

APPROVED by
the Resolution of
OJSC MMK Board of Directors
Minutes № 2 dated 10.07.2015

Internal Audit Policy of OJSC MMK

1 Introduction

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

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 the Company with independent and objective warranties that the Company possesses 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;
- 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.

It is mandatory requirement for all structural divisions (departments) of OJSC MMK 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 Company's objectives 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 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 assessment of corporate governance systems in the course of internal audits based on the approved action plan;
- Fulfillment of one-time tasks of the Company's governance bodies;
- Consulting the Company's governing bodies on 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 Company's activity;
- Control and following evaluation of eliminated shortcomings and violations revealed during internal audits;
- Timely informing the Company's governing bodies on the status of the internal control, risk management and corporate governance systems, on revealed shortcomings and violations in the Company's activity;
- 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;
- 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 of internal audit through implementation and introduction of the best developments.

6 Organization departments exercising internal audit functions

In order to organize an efficient performance of the internal audit function in OJSC MMK there should be established a specialized organization department which objectives, tasks, authorities, subordination, recording and personnel to be determined by the by-laws and regulatory documents and this Policy with due consideration of the Russian law requirements.

6.1. Objective

Independent estimation (internal audits) of functioning of the system of internal control (including drafting and preparation of financial statements), risk management and corporate governance in OJSC MMK with respect to compliance with the established principles, MMK's Policy and achievement of the set goals and targets.

6.2. Tasks and functions

6.2.1. The main tasks are the following:

- Rendering assistance to the management of the Company 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).

6.2.2. The main functions are the following:

- a) Evaluation of appropriateness, reliability and efficiency of the internal audit, 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, updating and 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

The manager of the organization department carrying out the internal audit shall be entitled to:

- Cooperate with the Audit Committee of MMK BoD and governing bodies of MMK 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 MMK Group in accordance with the established procedure;
- Engage experts and specialists (including those on a contract basis) in internal audits.

6.4. Subordination and reporting

- 6.4.1. The head of the organization department exercising internal audit functions in OJSC MMK shall be subordinate to the Board of Directors of MMK 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 organization department exercising internal audit functions in OJSC MMK shall be administratively subordinate to the CEO of MMK (General Director) and functionally subordinate to the Board of Directors (the Audit Committee of MMK BoD).

The records shall be submitted to the Board of Directors, the Audit Committee of MMK BoD for consideration and approval quarterly and as required.