

APPROVED BY  
Resolution of the Board of Directors  
of OAO TMK dated June 30, 2005

REGULATIONS  
ON THE AUDIT COMMITTEE  
OF THE BOARD OF DIRECTORS  
of OAO "TMK"

Moscow

2005

## **1. General**

1.1 These Regulations on the Audit Committee (hereinafter, the “Regulations”) are the main document governing the activity of the Audit Committee of the Board of Directors of OAO TMK (hereinafter, the “Committee”) and specifying the scope of its competence, the procedure for selecting its members and how it operates.

1.2 The Committee shall be an auxiliary body of the Board of Directors created for preliminary consideration of matters involving control of the Company's financial and economic operations that fall within the competence of the Board of Directors according to the Charter of OAO TMK (hereinafter, the “Company”). The Committee shall not be a body of the Company and the Company shall not assume civil rights and obligations through the Committee.

1.3 In its actions, the Committee shall be guided by the laws of the Russian Federation currently in effect, the Company's Charter, the Regulations on the Company's Board of Directors and these Regulations.

1.4 In its actions, the Committee shall be accountable to the Company's Board of Directors.

## **2. Purpose of the Committee and its sphere of responsibility**

2.1 The main purpose of creating the Committee is to improve the effectiveness of the Board of Directors' control of the Company's financial and economic operations by means of preliminary consideration and preparation of recommendations to the Board of Directors on matters that fall within the Committee's competence.

2.2 The following matters shall fall within the Committee's sphere of responsibility:

(i) Review of the Company's financial statements:

a) Making recommendations in regard to the procedure for preparing the Company's financial statements and introducing processes and systems aimed at timely preparation of high-quality financial statements.

b) Review of the results of audits, including all comments contained in the findings of external auditors, as well as measures taken by the Company's executive bodies with respect to the results of audits and/or the recommendations of an external auditor.

c) Review of all significant changes concerning the principles and practice of auditing and accounting used in preparing the Company's financial statements, as well as (at its discretion) all estimates and assumptions used by an external auditor or the Company's finance department in preparing financial statements.

d) In relation to the Company's new transactions or events involving the Company, determination of the independent external auditor's opinion on the adequacy of the accounting policy used by the Company or the Company's policy in regard to information disclosure.

e) When policies and procedures for the preparation of financial reports are being drawn up, and when the financial statements themselves are being analyzed, the Committee, in addition to other matters, must pay particular attention to the following:

- The consequences of major new transactions for accounting;
- Changes in individual accounting principles or leaving these principles unchanged;
- Methods of applying accounting principles and their aggressiveness or conservatism;
- The use of reserves and accruals;
- Significant estimates and judgments used in preparing financial statements;
- The methods used by internal and external auditors for risk assessment and the results of such assessment;
- Changes in the scope of auditing as a result of such risk assessment;
- The effect of any external factors (economic, production or other) on financial statements and the auditing process;
- Any other matters that, in the Committee's opinion, may affect the quality of financial statements.

(ii) Review and making recommendations to the Board of Directors in relation to the standards and procedures for internal control and risk control in the Company:

a) Review, together with the internal control department, and making recommendations on the organization of risk management in regard to the Company's financial and economic operations.

b) Review of proposals and making recommendations, together with the internal control department, on the organization of crisis management.

c) Assessment of major transactions that the Company plans to make and interested party transactions in regard to their compliance with statutory requirements and the Company's internal documents, including disclosure of information on these transactions.

d) Together with the internal control department, making recommendations regarding approval of operations that go beyond the limits set by the Company's annual budget.

e) Making recommendations in relation to the procedure for determining and the amount of the market value of property, and the offering price, redemption price and purchase price of securities issued by the Company, when the indicated conditions, in compliance with the laws currently in effect and the Company's Charter, are to be approved by a decision of the Board of Directors.

f) Together with the Company's Management Board and the internal control department, developing the internal control procedures.

g) Review, together with the internal control department, of proposals and making recommendations on improving the effectiveness of the Company's internal control and risk management system.

