxy or representative owning in aggregate not less than two-thirds (2/3) in principal amount of the outstanding Notes owned by the Noteholders who are present or represented at the meeting. Any resolution duly passed at a meeting of Noteholders will be binding on all the Noteholders, whether present or not.

The Trust Deed provides that a Written Resolution signed by or on behalf of the holders of not less than 75% in principal amount of the outstanding Notes shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) *Modification and waiver*

The Trustee may agree, without the consent of the Noteholders, to any modification of the Notes, the Trust Deed or the Paying Agency Agreement which, in each case, in the sole opinion of the Trustee is of a formal, minor or technical nature, is made to correct a manifest error or (other than as mentioned in the Trust Deed) in the opinion of the Trustee is not materially prejudicial to the interests of the Noteholders.

The Trustee may also, without the consent of the Noteholders, waive or authorise or agree to the waiving or authorising of any breach or proposed breach by the Issuer or MMK of the Conditions, the Guarantee or the Trust Deed or determine that any event which would or might otherwise give rise to a right of acceleration under the Notes shall not be treated as such, if in the sole opinion of the Trustee, to do so would not be materially prejudicial to the interests of the Noteholders, provided always that the Trustee may not exercise such power of waiver in contravention of any request given by holders of 25% in aggregate principal amount of the Notes then outstanding or any express direction by Extraordinary Resolution. Any such modification, waiver, authorisation or determination shall be binding on the Noteholders and, unless the Trustee agrees otherwise, shall be promptly notified to the Noteholders in accordance with Condition 14.

(c) *Substitution*

The Trust Deed contains provisions to the effect that, following a written request being made by the Issuer and/or MMK, the Issuer may, with the consent of MMK, and further provided certain conditions have been met (as further set out in the Trust Deed), and subject to having complied with the requirements set out in the Trust Deed and such requirements as the Trustee may direct (without obtaining the consent of the Noteholders) in the interest of Noteholders, substitute any entity in place of the Issuer as issuer and principal obligor in respect of the Notes and as obligor under the Trust Deed. Not later than 14 days after compliance with the aforementioned requirements, notice thereof shall be given by the Issuer to the Noteholders in accordance with Condition 14, failing which the Issuer shall use its best endeavours to ensure that the substitute obligor does so.

(d) *Exercise of powers*

In connection with the exercise of any of its powers, trusts, authorities or discretions, the Trustee shall have regard to the interests of the Noteholders as a class and, in particular, shall not have regard to the consequences of such exercise for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. No Noteholder is entitled to claim from the Issuer, MMK or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

11 Prescription

Notes will become void unless presented for payment within 10 years (in the case of principal) or five years (in the case of interest) from the due date for payment in respect thereof.

12 Indemnification and Removal of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility in certain circumstances, including provisions relieving it from taking steps, actions or proceedings to enforce payment unless indemnified and/or secured and/or prefunded to its satisfaction, and to be paid its costs and expenses in priority to any claims of Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer and/or MMK and any entity relating to the Issuer and/or MMK without accounting for any profit.

The Trustee may rely without liability to Noteholders on a report, evaluation, information, confirmation or certificate or any opinion or advice of any accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or any other person or in any other matter) by reference to a monetary cap, methodology, or otherwise. The Trustee may accept and shall be entitled to rely on any such report, evaluation, information, confirmation, certificate, opinion or advice without liability and, if accepted, such report, evaluation, information, confirmation, certificate, opinion or advice shall be binding on the Issuer, MMK, the Trustee and the Noteholders.

The Trustee's responsibilities are solely those of trustee for the Noteholders on the terms of the Trust Deed. Accordingly, the Trustee makes no representations and assumes no responsibility for the performance by the Issuer or MMK of its obligations under or in respect of the Notes and the Trust Deed. The Trustee is entitled to assume that the Issuer and MMK are each performing all of their respective obligations pursuant to the Trust Deed, the Notes and the Guarantee (and shall have no liability for doing so) until it has express written knowledge to the contrary.

The Trustee shall have no liability to any Noteholder or any other person for any shortfall such Noteholder or other person may suffer if such Noteholder or other person is liable for tax in respect of any payments received by such Noteholder or other person or as a result of any enforcement by the Trustee.

The Trust Deed provides that the Noteholders shall together have the power, exercisable by Extraordinary Resolution, to remove the Trustee (or any successor trustee or additional trustees) provided that the removal of the Trustee or any other trustee shall not become effective unless there remains a Trustee in office after such removal.

13 Replacement of Notes

If a Definitive Certificate shall become mutilated, defaced, lost, stolen or destroyed it may, subject to all applicable laws and regulations and requirements of the Stock Exchange (or any other stock exchange on which the Notes are listed or quoted from time to time), be replaced at the specified office of the Transfer Agent in London or Registrar in Frankfurt on payment of such costs, expenses, taxes and duties as may be incurred in connection therewith and on such terms as to evidence, security and indemnity and otherwise as may reasonably be required by or on behalf of the Issuer and/or the Transfer Agent and/or Registrar. Mutilated or defaced Definitive Certificates must be surrendered before replacements will be issued.

14 Notices

All notices to Noteholders shall be deemed to have been validly given if published in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*) or, if such publication shall not be practicable, in an English language newspaper of general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which

such publication is made. The Issuer shall also ensure that all notices are duly published (if such publication is required) in a manner which complies with the rules and regulations of the Stock Exchange or any other stock exchange on which the Notes are for the time being listed and/or admitted to trading. Any such notice shall be deemed to have been given on the date of such notice or, if published more than once or on different dates, on the first date on which such notice is made.

In case by reason of any other cause it shall be impracticable to publish any notice to Noteholders as provided above, then such notification to such Noteholders as shall be given in accordance with the rules of the Stock Exchange (or any other stock exchange on which the Notes are listed or quoted from time to time) shall constitute sufficient notice to such Noteholders for every purpose hereunder.

15 Further Issues

The Issuer may (with the prior written consent of MMK) from time to time but without the consent of the Noteholders, create and issue further securities having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them, the date of issue and the amount of principal). References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and which form a single series with the Notes. Any such other securities shall be constituted by a deed supplemental to the Trust Deed and will benefit from a guarantee substantially in the form of the Guarantee given in respect of these Notes. Application will be made for such further securities to be listed and admitted to trading on the stock exchange on which the Notes are from time to time listed or quoted.

16 Provision of information

The Issuer and MMK shall, during any period in which they are not subject to or in compliance with the reporting requirements of Section 13 or 15(d) of the Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, duly provide to any holder of a Note which is a "restricted security" within the meaning of Rule 144(a)(3) under the Securities Act or to any prospective purchaser of such securities designated by such Noteholder, upon the written request of such Noteholder or (as the case may be) prospective Noteholder addressed to the Issuer or MMK, as the case may be, and delivered to the Issuer or MMK, as the case may be, or to the Specified Office of the Registrar, the information specified in Rule 144A(d)(4) under the Securities Act.

17 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

18 Governing Law and Arbitration

18.1 The Notes, these Conditions, the Trust Deed and any non-contractual obligations arising out of or in connection therewith, are governed by, and shall be construed in accordance with, English law. The Issuer and the Guarantor have in the Trust Deed agreed that any dispute, claim or difference of whatever nature arising out of or in connection with the Notes (including a dispute regarding the existence, validity or termination of the Notes or a dispute relating to non-contractual obligations arising out of or in connection with this Trust Deed or the Notes) (a "**Dispute**") shall be referred to and finally resolved by arbitration seated in London, England. The arbitration shall be conducted in the English language by three arbitrators, in accordance with the rules set down by the LCIA (formerly the London Court of International Arbitration) ("**LCIA Rules**") in effect at the time of the arbitration. The LCIA Rules are deemed to be incorporated by reference into this Condition. The claimant shall nominate an arbitrator in its request for arbitration, and the respondent shall nominate an arbitrator within

30 days of receipt of the request for arbitration. The two arbitrators so nominated shall jointly nominate a third arbitrator within 15 days of the nomination of the second arbitrator. The third arbitrator shall be the Chairman of the tribunal. If any of the three arbitrators is not nominated within the time periods prescribed above, any party may request that the LCIA chooses and appoints that arbitrator. Subject to sub-clause 18.2 below, the arbitration award shall be final and binding on the parties. The parties agree to exclude the jurisdiction of the English court under Section 45 of the Arbitration Act 1996.

18.2 The parties reserve the right of appeal from an award of the arbitral tribunal to any court having jurisdiction on any question of law under Section 69 of the Arbitration Act 1996. To the extent that it conflicts with this right, any provision of the LCIA Rules is hereby disapplied.

18.3 To the extent that the Issuer or MMK may now or hereafter be entitled, in any jurisdiction in which any legal action or proceeding may at any time be commenced pursuant to or in accordance with these Conditions, to claim for itself or any of its undertaking, properties, assets or revenues present or future any immunity (sovereign or otherwise) from suit, jurisdiction of any court, attachment prior to judgment, attachment in aid of execution of a judgment, execution of a judgment or award or from set-off, banker's lien, counterclaim or any other legal process or remedy with respect to its obligations under these Conditions and/or to the extent that in any such jurisdiction there may be attributed to the Issuer or MMK any such immunity (whether or not claimed), the Issuer and MMK hereby irrevocably agrees not to claim, and hereby waive, any such immunity (to the fullest extent permitted by the laws of such jurisdiction).

18.4 The Issuer agrees that the process by which any proceedings in England are begun may be served on it by being delivered to Law Debenture Corporate Services Limited at Fifth Floor, 100 Wood Street, London EC2V 7EX. If such person is not or ceases to be effectively appointed to accept service of process, the Issuer shall (i) immediately notify the Trustee and (ii) promptly appoint a further person in England to accept service of process on its behalf. Failing such appointment within 15 days of the notification referred to in (i) above, the Trustee shall be entitled to appoint such a person by written notice to the Issuer and delivered to the Issuer. Nothing in this Condition shall affect the right of the Trustee to serve process in any other manner permitted by law. This Condition applies to proceedings in England and to proceedings elsewhere.

18.5 MMK agrees that the process by which any proceedings in England are begun may be served on it by being delivered to Law Debenture Corporate Services Limited at Fifth Floor, 100 Wood Street, London EC2V 7EX. If such person is not or ceases to be effectively appointed to accept service of process, MMK shall (i) immediately notify the Trustee and (ii) promptly appoint a further person in England to accept service of process on its behalf. Failing such appointment within 15 days of the notification referred to in (i) above, the Trustee shall be entitled to appoint such a person by written notice to MMK and delivered to MMK. Nothing in this Condition shall affect the right of the Trustee to serve process in any other manner permitted by law. This Condition applies to proceedings in England and to proceedings elsewhere.

19 Non-Petition

None of the Trustee, the Noteholders or the other creditors (nor any other person acting on behalf of any of them) shall be entitled at any time to institute against the Issuer, or join in any institution against the Issuer of, any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, examinership, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Issuer relating to the Notes or otherwise owed to the creditors for so long as the Notes are outstanding, save for lodging a claim in the liquidation of

the Issuer which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Issuer.

No Noteholder shall have any recourse against any director, shareholder or officer of the Issuer in respect of any obligations, covenants or agreement entered into or made by the Issuer in respect of the Notes, other than in the case of fraud, wilful default or negligence.

20 Definitions

An **Affiliate** of any specified person means (a) any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person or (b) any other person who is a director or officer of such specified person, of any Subsidiary of such specified person or of any other person described in (a);

Business Day means a day on which (a) the London interbank market is open for dealings between banks generally and (b) if on that day a payment is to be made hereunder, commercial banks generally are open for business in Dublin, New York City, Moscow and in the city where the specified office of the Principal Paying Agent is located;

Closing Date means 13 June 2019;

Comparable Treasury Issue means the United States Treasury security selected by the Determination Agent as having a maturity comparable to the outstanding Notes from the Make Whole Optional Redemption Date to the Maturity Date, that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a maturity most nearly equal to the Maturity Date;

Comparable Treasury Price means, with respect to any Make Whole Optional Redemption Date, the average of three, or such lesser number as is obtained by the Determination Agent, Reference Treasury Dealer Quotations for the Make Whole Optional Redemption Date;

Determination Agent means a financial adviser or bank being a reputable financial institution operating in the United States Treasury securities market in New York City which is independent of MMK, appointed by MMK and at MMK's expense for the purpose of determining the Make Whole Redemption Amount;

Domestic Relevant Indebtedness means any Relevant Indebtedness which is not quoted, listed or ordinarily dealt in or traded on any stock exchange or any public or institutional securities market, in each case outside the Russian Federation;

Fair Market Value means the value that would be obtained in an arm's length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the appropriate governing body or officer of MMK or the relevant Subsidiary duly authorised to make such determination (as the case may be);

Group means MMK and its Subsidiaries for the time being;

IFRS means International Financial Reporting Standards (formerly International Accounting Standards) issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (as amended, supplemented or re-issued from time to time);

Indebtedness means, in respect of any person, any indebtedness for, or in respect of (without duplication):

(a) moneys borrowed;

(b) any amount raised by acceptance under any acceptance credit facility or dematerialised equivalent;

(c) any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument;

(d) any amount of money raised under any other transaction (including any forward sale or purchase agreement) having the commercial effect of a borrowing;

(e) the amount of any liability in respect of a capital lease that would be required to be capitalised on a balance sheet in accordance with IFRS and (without double counting) the amount of any liability in respect of any guarantee or indemnity (whether on or off balance sheet) for any of the items referred to above;

provided that, for the avoidance of doubt, Indebtedness shall not include (i) moneys raised by way of the issue of share capital (whether or not for cash consideration) and any premium on such share capital; (ii) Indebtedness among MMK and Subsidiaries or among Subsidiaries; and (iii) any trade credit extended to such person in connection with the acquisition of goods and/or services on arm's length terms and in the ordinary course of trading of that person;

Make Whole Redemption Amount means the higher of (a) the present value of the Notes at the Make Whole Optional Redemption Date and (b) the amount equal to the sum of (i) the present value of the Notes that are to be prepaid at the Make Whole Optional Redemption Date and (ii) the present value of the scheduled interest payments on such Notes from the Make Whole Optional Redemption Date to the Maturity Date in each case, discounted to the Make Whole Optional Redemption Date on a semi-annual compounded basis at the U.S. Treasury Rate plus 50 basis points, all as determined by the Determination Agent;

Material Adverse Effect means a material adverse effect on: (i) the financial condition or operations of the Group; (ii) MMK's ability to perform its payment or other material obligations under the Conditions and the Trust Deed; or (iii) the validity, legality or enforceability of the Conditions and the Trust Deed;

Material Subsidiary means any Subsidiary of MMK whose total assets, or as the case may be, total revenues, constitute ten per cent. (10%) of the Total Consolidated Assets or total revenues of the Group, as the case may be, determined by reference to the most recent consolidated financial statements of the Group, prepared in accordance with IFRS, and the most recent stand-alone reporting forms of the relevant Subsidiary, which were used for the purposes of preparing the consolidated financial statements of the Group in accordance with IFRS and, for the avoidance of doubt, excluding intra-Group items, in each case taking into account, on a pro-forma basis, any subsequent Reorganisation or merger referred to in Condition 3.2;

Officer's Certificate means a certificate signed by one authorised signatory of MMK or the Issuer (as applicable), and who shall be the chief executive officer or an authorised person (by virtue of a power of attorney);

Permitted Security Interest means:

(a) any Security Interests:

(i) existing on the Closing Date; or

(ii) securing Refinancing Indebtedness in respect of Indebtedness existing on the Closing Date, provided that such Security Interests are limited to all or part of the assets, undertaking, property or revenues that secured the original Indebtedness and that the aggregate principal amount of such Refinancing Indebtedness secured over such assets does not exceed the sum of (x) the aggregate principal amount of the Indebtedness being refinanced; (y) accrued

and unpaid interest on such Refinancing Indebtedness and (z) fees, premiums and other costs and expenses incurred in connection with such Refinancing Indebtedness;

(b) any Security Interest created or existing in respect of Domestic Relevant Indebtedness;

(c) any Security Interests:

  (i) existing on any undertaking, property, assets or revenues of any person at the time such person becomes a Subsidiary (as defined below) or such undertaking property, assets or revenues are acquired by MMK or any Subsidiary provided that such Security Interest was not created in contemplation of such event and that no such Security Interest shall extend to other undertaking property, assets or revenues of such person or the Group; or

  (ii) securing Refinancing Indebtedness in respect of the Indebtedness specified in paragraph (c)(i) above provided that such Security Interests are limited to all or part of the undertaking, assets, property or revenues that secured the original Indebtedness and that the aggregate principal amount of such Refinancing Indebtedness secured over such assets does not exceed the sum of (x) the aggregate principal amount of the Indebtedness being refinanced; (y) accrued and unpaid interest on such Refinancing Indebtedness and (z) fees, premiums and other costs and expenses incurred in connection with such Refinancing Indebtedness;

(d) any Security Interest on the undertaking, property, assets or revenues of MMK or any Subsidiary created or existing in respect of Relevant Indebtedness the principal amount of which (when aggregated with the principal amount of any other Relevant Indebtedness which then has the benefit of a Security Interest on the undertaking, property, assets or revenues of MMK or any Subsidiary) does not exceed 20% of Total Consolidated Assets; or

(e) any Security Interest created or existing in respect of any Indebtedness or other obligation or liability that is not Relevant Indebtedness;

Rate of Interest means interest in U.S. Dollars on the outstanding principal amount of the Notes at the rate of 4.375% per annum;

Reference Treasury Dealer means each of the three nationally recognised firms selected by the Determination Agent that are primary U.S. Government securities dealers;

Reference Treasury Dealer Quotations means with respect to each Reference Treasury Dealer and any Make Whole Optional Redemption Date, the average, as determined by the Determination Agent, of the bid and asked prices for the Comparable Treasury Issue, expressed in each case as a percentage of its principal amount, quoted in writing to the Determination Agent by such Reference Treasury Dealer at 5:00pm (New York City time) on the third business day (in New York City) immediately preceding such Make Whole Optional Redemption Date;

Refinance means, in respect of any Indebtedness, to refinance, extend, renew, refund, repay, prepay, purchase, redeem, defease or retire, or to issue other Indebtedness in exchange or replacement for, such Indebtedness. ***Refinanced*** and ***Refinancing*** shall have correlative meanings;

Refinancing Indebtedness means Indebtedness that is incurred to Refinance any existing Indebtedness, including Indebtedness that Refinances Refinancing Indebtedness;

Relevant Indebtedness means any present or future Indebtedness in the form of, or represented by, notes, debentures, bonds or other debt securities (but for the avoidance of doubt, excluding term or revolving loans (whether syndicated or unsyndicated), credit facilities, credit agreements and other similar facilities and evidence of indebtedness under such loans, facilities or credit agreements) which either are by their terms payable, or confer a right to receive payment, in any currency and are for the time being, or ordinarily are quoted, listed or ordinarily dealt in or traded on any stock exchange or any public or institutional securities market;

Security Interest means any mortgage, charge, pledge, lien or other form of encumbrance or security interest securing any obligation of any person;

Subsidiary means any corporation or other business entity of which MMK owns or controls (either directly or through one or more Subsidiaries) more than 50% of the issued share capital or other ownership interest having ordinary voting power to elect a majority of the directors, managers or trustees of such corporation or other business entity;

Total Consolidated Assets means the total amount of assets appearing on the consolidated balance sheet of the Group, prepared in accordance with IFRS, as of the date of the most recently prepared consolidated financial statements of the Group, prepared in accordance with IFRS;

U.S. Treasury Rate means either (i) the rate per annum equal to the yield, under the heading that represents the average for the week immediately preceding the third business day (in New York City) prior to the Make Whole Optional Redemption Date, appearing in the most recently published statistical release designated "H.15(519)" or any successor publication that is published weekly by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption "Treasury Constant Maturities" for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three months before or after the Maturity Date, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue shall be determined and the U.S. Treasury Rate shall be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month) or (ii) if such release (or any successor release) is not published during the week preceding the third business day (in New York City) prior to the relevant date or does not contain such yields, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for the Make Whole Optional Redemption Date, in each case calculated on the third business day (in New York City) immediately preceding the Make Whole Optional Redemption Date.

SUMMARY OF THE PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

Form of the Global Note Certificates

The Regulation S Notes will be evidenced on issue by the Regulation S Global Note Certificate registered in the nominee name of a common depositary for, and deposited with a common depository on behalf of, Euroclear and Clearstream, Luxembourg. Beneficial interests in the Regulation S Global Note Certificate may be held only through Euroclear or Clearstream, Luxembourg at any time. See "*Clearing and Settlement—Book-Entry Procedures for the Global Note Certificates*". By acquisition of a beneficial interest in the Regulation S Global Note Certificate, the purchaser thereof will be deemed to represent, among other things, that it is not a U.S. person, that it is located outside the United States and that, if it determines to transfer such beneficial interest prior to the expiration of the "distribution compliance period" (as such term is defined in Rule 902 of Regulation S), it will transfer such interest only (a) to a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (b) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB that is also a QP purchasing for its own account or the account of a QIB that is also a QP, in each case in accordance with any applicable securities laws of any state of the United States. See "Transfer Restrictions".

The Rule 144A Notes will be evidenced on issue by the Rule 144A Global Note Certificate deposited with a custodian for, and registered in the name of a nominee of, DTC. Beneficial interests in the Rule 144A Global Note Certificate may only be held through DTC at any time. See "*Clearing and Settlement—Book-Entry Procedures for the Global Note Certificates*". By acquisition of a beneficial interest in the Rule 144A Global Note Certificate, the purchaser thereof will be deemed to represent, among other things, that it is a QIB and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Trust Deed. See "*Transfer Restrictions*".

Beneficial interests in Global Note Certificates will be subject to certain restrictions on transfer set forth therein and in the Trust Deed and the Global Note Certificates will bear the applicable legends regarding the restrictions set forth under "Transfer Restrictions". A beneficial interest in the Regulation S Global Note Certificate may be transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note Certificate only in denominations greater than or equal to the minimum denominations applicable to interests in the Rule 144A Global Note Certificate and only upon receipt by the Transfer Agent or the Registrar of a written certification (in the form provided in a paying agency agreement relating to the Notes dated on or about 13 June 2019 (the "**Paying Agency Agreement**") to the effect that the transferor reasonably believes that the transferee is a QIB and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. Beneficial interests in the Rule 144A Global Note Certificate may be transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note Certificate only upon receipt by the Transfer Agent or the Registrar of a written certification (in the form provided in the Paying Agency Agreement) from the transferor to the effect that the transfer is being made in an offshore transaction in accordance with Regulation S.

Any beneficial interest in the Regulation S Global Note Certificate that is transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note Certificate will, upon transfer, cease to be an interest in the Regulation S Global Note Certificate and become an interest in the Rule 144A Global Note Certificate, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Rule 144A Global Note Certificate for as long as it remains such an interest. Any beneficial interest in the Rule 144A Global Note Certificate that is transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note Certificate will, upon transfer, cease to be an interest in the Rule 144A Global Note Certificate and become an interest in the Regulation S Global Note Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Regulation S Global Note Certificate for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Notes, but the Transfer Agent or the Registrar

as applicable may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Except in the limited circumstances described below, owners of beneficial interests in Global Note Certificates will not be entitled to receive physical delivery of Definitive Certificates. The Notes are not issuable in bearer form.

Exchange for Definitive Certificates

Certificates Exchange

Subject to receipt by the Issuer of the funds necessary to cover the cost realised from MMK, each Global Note Certificate will be exchangeable, free of charge to the holder, on or after its Exchange Date (as defined below), in whole but not in part, for Notes in definitive form if: (i) a Global Note Certificate is held by or on behalf of (A) DTC, and DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depository with respect to the Global Note Certificate or ceases to be a "clearing agency" registered under the Exchange Act or if at any time it is no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility on the part of DTC or (B) Euroclear or Clearstream, Luxembourg, as the case may be, is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention to permanently cease its business or does in fact do so, by the holder giving notice to the Registrar or the Transfer Agent and the Issuer or (ii) the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 7 which would not be suffered were the Notes in definitive form and a note to such effect signed by the requisite number of signatories of the Issuer is delivered to the Trustee, by the Issuer giving notice to the Registrar or the Transfer Agent and the Noteholders of its intention to exchange the relevant Global Note Certificate for Definitive Certificates on or after the Exchange Date (as defined below) specified in the notice.

The Registrar will not register the transfer of, or exchange of interests in, a Global Note Certificate for Definitive Certificates for a period of 15 calendar days ending on the date for any payment of principal or interest in respect of the Notes.

If only one of the Global Note Certificates (the "**Exchanged Global Note Certificate**") becomes exchangeable for Definitive Certificates in accordance with the above paragraphs, transfers of Notes may not take place between, on the one hand, persons holding Definitive Certificates issued in exchange for beneficial interests in the Exchanged Global Note Certificate and, on the other hand, persons wishing to purchase beneficial interests in the other Global Note Certificate.

"**Exchange Date**" means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar and the Transfer Agent is located.

Delivery

In such circumstances, the relevant Global Note Certificate shall be exchanged in full for Definitive Certificates and the Issuer will, at the cost of the Issuer (and against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in a Global Note Certificate must provide the Registrar with (a) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and authenticate (as applicable) and deliver such Notes and (b) in the case of the Rule 144A Global Note Certificate only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that

the transfer is being made in compliance with the provisions of Rule 144A to a QIB that is also a QP. Definitive Certificates issued in exchange for a beneficial interest in the Rule 144A Global Note Certificate shall bear the legend applicable to transfer pursuant to Rule 144A, as set forth under "Transfer Restrictions".

Legends

The holder of a Definitive Certificate may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or the Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Rule 144A Definitive Certificate bearing the legend referred to under "Transfer Restrictions", or upon specific request for removal of the legend on a Rule 144A Definitive Certificate, the Issuer will deliver only Rule 144A Definitive Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act and the Investment Company Act.

In addition, each Global Note Certificate will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Notes evidenced by the Global Note Certificate. The following is a summary of these provisions:

Payments

Payments of principal and interest in respect of Notes evidenced by a Global Certificate shall be made to the person who appears at the relevant time on the register of Noteholders as holder of the relevant Global Certificate against presentation and (if no further payment falls to be made on it) surrender thereof to or to the order of the Principal Paying Agent (or to or to the order of such other Paying Agent as shall have been notified to the Noteholders for this purpose) which shall endorse such payment or cause such payment to be endorsed in Schedule A to the relevant Global Certificate (such endorsement being *prima facie* evidence that the payment in question has been made). No person shall however be entitled to receive any payment on the relevant Global Certificate falling due after the Exchange Date, unless the exchange of the relevant Global Certificate for the relevant Definitive Certificates is improperly withheld or refused by or on behalf of the Issuer.

Notices

Notwithstanding Condition 14, so long as the Global Note Certificate is held by or on behalf of DTC, Euroclear, Clearstream, Luxembourg or any other clearing system (an "**Alternative Clearing System**"), notices to Noteholders represented by the Global Note Certificate may be given by delivery of the relevant notice to DTC, Euroclear, Clearstream, Luxembourg or (as the case may be) such Alternative Clearing System provided that, for so long as the Notes are listed, all notices will also be given in accordance with the rules of the relevant stock exchange.

Issuer's Option

Any option of the Issuer provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note Certificate shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required. In the event that any option of the Issuer is exercised in respect of some but not all of the Notes, the rights of accountholders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear, Clearstream, Luxembourg, DTC or any other clearing system (as the case may be).

Record Date

All payments in respect of Notes represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where "**Clearing System Business Day**" means (i) in respect of the Regulation S Global Note Certificate, held on behalf of Euroclear or Clearstream, Luxembourg, a day when Euroclear or Clearstream, Luxembourg is open for business and (ii) in respect of a the Rule 144A Global Note Certificate held on behalf of DTC, a day when DTC is open for business.

Meetings

The holder of the Global Certificate will be treated as being one person for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and in any such meeting as having one vote in respect of each U.S.$1,000 in principal amount of Notes represented by the relevant Global Certificate.

Trustee's Powers

In considering the interests of Noteholders whilst the Global Certificate is held on behalf of a clearing system, the Trustee, to the extent it considers it appropriate to do so in the circumstances, may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to the Global Certificate and may consider such interests as if such accountholders were the holders of the Global Certificate.

Cancellation

Cancellation of any Note required by the Terms and Conditions of the Notes to be cancelled will be effected by reduction in the principal amount of the Global Certificate by a record made in the Register.

Prescription

Claims in respect of principal, interest and other amounts payable in respect of the Global Certificates will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest or any other amounts) from the due date for payment in respect thereof.

Benefit of the Conditions

Unless a Global Certificate has been exchanged or cancelled the holder hereof shall, except as provided in the relevant Global Certificate, be entitled to the same rights and benefits and subject to the Conditions as if such holder were the holder of the relevant Definitive Certificates for which the Global Certificate may be exchanged. Each Global Certificate shall not be valid or become obligatory for any purpose until authenticated by or on behalf of the Registrar.

The Global Certificates and any non-contractual obligations arising out of or in connection with them shall be governed by and construed in accordance with English law.

TAXATION

The following is a general description of certain tax considerations relating to the Notes and does not purport to be a comprehensive discussion of the tax treatment of the Notes. Prospective investors in the Notes should consult their own tax advisors as to the tax consequences of the purchase, ownership and disposition of the Notes in light of their particular circumstances, including but not limited to the consequences of receipt of interest and sale or redemption of the Notes.

The Russian Federation

Taxation of the Notes

General

The following is an overview of certain Russian tax considerations relevant to the purchase, ownership and disposal of the Notes as well as the taxation of payments under the Guarantee. The overview is based on the laws of the Russian Federation in effect on the dates of this Prospectus, which are subject to potential change (possibly with retroactive effect). The overview does not seek to address the applicability of, or procedures in relation to, taxes levied by regions, municipalities or other non-federal level authorities of the Russian Federation, nor does it seek to address the availability of double tax treaty relief in respect of income payable on the Notes, or practical difficulties connected with claiming such double tax treaty relief.

Prospective investors should consult their own tax advisers regarding the tax consequences of investing in the Notes that may arise in their own particular circumstances. No representation with respect to the Russian tax consequences of investing, owning or disposing of the Notes pertinent to any particular Noteholder is made hereby.

Many aspects of the Russian tax laws are subject to significant uncertainty and lack of interpretive guidance, resulting in inconsistent interpretations and application thereof. Further, provisions of the Russian Tax Code applicable to financial instruments and the interpretation and application of those provisions by the Russian tax authorities may be subject to more rapid and unpredictable changes (possibly with retroactive effect) and inconsistent interpretation than in jurisdictions with more developed capital markets or more developed taxation systems. In particular, the interpretation and application of such provisions will in practice rest substantially with local tax inspectorates and relevant interpretations may constantly change. In practice, interpretation by different tax inspectorates may be inconsistent or contradictory, and may result in the imposition of conditions, requirements or restrictions that are not explicitly stated in the Russian Tax Code. Similarly, in the absence of binding precedents, court rulings on tax or other related matters taken by different Russian courts relating to the same or similar facts and circumstances may also be inconsistent or contradictory.

For the purposes of this overview, the term Resident Noteholder means:

(a) a Noteholder which is a legal entity or an organisation and is:

  (i) a Russian legal entity;

  (ii) a foreign legal entity or organisation recognised as a Russian tax resident based on Russian domestic law (if the Russian Federation is recognised as the place of management of such legal entity or organisation as determined in the Russian Tax Code unless otherwise envisaged by an applicable double tax treaty);

  (iii) a foreign legal entity or organisation which holds and/or disposes of the Notes through its permanent establishment in the Russian Federation (a "Legal Entity Resident Noteholder"), and

(b) an Individual Noteholder and is actually present in Russia in total 183 calendar days or more in any period comprised of 12 consecutive months (an "Individual Resident Noteholder").

Presence in the Russian Federation is not considered interrupted if an individual departs for short periods (less than six months) from the Russian Federation for medical treatment or education purposes as well as for the employment or other duties related to the performance of works (services) on offshore hydrocarbon fields. The interpretation of this definition by the Ministry of Finance of the Russian Federation states that, for tax withholding purposes, an individual's tax residence status should be determined on the date of the income payment (based on the number of days spent in the Russian Federation in the 12-month period preceding the date of the payment). An individual's final tax liability in the Russian Federation for any reporting calendar year should be determined based on the number of days spent in the Russian Federation in such calendar year.

For the purposes of this overview, the term "**Non-Resident Noteholder**" means any Noteholder (including any individual (the "**Individual Non-Resident Noteholder**") and any legal entity or an organisation (the "Legal Entity Non-Resident Noteholder")) that does not qualify as a Resident Noteholder.

The Russian tax treatment of payments under the Guarantee made by MMK to the Trustee under the Trust Deed may affect the holders of the Notes. See "- *Taxation of Payments under the Guarantee*" below.

Noteholders should seek professional advice on their tax status in Russia.

Legal Entity Non-Resident Noteholders

Acquisition of the Notes

The acquisition of the Notes by a Legal Entity Non-Resident Noteholder (whether upon issuance or in the secondary market) should not trigger any Russian tax implications for the Legal Entity Non-Resident Noteholder.

Disposal of the Notes

A Legal Entity Non-Resident Noteholder generally should not be subject to any Russian taxes in respect of gain or other income realised on sale, redemption or a disposal of the Notes, provided that no portion of proceeds from such sale, redemption or other disposal of the Notes is received from either a source within the Russian Federation or from a Russian tax resident which is a legal entity and no portion thereof is attributable to accrued interest. Any portion of such proceeds received from either a source within the Russian Federation or from a Russian tax resident which is a legal entity attributable to accrued interest may be subject to Russian withholding tax at a rate of 20% even if the sale, redemption of disposal itself results in a capital loss, subject to the provisions outlined in Section "*Double Tax Treaty Relief*" below.

Legal Entity Non-Resident Noteholders should consult their tax advisers with respect to the tax consequences of the acquisition and disposal of the Notes and the tax consequences of the receipt of proceeds from a source within the Russian Federation in respect of a sale, redemption or other disposal of the Notes and applicability of double tax treaty relief.

