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Annex 7

**A MODEL BY-LAW FOR THE SUPERVISORY BOARD'S  
AUDIT COMMITTEE**

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APPROVED

By decision of the Supervisory Board  
of the Open Joint Stock Company «\_\_\_\_\_»

Supervisory Board Minutes

No. \_\_\_\_\_  
of \_\_\_\_\_ 200\_

Signature of the Chairman of the Supervisory Board

\_\_\_\_\_  
dated this \_\_day of \_\_\_\_\_, 200\_  
[The Company's Seal]

**BY-LAW FOR THE SUPERVISORY BOARD'S AUDIT COMMITTEE**

of the Open Joint Stock Company  
«\_\_\_\_\_»

The city of \_\_\_\_\_  
\_\_\_\_\_, 200\_



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## Article 1. General Provisions

- 1.1. This By-law for the Audit Committee (hereinafter the By-law) of the Supervisory Board of the Open Joint Stock Company «\_\_\_\_\_» (hereinafter the Company) has been drafted in accordance with the laws of the Russian Federation (hereinafter the Law), the charter of the Company and other internal corporate documents, and relevant recommendations of the Federal Commission for the Securities Market's Code of Corporate Conduct (hereinafter the FCSM Code).
- 1.2. The By-law shall define the authority of the Supervisory Board's Audit Committee (hereinafter the Committee) and its members, and further, shall define the rights and responsibilities of the Committee's members, election, composition, and dismissal of Committee members, meeting procedures, as well as the remuneration of Committee members.
- 1.3. The Committee has been established to assist the Supervisory Board in performing its guidance and oversight functions effectively and efficiently, and is specifically charged with ensuring the integrity of the Company's financial statements, internal control policies and procedures, interacting with the External Auditor, and internal audit policies and procedures.
- 1.4. All proposals developed by the Committee are recommendations only and thus non-binding to the Supervisory Board.

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### Article 2. Authority

- 2.1. The following issues shall fall within the authority of the Committee:
  - 2.1.1. As to financial accounting and reporting, to:
    - 2.1.1.1. Provide assistance during the organization and preparation of the Company's financial statements and accounts, and to ensure the veracity, transparency, and completeness of the financial information disclosed by the Company;
    - 2.1.1.2. Ensure compliance with the Company's accounting policies and practices as applied in the Company's financial reports, and evaluate and rate such practices as either aggressive, balanced and appropriate, or conservative;
    - 2.1.1.3. Identify and review significant accounting and reporting issues, including any recent professional and regulatory provisions from oversight authorities, and assess and understand their impact on the financial reports of the Company;
    - 2.1.1.4. Oversee the periodic financial reporting process implemented by management, and review the interim and annual financial statements of the Company as well as review preliminary announcements prior to their release or publication;
    - 2.1.1.5. Develop and make recommendations to the Revision Commission regarding the Company's overall accounting policy, and specifically, develop recommendations for an analysis of the Company's financial reports and assessments, and the results of any audits conducted; and
    - 2.1.1.6. Develop and make recommendations to the Revision Commission for the annual report prior to its approval by the Supervisory Board of the Company, including the full set of financial statements, including notes, and management's discussion and analysis.
  - 2.1.2. As to internal control and risk management, to:
    - 2.1.2.1. Develop and review the major risks faced by the Company, including financial, operational, and legal risk, and

