



APPROVED

by Resolution of the Board of Directors
of Mechel PAO dd. December 28th 2020
(Minutes of the Board of Directors of
Mechel PAO w/n dd. December 30th 2020)

Internal Audit Policy in Mechel PAO

Table of contents

1. General provisions	3
2. Internal audit objectives	3
3. Internal audit principles of the Company	4
3.1. Honesty	4
3.2. Fairness	5
3.3. Confidentiality	5
3.4. Professional skill and competence	5
3.5. Independency	5
4. Planning the work of the internal audit and reports submission	6

1. General provisions

- 1.1. This internal audit policy (hereinafter referred to as the “Policy”) has been developed in accordance with the requirements stipulated by effective legislation of the Russian Federation, Articles of Association and local by-laws and regulations of the Company, “Recommendations on Risk Management, Internal Control, Internal Audit and on the Work of the Audit Committee (Supervisory Board) of the Board of Directors in Public Joint Stock Companies” published by the Bank of Russia that is an Appendix to the letter of the Bank of Russia No.IN-06-28/143 dd. October 1st 2020, listing requirements of Russian and foreign stocks of exchange, and Corporate Governance Code approved by the Board of Directors of the Bank of Russia on March 21st 2014 recommended to be followed by joint stock companies.
- 1.2. This policy defines the objectives and principles for exercising the internal audit function in the Company and the basic requirements to the procedures of planning the scope of works and preparation of reports related to such function.
- 1.3. The internal audit function implementation shall be vested in the Internal Audit Department of the Company (hereinafter referred to as “IAD”) that is an independent structural subdivision of the Company.
- 1.4. The internal audit shall act in compliance with the principles and requirements prescribed by professional standards of internal audit, corporate governance related ethic requirements and with the consideration of the Practical guidelines published by International Institute of Internal Auditors.
- 1.5. Director of the Internal Audit Department shall bear responsibility for ensuring the effective work of IAD.
- 1.6. Internal audit shall be performed by IAD mainly by way of scheduled routine audit checks (as per IAD Plan of work). Random checks are also possible based on respective requests of the Board of Directors, Audit Committee of the Board of Directors (hereinafter referred to as the “Audit Committee”) and of the executive bodies of the Company within their competencies.
- 1.7. The key role in the organization of the internal audit in the Company shall be played by Board of Directors of the Company.
- 1.8. Audit Committee shall preliminarily consider the questions in order to inform the Board of Directors and prepare respective expert’s opinion and (or) recommendations in respect of such questions so that they could be considered at the meeting of the Board of Directors, and also consider and (or) prepare materials and (or) opinion in respect of other questions based on respective request of the Board of Directors, in compliance with the Regulation on the Audit Committee.
- 1.9. The functions and objectives of the internal audit, the rights and obligations of the Head and employees of IAD shall be governed and regulated by respective Regulation on the work of this subdivision and by other internal regulations and local by-laws of the Company.

2. Internal audit objectives

- 2.1. The main objective of the internal audit is to provide the Board of Directors of the Company, Audit Committee and executive bodies of the Company as well as authorized persons of the Company with the guarantees as well as with consultancies related to increasing the Company’s equity value, providing support and assistance to the Company

in meeting business management and business operations enhancement objectives, improvement and enhancement of the internal control, corporate governance and risk management systems. To meet the above mentioned objectives IAD is to perform an independent and objective assessment of the operational, financial and informational systems in the part of the processes of risk management, internal control and corporate governance in order to improve the effectiveness of these processes.