Individual Non-Resident Noteholders

(iv) Acquisition of the Notes

The taxation of income of Individual Non-Resident Noteholders will depend on whether the income is characterised as received from a Russian or non-Russian source. In certain circumstances, the acquisition of the Notes by Individual Non-Resident Noteholders (either at original issuance if the Notes are not issued at par, or in the secondary market) may constitute a taxable event for Russian personal income tax purposes. In particular, if Individual Non-Resident Noteholders acquire the Notes in the Russian Federation or from a Russian entity and the acquisition price of the Notes is below fair market value (calculated under a specific procedure for the determination of market prices of securities

for Russian personal income tax purposes), this may constitute a taxable event pursuant to the provisions of the Russian Tax Code relating to material benefit (deemed income) received by individuals as a result of acquiring securities. Although the Russian Tax Code does not contain any provisions as to how the source of the related material benefit should be determined, in practice the Russian tax authorities may infer that such income should be considered as Russian-source income if the Notes are purchased "in the Russian Federation". In the absence of any additional guidance as to what should be considered as a purchase of securities in the Russian Federation, the Russian tax authorities may apply various criteria, including looking at the place of conclusion of the acquisition transaction, the location of the seller, or other similar criteria. In such a case, Individual Non-Resident Noteholders may be subject to Russian personal income tax at a rate of 30% on an amount equal to the difference between the fair market value and the purchase price of the Notes.

The tax may be withheld at source of payment or, if the tax is not withheld, the Individual Non-Resident Noteholder may be required to declare its income in the Russian Federation by filing a tax return and paying the tax or based on a tax assessment received from the Russian tax authorities, depending on the circumstances.

(v) Disposal of the Notes

Individual Non-Resident Noteholder generally should not be subject to any Russian taxes in respect of gain or other income realised on a redemption, sale or disposal of the Notes outside the Russian Federation, provided that the proceeds of such sale, redemption, or other disposal of the Notes are not received from either a source within the Russian Federation or from a Russian legal entity that qualifies as a tax agent for Russian personal income tax purposes (generally, a licensed broker or an asset manager that carries out operations in the Russian Federation in the interests of an Individual Non-Resident Noteholder under an asset management agreement, a brokerage service agreement, an agency agreement or a commission agreement).

If proceeds from the sale, redemption or other disposal of the Notes, including any portion of such proceeds attributable to accrued interest income under the Notes, are received either from a Russian source or from a Russian legal entity qualifies as a tax agent for Russian personal income tax purposes, an Individual Non-Resident Noteholder will generally be subject to Russian personal income tax at a rate of 30%, in respect of the gross proceeds from such sale, redemption or other disposal less any available deduction of expenses incurred by the Noteholder (which includes the purchase price of the Notes) subject to any available double tax treaty relief, as discussed below in "*Double Tax Treaty Relief*".

Income received from a sale, redemption or disposal of securities should be treated as having been received from a Russian source if such a sale, redemption or disposal occurs in the Russian Federation. In the absence of any guidance as to what should be considered as a sale or other disposal of securities "in the Russian Federation", the Russian tax authorities may apply various criteria in order to determine the source of the sale or other disposal, including looking at the place of conclusion of the transaction, the location of the buyer, or other similar criteria. There is no assurance, therefore, that proceeds received by Individual Non-Resident Noteholders from a sale, redemption or disposal of the Notes will not become subject to tax in the Russian Federation.

Further, there is a risk that, if the documentation supporting the cost deductions is deemed insufficient by the Russian tax authorities or by the person remitting the proceeds to an Individual Non-Resident Noteholder (where such person is considered the tax agent, obliged to calculate and withhold Russian personal income tax and remit it to the Russian budget), the cost deductions may be disallowed and the tax will apply to the gross amount of the sale, redemption or disposal proceeds.

In certain circumstances, if the sale and/or disposal proceeds (including accrued interest on the Notes) are paid to an Individual Non-Resident Noteholder by a licensed broker or an asset manager that carries out operations in the Russian Federation in the interests of an Individual Non-Resident Noteholder under an asset management agreement, a brokerage service agreement, an agency

agreement or a commission agreement, the applicable Russian personal income tax at the rate of 30% (or such other tax rate as may be effective at the time of payment) should be withheld at source by such entity who will be considered as the tax agent. The withholding tax rate should be applied to the difference between the proceeds paid to the Individual Non-Resident Noteholder and the amount of duly documented deductions relating to the original purchase cost and related expenses incurred by the Noteholder on the purchase, holding and sale of the Notes to the extent that such deductions and expenses can be determined by the entity making the payment. The entity making the payment would be required to report to the Russian tax authorities the income received by and a deduction allowed to the Individual Non-Resident Noteholder and tax withheld upon the sale/ disposal of the Notes.

If a Russian personal income tax obligation arises as a result of the sale, redemption or other disposal of the Notes but the tax has not been withheld in the absence of a tax agent, an Individual Non-Resident Noteholder is required to file a personal income tax return in the Russian Federation to report the amount of income received to the Russian tax authorities and apply for a deduction in the amount of the acquisition cost and other expenses related to the acquisition, holding, sale or other disposal of the Notes, based on the provision of supporting documentation. The applicable personal income tax will then have to be paid by the individual on the basis of the filed personal income tax return.

If a Russian personal income tax obligation arises as a result of the sale, redemption or other disposal of the Notes but the tax agent was not able to withhold the tax and reported this fact to the Russian tax authorities, the tax is payable by the Individual Non-Resident Noteholder based on a tax assessment issued by the Russian tax authorities.

Under certain circumstances, gains received and losses incurred by an Individual Non-Resident Noteholder as a result of the sale, redemption or other disposal of the Notes and other securities of the same category (i.e., securities qualified as traded or non-traded for Russian personal income tax purposes) occurring within the same tax year may be aggregated for Russian personal income tax purposes, which would affect the total amount of personal income of an Individual Non-Resident Noteholder subject to taxation in the Russian Federation.

Since the sale, redemption or other disposal proceeds and deductible expenses for Russian tax purposes are calculated in roubles, the taxable base may be affected by fluctuations in the exchange rates between the currency in which the Notes were acquired, the currency in which the Notes were sold, and roubles, i.e. there could be a loss or no gain in the currency of the Notes but a gain in roubles which could be potentially subject to taxation.

Individual Non-Resident Noteholders should consult their tax advisers with respect to the tax consequences of the acquisition and disposal of the Notes and the tax consequences of the receipt of proceeds from a source within the Russian Federation in respect of a sale, redemption or other disposal of the Notes.

Resident Noteholders

A Resident Noteholder will generally be subject to all applicable Russian taxes and responsible for complying with any documentation requirements that may be established by law or practice in respect of gain from the sale, redemption or other disposal of the Notes and interest income received on the Notes. Resident Noteholders should consult their own tax advisors with respect to the effect that the acquisition, holding and disposal of the Notes may have on their tax position.

(vi) Legal Entity Resident Noteholders

A Legal Entity Resident Noteholder should, prima facie, be subject to Russian profits tax at the rate of up to 20% on interest (coupon) income on the Notes as well as on the capital gain from the sale, redemption or other disposal of the Notes. Generally, Legal Entity Resident Noteholders are required to submit Russian profits tax returns, and assess and pay tax on capital gains and interest (coupon) income.

(vii) Individual Resident Noteholders

An Individual Resident Noteholder should generally be subject to personal income tax at a rate of 13% on (i) deemed income resulting from the acquisition of the Notes at a price below fair market value, (ii) on interest (coupon) income on the Notes and (iii) income received from the sale, redemption or other disposal of the Notes. If such income is paid to an Individual Resident Noteholder by a tax agent, the applicable Russian personal income tax of 13% should be withheld at source by such tax agent. For the purposes of taxation of interest (coupon) income and income received from a sale, redemption and/or other disposal of the Notes, a tax agent is inter alia a licensed broker or an asset manager who carries out operations in the interest of an Individual Resident Noteholder under an asset management agreement, a brokerage service agreement, an agency agreement or a commission agreement, or in certain cases a Russian organisation (e.g. the Issuer), which makes payments under the notes. If the Russian personal income tax has not been withheld (if there was no tax agent) Individual Resident Noteholders are required to submit annual personal income tax returns, assess and pay the tax. If the tax agent in Russia was not able to withhold the tax and reported this fact to the Russian tax authorities, the tax is payable by the Individual Resident Noteholder based on a tax assessment issued by the Russian tax authorities.

Taxation of Principal and Interest under the Notes paid by the Issuer to the Non-Resident Noteholders

Legal Entity Non-Resident Noteholders generally should not be subject to any Russian taxes in respect of payments of principal on the Notes received from the Issuer.

Payments under the Notes may be subject to Russian withholding tax if the Issuer is treated as a Russian tax resident or if the Issuer's activities lead to creation of a permanent establishment for the Issuer in the Russian Federation. In these cases payments of interest under the Notes made by the Issuer to the Non-Resident Noteholders could be recognised by Russian tax authorities as subject to Russian withholding tax at a rate of 20% (or 30% in respect of Individual Non-Resident Noteholders).

However, the Russian Tax Code provides an exemption from the obligation to withhold tax from interest paid by a Russian organisation to Legal Entity Non-Resident Noteholders under the “quoted bonds” issued in accordance with the legislation of the foreign jurisdiction (this exemption is also applicable to the foreign organisations, which are either recognised as Russian tax residents, or as those organisations, which activities lead to creation of a permanent establishment in the Russian Federation).

For the purpose of the Russian Tax Code, “quoted bonds” means bonds and other debt obligations (1) which passed the listing procedure and/or (2) which were admitted to circulation on one or more foreign stock exchanges and/or (3) rights to which are recorded by a foreign depositary clearing organisation, provided such foreign stock exchanges and depositary clearing organisations are specified in the list of foreign financial intermediaries (the "List"). The List includes Euronext Dublin amongst the recognised foreign stock exchanges and Euroclear, the Depository Trust & Clearing Corporation (“**DTCC**”) and Clearstream, Luxembourg amongst the recognised foreign depositary clearing organisations. While DTCC is mentioned in the List, the List does not explicitly mention Depository Trust Company (“**DTC**”). According to the shareholding structure of DTCC group, DTC is a member entity of DTCC. However, there is a residual risk that the Russian tax authorities may apply a formalistic approach and take a position that DTC is not included in the List based on the fact that it is not explicitly mentioned in the List.

Criteria (1) and (2) should be satisfied as the Notes will be listed on Euronext Dublin. The Notes should satisfy criterion (3) because the rights to the Notes will be held in Euroclear and Clearstream, Luxembourg and/ or DTC, which for the purposes of the Russian Tax Code essentially should mean that the rights to the Notes are “recorded” with one of the above foreign depositary clearing organisations. According to the Russian Tax Code, in order to be treated as "quoted bonds" fulfilment

of one of the above criteria is sufficient. Therefore, the Notes should be recognised as "quoted bonds" for purposes of the Russian Tax Code.

If the Issuer's activities lead to a creation of a permanent establishment for the Issuer in the Russian Federation, the payments under the Notes (including interest and principal amounts under the Notes) made by the Issuer to Individual Non-Resident Noteholders less any available cost deduction could be subject to Russian taxation at a rate of 30% subject to any available double tax treaty relief (for details see "- *Double Tax Treaty Relief*").

Also, if the Issuer is treated as a Russian tax resident, or if the Issuer's activities lead to creation of a permanent establishment in the Russian Federation, the Issuer will be fully subject to all applicable Russian taxes in accordance with the Russian tax law and will be exposed to all of the risks and implications associated with the Russian tax system. Such Russian tax consequences could have a material adverse effect on the Issuer's business, financial condition and results of operations and the Issuer's ability to make payments under, or the trading price, of the Notes.

Taxation of Payments under the Guarantee made by MMK

Russian withholding tax

(viii) Non-Resident Noteholders

Payments following the enforcement of the Guarantee to be made by MMK to Non-Resident Noteholders to the extent relating to interest on the Notes are likely to be characterised as Russian-source income. Accordingly, such payments should be subject to withholding tax at a rate of 20% in the event that a payment under the Guarantee is made to a Legal Entity Non-Resident Noteholder which is not organised under Russian law and which holds the Notes otherwise than through a permanent establishment in the Russian Federation, subject to the provisions outlined in Section "*Double Tax Treaty Relief*" below. In the event a payment under the Guarantee is characterised as Russian-source income and is made to an Individual Non Resident Noteholder, such payment may be subject to personal income tax at a rate of 30%, subject to the provisions outlined in Section "*Double Tax Treaty Relief*" below.

The Issuer and MMK cannot offer any assurance that: (i) double tax treaty advance relief (or a refund of any taxes withheld) will be available to a Non-Resident Noteholder with respect to payments under the Guarantee or (ii) that such withholding tax would not be imposed upon the entire payment under the Guarantee, including with respect to the principal amount of the Notes. The imposition or the possibility of the imposition of this withholding tax could adversely affect the value of the Notes.

Under the gross up provisions for the Notes, if payments made under the Guarantee are subject to any withholding taxes for any reason (as a result of which MMK would be obligated to reduce the payments to be made under the Guarantee by the amount of such taxes to be withheld), MMK is required to increase the payments as may be necessary so that the net amounts received in respect of such payments after such withholding or deduction will equal the respective amounts that would have been received in respect of such payments in the absence of such withholding or deduction. It is currently unclear whether the provisions obliging MMK to gross-up payments will be enforceable in the Russian Federation. There is a risk that the tax gross-up for withholding tax will not take place and that the full amount of the payments made by MMK will be subject to reduction by the Russian income tax at a rate of 20% (or 30% in respect of Individual Non-Resident Noteholders).

Non-Resident Noteholders should consult their tax advisors with respect to the tax consequences of the receipt of payments under the Guarantee, including applicability of any available double tax treaty relief.

Resident Noteholders

A Resident Noteholder is subject to all applicable Russian taxes and responsible for complying with any documentation requirements that may be established by law or practice in respect of payments to be received by such Noteholder under the Guarantee.

Resident Noteholders should consult their tax advisers with respect to the tax consequences of the receipt of payments under the Guarantee.

Russian VAT

Payments under the Guarantee to be made by MMK attributable to the principal amount or interest under the Notes and the additional tax gross-up amounts, should not be subject to Russian VAT. The payments under the Guarantee attributable to compensation of other expenses (if any) could be subject to Russian VAT.

All payments made by MMK with respect to the Guarantee will, except in certain limited circumstances, be made free and clear of and without withholding or deduction for, or on account of, any present or future taxes unless the withholding or deduction for, or on account of, such taxes is then required by law. In the event of such a deduction or withholding, MMK, as applicable, will pay such additional amounts as may be necessary in order that the net amounts received in respect of such payments after such withholding or deduction will equal the respective amounts that would have been received in respect of such payments in the absence of such withholding or deduction. While the Prospectus provide for MMK to pay such corresponding amounts in these circumstances, it is unclear whether a tax gross-up clause such as that contained in the Prospectus are enforceable in the Russian Federation. There is a risk that the tax gross-up for VAT will not take place and that the portion of the payments under the Guarantee attributable to compensation of other expenses (if any) made by MMK, which is a Russian legal entity, will be reduced by Russian VAT at a rate of 20%.

Noteholders should consult their tax advisers with respect to the Russian VAT consequences of the receipt of payments under the Guarantee.

Double Tax Treaty Relief

Advance relief

The Russian Federation has concluded double tax treaties with a number of countries. These double tax treaties may contain provisions that allow for the reduction or elimination of Russian withholding taxes with respect to income or proceeds received by Non-Resident Noteholders from a source within Russia, including income or proceeds from the sale, redemption or other disposal of the Notes. To the extent double tax treaty relief is available and the Russian Tax Code requirements are met (i.e. the "beneficial ownership" concept and the concept of the "tax residency"), a Non-Resident Noteholder must comply with the information, documentation and reporting requirements which are then in force in the Russian Federation in order to obtain such relief.

A Legal Entity Non-Resident Noteholder who is the beneficial owner of income or proceeds in terms of an applicable double tax treaty and the Russian Tax Code would need to provide the payer of the income or proceeds with a certificate of tax residence issued by the competent tax authority of the relevant treaty country in advance of payment of income or proceeds in order to obtain a relief from Russian withholding taxes under a double tax treaty. This certificate should confirm that the respective Legal Entity Non-Resident Noteholder is a tax resident of the relevant double tax treaty country in the particular calendar year during which the income or proceeds is paid. This certificate should be apostilled or legalised and needs to be renewed on an annual basis. A notarised Russian translation of the certificate may be required. However, the payer of the income or proceeds in practice may request additional documents confirming the eligibility of the Legal Entity Non-Resident Noteholder for the benefits of the double tax treaty. In addition, in order to enjoy benefits under an applicable double tax treaty, the person claiming such benefits must be the beneficial owner of the relevant income or

proceeds according to the respective requirements of the Russian Tax Code. In addition to a certificate of tax residency, the Russian Tax Code obliges the Legal Entity Non-Resident Noteholder to provide the tax agent with a confirmation that it is the beneficial owner of the relevant income or proceeds in advance of payment of income or proceeds. As of the date of this Prospectus, there has been no guidance on the form of such confirmation and it is at the moment unclear how these measures will be applied in practice. Due to introduction of these changes, there can be no assurance that the treaty relief at source will be available in practice.

Currently, in order to obtain a full or partial exemption from taxation in Russia under an applicable double tax treaty at source, an Individual Non-Resident Noteholder should confirm to a tax agent that he or she is a tax resident in a relevant foreign jurisdiction having a double tax treaty with the Russian Federation by providing the tax agent with (i) a passport of a foreign resident, or (ii) another document envisaged by an applicable federal law or recognised as a personal identity document of a foreign resident in accordance with an international treaty, and (iii) if such passport/document does not confirm tax resident status in a foreign country, upon request of the tax agent, an official confirmation issued by the competent authorities evidencing his or her status of a tax resident in the respective country. A notarised Russian translation of such official confirmation is required. The above provisions are intended to provide a tax agent with the opportunity of applying reduced (or zero) withholding tax rates under an applicable double tax treaty at source.

Non-Resident Noteholders should consult their own tax advisers with respect to the applicability of any double tax treaty relief and the relevant procedures required in Russia.

Refund of Tax Withheld

If (i) Russian withholding tax on income derived from either Russian sources, or from a Russian tax resident, which is a legal entity by a Non-Resident Noteholder has been withheld at source or (ii) tax on such income has been paid by a Non-Resident Noteholder on the basis of a tax return, and such Non-Resident Noteholder is entitled to relief from tax on such income under an applicable double tax treaty allowing it not to pay the tax or to pay the tax at a reduced rate, a claim for a refund of such tax can be filed within three years from the end of the tax period in which the tax was withheld or paid (subject to limitations described below).

In order to obtain a refund, the Legal Entity Non-Resident Noteholder would need to file with the Russian tax authorities a duly notarised, apostilled and translated certificate of tax residence issued by the competent tax authority of the relevant double tax treaty country and other documents confirming the right for a refund under the Russian Tax Code (including the above Russian Tax Code requirements under the “beneficial ownership” concept).

If an Individual Non-Resident Noteholder wishes to obtain a refund, he or she should provide a claim for a refund of the tax withheld and documents confirming the right for a refund under the Russian Tax Code to the tax agent (if there is an agent in Russia). If there is no tax agent on the date of the receipt by the individual of confirmation of its tax residence status in a relevant foreign jurisdiction having an applicable double tax treaty with the Russian Federation, the individual can file a claim for a refund and documents confirming the right for a refund directly with the Russian tax authorities.

Obtaining a refund of Russian taxes withheld may be a time-consuming process and can involve considerable practical difficulties, including the possibility that a tax refund may be denied for various reasons. Non-Resident Noteholders should consult their tax advisors regarding the procedures required to be fulfilled in order to obtain a refund of Russian income tax which was excessively withheld at source.

Certain Irish Tax Considerations

The following is a summary of the principal Irish tax consequences for individuals and companies of ownership of the Notes based on the laws and practice of the Irish Revenue Commissioners currently in force in Ireland and may be subject to change. It deals with Noteholders who beneficially own their

Notes as an investment. Particular rules not discussed below may apply to certain classes of taxpayers holding Notes, such as dealers in securities, trusts, etc. The summary does not constitute tax or legal advice and the comments below are of a general nature only. Prospective investors in the Notes should consult their professional advisers on the tax implications of the purchase, holding, redemption or sale of the Notes and the receipt of interest thereon under the laws of their country of residence, citizenship or domicile.

Taxation of Noteholders

(a) Withholding Tax

In general, tax at the standard rate of income tax (currently 20%) is required to be withheld from payments of Irish source interest which should include interest payable on the Notes. The Issuer will not be obliged to make a withholding or deduction for or on account of Irish income tax from a payment of interest on a Note where:

(a) the Notes are Quoted Eurobonds, i.e. securities which are issued by a company (such as the Issuer), which are listed on a recognised stock exchange (such as Euronext Dublin) and which carry a right to interest; and

(b) the person by or through whom the payment is made is not in Ireland, or if such person is in Ireland, either:

  (i) the Notes are held in a clearing system recognised by the Irish Revenue Commissioners; (DTC, Euroclear and Clearstream, Luxembourg are, amongst others, so recognised); or

  (ii) the person who is the beneficial owner of the Notes is not resident in Ireland and has made a declaration to a relevant person (such as a paying agent located in Ireland) in the prescribed form; and

(c) one of the following conditions is satisfied:

  (i) the Noteholder is resident for tax purposes in Ireland or, if not so resident, is otherwise within the charge to corporation tax in Ireland in respect of the interest; or

  (ii) the interest is subject, under the laws of a relevant territory, without any reduction computed by reference to the amount of such interest or other distribution, to a tax in a Relevant Territory which corresponds to income tax or corporation tax in Ireland and which generally applies to profits, income or gains received in that territory, by persons, from sources outside that territory; or

  (iii) the Noteholder is not a company which, directly or indirectly, controls the Issuer, is controlled by the Issuer, or is controlled by a third company which also directly or indirectly controls the Issuer, and neither the Noteholder, nor any person connected with the Noteholder, is a person or persons:

    i. from whom the Issuer has acquired assets;

    ii. to whom the Issuer has made loans or advances; or

    iii. with whom the Issuer has entered into a Swap Agreement,

  where the aggregate value of such assets, loans, advances or Swap Agreements represents not less than 75% of the aggregate value of the assets of the Issuer, or

  (iv) the Issuer is not aware at the time of the issue of any Notes that any Noteholder of those Notes is (i) a person of the type described in (c)(iii) above AND (ii) is not subject, without any reduction computed by reference to the amount of such interest or

other distribution, to a tax in a Relevant Territory which generally applies to profits, income or gains received in that territory, by persons, from sources outside that territory,

where for these purposes, the term

"**Relevant Territory**" means a member state of the European Union (other than Ireland) or a country with which Ireland has signed a double tax treaty; and

"**Swap Agreement**" means any agreement, arrangement or understanding that –

(i) provides for the exchange, on a fixed or contingent basis, of one or more payments based on the value, rate or amount of one or more interest or other rates, currencies, commodities, securities, instruments of indebtedness, indices, quantitative measures, or other financial or economic interests or property of any kind, or any interest therein or based on the value thereof, and

(ii) transfers to a person who is a party to the agreement, arrangement or undertaking, or to a person connected with that person, in whole or in part, the financial risk associated with a future change in any such value, rate or amount without also conveying a current or future direct or indirect ownership interest in the asset (including any enterprise or investment pool) or liability that incorporates the financial risk so transferred.

Thus, so long as the Notes continue to be quoted on Euronext Dublin are held in a clearing system recognised by the Irish Revenue Commissioners; (DTC, Euroclear and Clearstream, Luxembourg are, amongst others, so recognised), and one of the conditions set out in paragraph (c) above is satisfied, interest on the Notes can be paid by any Paying Agent acting on behalf of the Issuer free of any withholding or deduction for or on account of Irish income tax. If the Notes continue to be quoted but cease to be held in a recognised clearing system, interest on the Notes may be paid without any withholding or deduction for or on account of Irish income tax provided such payment is made through a Paying Agent outside Ireland, and one of the conditions set out in paragraph (c) above is satisfied.

Encashment Tax

Irish tax will be required to be withheld at the standard rate of income tax (currently 20%) from interest on any Note, where such interest is collected or realised by a bank or encashment agent in Ireland on behalf of any Noteholder. There is an exemption from encashment tax where the beneficial owner of the interest is not resident in Ireland and has made a declaration to this effect in the prescribed form to the encashment agent or bank.

Income Tax, PRSI and Universal Social Charge

Notwithstanding that a Noteholder may receive interest on the Notes free of withholding tax, the Noteholder may still be liable to pay Irish income tax with respect to such interest. Noteholders resident or ordinarily resident in Ireland who are individuals may be liable to pay Irish income tax, pay related social insurance (PRSI) contributions and the universal social charge in respect of interest they receive on the Notes.

Interest paid on the Notes may have an Irish source and therefore may be within the charge to Irish income tax, notwithstanding that the Noteholder is not resident in Ireland. In the case of Noteholders who are non-resident individuals such Noteholders may also be liable to pay the universal social charge in respect of interest they receive on the Notes.

Ireland operates a self-assessment system in respect of tax and any person, including a person who is neither resident nor ordinarily resident in Ireland, with Irish source income comes within its scope.

There are a number of exemptions from Irish income tax available to certain non-residents. Firstly, interest payments made by the Issuer are exempt from income tax so long as the Issuer is a qualifying company for the purposes of Section 110 of the Taxes Consolidation Act 1997 (TCA), the recipient is not resident in Ireland and is resident in a Relevant Territory and, the interest is paid out of the assets of the Issuer. Secondly, interest payments made by the Issuer in the ordinary course of its trade or business to a company are exempt from income tax provided the recipient company is not resident in Ireland and is a company which is either resident for tax purposes in a Relevant Territory which imposes a tax that generally applies to interest receivable in that Relevant Territory by companies from sources outside that Relevant Territory and which tax corresponds to income tax or corporation tax in Ireland or, in respect of the interest is exempted from the charge to Irish income tax under the terms of a double tax agreement which is either in force or which is not yet in force but which will come into force once all ratification procedures have been completed. Thirdly, interest paid by the Issuer free of withholding tax under the quoted Eurobond exemption is exempt from income tax, where the recipient is a person not resident in Ireland and resident in a Relevant Territory or is a company not resident in Ireland which is under the control, whether directly or indirectly, of person(s) who by virtue of the law of a Relevant Territory are resident for the purpose of tax in a Relevant Territory and are not under the control of person(s) who are not so resident or is a company not resident in Ireland where the principal class of shares of the company or its 75% parent is substantially and regularly traded on a recognised stock exchange. For the purposes of these exemptions and where not specified otherwise, residence is determined under the terms of the relevant double taxation agreement or in any other case, the law of the country in which the recipient claims to be resident. Interest falling within the above exemptions is also exempt from the universal social charge.

Notwithstanding these exemptions from income tax, a corporate recipient that carries on a trade in Ireland through a branch or agency in respect of which the Notes are held or attributed, may have a liability to Irish corporation tax on the interest.

Relief from Irish income tax may also be available under the specific provisions of a double tax treaty between Ireland and the country of residence of the recipient.

Interest on the Notes which does not fall within the above exemptions is within the charge to income tax and, in the case of Noteholders who are individuals, is subject to the universal social charge. In the past the Irish Revenue Commissioners have not pursued liability to income tax in respect of persons who are not regarded as being resident in Ireland except where such persons have a taxable presence of some sort in Ireland or seek to claim any relief or repayment in respect of Irish tax. However, there can be no assurance that the Irish Revenue Commissioners will apply this treatment in the case of any Noteholder.

Capital Gains Tax

A Noteholder will not be subject to Irish tax on capital gains on a disposal of Notes unless (i) such holder is either resident or ordinarily resident in Ireland or (ii) such holder carries on a trade in Ireland through a branch or agency in respect of which the Notes were used or held or (iii) the Notes cease to be listed on a stock exchange in circumstances where the Notes derive their value or more than 50% of their value from Irish real estate, mineral rights or exploration rights.

Capital Acquisitions Tax

A gift or inheritance of Notes will be within the charge to capital acquisitions tax (which subject to available exemptions and reliefs, will be levied at 33%) if either (i) the disponer or the donee/successor in relation to the gift or inheritance is resident or ordinarily resident in Ireland (or, in certain circumstances, if the disponer is domiciled in Ireland irrespective of his residence or that of the donee/successor) on the relevant date or (ii) if the Notes are regarded as property situate in Ireland (i.e. if the Notes are physically located in Ireland or if the register of the Notes is maintained in Ireland).

Stamp Duty

No stamp duty or similar tax is imposed in Ireland on the issue, transfer or redemption of the Notes provided the Issuer is a qualifying company for the purposes of Section 110 of the TCA and the proceeds of the Notes are used in the course of the Issuer's business.

Certain U.S. Federal Income Tax Considerations

This disclosure is limited to the U.S. federal tax issues addressed herein. Additional issues may exist that are not addressed in this disclosure and that could affect the U.S. federal tax treatment of the Notes. Persons considering acquiring the Notes should seek their own advice based on their particular circumstances from an independent tax adviser.

The following is a general description of certain U.S. federal tax consequences of the ownership and disposition of the Notes to U.S. holders (as defined below). This discussion applies only to Notes that are both:

- purchased by initial holders who purchase Notes at their "issue price", which will equal the first price to investors (not including bond houses, brokers or similar persons or organisations acting in the capacity of underwriters, placement agents or wholesalers) at which a substantial amount of the Notes is sold for money; and
- held as capital assets.

This discussion does not describe all of the tax consequences that may be relevant to U.S. holders in light of their particular circumstances or to U.S. holders subject to special rules, such as:

- certain financial institutions;
- insurance companies;
- dealers or certain traders in securities or foreign currencies;
- persons holding Notes as part of a hedge, straddle, wash sale, conversion transaction or other integrated transaction or persons entering into a constructive sale with respect to the Notes;
- U.S. holders whose functional currency is not the U.S. Dollar;
- Real estate investment trusts, regulated investment companies or grantor trusts;
- tax exempt entities, or organisations, including an "individual retirement account" or "Roth IRA" as defined in Section 408 or 408A of the United States Internal Revenue Code of 1986, as amended (the "Code");
- persons required for U.S. federal income tax purposes to conform the timing of income accruals with respect to the notes to their financial statements under section 451 of the Code; or
- persons subject to the alternative minimum tax.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds the Notes, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. Partnerships holding Notes and partners therein should consult their tax advisers as to the particular U.S. federal income tax consequences of acquiring, owning and disposing of the Notes.

This summary is based on the Code, administrative pronouncements, judicial decisions and final, temporary and proposed Treasury Regulations, changes to any of which subsequent to the date of this

Prospectus may affect the tax consequences described herein. Persons considering the purchase of Notes are urged to consult their tax advisers with regard to the application of the U.S. federal income tax laws to their particular situations as well as any tax consequences arising under other federal tax laws or the laws of any state, local or foreign taxing jurisdiction.

As used herein, the term "U.S. holder" means a beneficial owner of a Note that is for U.S. federal income tax purposes:

- a citizen or resident of the United States;
- a corporation, or other entity taxable as a corporation for U.S. federal income tax purposes, created or organised in or under the laws of the United States, any state thereof or the District of Columbia; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

Characterisation of the Notes

The Conditions provide that the Issuer may redeem the Notes in whole, but not in part, at the Make Whole Redemption Amount plus accrued and unpaid interest that may be due thereon (if any) to but excluding the Make Whole Redemption Date. Because the Make Whole Redemption Amount cannot be determined as of the issue date of the Notes and the Make Whole Redemption Amount may exceed the principal amount of the Notes, the Notes provide for contingent payment in the event of an Optional Redemption at Make-Whole by the Issuer. In general, if the amount or timing of any payment on a debt instrument is contingent and the amount or the contingency is neither remote nor incidental, the debt instrument could be subject to special rules that apply to contingent payment debt instruments ("**CPDIs**"). If the Notes are CPDIs, all stated interest received by U.S. holders would generally be treated as original issue discount ("**OID**") with the result that (i) a cash basis U.S. holder may be required to accrue OID on the Notes prior to receipt of or in excess of stated interest and (ii) gain realized on a sale or other taxable disposition of the Notes by U.S. holders would be treated as ordinary income rather than as capital gain.

The Issuer has determined that the possibility of an Optional Redemption at Make-Whole is remote and that, in the event of an Optional Redemption at Make-Whole, the excess of any Make Whole Redemption Amount over the principal amount of the Notes is incidental and, therefore, has determined that the Notes are not CPDIs. The Issuer's determination is binding on all U.S. holders unless the holder discloses on its U.S. federal income tax return that it is treating the Notes in a manner inconsistent with the Issuer's determination. However, the Issuer's determination is not binding on the U.S. Internal Revenue Service (the "**IRS**") or the courts, and no ruling is being requested or could be obtained from the IRS with respect to the proper characterization of the Notes for U.S. federal income tax purposes. No assurance can be given that the IRS will not assert that the Notes should be treated as CPDIs nor that a court would not sustain that position if asserted. Accordingly, the remainder of this discussion assumes that the Notes will be treated as debt instruments that are not CPDIs. Prospective purchasers of the Notes should consult their own tax advisors regarding the treatment of the Notes as debt instruments that are not CPDIs.

Payments of Interest

It is expected, and therefore this discussion assumes, that the Notes will be issued without original issue discount ("OID") for U.S. federal income tax purposes. Accordingly, interest paid on a Note (including any additional amounts paid in respect of taxes required to be deducted or withheld) will be taxable to a U.S. holder as ordinary interest income at the time it accrues or is received in accordance with the U.S. holder's method of accounting for federal income tax purposes. If, however, the Notes' principal amount exceeds the issue price by more than 0.25% of the principal amount of the Notes multiplied by the number of full years from the issue date to the Maturity Date, a U.S. holder will be required to include such excess in income as OID, as it accrues, in accordance with a constant-yield

method based on a compounding of interest before the receipt of cash payments attributable to this income.

Interest income with respect to a Note will constitute foreign source ordinary income for U.S. federal income tax purposes, which may be relevant in calculating a U.S. holder's foreign tax credit limitation. The limitation on foreign taxes eligible for credit is calculated separately with respect to two specific classes of income. For this purpose, interest income on the Notes will constitute "passive category income" for most U.S. holders. The rules governing foreign tax credits are complex and U.S. holders should consult their own tax advisers regarding the availability of foreign tax credits in their particular circumstances.

