

INTERNAL AUDIT POLICY OF TMK GROUP

1. GENERAL PROVISIONS, MAIN TERMS AND DEFINITIONS

1.1. GENERAL PROVISIONS

The present policy determines main principles of the organization and functioning of the internal audit of PAO "TMK" (hereinafter referred to as the "Company"), structural units of the Company and its subsidiaries (hereinafter referred to as the "TMK Group companies") and is the main document for internal audit in the TMK Group companies.

The Policy is developed in accordance with the International Professional Practices Framework (IPPF), including the International Professional Standards of Internal Audit and Code of Ethics of the Institute of internal auditors, as well as the Corporate governance code, recommended by Bank of Russia of the Russian Federation, Listing rules of Moscow Exchange, Corporate governance code and Listing rules of London Stock Exchange, Corporate governance code of the Company and other internal document of the Company.

The Policy is mandatory for all the internal auditors of TMK Group as well as the employees of other structural units of TMK Group, involved in the internal audit process. The amendments and the modifications in the Policy shall be made in case of adoption of any changes in the current legislation, statutory acts and international professional standards of the internal audit. The Board of Directors, the Audit committee of the Board of Directors and the Management Board can propose to amend the Policy. The modifications and amendments shall be subject to revision and approval in accordance with the order determined by the local internal documents (acts) of the Company.

The Head of the Internal Audit Service of the Company shall be responsible for the update of the present Policy.

1.2. TERMS AND DEFINITIONS

For the purposes of the present document the following main terms are used:

The audit task – the activity of the internal audit for execution of a certain assignment or a task to conduct an inspection, such as an internal audit inspection, monitoring of the self-evaluation of the control system, investigation of fraud cases, consulting.

Internal audit – activity for granting independent and objective guarantees and consultations designated for the improvement of the functioning of a company. The internal audit assists the company to achieve its goals, using the systematic and consequent method of evaluation and improvement of efficiency of certain processes of risk management, control and corporate governance.

Internal auditors – employees of the Internal audit service of PAO "TMK", employees of the regional (foreign) divisions of the internal audit of TMK Group.

Consulting services – activity related to the provision of advice, recommendations, etc to the management of the Company, the contents and essence of which is coordinated with the management and which is designated for the assistance in and improvement of certain process related to the corporate governance, risk and control management, excluding the assumption of responsibility for any management decision by the internal auditors.

Control – any actions of the management, the Board of Director and other parties directed for risk management and increase of the probability to achieve goals and completion of tasks. The management implements planning, organization and execution of such activity, which provides a reasonable surety that the goals of the company will be achieved and the tasks completed.

The conflict of interest – any relations, which are or can be considered as not in the interest of the company. The conflict of interest can harm the capacity of a person to perform his/her functions objectively.

The corporate governance – a system of certain relations between the executive bodies of PAO “TMK”, the Board of Directors of PAO “TMK”, shareholders, subsidiaries of TMK Group and other interested parties. The corporate governance is an instrument for determining the goals of the Company and methods of achievement of such goals as well as provision of efficient control over the activity of the Company by the shareholders and other interested parties.

Independence –freedom from circumstances, which threaten the objectiveness and can be deemed as threatening the objectivity. These threats must be reviewed on the level of an individual employee, task, functional and organizational levels.

Objectivity –capacity to perform professional functions impartially.

Granting of a guarantee – an objective analysis of any audit evidences with the purpose of a provision of an objective evaluation of certain processes related to the corporate governance, risk and control management in a company.

Risk – probability of occurrence of any event that may affect the achievement of the goals. The risk is measured by evaluating consequences and probability of occurrence of such event.

Risk-appetite –level of a risk that a company is prepared to accept.

Internal control system – a system of certain processes executed by the Board of Directors, the management and other employees of the company, designated to provide reasonable guarantees in respect of achievement of the goals of the company related to the efficiency of operations, accuracy of its statements and compliance with the current legislation.

Subjects of Internal control and risk management system– the Board of Directors of PAO “TMK”, the Audit committee of the Board of Directors of PAO “TMK”, the Compliance committee of PAO “TMK”, the Audit commission of PAO “TMK”, executive bodies, officers and employees of PAO “TMK”, its structural units and subsidiaries, responsible for organization and functioning of the Internal control and risk management system, the internal auditors.

Risk management – a process of identification, evaluation and management of any risk of the company.

2. PURPOSE AND DESIGNATION

The purpose of the present Policy is the determination of main principles of organization and functioning of the internal audit and the development of the unified approach to the execution of processes related to the internal audit of TMK Group.

The Policy is designated to provide certain information regarding the main principles of the functioning of the internal audit of TMK Group to the interested parties: shareholders, investors, employees, external auditors and others.

