

**Charter**  
**Internal Control and Audit Division**  
**Mechel OAO**

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## **I. General Provisions**

- 1.1. This Charter sets out the main functions and objectives of the Internal Control and Audit Division (the “ICAD”) of Mechel OAO (the “Company”) as well as the functions, authority and responsibilities of the ICAD Director and the ICAD staff.
- 1.2. The ICAD’s prime objective is providing assurance and consultations to the Audit Committee of the Company’s Board of Directors (the “Audit Committee”) and the Company’s Management aimed at increasing shareholders’ wealth as well as assisting the Company in achieving its business targets and improving its business performance. In order to do this, the ICAD shall independently and objectively assess the operational, financial and information systems in terms of risk management, control and corporate governance seeking to make said processes more effective. Planning and management of the ICAD’s activities shall rely upon the results of identification and assessment of the risks inherent to the Company’s operations.
- 1.3. Operation of the ICAD shall be governed by the Russian law, the Company’s Charter, Bylaw on the Board of Directors, Board of Directors resolutions, Internal Audit Professional Standards and Code of Ethics set by the Institute of Internal Auditors, current rules of the New York Stock Exchange, Securities and Exchange Commission and other stock exchanges where the Company’s securities are listed, the Audit Committee Charter, this Charter, the Company’s other internal regulations approved by the Company’s shareholders and Board of Directors as well as the Audit Committee resolutions.
- 1.4. The ICAD shall be administratively accountable to the Company’s CEO and shall functionally report to the Audit Committee Chairman.
- 1.5. The ICAD shall comprise:
  - the Internal Audit Department;
  - the Internal Control Department;
  - the Control and Inspection Department and
  - the Regional units in charge of internal control and audit, including control and inspection units of the Company’s subsidiaries (the “Regional Units”).
- 1.6. The ICAD’s Regional Units shall be administratively accountable to the managing directors of the Company’s relevant subsidiaries or affiliates (the “Group’s Companies”) and shall functionally report to the ICAD Director.
- 1.7. New Regional Units shall be established (and the relevant areas of responsibility, size, organizational structure, salary pool, and job specifications shall be determined) as approved by the ICAD Director.

## **2. Main Functions of the Internal Control and Audit Division**

The ICAD's main functions are:

- 2.1. Controlling whether the internal control procedures are operating as intended and analyzing the effectiveness of internal controls in general as well as the effectiveness of control over individual strategic projects and the Company's lines of business;
- 2.2. Running periodic reviews of the design, and testing the operational effectiveness of the key control procedures both at the Company's level and at the level of individual business processes; providing independent opinion on the effectiveness of internal controls;
- 2.3. Assessing whether or not the level of the risks for the Company, individual projects, processes, decisions, and transactions are in line with the Company's goals, the Russian law and the Company's regulations;
- 2.4. Coordinating the Company's dialogue with its external auditor and other organizations to ensure achievement by the ICAD and the Company of their respective targets;
- 2.5. Monitoring whether or not the Company's financial and business operations are in the best interests of the Company in order to safeguard the Company's assets;
- 2.6. Reviewing accounting and operational information provided by the Company's units, including examination of the means and methods used for identification, assessment, and classification of such information and making reports based thereupon as well as reviewing selected accounting entries, including detailed examination of transactions and account balances;
- 2.7. Reviewing the Company's property security, its current status and how it is ensured, including assessment of the accounting processes, utilization efficiency, execution of decisions taken by the Company's Management with regard to the use of the assets as well as assessment of the current asset liquidity.
- 2.8. Providing independent appraisal and analysis of the Company's financial position;
- 2.9. Developing techniques and guidelines to manage the Company's internal controls and advising on its implementation and maintaining;
- 2.10. Rendering active assistance to the Audit Committee, the Company's Board of Directors and Management by consulting on the following matters:
  - improving of corporate governance to meet the best international practices;
  - increasing the effectiveness of internal controls;
  - creating an effective risk management system;
  - external audit of the Company's financial statements prepared under the Russian accounting standards and US GAAP;
  - establishing an effective system of assets management, evaluation and investments and
  - creating an effective information environment and information security system.
- 2.11. Identifying, classifying and analyzing the risks faced by the Company and the Group's Companies, including strategic, operational, compliance, financial and financial reporting risks; making proposals to reduce potential negative consequences of the risks, assessing their likelihood, ensuring efficiency and constant development of the risk management system, providing methodological support to the executives and