Sale, Exchange or Retirement of the Notes

Upon the sale, exchange or retirement of a Note, a U.S. holder will recognise taxable gain or loss equal to the difference between the amount realised on the sale, exchange or retirement (other than any amount attributable to accrued but unpaid interest, which will be taxable as ordinary income to the extent not previously included in income) and the U.S. holder's adjusted tax basis in a Note. A U.S. holder's adjusted tax basis in a Note will generally equal the cost of such Note to the U.S. holder, decreased by the amount of any payments on a Note other than payments of stated interest. Gain or loss, if any, realised on the sale, exchange or retirement of a Note will generally be capital gain or loss and will be long term capital gain or loss if at the time of sale, exchange or retirement the Note has been held for more than one year. The deductibility of capital losses is subject to limitations.

Substitution of the Issuer

Condition 10(c) of the Terms and Condition of the Notes provides that, in accordance with provisions of the Trust Deed, the Issuer may substitute any entity in place of the Issuer as issuer and obligor in respect of the Notes and as obligor under the Trust Deed. Such a substitution of the Issuer of the Notes generally will not be regarded as a taxable event for U.S. holders provided that the substitution does not result in a change of payment expectations with respect to the Notes, which the Issuer believes should be the case. Nevertheless, no assurance can be provided that a substitution of the Issuer would not be treated as a taxable exchange which could result in adverse U.S. federal income tax consequences for U.S. holders. Each prospective investor should consult its own tax advisors regarding the consequences to it of an investment in the Notes and the possible consequences of a substitution of the Issuer of the Notes.

Tax on Net Investment Income

U.S. holders that are individuals, estates or trusts and whose income exceeds certain thresholds generally are subject to a 3.8% tax on net investment income, including interest and capital gains from the sale or other taxable disposition of the Notes, subject to certain limitations and exceptions. The amount of this tax may not be reduced by a foreign tax credit otherwise available to a U.S. holder.

Backup Withholding and Information Reporting

Information returns may be filed with the IRS in connection with payments on the Notes and the proceeds from a sale or other disposition of the Notes. A U.S. holder may be subject to U.S. backup withholding on these payments if the U.S. holder fails to provide its taxpayer identification number to the paying agent and comply with certain certification procedures or otherwise establish an exemption from backup withholding. The amount of any backup withholding from a payment to a U.S. holder will be allowed as a credit against the U.S. holder's U.S. federal income tax liability and may entitle the U.S. holder to a refund, provided that the required information is timely furnished to the IRS.

Foreign Asset Reporting

Certain U.S. holders are required to report information relating to an interest in the Notes, subject to certain exceptions (including an exception for Notes held in accounts maintained by U.S. financial

institutions), by attaching a completed IRS Form 8938, statement of Specified Foreign Financial Assets, with their tax return for each year in which they had an interest in the Notes. U.S. holders are urged to consult their tax advisers regarding information reporting requirements relating to their ownership and disposition of the Notes.

SUBSCRIPTION AND SALE

Summary of Subscription Agreement

Each of Citigroup Global Markets Limited, J.P. Morgan Securities plc and Société Générale (collectively, the "**Joint Lead Managers**"), have, pursuant to the terms and conditions set forth in a subscription agreement dated 10 June 2019 (the "**Subscription Agreement**"), severally (and not jointly nor jointly and severally) undertaken to the Issuer and the Guarantor, subject to the satisfaction of certain conditions set forth therein, agreed to subscribe and pay for the Notes at their issue price of 100% of their principal amount in the following amounts:

Joint Lead Manager	Principal Amount of Notes
Citigroup Global Markets Limited	U.S.$166,600,000
J.P. Morgan Securities plc	U.S.$166,800,000
Société Générale	U.S.$166,600,000

The Joint Lead Managers are entitled to commissions and reimbursement of certain expenses pursuant to the Subscription Agreement. The Joint Lead Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

Selling Restrictions

United States

The Notes and the Guarantee have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except in certain transactions exempt from the registration requirements of the Securities Act.

The Notes are being offered and sold outside of the United States in reliance on Regulation S. The Subscription Agreement provides that the Joint Lead Managers may directly or through their respective U.S. broker-dealer affiliates arrange for the offer and resale of Notes in the United States only to QIBs in reliance on Rule 144A.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of Notes within the United States by a dealer that is participating in the Offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

The Issuer and the Joint Lead Managers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. The Prospectus does not constitute an offer to any person in the United States or to any U.S. person other than any QIB who is also a QP and to whom an offer has been made directly by one of the Joint Lead Managers or its U.S. broker-affiliate. Distribution of the Prospectus by any non-U.S. person outside the United States or by any QIB who is also a QP within the United States to any U.S. person or any person within the United States other than any QIB who is also a QP, and those persons, if any, retained to advise such person outside the United States or QIB who is also a QP with respect thereto, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or any person within the United States other than any QIB who is also a QP and those persons, if any, retained to advise such non-U.S. person outside the United States or QIB who is also a QP, is prohibited.

United Kingdom

Each Joint Lead Manager has severally and not jointly nor jointly and severally represented and agreed that:

- it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity

(within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**")) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Russian Federation

Each Joint Lead Manager has severally agreed that the Notes will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian Law.

Ireland

Each Joint Lead Manager has represented and agreed that:

(a) it will not underwrite the issue of, or place, the Notes otherwise than in conformity with the provisions of the European Union (Markets in Financial Instruments) Regulations 2017 (as amended) (the "**MiFID II Regulations**"), including, without limitation, Regulations 5 (Requirement for authorisation (and certain provisions concerning MTFs and OTFs)) thereof, or any rules or codes of conduct made under the MiFID II Regulations, and the provisions of the Investor Compensation Act 1998 (as amended);

(b) it will not underwrite the issue of, or place, the Notes otherwise than in conformity with the provisions of the Companies Act 2014 (as amended) (the "**Companies Act**"), the Central Bank Acts 1942-2018 (as amended) and any codes of practice made under Section 117(1) of the Central Bank Act 1989 (as amended);

(c) it will not underwrite the issue of, or place, or do anything in Ireland in respect of, the Notes otherwise than in conformity with the provisions of the Prospectus (Directive 2003/71/EC) Regulations 2005 (as amended) and any rules issued by the Central Bank under Section 1363 of the Companies Act; and

(d) it will not underwrite the issue of, place or otherwise act in Ireland in respect of, the Notes otherwise than in conformity with the provisions of the Market Abuse Regulation (E.U. 596/2014) (as amended) and any rules and guidance issued by the Central Bank under Section 1370 of the Companies Act.

Prohibition of Sales to EEA Retail Investors

Each Joint Lead Manager has agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the EEA. For the purposes of this provision:

(a) the expression "retail investor" means a person who is one (or more) of the following:

    (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/ E.U. (as amended, "**MiFID II**"); or

    (ii) a customer within the meaning of Directive 2002/92/EC, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

    (iii) not a qualified investor as defined in the Prospectus Directive; and

(b) the expression an "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes.

General

Each Joint Lead Manager has agreed that it has, to the best of its knowledge and belief, complied and will comply, in each case in all material respects, with applicable laws and regulations in each jurisdiction in which it offers, sells or delivers Notes or distributes the Prospectus or any other offering or publicity material relating to the Notes, the Issuer or MMK.

No action has or will be taken in any jurisdiction by the Issuer, MMK or any of the Joint Lead Managers that would, or is intended to, permit a public offer of the Notes or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Accordingly, each Joint Lead Manager has undertaken to the Issuer and MMK that it will not, directly or indirectly, offer or sell any Notes or distribute or publish the Prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

These selling restrictions may be modified by the agreement of the Issuer, MMK and the Joint Lead Managers following a change in a relevant law, regulation or directive.

The Joint Lead Managers and their respective affiliates have engaged in transactions with MMK and other members of the Group (including, in some cases, credit agreements and credit lines) in the ordinary course of their banking business and the Joint Lead Managers performed various investment banking, financial advisory, and other services for MMK, for which they received customary fees, and the Joint Lead Managers and their respective affiliates may provide such services in the future.

TRANSFER RESTRICTIONS

Because of the following restrictions, you are advised to consult legal counsel prior to making any offer, resale or other transfer of the Notes offered hereby.

Rule 144A Notes

Each purchaser of Rule 144A Notes, by accepting delivery of the Prospectus and the Notes, will be deemed to have represented, agreed and acknowledged that:

(1) It is (a) a QIB that is also a QP, (b) not a broker-dealer that owns and invests on a discretionary basis less than U.S.$25 million in securities of unaffiliated issuers, (c) not a participant-directed employee plan, such as a 401(k) plan, (d) acquiring such Notes for its own account, or for the account of one or more QIBs each of which is also a QP, (e) not formed for the purpose of investing in the Notes or the Issuer, and (f) aware, and each beneficial owner of such Notes has been advised, that the seller of such Notes to it may be relying on Rule 144A.

(2) It will (a) along with each account for which it is purchasing, hold and transfer beneficial interests in the Rule 144A Notes in a principal amount that is not less than U.S.$200,000 and (b) provide notice of these transfer restrictions to any subsequent transferees. In addition, it understands that the Issuer may receive a list of participants holding positions in its securities from one or more book-entry depositories.

(3) It understands that the Rule 144A Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB that is also a QP purchasing for its own account or for the account of one or more QIBs that are also QPs each of which is purchasing not less than U.S.$200,000 principal amount of Notes or (b) in an offshore transactions to a person, that is not a U.S. person in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act, and in each case in accordance with any applicable securities laws of any State of the United States.

(4) It understands that the Issuer has the power under the Trust Deed to compel any beneficial owner of Rule 144A Notes that is not a QIB and also a QP to sell its interest in the Rule 144A Notes, or may sell such interest on behalf of, or purchase such interest from, such owner at a price equal to the least of (x) the purchase price therefor paid by the beneficial owner, (y) 100% of the principal amount thereof or (z) the fair market value thereof. The Issuer has the right to refuse to honor the transfer of an interest in the Rule 144A Notes to a U.S. person who is not a QIB and also a QP.

(5) It understands that the Rule 144A Notes, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will bear a legend to the following effect:

THIS NOTE AND THE GUARANTEE IN RESPECT THEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE "**SECURITIES ACT**") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("**RULE 144A**") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT (A "**QIB**") THAT IS ALSO A QUALIFIED PURCHASER (A "**QP**") WITHIN THE MEANING OF SECTION 2(a)(51) OF THE U.S. INVESTMENT COMPANY ACT OF 1940 (THE "**INVESTMENT COMPANY ACT**") PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB THAT IS ALSO A QP WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE

IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT, AND IN AN AMOUNT FOR EACH ACCOUNT OF NOT LESS THAN U.S.$200,000 PRINCIPAL AMOUNT OF NOTES OR (2) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**"), AND IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER FROM IT OF THE NOTES IN RESPECT HEREOF OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE OR EFFECT, WILL BE VOID *AB INITIO* AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUER OF THIS NOTE, THE TRUSTEE OR ANY INTERMEDIARY. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF ANY EXEMPTION UNDER THE SECURITIES ACT FOR RESALES OF THIS NOTE.

EACH BENEFICIAL OWNER HEREOF REPRESENTS THAT (1) IT IS A QIB THAT IS ALSO A QP; (2) IT IS NOT A BROKER-DEALER THAT OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.$25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS; (3) IT IS NOT A PARTICIPANT-DIRECTED EMPLOYEE PLAN, SUCH AS A 401 (k) PLAN; (4) IT IS HOLDING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QIB THAT IS ALSO A QP; (5) IT WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER OR THIS NOTE; (6) IT, AND EACH ACCOUNT FOR WHICH IT HOLDS NOTES, WILL HOLD AND TRANSFER AT LEAST U.S.$200,000 IN PRINCIPAL AMOUNT OF NOTES; (7) IT UNDERSTANDS THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK-ENTRY DEPOSITORIES AND (8) IT WILL PROVIDE NOTICE OF THE FOREGOING TRANSFER RESTRICTIONS TO ITS SUBSEQUENT TRANSFEREES.

THE BENEFICIAL OWNER HEREOF HEREBY ACKNOWLEDGES THAT, IF AT ANY TIME WHILE IT HOLDS AN INTEREST IN THIS NOTE IT IS A PERSON WHO IS NOT A QIB THAT IS ALSO A QP, THE ISSUER MAY (A) COMPEL IT TO SELL ITS INTEREST IN THIS NOTE TO A PERSON (1) WHO IS ALSO A QIB THAT IS ALSO A QP AND WHO IS OTHERWISE QUALIFIED TO PURCHASE THIS NOTE IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT OR (2) IN AN OFFSHORE TRANSACTION TO A PERSON THAT IS NOT A U.S. PERSON IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S OR (B) COMPEL THE BENEFICIAL OWNER TO SELL ITS INTEREST IN THIS NOTE TO THE ISSUER OR AN AFFILIATE OF THE ISSUER OR TRANSFER ITS INTEREST IN THIS NOTE TO A PERSON DESIGNATED BY OR ACCEPTABLE TO THE ISSUER AT A PRICE EQUAL TO THE LEAST OF (X) THE PURCHASE PRICE THEREFOR PAID BY THE BENEFICIAL OWNER, (Y) 100% OF THE PRINCIPAL AMOUNT THEREOF OR (Z) THE FAIR MARKET VALUE THEREOF. THE ISSUER HAS THE RIGHT TO REFUSE TO HONOR A TRANSFER OF AN INTEREST IN THIS NOTE TO A PERSON WHO IS NOT A QIB AND ALSO A QP. THE ISSUER HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT.

IN THE INITIAL OFFERING THE ISSUER WILL SELL LESS THAN 25% OF THE TOTAL NUMBER OF THE NOTES TO INVESTORS WHICH IT MAY REASONABLY BELIEVE TO BE, OR TO BE ACTING ON BEHALF OF, A BENEFIT PLAN INVESTOR, OR TO BE, OR TO BE ACTING ON BEHALF OF, A GOVERNMENTAL, CHURCH, NON-U.S. OR OTHER PLAN.

EACH SUBSEQUENT PURCHASER OR TRANSFEREE OF THIS NOTE FOLLOWING THE INITIAL OFFERING WILL BE DEEMED TO HAVE REPRESENTED AND AGREED THAT (A) FOR SO LONG AS IT HOLDS THIS NOTE OR AN INTEREST HEREIN, IT IS NOT, AND IS NOT ACTING ON BEHALF OF, A BENEFIT PLAN INVESTOR OR A CONTROLLING PERSON AND (B) IF IT IS A GOVERNMENTAL, CHURCH, NON-U.S. OR OTHER PLAN, ITS ACQUISITION, HOLDING AND DISPOSITION OF THIS NOTE WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT VIOLATION OF ANY SIMILAR LAW. "**BENEFIT PLAN INVESTOR**" MEANS A BENEFIT PLAN INVESTOR, AS DEFINED IN SECTION 3(42) OF ERISA, AND INCLUDES (A) AN EMPLOYEE BENEFIT PLAN (AS DEFINED IN SECTION 3(3) OF ERISA) THAT IS SUBJECT TO PART 4 OF SUBTITLE B OF TITLE I OF ERISA, (B) A PLAN AS DEFINED IN SECTION 4975(e)(1) OF THE CODE THAT IS SUBJECT TO SECTION 4975 OF THE CODE OR (C) ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE "**PLAN ASSETS**" BY REASON OF ANY SUCH EMPLOYEE BENEFIT PLAN'S OR PLAN'S INVESTMENT IN THE ENTITY. "CONTROLLING PERSON" MEANS A PERSON (OTHER THAN A BENEFIT PLAN INVESTOR) WHO HAS DISCRETIONARY AUTHORITY OR CONTROL WITH RESPECT TO THE ASSETS OF THE ISSUER OR ANY PERSON WHO PROVIDES INVESTMENT ADVICE FOR A FEE (DIRECT OR INDIRECT) WITH RESPECT TO SUCH ASSETS, OR ANY AFFILIATE OF ANY SUCH PERSON. AN "**AFFILIATE**" OF A PERSON INCLUDES ANY PERSON, DIRECTLY OR INDIRECTLY THROUGH ONE OR MORE INTERMEDIARIES, CONTROLLING, CONTROLLED BY OR UNDER COMMON CONTROL WITH THE PERSON. "**CONTROL**" WITH RESPECT TO A PERSON OTHER THAN AN INDIVIDUAL MEANS THE POWER TO EXERCISE A CONTROLLING INFLUENCE OVER THE MANAGEMENT OR POLICIES OF SUCH PERSON.

NO PURCHASE OR TRANSFER OF A NOTE OR ANY INTEREST THEREIN WILL BE PERMITTED, AND THE TRUSTEE WILL NOT RECOGNIZE ANY SUCH TRANSFER, IF IT WOULD CAUSE 25% OR MORE OF THE TOTAL VALUE OF THE NOTES TO BE HELD BY BENEFIT PLAN INVESTORS, DISREGARDING NOTES (OR INTERESTS THEREIN) HELD BY CONTROLLING PERSONS.

NO PURCHASE BY OR TRANSFER TO A BENEFIT PLAN INVESTOR OR CONTROLLING PERSON OF THIS NOTE, OR ANY INTEREST HEREIN, AFTER THE INITIAL OFFERING WILL BE EFFECTIVE, AND NEITHER THE ISSUER NOR THE TRUSTEE WILL RECOGNISE ANY SUCH ACQUISITION OR TRANSFER. IN THE EVENT THAT THE ISSUER DETERMINES THAT THIS NOTE IS HELD BY A BENEFIT PLAN INVESTOR, THE ISSUER MAY CAUSE A SALE OR TRANSFER IN THE MANNER DESCRIBED IN THE PROSPECTUS.

THE ISSUER MAY COMPEL EACH BENEFICIAL OWNER HEREOF TO CERTIFY PERIODICALLY THAT SUCH OWNER IS A QIB AND ALSO A QP.

(6) In connection with Notes purchased following the initial offering, it will be deemed to represent, warrant and agree that (1) for so long as it holds such Notes or interest therein, it is not, and is not acting on behalf of, a Benefit Plan Investor and is not a Controlling Person and (2) if it is a governmental, church, non-U.S. or other plan, its acquisition, holding and disposition of such Notes will not constitute or result in a non-exempt violation of any Similar Law.

(7) It acknowledges that the Issuer, MMK, the Registrar, the Transfer Agent, the Joint Lead Managers and their respective affiliates, and others will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Rule 144A Notes is no longer accurate, it shall promptly notify the Issuer, MMK and the Joint Lead Managers. If it is acquiring any Notes as a fiduciary or agent for one or

more investor accounts who are QIBs that are also QPs, it represents that it has sole investment discretion with respect to each such account, and that it has full power to make the above acknowledgements, representations and agreements on behalf of each such account.

(8) It understands that the Rule 144A Notes will be evidenced by the Rule 144A Global Note Certificate. Before any interest in the Rule 144A Global Note Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note Certificate, it will be required to provide the Registrar or a Transfer Agent with a written certification (in the form provided in the Paying Agency Agreement) as to compliance with applicable securities laws. Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S Notes

Each purchaser of Regulation S Notes, by accepting delivery of the Prospectus and the Regulation S Notes, will be deemed to have represented, agreed and acknowledged that:

(1) It is, or at the time Regulation S Notes are purchased will be, the beneficial owner of such Regulation S Notes and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer, MMK or a person acting on behalf of such an affiliate.

(2) It understands that the Regulation S Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the "distribution compliance period" (as such term is defined in Rule 902 of Regulation S), it will not offer, sell, pledge or otherwise transfer such Notes except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believes is a QIB that is also a QP purchasing for its own account or for the account of a QIB that is also a QP or (b) in an offshore transaction to a person that is not a U.S. person in accordance with Rule 903 or Rule 904 of Regulation S, in the case of (a) and (b), in accordance with any applicable securities laws of any state of the United States.

(3) It understands that the Regulation S Notes will be evidenced by the Regulation S Global Note Certificate. Before any interest in the Regulation S Global Note Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note Certificate, it will be required to provide the Registrar or a Transfer Agent with a written certification (in the form provided in the Paying Agency Agreement) as to compliance with applicable securities laws.

(4) It understands and acknowledges that its purchase, holding and disposition of such Notes (or any interest therein) constitutes a representation and agreement by it that (1) either (i) it is not, and is not acting on behalf of (and for so long as it holds such Notes or any interest therein will not be, or be acting on behalf of), a Benefit Plan Investor or a governmental, church or non-U.S. plan or arrangement which is subject to any Similar Laws and no part of the assets used by it to purchase or hold such Note or any interest therein constitutes the assets of such Benefit Plan Investor or such plan, or (ii) it is, or is acting on behalf of, a governmental, church or non-U.S. plan or arrangement subject to Similar Laws, and such purchase or holding of such Note (or any interest therein) does not and will not result in a non-exempt violation of any Similar Laws, and will not subject the assets of the Issuer to any Similar Laws; and (2) it will not sell or otherwise transfer any Note or interest therein otherwise than to any person without first obtaining these same foregoing representations, warranties and covenants from that person with respect to its acquisition, holding and disposition of such Note.

CLEARING AND SETTLEMENT

Book-Entry Procedures for the Global Note Certificates

Custodial and depository links are to be established among Euroclear, Clearstream, Luxembourg and DTC to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading. See "*—Book-Entry Ownership*" and "*—Settlement and Transfer of Notes*".

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in the Regulation S Global Note Certificate directly through Euroclear or Clearstream, Luxembourg if they are accountholders ("**Direct Participants**") or indirectly ("**Indirect Participants**" and together with Direct Participants, "**Participants**") through organisations which are accountholders therein.

DTC

DTC has advised the Issuer as follows: DTC is a limited-purpose trust company organised under the laws of the State of New York, a "banking organisation" under the laws of the State of New York, a member of the U.S. Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants ("**DTC Participants**") and facilitate the clearance and settlement of securities transactions between DTC Participants through electronic computerised book-entry changes in accounts of its DTC Participants, thereby eliminating the need for physical movement of certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly.

Investors may hold their interests in the Rule 144A Global Note Certificate directly through DTC if they are DTC Participants in the DTC system, or indirectly through organisations which are DTC Participants in such system.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more DTC Participants and only in respect of such portion of the aggregate principal amount of the relevant Rule 144A Global Note Certificate as to which such DTC Participant or DTC Participants has or have given such direction.

Book-Entry Ownership

Euroclear and Clearstream, Luxembourg

The Regulation S Global Note Certificate will have an ISIN and a Common Code and will be registered in the nominee name of a common depositary for, and deposited with a common depositary on behalf of, Euroclear and Clearstream, Luxembourg.

The address of Euroclear is 1 Boulevard du Roi Albert 11, B-1210 Brussels, Belgium, and the address of Clearstream, Luxembourg is 42 Avenue J.F. Kennedy, L-1855, Luxembourg.

DTC

The Rule 144A Global Note Certificate will have a CUSIP number, an ISIN and a Common Code and will be deposited with a custodian (the "**Custodian**") for, and registered in the name of a nominee of, DTC. The Custodian and DTC will electronically record the principal amount of the Notes held within the DTC system. The address of DTC is 55 Water Street, New York, New York 10041, United States of America.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the holder of a Note evidenced by a Global Note Certificate must look solely to Euroclear, Clearstream, Luxembourg or DTC (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Note Certificate and in relation to all other rights arising under that Global Note Certificate, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or DTC (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Note Certificate, Euroclear, Clearstream or DTC (as applicable), will immediately credit the relevant participants' or account holders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Note Certificate as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants or DTC Participants (as the case may be) in any clearing system to owners of beneficial interests in such Global Note Certificate held through such Direct Participants or DTC Participants (as the case may be) in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Note Certificate and the obligations of the Issuer will be discharged by payment to the order of the registered holder, as the case may be, of such Global Note Certificate in respect of each amount so paid. None of the Issuer, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Note Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants or DTC Participants (as the case may be), which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such Note (the "**Beneficial Owner**") will in turn be recorded on the Direct Participants', Indirect Participants' or DTC Participants' records (as the case may be).

Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct Participant, Indirect Participant or DTC Participant (as the case may be) through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the clearing system will be affected by entries made on the books of Direct Participants, Indirect Participants or DTC Participants (as the case may be) acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in any Global Note Certificate held within a clearing system are exchanged for individual note certificates.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system and their records will reflect only the identity of the Direct Participants or DTC

Participants (as the case may be) to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Direct Participants or the DTC Participants (as the case may be) will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants or DTC Participants (as the case may be), by Direct Participants to Indirect Participants, and by Direct Participants, Indirect Participants or DTC Participants (as the case may be) to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in the Global Note Certificates to such persons may be limited. In particular, because DTC can only act on behalf of DTC Participants the ability of a person having an interest in the Rule 144A Global Note Certificate to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

Trading between Euroclear and/or Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

Trading between DTC Participants

Secondary market sales of book-entry interests in the Notes between DTC Participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to U.S. corporate debt obligations in DTC's Same-Day Funds Settlement system in same-day funds, if payment is effected in US dollars, or free of payment, if payment is not effected in US dollars. Where payment is not effected in US dollars, separate payment arrangements outside DTC; are required to he made between DTC Participants.

Trading between DTC Seller and Euroclear/Clearstream, Luxembourg Purchaser

When book-entry interests in Notes are to be transferred from the account of a DTC Participant holding a beneficial interest in the Rule 144A Global Note Certificate to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in the Regulation S Global Note Certificate (subject to the certification procedures provided in the Paying Agency Agreement), the DTC Participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12:00 p.m., New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC Participant and the relevant Euroclear or Clearstream, Luxembourg Participant. On the settlement date, the DTC Participant will instruct the Transfer Agent to (1) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Note Certificate of the relevant class and (2) increase the amount of Notes registered in the name of the nominee of the common depository for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Note Certificate. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Trading between Euroclear/Clearstream, Luxembourg Seller and DTC Purchaser

When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC Participant wishing to purchase a beneficial interest in the Rule 144A Global Note Certificate (subject to the certification procedures provided in the Paying Agency Agreement), the Euroclear or Clearstream, Luxembourg participant

must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7:45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the Transfer Agent and the Transfer Agent shall arrange delivery to the DTC Participant on the settlement date. Separate payment arrangements are required to be made between the DTC Participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the Transfer Agent will (a) transmit appropriate instructions to DTC who will in turn deliver such book-entry interests in the Notes free of payment to the relevant account of the DTC Participant and (b) instruct the Registrar to (1) decrease the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Note Certificate; and (2) increase the amount of Notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Note Certificate.

Although Euroclear, Clearstream, Luxembourg and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interest in Global Note Certificates among participants and accountholders of Euroclear, Clearstream, Luxembourg and DTC, they are under no obligation to perform or continue to perform such procedure, and such procedures may be discontinued at any time. None of the Issuer, the Trustee or any Agent will have the responsibility for the performance, by Euroclear, Clearstream, Luxembourg or DTC or their respective Direct Participants, Indirect Participants or DTC Participants, as the case may be, of their respective obligations under the rules and procedures governing their operations.

Pre-issue Trades Settlement

It is expected that delivery of Notes will be made against payment therefor on the Closing Date, which could be more than three business days following the date of pricing. Settlement procedures in different countries will vary. Purchasers of Notes may be affected by such local settlement practices, and purchasers of Notes between the relevant date of pricing and the Closing Date should consult their own advisors.

CERTAIN ERISA CONSIDERATIONS

The United States Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), imposes fiduciary standards and certain other requirements on employee benefit plans subject thereto (collectively, "**ERISA Plans**"), including collective investment funds, separate accounts, and other entities or accounts whose underlying assets are treated as assets of such plans pursuant to the U.S. Department of Labor "plan assets" regulation, 29 CFR Section 2510.3-101, as modified by Section 3(42) of ERISA (the "**Plan Assets Regulation**"), and on those persons who are fiduciaries with respect to ERISA Plans, including the requirements of investment prudence and diversification and that an ERISA Plan's investments be made in accordance with the documents governing the ERISA Plan. The prudence of a particular investment must be determined by the responsible fiduciary of an ERISA Plan by taking into account the ERISA Plan's particular circumstances and all of the facts and circumstances of the investment.

Under a "look-through rule" set forth in the Plan Assets Regulation, if an ERISA Plan or a plan that is not subject to ERISA but that is subject to Section 4975 of the United States Internal Revenue Code of 1986, as amended (the "**Code**") (collectively, "**Plans**"), invests in an "equity interest" of an entity that is neither a "publicly offered security" nor a security issued by an investment company registered under the Investment Company Act, the Plan's assets include both the equity interest and an undivided interest in each of the entity's underlying assets, unless an exception applies.

If for any reason the assets of the Issuer were deemed to be "plan assets" of a Plan, certain transactions that the Issuer might enter into, or may have entered into, in the ordinary course of its business might constitute non-exempt "prohibited transactions" under Section 406 of ERISA or Section 4975 of the Code and might have to be rescinded at significant cost to the Issuer. The Issuer may be prevented from engaging in certain investments or other transactions or fee arrangements because they might be deemed to cause non-exempt prohibited transactions. Moreover, if the underlying assets of the Issuer were deemed to be assets constituting plan assets, (i) the assets of the Issuer could be subject to ERISA's reporting and disclosure requirements, (ii) a fiduciary causing a "**Benefit Plan Investor**" (which is defined in Section 3(42) of ERISA as an employee benefit plan (as defined in Section 3(3) of ERISA) that is subject to part 4 of subtitle B of Title I of ERISA, a plan to which Section 4975 of the Code applies, or any entity whose underlying assets include "plan assets" by reason of any such plan's investment in the entity) to make an investment in the equity of the Issuer could be deemed to have delegated its responsibility to manage the assets of the Benefit Plan Investor, (iii) various providers of fiduciary or other services to the Issuer, and any other parties with authority or control with respect to the Issuer, could be deemed to be Plan fiduciaries or otherwise "parties in interest" (within the meaning of Section 3(14) of ERISA) or "disqualified persons" (within the meaning of Section 4975 of the Code) by virtue of their provision of such services, and (iv) it is not clear that Section 404(b) of ERISA, which generally prohibits plan fiduciaries from maintaining the indicia of ownership of assets of plans subject to Title I of ERISA outside the jurisdiction of the district courts of the United States, would be satisfied in all instances.

Governmental plans, certain church plans and certain non U.S. plans, while not subject to the prohibited transaction provisions of ERISA or the provisions of Section 4975 of the Code, may nevertheless be subject to federal, state, local, non U.S. or other laws or regulations (such as the prohibited transaction rules of Section 503 of the Code) that are substantially similar to the foregoing provisions of ERISA or the Code and/or laws or regulations that provide that the assets of the issuer could be deemed to include "plan assets" of such plan ("**Similar Laws**"). Fiduciaries of such plans should consult with their counsel before purchasing any of the Notes or any interest therein.

Any insurance company proposing to invest assets of its general account in Notes should consider the extent to which such investment would be subject to the requirements of Title I of ERISA and Section 4975 of the Code in light of the U.S. Supreme Court's decision in John Hancock Mutual Life Insurance Co. v. Harris Trust and Savings Bank, 510 U.S. 86 (1993), and the enactment of Section 401(c) of ERISA on August 20, 1996. In particular, such an insurance company should consider (i) the exemptive relief granted by the U.S. Department of Labor for transactions involving insurance

company general accounts in PTCE 95-60 and (ii) if such exemptive relief is not available, whether its acquisition of Notes will be permissible under the final regulations issued under Section 401(c) of ERISA.

The Plan Assets Regulation defines an "equity interest" as any interest in an entity other than an instrument that is treated as indebtedness under applicable local law and which has no substantial equity features. The assets of an entity will be deemed to be the assets of an investing Plan (in the absence of another applicable Plan Assets Regulation exception) if 25% or more of the total value of any class of equity interest in the entity is held by Benefit Plan Investors as calculated under the Plan Assets Regulation (the "**25% Limitation**"). An entity that is treated as holding plan assets for purposes of the Plan Assets Regulation is considered to hold plan assets only to the extent of the percentage of the equity interest held by Benefit Plan Investors. For purposes of making the 25% determination, the Plan Assets Regulation provides that the value of any equity interests held by a person (other than a Benefit Plan Investor) who has discretionary authority or control with respect to the assets of the entity or any person who provides investment advice for a fee (direct or indirect) with respect to such assets, or any affiliate of any such person (each, a "**Controlling Person**"), is disregarded. Under the Plan Assets Regulation, an "affiliate" of a person includes any person, directly or indirectly through one or more intermediaries, controlling, controlled by or under common control with the person, and "control" with respect to a person other than an individual means the power to exercise a controlling influence over the management or policies of such person.

Although there is little guidance on how this definition applies, the Issuer believes that the Notes could be treated as equity for purposes of the Plan Assets Regulation. Because the Notes do not represent an interest in any property of the Issuer other than a loan (loans), which the Issuer may grant to the Guarantor, they may be regarded for ERISA purposes as equity interests in a separate entity whose sole asset is a loan. Accordingly, in an effort to avoid issues that could arise if the assets of the Issuer were to be treated as plan assets for purposes of ERISA or Section 4975 of the Code, the Notes will be subject to restrictions on ownership by Benefit Plan Investors and Controlling Persons.

In the initial offering the Issuer will sell less than 25% of the total number of the Notes to investors which it may reasonably believe to be, or to be acting on behalf of, a Benefit Plan Investor, or to be, or to be acting on behalf of, a governmental, church, non-U.S. or other plan.

If you are a purchaser of a Note following the initial offering, you will be deemed to represent, warrant and agree that (1) for so long as you hold such Notes or interest therein, you are not, and are not acting on behalf of, a Benefit Plan Investor and are not a Controlling Person and (2) if you are a governmental, church, non-U.S. or other plan, your acquisition, holding and disposition of such Notes will not constitute or result in a non-exempt violation of any Similar Law. Except for Notes purchased from the Issuer as part of the initial offering, no Notes may be transferred to a Benefit Plan Investor or a Controlling Person, and the Trustee will not recognize any such transfer to a Person that has represented that it is a Benefit Plan Investor or a Controlling Person.

No purchase or transfer of an interest in the Notes will be permitted or recognised if it would cause the 25% Limitation described above to be exceeded with respect to the Notes. Following the initial offering, no transfer of an interest in a Note to a person that is a Benefit Plan Investor or a Controlling Person will be permitted or recognised.

