

PAO TMK

APPROVED BY
The Board of Directors
“ ” _____ 2015

REGULATIONS
ON THE AUDIT COMMITTEE OF
THE BOARD OF DIRECTORS OF PAO “TMK”
(Restated)

2015

Contents

1. GENERAL PROVISIONS
 - 1.1 Purpose**
 - 1.2 Regulatory documents**
 - 1.3 Terms and definitions**
 - 1.4 Abbreviations**
2. PURPOSE OF THE AUDIT COMMITTEE
3. FUNCTIONS OF THE AUDIT COMMITTEE
4. STRUCTURE AND COMPOSITION OF THE AUDIT COMMITTEE. ORDER OF FORMATION OF THE AUDIT COMMITTEE
5. RIGHTS AND OBLIGATIONS OF THE MEMBERS OF THE AUDIT COMMITTEE
6. ORDER OF PERFORMANCE OF THE MEMBERS OF THE AUDIT COMMITTEE
7. COLLABORATION OF THE COMMITTEE WITH THE GOVERNING BODIES
8. RESPONSIBILITY FOR COMPLIANCE WITH THE REGULATIONS
9. FINAL PROVISIONS

1. GENERAL PROVISIONS

1.1. Purpose

The present Regulations determine the status, goals and functions of the Audit committee of the Board of Directors of PAO “TMK”, the order of its formation and termination of powers, rights and obligations of its members, the order of organization of its work and decision making process.

1.2. Regulatory documents

The present Regulations have been elaborated in accordance with the current legislation of the Russian Federation, Corporate governance code of the Russian Federation (the Letter of Bank of Russia dated 10 April, 2014 N 06-52/2463 “Concerning the Corporate Governance code”), Listing Rules of Moscow Exchange (registered by the Service of Bank of Russia for financial markets dated 31 March, 2015), Corporate governance code and listing rules of London Stock Exchange, the Articles of Association, the Regulations on the Board of Directors of the Company, Corporate governance code and other internal documents of the Company.

The Audit committee in its activity is governed by the above-listed documents, decisions of the Board of Directors and the present Regulations.

1.3. Terms and definitions

In the present document the following terms, definitions and abbreviations are used:

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| Independent Director | - A member of the Board of Directors who possesses certain autonomy for forming his/her own attitude and who is capable for expressing his/her own objective and bona fide opinions, independent from the influence of the executive bodies of the Company, certain groups of shareholders and other interested parties as well as the one who possesses experience and professionalism of a sufficient level. |
| Conflict of interests | - Any relations, which are or may be taken as non-compatible with the interests of the Company. The conflict of interest may damage the capability of a person to perform its duties. |
| Non-executive Director | - Member of the Board of Directors who is a non-Executive officer of the Company. |
| Executive director | - Member of the Board of Directors who is an Executive officer of the Company. |
| Executive officer | - A person who performs organizational/management or business and administrative functions in a legal entity and who is in labour relations with the legal entity. |

1.4. Abbreviations

In the present document the following abbreviations are used:

Committee	- The Audit committee of the Board of Directors.
Company	- PAO "TMK
Chairman	- Chairman of the Audit committee of the Board of Directors.
Regulations	- The Regulations of the Audit committee of the Board of Directors.

2. PURPOSE OF THE AUDIT COMMITTEE

2.1. The Audit committee is formed on basis of a decision of the Board of Directors and is a collegial advisory body of the Board of Directors of the Company, composed for a preliminary consideration and discussion of issues related to the control over the financial and business activity of the Company, as well as the effectiveness of functioning of the systems of the internal control and risk management of the Company.

