

New edition
APPROVED:
by the Board of Directors
of Public Joint Stock Company “Severstal”
on 3 February 2021
(MINUTES № 1/2021 dated 3 February 2021)

**Regulations for the Internal Audit
of Public Joint Stock Company “Severstal”**

1. GENERAL PROVISIONS

1.1 These Regulations for Internal Audit (hereinafter referred to as the “Regulations”) of the Public Joint Stock Company “Severstal” (hereinafter referred to as the “Company”) have been developed in accordance with the requirements of applicable Russian law, the Charter and internal regulations of the Company, recommendations of the Corporate Governance Code approved by the Board of Directors of the Bank of Russia on 21 March 2014, as well as the listing rules of Russian and foreign stock exchanges.

1.2 These Regulations set out the mission, objective, tasks, competencies and other matters regarding the activities of the Company's Internal Audit Department (hereinafter referred to as the “Department”) within the framework of the internal audit function.

1.3 The Department is governed by the applicable law of the Russian Federation, the Charter and internal documents of the Company, resolutions of the Company’s governing bodies and these Regulations.

1.4 The Department applies best internal audit practices, including international principles of professional practice in internal auditing, such as International Professional Standards of Internal Auditing, Definition of Internal Auditing and the Code of Ethics developed by the international Institute of Internal Auditors (The institute of Internal Auditors Inc.).

1.5 The Head of the Department is responsible for ensuring the efficient operation of the Department.

1.6 The Department operates in compliance with the principles of independence, objectivity, professional competence and quality assurance.

1.7 The Department conducts audits in all areas of the Company's activity; any business unit and employee of the Company or Severstal member companies may be subject to audit.

2. ORGANISATIONAL STRUCTURE AND OPERATIONAL PROCEDURES OF THE DEPARTMENT

2.1 The Department is functionally accountable to the Company's Board of Directors, and administratively – directly to the Company's sole executive body.

2.2 The Department is chaired by the Head of the Department, whose duties are to:

- Allocate duties among employees of the Department and organize the operations of the Department;
- convene and conduct meetings and conferences to discuss the matters within the competence of the Department;
- request necessary documents and information from governing bodies and business units of the Company;
- receive necessary clarifications and comments from the Company's employees;
- demand from the Company's employees the provision of information about the execution of resolutions adopted by the governing bodies and other officers of the Company, following the results of inspections;
- engage employees from other business units of the Company to conduct inspections and internal investigations as agreed upon with the Company's sole executive body;
- bring forward proposals on incentives for the Company's employees;
- bring forward proposals on imposing sanctions on the Company's employees for violations committed;
- inform the Audit Committee, to the Board of Directors and to the sole executive body of the Company about identified violations;
- exercise other functions provided by these Regulations.

2.3 The Head of the Department shall be accountable to the Company's Board of Directors and be appointed and dismissed by the Company's sole executive body on the basis of the decision of the Board of Directors. The Board of Directors may determine the remuneration of the Head of the Department.

2.4 The Head of the Department is responsible to the Board of Directors and the Sole executive body of the Company for the organization of the Department's operations and the achievement of tasks assigned to it.

2.5 The organisational structure and personnel of the Department shall be approved by the Company's sole executive body upon the recommendation of the Head of the Department.

2.6 Employees of the Department shall be obliged to use information received when performing their duties only in the interest of the Company and in accordance with the Company's internal regulations.

2.7 In the course of its activity the Department shall prepare statements, opinions, reports, recommendations and other documents to be signed by the Head of the Department. Such documents, as well as statements about violations identified shall be submitted to the Audit Committee, the Board of Directors and to the sole executive body of the Company.

2.8 The Department shall cooperate with the governing bodies and business units of the Company by receiving clarifications, information and documentation required for the performance of its activity in accordance with the applicable procedure.

3. PRINCIPLES OF THE DEPARTMENT'S ACTIVITIES

3.1 Independence and objectivity.

3.1.1 The Company shall take all necessary measures to ensure the Department's independence and impartiality and provide conditions for the Department's unrestricted and efficient execution of its functions.

3.1.2 The Head of the Department is functionally subordinate to the Company's Board of Directors and administratively – to the Company's sole executive body. The Department is subordinate to the Head of the Department and to the sole executive body of the Company.