If any person will become the beneficial owner of an interest in any Note who has made or is deemed to have made a prohibited transaction representation or a Benefit Plan Investor, Controlling Person, or Similar Law representation that is subsequently shown to be false or misleading or whose beneficial ownership otherwise causes a violation of the 25% Limitation (any such person a "**Non-Permitted ERISA Holder**"), such purchase and holding will be deemed void *ab initio* and the Issuer will, in its sole discretion, promptly after discovery that such person is a Non-Permitted ERISA Holder by the Issuer or upon notice from the Trustee (if a trust officer of the Trustee obtains actual knowledge) to the Issuer, if it makes the discovery (who agrees to notify the Issuer of such discovery, if any), send notice

to such Non-Permitted ERISA Holder demanding that such Non-Permitted ERISA Holder transfer its Notes or interest therein to a person that is not a Non-Permitted ERISA Holder (and that is otherwise eligible to hold such Notes or an interest therein) within 14 days after the date of such notice. If such Non-Permitted ERISA Holder fails to so transfer its Notes or interest therein, the Issuer will have the right, without further notice to the Non-Permitted ERISA Holder, to sell such Notes to a purchaser selected by the Issuer that is not a Non-Permitted ERISA Holder (and that is otherwise eligible to hold such Notes or an interest therein) on such terms as the Issuer may choose. The Issuer may select the purchaser by soliciting one or more bids from one or more brokers or other market professionals that regularly deal in securities similar to the Notes and sell such Notes to the highest such bidder. The holder of each Note, the Non-Permitted ERISA Holder and each other person in the chain of title from the holder to the Non-Permitted ERISA Holder, by its acceptance of an interest in the Notes, agrees to cooperate with the Issuer and the Trustee to effect such transfers. The proceeds of such sale, net of any commissions, expenses and taxes due in connection with such sale will be remitted to the Non-Permitted ERISA Holder. The terms and conditions of any sale under this subsection will be determined in the sole discretion of the Issuer, and the Issuer will not be liable to any person having an interest in the Notes sold as a result of any such sale or the exercise of such discretion.

Further Considerations

There can be no assurance that, despite the transfer restrictions relating to acquisitions by Benefit Plan Investors and Controlling Persons and the procedures to be employed by the Issuer to attempt to limit ownership by Benefit Plan Investors of the Notes to less than 25% of the total value of any such classes of Notes (determined separately by class), Benefit Plan Investors will not in actuality own 25% or more of the total value of the Notes, disregarding Notes held by Controlling Persons.

Any plan fiduciary or other person who proposes to use assets of any Plan, any governmental plan, any church plan or any non U.S. plan to acquire any Notes should consult with its counsel and other advisors regarding the applicability of the fiduciary responsibility, prohibited transaction and similar provisions of ERISA, Section 4975 of the Code and Similar Laws to such an investment, and to confirm that such investment will not constitute or result in a non-exempt prohibited transaction or any other violation of an applicable requirement of ERISA, Section 4975 of the Code, or any Similar Law.

The sale of any Notes to a Plan, or to a person using assets of any Plan to effect its acquisition of any Notes, is in no respect a representation by the Issuer, the Trustee or any Joint Lead Manager or any of their or its affiliates or any person acting on their behalf, that such an investment meets all relevant legal requirements with respect to investments by Plans generally or any particular Plan, or that such an investment is appropriate for Plans generally or any particular Plan.

ANY POTENTIAL INVESTOR CONSIDERING AN INVESTMENT IN THE NOTES THAT IS, OR IS ACTING ON BEHALF OF, A PLAN IS STRONGLY URGED TO CONSULT ITS OWN LEGAL AND TAX ADVISORS REGARDING THE CONSEQUENCES OF SUCH AN INVESTMENT UNDER ERISA, THE CODE AND ANY APPLICABLE OTHER PLAN LAW OR SIMILAR LAWS AND ITS ABILITY TO MAKE THE REPRESENTATIONS DESCRIBED ABOVE.

INDEPENDENT AUDITORS

The Group's consolidated financial statements for the years ended 31 December 2018 and 2017 included in this Prospectus have been audited by AO PricewaterhouseCoopers Audit White Square Office Centre, Butyrsky Val 10, Moscow 125047 Russian Federation, independent auditors, as stated in their reports appearing elsewhere in this Prospectus. AO PricewaterhouseCoopers Audit is a member of Self-regulated organisation of auditors "Russian Union of Auditors" (Association).

With respect to the unaudited interim condensed consolidated financial statements of the Group for the three months ended 31 March 2019 included in this Prospectus, AO PricewaterhouseCoopers Audit reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their report dated 29 April 2019 and appearing elsewhere in this Prospectus states that they did not audit and they do not express an opinion on the unaudited interim condensed consolidated financial statements of the Group for the three months ended 31 March 2019. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

GENERAL INFORMATION

1. MMK was incorporated in the Russian Federation on 17 October 1992 as a joint stock company for an unlimited duration. MMK operates under the laws of the Russian Federation. MMK has its registered office at Ul. Kirova 93 Magnitogorsk 455000, Chelyabinsk Region, Russian Federation, with state registration number 1027402166835, and its telephone number is +7 (3519) 24-40-09.

2. The Issuer was incorporated in Ireland on 24 April 2019 as a designated activity company. The Issuer operates under the laws of Ireland. The Issuer has its registered office at 2nd Floor, Palmerston House, Fenian Street, Dublin 2, Ireland, with company number 648776, and its telephone number is +353 1 905 8020.

3. The Notes have been accepted for clearance through Euroclear, Clearstream, Luxembourg and DTC. The Common Code, the ISIN, CFI Code and FISN Code numbers for the Regulation S Notes are 184343495, XS1843434959, DYFXXR and MMK INTERNATION/EUR NT 22001231 RES, respectively. The Common Code, CFI Code, FISN Code, CUSIP and ISIN numbers for the Rule 144A Notes are 111730628, DBFGGR, MMK INTL CAP DE/GTD NT 20240612 GTD, 553142AA8 and US553142AA88, respectively.

4. The Legal Entity Identifier of the Issuer is 635400CNBLB2PNXXQI80.

5. Application has been made to list the Notes on Euronext Dublin, through the Listing Agent, Arthur Cox Listing Services Limited ("**ACLSL**"). ACLSL is acting solely in its capacity as listing agent for the Issuer in relation to the Notes and is not itself seeking admission to the Official List or to trading on the regulated market. It is expected that the listing of the Notes will be granted on or before 13 June 2019.

6. Hard copies of the following documents may be inspected at the registered office of the Issuer and the specified offices of the Principal Paying Agent during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) for so long as the Notes are listed on Euronext Dublin:

   - a copy of the Prospectus, together with any supplement to the Prospectus;
   - the constitution of the Issuer;
   - the charter of MMK (English translation);
   - the Financial Statements, including the independent auditor's reports thereon;
   - the Paying Agency Agreement; and
   - the Trust Deed, which includes the forms of the Global Certificates and the Definitive Certificates.

7. The issue of the Notes was authorised by a decision of the Board of Directors of the Issuer on 7 June 2019.

8. The giving of the Guarantee was authorised by a decision of the Board of Directors of MMK on 23 May 2019.

9. No consents, approvals, authorisations or orders of any regulatory authorities are required by the Issuer under the laws of the Ireland for issuing the Notes.

10. Save for the fees payable to the Joint Lead Managers, the Trustee and the Agents, so far as the Issuer is aware, no person involved in the issue of the Notes has an interest that is material to the issue of the Notes.

11. There has been no significant change in the financial or trading position of MMK or of the Group since 31 December 2018 and no material adverse change in the financial position or prospects of MMK or of the Group since 31 December 2018.

12. There has been no material adverse change in the prospects of the Issuer and no significant change in the financial or trading position of the Issuer since 24 April 2019 (the date of its incorporation).

13. There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which any of the Issuer, MMK or the Group, as the case may be, is aware), during the previous 12 months in relation to the Issuer, MMK or the Group which may have, or have had in the recent past, significant effects on the Issuer's, MMK's or the Group's, as the case may be, financial position or profitability.

14. Citigroup Global Markets Europe AG will act as Registrar in relation to the Notes.

15. There are no potential conflicts of interest between any duties of the members of the administrative, management or supervisory bodies of the Issuer towards the Issuer and their private interests and/or other duties. There are no potential conflicts of interest between any duties of the members of the administrative, management or supervisory bodies of the Guarantor towards the Guarantor and its private interests and/or other duties.

16. The language of the Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

17. Neither the Issuer, nor MMK intends to provide any post-issuance transaction information regarding the Notes.

GLOSSARY OF TECHNICAL TERMS

Alloy	A material with metallic properties consisting of several chemical elements. Changing the composition and hence the microstructure of alloys enables the targeted engineering of desired material properties.
Bars	Circular long steel products that are rolled from billets.
Basic oxygen furnace (“**BOF**”)	A pear-shaped steelmaking unit, lined with refractory bricks, which refines molten pig iron from the blast furnace and metal scrap into steel. Scrap is charged following the hot metal poured from the blast furnace. An oxygen lance is lowered from above, through which blows a high-pressure stream of oxygen to cause an oxidation reaction with iron impurities (carbon, silicon, phosphorus and manganese etc.) in order to separate the impurities from the hot metal into fumes or slag.
Billet	A semi-finished steel product with a square cross section up to 150mm x 150mm. This product is continuously cast and is further processed by rolling to produce finished long products. The range of semi-finished products above 150mm x 150mm are called “blooms”.
Blast furnace	A furnace used in the integrated metallurgical process in which iron ore in the form of sinter or pellet is melted down and chemically reduced under a hot air flow (enriched with oxygen), using coal in the form of coke as a heating agent. As a result, a liquid hot metal is produced, also called “pig iron”.
Coils	Flat steel that has been wound.
Coke	A fuel obtained by the pyrolysis of coal in coke ovens and used as a reducing agent for iron ore in the blast furnace.
Coking coal	Coal used for making coke, used to make iron.
Cold-rolled sheet	Sheet steel that has been run through a cold-rolling mill or a product of a steel rolling mill that has passed through all of the technological processes of cold rolling.
Cold-rolling mill	Equipment that reduces the thickness, or gauge, of flat steel products by rolling semi-finished products between rolls without prior reheating.
Colour-coated steel products	A variety of products produced either by varnish and paint coating or film coating.
Continuous casting	The steel casting process, in the course of which molten steel is cooled into semi-finished products such as billets, blooms and slabs. The steel is poured from a ladle into bottomless water-cooled moulds, known as crystalliser pans. As the steel enters the crystalliser pan, it forms a solid flexible sinter skin in the form of the pan which can then be further rolled out and cooled until complete crystallisation of a billet and then stripped into the lengths required.

Dolomite — A sedimentary rock composed largely of calcium magnesium carbonate.

Downstream products — A category of value added products, which includes galvanised steel and tin-plate.

Electric arc furnace — A furnace that refines molten pig iron from the blast furnace and scrap into steel. In this process, the proportion of scrap used can be increased to 100% of the metal charge. Once the furnace is charged and covered, graphite electrodes are lowered through holes in the roof. The electric arc travelling between the electrodes and the metallic charge creates intense heat that melts the charge. Alloying elements can be added during the process.

Ferroalloy — A metal product commonly used as a raw materials feed in steelmaking, usually containing iron and other metals that improve the physical and chemical properties of the final steel product.

Ferrous — Metals that consist primarily of iron.

Flat products — A product that is produced by rolls with smooth surfaces and ranges of dimension, varying in thickness and width. The major flat steel product categories are (i) thin flat products (up to 4mm in thickness); (ii) thick flat products (between 4mm and 50mm in thickness); and (iii) plates (over 50mm in thickness). Flat products are used in the automotive and white-goods industries, for production of large welded pipes, shipbuilding, construction, major works and boilers. They include hot - and cold-rolled sheet, plates and coils.

Galvanised steel — Steel sheet coated by immersion in a bath of molten zinc to protect the base metal against corrosion.

High value added products — High value added products include thick plate, flat cold-rolled products and downstream products such as tin plate, galvanised steel, colour-coated steel, cold-rolled band, formed sections and black and galvanised pipes.

Hot-rolled steel — Steel rolled in a hot-rolling mill.

Hot-rolling — A process whereby solidified steel, preheated to a high temperature, is continuously rolled between rotating cylinders.

Long products — Long products are used in all industrial sectors, particularly in the construction and engineering industries. They include all types of bars, wire rod and a wide range of cold-formed profiles like closed profile, S-shape profile, E-shape profile, trough-shape profile, angle profile and others. They also include pipes with circular, oblong and semi-oblong, square and rectangular cross sections of a wide range of sizes.

Metalware — Products made of metal.

Pellets — Agglomerate material used for blast furnace smelting which is produced by rolling concentrate into small balls of 8-16 com

size, which are then roasted in order to further harden.

Pickling	The process in which the surface of the steel is cleaned with acid to remove scale, rust and dirt, such process being preparation for further processing, such as cold-rolling, galvanising or cutting.
Refining	A stage in the process of making crude steel, during which most residual impurities are removed from the crude steel and additions of other metals may be made before it is cast.
Reinforcing bar	A commodity-grade steel used to strengthen concrete in highway and building construction.
Reserves	Russia has a long-established system of reserve and resource reporting, set forth by the Russian Federation Ministry of Natural Resources. The primary difference between Russian and international methodologies is that Russian methodologies rely on "geometrical" methods to determine reserves, as compared to international methodologies, which utilise sampling and extrapolation techniques.
Scrap	Iron containing material (mainly industrial or household waste) that generally is remelted into steel. The scrap could be used as part of a metal charge together with pig iron loaded into steel-melting furnaces.
Semi-finished products	Metal intended for further treatment in hot- or cold- rolling shops.
Sinter	The product of thermal processing of mixed particles of agglomerative ore, iron ore concentrates and limestone, being a strong, porous sinter used for further partition in blast furnaces.
Slab	A semi-finished steel product obtained by casting through a continuous caster and cut into various lengths. The slab has a rectangular cross-section and is used as a starting material for the production of flat products.
Slag	A by-product, containing inert materials, produced during the blast-furnace smelting process and other steel-making operations.
Slitting	Cutting a sheet of steel into narrower strips.
Strip (Hot-rolled or Cold-rolled)	Flat steel products with widths of less than 600mm.

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Public Joint Stock Company Magnitogorsk Iron & Steel Works and Subsidiaries

Unaudited Condensed Consolidated Interim Financial Statements

For the Three Months Ended 31 March 2019

PUBLIC JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

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PUBLIC JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2019

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

Management is responsible for the preparation of the unaudited condensed consolidated interim financial statements as at 31 March 2019 and for the three months period then ended, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

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

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

Management is also responsible for:

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

The unaudited condensed consolidated interim financial statements for the three months ended 31 March 2019 were approved on 29 April 2019 by:

P. V. Shilyaev
General Director

Российская Федерация * Публичное акционерное общество Магнитогорский металлургический комбинат * ПАО "ММК" Для бухгалтерских документов

O. Y. Samoylova
Director of OOO MMK-ACCOUNTING CENTER, a specialized organization, which performs the accounting function for Public Joint Stock Company Magnitogorsk Iron & Steel Works

29 April 2019
Magnitogorsk, Russia

Report on Review of Unaudited Condensed Consolidated Interim Financial Statements

To the Shareholders and Board of Directors of Public Joint Stock Company Magnitogorsk Iron & Steel Works and Subsidiaries:

Introduction

We have reviewed the accompanying unaudited condensed consolidated statement of financial position of Public Joint Stock Company Magnitogorsk Iron & Steel Works and its subsidiaries (together – the "Group") as at 31 March 2019 and the related unaudited condensed consolidated statements of comprehensive income, changes in equity and cash flows for the three-month period then ended, and the related explanatory notes. Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

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

Conclusion

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

AO PricewaterhouseCoopers Audit

29 April 2019

Moscow, Russian Federation

A. B. Fomin, certified auditor (licence no. 01-000059), AO PricewaterhouseCoopers Audit

Audited entity: Public Joint Stock Company Magnitogorsk Iron & Steel Works

Record made in the Unified State Register of Legal Entities on 12 August 2002 under State Registration Number 1027402166835

Kirova, 93, Magnitogorsk, Russia, 455000

Independent auditor: AO PricewaterhouseCoopers Audit

Registered by the Government Agency Moscow Registration Chamber on 28 February 1992 under No. 008.890

Record made in the Unified State Register of Legal Entities on 22 August 2002 under State Registration Number 1027700148431

Member of Self-regulated organization of auditors «Russian Union of auditors» (Association)

Principal Registration Number of the Record in the Register of Auditors and Audit Organizations – 11603050547

AO PricewaterhouseCoopers Audit
White Square Office Center 10 Butyrsky Val Moscow, Russia, 125047
T: +7 (495) 967-6000, F:+7 (495) 967-6001, www.pwc.ru

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED 31 MARCH 2019
(In millions of U.S. Dollars, except per share data)

	Notes	Three months ended 31 March 2019	2018
REVENUE	4	1,836	2,055
COST OF SALES		(1,321)	(1,422)
GROSS PROFIT		**515**	**633**
General and administrative expenses	6	(51)	(61)
Selling and distribution expenses		(141)	(153)
Change in expected credit loss, net		(6)	(5)
Other operating income, net	7	3	-
OPERATING PROFIT	5	**320**	**414**
Finance income		5	2
Finance costs		(7)	(7)
Impairment and provision for site restoration		(2)	(3)
Foreign exchange loss, net		(14)	(17)
Other expenses		(22)	(30)
PROFIT BEFORE INCOME TAX		**280**	**359**
INCOME TAX		(55)	(80)
PROFIT FOR THE PERIOD		**225**	**279**
OTHER COMPREHENSIVE INCOME/(LOSS)			
Items, that may be reclassified subsequently to profit or loss			
Translation of foreign operations		(100)	-
Items, that will not be reclassified subsequently to profit or loss			
Remeasurements of post-employment benefit obligations		-	1
Effect of translation to presentation currency		439	25
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		**339**	**26**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**564**	**305**
Profit attributable to:			
Shareholders of the Parent Company		224	278
Non-controlling interests		1	1
		225	**279**
Total comprehensive income attributable to:			
Shareholders of the Parent Company		561	304
Non-controlling interests		3	1
		564	**305**
BASIC AND DILUTED EARNINGS PER SHARE (U.S. Dollars)		0.020	0.025
Weighted average number of ordinary shares outstanding (in thousands)		11,174,330	11,174,330

The notes on pages 5 to 15 are an integral part of these unaudited condensed consolidated interim financial statements.

PUBLIC JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 MARCH 2019
(In millions of U.S. Dollars)

	Notes	31 March 2019	31 December 2018
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	8	4,716	4,370
Right-of-use assets		9	18
Intangible assets		33	24
Investments in securities and other financial assets	9	2	2
Investments in associates		2	1
Deferred tax assets		51	50
Total non-current assets		4,813	4,465
CURRENT ASSETS:			
Inventories		1,225	1,217
Trade and other receivables		775	697
Investments in securities and other financial assets	9	8	7
Income tax receivable		1	-
Value added tax recoverable		68	80
Cash and cash equivalents	10	710	739
Total current assets		2,787	2,740
TOTAL ASSETS		**7,600**	**7,205**
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	11	386	386
Share premium		969	969
Translation reserve		(5,692)	(6,029)
Retained earnings		9,886	9,662
Equity attributable to shareholders of the Parent Company		5,549	4,988
Non-controlling interests		24	21
Total equity		5,573	5,009
NON-CURRENT LIABILITIES:			
Long-term borrowings	12	66	246
Obligations under leases		12	11
Retirement benefit obligations		16	15
Long-term other payables		8	9
Site restoration provision		144	132
Deferred tax liabilities		406	381
Total non-current liabilities		652	794
CURRENT LIABILITIES:			
Short-term borrowings and current portion of long-term borrowings	13	431	269
Current portion of obligations under leases		1	10
Current portion of retirement benefit obligations		3	3
Trade and other payables		917	1,095
Current portion of site restoration provision		9	8
Income tax payables		14	17
Total current liabilities		1,375	1,402
TOTAL EQUITY AND LIABILITIES		**7,600**	**7,205**

P. V. Shilyaev
General Director

Российская Федерация
ПАО "ММК"
Для бухгалтерских документов
Магнитогорский Публичное акционерное общество металлургический комбинат

29 April 2019
Magnitogorsk, Russia

O. Y. Samoylova
Director of OOO MMK-ACCOUNTING CENTER, a specialized organization, which performs the accounting function for Public Joint Stock Company Magnitogorsk Iron & Steel Works

The notes on pages 5 to 15 are an integral part of these unaudited condensed consolidated interim financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE THREE MONTHS ENDED 31 MARCH 2019

(In millions of U.S. Dollars)

		Attributable to shareholders of the Parent Company						
	Notes	Share capital	Share premium	Translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
BALANCE AT 1 JANUARY 2018		**386**	**969**	**(5,141)**	**9,259**	**5,473**	**24**	**5,497**
Profit for the period		-	-	-	278	278	1	**279**
Other comprehensive income for the period, net of tax		-	-	25	1	26	-	**26**
Total comprehensive income for the period		**-**	**-**	**25**	**279**	**304**	**1**	**305**
BALANCE AT 31 MARCH 2018		**386**	**969**	**(5,116)**	**9,538**	**5,777**	**25**	**5,802**
BALANCE AT 1 JANUARY 2019		**386**	**969**	**(6,029)**	**9,662**	**4,988**	**21**	**5,009**
Profit for the period		-	-	-	224	224	1	**225**
Other comprehensive income for the period, net of tax		-	-	337	-	337	2	**339**
Total comprehensive income for the period		**-**	**-**	**337**	**224**	**561**	**3**	**564**
BALANCE AT 31 MARCH 2019		**386**	**969**	**(5,692)**	**9,886**	**5,549**	**24**	**5,573**

The notes on pages 5 to 15 are an integral part of these unaudited condensed consolidated interim financial statements.

PUBLIC JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE THREE MONTHS ENDED 31 MARCH 2019
(In millions of U.S. Dollars)

	Notes	Three months ended 31 March 2019	2018
OPERATING ACTIVITIES:			
Profit for the period		225	279
Adjustments to profit for the period:			
Income tax		55	80
Depreciation and amortization	5	119	144
Impairment losses and provision for site restoration		2	3
Finance costs		7	7
Loss on disposal of property, plant and equipment	7	1	2
Change in expected credit loss		6	5
Change in allowance for advances issued	7	(1)	-
Change in allowance for obsolete and slow-moving items		1	(1)
Finance income		(5)	(2)
Foreign exchange loss, net		14	17
Operating cashflow before working capital changes		424	534
Movements in working capital			
Increase in trade and other receivables		(50)	(44)
Decrease in value added tax recoverable		15	7
Decrease in inventories		66	82
Increase/(decrease) in trade and other payables		28	(131)
Cash generated from operations		483	448
Interest paid		(5)	(4)
Income tax paid		(60)	(78)
Net cash from operating activities		418	366
INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(158)	(221)
Purchase of intangible assets		(6)	(1)
Interest received		5	2
Proceeds from sale of securities and other financial assets		-	2
Purchase of securities and other financial assets		-	(2)
Net cash used in investing activities		(159)	(220)
FINANCING ACTIVITIES:			
Proceeds from borrowings		134	301
Repayments of borrowings		(156)	(340)
Dividends paid to equity holders of the Parent Company		(282)	(215)
Net cash used in financing activities		(304)	(254)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(45)	(108)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	10	739	556
Effect of translation to presentation currency and exchange rate changes on the balance of cash held in foreign currencies		16	(7)
CASH AND CASH EQUIVALENTS, END OF PERIOD	10	**710**	**441**

The notes on pages 5 to 15 are an integral part of these unaudited condensed consolidated interim financial statements.

1. GENERAL INFORMATION

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

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

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

As at 31 March 2019 the Parent Company's major shareholder was Mintha Holding Limited with a 84.3% ownership interest (31 December 2018: 84.3%).

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

The effective and nominal ownership holdings of the Group's principal subsidiaries at 31 March 2019 did not change from 31 December 2018.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These unaudited condensed consolidated interim financial statements for the three months ended 31 March 2019 have been prepared in accordance with IAS 34 "Interim financial reporting" ("IAS 34"). The consolidated statement of financial position at 31 December 2018 has been derived from the consolidated statement of financial position included in the Group's consolidated financial statements at 31 December 2018. These unaudited condensed consolidated interim financial statements do not include all of the information and disclosure required in the annual consolidated financial statements and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2018, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The same accounting policies and methods of computation have been followed in these unaudited condensed consolidated interim financial statements as were applied in the preparation of the Group's consolidated financial statements for the year ended 31 December 2018, except for changes made due to adoption of new Standards and Interpretations becoming effective from 1 January 2019 and for the estimation of income tax. Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss.

Группа приняла решение применить досрочно МСФО (IFRS) 16 начиная с 1 января 2018 г.

Adoption of new or revised standards and interpretations

The following new standards, amendments to standards and interpretations became effective for the Group from 1 January 2019:

- IFRIC 23 "Uncertainty over Income Tax Treatments" (Issued on 7 June 2017 and Effective for Annual Periods Beginning on or After 1 January 2019).
- Prepayment Features with Negative Compensation - Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).
- Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).

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

The Group has elected to early adopt IFRS 16 "Leases" from 1 January 2018.

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

New Accounting Pronouncements

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 March 2019, and have not been early adopted by the Group:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021).
- Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).
- Definition of a business - Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).
- Definition of materiality - Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).

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

Estimates and assumptions

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

In preparing these unaudited condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2018.

Functional and presentation currency

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

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

The presentation currency of the Group is the US dollar since the management considers the US dollar to be more appropriate for the understanding and comparability of consolidated financial statements. The results and financial position of each of the Group's subsidiaries were translated to the presentation currency as required by IAS 21, "The Effects of Changes in Foreign Exchange Rates".

At 31 March 2019, the official exchange rates were: US$ 1 = RUB 64.7347 (31 December 2018: US$ 1 = RUB 69.4706). Exchange rates for the three months ended 31 March 2019 were used as: US$ 1 = RUB 66.1047 (the three months ended 31 March 2018: US$ 1 = RUB 56.8853).

3. SEASONAL OPERATIONS

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

4. REVENUE

	Three months ended 31 March	
By product (including transportation services)	**2019**	**2018**
Hot rolled steel	791	875
Galvanised steel	301	332
Long steel products	172	173
Cold rolled steel	154	216
Galvanised steel with polymeric coating	136	144
Hardware products	39	37
Wire, sling, bracing	32	38
Formed section	31	30
Coking production	34	32
Band	20	26
Tin plated steel	25	31
Coal	7	6
Tubes	7	8
Scrap	10	14
Others	77	93
Total	**1,836**	**2,055**

	Three months ended 31 March	
By customer destination	**2019**	**2018**
Russian Federation and the CIS	86 %	75 %
Middle East	8 %	14 %
Asia	- %	4 %
Europe	4 %	4 %
Africa	2 %	3 %
Total	**100 %**	**100 %**

	Three months ended 31 March	
By type of performance obligation	**2019**	**2018**
Revenue from sales of products - at point in time	1,756	1,980
Revenue from transportation services - over time	80	75
Total	**1,836**	**2,055**

5. SEGMENT INFORMATION

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

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

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

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

5. SEGMENT INFORMATION (CONTINUED)

- *Coal mining segment*, which includes OJSC Belon and LLC MMK Ugol involved in mining and refining of coal. All significant assets, production and management and administrative facilities of this segment are located in the city of Belovo (Russian Federation).

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

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

The following table presents measures of segment results for the three months ended 31 March 2019 and 2018:

	Three months ended 31 March									
	2019	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
	Steel		**Steel (Turkey)**		**Coal mining**		**Eliminations**		**Total**	
Revenue (including transportation revenue)										
Sales to external customers	1,699	1,860	130	189	7	6	-	-	**1,836**	**2,055**
Inter-segment sales	84	43	-	-	73	79	(157)	(122)	**-**	**-**
Total revenue	**1,783**	**1,903**	**130**	**189**	**80**	**85**	**(157)**	**(122)**	**1,836**	**2,055**
Segment EBITDA	**418**	**521**	**(7)**	**5**	**32**	**29**	**(3)**	**5**	**440**	**560**
Depreciation and amortisation	(108)	(120)	(4)	(15)	(7)	(9)	-	-	**(119)**	**(144)**
Loss on disposal of property, plant and equipment	(1)	(2)	-	-	-	-	-	-	**(1)**	**(2)**
Operating profit/(loss) per IFRS financial statements	**309**	**399**	**(11)**	**(10)**	**25**	**20**	**(3)**	**5**	**320**	**414**

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

At 31 March 2019 and 31 December 2018, the segments' total assets and liabilities were reconciled to total assets and liabilities as follows:

	31 March 2019				
	Steel	**Steel (Turkey)**	**Coal mining**	**Eliminations**	**Total**
Total assets	8,548	511	468	(1,927)	7,600
Total liabilities	2,007	94	91	(165)	2,027

	31 December 2018				
	Steel	**Steel (Turkey)**	**Coal mining**	**Eliminations**	**Total**
Total assets	8,052	533	410	(1,790)	7,205
Total liabilities	2,136	102	79	(121)	2,196

6. GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended 31 March	
	2019	**2018**
Payroll and social taxes	28	31
Taxes other than income tax	8	13
Depreciation and amortisation	6	5
Professional services	4	4
Insurance	1	1
Materials	-	1
Research and development costs	-	1
Other	4	5
Total	**51**	**61**

7. OTHER OPERATING INCOME, NET

	Three months ended 31 March	
	2019	**2018**
Loss on disposal of property, plant and equipment	1	2
Provision for advances issued	(1)	-
Gain on disposal of other assets	(2)	(2)
Other operating gain, net	(1)	-
Total	**(3)**	**-**

8. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Machinery and equipment	Transportation equipment	Fixtures and fittings	Mining assets	Construction in progress	Total
Cost							
At 1 January 2019	**2,731**	**5,612**	**164**	**160**	**85**	**927**	**9,679**
Additions	-	37	2	1	-	126	**166**
Transfers	21	30	3	-	-	(54)	**-**
Site restoration provision	-	-	-	-	2	-	**2**
Disposals	(1)	(35)	(1)	-	-	(5)	**(42)**
Effect of translation to presentation currency	155	341	11	11	6	69	**593**
At 31 March 2019	**2,906**	**5,985**	**179**	**172**	**93**	**1,063**	**10,398**
Depreciation							
At 1 January 2019	**(1,306)**	**(3,663)**	**(121)**	**(126)**	**(64)**	**(29)**	**(5,309)**
Charge for the period	(20)	(88)	(4)	(4)	(1)	-	**(117)**
Disposals	-	32	1	-	-	-	**33**
Effect of translation to presentation currency	(63)	(203)	(8)	(9)	(4)	(2)	**(289)**
At 31 March 2019	**(1,389)**	**(3,922)**	**(132)**	**(139)**	**(69)**	**(31)**	**(5,682)**
Carrying amount							
At 1 January 2019	**1,425**	**1,949**	**43**	**34**	**21**	**898**	**4,370**
At 31 March 2019	**1,517**	**2,063**	**47**	**33**	**24**	**1,032**	**4,716**
Carrying amount had no impairment taken place							
At 1 January 2019	**1,831**	**2,182**	**45**	**35**	**36**	**927**	**5,056**
At 31 March 2019	**1,923**	**2,279**	**49**	**34**	**42**	**1,063**	**5,390**

8. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

As at the 1 January 2019 the estimated total useful lives of certain items of machinery and equipment were revised. The net effect of the changes in the current period was a decrease in depreciation expense of USD 15 million. Assuming the assets are held at least until 31 December 2019, depreciation in the year ended 31 December 2019 in relation to these assets will be decreased by USD 60 million.

During the three months ended 31 March 2019 and 31 March 2018 the Group did not capitalize borrowing costs.

Capital commitments are disclosed in Note 15.

9. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

	31 March 2019	31 December 2018
Non-current financial assets		
Unlisted securities	2	2
Total non-current	**2**	**2**
Current financial assets		
Trading debt securities	7	6
Share in mutual investment fund	1	1
Total current	**8**	**7**

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

10. CASH AND CASH EQUIVALENTS

	31 March 2019	31 December 2018
Cash in banks, USD	61	114
Cash in banks, EUR	7	27
Cash in banks, RUB	48	83
Cash in banks, other	-	1
Bank deposits, USD	457	466
Bank deposits, RUB	115	22
Bank deposits, EUR	22	25
Bank deposits, TRY	-	1
Total	**710**	**739**

11. SHARE CAPITAL

Common stock

	31 March 2019	31 December 2018
Authorised, issued and fully paid common shares with a par value of RUB 1 each (in thousands)	11,174,330	11,174,330

During the three months ended 31 March 2019 and 31 March 2018 the Group did not acquire or sell common shares of the Parent Company (treasury shares).

Dividends

On 7 December 2018, the Parent Company declared dividends of RUB 2.114 (USD 0.032) per ordinary share representing total dividends of USD 354 million. In December 2018 and January 2019 dividends were paid out.

12. LONG-TERM BORROWINGS AND LOANS

	31 March 2019	31 December 2018
Unsecured loans, EUR	66	246
Total	**66**	**246**

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

Loans

The Group has various loans arrangements in RUB, USD and EUR denominations with various lenders. Those loans consist of unsecured and secured loans and credit facilities. At 31 March 2019 and 31 December 2018, the total unused element of all credit facilities was USD 1,349 million and USD 1,307 million, respectively.

At 31 March 2019 and 31 December 2018, the Group was in compliance with its debt covenants.

Debt repayment schedule

	31 March 2019
Periods of twelve months ending on 31 March	
2020 (presented as current portion of long-term borrowings and loans, Note 13)	185
2021	25
2022	24
2023	17
Total	**251**

Debt repayment schedule

	31 December 2018
Periods of twelve months ending on 31 December	
2019 (presented as current portion of long-term borrowings and loans, Note 13)	8
2020	201
2021	24
2022	21
Total	**254**

Net Debt Reconciliation

The table below sets out an analysis of net debt. Net debt reconciliation is a reconciliation of the movements in the Group's liabilities from financing activities net of cash and cash equivalents and bank deposits for each of the periods presented.

	Borrowings and loans (Note 12, 13)	Leases	Cash and cash equivalents (Note 10)	Total
At 1 January 2019	**(515)**	**(21)**	**739**	**203**
Cash flows, net	27	1	(45)	**(17)**
Effect of translation to presentation currency and exchange rate changes	(4)	(2)	16	**10**
Interest charge	(4)	-	-	**(4)**
Change in lease	-	9	-	**9**
Other	(1)	-	-	**(1)**
At 31 March 2019	**(497)**	**(13)**	**710**	**200**

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

	31 March 2019	31 December 2018
Short-term loans:		
Unsecured loans, RUB	156	146
Unsecured loans, EUR	75	100
Unsecured loans, USD	15	15
	246	**261**
Current portion of long-term loans:		
Unsecured loans, EUR	185	8
	185	**8**
Total	**431**	**269**

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

	31 March 2019	31 December 2018
Due in:		
1 month	95	84
1-3 months	133	31
3 months to 1 year	203	154
Total	**431**	**269**

14. RELATED PARTIES

Transactions and balances outstanding with related parties

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

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

Details of transactions with and balances between the Group and related parties at 31 March 2019 and 31 December 2018 and for the three months ended 31 March 2019 and 31 March 2018 are disclosed below.

