

**Approved by resolution of the Board of Directors
of Mechel Steel Group OAO
October 14, 2004**

**BYLAW
On the Audit Committee of the Board of Directors
of Mechel Steel Group OAO**

1. General Provisions

This Bylaw sets forth the powers and responsibilities of the Audit Committee of the Board of Directors (hereinafter the “Audit Committee”) in accordance with the laws of the Russian Federation, the regulations of the New York Stock Exchange, the U.S. Securities and Exchange Commission (the “SEC”), and other exchanges on which the Company’s securities are traded, the Company’s Charter, the Bylaw on the Board of Directors, and other normative documents.

2. Purpose and Objectives of the Audit Committee

The purpose of the Audit Committee is to assist the Board of Directors (the “Board”) with its oversight responsibilities regarding: (i) the quality and integrity of the Company’s financial statements; (ii) the Company’s compliance with legal and regulatory requirements; (iii) the independent auditor’s qualifications and independence; and (iv) the performance of the Company’s internal audit function and independent auditor.

The Audit Committee’s responsibility is limited to oversight. It is not the responsibility of the Audit Committee to plan or conduct audits or to determine that the Company’s financial statements and disclosure are complete and accurate and are in accordance with generally accepted accounting principles and applicable laws, rules and regulations. These are the responsibilities of management, the internal audit function and the independent auditor.

3. Formation of the Audit Committee. Membership of the Audit Committee

The members of the Audit Committee, including the Chair of the Audit Committee, shall be elected by the Board. The Board may at any time reelect members of the Audit Committee, with or without giving cause.

The Audit Committee shall consist of no fewer than three members of the Board. Each Audit Committee member shall be financially literate. In addition, at least one member of the Audit Committee shall have accounting or related financial management expertise (hereinafter called the “Financial Expert”) as required by the rules of the New York Stock Exchange and the SEC.

Each Audit Committee member must have the status of independent director pursuant to the Company’s Charter and internal documents and other requirements of the New York Stock Exchange and the SEC.

4. Meetings and Procedures of the Audit Committee

The Chair (or in his absence, a member designated by the Chair) shall preside at each meeting of the Audit Committee and set the agendas for Audit Committee meetings. The Audit Committee shall have the authority to establish its own rules and procedures for notice and conduct of its meetings so long as they are not inconsistent with any provisions of the Company’s Charter and other internal regulations.

Each Audit Committee member shall have one vote in the adoption of resolutions. The transfer of a vote from one Audit Committee member to any other person, including another Audit

Committee, is prohibited. In case of a tie in voting on a resolution, the Chair of the Committee shall have a casting vote.

Minutes shall be kept at meetings of the Audit Committee. The minutes of a meeting shall be prepared no later than 3 days after the meeting and be signed by all persons who attended the meeting.

The Audit Committee shall meet as necessary, but at least once during each fiscal quarter. The Audit Committee shall periodically hold separate meetings with management, with the head of the internal audit function (the “internal auditor”) and with the independent auditor.

All directors who are not members of the Audit Committee may attend and observe meetings of the Audit Committee, but shall not participate in any discussion or deliberation without the consent of the members of the Audit Committee, and shall not be entitled to vote. The Audit Committee may, at its discretion, invite to its meetings members of the Company’s management, representatives of the independent auditor, employees of the internal auditor function, any other financial personnel employed or retained by the Company or any other persons whose presence the Audit Committee believes to be necessary or appropriate. The Audit Committee may retain any independent counsel, experts or advisors (accounting, financial or otherwise) that the Audit Committee believes to be necessary or appropriate. The Audit Committee may also utilize the services of the Company’s regular legal counsel or other advisors to the Company. The Company shall provide for appropriate funding, for payment of compensation to the independent auditor for the purpose of rendering or issuing an audit report or performing other audit, review or attest services, for payment of compensation to any advisors employed by the Audit Committee and for ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties.

The Audit Committee may conduct or authorize investigations into any matters within the scope of the powers and responsibilities assigned to the Audit Committee.

5. Powers and Responsibilities

Interaction with the Independent Auditor

1. *Appointment and Oversight.* The Audit Committee shall be directly responsible for the obligatory annual election of the independent auditor and compensation and oversight of the work of the independent auditor (including resolution of any disagreements between Company management and the independent auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or related work or performing other audit, review or attest services for the Company, and the independent auditor shall report directly to the Audit Committee.
2. *Pre-approval of Services.* Before the independent auditor is engaged by the Company or its subsidiaries to render audit or non-audit services, the Audit Committee shall pre-approve the engagement. Audit Committee pre-approval of audit and non-audit services will not be required if the engagement for the services is entered into pursuant to pre-approval policies and procedures established by the Audit Committee regarding the Company’s engagement of the independent auditor, provided the policies and procedures

are detailed as to the particular service, the Audit Committee is informed of each service provided and such policies and procedures do not include delegation of the Audit Committee's responsibilities to the Company's management. The Audit Committee may assign to one or more designated members of the Audit Committee the authority to grant pre-approvals, provided such approvals are presented to the Audit Committee at a subsequent meeting. If the Audit Committee elects to establish pre-approval policies and procedures regarding non-audit services, the Audit Committee must be informed of each non-audit service provided by the independent auditor. Audit Committee pre-approval of non-audit services (other than review and attest services) also will not be required if such services fall within available exceptions under applicable law.