2.2. Main tasks of the Audit committee are:

- Control over the provision of complete, accurate and authentic of (financial) statements of the Company;
- Assessment of autonomy, objectiveness and absence of conflict of interests of the internal auditors of the Company including provision of recommendations on issues related to the appointment, reelection and removal of the internal auditors as well as supervision over the conduction of the internal audit and assessment of the quality of the audit revision, consideration of reports of the internal auditors;
- Control over the reliability and effectiveness of functioning of the systems of the risk management and internal audit;
- Provision of autonomy and effectiveness of the performance of functions of the internal audit of the Company, discussion of issues related to the activity of the internal audit, including the regulations of the internal audit, performance plan of the internal audit, appointment (removal) of the head of the Internal Audit Service, existing limitations of powers or budget of the internal audit as well as the conduction of general assessment of performance of functions of the internal audit of the Company;
- Control over the effectiveness of the functioning of the alert system of the Company about the breaches (including dishonest actions of the employees and third parties).

2.3. Decisions of the Audit committee are of advisory nature for the Board of Directors.

3. FUNCTIONS OF THE AUDIT COMMITTEE

Main functions of the Audit committee are:

3.1. In terms of accounting (financial) statements:

- 3.1.1. Control over the provision of complete, accurate and authentic consolidated and stand-alone (financial) statements of the Company;
- 3.1.2. Analysis of material aspects of the accounting policy of the Company, discussion of important issues and opinions in respect of the accounting (financial) statements of the Company including the analysis of reflection of non-standard and complex transactions in the statements, related party transactions and other operations for which accounting the evaluation at the application of the corresponding requirements for International Financial Reporting Standards (hereinafter referred to as the “IFRS”), Russian standards for accounting and other current regulatory acts is required;
- 3.1.3. Analysis of the audit results together with the management and the internal auditor of the Company, including the reviewing of main problematic issues arising out of the audit, analysis of material corrections of the accounting (financial) statements as of the results of the audit;
- 3.1.4. Reviewing of publications regarding the financial and business activity of the Company and other information presented together with the accounting (financial) statements of the Company prior its publication (particularly, management analysis of the results of the activity, press-releases and other documents);
- 3.1.5. Collaboration with the Audit commission of the Company, including reviewing of the conclusions provided by the Audit commission as of the results of the audit of the financial and business activity of the Company, annual accounting statements, report on breaches and other information, mutual discussion of issues related to the competence of the Committee and the Audit Commission and preparation of the recommendations to the Board of Directors of the Company.

3.2. In terms of the conduction of the external audit:

- 3.2.1. Assessment of autonomy, objectiveness and absence of conflict of interest of the external auditors of the Company;
- 3.2.2. Preparation of recommendations on appointment, replacement and termination of powers of the external auditor of the Company as well as recommendations on remuneration for services and terms of engaging of the external auditor of the Company;
- 3.2.3. Supervision of the conduction of the external audit and assessment of the quality of the performed audit;
- 3.2.4. Reviewing of conclusions of the external auditor in respect of the accounting (financial) statements of the Company prepared in accordance with the laws of the Russian Federation and IFRS and recommendations on their issuance;
- 3.2.5. Control over the execution of the policy of the Company in respect of the provision of any services by the external auditor in addition to the audit, which determines principles of rendering of such services and combining of audit and non-audit services by the auditor.

3.3. In terms of risk management, internal audit and corporate governance

- 3.3.1. Control over the reliability and effectiveness of the risk management system, internal audit and corporate governance including assessment of performance of risk management procedures and internal audit procedures of the Company as well as preparation of suggestions on their improvement;
- 3.3.2. Analysis and assessment of execution of the risk management policy and internal audit;

- 3.3.3. Control over the procedures which ensure the compliance of the Company with the requirements of the legislation (including anti-corruption) as well as ethical norms, rules and procedures of the Company, requirements of stock exchanges;
- 3.3.4. Together with the management, the internal auditor of the Company, Compliance committee, Risk management committee discussion of major cases of violation of the legislation (including the anti-corruption laws), fraud, material failures in the procedures of the internal audit and risk management;
- 3.3.5. Analysis and assessment of execution of the policy of management of conflict of interest in the Company;
- 3.3.6. Analysis and assessment of execution of risk management procedures in the Company including discussion of key risks included in the risk map of the Company and analysis of procedures directed on the mitigation of such risks.