Other related parties include entities under common control with the Group. The amounts outstanding are unsecured and will be settled in cash.

a) Transactions with associates of the Group

	Three months ended 31 March	
	2019	2018
Revenue	1	-
Purchases	2	3

Balances outstanding	31 March 2019	31 December 2018
Trade and other receivables	1	1

14. RELATED PARTIES (CONTINUED)

b) Transactions with other related parties

	Three months ended 31 March	
	2019	**2018**
Revenue	46	147
Purchases	6	4

Balances outstanding	**31 March 2019**	**31 December 2018**
Cash and cash equivalents	30	24
Trade and other receivables	17	108
Trade and other payables	-	1

Remuneration of the Group's key management personnel

Key management personnel include key management of the Group and members of the Board of Directors and receive only short-term employment benefits. For the three months ended 31 March 2019 and 2018, total key management personnel compensation included in general and administrative expenses amounted to USD 2 million and USD 3 million, respectively, including social taxes.

15. COMMITMENTS AND CONTINGENCIES

Capital commitments

At 31 March 2019, the Group had purchase agreements of approximately USD 837 million to acquire property, plant and equipment (31 December 2018 : USD 203 million). Penalties are payable or receivable under these agreements in certain circumstances and where supply terms are not adhered to. Management does not expect such conditions to result in a loss to the Group.

Contingencies

Taxation contingencies in the Russian Federation

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

Russian transfer pricing (TP) legislation is generally aligned with the international TP principles developed by the Organisation for Economic Cooperation and Development (OECD), although it has specific features. The TP legislation provides for the possibility of additional tax assessment for controlled transactions (transactions between related parties and certain transactions between unrelated parties) if such transactions are not on an arm's-length basis. The Management has implemented internal controls to comply with current TP legislation.

Tax liabilities arising from controlled transactions are determined based on their actual transaction prices. It is possible, with the evolution of the interpretation of TP rules, that such prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the Group's operations.

15. COMMITMENTS AND CONTINGENCIES (CONTINUED)

The Group includes companies incorporated outside of Russia. The tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax, because they do not have a permanent establishment in Russia. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the Group. In 2014, the Controlled Foreign Company (CFC) legislation introduced Russian taxation of profits of foreign companies and non-corporate structures (including trusts) controlled by Russian tax residents (controlling parties). Starting from 2015, CFC income is subject to a 20% tax rate.

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

Russian business environment

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. The Russian economy continues to be negatively impacted by ongoing political tension in the region and international sanctions against certain Russian companies and individuals. The operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

16. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

The carrying amounts of financial instruments such as cash (Level 1) and cash equivalents (Level 2), trade and other receivables, lease obligations, short-term and floating rate long-term borrowings, trade and other payables are reasonable approximation of their fair values as at 31 March 2019 and 31 December 2018 (Level 3 of fair value hierarchy). Fair value of the financial assets at amortized cost is valued at the net present value of estimated future cash flows. The Group also considers liquidity, credit and market risk factors, and adjusts the valuation model as deemed necessary.

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

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

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

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

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

16. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

	Level 1	Level 2	Level 3	Total
31 March 2019				
Unlisted equity securities	-	-	2	2
Trading debt securities	7	-	-	7
Share in mutual investment fund	1	-	-	1
Total assets	**8**	**-**	**2**	**10**
31 December 2018				
Unlisted equity securities	-	-	2	2
Trading debt securities	6	-	-	6
Share in mutual investment fund	1	-	-	1
Total assets	**7**	**-**	**2**	**9**

17. APPROVAL OF THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements for the three months ended 31 March 2019 were approved by the Group's management and authorized for issue on 29 April 2019.

Public Joint Stock Company Magnitogorsk Iron & Steel Works and Subsidiaries

Consolidated Financial Statements
For the Year Ended 31 December 2018

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PUBLIC JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Management is responsible for the preparation of consolidated financial statements that present fairly the financial position of Public Joint Stock Company Magnitogorsk Iron & Steel Works and its subsidiaries (the "Group") at 31 December 2018, and the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

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

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

Management is also responsible for:

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

The consolidated financial statements for the year ended 31 December 2018 were approved for issuance on 6 February 2019 by:

O. P. Shiryaev
Acting General Director

6 February 2019
Magnitogorsk, Russia

O. Y. Samoylova
Director of OOO MMK-ACCOUNTING CENTER, a specialized organization, which performs the accounting function for Public Joint Stock Company Magnitogorsk Iron & Steel Works

Российская Федерация ПАО "ММК" Для бухгалтерских документов Публичное акционерное общество Магнитогорский металлургический комбинат

Independent Auditor's Report

To the Shareholders and Board of Directors of Public Joint Stock Company Magnitogorsk Iron & Steel Works:

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Public Joint Stock Company Magnitogorsk Iron & Steel Works (the "Company") and its subsidiaries (together – the "Group") as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

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

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Auditor's Professional Ethics Code and Auditor's Independence Rules that are relevant to our audit of the consolidated financial statements in the Russian Federation. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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Our audit approach

Overview

- Overall Group materiality: United States Dollar ("USD") 60.5 million, which represents 2.5% of adjusted earnings before interest, tax, depreciation and amortization (adjusted EBITDA).

- We conducted audit work at 4 reporting units in 3 countries;
- The Group engagement team visited the following locations – the Company (Russia), LLC Torgovy Dom MMK (Russia). The component engagement teams visited the following locations – MMK Metalurji (Turkey) and MMK Steel Trade AG (Switzerland);
- Our audit scope addressed 89% of the Group's revenues and 94% of the Group's absolute value of profit before tax.

- Impairment of property, plant and equipment at MMK Metalurji.
- Reversal of impairment of property, plant and equipment at the Company.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the consolidated financial statements as a whole.

Overall Group materiality	USD 60.5 mln
How we determined it	2.5% of Group adjusted EBITDA
Rationale for the materiality benchmark applied	We chose adjusted EBITDA as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users. We chose 2.5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
Impairment of property, plant and equipment at MMK Metalurji *Refer to note 16 to the consolidated financial statements for the related disclosure* During 2018 Turkey went through currency and debt crisis, characterized by the Turkish lira plunging in value, high inflation, rising borrowing costs, and correspondingly rising loan defaults. As a consequence, the Group postponed decision to commence operation of hot-rolled mill. The Group performed impairment test in respect of steel segment in Turkey – MMK Metalurji. As at 31 December 2018 carrying value of property, plant and equipment at MMK Metalurji before impairment adjustment comprised 11 percent of total Group's property, plant and equipment with aggregate value of USD 476 mln. Determining the recoverable amount of the assets requires a number of significant judgments and estimates, especially regarding amount of future cash flows and applied discount rate. The projected operating cash flows are significantly influenced by long-term assumptions concerning steel prices, as well as volume of sales and growth rates. Management has assessed recoverable amount of property plant and equipment of MMK Metalurji and concluded that it was less than the carrying value such that additional impairment adjustment was required. An impairment loss in the amount of USD 258 mln was recognised to the extent that the carrying amount is more than its recoverable amount.	We obtained, understood and evaluated impairment model for MMK Metalurji prepared by management. We tested the mathematical accuracy of the calculations derived from the model and assessed key inputs in the calculations such as volume of sales, steel sales price, discount rate and EBITDA margin, by reference to management's forecasts, macroeconomic assumptions and our own valuation expertise. We focused on these key assumptions because reasonably possible changes can have a material impact on the value in use assessment and resulting additional impairment charge. We found, based on our audit work, that the key assumptions used by management were supportable and appropriate in light of the current environment. We evaluated management's analysis of the sensitivity of the impairment test result and the adequacy of the sensitivity disclosure in particular in respect to the assumptions with the greatest potential effect on the test result, e.g. those relating to volume of sales, steel sales price, discount rate, and EBITDA margin. Based on available evidence we found management's estimates applied in the value in use model to be supported. We concurred with management that as at 31 December 2018 the impairment provision in the amount of USD 258 mln is required. We found the disclosure in note 16 to be appropriate.

Key audit matter	How our audit addressed the Key audit matter
Reversal of impairment of property, plant and equipment at the Company *Refer to note 16 to the consolidated financial statements for the related disclosure.* Changes in global economic environment and developments in metals industry have resulted in, among others, recovery of growth in metal prices. As a consequence, the Group performed impairment test in respect of steel segment in Russia. As at 31 December 2018 property, plant and equipment at the Company before reversal of impairment adjustment comprised 89 percent of total Group's property plant and equipment with aggregate value of USD 3 889 mln. Determining the recoverable amount of the assets requires a number of significant judgments and estimates, especially regarding the amount of future cash flows and the applied discount rate. The projected operating cash flows are significantly influenced by long-term assumptions concerning steel prices, as well as volume of sales. Management has assessed recoverability of the carrying value of property plant and equipment and concluded that that the recoverable amount was higher than the carrying value such that a complete reversal of previously recognised impairment was required.	We obtained, understood and evaluated impairment model prepared by management. We tested the mathematical accuracy of the calculations derived from the model and assessed key inputs in the calculations such as revenue growth and discount rate, by reference to management's forecasts, macroeconomic assumptions and our own valuation expertise. We found, based on our audit work, that the key assumptions used by management were supportable and appropriate in light of the current environment. We evaluated management's analysis of the sensitivity of the impairment test result and the adequacy of the sensitivity disclosure in particular in respect to the assumptions with the greatest potential effect on the test result, e. g. those relating to discount rate, annual growth rate and sales volume in monetary terms. Based on available evidence we found management's estimates applied in the value in use model to be reasonable and the discounted cash flows to be in accordance with the approved plans. We concurred with management that reversal of the impairment provision recognised in 2013 in the amount of USD 256 mln is required. We found the disclosure in note 16 to be appropriate.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls and the industry in which the Group operates.

We identified that Public Joint Stock Company Magnitogorsk Iron & Steel Works, the parent company of the Group, required an audit as significant component due to the size and risk involved. As the Group has separate financial function for MMK Metalurji (Turkey) and MMK Steel Trade AG (Switzerland) they were also selected as components. For LLC Torgovy Dom MMK (Russia) we performed work over specific financial statements lines. In addition, we have performed analytical procedures over the remaining immaterial companies of the Group.

In establishing our overall approach to the audit of the Group, we considered the significance of these components to the financial statements, our assessment of risk within each component, the overall coverage across the Group achieved by our procedures, as well as the risk associated with less significant components not brought into the normal scope of our audit.

We determined the type of work for each component that needed to be performed by us in relation to the activity within the Russian Federation, or by other PwC network firms operating under our instruction in relation to the activity outside the Russian Federation. Where the work was performed by those other firms, we determined the level of involvement we needed to have in their audit work to be able to conclude whether sufficient appropriate audit evidence has been obtained as a basis for our opinion on the Group's consolidated financial statements as a whole.

Taking together, the audit work performed addressed 89% of Group revenue and 94% of the Group's absolute value of profit before tax. This gave us the evidence we needed for our opinion on the Group's consolidated financial statements as a whole.

Other information

Management is responsible for the other information. The other information comprises the information in the Group's annual report and Issuer's Report for the first quarter of 2019 (but does not include the consolidated financial statements and our auditor's report thereon), which are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Group's annual report and Issuer's Report for the first quarter of 2019, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The certified auditor responsible for the audit resulting in this independent auditor's report is Alexei Fomin.

AO PricewaterhouseCoopers Audit

6 February 2019

Moscow, Russian Federation

A.B. Fomin, certified auditor (licence no. 01-000059), AO PricewaterhouseCoopers Audit

Audited entity: Public Joint Stock Company Magnitogorsk Iron & Steel Works

Record made in the Unified State Register of Legal Entities on 12 August 2002 under State Registration Number 1027402166835

Kirova, 93, Magnitogorsk, Russia, 455000

Independent auditor: AO PricewaterhouseCoopers Audit

Registered by the Government Agency Moscow Registration Chamber on 28 February 1992 under No. 008.890

Record made in the Unified State Register of Legal Entities on 22 August 2002 under State Registration Number 1027700148431

Member of Self-regulated organization of auditors "Russian Union of auditors" (Association)

Principal Registration Number of the Record in the Register of Auditors and Audit Organizations – 11603050547

PUBLIC JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018
(In millions of U.S. Dollars, unless otherwise stated)

	Notes	Years ended 31 December 2018	2017
REVENUE	7	8,214	7,546
COST OF SALES	9	(5,531)	(5,268)
GROSS PROFIT		**2,683**	**2,278**
General and administrative expenses	10	(238)	(238)
Selling and distribution expenses	11	(591)	(562)
Change in expected credit loss, net	18	(14)	-
Other operating expense, net	12	(7)	(23)
OPERATING PROFIT		**1,833**	**1,455**
Share of results of associates		-	5
Finance income		17	10
Finance costs	14	(31)	(44)
Foreign exchange gain/(loss), net		41	(39)
Impairment and provision for site restoration	16, 23	-	136
Excess of the Group's share in the fair value of net assets acquired over the cost of acquisition		-	36
Other expense		(85)	(64)
PROFIT BEFORE INCOME TAX		**1,775**	**1,495**
INCOME TAX	15	(458)	(306)
PROFIT FOR THE YEAR		**1,317**	**1,189**
OTHER COMPREHENSIVE (LOSS)/INCOME			
Items, that may be reclassified subsequently to profit or loss			
Translation of foreign operations		254	(43)
Items, that will not be reclassified subsequently to profit or loss			
Remeasurements of post-employment benefit obligations		-	(2)
Effect of translation to presentation currency		(1,147)	265
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX		**(893)**	**220**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**424**	**1,409**
Profit attributable to:			
Shareholders of the Parent Company		1,315	1,184
Non-controlling interests		2	5
		1,317	**1,189**
Total comprehensive income attributable to:			
Shareholders of the Parent Company		427	1,406
Non-controlling interests		(3)	3
		424	**1,409**
BASIC AND DILUTED EARNINGS PER SHARE (U.S. Dollars)		0.118	0.106
Weighted average number of ordinary shares outstanding (in thousands)		11,174,330	11,174,330

The notes on pages 6 to 59 are an integral part of these consolidated financial statements.

PUBLIC JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2018

(In millions of U.S. Dollars)

	Notes	31 December 2018	2017
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	16	4,370	4,874
Right-of-use-assets	2	18	-
Intangible assets		24	27
Investments in securities and other financial assets	19	2	3
Investments in associates		1	2
Deferred tax assets	15	50	93
Other non-current assets		-	8
Total non-current assets		4,465	5,007
CURRENT ASSETS:			
Inventories	17	1,217	1,421
Trade and other receivables	18	697	782
Investments in securities and other financial assets	19	7	8
Income tax receivable		-	1
Value added tax recoverable		80	149
Cash and cash equivalents	20	739	556
Total current assets		2,740	2,917
TOTAL ASSETS		**7,205**	**7,924**
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	21	386	386
Share premium		969	969
Translation reserve		(6,029)	(5,141)
Retained earnings		9,662	9,259
Equity attributable to shareholders of the Parent Company		4,988	5,473
Non-controlling interests		21	24
Total equity		5,009	5,497
NON-CURRENT LIABILITIES:			
Long-term borrowings	22	246	234
Obligations under leases		11	-
Obligations under finance leases		-	1
Retirement benefit obligations		15	19
Long-term other payables		9	16
Site restoration provision	23	132	158
Deferred tax liabilities	15	381	417
Total non-current liabilities		794	845
CURRENT LIABILITIES:			
Short-term borrowings and current portion of long-term borrowings	26	269	308
Current portion of obligations under leases		10	-
Current portion of obligations under finance leases		-	1
Current portion of retirement benefit obligations		3	3
Trade and other payables	25	1,095	1,236
Current portion of site restoration provision	23	8	11
Income tax payables		17	20
Net assets attributable to minority participants		-	3
Total current liabilities		1,402	1,582
TOTAL EQUITY AND LIABILITIES		**7,205**	**7,924**

O. P. Shiryaev
Acting General Director

O. Y. Samoylova
Director of OOO MMK-ACCOUNTING CENTER, a specialized organization, which performs the accounting function for Public Joint Stock Company Magnitogorsk Iron & Steel Works

6 February 2019
Magnitogorsk, Russia

ПАО "ММК" Для бухгалтерских документов
Российская Федерация • Магнитогорский металлургический комбинат • Публичное акционерное общество

The notes on pages 6 to 89 are an integral part of these consolidated financial statements.

PUBLIC JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

(In millions of U.S. Dollars)

	Notes	Attributable to shareholders of the Parent Company					Non-controlling interest	Total equity
		Share capital	Share premium	Translation reserve	Retained earnings	Total		
BALANCE AT 1 JANUARY 2017		**386**	**969**	**(5,365)**	**8,703**	**4,693**	**18**	**4,711**
Profit for the year		-	-	-	1,184	**1,184**	5	**1,189**
Other comprehensive income for the year, net of tax		-	-	224	(2)	**222**	(2)	**220**
Total comprehensive income for the year		**-**	**-**	**224**	**1,182**	**1,406**	**3**	**1,409**
Changes in non-controlling interest in subsidiaries		-	-	-	(3)	**(3)**	3	**-**
Dividends	21	-	-	-	(623)	**(623)**	-	**(623)**
BALANCE AT 31 DECEMBER 2017		**386**	**969**	**(5,141)**	**9,259**	**5,473**	**24**	**5,497**
Profit for the year		-	-	-	1,315	**1,315**	2	**1,317**
Other comprehensive loss for the year, net of tax		-	-	(888)	-	**(888)**	(5)	**(893)**
Total comprehensive income for the year		**-**	**-**	**(888)**	**1,315**	**427**	**(3)**	**424**
Dividends	21	-	-	-	(912)	**(912)**	-	**(912)**
BALANCE AT 31 DECEMBER 2018		**386**	**969**	**(6,029)**	**9,662**	**4,988**	**21**	**5,009**

The notes on pages 6 to 59 are an integral part of these consolidated financial statements.

PUBLIC JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018
(In millions of U.S. Dollars)

	Notes	Years ended 31 December 2018	2017
OPERATING ACTIVITIES:			
Profit for the year		1,317	1,189
Adjustments to profit for the year:			
Income tax		458	306
Depreciation and amortization	9, 10, 11	566	544
Impairment losses and provision for site restoration	16, 23	-	(136)
Revaluation of share in mutual investment fund		-	1
Finance costs	14	31	44
Loss on disposal of property, plant and equipment	12	19	28
Excess of the Group's share in the fair value of net assets acquired over the cost of acquisition		-	(36)
Change in expected credit loss	18	14	-
Change in allowance for advances issued	12	7	1
Change in allowance for doubtful accounts receivable	12	-	2
Change in provision for impairment investments in securities and other financial assets		1	-
Change in allowance for obsolete and slow-moving items	17	1	2
Finance income		(17)	(10)
Foreign exchange (gain)/loss, net		(41)	39
Gain on disposal of subsidiaries	12	-	(5)
Share of results of associates		-	(5)
Change in net assets attributable to minority participants		-	1
Operating cashflow before working capital changes		2,356	1,965
Movements in working capital			
Increase in trade and other receivables		(42)	(170)
Decrease/(increase) in value added tax recoverable		57	(44)
Decrease/(increase) in inventories		28	(269)
(Decrease)/increase in trade and other payables		(105)	189
Cash generated from operations		2,294	1,671
Interest paid		(15)	(25)
Income tax paid		(392)	(288)
Net cash from operating activities		1,887	1,358
INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(860)	(664)
Purchase of intangible assets		(10)	(10)
Acquisition of subsidiaries, net of cash acquired		-	14
Proceeds from sale of property, plant and equipment		4	2
Interest received		17	10
Proceeds from sale of subsidiaries, net of disposed cash		-	3
Proceeds from sale of securities and other financial assets		6	5
Proceeds from sale of assets ready for sale		-	4
Purchase of securities and other financial assets		(5)	-
Purchase available-for-sale investments		-	(6)
Placement of short-term bank deposits		(1)	(110)
Withdrawal of short-term bank deposits		1	153
Net cash used in investing activities		(848)	(599)

The notes on pages 6 to 59 are an integral part of these consolidated financial statements.

PUBLIC JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)
(In millions of U.S. Dollars)

	Notes	Years ended 31 December 2018	2017
FINANCING ACTIVITIES:			
Proceeds from borrowings		867	881
Repayments of borrowings		(850)	(947)
Repayment of the principal amount of the lease debt		(12)	(1)
Acquisition of minority interest		(3)	-
Dividends paid to equity holders of the Parent Company		(833)	(413)
Net cash used in financing activities		(831)	(480)
NET INCREASE IN CASH AND CASH EQUIVALENTS		208	279
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	20	556	266
Effect of translation to presentation currency and exchange rate changes on the balance of cash held in foreign currencies		(25)	11
CASH AND CASH EQUIVALENTS, END OF PERIOD	20	**739**	**556**

The notes on pages 6 to 59 are an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

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

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

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

As at 31 December 2018 the Parent Company's major shareholder was Mintha Holding Limited with a 84.3% ownership interest (31 December 2017: 84.3%).

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

At 31 December 2018 and 2017, the Group's principal subsidiaries were as follows:

Subsidiary by country of incorporation	Nature of business	Effective % held at 31 December	
		2018	**2017**
Russian Federation			
OJSC Metizno-Kalibrovochny Zavod "MMK-Metiz"	Production of metal hardware products	95.78	95.78
LLC MMK LMZ	Production of ferrous metal products	100.00	100.00
LLC IK MMK Finance	Investing activities	100.00	100.00
LLC Stroitelny Komplex	Construction	100.00	100.00
LLC Ogneupor	Production of refractory materials	100.00	100.00
LLC Mekhanoremontny Komplex	Maintenance of metallurgical equipment	100.00	100.00
LLC OSK	Production of machinery and equipment for metallurgy	100.00	100.00
LLC MTSOZ	Production of cement and refractory materials	100.00	100.00
LLC MMK Vtormet	Collection and processing of metal scrap	100.00	100.00
LLC Torgovy Dom MMK	Trading activities	100.00	100.00
OJSC Belon	Holding company, trading activities	95.39	95.39
LLC MMK Ugol	Coal mining	98.51	98.51
Turkey			
MMK Metalurji	Production of ferrous metal products	100.00	100.00
Switzerland			
MMK Steel Trade AG	Trading activities	100.00	100.00
Luxemburg			
MMK-Mining Assets Management S.A.	Holding company	100.00	100.00

2. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

The following amended standards that are relevant to the Group became effective from 1 January 2018.

The significant accounting policies applied in the current period are described in Note 4. Accounting policies applied prior to 1 January 2018 and applicable to the comparative information are disclosed in Note 33.

Adoption of IFRS 9 "Financial Instruments". The Group adopted IFRS 9 "Financial Instruments" from 1 January 2018. In accordance with the transitional provisions in IFRS 9, the Group elected not to restate comparative figures and recognised any adjustments to the carrying amount of financial assets and financial liabilities in the opening retained earnings as of the date of initial application of the standard, 1 January 2018. The management of the Group estimated that the effect of transition to expected loss model to the opening retained earnings as of the date of initial application of the standards, 1 January 2018, is immaterial. The revised requirements of the IFRS 7 "Financial Instruments": Disclosures, have only been applied to the current period. The comparative period disclosures repeat those disclosures made in the prior year.

The following table reconciles the carrying amounts of each class of financial assets as previously measured in accordance with IAS 39 and the new amounts determined upon adoption of IFRS 9 on 1 January 2018.

	Measurement category		Carrying value under IAS 39 - 31 December 2017	Effect of adopting IFRS 9				Carrying value under IFRS 9 - 1 January 2018
				Reclassification		Remeasurement		
	IAS 39	IFRS 9		Manda-tory	Volun-tary	ECL	Other	
Cash and cash equivalents	L&R	AC	556	-	-	-	-	556
Investment securities AFS	AFS	Manda-tory at FVTPL	11	-	-	-	-	11
Trade and other receivables	L&R	AC	677	-	-	-	-	677
Total financial assets			**1,244**	**-**	**-**	**-**	**-**	**1,244**

(a) Cash and cash equivalents

All classes of cash and cash equivalents as disclosed in Note 20 were reclassified from loans and receivables ("L&R") measurement category under IAS 39 to amortised cost ("AC") measurement category under IFRS 9 at the adoption date of the standard. The expected credit losses ("ECL") for cash and cash equivalents balances were insignificant.

(b) Investments in available-for-sale securities

Investments in available-for-sale ("AFS") securities included trading debt securities, shares in mutual investment fund and investments in unlisted securities. Investments in securities were reclassified from retired category available-for-sale to mandatory fair value trough profit or loss ("FVTPL"). The change of measurement category does not have a material effect on consolidated financial statement of the Group.

(c) Other financial assets

Other financial assets included trade receivables and other receivables and were reclassified from loans and receivables ("L&R") measurement category under IAS 39 to AC measurement category under IFRS 9 at the adoption date of the standard. The ECLs for other financial assets balances were insignificant.

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

Other financial assets included trade receivables and other receivables and were reclassified from loans and receivables ("L&R") measurement category under IAS 39 to AC measurement category under IFRS 9 at the adoption date of the standard. The ECLs for other financial assets balances were insignificant.

Reconciliation of provision for impairment at 31 December 2017 and credit loss allowance at 1 January 2018. The following table reconciles the prior period's closing provision for impairment measured in accordance with incurred loss model under IAS 39 to the new credit loss allowance measured in accordance with expected loss model under IFRS 9 at 1 January 2018:

	Provision under IAS 39 or IAS 37 at 31 December 2017	Effect Remeasurement from incurred to expected loss	Credit loss allowance under IFRS 9 at 1 January 2018
Trade and other receivables	(35)	-	(35)

At 31 December 2017, all of the Group's financial liabilities were carried at AC. The derivatives belonged to the FVTPL measurement category under IAS 39. There were no changes to the classification and measurement of financial liabilities.

Adoption of IFRS 15 "Revenue from Contracts with Customers". The Group applied simplified method of transition to IFRS 15, and elected to apply the practical expedient available for simplified transition method. The Group applies IFRS 15 retrospectively only to contracts that were not completed at the date of initial application (1 January 2018).

The adoption of IFRS 15 resulted in changes in accounting policies and adjustments to the consolidated financial statements. The main changes from the adoption of IFRS 15 is additional performance obligations identified for transportation services.

Starting from 1 January 2018 the Group recognizes revenue from sale of goods and services when a performance obligation under contract with customer is satisfied, i.e. when control of the goods or services underlying the particular performance obligation is transferred to the customer, at the transaction price. The Group has reviewed a representative sample of sales contracts at all of its operating segments to identify changes in timing of revenue recognition. A significant proportion of the Group's contracts with customers consists of two performance obligations: a) sale of its products and b) obligation to transport goods to specified location after control is transferred to customer. Under IFRS 15, revenue from sale of products is recognised at a point of time, when control over the goods is transferred to the customer. In most cases a control over product is transferred to the customer after delivery to the first carrier. Transportation component is required to be accounted for as a separate performance obligation with revenue recognized over time as the service is rendered and consequently transportation component required to be disclosed as separate revenue stream based on different timing of revenue recognition.

The adoption of IFRS 15 did not have a material impact on the financial position or financial performance of the Group as of the date of initial application of the standards, 1 January 2018.

Early adoption of IFRS 16 "Leases". The Group has elected to early adopt IFRS 16 "Leases" from 1 January 2018. In accordance with the transition provisions in IFRS 16 the new rules have been adopted retrospectively with the cumulative effect of initially applying the new standard recognised on 1 January 2018. Comparatives for the 2017 financial year have not been restated.

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model.

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

The adoption of IFRS 16 resulted in changes in accounting policies and adjustments to the consolidated financial statements (Note 4). The Group is a lessee under lease contracts and the main changes from the adoption of IFRS 16 are recognition of: (a) assets and liabilities for all leases except for short-term and low-value contracts; and (b) depreciation of lease assets separately from interest on lease liabilities in the statement of profit or loss and other comprehensive income.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Management made the following adjustments to the amounts recognised in the consolidated statement of financial position as at 1 January 2018:

	Carrying amount at 31 December 2017	Adjustment on IFRS 16 adoption	Carrying amount at 1 January 2018
Right-of-use assets	-	23	23
Short-term lease obligations	-	(10)	(10)
Long-term lease obligations	-	(13)	(13)

A reconciliation of the operating lease commitments disclosed in Note 30 to the recognised liability is as follows:

	1 January 2018
Total future minimum lease payments for non-cancellable operating leases (Note 30)	100
Future variable lease payments that are not based on an index or a rate	(74)
Future variable lease payments that depend on an index or a rate	21
Future lease payments that are due in periods subject to lease extension options that are reasonably certain to be exercised	13
Effect of discounting to present value	(37)
Total lease liabilities	**23**

The following amended standards became effective for the Group from 1 January 2018, but did not have any material impact on the Group:

Amendments to IFRS 2 "Share-based Payment" (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).

Amendments to IFRS 4 - "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).

Annual Improvements to IFRSs 2014-2016 cycle - Amendments to IFRS 1 an IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

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

IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018)."

Amendments to IAS 40 "Transfers of Investment Property" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2019 or later, and which the Group has not early adopted.

IFRIC 23 "UNCERTAINTY OVER INCOME TAX TREATMENTS" (ISSUED ON 7 JUNE 2017 AND EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. The new interpretation is not expected to affect significantly the Group's consolidated financial statements.

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

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021).
- Prepayment Features with Negative Compensation - Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).

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

- Definition of a business - Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).
- Definition of materiality - Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).

3. BASIS OF PREPARATION

Statement of compliance

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

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

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

Basis of preparation

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

4. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 9, IFRS 16 and IFRS 15 effective from 1 January 2018, these policies have been consistently applied to all the periods presented, unless otherwise stated. The principal accounting policies in respect of financial instruments, leases and revenue recognition applied till 31 December 2017 are presented in Note 33.

Basis of consolidation

Subsidiaries

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 "Financial Instruments" or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

Associates

Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in the Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as the share of results of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii); all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of results of associates.

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

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

Functional and presentation currency

Different entities within the Group have different functional currencies, based on the underlying economic conditions of their operations.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The functional currency of the Group's entities except for MMK Metalurji and MMK Steel Trade AG is the Russian Rouble ("RUB"). The functional currency of MMK Metalurji and MMK Steel Trade AG is the United States Dollar ("USD").

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

The translation into presentation currency is made as follows:

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

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

	31 December	
	2018	**2017**
Russian Rouble/US Dollar		
Year-end rates	69.47	57.60
Average for the period	62.80	58.35

Foreign currency transactions

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations

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

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

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

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

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

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

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

Goodwill

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Revenue recognition

Revenue is income arising in the course of the Group's ordinary activities. Revenue is recognised in the amount of transaction price. Transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties.

Revenue is recognised net of discounts, returns and value added taxes, export duties, other similar mandatory payments.

Group's contracts with customers are fixed-price contracts and generally include both advance payment and deferred payment for the same contracts. Generally the sales are made with a credit term of 30-60 days, which is consistent with the market practice and consequently trade receivables are classified as current assets.

A receivable is recognised when the goods are delivered or dispatched based on delivery terms as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due (Note 18). Contract assets are immaterial and therefore not presented separately in the consolidated financial statements.

A contract liability is an entity's obligation to transfer goods or services to a customer for which the entity has received consideration from the customer. Contract liabilities are included in trade and other payables line item as advances from customers (Note 25).

Sales of goods

Sales are recognised when control of the good has transferred, being when the goods are delivered to the customer, the customer has full discretion over the goods, and there is no unfulfilled obligation that could affect the customer's acceptance of the goods. Delivery occurs when the goods have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the goods in accordance with the contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Revenue from the sales with discounts is recognised based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A refund liability (included in trade and other payables) is recognised for expected volume discounts payable to customers in relation to sales made until the end of the reporting period.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Sales of transportation services

The Group provides transportation services to the customer after control over goods has transferred, revenue from such services is considered to be a separate performance obligation and is recognised over the time of the service rendering because the customer receives and uses the benefits simultaneously.

The Group provides services under fixed-price contracts. Revenue from providing services is recognised in the accounting period in which the services are rendered. Revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided. This is determined based on proportion the actual distance relative to the total expected distance.

Where the contracts include multiple performance obligations, the transaction price is allocated to each separate performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on expected cost plus margin.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

In case of fixed-price contracts, the customer pays the fixed amount based on a payment schedule. If the services rendered by the Group exceed the payment, a contract asset arise. If the payments exceed the services rendered, a contract liability is recognised.

Financing components

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

Borrowing costs

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

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

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

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

Income tax

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Current tax

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

Deferred income tax

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

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

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

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

Deferred income tax on post-acquisition retained earnings of subsidiaries

Deferred income tax is provided on post-acquisition retained earnings and other post acquisition movements in reserves of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Uncertain tax positions

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment

Manufacturing assets

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

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

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

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

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

Mineral rights

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

Depreciation

Land is not depreciated. Depreciation of manufacturing assets is computed under the straight-line method utilising useful lives of the assets which are:

Buildings	10-50 years
Machinery and equipment	1-30 years
Transportation equipment	3-20 years
Fixtures and fittings	3-30 years

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leased assets

The Group is a party to lease contracts as a lessee for, among others:

a) land under buildings and constructions,

b) building for office space, warehouses,

c) motor vehicles and machinery.

Leases are recognized, measured and presented in line with IFRS 16 "Leases".

The Group implemented a single accounting model, requiring lessees to recognize assets and liabilities for all leases excluding exceptions listed in the standard (Note 2).

Based on the accounting policy applied the Group recognizes a right-of-use asset and a lease liability at the commencement date of the contract for all leases conveying the right to control the use of an identified asset for a period of time. The commencement date is the date on which a lessor makes an underlying asset available for use by a lessee.

The right-of-use assets are initially measured at cost, which comprises:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives;
- any initial direct costs incurred by the lessee;
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying assets or restoring the site on which the assets are located.

After the commencement date the right-of-use assets are measured at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any re-measurement of the lease liability.