3. *Independence of Independent Auditor.* The Audit Committee shall annually review the independence of the independent auditor, ascertain that the independent auditor meets statutory requirements, and review quality control procedures for the work of the independent auditor and the experience and qualifications of the independent auditor's senior personnel that are providing audit services to the Company. In conducting its review:
 - (i) The Audit Committee shall obtain and review the independent auditor's opinion on the Company's financial and business results, describing (a) the auditing firm's internal quality-control procedures and (b) any material issues raised by the most recent internal quality-control review, review by an auditing firm, or any inquiry or investigation by governmental authorities or professional organizations within the preceding five years, respecting one or more independent audits carried out by an auditing firm, and any steps taken to deal with any such issues.
 - (ii) The Audit Committee shall discuss with the independent auditor its independence from the Company and obtain and review a written statement prepared by the independent auditor describing all relationships between the independent auditor and the Company, and consider the impact that any relationships or services may have on the objectivity and independence of the independent auditor.
 - (iii) The Audit Committee shall confirm with the independent auditor that the independent auditor is in compliance with the partner rotation requirements established by the SEC.
 - (iv) The Audit Committee shall consider whether the Company should adopt a rotation of the annual audit among independent auditing firms.
 - (v) The Audit Committee shall, if applicable, consider whether the independent auditor's provision of any permitted information technology services or other non-audit services to the Company is compatible with maintaining the independence of the independent auditor.

Annual Financial Statements and Annual Audit

4. *Meetings with Management, the Independent Auditor and the Internal Auditor.*

- (i) The Audit Committee shall meet with management, the independent auditor and the internal auditor in connection with each annual audit to discuss the scope of the audit, the procedures to be followed and the staffing of the audit.
- (ii) The Audit Committee shall review and discuss with management and the independent auditor: (A) major issues regarding accounting principles and financial statement presentations, including any significant changes in the Company's selection or application of accounting principles, and major issues as to the adequacy of the Company's internal controls and any special audit steps adopted in light of material control deficiencies; (B) any analyses prepared by management or the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements, including analyses of the effects of alternative GAAP methods on the Company's financial statements; and (C) the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the Company's financial statements.
- (iii) The Audit Committee shall review and discuss the annual audited financial statements with management and the independent auditor, including the Company's specific disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations," if any.

5. *Separate Meetings with the Independent Auditor.*

- (i) The Audit Committee shall review with the independent auditor any problems or difficulties the independent auditor may have encountered during the course of the audit work, including any restrictions on the scope of activities or access to required information or any significant disagreements with management and management's responses to such matters. Among the items that the Audit Committee should consider reviewing with the Independent Auditor are: (A) any accounting adjustments that were noted or proposed by the auditor but were "passed" (as immaterial or otherwise); (B) any communications between the Company's internal audit function and the independent auditor respecting auditing or accounting issues presented by the engagement; and (C) any "management" or "internal control" letter issued, or proposed to be issued, by the independent auditor to the Company.
- (ii) The Audit Committee shall discuss with the independent auditor any report that the auditor is required to make to the Audit Committee.
- (iii) The Audit Committee shall discuss with the independent auditor the matters required to be discussed by the independent auditor with the Audit Committee under any accounting or auditing standards.

Interim Financial Statements

6. *Meetings with Management and the Independent Auditor.* The Audit Committee shall review and discuss the interim financial statements with management and the independent auditor, including the Company's specific disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations," if any.

Internal Audit Function

7. *Appointment.* The Audit Committee shall issue recommendations to the Company's management on the appointment and replacement of employees of the internal audit function.
8. *Separate Meetings with the Internal Audit Function.* The Audit Committee shall meet periodically with the Company's internal auditor to discuss the responsibilities, budget and staffing of the Company's internal audit function and any issues that the internal auditor believes warrant the Audit Committee's attention. The Audit Committee shall discuss with the internal auditor any significant reports to management prepared by the internal audit function and any responses from management.

Other Powers and Responsibilities

9. The Audit Committee shall discuss the Company's earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies. The Audit Committee's discussion in this regard may be general in nature (i.e., discussion of the types of information to be disclosed and the type of presentation to be made) and need not take place in advance of each earnings release or each instance in which the Company may provide earnings guidance.
10. The Audit Committee shall discuss with management any related-party transactions brought to the Audit Committee's attention which could reasonably be expected to have a material impact on the Company's financial statements.
11. The Audit Committee shall discuss with management any correspondence from or with regulators or governmental agencies, any employee complaints or any published reports that raise material issues regarding the Company's financial statements, financial reporting process, accounting policies or internal audit function.
12. The Audit Committee shall discuss with the Company's Senior Vice President (General Counsel) or outside counsel any legal matters brought to the Audit Committee's attention that could reasonably be expected to have a material impact on the Company's financial statements.
13. The Audit Committee shall discuss with management the Company's policies with respect to risk assessment and risk management. The Audit Committee shall discuss with management the Company's significant financial risk exposures and the actions management has taken to limit, monitor or control such exposures.

14. The Audit Committee shall set clear hiring policies for employees or former employees of the Company's independent auditor.
15. The Audit Committee shall establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters. The Audit Committee shall also establish procedures for confidential and anonymous submissions by employees regarding questionable accounting or auditing matters.
16. The Audit Committee, through its Chair, shall report regularly to, and review with, the Board any issues that arise with respect to the quality or integrity of the Company's financial statements, the Company's compliance with statutory or regulatory requirements, the performance and independence of the Company's independent auditor, the performance of the Company's internal audit function or any other matter the Audit Committee determines is necessary or advisable to report to the Board.
17. The Audit Committee shall at least annually perform an evaluation of the performance of the Audit Committee and its members, including a review of the Audit Committee's compliance with this Bylaw, and present a report to the Board of Directors.
18. The Audit Committee shall at least annually review and reassess this Bylaw and submit recommendations on changes, if necessary, to the Board for its consideration.