

ADOPTED BY
The decision of the Board of Directors of
PAO “TMK”
Minutes dated 15.09.2016

REGULATIONS OF THE INTERNAL AUDIT SERVICE OF PAO “TMK”

Version № 4
Reg. № НД-0252/2016/4
dated 20.09.2016

2016

REGULATIONS OF THE INTERNAL AUDIT SERVICE OF PAO “TMK”	Version № 4
Developed by Maximenko A.V., ext.n.2291	Date: 22.09.2016

DOCUMENT DATA SHEET	
Developed by	Maximenko Alexander Vasilievich Head of the Internal audit service
Scope of regulations	Corporate governance
Introduced	<input checked="" type="checkbox"/> As substitution: Regulations of the Internal audit service of PAO “TMK”, adopted by the decision of the Board of Directors of PAO “TMK” (Minutes dated 18.11.2015) and brought into force in accordance with the Order of PAO “TMK” N 408 dated 30.11.2015 <input type="checkbox"/> first time
Responsible for update	Maximenko Alexander Vasilievich Head of the Internal audit service
Scope of application	TMK Group

REGULATIONS OF THE INTERNAL AUDIT SERVICE OF PAO “TMK”	Version № 4
Developed by Maximenko A.V., ext.n.2291	Date: 22.09.2016

CONTENTS

1.	GENERAL PROVISIONS	4
2.	PURPOSE OF THE INTERNAL AUDIT SERVICE	5
3.	TASKS OF THE INTERNAL AUDIT SERVICE	5
4.	STRUCTURE OF THE INTERNAL AUDIT SERVICE	6
5.	FUNCTIONS	6
6.	DUTIES OF THE HEAD OF THE SERVICE	8
7.	POWERS OF THE INTERNAL AUDIT SERVICE	10
8.	INTERACTION WITH OTHER DIVISIONS	12
9.	RESPONSIBILITY	12
10.	PERSONAL DATA PROCESSING	12
11.	Management structure of the Internal audit service	13

1. GENERAL PROVISIONS

- 1.1. The Internal audit service (hereinafter referred to as the “Service”) is established upon a decision of the Board of Directors of PAO “TMK” (hereinafter referred to as the “Company”) and is an independent structural unit of the Company, which performs audit internal functions.
- 1.2. For independence and objectivity purposes the Internal audit service is subordinated immediately to the General director of PAO “TMK” in an administrative order and to the Board of Directors of the Company in a functional order.
- 1.3. The general management of the Service is performed by the Head of the Service (an officer of the issuer, responsible for the internal audit, in whose subordination heads of the structural units of the Service of the Company are), appointed and removed in accordance with the order of the General director of the Company upon agreement with the Audit committee on basis of a decision of the Board of Directors of the Company, which also determines their remuneration. Herewith neither the Head of the Service nor the heads of the structural units of the Service shall perform management of the functional directions of the Company (issuer), which requires management decision taking in respect of the objects of the audit.
- 1.4. The Service during the implementation of the internal audit of business processes and risk management system, internal control and corporate governance in the divisions of the Company and in the entities controlled by it (hereinafter referred to as the “TMK Group companies”) is designated to evaluate these systems and assist in the increase of their efficiency.
- 1.5. The Service can establish their units on a regional principle, basing on the geographical presence of the Company’s business (hereinafter referred to as the “Divisions”) with the unified planning system, reporting and subordination to the Head of the Service of PAO “TMK”. The regional distribution of the structural units of the Service allows to take measures in a timely matter on any changes in the business processes and activity of the TMK Group companies.
- 1.6. The Regulations of the Internal audit service is adopted by a decision of the Board of Directors of the Company and is brought into effect by the order of the General director of PAO “TMK”.
- 1.7. The structure and the staff schedule of the Service is approved by the General director of PAO “TMK” upon presentation of the Head of the Service.
- 1.8. The structure, staff schedules and Regulations of the regional structural units of the Service are developed by the Head of the Service of the Company, agreed with the Heads of the Divisions and approved by the General director of PAO “TMK”.
- 1.9. The functional duties of the employees of the Service of the Company are determined by their job descriptions, which are developed by the Head of the Service of the Company in accordance with the established procedure in the Company and adopted by the General director of PAO “TMK”.