h) Oversight of the application of internal control procedures and assessment of the effectiveness of the procedures and the internal control and risk management system.

i) Analysis of reports made by executive bodies and external and internal auditors on existing financial and nonfinancial risks for the Company, as well as measures used to control and minimize them.

j) Analysis of reports made by executive bodies and external and internal auditors on the mechanisms for control of auditing, accounting and bookkeeping operations, including information systems and security systems.

k) Analysis of the practice and regulations adopted by the Company for compliance with the legislation currently in effect.

l) Regular analysis of the adequacy of staffing of the internal control department, as well as other departments whose functions include control of the Company's risks of any type.

(iii) Cooperation with the internal control department:

a) Review of the plan for annual audits to be conducted by the internal control department.

b) Review of the annual report on the results of the work of the internal control department.

c) Making recommendations on amendments and additions to the Company's internal documents governing the activity of the internal control department.

d) As necessary, discussion with the internal control department of questions that come up in relation to performing internal control functions.

e) Evaluation of candidates for manager of the internal control department.

(iv) Cooperation with the Company's Internal Audit Commission

a) Review of the Internal Audit Commission's findings on the results of audit of the Company's financial and economic operations and the Company's annual accounts, and the reliability of the data in the Company's annual report and annual accounts.

b) Review of information presented by the Internal Audit Commission unrelated to the results of the annual audit of the Company's financial and economic operations.

c) Participation in joint meetings on issues relating to the competence of the Committee and the Internal Audit Commission.

d) Making recommendations on amendments and additions to the Company's internal documents governing the Internal Audit Commission's activity.

e) Review of reports and other materials prepared by the Internal Audit Commission on violations found and making recommendations to the Company's Board of Directors on ways to prevent such violations in the future.

f) As necessary, discussion with members of the Internal Audit Commission of matters relating to control of the Company's financial and economic operations

(v) Matters relating to the Company's cooperation with the independent external auditor:

a) Control of tenders for the purpose of selecting an independent external auditor, analysis and evaluation, together with the Company's finance department, of proposed candidates for independent external auditor, based on analysis of the professional activity of various independent external auditors and their proposals regarding the scope, time, cost and other conditions for conducting an audit, for the purpose of submitting to the Board of Directors for its consideration a nomination for independent external auditor for subsequent approval at a general meeting of the shareholders, and making recommendations on the draft contract to be entered into with an independent external auditor, including the amount of compensation to be paid to the auditor.

b) Discussion with the independent external auditor, the Company's finance department and the Company's management of all known relations with the independent external auditor and services provided to the Company by the independent external auditor that might affect the external auditor's objectivity or independence, as well as determination of the acceptable types and amounts of non-audit services to be provided by the external auditor and the amount of compensation to be paid by the Company for such services.

c) Forming and presenting to the Board of Directors an opinion regarding the independence of the Company's external auditor.

d) Receiving from the independent external auditor an annual official written report, with a description of all relations between the independent external auditor and the Company, its departments and subsidiaries, including circumstances that might affect the external auditor's independence.

e) Review and approval of requests by the Company's management for hiring the independent external auditor to provide consulting and other services in addition to the audit contract.

f) Analysis and submission of recommendations to the Board of Directors regarding the scope and time of the audit to be conducted by the external auditor and the procedures that should be used in the audit.

g) Analysis of the effect of significant changes in auditing principles and standards on the scale of the Company's audit.

h) With the involvement of accounting departments, the finance department, the Company's management and the independent external auditor, review and discussion of the interim and final results of the audit, all information and data contained in the audit report, other results of the audit before they are submitted to the Board of Directors for its consideration, as well as the

results of consulting and other services provided by the independent external auditor, and control of the actions taken by the Company's management in response to the independent external auditor's recommendations.

i) Review of the independent external auditor's report and data from the Company's internal control department regarding expenses incurred by the Company in the interests of members of the Board of Directors and the Company's top management.

