

*Approved  
by the Board of Directors  
of RAO UES of Russia  
on December 14, 2005*

## **1. General Provisions**

1.1. The Audit Committee under the Board of Directors of RAO UES of Russia (hereinafter referred to as the "Audit Committee") shall be a consultative and advisory body formed by the Board of Directors and guided by applicable law, the Company Charter, the Code of Corporate Governance of the Company, the Regulations for the Board of Directors, these Regulations and other by-laws of the Company.

1.2. These Regulations shall be the baseline document describing the legal status, purpose and objectives, powers, responsibilities, structure and composition of the Audit Committee.

## **2. Purpose and Objectives of the Audit Committee**

2.1. The purpose of the Audit Committee shall be to render assistance to the Board of Directors of the Company in:

2.1.1. Selection of external auditors of the Company through the engagement of members of the Audit Committee in the Tender Commission charged with the selection of an auditor to perform the compulsory annual audit of the Company in accordance with applicable regulations of the Russian Federation based on professional expertise of external auditors, the quality of their performance and compliance with independence requirements;

2.1.2. Supervision over the annual independent audit of the Company's consolidated financial statements and the Company's financial statements prepared in conformity with the International Accounting Standards and the Company's accounts prepared in conformity with the Russian Accounting Standards (hereinafter collectively referred to as the "Company Accounts") including the issue of the Company auditor's opinion;

2.1.3. Supervision over the preparation by the Company executive bodies of the Company Accounts which are true and fair;

2.1.4. Supervision over the Company's systems of internal accounting and financial control and the Company's internal audit service;

2.1.5. Supervision over the Company's systems of control over compliance with applicable law and regulations;

2.1.6. Other matters according to decisions of the Board of Directors.

## **3. Powers of the Audit Committee**

Subject to its objectives the Audit Committee shall exercise the following powers:

- 3.1. Conduct surveys of any matters within its terms of reference;
- 3.2. Obtain from the Company officers information and documents and obtain information and documents from subsidiaries and affiliated companies (SAC) through a body or person authorized to represent the Company with SAC as shareholder thereof;
- 3.3. Request from outside entities information and documents relating to its terms of reference;
- 3.4. When necessary, secure attendance at meetings of the Audit Committee of members of the Board of Directors, members of the Company executive bodies, managers of the Company divisions, other persons;
- 3.5. When necessary, engage external legal, accounting and other advisers under contracts.

#### **4. Support of Activities of the Audit Committee**

- 4.1. The Audit Committee shall administer the funds required for its activities.
- 4.2. To support activities of the Audit Committee the Company budget expenditures shall contain a separate item. Expenses of the Audit Committee shall include inter alia remuneration of Chairman and members of the Committee including those who are not members of the Board of Directors, external adviser fees, administrative expenses, compensations payable to members of the Audit Committee (paragraph 4.3) and other expenses.
- 4.3. Upon resolution of the Audit Committee Chairman of the Audit Committee, Deputy Chairman of the Audit Committee, members of the Audit Committee may hold meetings on matters within their terms of reference with representatives of the investment community both within and outside the Russian Federation.

In case of such meetings members of the Audit Committee shall be:

- paid daily subsistence allowance at the rates established for employees of the Company executive bodies;
- compensated travelling expenses to and from the place of the meeting:
- by air — in business class;
- by railway — in "SV" class cars;
- by motor transport (except taxi and rented cars) — at prevailing local rates;
- compensated the cost of hotel reservation and accommodation including extra services (insurance, refrigerator except mini-bar, TV set except pay-per-view TV programs) — at actual cost.

Daily subsistence allowances and compensations payable to members of the Appraisal Committee in connection with the meetings referred to above shall be charged to the relevant item of expenses of the Company budget within one month of the quarter during which such meetings were held.

Compensations payable to Chairman, Deputy Chairman and members of the Audit Committee being civil servants shall be duly transferred to the federal budget.

4.4. Remuneration of members of the Audit Committee shall be approved by the Audit Committee upon recommendation of Chairman of the Audit Committee.

4.5. Remuneration of Chairman of the Audit Committee shall be established by the Board of Directors of the Company.

## **5. Composition, Structure and Proceedings of the Audit Committee**

5.1. The composition of the Audit Committee shall not exceed seven members. Nominees to the Audit Committee shall be approved by the Board of Directors on recommendation of Chairman of the Audit Committee.

