

APPROVED by
the Resolution of the Board of
Directors of PJSC MMK
Minutes No. 13 dated
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PIC PJSC MMK-2018
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Policy on Internal Control at PJSC MMK and companies¹ of MMK Group

1 Introduction

Policy on Internal Control (hereinafter referred to as - the Policy) of PJSC MMK and Companies of MMK Group is the basic document that defines the principles and approaches of PJSC MMK and companies of MMK Group (hereinafter referred to as "the Company" ("companies")) to the development and operation of internal control on a systemic basis.

The system of internal control (including preparation of financial statements) of the Company (hereinafter referred to as - the System) provides reasonable assurance of the achievement of targets, associated with the operational activities including the integrity of assets, preparation of reports and compliance, by reducing risks to acceptable level, by supporting the reliability of decision-making processes and managing of the Companies. Scope of application

2 Scope of Application

The System is a part of the integrated management process for the Companies, including corporate governance.

Adherence to the principles and approaches of this Policy is compulsory for all Companies and structural units (departments) of the Company.

3 Main Objectives of the Internal Control System

Main objectives of the System are as follows:

- Providing reasonable assurance in achieving the targets of the Organizations, namely: business targets, objectives in the preparation of reporting (both internal and external) and compliance objectives (compliance with laws and regulations governing the Company's activity);
- Ensuring the efficiency of financial and economic activities as well as the cost-effective use of resources;
- Identification and management of risks;
- Ensuring the integrity of the Companies' assets;
- Ensuring the completeness and reliability of accounting (financial) statements, statistical, management and other reporting;
- Monitoring of compliance with legislation, internal policies and regulatory documents of the Companies.

4 Fundamental principles of development and functioning of the internal control system

4.1 To ensure fulfillment of the main objectives, the system is composed of the following elements:

¹ Companies of MMK Group are the entities of MMK Group, other organizations with the participation interest of PJSC MMK. The list of companies of MMK Group in which the System should operate is determined by internal regulatory documents of PJSC MMK.

- control environment;
- risks evaluation;
- control procedures;
- information and communications;
- monitoring procedures.

4.2 Development and efficient operation of the elements of the System shall be achieved through the following principles:

- Members of the Board of Directors, executive bodies, employees of the Company are committed to the principles of integrity and ethical values enshrined in the Code of Business Conduct;
- The Board of Directors, which is independent from the Company's executive bodies, monitors the functioning of the System and assesses its effectiveness;
- The governing bodies of the Company ensure the effective functioning of the System, determine the Company's organizational structure, powers, responsibilities and duties in the processes of achieving the targets and ensure the development of the competencies of the Company's employees;
- The Company defines the objectives and identifies risks that impede the achievement of objectives, evaluates the risks and develops risk management approaches;
- The Company develops and implements monitoring procedures that reduce risks to an acceptable level;
- The Company receives or compiles and uses important and qualitative information for the implementation of internal control;
- the Company carries out an internal exchange of information, including information on the targets and responsibilities for the implementation of internal control;
- The Company exchanges information regarding the issues of internal control with interested third parties;
- The Company conducts continuous and/or periodic analyzes and evaluations of the System's elements. Analyzes and assessments are conducted to ensure that all elements of the System are implemented and function effectively;
- The Company, including executive bodies and the Board of Directors, assesses the shortcomings of internal control, develops and implements corrective actions.

5. Approaches to the development and functioning of the internal control system

To implement the main objectives, the following approaches to the development and functioning of internal control in companies are applied:

5.1 Internal control in each company of MMK Group is implemented through the development and functioning of the System on the basis of uniform approaches and rules.

5.2 The System operates continuously and on an on-going basis at all levels of management of the Company, covering the Board of Directors, executive bodies, management team, all structural departments (divisions) and employees of the Company in the course of exercise of their functions within the framework of any business process.

5.3 The Company's Board of Directors reviews the issues on the development,

functioning and efficiency of the System and, if necessary, makes recommendations for its improvement. The Audit Committee of the Board of Directors prepares recommendations to the Board of Directors before making decisions on reliability and effectiveness of internal control in the Company.

5.4 The functions and objectives of the Board of Directors, Audit Committee of the Board of Directors, executive bodies, management team, division executing the functions of the internal audit and employees of the Company as well as the procedure for their interaction within the System are defined by internal regulatory documents of the Company.

5.5 All participants of the System are responsible for proper implementation of internal control within their authorities. The functions, powers and duties of the participants in internal control are distributed (differentiated) and fixed in internal documents of the Company and are brought to their attention.

5.6 The functions of the Audit Commission of the Company and interaction of the Audit Commission with the Board of Directors, Audit Committee of the Board of Directors, executive bodies, management team, structural divisions (departments) of the Company are defined in internal regulatory documents of the Company.

5.7 The authorities and functions (responsibilities) of structural units (departments), risk managers, employees of internal control (including compliance control, quality control, control of the most risky business processes, and etc.) are defined at the level of corporate structure in the companies.

5.8 At the level of operation, control procedures are implemented and performed in all business processes ensuring the risk mitigation in a business process to an acceptable level. The implementation and execution of control procedures are carried out with due regard to the expediency and cost-effectiveness of their application.

5.9 The results of control procedures are documented and kept by the participants of internal control.

5.10 Mechanisms of automated control are developed and applied in the companies.

5.11 The department executing the functions of internal audit performs an independent analysis of the functioning and effectiveness of the Company's internal control system with a view to assessing its effectiveness, compliance with established principles and commitment to achieving the targets.

5.12 Analysis results and identified major deficiencies of the System are communicated to the Company's executive bodies and to the Board of Directors.

5.13 Timely and effective corrective actions are developed and implemented to eliminate identified major deficiencies.

5.14 The System (all of its components) is being constantly developed and improved, that ensures timely response to changes in the external and internal environment of the Company.

5.15 In order to achieve the main targets of the System and ensure its effective functioning, the executive bodies of the Company undertake obligations to arrange conditions and provide resources for the implementation of this Policy as well as undertake responsibilities for the adherence to the decisions of the Board of Directors and Internal Audit Committee of the Board of Directors.