

**Approved**

**By resolution of the Board of Directors  
of Mechel OAO**

**Minutes unnumbered of August 6, 2007.  
Chairman of the Board of Directors  
V. V. Proskurnya**

**Bylaw**

**On the Appointment and Compensation Committee of the Board of Directors  
of Mechel OAO**

**Moscow**

## **CONTENTS**

**1. General Provisions**

**2. Objectives of the Committee**

**3. Functions of the Committee**

**4. Rights and Responsibilities**

**5. Membership of the Committee**

**6. Procedure for the Committee's Work**

**8. Liability of the Committee**

**9. Final Provisions**

## **1. General Provisions**

This Bylaw on the Appointment and Compensation Committee of the Board of Directors of Mechel Open Joint Stock Company (hereinafter, the “Bylaw”) is elaborated on the basis of the Russian Federation legislation, Code of Business Conduct and Ethics, Charter of Mechel OAO (hereinafter, the “Company”), Bylaw on the Board of Directors of the Company, and other internal documents of the Company, and is the internal document elaborated with the account of the requirements and rules for joint stock companies whose shares are traded in the form of ADRs at the New York Stock Exchange.

This Bylaw determines the status, membership, objectives, functions, and powers of the Appointment and Compensation Committee (hereinafter, the “Committee”) and establishes the procedure for the Committee’s work and interaction with other management bodies of the Company, procedure for calling and conducting meetings of the Committee and adopting and drawing up resolutions thereof.

The Committee shall be a consultative and advisory body formed under the Board of Directors of the Company for preliminary consideration and preparation of recommendations to adopt resolutions on matters of engagement and preparation of highly professional specialists for electing them to the Board of Directors and appointing to the positions of General Director, top managers, and heads of subsidiaries and affiliates of the Company, evaluating their performance, procedure for and level of their compensation, and providing recommendations on the basic principles of human resources and compensation policies.

The Committee shall be established by the resolution of the Board of Directors of the Company and shall act within the scope of the powers granted thereto and in compliance with this Bylaw.

The Committee shall guide itself in its activities by the Russian Federation legislation, Charter of the Company, Bylaw on the Board of Directors, resolutions of the Board of Directors, this Bylaw, and other internal documents of the Company approved by General Shareholders’ Meeting, the Board of Directors of the Company, and resolutions of this Committee.

The Committee shall be completely accountable in its activities to the Board of Directors of the Company.

During its activities, the Committee shall work jointly with the Company’s executive bodies, and with the Company’s other units, subsidiaries, and affiliates, as necessary.

The Committee’s activities shall be financed at the expense of the Company’s funds in the scope of the Committee’s budget to be approved by the Board of Directors.

## **2. Objectives of the Committee**

The main objectives of the Committee shall be the following:

- Providing succession and high professional and managerial level in replacing Members of the Board of Directors, General Director, top managers, and heads of subsidiaries and affiliates of the Company;
- Ensuring formation of the system of compensation to Members of the Board of Directors, General Director, and top managers of the Company, and heads of subsidiaries and affiliates of the Company with the account of the shareholders’ interests; ensuring coordination of the system with the general policy in remuneration of labor at the

Company and with the level of compensation to other employees; and ensuring its competitiveness and compliance with the effective legal regulations.

### **3. Functions of the Committee**

#### **3.1. In relation to matters of HR policy**

- 3.1.1. Preparing recommendations for the Board of Directors on determining criteria in selecting candidates for the positions of General Director and top managers of the Company, and heads of subsidiaries and affiliates of the Company.
- 3.1.2. Preliminary consideration of candidates for the positions of General Director and top managers of the Company, and heads of subsidiaries and affiliates of the Company, and preparing recommendations for the Board of Directors on hiring thereof.
- 3.1.3. Preparing recommendations on essential terms and conditions of contracts to be concluded with General Director and top managers of the Company, and heads of subsidiaries and affiliates of the Company.
- 3.1.4. Preparing recommendations on developing criteria and system to evaluate performance of General Director and top managers of the Company, and heads of subsidiaries and affiliates of the Company;
- 3.1.5. Analysis of results of work of General Director and top managers of the Company, and heads of subsidiaries and affiliates of the Company and providing conclusions and recommendations on this issue to the Board of Directors.
- 3.1.6. Determining requirements to candidates for the positions of Members of the Board of Directors and informing the shareholders on candidates to Members of the Board of Directors.