3.4. In terms of conduction of the internal audit:

- 3.4.1. Provision of autonomy and objectiveness of the Internal Audit Service of the Company;
- 3.4.2. Reviewing of the Policy of the internal audit and the Regulations on internal audit of the Company;
- 3.4.3. Discussion of the performance plan of the Internal Audit Service and its corresponding budget for the conduction of the audits;
- 3.4.4. Discussion of matters on appointment (removal) of the head of the Internal Audit Service of the Company;
- 3.4.5. Reviewing of existing limitations of powers or budget for the performance of the functions of the internal audit which may affect the effective performance of the function of the internal audit;
- 3.4.6. Reviewing of the results of the activity of the Internal Audit Service, analysis of the report provided by the Internal Audit Service and assessment of performance of the Internal Audit Service of the Company;
- 3.4.7. Conduction of regular meetings with the Head of the Internal Audit Service for discussion of issues which in opinion of the Audit committee or Head of the Internal Audit Service, may require a confidential discussion;
- 3.4.8. Provision of effective collaboration between the Internal Audit Service and the external auditors of the Company.

3.5. In terms of the alert system on breaches (including on dishonest actions of the employees and third parties) to the management of the Company:

- 3.5.1. Control over the effective functioning of the alert system of the Company (“Hot line”) about the potential cases of dishonest actions of the employees (including violation of the anti-corruption policy, dishonest use of insider and confidential information) and third parties as well as any other breaches in the Company;
- 3.5.2. Supervision of conduction of special investigations on potential cases of fraud, dishonest use of insider and confidential information;
- 3.5.3. Control over actions taken by the executive management of the Company as a result of the alerts on potential cases of dishonest actions of the employees and other breaches.

4. STRUCTURE AND COMPOSITION OF THE AUDIT COMMITTEE. ORDER OF FORMATION OF THE AUDIT COMMITTEE

- 4.1. The Audit committee consists of not less than three members of the Board of Directors. The members of the Audit committee can be only Independent directors, according to the definition given in the present Regulations, and if this is impossible due to certain objective reasons – only Independent directors and Directors who are not executive officers of the Company.
- 4.2. For the management of the activity of the Audit Committee the Chairman of the Audit committee shall be appointed by the Board of Directors, which must be an Independent director and comply with the requirements applied to the Independent directors, according to the definition given in the present Regulations.
- 4.3. The principal tasks of the Chairman of the Audit committee shall be organization of work of the Committee as well as provision of objectiveness at the preparation of the recommendations to the Board of Directors of the Company and regular notification of the Board of Directors about the activity of the Audit committee.
- 4.4. The members and the Chairman of the Audit committee shall be appointed by the Board of Directors by simple majority of the votes. The decision on early termination of the powers of its members and the Chairman of the Audit committee shall be taken by the Board of Directors by simple majority of votes.
- 4.5. Issues related to the quantity and personal composition of the Audit committee as well as the nomination of a candidate for the position of the Chairman of the Audit committee, generally, are subject to the discussion on the first meeting of the Board of Directors newly elected. The Audit committee shall act until the election of the new Board of Directors.
- 4.6. For the election of the Chairman and members of the Audit committee their education, professional skills, work experience in the corresponding field of the Committee, their skills with handling of the financial and business documentation and other special skills required for the performance of their duties must be taken into consideration. In case of need and upon agreement with the Board of Directors the members of the Committee can pass through a professional training course.
- 4.7. Minimum one Independent director within the Audit committee must possess certain experience in the preparation, analysis, assessment and audit of accounting (financial) statements.
- 4.8. Persons elected in the Audit committee can be re-elected unlimited number of times.
- 4.9. In case of need experts and consultants with required professional knowledge including legal advisors, experts and counsels (on issues of accounting, financial issues, etc) can be engaged during the work of the Audit committee.
- 4.10. At the meetings of the Audit committee the General director of the Company, the members of the Board of Directors which are not members of the Committee, the members of the Management board, the members of the Audit commission, an independent external auditor, Head of the Internal Audit Service, other executive officers and employees of the Company can be invited.
- 4.11. Each Independent director, according to the definition given in the present Regulations, as well as the Chairman of the Board of Directors shall be entitled to participate in any meeting of the Committee independently whether he/she is or not member of the Audit committee.