- employees of the Company and the Group's Companies in terms of risk identification and assessment;
- 2.12. Analyzing, developing, and adapting the risk management policies, techniques, standards, and guidelines to match the corporate standards;
  - 2.13. Ensuring the reasonable level of reliability of the Company's financial statements, and compliance procedures for its preparation as well as compliance with Russian legislation in the field of accounting and taxation;
  - 2.14. Notifying the Audit Committee and the Company's CEO in a timely manner of any deviations and violations in the Company's operations; making proposals on how to remedy the violations and deficiencies revealed; making recommendations on how to add to the effectiveness of the management process;
  - 2.15. Analyzing and making recommendations on how to improve the efficiency and effectiveness of the Company's business processes; analyzing the appropriateness of the current standards, procedures, and techniques adopted by the Company;
  - 2.16. Analyzing whether or not the actions of the Company's staff comply with the approved corporate and ethic standards, the Company's strategic targets and the shareholders' interests;
  - 2.17. Within its scope of authority, ensuring effective communication with the Company's Board of Directors and Audit Committee to guarantee that the Company's Board of Directors and Audit Committee receive objective, complete, and high-quality information in a timely manner to support the decision-making process and that the estimates of achievement by the Company of its targets are reasonable;
  - 2.18. Analyzing compliance of the Company's current internal regulations with applicable statutory and regulatory requirements, the world's best practice, decisions taken by the Company's Management, the Company's strategic targets, and the shareholders' interests;
  - 2.19. The above functions, duties, and responsibility shall be described in greater detail in the relevant charters of the ICAD's units;
  - 2.20. Assisting the Company's Management on issues within the ICAD's scope of work as long as such consultations remain independent and objective.

<b>3. Duties, Responsibility and Authority</b>
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**3.1. Duties, Responsibility and Authority: the ICAD Director**

- 3.1.1. The ICAD Director shall be responsible for general management of the ICAD.
- 3.1.2. In order to ensure the independent and objective status of the ICAD, the ICAD Director shall be administratively accountable to the Company's CEO and shall functionally report to the Audit Committee.
- 3.1.3. The Audit Committee shall appoint the ICAD Director, approve his/her employment terms and conditions, and his/her scope of authority.
- 3.1.4. The ICAD Director shall:

- make proposals to the Audit Committee regarding the ICAD's main activities (both current and future);
- control fulfillment of the CEO's orders, decisions taken by the Company's Management, resolutions of the Company's Board of Directors, recommendations and instructional guidelines prepared by the Company's Auditor and Audit Committee;
- do correspondence with the Group's Companies on issues within the ICAD's purview;
- request and receive documents and other information from the heads of the Company's units and the Group's Companies that may be needed for proper performance by the ICAD of its duties and tasks and
- refer to the Chairman of the Audit Committee with a proposal to consider any matter relating to the jurisdiction of the Audit Committee..

3.1.5. The ICAD Director must:

- take necessary actions to make sure that the Audit Committee receives complete and objective information on the Company's financial position, corporate governance risks, internal control risks and information security risks. In order to do this, the ICAD shall:
  - periodically inform members of the Audit Committee in the form of written or oral communications about the status of implementation of the annual work plan of ICAD as well as all relevant facts revealed by the ICAD;
  - initiate Audit Committee meetings to discuss issues that are within the ICAD's scope of work;
- provide information (reports) on the ICAD's activities as requested by the Audit Committee (but at least annually);
- analyze the ICAD's general performance and advise on how to improve the Company's internal controls;
- contribute to professional development of the ICAD staff and
- perform other functions within his/her scope of authority and in line with this Charter.