(vi) Consideration of questions of appraising the Company's assets:

a) Making recommendations on hiring professional appraisers (hereinafter, the "Appraisers").

b) Analysis of all known relations or services that might affect the Appraiser's objectivity or independence.

c) Analysis of the course of preparation and the Appraisers' official written report, with a description of all relations between the Appraisers and the Company.

2.3 By decision of the Board of Directors, other matters relating to the Committee's sphere of responsibility may be submitted to it for its consideration.

2.4 When considering questions of the Committee's competence and making decisions on such questions, the Committee shall be guided by the Company's interests and overall development strategy.

### **3. Members of the Committee**

3.1 The Committee shall consist of at least three members.

3.2 The members of the Committee must be Independent Directors according to the definition given in the Regulations on the Company's Board of Directors. If this is not possible for objective reasons, then they must be Independent Directors and Directors Who Are Not Executives of the Company according to the definition given in the Regulations on the Board of Directors of the Company.

3.3 The members of the Committee shall be elected by the Board of Directors by a simple majority of the votes of the members of the Board of Directors taking part in the voting, on the recommendation of the Nomination and Remuneration Committee, after consultation with the candidates. Early termination of the authority of members of the Committee shall be made by the Board of Directors (by a simple majority of the votes of its members), on the recommendation of the Nomination and Remuneration Committee.

3.4 The Board of Directors, on the recommendation of the Nomination and Remuneration Committee, after consultation with the candidate, shall also elect a Committee Chairman to be in charge of the Committee's activity. The main tasks of the Committee Chairman

shall be to organize the Committee's work and also to ensure objectivity of the Committee's recommendations to the Company's Board of Directors. Early termination of the Committee Chairman's authority shall be made on the recommendation of the Nomination and Remuneration Committee.

3.5 The Committee Chairman must meet the conditions laid down for Independent Directors according to the definition given in the Regulations on the Company's Board of Directors.

3.6 Persons elected to the Committee may be re-elected to it an unlimited number of times.

3.7 If necessary, experts and consultants who have the necessary professional knowledge may be recruited to work for the Committee.

3.8 The Company's General Director, members of the Company's Board of Directors who are not Committee members, members of the Company's Management Board, members of the Company's Internal Audit Commission, the Company's independent external auditor, the manager of the internal control department, and other Company officials and employees may be invited to the Committee's meetings.

3.9 Each Independent Director, according to the definition given in the Regulations on the Company's Board of Directors, as well as the Chairman of the Board of Directors, shall have the right to attend any meeting of the Committee, regardless of whether he is a member of the Committee.

3.10 The Secretary of the Board of Directors or someone appointed by decision of the Committee (one of the Committee members or a Company employee) shall act as the Committee's secretary.

3.11 The Board of Directors shall approve a budget for the Committee to cover its day-to-day operations.

#### **4. Creation of the Committee**

4.1 The decision regarding creation of the Committee, its members and election of the Committee Chairman shall be made by the Board of Directors after a new Board of Directors has been elected.

4.2 The Committee shall operate until a new Board of Directors is elected.

4.3 The Chairman and members of the Committee should be elected based on their education, professional training, work experience relevant to the Committee's activity, skills in dealing with financial and economic documents and other special knowledge needed for the Committee members to exercise their authority. If necessary and with the concurrence of the Board of Directors, professional training may be given to a member or members of the Committee.

## **5. Committee meetings**

5.1 The frequency and length of Committee meetings shall be determined by the Committee Chairman with the concurrence of the Committee members. The Committee should meet at least four times a year.

5.2 At least once a year, the Committee members should meet with representatives of the external independent auditor and the manager of the internal control department, without the participation of Executive Directors according to the definition given in the Regulations on the Company's Board of Directors.

5.3 The Committee's work schedule shall be established on the basis of the approved work schedule of the Company's Board of Directors and shall be an appendix to the Board of Director's work schedule.

