



NOVOLIPETSK STEEL

APPROVED

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

Minutes of Meeting No. 236
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**REGULATIONS
ON BOARD OF DIRECTORS AUDIT COMMITTEE**

of Public Joint Stock Company
“Novolipetsk Steel”
(revised)

Lipetsk
2015

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CHAPTER 1. GENERAL PROVISIONS

These Regulations on NLMK's Audit Committee (hereinafter referred to as "the Committee") have been developed in line with the applicable legislation of the Russian Federation, the Corporate Governance Code recommended for use by the Bank of Russia, the Charter, and other corporate documents of Public Joint Stock Company "Novolipetsk Steel" (hereinafter referred to as "the Company").

These Regulations define the status, tasks, objectives, and functions of the Committee as well as its composition, procedure for its formation and operation.

The Audit Committee reports to the Board of Directors of the Company and is a consulting body thereof.

CHAPTER 2. PURPOSES, OBJECTIVES AND FUNCTIONS OF THE AUDIT COMMITTEE

- 2.1. The main purpose of the Committee is the development and submission of recommendations to the Board of Directors of the Company to ensure the Board of Directors' efficient participation in controlling the financial and economic activities of the Company, including the development and submission of recommendations to the Board of Directors of the Company on issues related to annual independent external audits of the Company's accounting (financial) statements, the quality of services rendered by the Auditor and its compliance with the requirements of auditor's independence; the process of property valuation by an independent appraiser when required by the laws of the Russian Federation, and in other cases.
- 2.2. The main objectives of the Committee are to enhance the efficiency of the Company's internal control, risk management, and corporate governance systems; control the reliability of the Company's accounting (financial) statements, internal and external audits, as well as counteraction against unethical practices or fraud by employees and third parties.
- 2.3. For the purposes of developing objective and independent recommendations to the Board of Directors of the Company, the Committee shall perform the following functions in line with its objectives:
 - 2.3.1. in terms of accounting (financial) statements:
 - exercise control over the completeness, accuracy and reliability of the Company's financial reporting;
 - carry out analysis of material aspects of the Company's accounting policy;
 - participate in the review of vital points of and opinions on the Company's accounting (financial) statements;
 - carry out analysis of information contained in the annual statements prior to their submission for consideration by the Company's Board of Directors, and quarterly statements prior to their disclosure;
 - provide continuous supervision over the preparation of the Company's accounting (financial) statements by the Company's Management Board and President (Chairman of the Management Board), over the objectivity of such statements and the process of disclosing reliable financial information about the Company, its scope and transparency.

2.3.2. in terms of risk management, internal control and corporate governance:

- exercise control over the reliability and efficient functioning of the risk management, internal control and corporate governance system, including evaluation of efficiency of risk management and internal control procedures, practices of corporate governance, and development of proposals on their improvement;
- carry out analysis and assessment of risk management and internal control policy performance;
- exercise control over procedures ensuring the Company's compliance with legal requirements, as well as ethical norms, the Company's rules and procedures, stock exchange requirements;
- carry out analysis and assessment of execution of the conflict of interest management policy;
- analyse and inform the Board of Directors on the efficiency of the internal control system in subsidiaries and affiliates, including reviewing candidates for the role of Auditor of such companies;
- provide continuous supervision over the functioning of the Company's internal control system.

2.3.3. in terms of internal and external audits:

- ensure the independence and fairness of internal and external audit functions;
- review the internal audit policy (Regulations on the Internal Audit Service);
- review the internal audit department's action plan;
- review issues related to the appointment (dismissal) of the Head of Internal Audit Service and the amount of his/her remuneration;
- review the existing authority or budget limitations for the internal audit function that may have a negative impact on the efficiency of the internal audit function;
- evaluate internal audit function efficiency;
- assess the independence, fairness and lack of conflict of interest of the Company's external auditors, including assessment of candidates for the position of the Company's auditor; develop suggestions on the appointment, re-election and dismissal of external auditors of the Company; payment for their services and terms and conditions of their engagement;
- provide supervision over external audits and assessment of the quality of the audits and auditor opinions;
- ensure efficient cooperation between the internal audit department and the Company's external auditors;
- develop and control the execution of the Company's policy determining the principles for rendering and combining auditing and non-auditing services to the Company by the Auditor;