3. DEFINITION OF INTERNAL AUDIT. OBJECTIVES AND TASKS OF INTERNAL AUDIT

3.1. DEFINITION OF THE INTERNAL AUDIT

The internal audit is the activity connected to the provision of independent and objective guarantees and consultations, designated for the improvement of the functioning of a company. The internal audit assists the company to achieve its goals, using the systematic and consequent method of evaluation and improvement of efficiency of certain processes of risk management, control and corporate governance.

The function of the internal audit in the Company and the structural units of TMK Group is performed by the Internal Audit Service of the Company and its regional (foreign) divisions of the internal audit of TMK Group. The heads and the employees of the structural units of the TMK Group companies audited by the internal audit are also involved in the internal audit process in that part related to the launching and implementation of risk management and internal control, as well as the execution of the recommendations from the internal audit.

Within its activity the internal audit is governed by the principles and rules of conduction, stipulated by the Code of ethics of the International Professional Standards of Internal Audit of the Institute of internal auditors and the Code of Ethics of the Company.

In the present Policy the term “Internal audit” is also used for the definition of the respective function or a structural unit which performs such function.

3.2. PURPOSE OF THE INTERNAL AUDIT

The purpose of the internal audit is the assistance to the Board of Directors (the Audit committee) and the executive bodies of PAO “TMK” in improvement of the efficiency of the management of the Company, improvement of its financial and business activity, including by way of the systematic and consequent method of evaluation and improvement of efficiency of certain processes of risk management, control as well as corporate governance as instruments for provision of a reasonable surety in achievement of the Company’s goals.

3.3. TASKS OF INTERNAL AUDIT

For the achievement of its goals the internal audit completes the following tasks:

- assistance to the executive bodies and employees of the Company in the development and monitoring of performance of certain procedures and actions connected to the improvement of the corporate governance, risk management and internal control of the Company;

- conduction of the internal audit of the Company and its subsidiaries in the established order;
- interaction and exchange of information with the external auditor of the Company and its subsidiaries;
- preparation and provision to the Board of Directors (Audit committee) and the executive bodies reports on the performance results of the internal audit (including any information about materials risks, defects, results and efficiency of certain actions taken for the elimination of such defects, performance results of the internal audit, actual status appraisal results, reliability and efficiency of the risk management system, internal control and corporate governance);
- control over compliance by the members of the executive bodies of the Companies and its employees with the provisions of the legislations and internal polies of the Company related to the insider information and anti-corruption measures, compliance with the Code of Ethics of the Company.

3.4. FUNCTIONS OF INTERNAL AUDIT

The internal audit performs the following functions:

- Evaluation of the corporation governance, including:
 - control over compliance with the ethical principles and corporate values of the Company;
 - control of the order of determination of the stated goals of the Company, monitoring and control over their achievement;
 - control of the level of the regulatory support and procedures connected to the informative interaction (including for matters related to the internal control and risk management) at all levels of the management of the Company, including the interaction with the interested parties;
 - Control over the enforcement of rights of the shareholders, including the subsidiaries and the efficiency of interaction with the interested parties;
 - Monitoring of procedures for disclosure of information about the activity of the Company and its subsidiaries.
- Evaluation of efficiency of risk management system, including:
 - reviewing of sufficiency and maturity of the elements of the risk management system for the efficient risk management (purpose and objectives, infrastructure, process organization, regulatory support, interaction with the structural units in the risk management system, reporting);
 - reviewing of identification and accuracy of evaluation of risks by the management of the Company at each level of its management;
 - analysis of efficiency of control procedures and other actions related to the risk management, including efficiency of use of the resources provided for this purpose;
 - analysis of information about actual risks (violations detected as of result of the internal inspections, non-achievement of the stated goals, litigations).
- Evaluation of efficiency of the internal control system, including:
 - analysis of compliance of the objectives of certain business processes, projects and structural units of the Company with the stated goals of the Company, reviewing of reliability and integrity of business processes (activity) and informative systems, including reliability of the procedures of counteracting against illegal actions, abuse and corruption;

- determination of adequacy of criteria established by the executive bodies for the analysis of the level of execution (achievement) of the stated goals;
- identification of defects of the internal control system which impede (do not allow) the Company to achieve its stated goals;
- examination of control efficiency of main business processes of the Company, including control over the accuracy of any information used for the preparation of the accounting (financial), statistics, management and other statements;
- determination of level of compliance of the results of the business processes and the structural units of the Company with the stated goals;
- evaluation of results of launching (execution) of measures taken in respect of violations, defects and improvement of the internal control system, conducted by the Company at all levels of its management;
- examination of efficiency and rationality of the resources use;
- examination of the safeguard of assets;
- examination of compliance with the requirements of the legislation, articles of association and internal documents of the Company.