- 1.10. The functional duties of the employees of the regional divisions of the Service are determined by their job descriptions, which are developed by the Head of the Service of the Company, agreed with the Heads of the Divisions and adopted by the General director of PAO "TMK".
- 1.11. In its activity the Service is governed by the principles of independence, objectivity, competence and professional attitude to work, as well as the standards of internal auditors of PAO "TMK", determined by the International Professional Standards of Internal Audit and Code of Ethics of the Institute of internal auditors.
- 1.12. For objectivity purposes the employees of the Service of the Company, its regional divisions of the internal audit must not be involved in implementation of the current control procedures. On the contrary, each division of the Company and the TMK Group companies shall be responsible for its own internal control system and its efficiency. The Service must not participate in implementation of internal control systems, but can consult on selection of required instruments of control.
- 1.13. The Internal audit must be released from any interference of the third parties in the process for determination of objects and volume of audit, implementation and reporting.

2. PURPOSE OF THE INTERNAL AUDIT SERVICE

- 2.1. The purpose of the Internal audit service is the assistance to the Board of Directors (the Audit committee) and the executive bodies of PAO "TMK" in the increase of efficiency of the general management of the Company and the TMK Group companies, improvement of its financial and business activity, including by using a systematic and consequent approach to the analysis and evaluation of the risk management and internal control system, as well as the corporate governance as instruments for achievement of stated goals of the Company.

3. TASKS OF THE INTERNAL AUDIT SERVICE

- 3.1. For the achievement of the stated goals the Service implements the following tasks:
- support to the executive bodies and employees of the Company in development and supervision of execution of the procedures and measures directed for the improvement of the risk management and internal control system, corporate governance of the Company;
 - interaction and exchange of information with the external auditor of the Company, as well as other persons who provide consulting services in risk management, internal control and corporate governance;
 - conduction of the internal audit of the Company and its subsidiaries within the frames of the established order;
 - preparation and submission to the Board of Directors (the Audit committee) and the executive bodies of the Company of the performance reports of the Service (including reports which contain information on material risks, defects, results and efficiency of the actions directed for elimination of detected defects, performance results of the plan of the internal audit, evaluation results of the real status, reliability and efficiency of the risk management system, internal control and corporate governance);
 - Monitoring of the compliance of the executive bodies of the Company and its employees with the provisions of the legislation and the internal policies of the

Company, related to the insider information and anti-corruption actions, compliance with the requirements of the code of ethics of the Company.

4. STRUCTURE OF THE INTERNAL AUDIT SERVICE

4.1. The organizational structure of the Service is the following:

- **Department of organization of the internal audit and analysis;**
- **Department of internal audit practices.**

4.2. The structural and management chart of the Service of the Company is provided in Schedule to the present Regulations.

5. FUNCTIONS

5.1. The Service **evaluates efficiency of the internal control system** of the Company and the TMK Group companies and develops respective recommendations upon receipt of the performance results. The performance evaluation include:

- analysis of compliance of the purposes of the business processes, projects and structural units with the purposes of the Company, control of reliability and integrity of the business processes (activity) and the information systems, including reliability of procedures against illegal actions, abuse and corruption;
- analysis of criteria, developed by the executive bodies, for the analysis of the level of achievement of stated goals;
- detection of defects of the internal control system, which impede the Company to achieve its stated goals;
- examination of efficiency of controls of main business processes of the Company, including controls over the accuracy of information used for the preparation of the account (financial), statistics, management and other statements and reports.
- determination whether the performance results of certain business processes and structural units of the Company and the TMK Group companies correspond to the stated goals;
- results of implementation of those actions and measures carried out by the Company on each management level for the elimination of defects, breaches and for the improvement of the internal control system;
- examination of efficiency and feasibility of resources use;
- examination of assets safe custody;
- examination of compliance with the requirements of the legislation, the Articles of association and the internal documents of the Company.

5.2. The Service conducts **efficiency evaluation of the risk management system** of the Company and the TMK Group companies and develops corresponding recommendations upon receipt of results. The efficiency evaluation of the risk management system includes:

- examination of sufficiency and maturity of risk management elements for the effective risk management (purpose, tasks, infrastructure, organization of processes, regulatory base, interaction with other structural units within the risk management system, reporting);
- examination of plenitude and accuracy of evaluation of risks by the management of the Company on each management level;