5.4 With the concurrence of Committee members, the Committee Chairman shall prepare an agenda for Committee meetings. The agenda for each Committee meeting shall be sent to all members of the Board of Directors in advance. The agenda may be amended or supplemented by the mutual consent of all Committee members. If necessary, the Committee may dispense with discussion of items on the agenda of the current meeting in favour of other matters that are of higher priority in the opinion of the Committee members.

5.5 Members of the Board of Directors who are not Committee members, the Company's General Director, members of the Company's Internal Audit Commission, the Company's independent external auditor, the manager of the internal control department, and also experts recruited to work for the Committee, may request the Committee Chairman that any question that falls within the Committee's competence be considered. Such a question may be considered either at the next planned Committee meeting or, if the question is particularly important and permits no delay, at a specially convened meeting of the Committee.

5.6 Meetings shall be convened by the Committee Chairman on his own initiative or at the request of a Committee member, a member of the Board of Directors who is not a Committee member, the General Director, the Company's Internal Audit Commission, or experts recruited to work for the Committee.

5.7 A notice that a Committee meeting will be held must be sent to each Committee member, each member of the Board of Directors who is not a Committee member, and also to persons invited to the Committee meeting, far enough in advance for them to prepare for the Committee meeting, but in any case no later than three business days before the meeting date, and must contain (i) the agenda for the Committee meeting, with a description of the matters to be discussed at the meeting, and (ii) all materials planned to be discussed at the meeting. An invitation for the Company's General Director, members of the Company's Management Board, members of the Company's Internal Audit Commission, other Company officials and employees to attend a Committee meeting, as well as recruitment of experts to work at the meeting, shall be issued according to a procedure that provides reasonable and sufficient time for those who have been invited to prepare for the committee meeting.



5.8 Committee meetings shall be held with the Committee members present together or by written polling of them. Means of communication (telephone conferences) may be used to hold Committee meetings. Persons invited to participate in the meeting, including Committee members, may submit their opinions in writing regarding items on the agenda.

5.9 A meeting shall be considered quorate if the majority of the Committee members are present at it (or their written opinions have been received by the beginning of the meeting). The absence of a quorum shall mean that the Committee meeting has to be postponed. In exceptional cases, for valid reasons, a meeting may be considered legitimate with a smaller quorum, which must not in any case be less than half of the elected Committee members. The absence of invited experts shall not be grounds for postponing the meeting, however, if items on the agenda cannot be discussed without the presence of those who have been invited, the Committee may decide to postpone the meeting.

5.10 All decisions of the Committee shall be made by a majority of the votes of the Committee members taking part in the meeting, with each Committee member having one vote. In the event of a tie, the Committee Chairman shall have the casting vote in decision making by the Committee. Persons participating in a Committee meeting who are not members of the Committee shall not have a vote.

5.11 Any information regarding a Committee member's interest in considering a particular matter must be disclosed at the Committee meeting.

5.12 The Committee may authorize a Committee member or members to study a certain question within the Committee's competence in detail and inform the Committee of the results obtained in the course of this study.

5.13 The Chairman shall preside over Committee meetings. If the Committee Chairman is absent, one of the Committee members shall preside over the Committee meeting. Minutes of the meeting shall be taken by the Committee secretary and signed by the Committee Chairman. In the course of the meeting, the opinions presented by Committee members and by persons invited to the Committee meeting shall be heard and reflected in the minutes (or attached to the minutes).

5.14 The minutes of a Committee meeting shall indicate:

- The date, place and time that a meeting was held with the Committee members present together (or the date when they were polled in writing or a telephone conference was held);
- A list of the Committee members who took part in the meeting;
- The questions that were put to a vote and the results of the voting on them (indicating how each Committee member who took part in the meeting voted);
- The decisions made.

The minutes of a Committee meeting shall be prepared in two copies.

One copy of the minutes shall be kept by the Committee secretary, who must provide access to the Committee minutes, and also to the materials considered at Committee meetings, to all Committee members.

