



**MAGNITOGORSK
IRON & STEEL
WORKS**

Open joint stock company
Magnitogorsk Iron and Steel Works (MMK OJSC)

APPROVED BY:
Resolution of the Board
of Directors of MMK OJSC
Minutes No. 30.08.2013 dd. 4
Chairman of MMK OJSC's Board of Directors
_____ V. F. Rashnikov

REGULATIONS

on internal control procedures of MMK OJSC

PD MMK 3-KRU-01-2013

Revision No. 0

1 Sphere of application

- 1.1 These Regulations have been developed in accordance with the Federal Law "On Joint Stock Companies", the Company's Charter and the Regulations on the Company's Board of Directors.
- 1.2 These Regulations set out the concept, goals, areas and procedures of the Company's internal control, functions of Internal Audit Administration in the area of assessment of compliance with internal control procedures.
- 1.3 In order to ensure an independent assessment of the internal control and risks management system and supervision of the development and efficient functioning of the Company's internal controls the Company has set up an internal audit administration subordinated to the Company's Chief Executive Officer.
- 1.4 According to the MMK's Uniform Register of Business Processes these regulations establish the requirements to the business process "Internal audit of MMK and the companies of the Group" the owner of which is the head of Internal Audit Administration. The business process relates to the first level business process "Corporate governance" in the Uniform Register of Business Processes.

2 References

- 2.1 These Regulations have been developed based on the following documents:
 - **Federal Law** "On Joint Stock Companies" dated 26.12.1995, # 208-FZ;
 - **Directive of the Russian Federation Federal Financial Markets Service dated 28.12.2010** "On Approval of the Regulations on Organization of Trade on Securities' Markets" (**#10-78/pz-n**);
 - **Corporate Behavior Code** recommended for application by Order of the Russian Federal Securities Market Committee # 421/p dated 04.04.2002;
 - **Charter of the Magnitogorsk Iron and Steel Works Open Joint Stock Company** approved by decision of the Magnitogorsk Iron and Steel Works OJSC Annual General Shareholders' Meeting on 24.05.2013;
 - **Corporate Governance Code of MMK OJSC** approved by decision of the Company's Board of Directors on 21.09.2001;
 - **Regulations on the Board of Directors of MMK OJSC** approved by decision of the MMK OJSC Annual General Shareholders' Meeting on 20.05.2011;
 - **Regulations on the Audit Committee of the MMK OJSC Board of Directors** approved by decision of the MMK OJSC Board of Directors on 24.06.2013.

3 Terms, Definitions and Abbreviations

- 3.1 The following terms with their respective definitions are used herein:
 - a **business process** is a sequence of directed, targeted and formalized activities designed, by using certain resources, to transform inputs into outputs (results) representing a certain value for customers;
 - internal control** is a process carried out by the Board of Directors, the Company's executive and supervising bodies, structural divisions and duly

authorized employees, and aimed at ensuring sufficient confidence in the Company's achieving the set targets in the most efficient way;

internal control procedures is a combination of measures, rules and actions aimed at an efficient functioning of the internal control system and lowering the Company's risks to an acceptable level.

internal control system is a combination of the organizational structure, policies and internal control procedures adopted by the Company's Board of Directors and executive bodies as a means to minimize the risks and ensure the attainment of the Company's goals.

3.2 The following shortened terms are used in these Regulations:

Audit Committee means the MMK OJSC Board of Directors' Committee for Audit;

IAA means the Internal Audit Administration of MMK OJSC;

Company means the Magnitogorsk Iron and Steel Works Open Joint Stock Company

4 Goals, Areas and Procedures of Internal Control

4.1 The principal goal of internal control is protection of the shareholders' investments and the Company's assets.

4.2 Internal control is called upon to ensure:

- prompt identification, analysis and management of risks in the Company's operations and reducing their negative consequences to an acceptable level;
- full and correct financial, accounting, statistical and management reporting in the Company;
- implementation of the Company's financial and business plans;
- safe condition of the Company's assets;
- economical and efficient use of the Company's resources;
- optimization of the Company's organizational structure;
- compliance with Russian laws as well as the Company's policies, bylaws, rules and procedures;

4.3 The internal control's areas include the following:

4.3.1 control and supervision of the Company's main financial and business operations, analysis of the Company's performance;

4.3.2 control of compliance with financial discipline in the Company and implementation of decisions of the Company's governing bodies and departmental heads;

4.3.3 control of the correctness of the Company's financial statements and compliance with the procedures of preparation thereof, and with the Company's accounting provisions;

4.3.4 control of implementation of the Company's budget by its structural divisions;

4.3.5 control of correspondence between the terms and conditions of contracts and agreements entered into by the Company, and the Company's main goals and financial and business plans;