- the guidelines and policies which management has implemented to govern the process of identifying, assessing, treating, and periodically reviewing such exposures;
- 2.1.2.2. Develop recommendations regarding the development, improvement, refinement, and expansion of a control environment within the Company;
  - 2.1.2.3. Conduct assessments of the general efficiency of internal control and risk management systems, including budgeting and staffing matters, as well as exercise control over management's compliance with the recommendations of the Internal and External Auditors; and
  - 2.1.2.4. Coordinate management's efforts to ensure the security of computer systems and applications, and develop and coordinate contingency plans for processing financial information in the event of a complete systems breakdown or failure with the help of the Company's IT staff.
- 2.1.3. As to working and interacting with the External Auditor, to:
- 2.1.3.1. Develop recommendations on the selection of an External Auditor, including a review of that Auditor's professional qualifications and independence, the potential risk of conflicts of interests, as well as the Auditor's fees;
  - 2.1.3.2. Conduct an annual review of the performance of the External Auditors, and make recommendations to the Supervisory Board on the appointment, reappointment, or termination of the External Auditor's contract;
  - 2.1.3.3. Work with the External Auditor to coordinate the scope, plan, and procedures to be followed for the current year's audit taking into consideration both the Company's present circumstances and any applicable changes in legislation and other regulatory requirements;
  - 2.1.3.4. Work to resolve any problems encountered in the normal course of the External Auditor's work, including any restrictions on the scope of the audit or access to information;
  - 2.1.3.5. Discuss any significant findings or recommendations made by the External Auditor and management's proposed

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- response thereto, as well as any other appropriate actions to be taken based on such recommendations;
- 2.1.3.6. Conduct separate meetings with the External Auditor to discuss any matters that the Committee or the Auditor believes should be discussed privately, and ensure that the Auditors have access to the Chairman of the Committee when required;
  - 2.1.3.7. Develop recommendations on the Company's policy for the assignment of non-audit tasks and services to be provided by the External Auditor and, as need be, develop a framework for the pre-approval of both audit and non-audit services;
  - 2.1.3.8. Review and discuss with the External Auditor any transaction involving the Company and a related party;
  - 2.1.3.9. Develop recommendations regarding a policy for hiring personnel from audit firms for senior positions in the Company after they have left the audit firm; and
  - 2.1.3.10. Consider whether it is appropriate to adopt a policy of insisting upon the rotation of the External Auditor's lead audit partner or rotating the External Auditor on a periodic basis.
- 2.1.4. As to the internal audits, to:
- 2.1.4.1. Conduct separate meetings with Revision Commission members, and develop joint recommendations regarding the significant issues and matters concerning the Company's financial and economic activities, and ensure that the chairman of the Revision Commission has access to the Chairman of the Committee when required;
  - 2.1.4.2. Develop recommendations for the establishment and staffing, as well as the budget and independence of an Internal Auditor;
  - 2.1.4.3. Conduct assessments of the Internal Auditor's performance, including the objectivity and authority of its reporting obligations, the proposed audit plans for the coming year, and the results of internal audits, and

- develop recommendations for improving its efficiency;  
and
- 2.1.4.4. Review the internal audit reports and develop recommendations for the Company's internal audit plans, and further, initiate and carry out both extraordinary and specifically targeted audits.
- 2.1.5. As to the legal framework and compliance, to:
  - 2.1.5.1. Establish procedures for reviewing and handling complaints or concerns received by the Company regarding the internal control process, financial accounting and reporting, or the external audit; and
  - 2.1.5.2. Enable employees to submit concerns confidentially and anonymously, and review the disclosure of any frauds that involve management or other employees with significant roles in internal control.

### Article 3. Rights and Responsibilities

- 3.1. The Committee shall have the following rights:
  - 3.1.1. Request documents, reports, explanations, and other relevant information from the officers, executives, and employees of the Company [including the Company's strategy advisors];
  - 3.1.2. Invite the Company's officers, executives, and employees, as well as the Company's strategy advisors, to its meetings as observers to question them, and seek explanations and clarifications;
  - 3.1.3. Utilize the services of outside consultants, experts, and advisers;
  - 3.1.4. Perform special investigations as required, and utilize the services of independent experts in doing so; and
  - 3.1.5. Perform any other duties required by the Supervisory Board within the scope of the authority of the Committee as set forth herein.
- 3.2. The Committee shall conduct an annual review and assessment of the By-law in conformity with established requirements, and make recommendations to the Supervisory Board regarding any amendments hereto it deems appropriate.

