



Novolipetsk Steel

APPROVED

by the Board of Directors
of Public Joint Stock Company
Novolipetsk Steel

Minutes of Meeting No. 238

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**REGULATIONS
ON THE AUDIT DIVISION**

of Novolipetsk Steel
(first issue)

Lipetsk
2016

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1. GENERAL PROVISIONS

These Regulations on NLMK's Audit Division (hereinafter referred to as "the Regulations") have been developed in line with the applicable legislation of the Russian Federation, the Regulations on the Audit Committee of the Board of Directors (hereinafter referred to as "the Audit Committee") and International Professional Practices Framework (hereinafter referred to as "the IPPF").

These Regulations define the purposes, objectives, functions, principles, authority and responsibility of the Audit Division.

Internal auditing is an activity intended to provide independent and objective assurance and consulting to members of the Board of Directors (the Audit Committee), the President (Chairman of the Management Board) aimed at improvement of the operations of NLMK Group's companies by using a systematic, coherent approach to evaluate and improve the effectiveness of risk management, control and corporate governance processes. The internal audit function in NLMK Group is performed by the Audit Division (the Internal Audit Service) hereinafter referred to as "the AD". The AD is headed by the Audit Director.

2. KEY PRINCIPLES OF INTERNAL AUDIT ACTIVITY

Independence and objectivity:

- the Audit Director shall functionally report to the Board of Directors;
- decisions on the appointment (dismissal) of the Audit Director shall be approved by the Board of Directors on the proposal of the Audit Committee;
- the Audit Director shall be entitled to direct and unrestricted access to the Chairman of the Board of Directors, the Chairman of the Audit Committee and the President (Chairman of the Management Board) in order to provide information on significant risks revealed;
- the interference of third parties with the audit process and results shall not be allowed. In case of authority limitations, the Audit Director shall immediately inform the Board of Directors (the Audit Committee) and the President (Chairman of the Management Board) of such limitations and their possible consequences.

The application of a systematic and balanced approach:

- the AD shall carry out its activity in accordance with a risk-based Audit Plan which shall be approved by the Board of Directors and agreed upon by the Chairman of the Audit Committee and the President (Chairman of the Management Board);
- when developing the Audit Plan the AD shall allocate resources between local (limited scope) and comprehensive audits of processes and subsidiaries in a balanced manner giving sufficient attention to the most risk-exposed areas;
- when making recommendations the AD shall take into account the proportion of the costs required for their implementation and the effect to be achieved, giving priority to the systemic measures.

The efficient use of resources:

- audit team leaders shall be appointed from among the most qualified auditors possessing knowledge or experience in the areas or business-processes examined;
- the Audit Director shall be entitled to involve internal and external experts (consultants);
- the Audit Director shall promptly inform the Board of Directors (the Audit Committee) and the

President (Chairman of the Management Board) on the needs for (limitations of) resources necessary to perform audit activities.

Proficiency and due professional care:

- proficiency and due professional care shall be the responsibility of the Audit Director and auditors of the AD;
- internal auditors must possess the specialized knowledge, skills and other competencies needed to perform practical professional activity in the Company;
- internal auditors must enhance their knowledge, skills and other competencies by continuing professional development.

Quality assurance and improvement program:

- the Audit Director shall develop and maintain a quality assurance and improvement program (QAIP) that covers all kinds of the AD's activities;
- QAIP shall include both internal and external evaluation. Internal and external evaluations are implemented to verify if the AD's and the auditors' activity meets the definition of internal audit, International Professional Standards of Internal Audit and Auditors' Code of Ethics;
- the Audit Director shall submit the results of activities within QAIP to the Board of Directors (the Audit Committee) and the President (Chairman of the Management Board).

3. PURPOSE, OBJECTIVES AND FUNCTIONS OF INTERNAL AUDIT AND AD

3.1. The main purpose of the AD's activity shall be to maintain and add value to the Company by means of objective internal audits based on a risk-oriented approach, recommendations provision and knowledge sharing.

3.2. The main objectives of the AD shall be as follows:

- to prepare and submit reports on the results of activity of the Internal Audit Division to the Board of Directors (the Audit Committee) and the executive bodies;
- to assist the executive bodies and employees of NLMK Group companies in developing and monitoring the implementation of procedures and activities aimed at improving the risk management and internal control system and NLMK Group's corporate governance;
- to coordinate the work with persons providing consulting services in the area of risk management, internal control, and corporate governance;
- to conduct internal audits of entities under the control of NLMK Group pursuant to the established procedure;
- to check whether the members of the executive bodies of NLMK Group companies and their employees comply with the statutory provisions and internal policies of NLMK Group on insider information and combating corruption as well as with the requirements of NLMK Group's Code of Ethics.