- analyse and discuss, together with the Company’s Auditor, all essential issues arising in the process of independent external audits of the Company; if necessary, express its opinion to the Board of Directors;
 - evaluate the Company’s Auditor Opinion on the annual (accounting) statements before their submission to the shareholders at the Company’s General Shareholders’ Meeting;
 - review the list of most significant updates to the Company’s accounting (financial) statements following the audit; discussion of these updates with the Auditor and Company management; develop recommendation on changes to be made; evaluate Auditor opinion to be further presented to the Company’s shareholders.
- 2.3.4. in terms of counteraction to fraud by the Company’s employees and third parties:
- exercise control over the efficiency of the Company’s alert system on potential fraudulent actions of the Company employees (including unfair use of insider or confidential information) and third parties, as well as other violations in the Company’s activity; exercise control over the implementation of measures approved by the Company’s Management Board members and the President (Chairman of the Management Board) as part of such a system;
 - provide supervision over special investigations of potential fraudulent actions, unfair use of insider or confidential information;
 - exercise control over the implementation of measures approved by the Company’s Management Board members and the President (Chairman of the Management Board) based on alerts received with relation to potential fraudulent actions of employees, and other violations.
- 2.3.5. provide consulting support required by the Board of Directors to develop a strategy on the following issues:
- recommendations on Appraiser candidates and on the process of independent property valuation when required by Russian law and in other cases;
 - interaction with the Company’s Management Board members, the President (Chairman of the Management Board) and other key officials.
- 2.3.6. exercise control over the execution of resolutions passed by the Board of Directors regarding the development and audit of the Company’s accounting (financial) statements and development of its internal control systems.

CHAPTER 3. COMPOSITION OF THE AUDIT COMMITTEE AND ITS FORMATION

- 3.1. The Committee shall be comprised of 3 (three) members or more, to be elected by a simple majority of votes of members of the Company’s Board of Directors participating in the meeting.
- 3.2. Election of members and Chairman of the Committee as well as early termination of powers of all or some members of the Committee are subject to the resolution of the Company’s Board of Directors.
- 3.3. Composition of the Committee shall allow for a comprehensive examination of issues discussed, taking into account different opinions.

- 3.4. The Committee can only be formed of the Company's Board members that are independent directors; where this condition cannot be observed due to objective reasons, the majority of the Committee members shall be independent directors, and the other Committee members can be members of the Company's Board of Directors that are non-executive directors. The independent status of members of the Company's Board of Directors shall be evaluated against a set of criteria for determining the independence of Board members as defined by the Regulations on the Board of Directors of the Company.
- 3.5. The Committee remains in office for the duration of the Company's Board of Directors term of office until a new Board is elected.
- 3.6. Committee members shall be professionally trained, knowledgeable and experienced in the areas of Committee activities; shall possess other knowledge that may be necessary for the execution of their powers; and shall have the possibility and time to carry out the functions of a member of the Committee.
- 3.7. At least 1 (one) Committee member shall have experience in and knowledge about the preparation, analysis, evaluation and audit of accounting (financial) statements.
- 3.8. If necessary, independent consultants and experts can be involved in the operation of the Committee on a temporary or permanent basis for the preparation of materials and recommendations on the agenda issues such consultants and experts have no right to vote on issues that fall within the competence of the Committee.
- 3.9. The Committee shall be presided by the Committee Chairman, whose main task is to ensure objectivity when developing Committee recommendations to the Board of Directors of the Company.
- 3.10. The Committee Chairman shall be elected from among independent members of the Company's Board of Directors for the duration of the Board of Directors' term of office, at one of the first meetings of the Board of Directors of the Company.
- 3.11. The Committee Chairman shall organize the work of the Committee, i.e.:
 - convene meetings of the Committee and preside at such meetings;
 - define the meeting format;
 - develop a schedule for regular Committee meetings for the current year based on the approved Board of Directors' schedule;
 - develop agendas for Committee meetings;
 - determine the list of persons to be invited to a meeting;
 - organize discussions on agenda items at Committee meetings;
 - ensure that Committee meeting minutes are kept; sign them;
 - sign and submit draft documents (programs, memoranda, etc.) to the Board of Directors of the Company on behalf of the Committee;
 - maintain regular communication with the Management Board members, the President (Chairman of the Management Board), Corporate Secretary and other key Company officials;
 - appoint the Secretary of the Committee;
 - ensure compliance with the requirements of the Russian legislation and internal documents of the Company in the course of Committee operations.