#### **3.2. In relation to matters of compensation policy**

- 3.2.1. Preparing recommendations on matters of the Company's compensation policy aimed to provide incentives for efficient work of the Board of Directors, General Director and top managers of the Company, and heads of subsidiaries and affiliates of the Company:
  - concerning the matter of compensation to Members and Chairman of the Board of Directors, the Committee shall elaborate criteria enabling the Company to offer them adequate compensation;
  - concerning the matter of compensation to General Director, the Committee shall elaborate criteria to determine the compensation, and a system of long term motivation of his activities; and
  - concerning the matter of compensation to top managers of the Company and heads of subsidiaries and affiliates of the Company, the Committee shall arrange for approving a concept of policy on compensation thereof, which the General Director has to submit for consideration by the Board of Directors.
- 3.2.2. Arranging for approving a policy of mid term compensation (awarding annual and/or quarterly bonuses) to the employees of the Company, which the General Director has to submit for consideration by the Board of Directors, and arranging for approving distribution of reserve bonus fund as proposed by the General Director.
- 3.2.3. As concerns programs of long term compensation to the employees of the Company, arranging for approving a policy of long term compensation as proposed by the General Director and a list of the employees' positions covered by such programs.
- 3.2.4. Conducting comparative analysis and advising the Board of Directors on the policy and programs of remuneration of labor and compensation effective in the Company and in

other comparable companies. Evaluating specific position of the Company in the field of compensation. Providing appropriate recommendations to the Board of Directors on improvement of the Company's the policy of remuneration of labor and compensation.

### 3.3. In relation to social policy

- 3.3.1. Evaluating efficiency of the Company's social programs and correspondence of the Company's internal and external social policy to its strategic priorities. Providing conclusion and recommendations on this matter to the Board of Directors.
- 3.3.2. Control of the social programs to ensure that their financing is not to the detriment of the Company's fulfilling its obligations to its shareholders and investors.
- 3.3.3. Preparing recommendations on matters of the Company's relations with the local communities of the territories where it carries out its activities, social and economic development of such territories, charity, and sponsorship.

## 4. **Rights and Obligations**

To perform its functions, the Committee shall be entitled to request in writing, with setting reasonable deadlines, and obtain from the executive and operational management, and any other employees of the Company, full and reliable information and documents concerning the matters of the Committee's work.

The Committee shall conduct its work interacting with the Company's executive bodies and top managers.

To obtain any additional (independent) information, the Committee may resort to external consultants' services.

The Committee shall be obliged to fulfill any other obligations, within its competence and in the manner provided for in this Bylaw, which can be determined by the Board of Directors; specifically, to act as a third party in resolving any disputes in the field of corporate ethics.

Members of the Committee shall:

- Participate in the Committee's work and attend its meetings or provide their written opinions regarding items on agenda of a meeting;
- Analyze situation in the economic sector, in which the Company conducts its business, and trends in human resources management and employee motivation.

Members and Secretary of the Committee may not use for personal purposes or disclose any confidential information, which they become aware of while fulfilling their obligations in accordance with this Bylaw, and shall be obliged to comply with the legal regime of the personal data. Any persons participating in meetings of the Committee or engaged in its work must sign a respective Agreement with the Company on non- disclosure of confidential information.

The Committee shall evaluate its work on an annual basis, including examination of the Committee's compliance with this Bylaw.

The Committee shall provide to the Board of Directors annual information on results of its work no later than 40 (forty) days prior to the date of respective annual general shareholders' meeting.

The Committee shall be obliged to notify the Board of Directors of its work in the period between annual general shareholders' meetings upon additional request from the Board of Directors, deadlines for providing information to be determined by the Board of Directors.

## **5. Membership of the Committee**

The Committee shall consist of no less than four members, three of them to be independent members of the Board of Directors.

Chairman of the Committee shall be appointed by the Board of Directors from independent members of the Board of Directors for the term of office of the Board of Directors.

Members of the Committee shall be appointed by the Board of Directors upon presentation of the Chairman of the Committee.