3.3. The core functions of internal audit (the AD) shall be as follows:

- evaluation of the efficiency of the internal control system;
- evaluation of the efficiency of the risk management system;
- corporate governance evaluation;
- consulting activities.

3.4. Evaluation of the efficiency of the internal control system shall include the following:

- analysis of compliance of business processes objectives with those of NLMK Group;
- identification of internal control system deficiencies that have not allowed (do not allow) the Company to meet the targets;
- examination of the reliability and integrity of business processes and information systems, including reliability of measures against unlawful and fraudulent actions, abuse and corruption;
- check of the efficiency of control procedures and other activities on risk management including the efficiency of using resources allocated for these purposes;
- evaluation of implementation results of activities aimed at elimination of violations, deficiencies, and improvement of the internal control system;
- audit of assuring the reliability of accounting (financial) statements, statistical, managerial and other types of reporting;
- check of the efficiency and feasibility of using the resources;
- audit of the safeguarding of assets;
- verification of compliance with legal requirements and internal documents of NLMK Group companies.

3.5. Evaluation of the efficiency of the risk management system shall include the following:

- check of the adequacy and maturity of elements of the risk management system;
- check of the completeness of risk identifying and correctness of their assessment at all levels of the Company's management;
- analysis of the information on materialized risks.

3.6. Corporate governance evaluation shall include:

- verification of compliance with ethical principles and corporate values of the Company;
- evaluation of the procedure of setting goals of the Company, monitoring and control over their achievement;
- evaluation of level of the regulatory support and informational exchange procedures (including on internal control and risk management issues) at all levels of the Company's management including relations with the stakeholders;
- quality assessment of the corporate governance components.

3.7. Consulting activities shall mean the AD staff activities related to providing advice, recommendations and other consulting services to customers, the nature and scope of which are aimed at providing practical assistance to customers in their fields of interest related to the activity of NLMK Group companies.

4. AUTHORITY, DUTIES AND RESPONSIBILITY OF INTERNAL AUDIT

4.1. To perform their functions the AD internal auditors shall be entitled to:

- study current and strategic performance plans of the Company, draft decisions and decisions made by the executive bodies of NLMK Group companies;
- get an unrestricted access to assets, documents, accounting records, managerial and accounting (financial) statements and any other information pertaining to NLMK Group

companies' operations as well as make copies of the documents;

- conduct interviews with NLMK Group companies' officers and employees about audit issues as part of audit procedures;
- receive written and verbal explanations on audit issues from the officers of audited business units;
- request written explanations from the officers of the audited business units of NLMK Group companies in case of detecting abuse, fraud and violation of the applicable legislation, orders, decrees and by-laws;
- request information about the list and status of activities aimed at elimination of any identified violations and deficiencies from the heads of audited business units (of NLMK Group companies);
- involve external experts and/or the employees from other business units in the audit activities (by the decision of the Audit Director).

4.2. When performing their activity the AD internal auditors must:

- make reasonable efforts to communicate and agree on recommendations with NLMK Group relevant employees and managers before submitting them to the functional and administrative managers;
- take into account accompanying and explanatory information submitted by managers during audit for making an objective and reasonable assessment;
- analyze current NLMK Group's information and practices pertaining to areas to be audited including regulatory documents and descriptions of information systems work;
- carry out the comprehensive assessment of the influence deficiencies identified during the audit may have on NLMK Group internal control system including the influence on the related processes and subsidiaries.

4.3. The AD responsibility shall be as follows:

- the Audit Director and internal auditors bear personal responsibility for quality and timeliness of performance of the functions assigned to the AD in accordance with these Regulations and the job descriptions.

5. REPORTING

The Audit Director reports on the results of NLMK Group AD activity to:

- the Board of Directors (the Audit Committee) - on the results of a month's (upon occurrence of the agreed material events), quarter's and year's work;
- the President (Chairman of the Management Board) on the results of a month's work .

6. RECORDS MANAGEMENT AND CONTROL OVER AUDIT DOCUMENTATION

6.1. Irrespective of the information holding ways, audit-related documents shall include reports, supporting documentation, executive summaries and correspondence.