2.2. The following shall be done by IAD to meet the objectives above:

- ✓ Supporting the executive bodies of the Company and its employees in development and monitoring of the performance of the procedures and measures related to the enhancement and improvement of the risk management, internal control and corporate governance systems;
- ✓ Coordinating its activities with those of an independent auditor of the Company;
- ✓ Interacting with the persons providing consultation services in the field of risk management, internal control and corporate governance;
- ✓ Performing the internal audit of the dependent companies in accordance with the established procedure;
- ✓ Preparing and submitting to the Board of Directors and executive bodies of the Company the reports on the results of the activities of the Internal Audit Department, including inter alia the information on the material risks, deficiencies, results and effectiveness of the remediation activities performed to remediate the above mentioned deficiencies, results of the completion of the Internal Audit plan of activities, results of the assessment of the actual state, reliability and effectiveness of the existing risk management, internal control and corporate governance systems;
- ✓ Checking the compliance by executive bodies of the Company and their employees with legislation and internal policies of the Company related to insider information and combatting corruptive practices, and with the Company's Code of Conduct and Ethics.

3. Internal audit principles of the Company

Internal audit shall be performed by Company based on the following main principles:

- honesty;
- fairness;
- confidentiality;
- professional skills and competences;
- independency.

3.1. Honesty

IAD employees (hereinafter also referred to as the "internal auditors") shall perform their work honestly and with due care and diligence and act in compliance with laws and regulations and disclose respective information, if it is required to do so by laws and regulations or professional standards.

3.2. Fairness

IAD employees shall be unbiased and impartial in their work and avoid any conflicts of interest. IAD Director shall perform organizational activities aimed at the prevention of the existing or potential conflicts of interest and biased attitude.

To ensure individual fairness it is not allowed for IAD employees to participate in audit of the areas they have been in charge of during the two recent years (but for cases if respective decision was made by Audit Committee).

3.3. Confidentiality

All the information, documents and other materials received or generated during the internal audit preparation or performance shall be treated as confidential.

IAD employees shall use the information received within performance by them of their duties only for the benefit of the Company and in accordance with the local by-laws of the Company.

3.4. Professional skills and competences

IAD employees shall have or get necessary skills, knowledge and competencies to perform their functional duties.

IAD Director and employees shall enhance and improve their skills, knowledge and competencies by way of continuous professional growth.

3.5. Independency

Internal audit shall be an independent unit and be administratively dependent to the Chief Executive Officer of the Company and functionally dependent to the Board of Directors of the Company in order to ensure the independency.

A candidate nominated to the position of the IAD Director shall be approved by Board of Directors of the Company.

Internal audit does not cancel or duplicate functions of other employees and subdivisions of the Company, including in the part of exercising by them of the routine and preventive control.

Internal audit shall apply a risk-oriented approach providing for the planning of the audit engagements for the purpose of violations control and prevention (intensity, form, duration, frequency) based on risks assessment.

IAD Director shall be entitled to conveniently interact with the Board of Directors of the Company and with the Audit Committee and take the initiative in reporting to them on any issues arising during the work performed by IAD as well as submit his/her proposals to resolve such issues.

Should any difficulties or obstacles arise preventing the IAD from effective completion of its tasks and objectives, IAD Director shall inform the Audit Committee, Board of Directors and Chief Executive Officer of the fact.

All the tasks and objectives of the internal audit shall be performed and completed without any interference of the governance bodies, subdivisions and employees of the Company not belonging to IAD.

4. Planning the work of the internal audit and reports submission

- 4.1. IAD activities shall be planned and arranged based on the results of the Company related risks assessment and identification.
- 4.2. The annual plan of IAD work shall be at first considered by Audit Committee and then submitted to the Board of Directors of the Company for further approval.
- 4.3. IAD Director shall report on IAD work results to the Audit Committee at least once a quarter and to the Board of Directors at least once a year.
- 4.4. IAD Director shall provide the Audit Committee and Board of Directors of the Company with an annual report on the effectiveness and reliability of the risk management, internal control and corporate governance systems as well as with the recommendations related to their improvement.
- 4.5. IAD Director shall generate an opinion of the IAD based on the results of the assessment of the effectiveness and reliability of the risks management, internal control and corporate governance systems as well as the recommendations related to their improvement and shall submit them to the Board of Directors of the Company for consideration. IAD Director shall be held liable for generating such opinion, including for the reliability and correctness of the information based on which such opinion is generated.