- examination of efficiency of the control procedures and other actions of risk management, including efficiency of resources use provided for this purpose;
 - analysis of information about realized risks (breaches detected upon results of internal audit inspections, failure to achieve stated goals, litigations, etc);
- 5.3. The Service conducts **evaluation of corporate governance processes** of the Company and the TMK Group companies and develops corresponding recommendations upon receipt of results. Such evaluation of the corporate governance includes evaluation of:
- compliance with the ethical principles and corporate values of the Company;
 - order of goal setting to the Company and the TMK Group companies, monitoring and control over their achievement;
 - level of regulatory base and procedures of the informative interaction (including on matters of the internal control and risk management) on each management level of the Company, including interaction with the interested parties;
 - securing shareholder’s interests, including of the controlled entities, and the efficiency of communication with the interested parties;
 - information disclosure procedures of the Company and the entities, which form part TMK Group.
- 5.4. The Service conducts examination of compliance of the governing bodies, officers and employees of the Company and the TMK Group companies with the requirements of the current legislation, regulatory and legal acts of the regulator of the financial (security) market in respect of insider information use, as well as the examination of the internal documents of the Company adopted in this connection, including documents regulating matters of conflict of interest.
- 5.5. The Service consults the management of the Company and the TMK Group companies during the development of actions plans (adjustment plans) upon receipt of results of the conducted audits and controls execution of such actions.
- 5.6. The Service consults the management of the Company and the TMK Group on matters which fall under its competence, including on matters of organization of the internal control system and the risk management system.
- 5.7. The Service executes special projects upon requests from the executive bodies of the Company and the TMK Group companies, also participates in investigations connected with the abuse (fraud) cases and violations of the Code of ethics of the Company. Therewith the Service is not responsible for investigation of such cases.
- 5.8. The Service also performs other tasks and participates in other projects, which fall under the competence of the Service, upon request of the General director of the Company and the Audit committee of the Board of Directors of the Company.
- 5.9. **Department of organization of the internal audit and analysis** within the performance of the functions of the Service:
- 5.9.1. develops a risk-orientated annual plan of internal audit inspections which determines priorities of the internal audit in accordance with the goals and strategy of the Company, results of evaluation of risks and levels of risk-apetite, stated for different structural units of the Company, and using also any

- information and requests received from the executive bodies and the Board of Directors of the Company;
- 5.9.2. develops working programs of implementation of the audit tasks which allow to achieve these goals;
 - 5.9.3. collects, processes and analyzes results of internal audit inspections, conducted by the employees of the Department of internal audit practices, and the reporting information received from the regional divisions of the Service.
 - 5.9.4. prepares periodical reports for the Management of the Company on internal audit results, conclusions and recommendations on improvement of the existing risk management system, internal control system and corporate governance;
 - 5.9.5. develops methodic documentation and recommendations on matters related to the internal audit and the internal control system in TMK Group;
 - 5.9.6. consults the management of the Company and the TMK Group companies on matters related to the theory and practices of the internal audit, the control and risk management system.

5.10. Department of internal audit practices, within the performance of the functions of the Service, conducts internal audit inspections (“field works”) of all the areas of activity of the structural units of the Company and the TMK Group companies performing an actual visit of an object of the audit with the aim to:

- 5.10.1. collect, analyze, evaluate and document information in volume, sufficient for achieving the purposes of the audit tasks;
- 5.10.2. understand how the control and risk management system is built in the business processes and how it functions on each unit level;
- 5.10.3. evaluate sufficiency and efficiency of mechanisms of control over the activity of the inspected units and their information systems, including in terms of:
 - reliability and accuracy of the account and reporting information;
 - efficiency of activities;
 - asset safe custody;
 - compliance with the legislation, regulatory acts and contractual obligations;
- 5.10.4. analyze detected defects in the activity of the inspected units, determine causes of their occurrence, develop recommendations on elimination of detected defects and improvement of the internal control system;
- 5.10.5. support the management of the inspected units in development of actions (corrective measures) upon receipt of results of the audit inspection;
- 5.10.6. perform control (post-audit) over elimination of detected defects and implementation of decisions taken upon results of the internal audit inspections.

