

Approved by Resolution
of the Board of Directors
of Open Joint-Stock Company
Obyedinenniye Mashinostroitelniye Zavody
(Uralmash-Izhora Group)
Minutes of the Board Meeting
No. 3, 25 January 2006

**BYLAW ON THE AUDIT COMMITTEE
OF THE BOARD OF DIRECTORS
of Open Joint-Stock Company
Obyedinenniye Mashinostroitelniye Zavody
(Uralmash-Izhora Group)**

Article 1. General Provisions

1.1 This Regulation on the Audit Committee (the "Regulation") of the Open Joint-Stock Company Obyedinenniye Mashinostroitelniye Zavody (Uralmash-Izhora Group) (the "Company") was prepared in accordance with the laws of the Russian Federation, the Code of Corporate Conduct approved at the meeting of the Government of the Russian Federation on November 28, 2001 and recommended by the Federal Commission for Securities Market of the Russian Federation, the Company's Charter and the Regulation on the Board of Directors of the Open Joint-Stock Company Obyedinenniye Mashinostroitelniye Zavody (Uralmash-Izhora Group).

1.2 The Audit Committee of the Board of Directors (the "Audit Committee") is acting in the interests of the Company's shareholders and investors. The goal of the Audit Committee is to increase the efficiency of the system of control over the financial and business activities of the Company and to ensure direct involvement of the Board of Directors of the Company in control over the financial and business activities of the Company.

1.3 The Audit Committee shall have the powers set forth in this Regulation.

1.4 The Audit Committee shall be fully accountable to the Company's Board of Directors concerning all of its activities.

1.5 In its activities the Audit Committee shall follow the laws of the Russian Federation, the Company's Charter, the Regulation on the Board of Directors of the Open Joint-Stock Company Obyedinenniye Mashinostroitelniye Zavody (Uralmash-Izhora Group), this Regulation and other internal documents of the Company approved by the General Shareholders Meetings, the Board of Directors and the Audit Committee of the Company.

1.6 The General Director, the Board of Directors, members of the Audit Commission, managers of the operating units of the Company and other employees of the Company shall, upon demand of the Audit Committee and within the period of time specified by the Audit Committee, provide the required complete and accurate information.

Article 2. Goals and Objectives of the Audit Committee

2.1. The primary objective of creation and activities of the Audit Committee is to ensure efficient control by the Board of Directors of the Company over the financial and business activities of the Company.

Article 3. Competence and Rights of the Audit Committee

3.1. The competence of the Audit Committee includes the following:

- 1) development of recommendations concerning the procedure of preparation of the Company's financial statements and making proposals concerning improvement of such procedure for review by the Board of Directors of the Company;
- 2) preparation of an evaluation of the opinion rendered by the Company's external auditor to be provided as part of the materials to the annual general shareholders meeting of the Company;
- 3) together with the Audit Commission and/or a unit performing the internal control functions, review of proposals and development of recommendations regarding organization of the management of risks to which the Company is exposed in the process of its financial and business activities, and submission of such matters for consideration to the Company's Board of Directors;
- 4) on the basis of assignments given by the Board of Directors of the Company and together with the unit performing the internal control functions, development of internal control procedure and submission of the matters concerning approval of such procedure for review to the Board of Directors of the Company;
- 5) together with the unit performing the internal control functions, review of proposals and development of recommendations concerning improvement of efficiency of the internal control and risk management systems of the Company and submission of such matters for consideration to the Company's Board of Directors;
- 6) review of the plan of audits to be conducted by the unit performing the internal control functions, and submission of such matters for consideration to the Company's Board of Directors;
- 7) review of the annual report on performance of the unit performing the internal control functions and submission of such matters for consideration to the Company's Board of Directors;
- 8) development of recommendations concerning amendment of the internal documents of the Company governing the activities of the unit performing the internal control functions;
- 9) interaction with the Audit Commission and the Company's Auditor;
- 10) drafting instructions of the Board of Directors of the Company on the basis of which the Audit Commission of the Company conducts audits;
- 11) selection of candidates for participation in the tender for selection of the Company's Auditor, evaluation of candidates and provision of opinions to the Company's Board of Directors;

12) development of recommendations on composition and contents of the terms of agreements concluded with the Company's Auditor, including recommendations on the audit fees;

13) submission for review to the Board of Directors of the Company of opinions and recommendations on the matters within the competence of the Audit Committee;

14) review of information on violations in the course of business operations identified by the Audit Commission of the Company and/or the unit performing the internal control functions, submission to the Company's Board of Directors of an opinion regarding the identified violations, including persons guilty thereof, and ways and methods of prevention of similar violations in the future;

15) performance of other assignments of the Board of Directors of the Company in line with the mission of the Audit Committee.