3.1.3 The Company's Board of Directors shall approve the structure and the budget of the Department.

3.1.4 In provide individual objectivity and independence:

- the employees of the Department, who exercise internal audit functions (hereinafter referred to as the "Internal Auditors"), are not allowed to participate in inspections of units they have been responsible for during the last twelve months;
- The Company's Audit Committee shall review independence and objectivity of actions of the Internal Auditors on a regular basis.

3.1.5 The Head of the Department shall have the right without any restriction to communicate with and report to the Company's Board of Directors at his/her own initiative about any issues arising in connection with the Department's functions, propose solutions thereto and disclose such information to the Company's sole executive body.

3.1.6 The Head of Department shall assume no responsibilities which are not related to internal audit functions. The Department shall include no units or employees whose activities are not related to internal audit functions.

3.1.7 The Company shall enable the Department to perform its duties with no interference from the governing bodies, business units and employees of the Company who are not Department staff members.

3.1.8 Department employees shall be fair and impartial in their work and to avoid conflicts of interest of any nature. The Head of the Department shall take management measures aimed preventing any potential and exiting conflicts of interests and bias.

3.1.9 The Department shall independently develop internal methodological and management documents on methodology and procedures for inspections and does not need to have them approved by the business units under inspection.

3.2 Professional competence.

3.2.1 Department employees shall have the aggregate knowledge, skills and any other competencies required to perform their job responsibilities, or seek to obtain them.

3.2.2 The Head of the Department and its employees shall improve their knowledge, skills and other competencies through continuous professional growth.

3.3 Quality assurance of the internal audit.

3.3.1 The Head of the Department shall develop an internal audit quality assurance program.

3.3.2 The Department shall perform an assessment of the internal audit quality assurance program on an annual basis. The results of the assessment shall be submitted for consideration and approval to the Company's Audit Committee.

3.3.3 A qualified external consultant shall conduct an external assessment of quality of internal audit at least once in a five-year period. The results of the assessment shall be submitted for consideration and approval to the Company's Audit Committee.

4. MISSION, OBJECTIVE AND TASKS OF THE DEPARTMENT

4.1 The mission of internal audit is to maintain and increase the Company's value through objective internal audits using a risk-based approach, provision of recommendations and knowledge sharing.

4.2 The objective of the Department's activity is to provide the governing bodies of the Company with reasonable assurance on the adequacy and effectiveness of the Company's risk management, internal control and corporate governance system.

4.3 The Department performs the following internal audit tasks:

- assisting the sole executive body and employees of the Company in developing and monitoring compliance with procedures and measures aimed at improving the risk management, internal control and corporate governance processes in the Company;
- coordinating work with the Company's external auditor and persons providing advisory services in the area of risk management, internal control and corporate governance;
- carrying out internal audits of controlled companies pursuant to the established procedure;
- preparing and providing the Board of Directors and the sole executive body of the Company with reports on the results of the Department's internal audit operations (in particular, reports including information on material risks, deficiencies, results and efficiency of measures taken to address any identified deficiencies, results of implementation of the internal audit plan, results of evaluation of the actual condition, reliability and efficiency of the risk management, internal control system and corporate governance processes); and
- checking whether the sole executive body of the Company and its employees comply with the statutory provisions and internal policies of the Company on insider information and prevention of corruption.

4.4 Internal Audit functions.

4.4.1 The Department performs the following internal audit functions:

4.4.2 Effectiveness and efficiency evaluation of the internal control system, including:

- checking whether or not the goals of business processes, projects and business units correspond to those of the Company, as well as checking reliability and integrity of business processes (activity) and information systems, in particular, reliability of procedures designed to prevent any unlawful action, abuse and corruption;

- checking reliability of accounting, financial, statistical, managerial and other accounts and statements, determining to what extent the results of business processes and performance results of the Company's business units correspond to its target indicators and goals;
- determining the adequacy of criteria set forth by the executive bodies with a view to analysing the extent of attaining (or failure to attain) existing goals;
- identifying any weaknesses of the internal control systems which have prevented or prevent the Company from attaining its goals;
- evaluating the results of implementation of measures meant to remedy breaches and weaknesses and improve the internal control system which are implemented by the Company on all management levels;
- checking efficiency and rationale for use of resources;
- checking whether the Company's assets are safeguarded; and
- verifying compliance with the statutory requirements and those set forth by the Company's Charter and internal documents.