5.2. Members of the Audit Committee may only be members of the Company Board of Directors who are independent directors\* or, when that is impossible for objective reasons, only independent and-non-executive members\*\* of the Board of Directors.

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*\* Members of the Company Board of Directors meeting requirements of paragraph 2, Appendix No. 1 to the Regulations for Organization of Securities Market Trade approved by Order of the Russian Federal Service for Financial Markets No. 04-1245/pz-n of December 15, 2004.*

*\*\* Members of the Board of Directors other than the Company's sole executive body and/or members of the Company's collective executive body.*

5.3. Chairman of the Audit Committee shall organize activities of the Audit Committee, convene and chair meetings of the Audit Committee, cause minutes of such meetings to be maintained and report to the Board of Directors on the performance of the Audit Committee.

5.4. If Chairman of the Audit Committee is absent at meetings and in intervals between meetings or is unable to perform his duties shall be vested in Deputy Chairman of the Audit Committee. Deputy Chairman of the Audit Committee shall be elected by simple majority vote of members of the Audit Committee.

5.5. Chairman, Deputy Chairman and any member of the Audit Committee may be removed upon resolution of the Board of Directors.

Chairman, Deputy Chairman and members of the Audit Committee may retire upon a notice to Chairman of the Board of Directors to be given at least Thirty (30) days before the proposed date of retirement.

5.6. Meetings of the Audit Committee shall be held as necessary but at least once a month. Decisions of the Audit Committee shall be valid (a quorum shall be deemed present) if the meeting is attended by at least half of the full Audit Committee.

5.7. Decisions of the Audit Committee shall only be adopted by simple majority vote of members present at the meeting or in writing if a meeting is held by absentee vote. In case of a tie vote on any issue chairman shall have the casting vote.

5.8. The Audit Committee shall approve an annual plan of activities. In addition to meetings provided for by the plan of activities Chairman of the Audit Committee may convene extraordinary meetings on his own initiative or when requested by the external auditor, the internal audit service, the Auditing Commission or the Board of Directors of the Company. The Board of Directors shall approve the Rules of Procedure of the Audit Committee and the Procedure of Cooperation between the Audit Committee and management bodies, structural divisions, subsidiaries and affiliated companies of the Company and other entities and individuals.

5.9. To provide for the preparation of complete and adequate materials for its meetings the Audit Committee may form the Expert Teams. Proceedings and objectives of the Expert Teams shall be determined by the Audit Committee.

The Expert Teams shall comprise the Experts of the Audit Committee and may comprise members of the Audit Committee.

Nominees to the Experts of the Audit Committee shall be recommended by Chairman of the Audit Committee and approved by the Board of Directors.

Remuneration of the Experts of the Audit Committee shall be approved by the Audit Committee on recommendation of Chairman of the Audit Committee.

## **6. Duties of the Audit Committee**

The Audit Committee shall:

### **6.1. External auditors and their services**

6.1.1. Take part in the definition of the terms of bidding by audit companies for the performance as the Company auditor, the preparation by the Board of Directors of the recommendations for nominees to and remuneration of the Company external auditor through the engagement of members of the Audit Committee in the Tender Commission charged with the selection of an auditor to perform the compulsory annual audit of the Company.

6.1.2. Develop the policy and procedures of preliminary approval of any auditing and non-auditing services rendered to the Company by external auditors. The Audit Committee shall provide for preliminary approval of services of the Company external auditors subject to the policy and procedures approved by the Board of Directors.

6.1.3. Perform regular reviews of: (a) consistency of the existing policy and procedures of preliminary approval by the Audit Committee of the Company external auditors to perform auditing and non-auditing services with the requirement for auditor independence; (b) consistency of preliminarily approved auditing and non-auditing services with the policy and procedures of the Audit Committee; (c) remuneration payable to the Company external auditors for the performance of preliminarily approved auditing and non-auditing services.

6.1.4. In cooperation with external auditors perform regular reviews of: (a) the scope of independent audit of the Company Accounts; (b) findings of external audit of the Company Accounts; (c) any material defects in the structure and implementation of internal accounting and financial control procedures discovered by the Company external auditors and recommendations for the correction

thereof and actions taken by the Company executive bodies; (d) any alternative financial accounting methods within the framework of applicable accounting regulations (standards) which were discussed by external auditors with the Company management including the approval of such alternative accounting and information disclosure methods and methods recommended by the Company outside auditors; (e) other material information developed in cooperation by external auditors and the Company management.