3.2. The Audit Committee may:

- demand and receive the documents from the Audit Commission of the Company and the unit performing the internal control functions in the Company,
- hear reports of the Audit Commission of the Company and the unit performing the internal control functions in the Company;
- submit for review by the Board of Directors of the Company the matters referred to the competence of the Audit Committee.

Article 4. Members of the Audit Committee

4.1 The Committee shall have at least 2 (two) members to be elected by the Company's Board of Directors from among the independent directors of the Company. In cases where election of independent directors to the Audit Committee is impossible due to objective reasons, the Audit Committee shall be formed from the members of the Board of Directors who meet the requirements set forth in clause 2 of Exhibit 1 to the Regulation on Organization of Trading in the Securities Market approved by Order of the FSFM dated December 15, 2004 No. 04-1245/пэ-н (as amended by Order of the FSFM dated June 22, 2005 No. 05-22/пэ-н), and from the members of the Board of Directors of the Company who are not members of the executive bodies of the Company.

The Audit Committee shall be headed by an independent director, and in those cases where it is impossible due to objective reasons, by the director who meets the requirements set forth in clause 2 of Exhibit 1 to the Regulation on Organization of Trading in the Securities Market approved by Order of the FSFM dated December

15, 2004 No. 04-1245/ПЭ-Н (as amended by Order of the FSFM dated June 22, 2005 No. 05-22/ПЭ-Н).

For the purposes hereof, the term "independent director" shall mean a member of the Board of Directors of the Company who qualifies under the definition of an independent director pursuant to the Company's Charter.

4.2 If a member of the Board of Directors of the Company elected to the Audit Committee as an independent director, as a result of certain events ceases to meet the criteria applicable to the independent directors, and if there is a conflict of interests such director shall notify the Board of Directors of the events which affect his status as an independent director.

4.3 Membership on the Audit Committee shall terminate in the following cases:

- 1) retirement from the Audit Committee;
- 2) upon decision of the Board of Directors of the Company;
- 3) voluntary resignation from the Audit Committee by submission of a written notice thereof to the Chairman of the Board of Directors of the Company and the Chairman of the Audit Committee 1 (one) month prior to the date of resignation;
- 4) upon expiration of the term in office of the Board of Directors of the Company.

4.4 If a Board member ceases to be the member of the Audit Committee, the Board of Directors shall at the next meeting, but within 1 (one) month from the date on which such member of the Audit Committee submits a notice on voluntary resignation as an Audit Committee member, elect a replacement Committee member. Until such replacement is elected the member of the Audit Committee continues to perform all of his duties.

4.5 Candidates with relevant professional background shall be given preference as nominees to the Committee.

Article 5. Chairman of the Audit Committee

5.1 The Chairman of the Audit Committee shall be elected by the Company's Board of Directors by a simple majority vote of all the members of the Board of Directors.

Article 6. Secretary of the Audit Committee

6.1 Secretary of the Audit Committee shall be appointed by the Company's Board of Directors from among the persons who are not members of the Board of Directors.

6.2 The Committee's Secretary shall ensure preparation and conducting of the Audit Committee meetings, gathering and keeping of materials for the meetings, timely delivery to the Audit Committee members and invitees of notices of the Audit Committee meetings, keeping the minutes of the meetings.

Article 7. Procedures of the Audit Committee

7.1 Meetings of the Audit Committee shall be conducted in accordance with the plans approved by the Company's Board of Directors.

7.2 The Audit Committee shall operate in the form of meetings. The results of the Audit Committee meetings may take the form of resolutions in the form of opinions and recommendations.

7.3 The Chairman of the Audit Committee shall act on behalf of the Committee on matters falling within the competence of the Audit Committee.

7.4 A decision to convene a meeting of the Audit Committee, the date, time and place of the meeting, and a decision on the list of persons invited to participate in the meeting, shall be made by the Chairman of the Audit Committee pursuant to the plan of meetings of the Audit Committee or as necessary.