4. FUNCTIONING PRINCIPLES OF INTERNAL AUDIT

4.1. The internal audit within its activity is governed by the following principles:

Principle of independence and objectivity: the internal audit must be independent and the internal auditors must be objective during the performance of their functions. The principle of independence and objectivity includes the following:

- organizational independence of the internal audit: at the functional level the internal audit is subordinated to the Board of Directors of the Company, at the administration level to the General director of the Company.
- direct interaction of the internal audit with the Board of Directors (Audit committee) of the Company;
- individual objectivity of the internal auditors, including absence of any conflict of interest¹.

Principle of professional attitude towards work:

The employees of the internal audit collectively possess all the necessary knowledge, skills and other competences required for the performance of tasks stated for the internal audit.

The internal audit is conducted in good faith.

The employees of the internal audit perfect their knowledge, skills and other competence by way of continuous professional growth.

Principle of continuous professional growth and improvement: the internal audit develops and supports programs of guarantee and improvement of quality spreading on all types of activity of the internal audit, including:

¹ The internal auditors shall refrain from reviewing of that activity for which they have been responsible during the year preceding the year of the review; participation in the review and other assignments in case of presence of the competitive professional or personal interest (presence of financial, property, family or other interest in the activity of the reviewed objects); participation in any activity which may harm its impartiality or be deemed as such; management of other structural units of the Company including the execution of non-audit functions or obligations which are subject to periodical evaluations of the internal audit.

- continuous monitoring of quality of performance of the internal audit during the fulfilment of certain auditing tasks starting from the planning and up to the completion of such tasks and preparation of reports as of the result of the completion of the auditing task.
- internal evaluation (self-evaluation) of compliance of the activity of the internal audit with the definition of the internal audit, Standards and Code of Ethics.
- external (independent) evaluation of compliance of the activity of the internal audit with the definition of the internal audit, Standards and Code of Ethics at least once in five times.
- general evaluation of efficiency and effectiveness of work of the internal audit and the identification of possibilities for the improvement of its activity.

Principle of risk orientation: the internal audit develops its activity (working plan of the internal audit), taking into account the concept of risk management adopted in the Company, including the use of certain levels of risk-appetite determined by the management for various types of activity or structural units of the Company, examining and correcting such working plan, if necessary.

Principle of effective resources us: the internal audit provides the presence of all relative and sufficient resources as well as their effective use for the performance of the adopted working plan of the internal audit.

Principle of the unified methodology: the internal audit uses the unified methodology and approach for the organization of its activity and provides their connection with the methodology of the internal control and risk management system.

Principle of coordinated activity: the internal audit coordinates its activity with the activity of other internal and external parties, providing guarantee and consulting services with the aim to secure the proper coverage and minimization of double work.

Principle of timely notification: the internal audit regularly and timely notifies and reports the Board of Directors (Audit committee) and other senior executive officers of the Company about its goals, powers and obligations, working plans, courses of actions, results on the programs of guarantee and improvement of quality, cases of acceptance by the management of unacceptably high risks and other information requiring the attention of the Board of Directors (Audit committee) and the senior executive officers of the Company.

5. INTERACTION OF THE INTERNAL AUDIT WITH THE BOARD OF DIRECTORS (AUDIT COMMITTEE), EXTERNAL AUDITOR, SUBJECTS OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM OF THE COMPANY AND THE STATE SUPERVISORY BODIES

Within its activity the internal audit interacts with different participants of the risk management system, internal audit and corporate governance of the Company, including the external auditors of the Company and the state supervisory bodies.

5.1.INTERACTION WITH THE BOARD OF DIRECTORS (AUDIT COMMITTEE)

The internal audit interacts with the Board of Directors (Audit committee) of the Company, including provides for revision by the Board of Directors (Audit committee) reports of the internal audit, including:

- reports on performance results of the internal audit;
- report on performance results of the programs of guarantee and improvement of quality of the internal audit, including results of the internal and external evaluation of the quality of the internal audit;
- working plan of the internal audit for the next reporting period;
- budget of the internal audit, working schedule, staff schedule, resources plan;
- information about any existing limitations of powers or budget for performance of the internal audit functions, which may negatively affect the effective performance of the internal audit functions.

The Head of the Internal Audit Service of the Company regularly meets with the Audit committee (the Chairman of the Audit committee) on matters which, in the opinion of the Audit committee or the Head of the Internal Audit Service, require a confidential discussion.