- 4.12. The Secretary of the Board of Directors or a person appointed by the decision of the Audit committee (out of the members of the Committee or staff of the Company) shall act as Secretary of the Audit committee.
- 4.13. The Chairman of the Audit committee as well as the members of the Committee can resign by sending a corresponding notification to the Chairman of the Board of Directors of the Company and the Chairman of the Audit committee.

5. RIGHTS AND OBLIGATIONS OF THE MEMBERS OF THE AUDIT COMMITTEE

5.1. The members of the Audit committee shall be obliged:

- 5.1.1. To be present (to participate) in the meetings of the Audit committee and take active part in the preparation and discussion of items put on agenda of the meetings of the Audit committee.
- 5.1.2. To study thoroughly and fully documents presented for the meetings and during the meetings of the Committee;
- 5.1.3. To participate in decision making of the Audit committee by voting on issues put on agenda of the meetings;
- 5.1.4. Honestly to perform their duties in accordance with the present Regulations;
- 5.1.5. To take justified decisions and for this purpose to study all the necessary information (materials) and bring to the attention of all the members of the Audit committee all the information related to the taken decisions;
- 5.1.6. To notify the Chairman of the Audit committee about the impossibility of the physical presence at any meeting with indication of reasons;
- 5.1.7. During decision taking to act honestly and reasonably in the interests of the shareholders of the Company and all the interested persons;
- 5.1.8. To execute in due time and properly any decisions taken at the meetings of the Committee and orders including the orders from the Chairman of the Audit committee;
- 5.1.9. To notify immediately the Committee about any personal interest of a member of the Committee in taking of any decision;
- 5.1.10. To refrain from actions which may lead to the conflict between the interests of a member of the Audit committee and the interests of the Company, and in case of appearance of such conflict – to disclose all the information about it to the Committee and the Board of Directors;
- 5.1.11. To refrain from actions which may compromise the Audit committee or question professionalism of its members;
- 5.1.12. In accordance with the requirements of the internal documents of the Company not to disclose any confidential information and commercial secrets, to keep all the matters under discussion confidential, not to disclose insider information to third parties and not to use such information for personal purposes and for the personal purposes of their affiliated persons.

5.2. The members of the Committee are entitled to:

- 5.2.1. To request and receive from the executive officers of the Company, the members of the Board of Directors, the Management Board, the Audit commission, the external auditors and the Internal Audit Service any information and documentation falling within the scope of competence of the Committee through the Secretary of the Board of Directors of the Company;

- 5.2.2. To participate in the meetings with the shareholders and representatives of the investment community with the purpose of discussion of issues falling within the competence of the Committee.
- 5.2.3. To request a calling of a meeting of the Committee, to put items on agenda for discussion by the Committee;
- 5.2.4. To request the attachment of his/her special written opinions to the minutes of the meeting of the Committee;
- 5.2.5. To study all the materials prepared for the meetings of the Committee;
- 5.2.6. Upon agreement with the Chairman of the Committee to engage services of independent consultants, including legal advisors, experts and counsels (on matter related to the accounting, financial issues, etc) required by the Committee for the performance of its duties.