6. DUTIES OF HEAD OF THE SERVICE

The Head of the Service is obliged to:

- 6.1. develop an organizational structure and functions of the divisions of the Service, Regulations of the Internal audit service, which shall be adopted by the Board of Directors of the Company;
- 6.2. develop Regulations of the regional divisions of the Service, determine their functions, structure and staff schedule, develop job descriptions of the directors and employees of the Service and its regional divisions, agree these documents in that part related to the regional

divisions of the Service with the Heads of the Divisions and submit them to the General director of the Company for adoption;

- 6.3. on basis of the performed risk analysis of the Company prepare an annual plan of audit inspections, conducted by the Service, determining priority directions of audit in accordance with the purposes and strategy of the Company. Such annual plan of internal audit inspections is agreed with the Audit committee, approved by the Board of Directors of the Company and adopted by the General director of PAO "TMK";
- 6.4. timely and properly execute the adopted annual plan of audit inspections of the Service, examine results of conducted internal audit inspections, summarize and analyze internal audit practices in the units of the Company and the TMK Group companies;
- 6.5. periodically report to the senior executive management, the Audit committee and annually to the Board of Directors of the Company on performance results of the Service and the execution of the audit plan. Such reports must contain information on material risks, problems related to control and corporate governance and other information necessary for successful performance of functions by the senior executive management and the Board of Directors of the Company.
- 6.6. inform the General director of PAO "TMK" and the Audit committee of the Board of Directors of the Company on existing limitations, which prevent the Service from efficient implementation of the stated goals;
- 6.7. support the management of the Company and the TMK Group companies in development of actions upon results of conducted internal audit inspections, as well as determine a consequent control process over implementation of such actions and decisions taken upon results of the internal audit;
- 6.8. support in fraud investigations;
- 6.9. develop methodic documentation and recommendations on matters related to the internal audit and internal control system of the Company and the TMK Group companies;
- 6.10. support in interaction with other units of the Company and coordinate work on multifaceted issues within the functions performed by the Service;
- 6.11. coordinate the activity of the Service with the external auditor with the aim to avoid double work and minimize audit expenses;
- 6.12. consult management of the Company and the TMK Group companies on matters related to the theory and practices of the internal audit, control procedures and risk management;
- 6.13. search and select employees of the Service of the Company and participate in selection of qualified specialists for the regional divisions of the Service;
- 6.14. deal with operative matters, examine incoming and outgoing correspondence, sign and execute, within his/her powers, documents related to the activity of the Service of the Company;

- 6.15. provide maintenance of the confidential information of the Service of the Company received during the conduction of the internal audit in the structural units of the Company and the TMK Group companies, and other commercial information in accordance with the internal regulatory documents of the Company;
- 6.16. support in improvement of qualification of the employees of the Service of the Company and its regional divisions of the internal audit;
- 6.17. develop and implement the program for evaluation and quality increase of the internal audit of the Company, which provides for the current monitoring of the activity of the internal audit in TMK Group, as well as the periodical evaluation of quality of the internal audit;
- 6.18. control over the proper performance by the employees of the Service of the Company of their duties;
- 6.19. perform tasks of the General director of PAO “TMK” and requests of the Audit committee of the Board of Directors on matters of competence of the Service.

7. POWERS OF THE INTERNAL AUDIT SERVICE

- 7.1. The Service of the Company represented by its Head of the Service, is authorized to:
 - 7.1.1. have a direct and immediate access to the General director of PAO “TMK” and the Chairman of the Audit committee of the Board of Directors of the Company;
 - 7.1.2. inform the General director of PAO “TMK” and the Audit committee of the Board of Directors of the Company about any proposals for improvement of the existing systems, processes, policies, procedures, methods adopted in the Company and the TMK Group companies, as well as comment on any matter of competence of the Service, as it is defined in the present Regulations;
 - 7.1.3. keep correspondence on matters related to the activity of the Service of the Company;
 - 7.1.4. participate in work of the collegial bodies of the Company during discussions of matters related to the activity of the Service of the Company.
- 7.2. Head of Service, the heads of the regional divisions of the Service and the employees of the Service are entitled and authorized to:
 - 7.2.1. sign and certify documents within their competence;
 - 7.2.2. determine forms and methods of conduction of internal inspections taking into account existing practices and professional standards of internal audit;
 - 7.2.3. have a direct access to the documents and information at the disposal of the Company and the TMK Group companies, which are required for the performance of internal audit functions;
 - 7.2.4. request and receive from the heads and authorized officers of the inspected divisions of the Company and the TMK Group companies any documents

REGULATIONS OF THE INTERNAL AUDIT SERVICE OF PAO “TMK”	Version № 4
Developed by Maximenko A.V., ext.n.2291	Date: 22.09.2016

required for the conduction of inspections (including, minutes of meetings of the governing bodies, orders, instructions, book-keeping records, reporting and financial and settlement documents, etc);

