

APPROVED by  
the Resolution of  
PJSC MMK Board of Directors  
Minutes № 14 dated 24.04.2018  
IAP PJSC MMK-2018  
Rev. no.3

## **Internal Audit Policy of PJSC MMK and Company of MMK Group**

### **1 Introduction**

The Internal Audit Policy (hereinafter the Policy) of PJSC MMK and Company of MMK Group is the basic document defining main principles, objectives, guidelines, obligations and capabilities for PJSC MMK's activity and activities of the Company of MMK Group (hereinafter may be referred to as "the Company") with regard to the internal audit.

**"Company of MMK Group"** (for the purpose of this Policy) shall mean OJSC MMK-Metiz.

Internal audit is an activity providing independent and objective warranties and consultations aimed at achieving the Company's goals by improving the efficiency of the following systems:

- ✓ risk management,
- ✓ internal control (including reporting and financial statements) (hereinafter referred to as "internal control"), and
- ✓ corporate governance

with the application of a systematic, consistent and risk-oriented approach to their evaluation.

### **2 Scope of application**

Audits are conducted in relation to business processes, systems, structural divisions (departments) or other items subject to evaluation within PJSC MMK and the Company of MMK Group.

Consultations are provided on the issues of current and project activities of PJSC MMK and Company of MMK Group to improve risk management, internal control and corporate governance.

It is mandatory requirement for all structural divisions (departments) of PJSC MMK and Company of MMK Group to adhere to the principles and guidelines of this Policy.

### **3 Internal Audit Main Functioning Principles**

The Internal Audit in PJSC MMK and Company of MMK Group is established on the following principles:

**Independence.** The fundamental principle meaning obligatory absence of financial, proprietary, relational or any other interest of the internal auditor in the time of making its opinion, conclusions and recommendations, as well as absence of any interest in the business of the audit object and independence from any third parties interested in the business of the audit object.

**Objectiveness.** The internal auditors should demonstrate the highest level of the professional objectiveness in the course of compiling, assessment and submission of information on the audit object. The internal auditors should deliberately evaluate all

relevant factors and should be independent from their own interests and interests of any third parties.

**Legality.** The internal auditors must observe the legal rules of applicable law and the norms of internal regulatory documents of the Company.

**Fairness.** The internal auditor's fairness is the foundation for the confidence and trust of the owners, managers and employees of a business unit to its performance.

**Confidentiality.** The internal auditors should respect the proprietary rights to information and data they receive in the course of their activity and should not disclose the information without relevant consents and authorizations unless there is a legal or professional responsibility to disclose such information.

**Professional competence.** The internal auditors should use their knowledge, skills and experience required for implementation of activity related to the internal audit.

#### **4 Guidelines for the Policy Implementation**

The Policy shall be implemented through:

- 1) conducting of a systematic independent evaluation of reliability and efficiency of the risk management, internal control, and corporate governance systems to provide independent and objective warranties to the Board of Directors (the Audit Committee of the Board of Directors) and governing bodies of PJSC MMK and Company of MMK Group, that PJSC MMK and the Company of MMK Group have adequate systems of risk management, internal control and corporate management;
- 2) consulting governing bodies of PJSC MMK, MMK's employees or employees of the Company of MMK Group on improving the effectiveness of risk management, internal control and corporate governance systems;
- 3) fulfillment of one-time inspections initiated by the governance bodies of PJSC MMK or management bodies of the Company of MMK Group (in respect of the Company of MMK Group);
- 4) ascertaining trends for improvement of corporate governance, efficiency of internal control and risk management based on the results of internal audit and evaluations; development of substantiated and reasoned proposals on elimination of revealed shortcomings and recommendations on enhancement of efficiency and effectiveness of the activity of PJSC MMK and Company of MMK Group;
- 5) control and following evaluation of eliminated shortcomings and violations revealed during internal audits within PJSC MMK and Company of MMK Group;
- 6) timely informing MMK's governing bodies and management bodies of the Company of MMK Group on the status of the risk management, internal control, and corporate governance systems, on the revealed shortcomings and violations in the activity of PJSC MMK and/or Company of MMK Group;
- 7) development of internal regulating documents with a view of assurance of high quality of internal audit, its improvement and application of new approaches, enhancement of efficiency and rationality of organization and internal audits within PJSC MMK and Company of MMK Group;
- 8) generation of the strategy aimed at functioning and development of the internal audit;
- 9) creating and maintaining the Program for ensuring and keeping the quality of internal audit, in accordance with the requirements of the International Professional Standards for Internal Audit;

- 10) creating conditions for vocational training and skill upgrading of internal audits;
- 11) compliance with the best world practices in internal audit.

## **5 Organization department exercising internal audit functions**

In order to organize an efficient internal audit functioning, special structural/organizational departments were established within PJSC MMK and Company of MMK Group. Objectives, tasks, authorities, subordination, accountability, reporting procedures and composition of the staff of such departments are determined by internal regulatory documents of PJSC MMK and Company of MMK Group as well as by this Policy with due consideration of the Russian law requirements.

### **5.1 Objectives of the department exercising internal audit functions**

Provision of independent and objective warranties and consultations to improve risk management, internal control and corporate governance systems of PJSC MMK and Company of MMK Group.