6. ORDER OF PERFORMANCE OF THE MEMBERS OF THE AUDIT COMMITTEE

- 6.1. The regularity and duration of the meetings of the Committee are determined by the Chairman of the Committee upon agreement with its members, nevertheless the meetings by personal attendance must take place not less than four times a year.
- 6.2. Minimum once a year the members of the Committee must meet with the representatives of the external independent auditor and the Head of the Internal Audit Service without the participation of the Executive directors, according to the definition given in the present Regulations.
- 6.3. The working plan of the Committee shall be elaborated on basis of the approved working plan of the Board of Directors of the Company and shall form an annex to the working plan of the Board of Directors.
- 6.4. The Chairman of the Board of Directors upon agreement with the members of the Committee shall prepare the agenda of the meetings of the Committee. The agenda of each meeting of the Committee shall be distributed to all the members of the Board of Directors. Upon mutual agreement of all the members of the Committee, the agenda can be amended or changed. In case of need the Committee can refuse to discuss certain items put on agenda for a current meeting in favor of other items, of more priority, in opinion of the members of the Committee.
- 6.5. The members of the Board of Directors who are non-members of the Committee, the General Director of the Company, the members of the Audit commission of the Company, the independent external auditor of the Company, the Head of the Internal Audit Service as well as other engaged experts can forward to the Chairman of the Committee a proposal to discuss any issue falling under the competence of the Committee. Such issue can be discussed either at the upcoming scheduled meeting of the Committee or if such issue has a special importance and its discussion can not be delayed, at a meeting of the Committee specially convened.
- 6.6. Meetings are convened by the Chairman of the Committee on his/her own initiative or at the request of a member of the Committee, a member of the Board of Directors who is not a member of the Committee, the General Director, the Audit commission as well as any engaged experts.
- 6.7. The calling notice of the meeting of the Committee must be forwarded to each member of the Committee, each member of the Board of Directors who is not a member of the Committee as well as any person invited for the meeting of the Committee, within a

- reasonable period time which shall be sufficient for the preparation for the meeting of the Committee but in any case not later than three working days before the meeting and shall contain (i) agenda of the meeting of the Committee with the description of items put for discussion and (ii) all the materials the discussion of which is scheduled for such meeting. The invitation of the General Director of the Company, the members of the Management Board of the Company, the members of the Audit commission of the Company, other executive officers and employees of the Company as well as engaged experts shall be made in the order which gives a reasonable and sufficient period of time for the invited persons to prepare for the meeting of the Committee.
- 6.8. The meetings of the Committee shall be held in form of personal attendance or by way of written questioning of the members of the Committee. For the conduction of the meetings of the Committee, certain means of communication (telephone/videoconference) can be used. The persons invited for the participation at the meeting including the members of the Committee can provide their personal opinions on the items of the agenda in a written form.
- 6.9. The meeting shall be considered legitimate (shall have quorum) when the majority of the members of the Committee are present (by the beginning of the meeting written opinions of the majority of the members are received). The absence of the quorum shall lead to the postponing and rescheduling of the meeting of the Committee. In exceptional cases and when legitimate excuses are available, the meeting shall be considered legitimate with less quorum, which in any case should not be less than half of the number of the elected members of the Committee. The absence of the invited experts shall not be a reason for postponing and rescheduling of the meeting, however, when the discussion of the items of the agenda is not possible without the invited experts, the Committee shall be entitled to take a decision on postponing and rescheduling of the meeting.
- 6.10. All the decisions of the Committee shall be taken by the majority of votes of the members of the Committee taking part in the meeting, at the same time each member shall have one vote. In case of equality of votes of the members of the Committee, the Chairman of the Committee shall have a casting vote. The persons who are not members of the Committee and who participate in its meetings shall have no votes.
- 6.11. At the meetings of the Committee any information about the interest of a member of the Committee in a discussion of any of the items must be disclosed.
- 6.12. The Audit committee shall be entitled to empower any member(s) of the Committee to study in detail a certain issue falling under the competence of the Committee and notify the Committee about the results of such study.
- 6.13. The meetings of the Committee shall be conducted by the Chairman. In case of absence of the Chairman of the Committee the meeting of the Committee shall be conducted by one of its members. The minutes of the meeting shall be prepared by the secretary of the Committee and shall be signed by the Chairman of the Committee. During the meeting all the opinions provided by the members of the Committee and other persons invited for the meeting of the Committee shall be heard and reflected in the minutes (attached to the minutes).
- 6.14. The minutes of the meeting of the Committee shall contain:
- Date, place and time of the meeting held by physical attendance (or date of the questioning or telephone/videoconference);
 - List of the members of the Committee taking part of the meeting;