3.1.6. The ICAD Director shall be responsible for:

- preparation of annual summaries as well as interim reports following the ICAD's internal audit projects and monitoring of the Company's financial and business performance and status of the Company's internal controls;
- the quality and timeliness of performance by the ICAD of its objectives and tasks and
- compliance with the ICAD's approved work plans.

3.2. **Duties, Responsibility and Authority: the ICAD Staff**

3.2.1. As set out in this Charter, the ICAD staff shall exercise authority, perform duties, and take responsibility arising from the ICAD's objectives, functions, and job descriptions.

3.2.2. The ICAD staff shall participate in internal audit projects, contribute to making recommendations aimed at more effective internal controls, be involved in monitoring the Company's Management's coordinated actions that rely upon the results of internal audit projects run by the ICAD.

3.2.3. The ICAD staff shall be authorized to:

- freely access the office premises of the facilities under internal audit project;
  - seal (as needed) the office premises where internal audit projects are held in order to secure relevant documents;
  - freely access the necessary information available in the Company, including computer systems;
  - freely access documents relating to the subject of the internal audit project;
  - receive reports following the Auditor's examinations and the Company's tax audit reports;
  - extend the scope of internal audit projects (if necessary);
  - receive copies of sealed documents signed by authorized officers;
  - copy certain documents (including any files) and records stored in the local networks and stand alone computer systems as well as receive detailed interpretations of said records;
  - claim (subject to approval by the internal audit project leader) that a complete or partial inventory of fixed assets and material assets is made (or make this inventory personally with other persons engaged) to ensure that such assets really exist and are correspond with accounting records and
  - receive oral and written explanations from the employees of the section under internal audit project on issues arising in the course of the relevant internal audit project.
- 3.2.4. The ICAD staff shall notify the ICAD Director of any cases when unreliable documents are provided to them or when relevant information or written argumentations are not provided or when any other obstacles arise; and the ICAD Director shall contact the Company's Management requesting that people are brought to responsibility for obstructing the internal audit project.
- 3.2.5. The ICAD staff shall:
- follow internal audit ethics principles; such principles include independence, objectiveness, responsibility, and confidentiality;
  - meet the Company's insider information and business secret requirements;
  - comply with applicable law, this Charter, and the Company's internal regulations;
  - observe labor discipline and
  - properly document their internal audit projects as set out in the internal regulations governing the ICAD's activity.
- 3.2.6. Disciplinary sanctions (in accordance with the Russian Labour Code) may be imposed on the ICAD staff for non-performance or improper performance of their duties and other violations of Company's regulations and standards. Such sanctions shall be imposed by the order of the Company's CEO.
- 3.2.7. The ICAD staff shall not be responsible for non-fulfillment of their recommendations on how to fix violations revealed by the internal audit projects as well as for the results of monitoring of the Company's Management's coordinated actions.
- 3.2.8. The ICAD Director and ICAD staff shall have no authority to take any action that may result in the their losing independence or objectiveness, namely they shall not:
- participate in the development and/or implementation of the internal control framework and control procedures nor become responsible for any operational activity of the Company;
  - participate in any activity that may somehow damage (or be deemed damaging) the objectiveness of their assessments;

- be involved in internal audit projects of any areas they have been responsible for within the recent two years (unless a special decision is taken by the Audit Committee or the Company's CEO);
- take any executive decisions, initiate or approve operations that are not directly associated with the ICAD;
- have a casting vote when voting on any strategic or operational management issue nor be part of the approval process (except for decisions relating to the management of the ICAD);
- impose disciplinary sanctions on the Company's staff, except for the ICAD staff;
- issue any orders or instructions governing the actions of the Company's staff unless such instructions regulate the management of ICAD;
- develop administrative and/or regulatory documents, except for those governing operation of the ICAD nor
- demand that the Company's Management fulfill their recommendations.