4.4.3 Evaluation of efficiency of the risk management system, including:

- checking whether elements of the risk management system are well developed and sufficient for efficient risk management (in particular, its goals and tasks, infrastructure, organisation of processes, legal/regulatory framework and related methodologies, interaction between business units in the framework of the risk management system and reporting);
- checking whether risks are fully identified and correctly evaluated by the Company's management at all levels of its management;
- checking the efficiency of various control procedures and other risk management measures, including the efficiency of the use of resources that were allocated for this purpose; and
- reviewing information on any realised risks (breaches, failures to attain certain set goals, or legal proceedings which were identified as a result of internal audits).

4.4.4 Evaluation of the Company's corporate governance, including checking:

- compliance with ethical principles and corporate values of the Company;
- procedures for goal-setting by the Company and for monitoring and control over their achievement;
- adequacy of the existing level of legal/regulatory framework and information exchange procedures (including in relation to internal control and risk management issues) on all levels of the Company's management, in particular, liaising with interested parties;
- security of shareholder rights, including companies controlled by the Company, and efficiency of relations with interested parties; and
- procedures for disclosure of information about activities of the Company and companies controlled thereby.

4.5 Methods of internal audit:

- participation in developing the Company's internal audit policy;
- development of a risk-based audit plan that defines the priorities of internal audit activity and corresponds to the goals of the Company;
- gathering of information necessary for the evaluation of the effectiveness of the risk management, internal control and corporate governance system;

- conducting independent internal assessments of the effectiveness of the risk management, internal control and corporate governance system;
- reporting to the Audit Committee, the Board of Directors and the sole executive body of the Company about the audit results;
- issuing recommendations to the Company's sole executive body in the development of corrective actions plans based on audit results and monitoring the implementation of corrective actions;
- consulting the Board of Directors, the sole executive body of the Company and management on risk management, internal control and corporate governance issues;
- communication with the Company's business units on the risk management, internal control and corporate governance issues;
- coordination of activities and communications with the Company's business units and work groups responsible for the management of key risks, legal support and security;
- coordination of activities with the external auditor;
- assistance in determination of reasons and circumstances of infliction of property damage to the Company as a result of intended acts committed by the Company's employees, and minimisation of negative consequences of such acts; informing the Audit Committee, the Board of Directors and the sole executive body of the Company about the results of the abovementioned measures;
- research and analysis of trends in the area of internal audit;
- development of programmes in the area of internal audit;
- conducting any other tasks upon request of the Audit Committee, the Board of Directors and the sole executive body of the Company.

5. WORK PLAN OF THE DEPARTMENT

5.1 The Head of the Department shall submit the annual audit plan of the Department for preliminary review by the Audit Committee and subsequent approval by the Board of Directors and give notice of any material restrictions in the Department's powers or budget which may negatively affect the delivery of the internal audit plan.

5.2 The Head of the Department reports to the Audit Committee on a quarterly basis and to the Board of Directors on an annual basis about the Department's audit results. The reports shall include information about significant risks, weaknesses of the internal control and corporate governance system and other issues that may be useful to the Company's governing bodies in performing their duties.

5.3 The Head of the Department shall provide the Audit Committee, the Board of Directors and the sole executive body of the Company with an annual assessment of the effectiveness of the Company's risk management, internal control and corporate governance processes.

5.4 The Head of the Department shall provide the Audit Committee, the Board of Directors and the sole executive body of the Company on a timely basis with information about significant weaknesses in risk management, internal control and corporate governance processes together with recommendations on their improvement.

5.5 The Head of the Department shall inform the Audit Committee, the Board of Directors and the sole executive body of the Company of:

- the results and quality of the implementation of corrective actions developed on the basis of the results of internal inspections in the risk management, internal control and corporate governance processes;
- limitations of scope, which might negatively influence the Department in achieving its objectives;
- the status of the internal audit quality assurance and improvement programme.