- 4.3.6 control of correspondence between the Company's internal documents and decision drafts of the Company's executive bodies and the Company's financial and business plans;
- 4.4 Procedures and principles of internal control:
 - 4.4.1 determination of inter-related and consistent goals, tasks and plans in respect of all business processes, and functional areas at all levels of the Company's management;
 - 4.4.2 distribution and delegation of authority and liability in the Company, and ensuring effective interaction among the Company's divisions and employees;
 - 4.4.3 determination of criteria and assessment of the performance of the Company's divisions and employees;
 - 4.4.4 organization of a data collection, processing and transfer system, including preparation of reports and memos, containing operational, financial and other information on the Company's activities;
 - 4.4.5 differentiation of access of members of the Company's managing and controlling bodies and the Company's employees to certain resources and information and establishment of liability for unauthorized access;
 - 4.4.6 identification, analysis and management of potential risks which may prevent the Company from achieving its goals and implementing its plans;
 - 4.4.7 use of reliable and efficient methods of accounting for events, operations and transactions;
 - 4.4.8 approval and performance of operations only by persons authorized therefore;
 - 4.4.9 division of obligations among the Company's employees (including the obligations of approving and accounting for operations, release, maintenance, and receipt of resources, analysis and verification of operations);
 - 4.4.10 inspection of the safe condition of the Company's assets;
 - 4.4.11 informing all of the Company's employees regarding their responsibilities in the area of internal control;
 - 4.4.12 setting up efficient means and channels of communication within the Company and with third parties;
 - 4.4.13 proper documenting of the internal control procedures;
 - 4.4.14 regular assessment of the internal control system's quality;
- 4.5 Internal control procedures shall be applied in all of the Company's divisions and departments.

5 The Company's Internal Control System. Assessment of the Internal Control System's Condition and Functioning

- 5.1 The internal control system is an integral part of the Company management system.
- 5.2 The Company's Board of Directors shall supervise the functioning of the internal control system and analyze how efficiently this system is applied to the Company's financial and business operations;
- 5.3 The Company's individual executive bodies shall be responsible for the creation and functioning of an internal control system.
- 5.4 In accordance with the Regulations on the MMK OJSC Board of Directors' Audit

Committee that Committee shall evaluate the performance of the Company's internal control system based on the control activities performed and quarterly reports of the Company's IAA).

- 5.5 For the purpose of implementing p. 5.4 hereof, the Company's IAA shall be assigned the following tasks:
- 5.5.1 Assessment of systems, processes and operations in keeping with the approved annual work plan of the IAA, resolutions of the Company's Board of Directors, Audit Committee, CEO and head of IAA;
 - 5.5.2 prompt reporting to the General Director and the Director for Security of the risks and problems of the internal control identified during assessment;
 - 5.5.3 assessment of the internal control system as regards ensuring the authenticity of financial and management information, compliance with laws, safekeeping of assets, performance and efficacy of the Company's systems, processes and operations;
 - 5.5.4 assessment of management system in the core (procurement, production and sales), financial (financial management, planning, business and finance analysis, accounting), investment and support business processes for the purpose of verifying the efficiency, justification and adequacy of decisions taken;
 - 5.5.5 Assessment of the performance of the risks management system, confirmation of prompt risks identification and taking steps to lower the negative consequences of risk events to an acceptable level.
 - 5.5.6 Control activities: control and supervision measures, such as inspections, analysis and appraisals of the Company's business processes;
 - 5.5.7 documenting the results of the control and supervision measures in the form of reports, explanatory notes, summaries or opinions, stating the reasons for deviations detected, and recommendations for correcting such deviations;
 - 5.5.8 supervision of the development of corrective actions and measures and their implementation;
 - 5.5.9 supervision of the Company's financial and business operations, unscheduled (surprise) and scheduled inventories of the Company's material and financial resources; supervision of unannounced checks and/or planned inventory checks of material and financial resources of the Company;
 - 5.5.10 Assessment of material conditions of contracts, agreements and other documents of the ordinary course of business for the purpose of achieving maximum effect from such transactions concluded.
- 5.6 The Head of IAA shall report once a year to the Board of Directors regarding the performance of the internal control system.
- 5.7 The head of IAA shall interact with the Audit Committee in respect of the following:
- approval of the IAA's annual work plan by the Audit Committee;
 - decisions of the Audit Committee regarding unscheduled internal checks;
 - quarterly reports to the Audit Committee on assessment of reliability and efficiency of internal control and risk management systems, on the results of the IAA activity.
- 5.8 In order to accomplish its' tasks the IAA shall interact with the CEO deputies,

executive directors, divisions, departments and employees which, upon request and within time specified in the request, shall provide explanations, information and documents, among them, those containing official or commercial secrets and/or insider information, according to procedures adopted by the Company

- 5.9 Employees of the IAA shall use information received in the course of fulfilling their duties, only in the interests of the Company and pursuant to the Company's internal documents

6 Responsibility

- 6.1 The Company's managing and supervising bodies, within their competence, and heads of the Company's divisions and departments and other employees, in accordance with their functional duties, shall be responsible for the development, documenting, implementation, monitoring and perfection of internal control over business processes of which they are owners.

- 6.2 The IAA head shall be responsible for:

6.2.1 compliance with these Regulations;

6.2.2 non-disclosure of commercial and corporate secrets of the Company and its counter-parties which became known to them as a result of performing their duties.

Ekaterina A. Bolotova,
Head of Internal Audit Administration

DEVELOPED BY:

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AGREED WITH:



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S. V. Shepilov, Director for Legal Matters

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