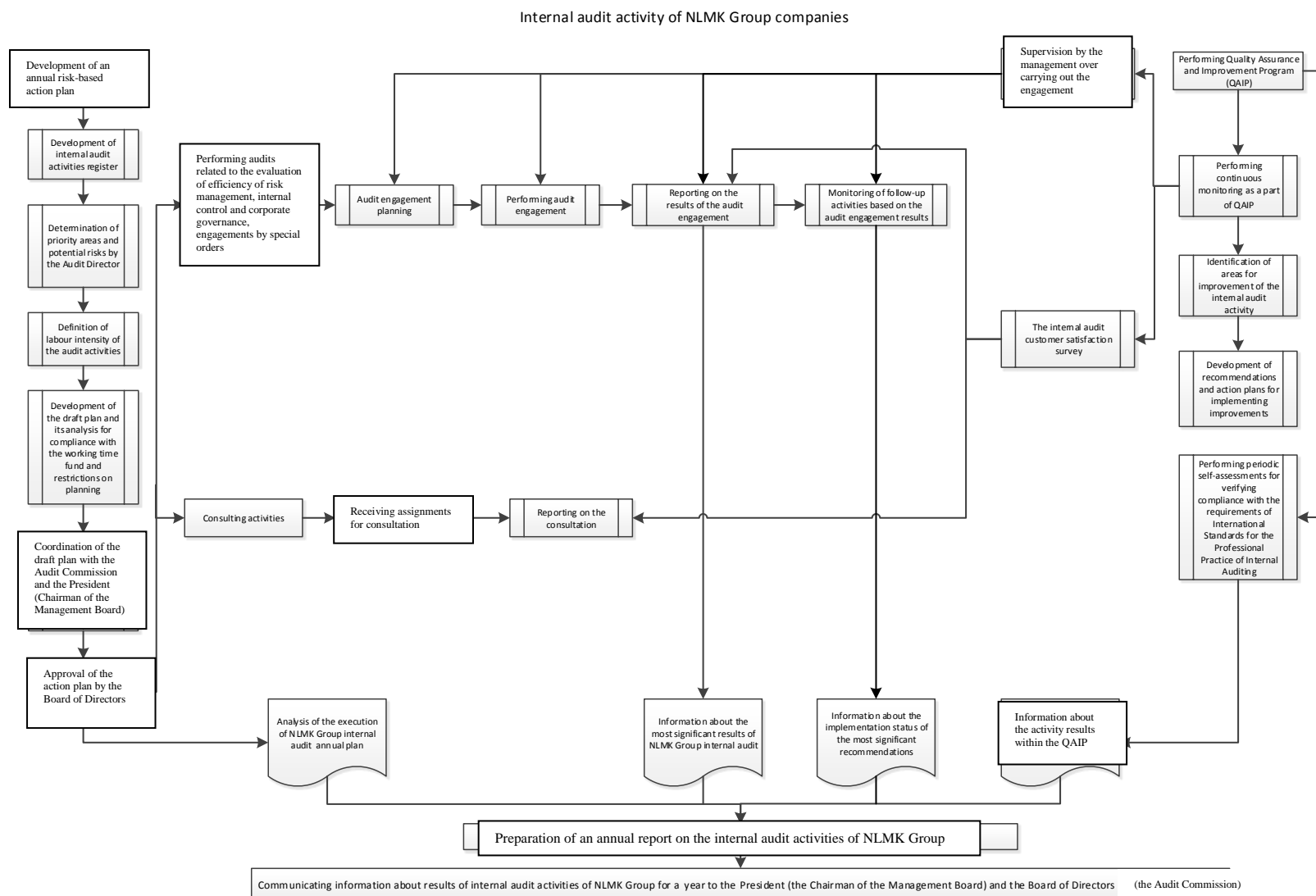
6.2. The Audit Director shall approve the rules for storing audit engagement records, regardless of their form or medium.

- 6.3. The Audit Director shall control the access to audit engagement records and shall authorize the access of external auditors, managers of business units and other members of NLMK Group to audit engagement records .

7. SCHEMATIC REPRESENTATION OF THE AD ACTIVITY

- 7.1. The AD activity is represented schematically in Appendix A hereto.

Appendix A (mandatory)



**Approval page to the Regulations on the Audit Division
of the Public Joint Stock Company Novolipetsk Steel**

AGREED**Form 0**

Item No.	Position	Result of agreement	Initials, surname
1.	Director for Legal Issues		A.I. Kravchenko
2.	Corporate Secretary		V.A. Loskutov

The accuracy of the data is confirmed

Acting Audit Director

V.A. Voronova

Notes:

REVISION RECORD SHEET TO THE REGULATIONS

Form 0

Revision No.	Date of introduction	List of items amended