

APPROVED by
the Resolution of
OJSC MMK Board of Directors
Minutes № 14 dated 24.03.2017
IAP OJSC MMK-2017
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Internal Audit Policy of OJSC MMK and Companies of MMK Group

1 Introduction

The Internal Audit Policy (hereinafter the Policy) of OJSC MMK and Companies of MMK Group is the basic document defining the objectives, key principles and guidelines for OJSC MMK's activity and activities of Companies of MMK Group with regard to the internal audit.

«Companies of MMK Group» (for the purpose of this Policy) shall mean companies with the participation of OJSC MMK capital comprising more than 50% of the total shareholding in OJSC MMK-Metiz, JSC Profit and OJSC Belon.

The internal audit is aimed at an independent and objective evaluation of the risk management and internal control systems and corporate governance with a view to provide the BoD (the Audit Committee of the BoD) and governing bodies of OJSC MMK and Companies of MMK Group with independent and objective warranties that MMK and Companies of MMK Group possess appropriate and sufficient systems of internal control, risk management and corporate governance securing the following:

- performance capability, economic feasibility and effectiveness;
- compliance with the legal requirements and the requirements of the governing bodies' resolutions and the organizational/management documents of OJSC MMK and Companies of MMK Group;
- prevention of wrongful and illegal actions of employees and third parties towards OJSC MMK's assets;
- authenticity, completeness and expediency of all types of statements.

2 Scope of application

The internal audit policy is an integral part of the management system of OJSC MMK and Companies of MMK Group.

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

3 Policy Objectives

The objective of the internal audit policy is to define the basic principles and guidelines of the Internal Audit system and to **facilitate** achievement of the objectives of OJSC MMK and Companies of MMK Group in the most efficient and reasonable manner by means of systematized and consistent approach to evaluation and enhancement of effectiveness of the risk management, internal control and corporate governance systems.

4 Fundamental Principles

The Internal Audit system in OJSC MMK and Companies of MMK Group will be established and developed by observance of 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. Obligatory observance of the legal rules of applicable law and regulations and by-laws of the internal audit regulating the control environment.

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 rendering services related to the internal audit.

5 Guidelines for the Policy Implementation

The Policy shall be implemented through:

- Evaluation of appropriateness, reliability and efficiency of performance of the internal control, risk management and corporate governance;
- Fulfillment of one-time inspections initiated by the governance bodies of OJSC MMK or management bodies of Companies of MMK Group (in respect of the Companies of MMK Group);
- Consulting governing bodies of OJSC MMK or management bodies of Companies of MMK Group on the arrangement of efficient internal control, risk management and corporate governance systems;
- 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 OJSC MMK and Companies of MMK Group;
- Control and following evaluation of eliminated shortcomings and violations revealed during internal audits within OJSC MMK and Companies of MMK Group;
- Timely informing MMK's governing bodies and management bodies of Companies of MMK Group on the status of the internal control, risk management and corporate governance systems, on revealed shortcomings and violations in the activity of OJSC MMK and/or Companies of MMK Group;
- 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 OJSC MMK and Companies of MMK Group;
- Generation of the strategy aimed at functioning and development of the internal audit system;

- Creating conditions for vocational training and skill upgrading of internal audits;
- Compliance with the best world practices in internal audit.

6 Organization departments exercising internal audit functions

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

6.1. Objectives

Conducting independent review of implementation and analysis of performance of internal control system (including drafting and preparation of financial statements), risk management and corporate governance in OJSC MMK and Companies of MMK Group in order to assess their effectiveness with respect to compliance with the established principles, Policy of OJSC MMK and Companies of MMK Group and achievement of the set goals and targets.

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6.2. Tasks and functions

6.2.1. The main tasks are the following:

- Rendering assistance to the management of OJSC MMK and Companies of MMK Group in development and monitoring of fulfillment of the procedures and activities aimed at improvement of the internal audit, risk management and corporate governance system;
- 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 OJSC MMK.

6.2.2. The main functions are the following:

- a) Conducting independent review of implementation and analysis of performance of internal control system, risk management and corporate governance system;
- b) Carrying out internal audits of the business processes 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-processes;
 - Control of fulfillment of recommendations based on the audit results.
- c) Monitoring of amendments in external legal acts regulating functioning and audit of internal control. Risk management and corporate governance systems in order to meet the financial market requirements.
- d) Analysis of implementation of proposals and recommendations of internal and external control bodies.

6.3. Authority and responsibilities

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

- Cooperate with the Audit Committee of MMK BoD and governing bodies of MMK and Companies 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 OJSC MMK and participate in all meetings of the governing bodies of OJSC MMK;
- Request materials and documents necessary for internal audits from the structural divisions of OJSC MMK and Companies 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 structural divisions 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 structural divisions performing internal audit functions are required to:

- 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 documents of OJSC MMK and Companies 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 OJSC MMK and Companies of MMK Group.

6.4. Subordination

- 6.4.1. The head of the organizational department of OJSC MMK exercising internal audit functions and shall be designated and released from the office by the sole executive body of OJSC MMK upon the resolution of the Board of Directors of OJSC MMK.
- 6.4.2. The organizational department of OJSC 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.
- 6.4.3. Reports on the internal audits of OJSC MMK and Companies of MMK Group shall be submitted to the Board of Directors of MMK, the Audit Committee of MMK BoD for consideration and approval on a quarterly or as-needed basis.
- 6.4.4. Reports on the internal audits of OJSC MMK shall be submitted for consideration to the sole executive body - the General Director of OJSC MMK, on a quarterly or as-needed basis.
- 6.4.5. The structural divisions performing the internal audit functions within the Companies of MMK Group are administratively subordinate to the sole executive body of the Company of MMK Group, and functionally - to the head of the structural division of OJSC MMK performing functions of internal audit.
- 6.4.6. The structural divisions performing the internal audit functions within the Companies of MMK Group are subordinate to the sole executive body of the Company of MMK Group and to the head of the structural division of OJSC MMK performing the functions of internal audit.