6. RIGHTS, OBLIGATIONS AND RESPONSIBILITIES OF STAFF MEMBERS OF THE DEPARTMENT

6.1 For the purposes of the performance of their functions, Department employees have the right to:

- full and free access to the Audit Committee of the Board of Directors;
- develop audit plans, take decisions on frequency, subjects and scope of work, and apply the techniques required to accomplish audit objectives;
- gather information necessary for assessment of the effectiveness of the risk management, internal control and corporate governance processes;
- have full and free access to any required information available to the Company and its business units, including any documents, accounting records, information systems, databases and ledgers directly related to the Company's operations, and obtain documented access permits, if needed, in accordance with the established procedure in the Company;
- access any premises of the business unit under inspection, including archives, production facilities, computer processing offices, accompanied by executives or employees of such business unit;
- obtain documents and copies of documents or other information and any other data available in the Company's information systems required for carrying out control in compliance with the requirements of the Russian Federation and the Company's regulations related to dealing with restricted information;
- study and assess any documents and information requested in the course of internal audit inspections and forward such documents and/or information to the Audit Committee, the Board of Directors and the sole executive body of the Company;
- request oral and written explanations from the Company's employees on any issues arising during inspections and obtain unhindered access to documents and other information needed for inspections;
- require that the executives of the business units under inspection suspend the Company's employees from their duties in accordance with the established procedure if failure to do so may result in loss of money, assets or documents or facilitate abuses;
- engage employees of the Company's business units in areas where the audit is conducted and request for assistance of employees from other business units of the Company to carry out inspections;
- develop an independent and objective opinion about the key risks in the business processes of the Company ensuring that it does not impact negatively on the objectivity of internal auditors' judgment;
- support the Company's sole executive body with questions of selection, development, implementation and application of key risk management procedures in the business processes of the Company by performing internal consulting activities and issuing necessary recommendations within the limits set by the International Standards for the Professional Practice of Internal Auditing;

- submit any recommendations to the Audit Committee, the Board of Directors and the sole executive body of the Company on improvement of existing systems, processes, policies, procedures, methods of carrying out financial and operational activities of the Company, as well as any comments, which are within the scope of internal audit activity;
- if necessary, to obtain the assistance of external experts who may be needed to perform internal audits.

6.2 Department employees shall:

- comply with the laws of the Russian Federation and the regulations and internal documents of the Company;
- properly perform the responsibilities stated in their job descriptions;
- ensure the safekeeping of documents, files and records and the return of any originals received;
- promptly notify the Head of the Department of any identified risks, violations and defects in accordance with the procedure established in the internal documents;
- maintain the confidentiality of any information received;
- inform the Head of the Department of any instances of interference with their performance.

6.3 Department employees are responsible for:

- their professional level and quality of work and the completeness, fairness and objectivity of assessments;
- the intentional misrepresentation or concealment of theft, violations or abuses;
- disclosure of information on any employees or customers of the Company which become known to them in the course of performing their duties.

7. PROVIDING CONSULTING SERVICES

7.1 To achieve the objectives of internal audit activities, taking into account available resources and the Company's activity priorities, internal audit provides key executives of the Company with consultations on risk management, internal control and corporate governance.

7.2 An internal audit consultation is a result of the internal audit activity consisting of provision of consultations, advice and recommendations based on the informed opinion of internal audit, which is aimed at providing assistance and improvement of corporate governance, risk management and internal control processes, which rule out assumption by internal auditors of any responsibility for any managerial decisions.

7.3 The Head of the Department makes a decision on the performance of consulting tasks, taking into account the opportunities available for improving the risk management process, adding value to the Company and improvement of its operational activities.

7.4 The procedure for providing consulting services and approving the nature, scope and content is defined in the Regulations for interaction of the Internal Audit Department with the management and officials of Severstal group companies within the framework of internal audit activities.

7.5 If significant issues in the area of corporate governance, risk management and internal control are identified during consulting engagements, they must be communicated to the sole executive body and the Board of Directors the Company.

8. **FINAL PROVISIONS**

8.1 These Regulations can be amended or restated by the Board of Directors.

8.2 If provisions of these Regulations conflict with the requirements of the Russian law or the Company's Charter, then provisions of the Russian law and the Company's Charter shall prevail.