### **5.2 Tasks and functions of the department exercising internal audit functions**

5.2.1 The main tasks are the following:

- Rendering assistance to the management of PJSC MMK and Company of MMK Group in development and monitoring of fulfillment of the procedures and activities aimed at improvement of the risk management, internal audit and corporate governance systems;
- Coordination of activity with entities rendering consulting services in regard to the internal audit, risk management and corporate governance system;
- Preparation of the reports on the performance of the internal audit organization department (including information on significant risks, defaults, results and efficiency of the actions aimed at elimination of the revealed shortcomings) and submission of these reports to the Board of Directors (the Audit Committee of the Board of Directors) and management bodies of PJSC MMK.

5.2.2 The main functions are the following:

- a) Conducting independent review of implementation and analysis of performance of risk management, internal control and corporate governance systems;
- b) Carrying out internal audits (in respect of the objects specified in Section 2 of this Policy) in order to:
  - Evaluate efficiency of management with respect to substantiation, feasibility and risk awareness in the decisions to be taken;
  - Evaluate efficiency and appropriateness of the existing internal control procedures;
  - Evaluate efficiency of risk management;
  - Detect pre-requisites for violations and wrongdoings;
  - Elaborate proposals for improvement of business;
  - Control of fulfillment of recommendations based on the audit results.
- c) Providing consultations aimed at improving risk management, internal

control and corporate governance systems within the scope established by the International Professional Standards on Internal Audit;

- d) Monitoring of amendments in external legal acts regulating functioning and audit of risk management, internal control, and corporate governance systems in order to meet the financial market requirements.
- e) Analysis of implementation of proposals and recommendations of internal and external control bodies.

### **5.3 Authority and responsibilities of the department exercising internal audit functions**

The manager of the organizational department of PJSC MMK carrying out the internal audit shall be entitled to:

- Cooperate with the Audit Committee of MMK BoD and governing bodies of MMK and Company of MMK Group in accordance with the established procedure;
- Represent OJSC MMK in accordance with the established procedure and appear, within its competence, in all state, public and other organizations of the Russian Federation on behalf of PJSC MMK and participate in all meetings of the governing bodies of PJSC MMK;
- Request materials and documents necessary for internal audits (inspections) from the structural divisions (departments) of PJSC MMK and Companies<sup>1</sup> of MMK Group in accordance with the established procedure;

The head of the structural division, performing the functions of internal audit, should not manage functional areas that require executive decision-making on the objects of the audit.

Employees of the structural division performing internal audit functions shall:

- have the right of unhindered access to the documents that are necessary for the performance of internal audit tasks;
- have the right to require written explanations and clarifications on the substance of the issues to be checked when conducting internal audits;
- have the right to engage experts and specialists (including those on a contract basis) in internal audits in accordance with the established procedure;
- have the right to carry out other actions necessary to achieve audit objectives and to perform internal audit tasks within the framework of their duties and authorities.

Employees of the structural division performing internal audit functions are required to:

- apply basic principles of professional internal audit practice, the Code of Ethics of the International Institute of Internal Auditors, International Professional Standards of Internal Auditing and Regulation on Internal Audit, the Corporate Governance Code recommended for use by the Central Bank of the Russian Federation;
- maintain the proper level of knowledge and improve self-qualification in the field of internal audit;
- plan and carry out its work in accordance with this Policy and other internal

---

<sup>1</sup> In addition to OJSC MMK-Metiz

- documents of PJSC MMK and Company of MMK Group;
- organize the work in an efficient way and to promote cost savings and optimal coordination of work during internal audits;
  - comply with the requirements of internal documents and internal labor regulations applicable in PJSC MMK and Company of MMK Group.

#### **5.4 Subordination of the department exercising internal audit functions**

- 5.4.1 The head of the organizational department of PJSC MMK exercising internal audit functions shall be designated and released from the office by the sole executive body of PJSC MMK upon the resolution of the Board of Directors of PJSC MMK.
- 5.4.2 The organizational department of PJSC MMK exercising internal audit functions and its manager shall be administratively subordinate to the CEO of MMK (General Director) and functionally subordinate to the Board of Directors of MMK.
- 5.4.3 The head of the organizational department of PJSC MMK exercising internal audit functions shall submit to the Board of Directors of MMK a risk-oriented work plan for internal audit.
- 5.4.4 Reports on the internal audits shall be submitted to the Board of Directors of MMK, the Audit Committee of MMK BoD and to the sole executive body – General Director of PJSC MMK for consideration and approval on a quarterly or as-needed basis.
- 5.4.5 The structural division performing the internal audit functions within the Company of MMK Group is administratively subordinate to the sole executive body of the Company of MMK Group, and functionally - to the head of the structural division of PJSC MMK performing functions of internal audit.
- 5.4.6 The structural division performing the internal audit functions within the Company of MMK Group shall report to the sole executive body of the Company of MMK Group and to the head of the structural division of PJSC MMK performing the functions of internal audit.

#### **6. Updating the Policy**

- 6.1 The policy shall be revised as necessary upon the proposal of the head of the structural division of PJSC MMK, performing the functions of internal audit, and shall be submitted for consideration to the Audit Committee of MMK BoD and to the Board of Directors of MMK.
- 6.2 The approval of the Policy shall be exercised by the Board of Directors of PJSC MMK.