If the lease transfers ownership of the underlying asset to the Group by the end of the lease term or if the cost of the right-of-use asset reflects that the Group will exercise a purchase option, the Group depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Group depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Lease payments included in measurement of lease liability of the Group generally include only fixed payments (including in-substance fixed payments), less any lease incentives receivable. The lease payments exclude variable elements which are dependent on external factors such as e.g. energy usage. Variable lease payments not included in the initial measurement of the lease liability are recognized directly in the profit and loss.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the group's incremental borrowing rate. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The lease term determined by the Group comprises:

- non-cancellable period of lease contracts;
- periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option;

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

After the commencement date the Group measures the lease liability by:

- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect lease payments made;
- and re-measuring the carrying amount to reflect any reassessment or lease modifications.

Intangible assets, excluding goodwill

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

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

Impairment of tangible and intangible assets, excluding goodwill

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

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

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

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

Inventories

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Deferred drifting costs

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

Value added taxes

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

Financial instruments - key measurement terms

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

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

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 31.

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Financial instruments - initial recognition

Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an ECL allowance is recognised for financial assets measured at AC and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

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

The Group uses discounted cash flow valuation techniques to determine the fair value of currency swaps, loans to related parties that are not traded in an active market. Differences may arise between the fair value at initial recognition, which is considered to be the transaction price, and the amount determined at initial recognition using a valuation technique with level 3 inputs. If any differences remain after calibration of model inputs, such differences are amortised on a straight line basis over the term of the currency swaps, loans to related parties. The differences are immediately recognised in profit or loss if the valuation uses only level 1 or level 2 inputs.

Financial assets - classification and subsequent measurement - measurement categories

The Group classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Group's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset. As of 31 December 2018 and 31 December 2017 the Group did not hold financial assets at FVOCI.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets - classification and subsequent measurement - business model

The business model reflects how the Group manages the assets in order to generate cash flows - whether the Group's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Group undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Group in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed, how the assets' performance is assessed and how managers are compensated.

Financial assets - classification and subsequent measurement - cash flow characteristics

Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Group assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature. In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed.

The group holds the trade receivables with the objective to collect contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. Details about the Group's impairment policies and the expected credit loss measurement are provided in Note 18.

Financial assets - reclassification

Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. The entity did not change its business model during the current and comparative period and did not make any reclassifications.

Financial assets impairment - credit loss allowance for ECL

The Group assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts, for contract assets. The Group measures ECL and recognises Net impairment losses on financial and contract assets at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets of the Group that are subject to IFRS 9's new expected credit loss model are represented by trade receivables and investments in securities. The group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables and contract assets. Investments in securities balance as of the date of consolidated financial statement and consequently impairment loss was immaterial. Cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Financial assets - write-off

Financial assets are written-off, in whole or in part, when the Group exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. Indicators that there is no reasonable expectation of recovery include:

- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty.

The Group may write-off financial assets that are still subject to enforcement activity when the Group seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

Derivative financial instruments

Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options are carried at their fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year. The Group does not apply hedge accounting. As of 31 December 2018 and 31 December 2017 the Group did not hold derivative financial instruments.

Certain derivative instruments embedded in financial liabilities and other non-financial contracts are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

Financial assets - derecognition

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

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

Financial assets - modification

The Group sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Group assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: any new contractual terms that substantially affect the risk profile of the asset (eg profit share or equity-based return), significant change in interest rate, change in the currency denomination, new collateral or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Group derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred. The Group also assesses whether the new loan or debt instrument meets the SPPI criterion. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Group compares the original and revised expected cash flows to assets whether the risks and rewards of the asset are substantially different as a result of the contractual modification. If the risks and rewards do not change, the modified asset is not substantially different from the original asset and the modification does not result in derecognition. The Group recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets), and recognises a modification gain or loss in profit or loss.

Financial liabilities - measurement categories

Financial liabilities are classified as subsequently measured at AC, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments. As of 31 December 2018 and 31 December 2017 the Group did not have financial guarantee contracts and loan commitments or financial liabilities at HVTPL.

Financial liabilities - derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

An exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in loan covenants are also considered. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Offsetting financial instruments

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

Employee benefit obligations

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

Defined contribution plans

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

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

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

Defined benefit plans

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

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

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

Provisions

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Site restoration provision

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

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

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

Dividends

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

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

Segment information

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

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

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgements in applying accounting policies

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

Key sources of estimation uncertainty

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

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

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

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

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

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

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

Site restoration provision

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

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

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

The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for operating sites are recognised in the consolidated statement of financial position by adjusting both the restoration asset if it exists and provision. Such changes give rise to a change in future depreciation and financial charges. For closed sites, changes to estimated costs are recognised immediately in the consolidated statement of comprehensive income. Details are disclosed in Note 23.

Impairment of assets

The Group periodically evaluates the recoverability of the carrying amount of its assets. Whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable, the Group estimates the recoverable amount of the asset. This requires the Group to make judgments regarding long-term forecasts of future revenues and costs related to the assets subject to review. In turn, these forecasts are uncertain in that they require assumptions about demand for products and future market conditions. Significant and unanticipated changes to these assumptions and estimates included within the impairment reviews could result in significantly different results than those recorded in the consolidated financial statements. Details of the assumptions are disclosed in Note16.

Initial recognition of related party transactions

In the normal course of business the Group enters into transactions with its related parties. IFRS 9 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analyses. Terms and conditions of related party balances are disclosed in Note 27.

ECL measurement

Measurement of ECLs is a significant estimate that involves determination methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 28. The Group regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience.

Income tax and other taxes

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

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

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

Write-off policy

Financial assets are written-off, in whole or in part, when the Group exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. Determining the cash flows for which there is no reasonable expectation of recovery requires judgement. Management considered the following indicators that there is no reasonable expectation of recovery: receivables being past due over 360 days, liquidation or bankruptcy proceedings, fair value of collateral is less than the costs to repossess it or enforcement activities were completed.

Measurement of right-of-use assets and liabilities

Extension and termination options are included in a number of property and equipment leases across the group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the group and not by the respective lessor.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

6. ACQUISITION OF SUBSIDIARIES

On 19 December 2017, the Group acquired a 100% share in LLC LMC, a holding company of LMC Group (CJSC LMZ, LLC INSAYUR-AVTOTREID-TL) engaged in production of ferrous metal products, for a total cash consideration of USD 10 million. Entities of the acquired group are incorporated in the Russian Federation, with a holding company located in Lysva.

The acquisition of CJSC LMZ will strengthen the Group by expanding product range. In addition, the transaction helps to increase the Group's overall operational efficiency and competitiveness by increasing production volumes and sales of High Value Added (HVA) products. The transaction forms part of Group's strategy to integrate assets that produce highly refined products.

This acquisition was accounted for using the acquisition method.

As of 31 December 2017 the Group has determined the fair values of identifiable assets, liabilities and contingent liabilities of the acquired company at the date of acquisition on a provisional basis. As of 31 December 2018, the necessary fair value measurement of property, plant and equipment and other calculations have been finalised. Based on results of measurement no adjustment is required for purchase price allocation disclosed in the Group's consolidated financial statements as of 31 December 2017.

6. ACQUISITION OF SUBSIDIARIES (CONTINUED)

Details on final fair values of the assets and liabilities acquired arising are as follows:

	Fair value at the date of acquisition
ASSETS	
Property, plant and equipment	85
Deferred tax assets	11
Inventories	17
Trade and other receivables	9
Value added tax recoverable	3
Cash and cash equivalents	6
Total assets	**131**
LIABILITIES	
Borrowings	60
Trade and other payables	33
Total liabilities	**93**
Net assets at the date of acquisition	38
Fair value of consideration given for controlling interest	10
Total purchase consideration	**10**
Less: fair value of net assets of acquiree	(38)
Excess of the Group's share in the fair value of net assets acquired over the cost of acquisition	**(28)**

7. REVENUE

By product (including transportation services)	**2018**	**2017**
Hot rolled steel	3,362	3,174
Galvanised steel	1,343	1,203
Long steel products	799	728
Cold rolled steel	765	776
Galvanised steel with polymeric coating	667	571
Hardware products	154	149
Wire, sling, bracing	158	141
Formed section	134	89
Coking production	133	115
Band	99	89
Tin plated steel	108	97
Coal	52	2
Tubes	40	41
Scrap	48	62
Slabs	-	2
Others	352	307
Total	**8,214**	**7,546**

By customer destination	**2018**	**2017**
Russian Federation and the CIS	79 %	77 %
Middle East	9 %	14 %
Asia	5 %	3 %
Europe	4 %	3 %
Africa	3 %	3 %
Total	**100 %**	**100 %**

7. REVENUE (CONTINUED)

By type of performance obligation	2018
Revenue from sales of products – at point in time	7,899
Revenue from transportation services – over time	315
Total	**8,214**

8. SEGMENT INFORMATION

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

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

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

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

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

8. SEGMENT INFORMATION (CONTINUED)

The following table presents measures of segment results for the year ended 31 December 2018 and 2017:

	Steel (Russia)		Steel (Turkey)		Coal mining		Eliminations		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Revenue (including transportation revenue)										
Sales to external customers	7,541	6,848	620	695	53	3	-	-	**8,214**	**7,546**
Inter-segment sales	285	368	-	-	287	317	(572)	(685)	-	-
Total revenue	**7,826**	**7,216**	**620**	**695**	**340**	**320**	**(572)**	**(685)**	**8,214**	**7,546**
Segment EBITDA	**2,282**	**1,887**	**(9)**	**50**	**137**	**104**	**8**	**(9)**	**2,418**	**2,032**
Depreciation and amortisation	(473)	(456)	(61)	(61)	(32)	(27)	-	-	**(566)**	**(544)**
Loss on disposal of property, plant and equipment	(18)	(26)	-	-	(1)	(2)	-	-	**(19)**	**(28)**
Share of results of associates	-	(5)	-	-	-	-	-	-	-	**(5)**
Operating profit per IFRS financial statements	**1,791**	**1,400**	**(70)**	**(11)**	**104**	**75**	**8**	**(9)**	**1,833**	**1,455**

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

At 31 December 2018 and 2017, the segments' total assets and liabilities were reconciled to total assets and liabilities as follows:

	31 December 2018				
	Steel (Russia)	Steel (Turkey)	Coal mining	Eliminations	Total
Total assets	8,052	533	410	(1,790)	**7,205**
Total liabilities	2,136	102	79	(121)	**2,196**

	31 December 2017				
	Steel (Russia)	Steel (Turkey)	Coal mining	Eliminations	Total
Total assets	8,593	931	411	(2,011)	**7,924**
Total liabilities	2,232	142	100	(47)	**2,427**

The segmental additions to property, plant and equipment and intangible assets for the years ended 31 December 2018 and 31 December 2017 were:

	2018	2017
Steel (Russia)	818	651
Steel (Turkey)	10	6
Coal mining	56	65
Total capital expenditure	**884**	**722**

9. COST OF SALES

	2018	2017
Raw materials used	4,154	3,978
Depreciation of property, plant and equipment	542	520
Payroll and social taxes	641	643
Other expenses	206	242
	5,543	**5,383**
Changes in work in progress, finished goods and goods-in-transit	(12)	(115)
Total	**5,531**	**5,268**

10. GENERAL AND ADMINISTRATIVE EXPENSES

	2018	2017
Payroll and social taxes	114	116
Taxes other than income tax	59	55
Depreciation and amortisation	22	22
Professional services	17	17
Insurance	3	3
Materials	3	3
Research and development costs	-	3
Other	20	19
Total	**238**	**238**

11. SELLING AND DISTRIBUTION EXPENSES

	2018	2017
Transportation expenses	451	437
Packing costs	38	37
Materials	25	25
Payroll and social taxes	15	14
Advertising expenses	2	2
Depreciation	2	2
Other	58	45
Total	**591**	**562**

12. OTHER OPERATING EXPENSE/(INCOME), NET

	2018	2017
Loss on disposal of property, plant and equipment	19	28
Provision for advances issued	7	-
Provision for trade and other receivables	-	3
Gain on disposal of other assets	(23)	(8)
Gain on disposal of subsidiaries	-	(5)
Other operating loss, net	4	5
Total	**7**	**23**

13. OTHER EXPENSES

For the years ended 31 December 2018 and 2017, other expenses included USD 51 million and USD 44 million, respectively, related to social programs and maintenance of social assets.

14. FINANCE COSTS

	2018	2017
Interest expense on borrowings	16	28
Interest expense on provisions	14	16
Other	1	-
Total	**31**	**44**

15. INCOME TAXES

The Group's income tax expense attributable to different tax jurisdictions for the years ended 31 December 2018 and 2017 was:

	2018	2017
Current provision for income tax	394	264
Adjustments recognised in current year relating to prior year current income tax	(4)	21
Deferred income tax expense, net	68	21
Total income tax expense	**458**	**306**

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

	2018	2017
Profit before income tax	**1,775**	**1,495**
Theoretical income tax charge	355	299
Adjustments due to:		
Effect of different tax rates	(7)	4
Income not taxable	(5)	(21)
Expenses not deductible	16	12
Change in unrecognized deffered tax assets	65	(18)
Adjustments recognised in current year relating to prior year current tax	(4)	21
Unrecognized deffered tax assets as a result of difference between functional and tax accounting currency	33	15
Other	5	(6)
Income tax expense	**458**	**306**

15. INCOME TAXES (CONTINUED)

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

	31 December 2018	Charged/ (credited) to profit or loss	Business combi-nations	Effect of translation to presen-tation currency	31 December 2017
Property, plant and equipment	14	-	-	(2)	16
Investments	2	-	-	(1)	3
Unused tax losses	16	(29)	-	(5)	50
Investment tax credits	5	(2)	-	-	7
Inventories	15	-	-	(4)	19
Accounts receivable	3	1	-	-	2
Loans	1	1	-	-	-
Site restoration provision	28	-	-	(6)	34
Accounts payable	10	(4)	-	(2)	16
Deferred tax set off	(44)	-	-	10	(54)
Deferred income tax assets	50	(33)	-	(10)	93
Property, plant and equipment	(375)	(48)	-	70	(397)
Intangible assets	(1)	-	-	-	(1)
Inventories	(35)	19	-	8	(62)
Accounts receivable	(13)	(9)	-	3	(7)
Loans	(1)	(1)	-	-	-
Accounts payable	-	4	-	-	(4)
Deferred tax set off	44	-	-	(10)	54
Deferred income tax liabilities	(381)	(35)	-	71	(417)
Net deferred tax liability	**(331)**	**(68)**	**-**	**61**	**(324)**

	31 December 2017	Charged/ (credited) to profit or loss	Business combi-nations	Effect of translation to presen-tation currency	31 December 2016
Property, plant and equipment	16	(7)	6	1	16
Investments	3	-	-	-	3
Unused tax losses	50	4	5	1	40
Investment tax credits	7	(1)	-	-	8
Inventories	19	(3)	-	3	19
Accounts receivable	2	(9)	1	-	10
Site restoration provision	34	(3)	-	2	35
Accounts payable	16	15	-	-	1
Deferred tax set off	(54)	6	(1)	(2)	(57)
Deferred income tax assets	93	2	11	5	75
Property, plant and equipment	(397)	(2)	-	(20)	(375)
Intangible assets	(1)	(1)	-	-	-
Inventories	(62)	(18)	-	(2)	(42)
Accounts receivable	(7)	7	(1)	(1)	(12)
Loans	-	1	-	-	(1)
Accounts payable	(4)	(3)	-	(1)	-
Deferred tax set off	54	(6)	1	2	57
Deferred income tax liabilities	(417)	(22)	-	(22)	(373)
Net deferred tax liability	**(324)**	**(20)**	**11**	**(17)**	**(298)**

15. INCOME TAXES (CONTINUED)

Recognised tax losses expire in the following years:

	31 December	
Year of expiry	**2018**	**2017**
Without expiry date	16	33
From 2 to 5 years	-	17
	16	**50**

At 31 December 2018 and 2017, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was USD 559 million and USD 567 million, respectively. No liabilities have been recognised in these consolidated financial statements in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

Based upon historical taxable income and projections for future taxable income over the periods in which deferred income tax assets are deductible, management of the Group believes that the Group will realise the benefits of the deductible differences.

Deferred tax assets of USD 65 million have not been recognised in 2018 (of which USD 15 million related to tax losses) and USD 4 million have not been recognised in 2017 (of which USD 4 million related to tax losses) because it is not probable that future taxable profits will be available against which the Group can utilise the benefits therefrom. Tax losses expire in the following years:

	31 December	
Year of expiry	**2018**	**2017**
From 2 to 5 years	65	4
	65	**4**

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

16. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Machinery and equipment	Trans-portation equipment	Fixtures and fittings	Mining assets	Construc-tion-in-progress	Total
Cost							
At 1 January 2017	**2,818**	**5,851**	**166**	**156**	**99**	**601**	**9,691**
Additions	3	165	12	11	-	517	708
Acquisition of subsidiaries	24	53	1	1	-	25	104
Transfers	137	229	6	7	-	(379)	-
Site restoration provision	-	-	-	-	(2)	-	(2)
Disposals	(14)	(243)	(5)	(1)	-	(20)	(283)
Disposals of subsidiaries	(10)	-	-	(1)	-	-	(11)
Utilised allowance for impairment losses	-	-	-	-	-	(11)	(11)
Effect of translation to presentation currency	118	264	9	7	5	33	436
At 31 December 2017	**3,076**	**6,319**	**189**	**180**	**102**	**766**	**10,632**
Additions	2	186	5	3	-	677	873
Transfers	89	222	6	8	-	(325)	-
Site restoration provision	-	-	-	-	1	-	1
Disposals	(10)	(177)	(6)	(1)	-	(9)	(203)
Utilised allowance for impairment losses	-	-	-	-	-	(9)	(9)
Effect of translation to presentation currency	(426)	(938)	(30)	(30)	(18)	(173)	(1,615)
At 31 December 2018	**2,731**	**5,612**	**164**	**160**	**85**	**927**	**9,679**
Depreciation							
At 1 January 2017	**(1,256)**	**(3,611)**	**(123)**	**(109)**	**(69)**	**(178)**	**(5,346)**
Charge for the year	(79)	(432)	(12)	(20)	(3)	-	(546)
Reversal/(accrual) of impairment	(1)	-	-	-	-	132	131
Utilised allowance for impairment losses	-	-	-	-	-	11	11
Disposals	6	205	4	2	-	-	217
Disposals of subsidiaries	10	-	-	-	-	-	10
Effect of translation to presentation currency	(52)	(158)	(6)	(6)	(3)	(10)	(235)
31 December 2017	**(1,372)**	**(3,996)**	**(137)**	**(133)**	**(75)**	**(45)**	**(5,758)**
Charge for the year	(81)	(436)	(12)	(18)	(2)	-	(549)
Reversal/(accrual) of impairment	(46)	41	2	1	-	1	(1)
Utilised allowance for impairment losses	-	-	-	-	-	9	9
Disposals	4	156	4	1	-	-	165
Effect of translation to presentation currency	189	572	22	23	13	6	825
31 December 2018	**(1,306)**	**(3,663)**	**(121)**	**(126)**	**(64)**	**(29)**	**(5,309)**
Carrying amount							
At 31 December 2017	**1,704**	**2,323**	**52**	**47**	**27**	**721**	**4,874**
At 31 December 2018	**1,425**	**1,949**	**43**	**34**	**21**	**898**	**4,370**
Carrying amount had no impairment taken place							
At 31 December 2017	**2,113**	**2,691**	**58**	**50**	**48**	**766**	**5,726**
At 31 December 2018	**1,831**	**2,182**	**45**	**35**	**36**	**927**	**5,056**

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

For the year ended 31 December 2017 interest in the amount of USD 1 million was capitalised to property, plant and equipment. For the year ended 31 December 2018 no interest was capitalised to property, plant and equipment.

At 31 December 2018 and 2017 there is no property, plant and equipment pledged.

Capital commitments are disclosed in Note 30.

At 31 December 2018 carrying amount of the construction in progress included impairment provision of USD 29 million (31 December 2017: USD 45 million). During the year ended 31 December 2017 management approved the decision to restart the modernisation project and reversed previously recognised provision on amount of USD 150 million (including the effect of translation to presentation currency). During the year ended 31 December 2017 provision related to the construction in progress and other assets was made in the amount of USD 19 million.

For the purpose of impairment testing, MMK groups its assets into three cash generating units, which are equivalent to the operating segments: Steel (Russia), Steel (Turkey) and Coal. At 31 December 2018, management analysed changes in the economic environment and developments in the metals industry and the Group's operations since 31 December 2017 and considered it necessary to carry out impairment tests for two cash-generating units of the Group - Steel (Turkey) and Steel (Russia). No impairment indicators were identified in cash generating units Steel (Russia) and Coal. As at 31 December 2018 based on the result of impairment test reversal of previously recorded impairment for Steel (Russia) was recognised in amount of USD 256 million. For Steel (Turkey) impairment indicators were identified such as significant decrease of Turkish lira to US dollar, increase of inflation and borrowing costs. Based on the test performed impairment for Steel (Turkey) was recognised in amount of USD 258 million.

The reasonably possible change of assumptions in the impairment test for cash generating unit Steel (Russia) does not lead to impairment.

In performing the impairment test, the following specific assumptions were used for cash generating unit Steel (Turkey):

- volume of sales are expected to increase by 10% in 2019 to the level of 2018, by 18% in 2020 to the level of 2018, without changes in 2021, 2022 and 2023;
- steel sales prices in 2019 year are expected to increase on average by 1% to the level of 2018, increase by 2% in 2020 and 2021 to the level of previous year, increase by 1% in 2022, without changes in 2023;
- a pre-tax discount rate was estimated in USD terms based on the weighted average cost of capital basis and was 13.5% (post-tax rate was 13%);
- EBITDA margin in the terminal period is 9.2%.

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

- a 10% decrease in future planned volume of sales would lead to additional impairment losses of USD 41 million;
- a decrease in sales price for 5% would result in additional impairment in amount of USD 49 million;
- a 1% increase in the discount rate would result in additional impairment in amount of USD 38 million;
- a 1% decrease in EBITDA margin in the post-forecast period would result in additional impairment in amount of USD 36 million.

17. INVENTORIES

	31 December	
	2018	**2017**
Raw materials	665	768
Work in progress	149	171
Finished goods and goods for resale	363	411
Goods in transit	3	4
Deferred drifting costs	57	92
Total	**1,237**	**1,446**
Allowance for obsolete and slow-moving items and write down to net realisable value	(20)	(25)
Total inventories, net	**1,217**	**1,421**

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

	2018	**2017**
Balance at the beginning of the year	25	21
Change in allowance	1	2
Effect from acquisition of subsidiaries	-	2
Provision utilised	(3)	-
Effect of translation to presentation currency	(3)	-
Balance at the end of the year	**20**	**25**

18. TRADE AND OTHER RECEIVABLES

	31 December	
	2018	**2017**
Trade receivables	642	702
Other receivables	10	10
Credit loss allowance	(31)	-
Allowance for doubtful receivables	-	(35)
Total financial assets within trade and other receivables	**621**	**677**
Advances paid	39	60
Prepaid expenses	10	8
Other receivables	27	37
Total trade and other receivables	**697**	**782**

Guarantee letters received in relation to trade receivables that are not impaired amounted to USD 193 million (31 December 2017: USD 152 million).

As at 31 December 2017 financial assets are presented by:

	Trade and other receivables
Neither past due nor impaired	621
Past due but not impaired	56
Individually determined to be impaired	35
Less impairment provision	(35)
Total financial assets	**677**

18. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

	31 December 2017
Less than 30 days	30
30-60 days	12
60-90 days	1
90-120 days	1
Over 120 days	12
Total	**56**

The management believes that receivables past due will be recovered in full. For the analysis of credit quality of trade receivables refer to Note 28.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables.

To measure the expected credit losses, trade and other receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 24 month before 31 December 2018 or 1 January 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are not adjusted to current and macroeconomic information on macroeconomic factors because performance obigations are short-term in nature and affect from adjustments is immaterial.

The credit loss allowance for trade and other receivables is determined according to provision matrix presented in the table below. The provision matrix is based on the number of days that an asset is past due.

	Gross carrying amount	Lifetime ECL
current	578	2
less than 30 days overdue	27	-
30 to 90 days overdue	6	-
91 to 180 days overdue	6	3
181 to 360 days overdue	35	26
Total financial assets within trade and other receivables	**652**	**-**
Credit loss allowance	-	31
Total financial assets within trade and other receivables (carrying amount)	**621**	**-**

The following table explains the changes in the credit loss allowance for trade and other receivables under simplified ECL model between the beginning and the end of the annual period:

	2018
Balance at the beginning of the year	**35**
Changes in estimates and assumptions	14
Total credit loss allowance charge in profit or loss for the period	**14**
Provision utilised	(16)
Effect of translation to presentation currency	(2)
Balance at the end of the year	**31**

18. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

	2017
Balance at the beginning of the year	**28**
Increase in allowance	2
Effect from acquisition of subsidiaries	7
Provision utilised	(1)
Effect of translation to presentation currency	(1)
Balance at the end of the year	**35**

19. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

	31 December	
	2018	2017
Non-current financial assets		
Unlisted securities	2	3
Total non-current	**2**	**3**
Current financial assets		
Trading debt securities	6	7
Share in mutual investment fund	1	1
Total current	**7**	**8**

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

20. CASH AND CASH EQUIVALENTS

	31 December	
	2018	2017
Cash in banks, USD	114	130
Cash in banks, EUR	27	53
Cash in banks, RUB	83	39
Cash in banks, TRY	-	1
Cash in banks, others	1	-
Bank deposits, USD	466	265
Bank deposits, RUB	22	63
Bank deposits, EUR	25	-
Bank deposits, TRY	1	1
Cash equivalents	-	4
Total	**739**	**556**

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

	31 December	
	2018	2017
A-to AA+ rated	11	1
BBB- до BBB+ rated	395	291
BB-to BB+ rated	326	251
B-to B+ rated	3	-
Other	4	13
Total	**739**	**556**

20. CASH AND CASH EQUIVALENTS (CONTINUED)

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

21. SHARE CAPITAL

Common stock

	31 December 2018	2017
Authorised, issued and fully paid common shares with a par value of RUB 1 each (in thousands)	11,174,330	11,174,330

During the year ended 31 December 2018 and 31 December 2017 the Group did not acquire or sell common shares of the Parent Company (treasury shares).

Treasury stock

At 31 December 2018 and 31 December 2017, the Group did not hold issued common shares of the Parent Company as treasury stock.

Currency translation reserve

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

Shareholders' voting rights

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

Dividends

On 7 December 2018, the Parent Company declared dividends of RUB 2.114 (USD 0.032) per ordinary share representing total dividends of USD 354 million. Dividends were paid out in December 2018 and January 2019 (Note 32).

On 28 September 2018, the Parent Company declared dividends of RUB 1.589 (USD 0.024) per ordinary share representing total dividends of USD 269 million. Dividends were paid out in October 2018.

On 13 June 2018, the Parent Company declared dividends of RUB 0.801 (USD 0.013) per ordinary share representing total dividends of USD 144 million. Dividends were paid out in July 2018.

On 1 June 2018, the Parent Company declared dividends of RUB 0.806 (USD 0.013) per ordinary share representing total dividends of USD 145 million. In June 2018, dividends were paid in the amount of USD 142 million. The difference with the declared amount is caused by the change in the exchange rates.

On 8 December 2017, the Parent Company declared dividends of RUB 1.111 (USD 0.019) per ordinary share representing total dividends of USD 209 million. In January 2018, dividends were paid in the amount of USD 215 million. The difference with the declared amount is caused by the change in the exchange rates.

22. LONG-TERM BORROWINGS

	31 December	
	2018	**2017**
Unsecured loans, RUB	-	30
Unsecured loans, EUR	246	204
Total	**246**	**234**

Borrowings

The company has various borrowing arrangements in RUB, USD and EUR denominations with various lenders. Those borrowings consist of unsecured and secured loans and credit facilities. At 31 December 2018 and 2017, the total unused element of all credit facilities was USD 1,307 million and USD 1,287 million, respectively.

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

- the ratio of consolidated debt to consolidated EBITDA should not exceed 3.5:1;
- the ratio of consolidated debt to consolidated equity should not exceed 1:1.

At 31 December 2018 and 2017, the Group was in compliance with its debt covenants.

Debt repayment schedule

Year ended	31 December 2018
2019 (presented as current portion of long-term borrowings, Note 26)	8
2020	201
2021	24
2022	21
Total	**254**

Year ended	31 December 2017
2018 (presented as current portion of long-term borrowings, Note 26)	92
2019	36
2020	191
2021	5
2022 and thereafter	2
Total	**326**

22. LONG-TERM BORROWINGS (CONTINUED)

Net Debt Reconciliation

The table below sets out an analysis of net debt. Net debt reconciliation is a reconciliation of the movements in the Group's liabilities from financing activities net of cash and cash equivalents and bank deposits for each of the periods presented. The items of these liabilities are those that are reported as financing in the statement of cash flows:

	Borrowings (Notes 22, 26)	Leases	Cash and cash equivalents (Note 20)	Bank deposits/ Interest income	Total
At 1 January 2017	**(498)**	**(2)**	**266**	**42**	**(192)**
Cash flows, net	91	1	279	(52)	319
Business combinations	(60)	(1)	-	-	(61)
Effect of translation to presentation currency and exchange rate changes	(47)	-	11	1	(35)
Interest charge	(28)	-	-	9	(19)
At 31 December 2017	**(542)**	**(2)**	**556**	**-**	**12**
Adjustment on IFRS 16 adoption	-	(23)	-	-	(23)
Adjusted balance at 1 January 2018	**(542)**	**(25)**	**556**	**-**	**(11)**
Cash flows, net	(2)	12	208	(15)	203
Effect of translation to presentation currency and exchange rate changes	46	1	(25)	-	22
Interest charge	(16)	(1)	-	15	(2)
Change in lease	-	(8)	-	-	(8)
Other	(1)	-	-	-	(1)
At 31 December 2018	**(515)**	**(21)**	**739**	**-**	**203**

23. SITE RESTORATION PROVISION

	31 December 2018	31 December 2017
Balance at the beginning of the year	**169**	**165**
Unwinding of discount rate	12	14
Change in estimates	-	(7)
Provision utilised	(11)	(12)
Effect of translation to presentation currency	(30)	9
Balance at the end of the year	**140**	**169**
Included in the consolidated statement of financial position as:		
Long-term portion of site restoration provision	132	158
Current portion of site restoration provision	8	11
Total	**140**	**169**

According to environmental regulation and Ecological program approved by the management in 2013 the Group recognised a provision for restoration of land and open pit in Magnitogorsk up to 2040. At the moment of provision recognition there were no assets in the consolidated statement of financial position related to this provision due the open pit was depleted long years ago.

In 2018 changes in discount rate and capacity of open pit did not lead to a significant change in provision. In 2017 the management reassessed the cost of restoration of open pit due to changes in discount rate and capacity of open pit and decreased relative provision by USD 5 million accordingly and recognized it as part of other expenses. Provision for restoration and closing mine of mine shaft was decreased by USD 2 million and recognised in the costs of related assets.

The Group used discount rate of 8.7% (2017: 7.7%) to calculate provision.

24. DEFINED CONTRIBUTION PLANS

Contributions to the Russian Federation State Pension Fund amounted to USD 120 million and USD 117 million for the years ended 31 December 2018 and 2017, respectively.

25. TRADE AND OTHER PAYABLES

	31 December	
	2018	**2017**
Trade accounts payable	553	669
Dividends payable	278	218
Total financial payables within trade and other payables	**831**	**887**
Advances from customers	116	182
Other taxes payable	71	71
Salaries payable	54	63
Other current liabilities	23	33
Total trade and other payables	**1,095**	**1,236**

Performance obligations of the Group are short-term in nature. Consequently all advances to customers as of 1 January 2018 were recognised in revenue during the year ended 31 December 2018.

Change in advances from customers mainly relates to the effect of translation to presentation currency. Payment and delivery terms did not changed significantly during the year ended 31 December 2018 compared to year ended 31 December 2017.

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

	31 December	
	2018	**2017**
Due in:		
1 month	753	796
1-3 months	52	69
3 months to 1 year	26	22
Total	**831**	**887**

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

	31 December	
	2018	**2017**
Short-term borrowings:		
Unsecured loans, RUB	146	100
Unsecured loans, EUR	100	110
Secured loans, EUR	-	6
Unsecured loans, USD	15	-
	261	**216**
Current portion of long-term borrowings:		
Unsecured loans, RUB	-	46
Unsecured loans, USD	-	2
Unsecured loans, EUR	8	44
	8	**92**
Total	**269**	**308**

At 31 December 2018 short-term loans were not secured and 31 December 2017 short-term borrowings were secured by inventories USD 6 million.

26. SHORT-TERM BORROWINGS AND CURRENT PORTION OF LONG-TERM BORROWINGS (CONTINUED)

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

	31 December	
	2018	**2017**
Due in:		
1 month	84	24
1-3 months	31	151
3 months to 1 year	154	133
Total	**269**	**308**

27. RELATED PARTIES

Transactions and balances outstanding with related parties

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

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

Details of transactions with and balances between the Group and related parties at 31 December 2018 and 2017 and for the years ended 31 December 2018 and 2017 are disclosed below.

a) Transactions with associates of the Group

	2018	**2017**
Revenue	2	-
Purchases	18	135

	31 December	
Balances outstanding	**2018**	**2017**
Trade and other receivables	1	-

b) Transactions with other related parties

	2018	**2017**
Revenue	636	401
Purchases	20	17
Bank charges	1	1

	31 December	
Balances outstanding	**2018**	**2017**
Cash and cash equivalents	24	75
Trade and other receivables	108	92
Trade and other payables	1	-

Other related parties include entities under common control with the Group.

27. RELATED PARTIES (CONTINUED)

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

Remuneration of the Group's key management personnel

Key management personnel include key management of the Group and members of the Board of Directors and receive only short-term employment benefits. For the years ended 31 December 2018 and 2017, total key management personnel received as compensation USD 10 million and USD 10 million, respectively.