- Items put for voting and voting results (with indication of voting results of each member of the Committee taking part in the meeting);
 - Key moments of the discussion of the items put on agenda;
 - Taken decisions;
- 6.15. The minutes of the meeting of the Committee shall be kept at the Secretary of the Board of Directors who must provide access to them as well as to the materials reviewed and discussed at the meetings of the Committee, to all the members of the Board of Directors.
- 6.16. Following the results of the meeting of the Committee a recommendation of the Committee (hereinafter referred to as the “Recommendation”) shall be prepared. The Recommendation shall be provided at the meeting of the Board of Directors at which the corresponding matter is discussed. The Recommendation shall reflect the opinion of the Committee in whole. If the opinions of the members of the Committee do not match, then minority opinions must be mentioned in the Recommendation separately.
- 6.17. The Recommendation shall be signed by the Chairman of the Committee. Other materials which have been reviewed and discussed at the meeting of the Committee can be attached to the Recommendation. The Chairman of the Committee shall be responsible for timely and complete notification of the Recommendation to the Secretary of the Board of Directors. The Recommendation discussed at the meeting of the Board of Directors shall be attached to the minutes of the corresponding meeting of the Committee and the Board of Directors.
- 6.18. If possible, the Recommendation of the Board of Directors must be elaborated by the Committee before the distribution to the members of the Board of Directors of all the materials for the meeting of the Board of Directors.
- 6.19. In case this is not possible, the Chairman of the Committee after the receipt of the agenda of the upcoming meeting of the Board of Directors, if required, must notify the Secretary of the Board of Directors that on a certain item of the agenda of the meeting of the Board of Directors the Recommendation will be elaborated and submitted for discussion to the meeting of the Board of Directors later.
- 6.20. The Secretary of the Board of Directors, in his/her turn, must bring this information into attention of all the members of the Board of Directors in order to provide a possibility to the members of the Board of Directors who intend to provide their written opinions to take the Recommendation into account.
- 6.21. The results of the activity of the Committee for the year shall be included in the Annual Report of the Company in form of a Report of the Audit committee which shall contain the information including about the assessment of the audit reports of the external auditors prepared by the Committee, as well as any information about the presence of an independent director in the Audit committee who possesses experience and knowledge in the field of the preparation, analysis, assessment and audit of the accounting (financial) statements.

7. COLLABORATION OF THE COMMITTEE WITH THE GOVERNING BODIES

- 7.1. The Secretary of the Committee shall provide a technical and procedural support for the collaboration of the Committee with other bodies of the Company.
- 7.2. The executive bodies of the Company shall notify the Committee about all the significant changes related to the issues falling under the competence of the Committee.

- 7.3. The Committee shall notify the Board of Directors about its activity by means of submission of reports about the activity of the Committee to the Board of Directors not less than once per quarter.
- 7.4. The Committee shall submit to the Board of Directors an annual report concerning the completion of goals put before the Committee. The annual reports of the Committee except for the confidential information, as well as the assessment of the report of the independent external auditor prepared by the Committee, shall be subject to the inclusion in the materials submitted to the persons who are entitled to take part in a general meeting of the shareholders of the Company, during the preparation for such meeting.
- 7.5. Any correspondence, out coming documents of the Committee shall be executed through the Chairman of the Committee and with his/her signature.
- 7.6. Requests and inquiries of the Committee in respect of the Company as well as in respect of its subsidiaries and legal entities directly and indirectly controlled by the Company shall be forwarded through the Secretary of the Board of Directors.

8. RESPONSIBILITY FOR COMPLIANCE WITH THE REGULATIONS

The effect of the present Regulations shall be spread on all the members of the Audit committee of the Company.

9. FINAL PROVISIONS

The present Regulations shall be approved by the Board of Directors of the Company. The proposal for their amendment shall be prepared by the Committee. The amendments of the present Regulations shall be made upon a decision of the Board of Directors of the Company.