

APPROVED by
the Resolution of the Board of
Directors of OJSC MMK
Minutes No. 13 dated
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PICS OJSC MMK-2014
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Policy on Internal Control at OJSC MMK

1 Introduction

Policy on Internal Control (hereinafter referred to as - the Policy) is the basic document that defines the objectives, key principles and lines of activities of OJSC MMK in the field of construction and operation of the internal control system ensuring the efficiency and effectiveness of performance of OJSC MMK, including achievement of financial and operating indicators, safe-keeping and integrity of assets.

The internal control system makes the integral part of the corporate governance system of OJSC MMK and represents the totality of the control environment and internal control procedures adopted by the management bodies of the Group as a means to minimize the risks and ensure the achievement of the objectives of OJSC MMK.

Construction and operation of the internal control system includes definition, formation and implementation of the following elements:

- control environment;
- risk evaluation;
- mechanisms of internal control (control tools and procedures);
- information providing for internal control (storage, processing, transfer) and communications;
- assessment of internal control.

2 Scope of application

The Policy applies to OJSC MMK. Adherence to the principles and guidelines of this Policy is compulsory for all structural units (departments) of OJSC MMK.

3 Objectives of the Policy

The objective of the Policy is to define the basic principles and guidelines for construction and operation of the internal control system through the introduction of effective control procedures in business processes and reduction of the impact of risk on the achievement of operational and strategic indicators.

4 Underlying principles

Construction and operation of the internal control system in OJSC MMK shall be achieved through the following principles:

Integrity - Internal control is a systematic, integrated into the strategic and operational management at all levels, covering all structural departments and employees in the course of exercise of their functions within the framework of any business process.

Unified methodological base - internal control shall be implemented on the basis of common approaches and methodological standards defined for OJSC MMK.

Continuity of functioning - the system of internal control shall function continuously and consistently, and shall be aimed at early detection of material deficiencies and deviations and prevention of occurrence thereof.

- **Responsibility:**
- all subjects of internal control are responsible for the proper implementation of internal control within their powers;
- rights, functions and responsibilities of the subjects of internal control are defined and established in the normative documents and brought to the attention thereof;
- each control function is assigned to only one subject of internal control.

- **Delineation of powers:**

- it is not allowed to allocate responsibility to one and the same structural department / employee for functions of authorization (approval), implementation and recording of reportable operations, safe-keeping of the assets and making the inventory;
- it is not allowed to allocate responsibility to one and the same department / employee for functions for implementation of the control procedures and monitoring (control) of execution thereof.

Documenting:

- control procedures at all levels of management and in all business processes are formalized, i. e. set out in the bylaws;
- the results of the control procedures are documented and kept by the owners of business processes and / or persons authorized by such owners (safety of primary records shall be provided, basing on the results of the control procedures documents shall be drawn-up, documents involved in the control procedure shall be signed and approved, etc.).

Practicability:

- The introduction of internal control procedures shall be effected taking into account the practicability and cost-effectiveness of such introduction, namely: the cost of introduction of the internal control procedures shall not exceed the amount of risk on the prevention, minimization and avoidance of which they are intended (the correlation of costs and the effect of introduction);
- The introduction of internal control procedures, selection of objects for independent audits shall be carried out taking into account the complexity and importance of the controlled object (materiality / priority / risk awareness).

Timeliness - the subjects of the internal control shall in a timely manner and within their authority and accountability provide information on the identified deficiencies and deviations of the system of internal control and ensure elimination thereof (rapid response to identified deviations). It is necessary to ensure timely and effective corrective actions at all levels of management.

Continuous development and improvement - the internal control procedures shall be constantly improved in order to maximize risk management and shall be adapted to changes in the internal and external environment.

Cooperation and coordination:

- internal control is based on express and effective cooperation among all subjects of internal control at all levels of management;
- all employees shall render assistance to the bodies of internal audit in the exercise of their functions for evaluation of the effectiveness of internal control.

5. Guidelines for Policy Implementation

Policy implementation is achieved by:

- Internal Control procedures' integration in the business activity (all business processes) of OJSC MMK;
- creation of the internal normative documentations regulating the internal control system functionality;
- Setting out of the information related to the control procedures appropriated to the business process in the internal regulatory documents;
- Implementation of automated control systems;
- Exercising of random ongoing and operational monitoring:
 - Core business monitoring, assessment of its results;
 - Monitoring of the financial discipline compliance, implementation of decision of the management and corporate business division's managers;
 - Monitoring of the financial statements reliability and compliance of its preparation procedure, as well as the compliance of the accounting principles;
 - control over the budget execution process;
 - monitoring of contract terms and conditions compliance with the Objectives of OJSC MMK and business plans (budgets);
 - Monitoring of internal documentation compliance and decision draft of the OJSC MMK's executive board compliance with business plans (budgets);
- supporting of the OJSC MMK well-timed adaptation to the external and internal environment changes.

6. Structural division exercising the internal control function

For the purposes of internal control system integration and supporting of its effective and continuous operation, a special division the goals, tasks, powers, subordination, reporting mechanism and personnel of which are defined by the internal normative documentation and this Policy considering the Russian federation's legislative requirements shall be established.

6.1. Objective.

To minimize the risks and to support the achievement of OJSC MMK's business objectives by means of implementation of the internal control procedure and performance of control activities.

6.2. Tasks and Functions.

6.2.1 The coordination, monitoring of organization and functioning process of the internal control system shall be a main task.

6.2.2 The main functions shall be the following:

- methodological supports of organization and exercising of internal control;
- coordination of the activities of various divisions of OJSC MMK for the internal control establishing and exercising;
- performance of control activities (analysis, audits, revisions, etc.) of the financial and business activity as a whole and of individual business processes in particular;
- evaluation of the conformity of financial and business operations to the financial and business plan (budget) and internal control procedures;
- estimation of the sufficiency and completeness of the control procedures;
- preparation of proposals for the improvement of internal control system;

- monitoring of elaboration and regulation of the normative documents related to business processes in so far as such documents describe the control procedures.

6.3. Authorities.

The manager and employees of the structural division exercising the functions of internal control system integration and supporting of its effective and continuous operation have the following rights:

- to cooperate with OJSC MMK Board of Directors Audit Committee and OJSC MMK management authorities, pursuant to prescribed procedure ;
- to act for and on behalf of OJSC MMK in the state public or other organizations of the Russian Federation in the scope of its authority as well as to attend the meeting of OJSC MMK, pursuant to prescribed procedure;
- to request the information, documentation requiring to perform the control activities from structural divisions of OJSC MMK, pursuant to prescribed procedure;
- to involve the experts, specialists in the conducting of control activities (checks) on a contractual basis inclusively;

6.4. Subordination and Reporting.

6.4.1. The manager of structural division exercising the internal control functions in OJSC MMK shall be subordinated to OJSC MMK's Board of Directors, he is released from his office by OJSC MMK's sole executive body upon the recommendations of MMK's Board of Directors .

6.4.2 The structural division exercising the functions of internal control system integration and supporting of its effective and continuous operation in OJSC MMK Group shall be subordinated to General Director.

The control activities results and operating results shall be submitted for consideration and making of relevant managerial decision to OJSC MMK's General Director (in a mandatory manner) and to other interested parties on a quarterly basis or if required.