28. RISK MANAGEMENT ACTIVITIES

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

Liquidity risk

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

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

Presented below is the maturity profile of the Group's borrowings (the maturity profiles for financial liabilities within trade and other payables are presented in Notes 25) based on contractual undiscounted payments, including interest:

2018	Total	Due within one month	Due from one to three months	Due from three to twelve months	Due in one year to later
Fixed rate borrowings					
Principal	444	83	30	148	183
Interest	6	2	1	2	1
	450	**85**	**31**	**150**	**184**
Floating rate borrowings					
Principal	71	-	-	5	66
Interest	3	-	-	1	2
	74	**-**	**-**	**6**	**68**
Total fixed and floating rate borrowings	**524**	**85**	**31**	**156**	**252**

2017	Total	Due within one month	Due from one to three months	Due from three to twelve months	Due in one year to later
Fixed rate borrowings					
Principal	477	17	113	123	224
Interest	10	1	2	5	2
	487	**18**	**115**	**128**	**226**
Floating rate borrowings					
Principal	66	6	38	6	16
Interest	1	-	1	-	-
	67	**6**	**39**	**6**	**16**
Total fixed and floating rate borrowings	**554**	**24**	**154**	**134**	**242**

28. RISK MANAGEMENT ACTIVITIES (CONTINUED)

Credit risk

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

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

The Group's maximum exposure to credit risk is represented by the carrying amount of financial assets recorded in the consolidated financial statements, net of any impairment losses.

At 31 December 2018 and 2017, the Group assessed credit quality for trade and other receivables including trade and other receivables from related parties by type of customers as follows:

	31 December	
	2018	**2017**
Automobile producers	93	77
Traders	191	159
Tube plants	110	142
Other industries	227	299
Total	**621**	**677**

Expected credit loss (ECL) measurement

The group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The expected loss rates for trade receivables are disclosed in Note 18.

For purposes of measuring probability of default, the group defines default as a situation when the exposure meets one or more of the following criteria:

- the customer is more than 90 days past due on its contractual payments;
- international rating agencies have classified the customer in the default rating class;
- the customer meets the unlikeliness-to-pay criteria listed below:
    - the customer is insolvent;
    - the customer is in breach of financial covenants; and
    - it is becoming likely that the customer will enter bankruptcy.

Foreign currency risk

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

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

28. RISK MANAGEMENT ACTIVITIES (CONTINUED)

At 31 December 2018 and 2017, the carrying amounts of the Group's monetary assets and liabilities denominated in foreign currencies other than its functional currency were as follows:

	31 December 2018		31 December 2017	
	EUR	**USD**	**EUR**	**USD**
Assets				
Cash and cash equivalents	51	572	52	384
Trade receivables	28	163	38	165
Total assets	**79**	**735**	**90**	**549**
Liabilities				
Trade and other payables	(46)	(73)	(62)	(86)
Borrowings	(358)	-	(369)	(2)
Total liabilities	**(404)**	**(73)**	**(431)**	**(88)**
Total net position	**(325)**	**662**	**(341)**	**461**

The table below details the Group's sensitivity to devaluation of the RUB against USD and EUR by 10% (2017: 10%), which management believes is an appropriate measure in the current market conditions and which would impact its operations.

	EUR impact		USD impact	
	2018	**2017**	**2018**	**2017**
Loss or profit	(33)	(34)	66	46
Capital	(33)	(34)	66	46

Interest rate risk

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

The table below details the Group's annualised sensitivity to change of floating rates (LIBOR, EURIBOR, Mosprime) by 2% (31 December 2017: 2%), which management believes is an appropriate measure in the current market conditions and which would impact its operations. The analysis was applied to borrowings based on the assumptions that amount of liability outstanding at the date of statement of financial position was outstanding for the whole annual period.

	31 December	
	2018	**2017**
Profit	1	1
Capital	1	1

Equity and debt investment price risk

Investment price risk arising from holding equity and debt investments is not material for the Group.

29. CAPITAL MANAGEMENT

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

29. CAPITAL MANAGEMENT (CONTINUED)

As at 31 December 2018 the capital structure of the Group consists of debt in the amount of USD 536 million (31 December 2017: USD 544 million), share capital of USD 386 million (31 December 2017: USD 386 million) and retained earnings of USD 9,662 million (31 December 2017: USD 9,259 million).

The management of the Group reviews the Group's capital structure on an annual basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital. Based on their recommendations, the Group balances its overall capital structure through the payment of dividends as well as the issue of new debt or the redemption of existing debt. Additionally the Group monitors the adequacy of its debt levels using the debt to EBITDA ratio and debt to equity. Details of ratios are disclosed in Note 22.

There were no significant changes in the Group's approach to capital management during the year ended 31 December 2018 in comparison to the prior period.

30. COMMITMENTS AND CONTINGENCIES

Commitments for expenditure

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

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

At 31 December 2018, the Group had purchase agreements of approximately USD 203 million to acquire property, plant and equipment (31 December 2017: USD 238 million).

At 31 December 2018, the Group had purchase agreements of approximately USD 2,835 million to acquire in future periods through 2015-2022 coking coal, zinc, iron ore and natural gas (31 December 2017: USD 4,827 million).

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

In the past, the Group transferred social assets to local municipal authorities. The Group's management expects that the Group will continue to partly fund these social operations for the foreseeable future. These costs are recognised in the consolidated statement of comprehensive income as incurred (Note 13).

Operating leases

The land in the Russian Federation on which the Group's production facilities are located is owned by the State. The Group pays land tax based on the total area and the location of the land occupied. The amount of land tax for the years ended 31 December 2017 was approximately USD 8 million, respectively.

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

	2017
Due in one year	9
Due in the second year	6
Due thereafter	85
	100

30. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Letters of guarantee

At 31 December 2018 the Group had letters of guarantee obtained from banks and given to suppliers amounted to USD 231 million (31 December 2017: USD 204 million).

Russian business environment

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. The Russian economy continues to be negatively impacted by ongoing political tension in the region and international sanctions against certain Russian companies and individuals. Firm oil prices, low unemployment and rising wages supported a modest growth of the economy in 2018. The operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

Taxation contingencies in the Russian Federation

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

Russian transfer pricing (TP) legislation is generally aligned with the international TP principles developed by the Organisation for Economic Cooperation and Development (OECD), although it has specific features. The TP legislation provides for the possibility of additional tax assessment for controlled transactions (transactions between related parties and certain transactions between unrelated parties) if such transactions are not on an arm's-length basis. The Management has implemented internal controls to comply with current TP legislation.

Tax liabilities arising from controlled transactions are determined based on their actual transaction prices. It is possible, with the evolution of the interpretation of TP rules, that such prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the Group's operations.

The Group includes companies incorporated outside of Russia. The tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax, because they do not have a permanent establishment in Russia. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the Group. The Controlled Foreign Company (CFC) legislation introduced Russian taxation of profits of foreign companies and non-corporate structures (including trusts) controlled by Russian tax residents (controlling parties). The CFC income is subject to a 20% tax rate. As a result, management reassessed the Group's tax positions and recognised current tax expense as well as deferred taxes for temporary differences that arose from the expected taxable manner of recovery of the relevant Group's operations to which the CFC legislation applies to and to the extent that the Group (rather than its owners) is obliged to settle such taxes. Refer to Note 15.

30. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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

31. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

The carrying amounts of financial instruments such as cash and cash equivalents, bank deposits, trade and other receivables, short-term and floating rate long-term borrowings, trade and other payables are reasonable approximation their fair values as at 31 December 2018 and 31 December 2017 (Level 3 of fair value hierarchy). Fail value of the financial assets at amortized cost is valued at the net present value of estimated future cash flows. The Group also considers liquidity, credit and market risk factors, and adjusts the valuation model as deemed necessary.

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

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

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

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

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

	Level 1	Level 2	Level 3	Total
31 December 2018				
Unlisted equity securities	-	-	2	2
Trading debt securities	6	-	-	6
Share in mutual investment fund	1	-	-	1
Total assets	**7**	**-**	**2**	**9**
31 December 2017				
Unlisted equity securities	-	-	3	3
Trading debt securities	7	-	-	7
Share in mutual investment fund	1	-	-	1
Total assets	**8**	**-**	**3**	**11**

32. EVENTS AFTER THE DATE OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In January 2019, dividends were paid in the amount of USD 284 million. The difference with the declared amount is caused by the change in the exchange rates.

33. ACCOUNTING POLICIES BEFORE 1 JANUARY 2018

Revenue recognition

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

The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below.

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

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

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

Financial instruments - key measurement terms

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

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

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

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

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

33. ACCOUNTING POLICIES BEFORE 1 JANUARY 2018 (CONTINUED)

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

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

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

Classification of financial assets

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

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

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

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

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

33. ACCOUNTING POLICIES BEFORE 1 JANUARY 2018 (CONTINUED)

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

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

Initial recognition of financial instruments

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

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

Derecognition of financial assets

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

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

Offsetting financial instruments

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

Available-for-sale investments

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

33. ACCOUNTING POLICIES BEFORE 1 JANUARY 2018 (CONTINUED)

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

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

Trade and other receivables

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

Cash and cash equivalents

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

Impairment of financial assets carried at amortised cost

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

- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty; or
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

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

33. ACCOUNTING POLICIES BEFORE 1 JANUARY 2018 (CONTINUED)

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

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

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

Classification of financial liabilities

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

Trade and other payables

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

Borrowings

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

Derecognition of financial liabilities

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

Financial guarantee contracts

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

Leased assets

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

33. ACCOUNTING POLICIES BEFORE 1 JANUARY 2018 (CONTINUED)

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

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

34. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2018 were approved by the Group's management and authorised for issue on 6 February 2019.

Public Joint Stock Company Magnitogorsk Iron & Steel Works and Subsidiaries

Consolidated Financial Statements
For the Year Ended 31 December 2017

PUBLIC JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

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PUBLIC JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Management is responsible for the preparation of consolidated financial statements that present fairly the financial position of Public Joint Stock Company Magnitogorsk Iron & Steel Works and its subsidiaries (the "Group") at 31 December 2017, and the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

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

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

Management is also responsible for:

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

The consolidated financial statements for the year ended 31 December 2017 were approved for issuance on 6 February 2018 by:

S. N. Ushakov
Acting General Director

O. Y. Samoylova
Director of OOO MMK-ACCOUNTING CENTER, a specialized organization, which performs the accounting function for PJSC Magnitogorsk Iron & Steel Works

6 February 2018
Magnitogorsk, Russia

Independent Auditor's Report

To the Shareholders and Board of Directors of Public Joint Stock Company Magnitogorsk Iron & Steel Works*:*

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Public Joint Stock Company Magnitogorsk Iron & Steel Works (the "Company") and its subsidiaries (together – the "Group") as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

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

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Auditor's Professional Ethics Code and Auditor's Independence Rules that are relevant to our audit of the consolidated financial statements in the Russian Federation. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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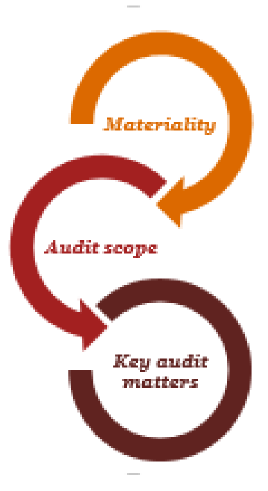
Our audit approach

Overview



- Overall group materiality: United States Dollar ("USD") 46.3 million, which represents 2.5% of adjusted earnings before interest, tax, depreciation and amortization (EBITDA) adjusted for some one-off items.

- We conducted audit work at 4 reporting units in 3 countries;
- The group engagement team visited the following locations – Public Joint Stock Company Magnitogorsk Iron & Steel Works (Russia), LLC Torgovy Dom MMK (Russia). The component engagement teams visited the following locations – MMK Metalurji (Turkey) and MMK Steel Trade AG (Switzerland);
- Our audit scope addressed 92% of the Group's revenues and 91% of the Group's absolute value of profit before tax.

- Impairment test of property, plant and equipment at MMK Metalurji.
- Acquisition of LMC Group.

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall group materiality	USD 46.3 mln
How we determined it	2.5% of Group adjusted EBITDA adjusted for some one-off items
Rationale for the materiality benchmark applied	We chose adjusted EBITDA as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users. We chose 2.5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
Impairment of property, plant and equipment at MMK Metalurji *Refer to note 16 to the consolidated financial statements for the related disclosure* Changes in global economic environment and developments in metals industry have resulted in, among others, volatility of metal prices. As a consequence, the Group performed impairment test in respect of steel segment in Turkey – MMK Metalurji. As at 31 December 2017 property, plant and equipment at MMK Metalurji comprise 11 percent of total Group's fixed assets with aggregate value of USD 527 mln. Determining the recoverable amount of the assets requires a number of significant judgments and estimates, especially regarding the amount of future cash flows and the applied discount rate. The projected operating cash flows are significantly influenced by long-term assumptions concerning scrap and steel prices, as well as volume of sales that highly depends from commencing operation of hot-rolled mill in 2018. The key assumption that leads to commencing operation of hot-rolled mill is based on expectation of the Group's management that hot-rolled steel price will exceed scrap price by over USD 195 per ton at full capacity of the mill. Management has assessed recoverability of the carrying value of property plant and equipment and concluded that that the recoverable amount was higher than the carrying value such that no additional impairment provision or reversal of previously recognised impairment was required.	We understood management's procedures for identification of impairment indicators and validated the appropriateness of the management's judgement regarding identification of assets which may be impaired. We obtained, understood and evaluated impairment model for MMK Metallurji prepared by management. We tested the mathematical accuracy of the calculations derived from the model and assessed key inputs in the calculations such as revenue growth and discount rate, by reference to management's forecasts, macroeconomic assumptions and our own valuation expertise. We focused on these key assumptions because small subjective changes can have a material impact on the value in use assessment and resulting impairment charge. We found, based on our audit work, that the key assumptions used by management were supportable and appropriate in light of the current environment. We evaluated management's analysis of the sensitivity of the impairment test result and the adequacy of the sensitivity disclosure in particular in respect to the assumptions with the greatest potential effect on the test result, e.g. those relating to discount rate, annual growth rate and sales volume in monetary terms. Based on available evidence we found management's estimates applied in the value in use model to be reasonable and the discounted cash flow to be in accordance with the approved plans. We concurred with management that no adjustment to the impairment provision already recognised is required. We found the disclosure in note 16 to be appropriate.

Key audit matter	How our audit addressed the Key audit matter
Acquisition of LMC Group *Refer to note 6 to the consolidated financial statements for the related disclosure.* LMC Group is a Russian producer of electrogalvanised coated rolled products. On 19 December 2017 the Group has completed a transaction to acquire 100% shares in LLC LMC, a holding company of LMC Group (CJSC LMZ, LLC INSAYUR-AVTOTREID-TL). The accounting for this transaction requires a significant degree of management estimates. The key estimate relates to allocation of the purchase price to the LMC Group assets and liabilities acquired and adjustments made to align accounting policies. The Group has not finalised fair value measurement of acquired assets and liabilities and used preliminary purchase price allocation in consolidated financial statements for the year ended 31 December 2017.	We obtained understanding of details of the transaction from discussions with management and validated its key details to the supporting documents. We obtained detailed analysis of the purchase consideration, assessed its completeness and tested mathematical accuracy by reconciling of the consideration to the agreement and to other supporting documents. We reconciled the fair values of acquired assets and liabilities to a preliminary valuation report prepared by independent appraiser. We understand that the valuation will be finalised within 12 month from the acquisition date. We also assessed the financial statement disclosures made in note 6. We found the disclosure and accounting for the transaction to be appropriate.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to be able to give an opinion on the consolidated financial statements as a whole, taking into account the geographic and management structure of the Group, the accounting processes and controls and the industry in which the Group operates.

We identified that Public Joint Stock Company Magnitogorsk Iron & Steel Works , the parent company of the Group, required an audit as significant component due to the size and risk involved. As the Group has separate financial function for MMK Metalurji (Turkey) and MMK Steel Trade AG (Switzerland) they were also selected as components. For LLC Torgovy Dom MMK (Russia) we performed work over specific financial statements lines. In addition, we have performed analytical procedures over the remaining immaterial companies of the Group.

In establishing our overall approach to the audit of the Group, we considered the significance of these components to the financial statements, our assessment of risk within each component, the overall coverage across the Group achieved by our procedures, as well as the risk associated with less significant components not brought into the normal scope of our audit.

We determined the type of work for each component that needed to be performed by us in relation to the activity within the Russian Federation, or by other PwC network firms operating under our instruction in relation to the activity outside the Russian Federation. Where the work was performed by those other firms, we determined the level of involvement we needed to have in their audit work to be able to conclude whether sufficient appropriate audit evidence has been obtained as a basis for our opinion on the Group's consolidated financial statements as a whole.

Taking together, our audit work performed addressed 92% of Group revenue and 91% of the Group's absolute value of profit before tax. This gave us the evidence we needed for our opinion on the Group's consolidated financial statements as a whole.

Other information

Management is responsible for the other information. The other information comprises the information in the Group's annual report and Issuer's Report for the first quarter of 2018 (but does not include the consolidated financial statements and our auditor's report thereon), which are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The certified auditor responsible for the audit resulting in this independent auditor's report is Alexei Fomin.

AO PricewaterhouseCoopers Audit

6 February 2018

Moscow, Russian Federation

A.B. Fomin, certified auditor (licence no. 01-000059), AO PricewaterhouseCoopers Audit

Audited entity: Public Joint Stock Company Magnitogorsk Iron & Steel Works

State registration certificate № 186, issued by the Administration of Magnitogorsk on 17 October 1992

Certificate of inclusion in the Unified State Register of Legal Entities issued on 12 August 2002 under registration № 1027402166835

Kirova, 93, Magnitogorsk, Russia, 455000

Independent auditor: AO PricewaterhouseCoopers Audit

State registration certificate № 008.890, issued by the Moscow Registration Chamber on 28 February 1992

Certificate of inclusion in the Unified State Register of Legal Entities issued on 22 August 2002 under registration № 1027700148431

Member of Self-regulated organization of auditors «Russian Union of auditors» (Association)

ORNZ 11603050547 in the register of auditors and audit organizations

PUBLIC JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017
(In millions of U.S. Dollars, unless otherwise stated)

	Notes	Years ended 31 December 2017	2016
REVENUE	7	7,546	5,630
COST OF SALES	9	(5,268)	(3,817)
GROSS PROFIT		**2,278**	**1,813**
General and administrative expenses	10	(238)	(207)
Selling and distribution expenses	11	(562)	(443)
Other operating (expense)/income, net	12	(23)	299
OPERATING PROFIT		**1,455**	**1,462**
Share of results of associates		5	1
Finance income		10	13
Finance costs	14	(44)	(117)
Foreign exchange (loss)/gain, net		(39)	60
Reversal/(accrual) of impairment and provision for site restoration	16, 23	136	(5)
Excess of the Group's share in the fair value of net assets acquired over the cost of acquisition	6	36	-
Other expenses	13	(64)	(72)
PROFIT BEFORE INCOME TAX		**1,495**	**1,342**
INCOME TAX	15	(306)	(231)
PROFIT FOR THE YEAR		**1,189**	**1,111**
OTHER COMPREHENSIVE INCOME			
Items, that may be reclassified subsequently to profit or loss			
Net change in fair value of available-for-sale investments	19	-	(121)
Translation of foreign operations		(43)	(237)
Items, that will not be reclassified subsequently to profit or loss			
Remeasurements of post-employment benefit obligations		(2)	-
Effect of translation to presentation currency		265	815
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**220**	**457**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,409**	**1,568**
Profit attributable to:			
Shareholders of the Parent Company		1,184	1,111
Non-controlling interests		5	-
		1,189	**1,111**
Total comprehensive income attributable to:			
Shareholders of the Parent Company		1,406	1,565
Non-controlling interests		3	3
		1,409	**1,568**
BASIC AND DILUTED EARNINGS PER SHARE (U.S. Dollars)	21	0.106	0.099
Weighted average number of ordinary shares outstanding (in thousands)		11,174,330	11,173,899

The notes on pages 6 to 54 are an integral part of these consolidated financial statements.

PUBLIC JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

(In millions of U.S. Dollars)

	Notes	31 December 2017	2016
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	16	4,874	4,345
Intangible assets		27	22
Investments in securities and other financial assets	19	3	3
Investments in associates		2	6
Deferred tax assets	15	93	75
Other non-current assets		8	11
Total non-current assets		5,007	4,462
CURRENT ASSETS:			
Inventories	17	1,421	1,067
Trade and other receivables	18	782	558
Investments in securities and other financial assets	19	8	50
Income tax receivable		1	1
Value added tax recoverable		149	97
Cash and cash equivalents	20	556	266
Total current assets		2,917	2,039
TOTAL ASSETS		**7,924**	**6,501**
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	21	386	386
Share premium		969	969
Translation reserve		(5,141)	(5,365)
Retained earnings		9,259	8,703
Equity attributable to shareholders of the Parent Company		5,473	4,693
Non-controlling interests		24	18
Total equity		5,497	4,711
NON-CURRENT LIABILITIES:			
Long-term borrowings	22	234	178
Obligations under finance leases		1	1
Retirement benefit obligations		19	16
Long-term other payables		16	-
Site restoration provision	23	158	155
Deferred tax liabilities	15	417	373
Total non-current liabilities		845	723
CURRENT LIABILITIES:			
Short-term borrowings and current portion of long-term borrowings	26	308	320
Current portion of obligations under finance leases		1	1
Current portion of retirement benefit obligations		3	3
Trade and other payables	25	1,236	710
Current portion of site restoration provision	23	11	10
Income tax payables		20	23
Net assets attributable to minority participants		3	-
Total current liabilities		1,582	1,067
TOTAL EQUITY AND LIABILITIES		**7,924**	**6,501**

ПАО "ММК" Для бухгалтерских документов

S. N. Ushakov
Acting General Director

O. Y. Samoylova
Director of OOO MMK-ACCOUNTING CENTER, a specialized organization, which performs the accounting function for PJSC Magnitogorsk Iron & Steel Works

6 February 2018
Magnitogorsk, Russia

The notes on pages 6 to 54 are an integral part of these consolidated financial statements.

PUBLIC JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

(In millions of U.S. Dollars)

	Notes	Share capital	Treasury shares	Share premium	Invest-ments revalu-ation reserve	Transla-tion reserve	Retained earnings	Total	Non-controlling interests	Total
BALANCE AT 1 JANUARY 2016		**386**	**(1)**	**969**	**121**	**(5,940)**	**7,772**	**3,307**	**13**	**3,320**
Profit for the year		-	-	-	-	-	1,111	**1,111**	-	**1,111**
Other comprehensive income/(loss) for the year, net of tax		-	-	-	(121)	575	-	**454**	3	**457**
Total comprehensive income/(loss) for the year		-	-	-	(121)	575	1,111	**1,565**	3	**1,568**
Acquisition of treasury shares		-	(204)	-	-	-	-	**(204)**	-	**(204)**
Disposal of treasury shares		-	205	-	-	-	-	**205**	-	**205**
Increase in non-controlling interests due to changes of Groups share in subsidiaries		-	-	-	-	-	-	**-**	2	**2**
Dividends	21	-	-	-	-	-	(99)	**(99)**	-	**(99)**
BALANCE AT 31 DECEMBER 2016		**386**	**-**	**969**	**-**	**(5,365)**	**8,703**	**4,693**	**18**	**4,711**
Profit for the year		-	-	-	-	-	1,184	**1,184**	5	**1,189**
Other comprehensive income/(loss) for the year, net of tax		-	-	-	-	224	(2)	**222**	(2)	**220**
Total comprehensive income for the year		-	-	-	-	224	1,182	**1,406**	3	**1,409**
Increase in non-controlling interests due to changes of Group's share in subsidiaries		-	-	-	-	-	(3)	**(3)**	3	**-**
Dividends	21	-	-	-	-	-	(623)	**(623)**	-	**(623)**
BALANCE AT 31 DECEMBER 2017		**386**	**-**	**969**	**-**	**(5,141)**	**9,259**	**5,473**	**24**	**5,497**

The notes on pages 6 to 54 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017
(CONTINUED)
(In millions of U.S. Dollars)

	Notes	Years ended 31 December 2017	2016
OPERATING ACTIVITIES:			
Profit for the year		1,189	1,111
Adjustments to profit for the year:			
Income tax		306	231
Depreciation and amortisation	9, 10, 11	544	479
Finance costs	14	44	117
Loss on disposal of property, plant and equipment	12	28	14
Impairment losses and provision for site restoration	16, 23	(136)	5
Excess of the Group's share in the fair value of net assets acquired over the cost of acquisition	6	(36)	-
Change in allowance for doubtful accounts receivable	12	3	4
Revaluation of share in mutual investment fund		1	-
Change in allowance for obsolete and slow-moving inventory items and write down to net realisable value	17	2	(24)
Finance income		(10)	(13)
(Gain)/loss on disposal of subsidiaries	12	(5)	3
Foreign exchange loss/(income), net		39	(60)
Income from available-for-sale investments	12	-	(3)
Gain on sale of available-for-sale investments	12	-	(315)
Share of results of associates		(5)	(1)
Change in net assets attributable to minority participants		1	-
Operating cashflow before working capital changes		1,965	1,548
Movements in working capital			
Increase in trade and other receivables		(170)	(124)
(Increase)/decrease in value added tax recoverable		(44)	5
Increase in inventories		(269)	(32)
Increase in trade and other payables		189	94
Cash generated from operations		1,671	1,491
Interest paid		(25)	(85)
Income tax paid		(288)	(215)
Net cash generated by operating activities		1,358	1,191
INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(664)	(463)
Purchase of intangible assets		(10)	(11)
Acquisition of subsidiaries, net of cash acquired	6	14	-
Purchase of securities and other financial assets		-	(2)
Purchase available-for-sale investments		(6)	-
Proceeds from sale of property, plant and equipment		2	4
Interest received		10	15
Proceeds from sale available-for-sale investments		-	410
Proceeds from sale of subsidiaries, net of disposed cash		3	-
Proceeds from sale of assets ready for sale		4	-
Proceeds from sale of securities and other financial assets		5	-
Placement of short-term bank deposits		(110)	(654)
Withdrawal of short-term bank deposits		153	962
Dividends received from available-for-sale investments		-	3
Net cash (used)/generated in investing activities		(599)	264

The notes on pages 6 to 54 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017
(CONTINUED)
(In millions of U.S. Dollars)

	Notes	Years ended 31 December 2017	2016
FINANCING ACTIVITIES:			
Proceeds from borrowings		881	524
Repayments of borrowings		(947)	(1,920)
Repayment of of obligations under finance leases		(1)	-
Purchase of treasury shares		-	(204)
Proceeds from issuance of ordinary shares from treasury shares		-	205
Dividends paid to equity holders of the Parent Company	21	(413)	(180)
Net cash used in financing activities		(480)	(1,575)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		279	(120)
CASH AND CASH EQUIVALENTS, beginning of year		266	369
Effect of translation to presentation currency and exchange rate changes on the balance of cash held in foreign currencies		11	17
CASH AND CASH EQUIVALENTS, end of year	20	**556**	**266**

The notes on pages 6 to 54 are an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

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

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

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

As at 31 December 2017 the Parent Company's major shareholder was Mintha Holding Limited with a 84.3% ownership interest (31 December 2016: 87.3%).

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

At 31 December 2017 and 2016, the Group's principal subsidiaries were as follows:

Subsidiary by country of incorporation	Nature of business	Effective % held at 31 December 2017	2016
Russian Federation			
OJSC Metizno-Kalibrovochny Zavod "MMK-Metiz"	Production of metal hardware products	95.78	95.78
CJSC LMZ	Production of ferrous metal products	100.00	-
LLC IK MMK Finance	Investing activities	100.00	100.00
LLC Stroitelny Komplex	Construction	100.00	100.00
LLC Ogneupor	Production of refractory materials	100.00	100.00
LLC Mekhanoremontny Komplex	Maintenance of metallurgical equipment	100.00	100.00
LLC OSK	Production of machinery and equipment for metallurgy	100.00	100.00
LLC MTSOZ	Production of cement and refractory materials	100.00	100.00
JSC Profit	Collection and processing of metal scrap	100.00	100.00
LLC Torgovy Dom MMK	Trading activities	100.00	100.00
OJSC Belon	Holding company, trading activities	95.40	95.40
LLC MMK Ugol	Coal mining	100.00	98.51
Turkey			
MMK Metalurji	Production of ferrous metal products	100.00	100.00
Switzerland			
MMK Steel Trade AG	Trading activities	100.00	100.00
Luxemburg			
MMK-Mining Assets Management S.A.	Holding company	100.00	100.00

2. ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

The following amended standards that are relevant to the Group became effective from 1 January 2017, but did not have a material impact on the Group.

- Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The new disclosures are included in Note 22.
- Recognition of Deferred Tax Assets for Unrealised Losses – Amendment to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Amendments to IFRS 12 included in Annual Improvements to IFRSs 2014-2016 Cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017).

New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2018 or later, and which the Group has not early adopted

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

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

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

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

Based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2017 and on the basis of the facts and circumstances that exist at that date, the management of the Group has assessed, that the impact on its consolidated financial statements from the adoption of the new standard on 1 January 2018 is immaterial.

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

Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments do not change the underlying principles of the Standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard.

Based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2017 and on the basis of the facts and circumstances that exist at that date, the management of the Group has assessed, that the impact on its consolidated financial statements from the adoption of the new standard on 1 January 2018 is immaterial.

IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the statement of profit or loss and other comprehensive income. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

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

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

IFRIC 22 "Foreign currency transactions and advance consideration" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018). This interpretation considers how to determine the date of the transaction when applying the standard on foreign currency transactions, IAS 21. The interpretation applies where an entity either pays or received consideration in advance for foreign currency-denominated contracts. The interpretation specifies that the date of transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration. The new interpretation is not expected to affect significantly the Group's consolidated financial statements.

IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. The Group is currently assessing the impact of the interpretation on its consolidated financial statements.

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

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

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).
- Transfers of Investment Property – Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 an IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019.
- Annual Improvements to IFRSs 2015-2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).

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

3. BASIS OF PREPARATION

Statement of compliance

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

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

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

Basis of preparation

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

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

Basis of consolidation

Subsidiaries

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Associates

Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in the Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as the share of results of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii); all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of results of associates.

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

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

Functional and presentation currency

Different entities within the Group have different functional currencies, based on the underlying economic conditions of their operations.

The functional currency of the Group's entities except for MMK Metalurji and MMK Steel Trade AG is the Russian Rouble ("RUB"). The functional currency of MMK Metalurji and MMK Steel Trade AG is the United States Dollar ("USD").

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The translation into presentation currency is made as follows:

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

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

	31 December	
	2017	**2016**
Russian Rouble/US Dollar		
Year-end rates	57.60	60.66
Average for the period	58.35	66.51

Foreign currency transactions

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

Business combinations

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

Goodwill

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Revenue recognition

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

The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below.

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

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

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

Borrowing costs

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax

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

Current tax

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

Deferred income tax

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred income tax on post-acquisition retained earnings of subsidiaries. Deferred income tax is provided on post-acquisition retained earnings and other post acquisition movements in reserves of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Uncertain tax positions

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

Property, plant and equipment

Manufacturing assets

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Mineral rights

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

Depreciation

Land is not depreciated. Depreciation of manufacturing assets is computed under the straight-line method utilising useful lives of the assets which are:

Buildings	15-50 years
Machinery and equipment	1-30 years
Transportation equipment	3-20 years
Fixtures and fittings	3-30 years

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

Leased assets

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

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

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

Intangible assets, excluding goodwill

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of tangible and intangible assets, excluding goodwill

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

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

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

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

Inventories

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

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

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

Deferred drifting costs

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Value added taxes

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

Financial instruments – key measurement terms

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Classification of financial assets

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Initial recognition of financial instruments

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

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

Derecognition of financial assets

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

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

Offsetting financial instruments

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Available-for-sale investments

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

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

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

Trade and other receivables

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

Cash and cash equivalents

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

Impairment of financial assets carried at amortised cost

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

- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation;

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty; or
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

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

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

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

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

Classification of financial liabilities

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

Trade and other payables

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

Borrowings

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

Derecognition of financial liabilities

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial guarantee contracts

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

Employee benefit obligations

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

Defined contribution plans

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

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

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

Defined benefit plans

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted cash

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

Provisions

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

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

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

Site restoration provision

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

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

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

Dividends

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Segment information

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

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

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgements in applying accounting policies

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

Key sources of estimation uncertainty

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

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

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

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

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

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

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

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

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

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

Site restoration provision

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

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

The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for operating sites are recognised in the consolidated statement of financial position by adjusting both the restoration asset if it exists and provision. Such changes give rise to a change in future depreciation and financial charges. For closed sites, changes to estimated costs are recognised immediately in the consolidated statement of comprehensive income. Details are disclosed in Note 23.

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

Impairment of assets

The Group periodically evaluates the recoverability of the carrying amount of its assets. Whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable, the Group estimates the recoverable amount of the asset. This requires the Group to make judgments regarding long-term forecasts of future revenues and costs related to the assets subject to review. In turn, these forecasts are uncertain in that they require assumptions about demand for products and future market conditions. Significant and unanticipated changes to these assumptions and estimates included within the impairment reviews could result in significantly different results than those recorded in the consolidated financial statements. Details of the assumptions are disclosed in Note 16.

Taxation

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

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

6. ACQUISITION OF SUBSIDIARIES

On 19 December 2017, the Group acquired a 100% share in LLC LMC, a holding company of LMC Group (CJSC LMZ, LLC INSAYUR-AVTOTREID-TL) engaged in production of ferrous metal products, for a total cash consideration of USD 10 million. Entities of the acquired group are incorporated in the Russian Federation, with a holding company located in Lysva.

The acquisition of CJSC LMZ will strengthen the Group by expanding product range. In addition, the transaction helps to increase the Group's overall operational efficiency and competitiveness by increasing production volumes and sales of High Value Added (HVA) products. The transaction forms part of Group's strategy to integrate assets that produce highly refined products.

This acquisition was accounted for using the acquisition method.

6. ACQUISITION OF SUBSIDIARIES (CONTINUED)

At the date of acquisition, LMC Group did not prepare consolidated financial statements in accordance with IFRS. Thus, it was not practicable to determine the carrying amounts of the acquired assets, liabilities and contingent liabilities in accordance with IFRS immediately before the acquisition, and they are not presented in these consolidated financial statements.