The second copy of the minutes shall be kept by the Secretary of the Board of Directors in the Board of Directors' centralized archive, which must provide access to the Committee minutes, and also to the materials considered at Committee meetings, to all Board of Directors members.

5.15 According to the results of a Committee meeting, a Committee recommendation (hereinafter, the "Recommendation") may be drafted. The Recommendation shall be presented to a meeting of the Board of Directors at which the relevant question is considered. The Recommendation shall reflect the opinion of the Committee as a whole. If the Committee members' opinions do not coincide, then individual opinions should be indicated separately in the Recommendation.

5.16 The Recommendation shall be signed by the Committee Chairman. Materials considered at the Committee meeting may be attached to the Recommendation. The Committee Chairman shall be responsible for timely and complete notification of the Secretary of the Board of Directors about the Recommendation. A Recommendation considered at a meeting of the Board of Directors should be attached to the minutes of the appropriate meetings of the Committee and the Board of Directors.

5.17 As far as possible, a Recommendation to the Board of Directors should be developed by the Committee before materials for a meeting of the Board of Directors are sent to members of the Board of Directors.

If this does not seem possible, the Committee Chairman, after receiving information on the agenda of an upcoming meeting of the Board of Directors, should, if necessary, inform the Secretary of the Board of Directors that for a certain item on the agenda of the meeting of the Board of Directors a Recommendation will be developed and submitted later for consideration at the meeting of the Board of Directors.

5.18 The Secretary of the Board of Directors, in turn, should bring this information to the attention of all members of the Board of Directors in order to give members of the Board of Directors who intend to submit their written opinions an opportunity to take the Committee's Recommendations into account.

## **6. Rights and duties of Committee members**

6.1 Committee members are obligated:

- (i) To actively participate in the Committee's work;
- (ii) To thoroughly and fully study the documents presented for a Committee meeting or at a meeting;

- (iii) To inform the Committee immediately if a Committee member has an interest in making a particular decision;
- (iv) To avoid actions that might compromise the Committee or call into question the professionalism of its members;
- (v) To attend Committee meetings on time and take an active part in discussing items on the agenda;
- (vi) To carry out the decisions made and instructions given at Committee meetings properly and in a timely manner;
- (vii) To review and issue opinions on items on the agenda of a Committee meeting;
- (viii) To keep confidential all information received in the course of preparing and using materials on matters that fall within the Committee's competence.

6.2 Committee members shall have the right:

- (i) To request, through the Secretary of the Board of Directors from the Board of Directors or the Company's Management Board, General Director, independent external auditor or Internal Audit Commission, information and documents relating to matters within the Committee's competence;
- (ii) To participate in meetings with shareholders and representatives of the investment community for the purpose of discussing matters that fall within the Committee's competence;
- (iii) To study all materials prepared for Committee meetings.

## **7. The Committee's cooperation with Company bodies**

7.1 The Committee secretary shall handle technical and procedural questions of the Committee's cooperation with other Company bodies.

7.2 The Company's executive bodies must inform the Committee of all significant changes relating to questions that fall within the Committee's competence.

7.3 The Committee is obligated to inform the Board of Directors about its activity by presenting to the Board of Directors reports on the Committee's activity, in a form approved by the Board of Directors, at least once a quarter.

7.4 The Committee is obligated to present to the Board of Directors an annual report on the accomplishment of objectives set for the Committee. With the exception of confidential information, the Committee's annual reports shall be subject to inclusion in the materials to be made available to persons who have the right to participate in the general meeting of shareholders, in preparation for a general meeting of the Company's shareholders.

7.5 Any correspondence or documents from the Committee shall go out through the Committee Chairman and be signed by him.

7.6 The Committee's applications and requests in relation to the Company, or in relation to its subsidiaries and legal entities directly or indirectly controlled by the Company, shall be sent through the Secretary of the Board of Directors.

## **8. Final provisions**

8.1 These Regulations shall be approved by the Board of Directors. Any amendments or additions to these Regulations shall be made by decision of the Board of Directors.