CHAPTER 4. PROCEDURE FOR CONVENING AND HOLDING AUDIT COMMITTEE MEETINGS

- 4.1. The first meeting of a new Committee is to be held within 30 working days from the meeting of the new Board of Directors at which the Chairman of the Committee and members of the Committee were elected.
- 4.2. Meetings of the Committee shall be held in accordance with the annual schedule approved by the Committee Chairman.
- 4.3. Decisions on the convocation of an extraordinary Committee meeting; the date, time and venue of the meeting; the agenda and the list of persons invited to the meeting shall be made by the Committee Chairman.
- 4.4. Meetings of the Committee may be held in the form of joint presence of the Committee members or in the form of absentee voting.
- 4.5. When required, non-members who possess professional knowledge and competence necessary for solving issues under the Committee's consideration can be invited to a Committee meeting subject to approval by the Committee Chairman, including the Head of the Internal Audit Service and representatives of the external auditor of the Company.
- 4.6. A meeting of the Committee shall be considered valid (having a quorum) in case no less than half of its members are present. Presence of a quorum shall be determined by the Chairman of the Committee at the opening of the meeting.
- 4.7. Each member of the Committee shall have one vote for the purposes of passing resolutions on agenda issues. Votes cannot be transferred by one Committee member to another.
- 4.8. Resolutions of the Committee shall be passed by a simple majority of votes of the members participating in the Committee meeting.
- 4.9. Resolutions passed by the Committee shall be recorded in the minutes of the Committee's meeting to be drawn up by the Committee Secretary within 3 (three) working days from the Committee's meeting, and signed by the Chairman.
- 4.10. The minutes of the Committee meeting shall include: the format, venue, date and time of the meeting; persons present at the meeting; agenda and issues put to vote; draft resolutions, voting results, and passed resolutions.
- 4.11. Materials and documents approved by the Committee shall be filed together with the minutes of the meeting.
- 4.12. The Committee or its Chairman shall meet with the Head of the Company's Internal Audit Service at least once per quarter to discuss matters pertaining to the competence of the Internal Audit Service.

CHAPTER 5. ACCOUNTABILITY AND RESPONSIBILITY OF AUDIT COMMITTEE MEMBERS

- 5.1. The Committee shall submit annual reports on the results of its activities to the Company's Board of Directors no later than 90 days after the end of the reporting year, to be integrated into the Company's annual report and other documents.
- 5.2. Committee members shall bear responsibility in accordance with the effective Russian legislation, the Charter and other internal documents of the Company.

CHAPTER 6. PROCEDURE FOR APPROVAL AND AMENDMENT OF THESE REGULATIONS

- 6.1. The present Regulations, as well as all the additions and amendments thereof shall be approved by the Company's Board of Directors.
- 6.2. All issues not covered by these Regulations shall be governed by the Company Charter, Regulations on the Board of Directors and other internal documents of the Company.
- 6.3. Should any provisions of these Regulations come into conflict with any amendments to the applicable legislative and statutory acts of the Russian Federation, such provisions shall lose legal force; and Committee members shall be guided by the effective Russian legislation until these Regulations are modified accordingly.