- 7.2.5. have a viewing access to any information systems, programs, their functional subsystems used by the inspected party in its work (including, to the information on the electronic databases, its technical documentation, etc);
- 7.2.6. during the conduction of the internal audit request for presentation any cash funds, securities and other material values, as well as raw materials, finished products and good-in-process inventories;
- 7.2.7. conduct cross-audit (by way of comparing documents and book keeping records of the object under the inspection with the corresponding documents and book keeping records in other structural units of the Company and the TMK Group companies, which provided or which were provided with material values), including with the external organizations;
- 7.2.8. if required, engage specialists from other divisions of the Company or the TMK Group companies, upon agreement with their heads, for implementation of tasks stated before the Service of the Company;
- 7.2.9. have access to any premises of the inspected divisions of the Company and the TMK Group companies (including, cash offices, production facilities and warehouses, etc) with the mandatory involvement of accompanying persons out of the employees of the inspected object and the materially responsible persons;
- 7.2.10. make paper and magnetic copies of any documents (including, copies of files and records kept both on autonomous computers and on the local area networks) in accordance with the established order of processing of the commercial information of the Company;
- 7.2.11. use his/her own technical equipment necessary for the conduction of inspections (including, notebook, floppy discs, scanner, photo equipment, etc), bring and take out these technical equipment out of the buildings and facilities, where the inspected divisions of the Company and the TMK Group companies are located;
- 7.2.12. in certain cases to seal cash offices, warehouses, archives and office premises in order to keep their functioning under the supervision of the inspector or in his presence;
- 7.2.13. if required and upon agreement with the Management of the Company or the Managing directors of the TMK Group companies organize conduction of the total or partial inventory inspections of material values, raw materials and finished products in the divisions of the Company and the TMK Group entities;
- 7.2.14. upon detection of any breaches and defects during the conduction of inspections request written explanations and clarifications from the officers of the inspected objects in order to establish circumstances and character of actions (omissions) performed by them, as well as other explanations related to such matter;

- 7.2.15. examine compliance of actions and operations performed by the employees of the Company and the TMK Group companies with the requirements of the current legislation, as well as with the internal regulatory documents, which determine the corporate policy, standards, decision making process, accounting and bookkeeping organization;
- 7.2.16. submit proposals on suspension or termination of operations which may result in violation of the current legislative and regulatory acts, internal regulatory documents, and which may result in excessive risks for the Company or the TMK Group entities;
- 7.2.17. upon detection of asset misappropriation, abuse, counterfeits or forgeries, extract in an established order original documents, which confirm the abovementioned legal facts, in order to secure their custody and prevent from replacement by other documents;
- 7.2.18. submit proposals on ways of elimination of defects detected during the inspections, methods of indemnification of losses, and if required on scheduling of an additional administrative investigation;
- 7.2.19. Award the employees of the Service of the Company with bonuses, as well as bring disciplinary or other actions against them for violating the labour discipline and omissions in their work.

8. INTERACTION WITH OTHER STRUCTURAL UNITS

- 8.1. During the performance of their functions the Service interacts with other structural units of the Company and the TMK Group companies on basis of the current regulatory documents and executive directives of the Company.

9. RESPONSIBILITY

The Head of the Service is fully responsible for quality and timely performance of tasks and functions vested by the present Regulations on the Service, within the frames and on the terms determined by the legislation of the Russian Federation, as well as by the current regulatory documents and executive directives of the Company.

10. PERSONAL DATA PROCESSING

- 10.1. The Head of the Service, the heads of the structural units of the Service, specially authorized employees (if any) of the Service in accordance with their duties/functional obligations and the current internal document on personal data processing adopted in the Company are entitled to work with the personal data of the employees of the Company in connection with the labour relations and business activity of the Company, in case of receipt of a consent from the employees.
- 10.2. The Head of the Service, the heads of the structural units of the Service, specially authorized employees (if any) of the Service are responsible for improper use of the personal data of the employees of the Company, available to them, in accordance with the legislation

of the Russian Federation and the current internal document on personal data processing adopted in the Company.

REGULATIONS OF THE INTERNAL AUDIT SERVICE OF PAO "TMK"	Version № 4
Developed by Maximenko A.V., ext.n.2291	Date: 22.09.2016

**MANAGEMENT AND ORGANIZATION STRUCTURE
OF THE INTERNAL AUDIT SERVICE OF PAO “TMK”**