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- 3.3. The Committee shall report to the Supervisory Board on a regular basis, but not less than once every quarter. The Committee shall make such report to the Supervisory Board as soon as feasible after every meeting.
- 3.4. Further, Committee members shall:
  - 3.4.1. Participate in the activities and work of the Committee, and attend all its meetings;
  - 3.4.2. Treat all information that became known to them in the course of performing their official duties as confidential information;
  - 3.4.3. Inform the Supervisory Board of any changes in their independent status or any conflict of interest regarding decisions to be made by the Committee; and
  - 3.4.4. Conduct annual reviews and assessments of the Committee activities and its members, including a review of the Committee's compliance with the By-law.

### **Article 4. Election, Composition, and Dismissal**

- 4.1. The Committee shall consist of \_\_\_ members and shall be elected by a majority vote of all Supervisory Board members.
- 4.2. The term of office of the Committee shall coincide with the term of office for the Supervisory Board.
- 4.3. Only Supervisory Board members may be elected members of the Committee.
- 4.4. Members of the Committee must possess the necessary knowledge and experience in the areas of financial accounting and reporting, and skills in interacting with the Company's senior executives, External Auditor, and other relevant parties.
- 4.5. The Supervisory Board shall, whenever possible, elect only independent directors to the Committee. If this is not feasible for whatever reason, the Committee shall be chaired by an independent director and have at least one other member who is an outside director.
- 4.6. The General Director, Executive Board members, and other executives may not be members of the Committee.
- 4.7. The Supervisory Board may, at any time, dismiss any member of the Committee, or re-elect the entire Committee.

### Article 5. Meeting Procedures

- 5.1. The Committee shall be headed by a Chairman, who shall be elected by a simple majority vote of the Committee's members.
- 5.2. The Corporate Secretary of the Company shall act as the Secretary of the Committee unless and until one of the Committee members is so elected.
- 5.3. Meetings shall be the principal form utilized for carrying out the work and activities of the Committee.
- 5.4. Meetings may be conducted whenever and as often as necessary to properly carry out the Committee's functions and duties in a timely manner. However, at a minimum, the Committee should conduct not less than one meeting every three month(s). If a meeting of the Supervisory Board is to be conducted in which an issue within the Committee's authority is at issue, then a meeting of the Committee should be conducted no later than \_\_\_\_ days before such meeting of the Supervisory Board.
- 5.5. Meetings may be called by the Chairman of the Committee, any member of the Committee, or by decision of the Supervisory Board.
- 5.6. Additional meetings may be called at any time when necessary. The Secretary shall be responsible for calling such meetings when requested by either an Internal or External Auditor.
- 5.7. Meetings may be conducted when the members are physically present or by written consent of those members not physically able to attend and, further, may be conducted in the form of either video- or audio-conferences.
- 5.8. A quorum shall be deemed present at any meeting of the Committee if at least one-half of the Committee members are present.
- 5.9. The Secretary of the Committee shall be responsible for giving advance notice to all of the Committee members of the meeting and its agenda, and ensuring the availability of all necessary information regarding all of the items included on such agenda not less than \_\_\_\_ days prior to such meeting.<sup>107</sup> Additionally, the notice shall be given in any form deemed convenient and agreed upon by the Committee members, e.g. by telephone, fax, ordinary, or electronic mail.
- 5.10. The minutes of Committee meetings shall be signed by all members present.

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<sup>107</sup> Good practice suggests two weeks.



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- 5.11. Upon the conclusion of discussions regarding any particular issue, the Committee shall draft a written opinion to be signed by all members of the Committee, and such written opinion shall then be submitted to the Chairman of the Supervisory Board or the Corporate Secretary as required by the Company's internal documents. Any member of the Committee having a dissenting opinion should submit such opinion together with the majority opinion of the Committee.
- 5.12. The Committee shall make decisions by a majority vote of members participating in the meeting.

### **Article 6. Remuneration**

- 6.1 The procedures for paying, and the amount of any such remuneration, shall be determined in accordance with the corresponding provisions of the By-laws for the Supervisory Board.