5.2. INTERACTION WITH THE EXTERNAL AUDITOR

The internal auditor coordinates its activity and exchange of information with the external auditor of the Company with the aim to provide full coverage of the auditing procedures of all possible objects of audit and minimization of the double work. With this purpose the internal audit:

- provides the external auditor of the Company for examination audit inspection schedules for the upcoming financial year and reports on results of such revisions;
- examines the external auditor report of the Company on matters related to the internal control system, including the analysis of all the identified defects of internal control procedures, unethical practices and violations and their influence on the statements of the Company.

5.3. INTERACTION WITH THE AUDIT COMMISSION OF THE COMPANY

The internal audit interacts with the Audit commission of PAO “TMK”, including arranges meetings for the discussion of working plans of the Audit commission, results of inspections, actions taken for the elimination of violations and defects in the activity of the Company. In its work the Audit commission also can rely on the results of inspections conducted by the internal auditor of the Company.

5.4. INTERACTION WITH THE SUBJECTS OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

The internal audit of the Company interacts with the subjects of the internal control and risk management system in terms of exchange of information about risks and internal control, risk coverage and business processes of the Company with the controlling functions, as well as in terms of the conduction of the internal audit when the subjects of the internal control and risk management system act as objects of the internal audit.

In case the internal audit takes a decision to rely on the performance results of other subjects of the internal control and risk management system, the internal audit must first evaluate the quality and reliability of such performance results (including the applicable methodology, procedures and technics, used during the evaluation, volume and type of work, etc).

5.5. INTERACTION WITH THE STATE SUPERVISORY BODIES

The internal audit in its activity interacts with the state supervisory bodies in the order established by the legislation and the corresponding regulatory internal documents of the Company on matters related to the competence of the internal audit.

6. QUALITY CONTROL AND EVALUATION OF PERFORMANCE OF INTERNAL AUDIT

With the purpose of a proper quality control and evaluation of performance of the internal audit the Head of the Internal Audit Service develops and updates the programs of guarantee and improvement of quality of the internal audit, which provides conduction of internal and external periodic evaluations of performance of the internal audit.

The internal evaluation of the internal audit includes:

- current monitoring of the activity of the internal audit, including:
 - supervision of conduction of inspections and other activity of the internal audit;
 - determination of criteria of evaluation of quality of the internal audit;
 - receipt of feedback from the inspected units and other interested parties;
 - conduction of selective expert evaluation of working documents;
 - analysis of determined parameters of performance evaluation;
 - description and evaluation of auditors risks, their management;
- internal periodic performance evaluations of the internal audit. The internal evaluations are conducted by the internal auditors once per year by way of a self-evaluation followed by the preparation of a report on results of the self-evaluation.

The external evaluation of the quality of work of the internal audit against the International Professional Standards of Internal Audit of the Institute of internal auditors, Regulations on Internal Audit Service, the present Policy, as well as other internal regulatory documents of the Company, governing the activity of the internal audit, is conducted not less than once in five years by the qualified and independent appraiser (group of appraisers), which are not the employees of the Company. Upon receipt of the results of the external evaluation a report shall be prepared with an independent opinion about the quality of performance of the internal audit.

The Head of the Internal Audit Service on an annual basis prepares a report for the Board of Directors (Audit commission) and the General Director of the Company about the performance results of the internal audit within the Programs of guarantee and improvement of quality of the internal audit, including the performance results of the internal and external evaluations.

7. FINAL PROVISIONS

The powers of the internal audit, including the rights and obligations of the Head of the Internal Audit Service are determined in the Regulations of the Internal Audit Service of PAO “TMK”.

8. REFERENCE TO METHODOLOGY, REGULATORY AND INTERNAL DOCUMENTS OF THE COMPANY

- International Professional Standards of Internal Audit of the Institute of internal auditors
- Practice Advisories on internal audit of the Institute of internal auditors
- Code of Ethics of the Institute of internal auditors
- Guidebook of the International the Committee of Sponsoring Organizations of the Treadway Commission «Internal control. Integrated model», 2013.
- Federal law dated 26.12.1995 № 208-FZ «On joint-stock companies».
- Federal law dated 25.12.2008 № 273-FZ «On anti-corruption».

- Government Resolution of the Russian Federation dated 23.09.2002 № 696 «On adoption of federal rules (standards) of auditing activity».
- Code of corporate governance, recommended by the letter of Bank of Russia dated 10.04.2014 № 06-52/2463.
- Regulations of the Internal Audit Service of PAO “TMK”.
- Regulations of the Audit committee of the Board of Directors of PAO “TMK”.
- Regulations of risk management of PAO “TMK”.
- Corporate governance code of PAO “TMK”.