The Audit Committee shall furnish to the Board of Directors information on its activities referred to above including recommendations on relevant matters.

6.1.5. To secure the supervision over independence of external auditors the Audit Committee shall: (a) annually request from external auditors an official written confirmation of their independence of the Company; (b) discuss with external auditors any aspects of relations between such auditors and the Company and the effect thereof on the independence of auditors.

6.1.6. Assess the performance of external auditors in cooperation with members of the Board of Directors and the Company executive bodies, the Auditing Commission and the Company internal audit service.

The assessment of the external audit findings by the Audit Committee shall be included in the information (materials) to be presented to persons entitled to attend the Annual General Meeting of Shareholders.

6.1.7. Exercise supervision over the procedure of selection of the Company and SAC auditors and the compliance of their operations with applicable law.

## **6.2. Financial statements**

6.2.1. Review annual accounts before their presentation to the Board of Directors and interim (quarterly) accounts before disclosure thereof including the assessment of their completeness and consistency with information available to members of the Audit Committee; assess the application of proper accounting principles for the preparation of financial statements. During such review the Audit Committee shall pay special attention to: the disclosure of complex and/or extraordinary transactions; any matters implying professional judgement such as the appraisal of assets and liabilities, disclosure of information on guarantee commitments, environmental responsibilities, provisions for lawsuits and other contingent liabilities.

During the review of the Company Accounts members of the Audit Committee shall meet with the Company management and external auditors to discuss the Company Accounts and audit findings.

6.2.2. In cooperation with internal and external auditors investigate any wrongful acts, defects of the internal control system and other similar issues and assess their impact on the Company Accounts.

6.2.3. Exercise supervision over the development and implementation by the Company and SAC of their accounting policy.

## **6.3. Internal control**

6.3.1. Assess the actions taken by the Company executive bodies to provide for proper internal control in the Company.

6.3.2. Assess major financial risks of the Company and the efficiency of such risks management by the Company executive bodies.

6.3.3. Discuss with the Company executive bodies, internal and external auditors and, when appropriate, external advisers the existence of major risks and the plans of mitigation thereof.

6.3.4. Assess the actions taken by the Company executive bodies to implement recommendation for the internal control system developed by the Auditing Commission, internal or external auditors or external advisers of the Company.

#### **6.4. Internal audit**

6.4.1. Review the scope of activities, organization, budget and efficiency of the Company's internal audit service and prevent unjustified restriction of activities thereof, develop recommendations on the issues referred to herein to be considered by the Board of Directors.

6.4.2. Cooperate with the manager of the internal audit service in the handling of problems relating to activities of the internal audit service.

#### **6.5. Compliance with applicable law and regulations**

6.5.1. Assess the efficiency of control over the compliance with applicable law and regulations, the results of surveys performed by the Company management and the follow-up actions (including disciplinary punishment) taken in respect of any non-compliance.

6.5.2. Obtain from the Company management bodies any requested information on the compliance with applicable law and regulations.

6.5.3. Review the findings of the Company inspections performed by government authorities.

#### **6.6. Other**

6.6.1. Conduct as necessary additional surveys on any matters within its terms of reference.

6.6.2. Develop the procedure of receiving and acting on complaints relating to accounting, internal control, audit (including procedures intended to secure confidentiality of complaints lodged by the Company employees). Regularly review and modify the procedure as necessary.

6.6.3. Determine whether it is necessary to amend these Regulations and prepare relevant amendments to be approved by the Board of Directors.

6.6.4. Perform other duties within its authority as specified by the Board of Directors.

### **7. Confidentiality**

7.1. During the term of office of Chairman, Deputy Chairman and members of the Audit Committee and after expiry thereof any persons who are (were) members of the Audit Committee shall keep confidential any nonpublic information received by them in connection with their activities in the Audit Committee. The nature and scope of such nonpublic information in the context of the Company operations shall be determined by the Board of Directors.

## **8. Performance Reports**

8.1. Chairman of the Audit Committee shall submit annual performance reports of the Audit Committee to the Board of Directors of the Company.

8.2. Chairman of the Audit Committee may also submit to the Board of Directors separate reports on findings of surveys on any matters within authority of the Audit Committee.