The Group has determined the fair values of identifiable assets, liabilities and contingent liabilities of the acquired company at the date of acquisition on a provisional basis. At the date of finalisation of these consolidated financial statements, the necessary fair value assessements of property, plant an equipment and other calculations have not been finalised and they have therefore been provisionally determined based on the Group management's best estimate of those fair values. The provisional purchase price allocation for the acquisition is as follows:

	Provisional fair value at the date of acquisition
ASSETS	
Property, plant and equipment	85
Inventories	17
Value added tax recoverable	3
Trade and other receivables	9
Deferred tax assets	11
Cash and cash equivalents	6
Total assets	**131**
LIABILITIES	
Borrowings	60
Trade and other payables	33
Total liabilities	**93**
Net assets at the date of acquisition	**38**
Fair value of consideration given for controlling interest	10
Total purchase consideration	**10**
Less: fair value of net assets of acquiree	(38)
Excess of the Group's share in the fair value of net assets acquired over the cost of acquisition	**(28)**

The excess of the Group's share in the fair value of net assets acquired over the cost of acquisition in amount of USD 28 million has been recorded in the consolidated statement of comprehensive income. This excess relates in part to visible synergetic effect for MMK's Group and adverse liquidity position of the acquisition target at the moment of the deal.

If the combination had taken place at the beginning of the year the Group's revenue would have been USD 7,576 million, profit for the year would not change significantly and would have been USD 1,189 million.

LMC Group contributed USD 4 million of revenue and no profit or loss to the Group for the period from the date of acquisition to 31 December 2017.

In 2017 the step acquisition of companies that were accounted at 31 December 2016 as associates was completed. The effect of the acquisition is insignificant. The acquisition resulted in net cash inflow to the Group.

7. REVENUE

By product	**2017**	**2016**
Hot rolled steel	3,174	2,371
Galvanised steel	1,203	896
Cold rolled steel	776	628
Long steel products	728	508
Galvanised steel with polymeric coating	571	418
Hardware products	149	110
Wire, sling, bracing	141	102
Coking production	115	78
Tin plated steel	97	108
Band	89	67
Formed section	89	26
Scrap	62	36
Tubes	41	36
Slabs	2	28
Coal	2	7
Others	307	211
Total	**7,546**	**5,630**

By customer destination	**2017**	**2016**
Russian Federation and the CIS	77%	77%
Middle East	14%	14%
Europe	3%	5%
Africa	3%	1%
Asia	3%	3%
Total	**100%**	**100%**

8. SEGMENT INFORMATION

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

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

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

8. SEGMENT INFORMATION (CONTINUED)

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

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

The following table presents measures of segment results for the years ended 31 December 2017 and 2016:

	Steel (Russia)		**Steel (Turkey)**		**Coal mining**		**Eliminations**		**Total**	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Revenue										
Sales to external customers	6,848	5,101	695	522	3	7	-	-	7,546	5,630
Inter-segment sales	368	246	-	-	317	200	(685)	(446)	-	-
Total revenue	**7,216**	**5,347**	**695**	**522**	**320**	**207**	**(685)**	**(446)**	**7,546**	**5,630**
Segment EBITDA	**1,887**	**1,852**	**50**	**43**	**104**	**63**	**(9)**	**(2)**	**2,032**	**1,956**
Depreciation and amortisation	(456)	(401)	(61)	(64)	(27)	(14)	-	-	(544)	(479)
Loss on disposal of property, plant and equipment	(26)	(14)	-	1	(2)	(1)	-	-	(28)	(14)
Share of results of associates	(5)	(1)	-	-	-	-	-	-	(5)	(1)
Operating profit/(loss) per consolidated financial statements	**1,400**	**1,436**	**(11)**	**(20)**	**75**	**48**	**(9)**	**(2)**	**1,455**	**1,462**

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

At 31 December 2017 and 2016, the segments' total assets and liabilities were reconciled to total assets and liabilities as follows:

	31 December 2017				
	Steel (Russia)	**Steel (Turkey)**	**Coal mining**	**Eliminations**	**Total**
Total assets	8,593	931	411	(2,011)	7,924
Total liabilities	2,232	142	100	(47)	2,427

	31 December 2016				
	Steel (Russia)	**Steel (Turkey)**	**Coal mining**	**Eliminations**	**Total**
Total assets	8,000	903	310	(2,712)	6,501
Total liabilities	1,687	92	69	(58)	1,790

8. SEGMENT INFORMATION (CONTINUED)

The segmental additions on property, plant and equipment and intangible assets for the years ended 31 December 2017 and 31 December 2016 were:

	2017	**2016**
Steel (Russia)	651	442
Steel (Turkey)	6	12
Coal mining	65	27
Total capital expenditure	**722**	**481**

9. COST OF SALES

	2017	**2016**
Cost of production		
Raw materials used	3,978	2,751
Depreciation of property, plant and equipment	520	461
Payroll and social taxes	643	530
Other expenses	242	100
	5,383	**3,842**
Change in work in progress, finished goods and goods-in-transit	(115)	(25)
Total	**5,268**	**3,817**

10. GENERAL AND ADMINISTRATIVE EXPENSES

	2017	**2016**
Payroll and social taxes	116	108
Taxes other than income tax	55	42
Depreciation and amortisation	22	15
Professional services	17	15
Insurance	3	3
Materials	3	3
Research and development costs	3	2
Other	19	19
Total	**238**	**207**

11. SELLING AND DISTRIBUTION EXPENSES

	2017	**2016**
Transportation expenses	437	347
Packing costs	37	30
Materials	25	20
Payroll and social taxes	14	12
Advertising expenses	2	2
Depreciation	2	3
Other	45	29
Total	**562**	**443**

12. OTHER OPERATING LOSS/(INCOME), NET

	2017	2016
Loss on disposal of property, plant and equipment	28	14
Provision for trade and other receivables	3	4
Income from available-for-sale investments	-	(3)
Net gains on sale available-for-sale investments	-	(315)
(Gain)/loss on disposal of subsidiaries	(5)	3
Net gains on sale of other assets	(8)	(7)
Other operating losses, net	5	5
Total	**23**	**(299)**

13. OTHER EXPENSES

For the years ended 31 December 2017 and 2016, other expenses included USD 44 million and USD 46 million, respectively, related to social programs and maintenance of social assets.

14. FINANCE COSTS

	2017	2016
Interest expense on borrowings	28	100
Interest expense on provisions	16	17
Total	**44**	**117**

15. INCOME TAX

The Group's income tax expense attributable to different tax jurisdictions for the years ended 31 December 2017 and 2016 was:

	2017	2016
Current income tax	264	253
Adjustments recognised in current year relating to prior year current tax	21	(3)
Deferred income tax expense/(benefit), net	21	(19)
Total income tax expense	**306**	**231**

15. INCOME TAX (CONTINUED)

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

	2017	**2016**
Profit before income tax	1,495	1,342
Theoretical income tax charge computed at the Parent Company's statutory rate of 20%	299	268
Adjustments due to:		
Income not taxable	(21)	(63)
Expenses not deductible	12	10
Adjustments of prior years deferred income tax expense	21	(2)
Change in unrecognized deferred tax assets	(18)	15
Effect of different tax rates of subsidiaries operating in other jurisdictions	4	-
Other	9	3
Income tax expense	**306**	**231**

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

	31 December 2017	**Charged/ (credited) to profit or loss**	**Business combinations**	**Effect of translation to presenta-tion currency**	**31 December 2016**
Accounts receivable	2	(9)	1	-	10
Unused tax losses	50	4	5	1	40
Investment tax credits	7	(1)	-	-	8
Accounts payable	50	12	-	2	36
Property, plant and equipment	16	(7)	6	1	16
Investments	3	-	-	-	3
Inventories	19	(3)	-	3	19
Deferred tax set off	(54)	6	(1)	(2)	(57)
Deferred income tax assets	93	2	11	5	75
Property, plant and equipment	(397)	(2)	-	(20)	(375)
Intangible assets	(1)	(1)	-	-	-
Inventories	(62)	(18)	-	(2)	(42)
Accounts receivable	(7)	7	(1)	(1)	(12)
Accounts payable	(4)	(3)	-	(1)	(12)
Loans	-	1	-	-	(1)
Deferred tax set off	54	(6)	1	2	57
Deferred income tax liabilities	(417)	(22)	-	(22)	(373)
Net deferred income tax liabilities	**(324)**	**(20)**	**11**	**(17)**	**(298)**

15. INCOME TAX (CONTINUED)

	31 December 2016	Charged/ (credited) to profit or loss	Effect of translation to presentation currency	31 December 2015
Accounts receivable	10	6	-	4
Unused tax losses	40	(16)	4	52
Investment tax credits	8	(2)	-	10
Accounts payable	36	(2)	8	30
Property, plant and equipment	16	-	2	14
Investments	3	-	-	3
Inventories	19	9	2	8
Deferred tax set off	(57)	10	(11)	(56)
Deferred income tax assets	75	5	5	65
Property, plant and equipment	(375)	20	(66)	(329)
Inventories	(42)	(6)	(7)	(29)
Accounts receivable	(12)	1	(2)	(11)
Loans	(1)	5	-	(6)
Accounts payable	-	4	-	(4)
Deferred tax set off	57	(10)	11	56
Deferred income tax liabilities	(373)	14	(64)	(323)
Net deferred income tax liabilities	**(298)**	**19**	**(59)**	**(258)**

Recognised tax losses expire in the following years:

	31 December	
Year of expiry	**2017**	**2016**
Without expiry date	33	20
From 2 to 5 years	17	20
	50	**40**

At 31 December 2017 and 2016, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was USD 567 million and USD 581 million, respectively. No liabilities have been recognised in these consolidated financial statements in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

Based upon historical taxable income and projections for future taxable income over the periods in which deferred income tax assets are deductible, management of the Group believes that the Group will realise the benefits of the deductible differences.

Deferred tax assets of USD 15 million have not been recognised in 2016 (of which USD 15 million related to tax losses) and USD 4 million have not been recognised in 2017 (of which USD 4 million related to tax losses) because it is not probable that future taxable profits will be available against which the Group can utilise the benefits therefrom. Tax losses expire in the following years:

Year of expiry	**2017**	**2016**
From 2 to 5 years	4	15
	4	**15**

15. INCOME TAX (CONTINUED)

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

16. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Machinery and equipment	Transpor-tation equipment	Fixtures and fittings	Mining assets	Construc-tion-in-progress	Total
Cost							
At 1 January 2016	**2,405**	**4,954**	**141**	**129**	**87**	**382**	**8,098**
Additions	2	144	2	3	-	317	468
Transfers	61	116	3	1	-	(181)	-
Site restoration provision	-	-	-	-	3	-	3
Disposals	(14)	(180)	(6)	(3)	(10)	(5)	(218)
Effect of translation to presentation currency	364	817	26	26	19	88	1,340
At 31 December 2016	**2,818**	**5,851**	**166**	**156**	**99**	**601**	**9,691**
Additions	3	165	12	11	-	517	708
Acquisition of subsidiaries	24	53	1	1	-	25	104
Transfers	137	229	6	7	-	(379)	-
Site restoration provision	-	-	-	-	(2)	-	(2)
Disposals	(14)	(243)	(5)	(1)	-	(20)	(283)
Disposals of subsidiaries	(10)	-	-	(1)	-	-	(11)
Utilised allowance for impairment losses	-	-	-	-	-	(11)	(11)
Effect of translation to presentation currency	118	264	9	7	5	33	436
At 31 December 2017	**3,076**	**6,319**	**189**	**180**	**102**	**766**	**10,632**
Depreciation							
At 1 January 2016	**(1,036)**	**(2,905)**	**(100)**	**(82)**	**(64)**	**(147)**	**(4,334)**
Charge for the year	(61)	(396)	(10)	(13)	(3)	-	(483)
Impairment loss	(8)	(1)	-	-	-	(2)	(11)
Disposals	6	164	5	3	10	1	189
Effect of translation to presentation currency	(157)	(473)	(18)	(17)	(12)	(30)	(707)
At 31 December 2016	**(1,256)**	**(3,611)**	**(123)**	**(109)**	**(69)**	**(178)**	**(5,346)**

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land and buildings	Machinery and equipment	Transportation equipment	Fixtures and fittings	Mining assets	Construction-in-progress	Total
Charge for the year	(79)	(432)	(12)	(20)	(3)	-	(546)
Reversal/(accrual) of impairment	(1)	-	-	-	-	132	131
Utilsed allowance for impairment losses	-	-	-	-	-	11	11
Disposals	6	205	4	2	-	-	217
Disposals of subsidiaries	10	-	-	-	-	-	10
Effect of translation to presentation currency	(52)	(158)	(6)	(6)	(3)	(10)	(235)
At 31 December 2017	**(1,372)**	**(3,996)**	**(137)**	**(133)**	**(75)**	**(45)**	**(5,758)**
Carrying amount							
At 31 December2016	**1,562**	**2,240**	**43**	**47**	**30**	**423**	**4,345**
At 31 December 2017	**1,704**	**2,323**	**52**	**47**	**27**	**721**	**4,874**
Carrying amount had no impairment taken place							
At 31 December 2016	**2,005**	**2,660**	**51**	**52**	**53**	**601**	**5,422**
At 31 December 2017	**2,113**	**2,691**	**58**	**50**	**48**	**767**	**5,727**

For the year ended 31 December 2016 no interest was capitalised to property, plant and equipment. For the year ended 31 December 2017 interest on long-term payables of USD 1 million was capitalised to property, plant and equipment.

At 31 December 2017 and 2016 there is no property, plant and equipment pledged.

Capital commitments are disclosed in Note 30.

At 31 December 2017 carrying amount of the construction in progress included impairment provision of USD 45 million (31 December 2016: USD 178 million). At 31 December 2016 provision of USD 140 million related to the construction in progress, which had not yet been put into operation under a modernisation project. During the year ended 31 December 2017 management approved the decision to restart the modernisation project and reversed previously recognised provision on amount of USD 150 million (including the effect of translation to presentation currency). During the year ended 31 December 2017 provision related to the construction in progress and other assets was made in the amount of USD 19 million.

At 31 December 2017, management analysed changes in the economic environment and developments in the metals industry and the Group's operations since 31 December 2016 and considered it necessary to carry out impairment tests only for one cash-generating unit of the Group – Steel (Turkey). For the purpose of impairment testing, MMK groups its assets into three cash generating units, which are equivalent to the operating segments: Steel (Russia), Steel (Turkey) and Coal. No impairment indicators were identified in cash generating units Steel (Russia) and Coal. Based on the impairment analysis performed no impairment or reversal of previously recorded impairment was recognised as at 31 December 2017.

In performing the impairment test, the following specific assumptions were used for cash generating unit Steel segment (Turkey):

- cash flow projections were based on financial forecasts approved by management covering a five year period. Quantity of sales are expected to increase by 2% in 2018 to the level of 2017. In 2018 the hot-rolled mill is planned to commence operations

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

leading to an expected quantity of sales growth in 2019 by 83,4%, and remain stable at the level of sales in the 2020 year and thereafter;

- steel sales prices in 2018 year are expected to increase on average by 17% to the level of 2017, decrease by 7% in 2019, without changes in 2020, increase by 3% in 2021, increase by 2% in 2022;
- forecast operating costs in 2018 are expected to increase by 19% to the level of 2017, to increase by 38% in 2019, to decrease by 1% in 2020,to increase by 2% in 2021 and 2022.

The basic assumptions on post-forecast period:

- the growth rate in the post-forecast period is 2%;
- capital investments are lower than amortization level by 18% in terminal period;
- a pre-tax discount rate was estimated in USD terms based on the weighted average cost of capital basis and was 12.4% (post-tax rate was 10.9%).

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

- a 1% decrease in annual growth rate in the post-forecast period would not result in impairment;
- a 1% increase in the discount rate would not result in impairment;
- a decrease in sales price above 1% would result in impairment.

17. INVENTORIES

	31 December	
	2017	**2016**
Raw materials	768	555
Finished goods and goods for resale	411	287
Work in progress	171	159
Deferred drifting costs	92	84
Goods in transit	4	3
Total	**1,446**	**1,088**
Less: Allowance for obsolete and slow-moving items and write down to net realisable value	(25)	(21)
Total inventories, net	**1,421**	**1,067**

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

	2017	**2016**
Balance at the beginning of the year	**21**	**49**
Change in allowance	2	(24)
Effect from acquisition of subsidiaries	2	-
Provision utilised	-	(7)
Effect of translation to presentation currency	-	3
Balance at the end of the year	**25**	**21**

18. TRADE AND OTHER RECEIVABLES

	31 December	
	2017	**2016**
Trade receivables	702	507
Allowance for doubtful receivables	(25)	(20)
Total financial assets within trade and other receivables	**677**	**487**
Advances paid	60	44
Prepaid expenses	8	5
Other receivables	37	22
Total trade and other receivables	**782**	**558**

Guarantee letters received in relation to trade receivables that are not impaired amounted to USD 152 million (31 December 2016: USD 230 million).

As at 31 December 2017 and 31 December 2016 financial assets are presented by:

	Trade receivables	
	2017	**2016**
Neither past due nor impaired	621	453
Past due but not impaired	56	34
Individually determined to be impaired	25	20
Less impairment provision	(25)	(20)
Total financial assets	**677**	**487**

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

	31 December	
	2017	**2016**
Less than 30 days	30	11
30-60 days	12	10
60-90 days	1	2
90-120 days	1	1
Over 120 days	12	10
Total	**56**	**34**

The management believes that receivables past due will be recovered in full. For the analysis of credit quality of trade receivables refer to Note 28.

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

	31 December	
	2017	**2016**
Balance at the beginning of the year	**20**	**17**
Increase in allowance	-	4
Effect from acquisition of subsidiaries	3	-
Provision utilised	(1)	(3)
Effect of translation to presentation currency	3	2
Balance at the end of the year	**25**	**20**

19. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

	31 December	
	2017	**2016**
Non-current		
Available-for-sale investments, at fair value		
Unlisted securities	3	3
Total non-current	**3**	**3**
Current		
Financial assets, at fair value through profit or loss		
Trading debt securities	7	6
Share in mutual investment fund	1	2
Bank deposits, USD	-	5
Bank deposits, EUR	-	37
Total current	**8**	**50**

During 2016 the Group has disposed of listed securities classified as available for sale. In 2016 the fair value gain on these financial assets recognised in investment revaluation reserve in other comprehensive income up to the date of sale was USD 124 million. During 2016 the revaluation reserve for available-for-sale financial assets recycled from other comprehensive income to profit or loss upon disposal was USD 245 million. Net gain on sale of available-for-sale investments was USD 315 million (Note 12). This result was included in other operating income in the consolidated statement of comprehensive income.

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

No bank deposits are past due or impaired in 2017 and 2016. The analysis of the credit quality of bank deposits are as follows:

	31 December	
	2017	**2016**
BB-to BB+ rated	-	42
Total	**-**	**42**

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

20. CASH AND CASH EQUIVALENTS

	31 December	
	2017	**2016**
Cash in banks, RUB	39	23
Cash in banks, EUR	53	52
Cash in banks, USD	130	55
Cash in banks, TRY	1	-
Bank deposits, RUB	63	57
Bank deposits, USD	265	77
Bank deposits, TRY	1	2
Cash equivalents	4	-
Total	**556**	**266**

20. CASH AND CASH EQUIVALENTS (CONTINUED)

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

	31 December	
	2017	**2016**
AA- to AA rated	1	3
BBB-to BBB+ rated	291	103
BB-to BB+ rated	251	156
Other	13	4
Total	**556**	**266**

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

21. SHARE CAPITAL

Common stock

	31 December	
	2017	**2016**
Authorised issued and fully paid common shares with a par value of RUB 1 each (in thousands)	11,174,330	11,174,330

Issued and net outstanding shares comprised the following:

Number of ordinary shares in thousands	**Issued**	**Treasury shares**	**Net outstanding**
Balance at 1 January 2016	**11,174,330**	**(1,836)**	**11,172,494**
Acquisition of treasury shares	-	(591,983)	(591,983)
Re-issuance of treasury shares	-	593,819	593,819
Balance at 31 December 2016	**11,174,330**	-	**11,174,330**
Acquisition of treasury shares	-	-	-
Re-issuance of treasury shares	-	-	-
Balance at 31 December 2017	**11,174,330**	**-**	**11,174,330**

Basic and diluted earnings per share are equal and calculated using weighted average number of shares(which is equal to the number of shares in issue) presented within consolidated statement of comprehensive income with no additional adjustments.

Treasury stock

At 31 December 2017 and 31 December 2016, the Group did not hold issued common shares of the Parent Company as treasury stock.

Currency translation reserve

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

21. SHARE CAPITAL (CONTINUED)

Shareholders' voting rights

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

Dividends

On 26 May 2017, the Parent Company declared a dividend of RUB 1.242 (USD 0.022) per ordinary share representing a total dividend of USD 248 million.

On 29 September 2017, the Parent Company declared a dividend of RUB 0.869 (USD 0.015) per ordinary share representing a total dividend of USD 166 million. Dividends was paid out in 2017.

On 8 December 2017, the Parent Company declared a dividend of RUB 1.111 (USD 0.019) per ordinary share representing a total dividend of USD 209 million.

On 27 May 2016, the Parent Company declared a dividend of RUB 0.31 (USD 0.005) per ordinary share representing a total dividend of USD 53 million, net of dividends in respect of treasury shares.

On 30 September 2016, the Parent Company declared a dividend of RUB 0.72 (USD 0.011) per ordinary share representing a total dividend of USD 127 million, net of dividends in respect of treasury shares. Dividends was paid out in 2016.

22. LONG-TERM BORROWINGS

	31 December	
	2017	**2016**
Unsecured loans, USD	-	2
Unsecured loans, RUB	30	140
Unsecured loans, EUR	204	36
Total	**234**	**178**

Loans

The company has various borrowing arrangements in RUB, USD and EUR denominations with various lenders. Those borrowings consist of unsecured and secured loans and credit facilities. At 31 December 2017 and 2016, the total unused element of all credit facilities was USD 1,287 million and USD 1,415 million, respectively.

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

- the ratio of consolidated debt to consolidated EBITDA should not exceed 3.5:1;
- the ratio of consolidated debt to consolidated equity should not exceed 1:1.

At 31 December 2017 and 2016, the Group was in compliance with its debt covenants.

22. LONG-TERM BORROWINGS (CONTINUED)

Debt repayment schedule

Year ended 31 December 2017	
2018 (presented as current portion of long-term borrowings, Note 26)	92
2019	36
2020	191
2021	5
2022 and thereafter	2
Total	**326**

Year ended 31 December 2016	
2017 (presented as current portion of long-term borrowings, Note 26)	295
2018	108
2019	67
2020	1
2021 and thereafter	2
Total	**473**

Net Debt Reconciliation

The table below sets out an analysis of net debt and the movements in the Group's liabilities from financing activities for each of the periods presented. The items of these liabilities are those that are reported as financing in the statement of cash flows:

	Borrowings (Note 22,26)	**Finance leases**	**Cash and cash equivalents (Note 20)**	**Bank deposits (Note 19)**	**Total**
At 1 January 2016	**(1,847)**	**-**	**369**	**354**	**(1,124)**
Cash flows	1,481	-	(120)	(323)	1,038
Effect of translation to presentation currency and exchange rate changes	(32)	-	17	(1)	(16)
Interest charge	(100)		-	12	(88)
Change in finance lease	-	(2)	-	-	(2)
At 31 December 2016	**(498)**	**(2)**	**266**	**42**	**(192)**
Cash flows	91	1	279	(52)	319
Business combinations	(60)	(1)	-	-	(61)
Effect of translation to presentation currency and exchange rate changes	(47)	-	11	1	(35)
Interest charge	(28)	-	-	9	(19)
At 31 December 2017	**(542)**	**(2)**	**556**	**-**	**12**

23. SITE RESTORATION PROVISION

	31 December	
	2017	**2016**
Balance at the beginning of the year	**165**	**134**
Unwinding of discount rate	14	15
Change in estimates	(7)	(2)
Provision utilised	(12)	(10)
Effect of translation to presentation currency	9	28
Balance at the end of the year	**169**	**165**
Included in the consolidated statement of financial position as:		
Current portion of site restoration provision	11	10
Long-term portion of site restoration provision	158	155
Total	**169**	**165**

According to environmental regulation and Ecological program approved by the management in 2013 the Group recognised a provision for restoration of land and open pit in Magnitogorsk up to 2040. At the moment of provision recognition there were no assets in the consolidated statement of financial position related to this provision due the open pit was depleted long years ago.

In 2017 the management reassessed the cost of restoration of open pit due to changes in discount rate and capacity of open pit and decreased relative provision by USD 5 million accordingly (2016: USD 5 million) and recognized it as part of other expenses. Provision for restoration and closing mine of mine shaft was decreased by USD 2 million (2016: increased by USD 3 million) and capitalized to the costs of related assets. The Group used discount rate of 7.7% (2016: 8.7%) to calculate provision.

24. DEFINED CONTRIBUTION PLANS

Contributions to the Russian Federation State Pension Fund amounted to USD 117 million and USD 104 million for the years ended 31 December 2017 and 2016, respectively.

25. TRADE AND OTHER PAYABLES

	31 December	
	2017	**2016**
Trade accounts payable	669	416
Dividends payable	218	1
Total financial payables within trade and other payables	887	417
Advances from customers	182	154
Other taxes payable	71	63
Salaries payable	63	57
Other current liabilities	33	19
Total trade and other payables	**1,236**	**710**

25. TRADE AND OTHER PAYABLES (CONTINUED)

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

	31 December	
	2017	**2016**
Due in:		
1 month or less	796	351
1-3 months	69	46
3 months to 1 year	22	20
Total	**887**	**417**

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

	31 December	
	2017	**2016**
Short-term borrowings:		
Secured loans, USD	-	1
Secured loans, EUR	6	-
Unsecured loans, RUB	100	-
Unsecured loans, EUR	110	24
	216	**25**
Current portion of long-term borrowings:		
Unsecured loans, EUR	44	63
Unsecured loans, USD	2	207
Unsecured loans, RUB	46	25
	92	**295**
Total	**308**	**320**

At 31 December 2017 and 2016, short-term borrowings were secured by inventories of USD 6 million, and USD 1 million, respectively.

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

	31 December	
	2017	**2016**
Due in:		
1 month	24	3
1-3 months	151	72
3 months to 1 year	133	245
Total	**308**	**320**

27. RELATED PARTIES

Transactions and balances outstanding with related parties

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

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

Details of transactions with and balances between the Group and related parties at 31 December 2017 and 2016 and for the years ended 31 December 2017 and 2016 are disclosed below.

a) Transactions with associates of the Group

	2017	2016
Purchases	135	102

	31 December	
Balances outstanding	**2017**	**2016**
Trade and other payables	-	3

b) Transactions with other related parties

	2017	2016
Revenue	401	345
Purchases	17	12
Bank charges	1	3

	31 December	
Balances outstanding	**2017**	**2016**
Cash and cash equivalents	75	48
Bank deposits	-	16
Trade and other receivables	92	18
Trade and other paybles	-	1

Other related parties include entities under common control with the Group (see Note 1).

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

Remuneration of the Group's key management personnel

Key management personnel include key management of the Group and members of the Board of Directors and receive only short-term employment benefits. For the years ended 31 December 2017 and 2016, key management personnel received as compensation USD 10 million and USD 9 million, respectively.

28. RISK MANAGEMENT ACTIVITIES

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

Liquidity risk

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

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

Presented below is the maturity profile of the Group's borrowings (the maturity profiles for financial liabilities within trade and other payables are presented in Notes 25) based on contractual undiscounted payments, including interest:

2017	**Total**	**Due within one month**	**Due from one to three months**	**Due from three to twelve months**	**Due in one year to later**
Fixed rate borrowings					
Principal	**477**	17	113	123	224
Interest	**10**	1	2	5	2
	487	**18**	**115**	**128**	**226**
Floating rate borrowings					
Principal	**66**	6	38	6	16
Interest	**1**	-	1	-	-
	67	**6**	**39**	**6**	**16**
Total fixed and floating rate borrowings	**554**	**24**	**154**	**134**	**242**

2016	**Total**	**Due within one month**	**Due from one to three months**	**Due from three to twelve months**	**Due in one year to later**
Fixed rate borrowings					
Principal	**189**	-	-	34	155
Interest	**32**	1	3	12	16
	221	**1**	**3**	**46**	**171**
Floating rate borrowings					
Principal	**314**	2	68	204	40
Interest	**4**	1	1	2	-
	318	**3**	**69**	**206**	**40**
Total fixed and floating rate borrowings	**539**	**4**	**72**	**252**	**211**

28. RISK MANAGEMENT ACTIVITIES (CONTINUED)

Credit risk

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

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

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

At 31 December 2017 and 2016, the Group's maximum exposure to credit risk for trade and other receivables including trade and other receivables from related parties by type of customers was as follows:

	31 December	
	2017	**2016**
Automobile producers	77	71
Traders	159	53
Tube plants	142	138
Other industries	299	225
Total	**677**	**487**

Foreign currency risk

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

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

28. RISK MANAGEMENT ACTIVITIES (CONTINUED)

At 31 December 2017 and 2016, the carrying amounts of the Group's monetary assets and liabilities denominated in foreign currencies other than its functional currency were as follows:

	31 December 2017		**31 December 2016**	
	EUR	**USD**	**EUR**	**USD**
Assets				
Cash and cash equivalents	52	384	51	122
Deposites	-	-	37	5
Trade receivables	38	165	47	84
Total assets	**90**	**549**	**135**	**211**
Liabilities				
Trade payables	(62)	(86)	(95)	(66)
Borrowings	(369)	(2)	(130)	(209)
Total liabilities	**(431)**	**(88)**	**(225)**	**(275)**
Total net position	**(341)**	**461**	**(90)**	**(64)**

The table below details the Group's sensitivity to devaluation of the RUB against USD and EUR by 10% (2016: 20%), which management believes is an appropriate measure in the current market conditions and which would impact its operations.

	EUR impact		**USD impact**	
	2017	**2016**	**2017**	**2016**
(Loss)/profit	(34)	(18)	46	(13)
Capital	(34)	(18)	46	(13)

Interest rate risk

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

The table below details the Group's annualised sensitivity to change of floating rates (LIBOR, EURIBOR, Mosprime) by 2% (31 December 2016: 2%), which management believes is an appropriate measure in the current market conditions and which would impact its operations. The analysis was applied to borrowings based on the assumptions that amount of liability outstanding at the date of statement of financial position was outstanding for the whole annual period.

	31 December	
	2017	**2016**
Profit or loss	1	6
Capital	1	6

Equity and debt investment price risk

Investment price risk arising from holding equity and debt investments is not material for the Group.

29. CAPITAL MANAGEMENT

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

As at 31 December 2017 the capital structure of the Group consists of debt in the amount of USD 544 million (31 December 2016: USD 500 million), share capital of USD 386 million (31 December 2016: USD 386 million) and retained earnings of USD 9,259 million (31 December 2016: USD 8,703 million).

The management of the Group reviews the Group's capital structure on an annual basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital. Based on their recommendations, the Group balances its overall capital structure through the payment of dividends as well as the issue of new debt or the redemption of existing debt. Additionally the Group monitors the adequacy of its debt levels using the debt to EBITDA ratio and debt to equity. Details of ratios are disclosed in Note 22.

There were no significant changes in the Group's approach to capital management during the year ended 31 December 2017 in comparison to the prior period.

30. COMMITMENTS AND CONTINGENCIES

Commitments for expenditure

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

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

At 31 December 2017, the Group had purchase agreements of approximately USD 238 million to acquire property, plant and equipment in 2018 (31 December 2016: USD 136 million).

At 31 December 2017, the Group had purchase agreements of approximately USD 4,827 million to acquire in future periods through 2015-2022 coking coal, zinc, iron ore and natural gas (31 December 2016: USD 5,863 million).

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

In the past, the Group transferred social assets to local municipal authorities. The Group's management expects that the Group will continue to partly fund these social operations for the foreseeable future. These costs are recognised in the consolidated statement of comprehensive income as incurred (Note 13).

Operating leases

The land in the Russian Federation on which the Group's production facilities are located is owned by the State. The Group pays land tax based on the total area and the location of the land occupied. The amount of land tax for the years ended 31 December 2017 and 2016 was approximately USD 8 million and USD 7 million, respectively.

30. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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

	2017	2016
Due in one year	9	7
Due in the second year	6	5
Due thereafter	85	66
	100	**78**

Letters of guarantee

At 31 December 2017 the Group had letters of guarantee obtained from banks and given to suppliers amounted to USD 204 million (31 December 2016: USD 121 million).

Russian business environment

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. The Russian economy was growing in 2017, after overcoming the economic recession of 2015 and 2016. The economy is negatively impacted by low oil prices, ongoing political tension in the region and international sanctions against certain Russian companies and individuals. The financial markets continue to be volatile. This operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

Taxation contingencies in the Russian Federation

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

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

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

30. COMMITMENTS AND CONTINGENCIES (CONTINUED)

The Group includes companies incorporated outside of Russia. The tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax, because they do not have a permanent establishment in Russia. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the Group. The Controlled Foreign Company (CFC) legislation introduced Russian taxation of profits of foreign companies and non-corporate structures (including trusts) controlled by Russian tax residents (controlling parties). The CFC income is subject to a 20% tax rate. As a result, management reassessed the Group's tax positions and recognised current tax expense as well as deferred taxes for temporary differences that arose from the expected taxable manner of recovery of the relevant Group's operations to which the CFC legislation applies to and to the extent that the Group (rather than its owners) is obliged to settle such taxes. Refer to Note 15.

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

31. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

The carrying amounts of financial instruments such as cash and cash equivalents, bank deposits, trade and other receivables, short-term and long-term borrowings with fixed and floating rates (except for listed bonds), trade and other payables are reasonable approximation their fair values as at 31 December 2017 and 31 December 2016 (Level 3 of fair value hierarchy). The level three debt instruments are valued at the net present value of estimated future cash flows. The Group also considers liquidity, credit and market risk factors, and adjusts the valuation model as deemed necessary.

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

31. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

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

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

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

	Level 1	Level 2	Level 3	Total
31 December 2017				
Available-for-sale investments, unlisted equity securities	-	-	3	3
Trading debt securities	7	-	-	7
Share in mutual investment fund	1	-	-	1
Total assets	**8**	**-**	**3**	**11**

	Level 1	Level 2	Level 3	Total
31 December 2016				
Available-for-sale investments, unlisted equity securities	-	-	3	3
Trading debt securities	6	-	-	6
Share in mutual investment fund	2	-	-	2
Total assets	**8**	**-**	**3**	**11**

32. EVENTS AFTER THE DATE OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In January 2018, dividends were paid in the amount of USD 215 million. The difference with the declared amount is caused by the change in the exhange rates.

33. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2017 were approved by the Group's management and authorised for issue on 6 February 2018.

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