Powers of all (or any part) of the members of the Committee can be terminated earlier by decision of the Board of Directors. Any member of the Committee may submit an application to the Chairman of the Committee on laying down his/her obligations of the member of the Committee. The Chairman of the Committee shall initiate including an item on appointing a new member of the Committee or approving a lesser membership of the Committee into agenda of the nearest meeting of the Board of Directors.

Candidates to the members of the Committee must have impeccable reputation, tertiary education, and experience of working in managerial positions in the field of production, management or economics.

Responsibility for organization of the Committee's work shall rest on its Chairman who shall:

- call meetings on his/her own initiative or upon proposal of members of the Committee or executive bodies of the Company and chair them;
- develop long term work plan and meetings schedule;
- form agenda for the meetings;
- arrange for keeping minutes;
- ensure control of fulfillment of decisions made; and
- maintain necessary functional relations with the Company's executive bodies.

Secretary of the Committee shall be appointed by decision of the Committee. One of the Committee members, one of the members of the Board of Directors staff, or a member of the Company's staff may be appointed to be Secretary of the Committee.

## **6. Procedure for the Committee's Work**

The first meeting of the Committee shall be conducted not later than 30 days following appointment of the Chairman and the new membership of the Committee.

Meetings of the Committee shall be conducted in compliance with the Committee's work plan.

Extraordinary meetings may be conducted upon request of the Board of Directors and/or Chairman of the Committee.

Decision on conducting a meeting of the Committee, date, time, and place of conducting it, agenda and list of persons to be invited to the meeting shall be made by the Chairman of the Committee.

A meeting of the Committee shall be deemed qualified provided not less than half of the elected membership of the Committee take part in it.

A meeting of the Committee can be conducted in the form of joint presence of the Committee members and in the form of absentee voting.

In the event a meeting is conducted in the form of joint presence, members of the Committee not in the position to attend the meeting for excusable reasons may send the Chairman of the Committee their written absentee opinions on items on the meeting agenda.

When making decisions on items on the meeting agenda, each member of the Committee shall have one vote, a decision to be made by a simple majority of the votes of members of the Committee participating in the meeting. In the event there is equality of votes, the Chairman of the Committee shall have a casting vote.

On the matters falling within the Committee's competence as provided for in this Bylaw, the Committee shall draw conclusions that have to reflect opinions of the Committee as a whole and the Committee's inferences and recommendations on a specific matter in question.

Minutes of a meeting shall be prepared not later than three days following conducting it and signed by the Chairman of the Committee. The minutes shall specify:

- date, time, and place of conducting;
- list of members of the Committee participated in the meeting (including those sent their written absentee opinions);
- list of persons invited for the meeting and taken part in it;
- agenda; and
- decisions made.

Materials and documents approved by the Committee shall be attached to the minutes.

- 6.10. The Committee shall inform the Board of Directors on decisions made in the course of the Committee's work at a meeting of the Board of Directors following the completion of the Committee's work.
- 6.11. To ensure the Committee's work, respective expenditures may be provided for within the allowance budget for the Board of Directors. Proposals on amount of expenditures shall be considered at the Committee's meeting and presented to the Board of Directors for subsequent considering and approving them.

## **7. Liability of the Committee**

- 7.1. Members of the Committee shall be liable in accordance with the provisions of the Federal Law *On Joint Stock Companies*, the Charter, Code of Business Conduct and Ethics, and other internal documents of the Company.

## **8. Final Provisions**

This Bylaw shall become effective from the moment of approving it by decision of the Board of Directors.

This Bylaw shall be in effect unless the Board of Directors makes a decision to amend it or a decision to acknowledge it inoperative.

This Bylaw may be amended by decision of the Board of Directors.

In the event the provisions of this Bylaw contradict to the requirements of the Russian Federation legislation in effect, provisions of the Russian Federation legislation shall apply.

In the event the provisions of this Bylaw contradict to the requirements of the Charter or the Bylaw on the Board of Directors, provisions of the Charter and the Bylaw on the Board of Directors of the Company shall have priority.

Responsibility for bringing this Bylaw in compliance with the requirements of the effective Russian Federation legislation, the Charter, and the Bylaw on the Board of Directors shall rest on the Chairman of the Board of Directors of the Company

Invalidation of any one of the clauses of this Bylaw shall not result in the invalidation of any other clauses hereof.