7.5 The Auditor, the Chairman of the Audit Commission, Board members, the General Director, the head of the financial directorate of the Company, head of the unit performing the internal control functions and other persons may be invited to participate in the Audit Committee's meetings.

7.6 A notice of the Audit Committee's meeting shall be prepared by the Secretary of the Audit Committee and sent to the persons participating in the meeting.

7.7 Preparation to the meeting of the Audit Committee shall be conducted by the Secretary of the Audit Committee under the supervision of the Chairman of the Audit Committee.

7.8 Submission of matters for consideration by the Audit Committee may be initiated by the Chairman of the Committee, a Committee member, a Board member, the Audit Commission, the head of the unit performing the internal control functions or the Company's Auditor.

7.9 Persons and unit specified in clause 7.8 hereof may submit to the Secretary of the Audit Committee a written proposal to convene a Committee meeting which shall specify the matters which in their view need to be put for consideration of the Audit Committee.

7.10 Within 5 (five) business days from the date on which a proposal to convene a meeting is received, the Chairman of the Audit Committee shall make a decision to convene the Committee meeting and to fix the date, place and time of the meeting or to deny convening an Audit Committee's meeting.

7.11 A motivated decision to deny convening a meeting of the Audit Committee shall be sent to the person or the unit of the Company which proposed to convene such meeting. The decision of the Chairman of the Audit Committee to deny convening a Committee meeting may be made on the following grounds:

- 1) matter(s) proposed for discussion to the Audit Committee are not within its competence hereunder;
- 2) matter(s) proposed for discussion to the Audit Committee have already been included into the agenda of the next planned meeting convened pursuant to a decision of the Chairman of the Audit Committee;
- 3) the form of proposal to convene a meeting established herein was not complied with;
- 4) the person initiating a meeting is not a person or a unit specified in clause 7.8 hereof.

7.12 The Chairman of the Audit Committee may on the basis of a resolution of the Board of Directors use the services of experts and specialists having necessary professional qualifications to review certain matters falling within the competence of the Audit Committee.

Article 8. Accountability of the Audit Committee to the Board of Directors

8.1 The Audit Committee shall provide to the Company's Board of Directors an annual report on the results of its activities at least 2 (two) months prior to the date of the annual shareholders meeting of

the Company. The report of the Audit Committee must contain information on:

- 1) recommendations concerning the nomination of the Company's Auditor;
- 2) evaluation of the opinion issued by the Company's Auditor to be provided as part of the materials to the annual General Shareholders Meeting;
- 3) violations identified during the reporting period;
- 4) opinions and recommendations issued to the Company's Board of Directors regarding various matters of the Audit Committee's activities;
- 5) results of the meetings of the Audit Committee;
- 6) proposals concerning improvement of the risk management system;
- 7) analysis of commercial and other risks related to particular transactions and operations of the Company and assessment of adequacy of the risk control and management system.

Report of the Audit Committee may contain other material information.

8.2 The Board of Directors of the Company shall review the report of the Audit Committee at the next Board meeting, but at least 40 (forty) days prior to the date of the annual General Shareholders Meeting.

8.3 Report of the Audit Committee shall be submitted to the Company's Board of Directors by the Chairman of the Audit Committee.

Article 9. Selection Procedure of the Company's External Auditor

9.1 The Audit Committee shall submit for review to the Board of Directors of the Company its recommendations concerning the candidates to act as the Company's Auditors from among the independent auditors, evaluate candidates and provide its recommendations concerning the fees to be paid to the Company's Auditor.

9.2 The Audit Committee shall propose for review to the Board of Directors the candidates to be selected as auditors to certify the financial statements of the Company prepared under the Russian

accounting standards and the International Financial Reporting System, respectively.

9.3 Recommendations described in clause 9.1 hereof shall be provided by the Audit Committee to the Company's Board of Directors in writing.

Article 10. Confidential Information

10.1 Pursuant to the Regulation on Commercial Secrets of the Company the members of the Audit Committee and the Secretary of the Audit Committee may not use for their personal benefit or disclose confidential information. Third parties shall be admitted to participation in the meetings of the Audit Committee only if they have concluded an agreement on non-disclosure of confidential information with the Company.

Article 11. Approval and Amendment of this Regulation

11.1 This Regulation shall come into force and effect upon its approval by the Company's Board of Directors.

11.2. The Board of Directors of the Company may at its own discretion and upon proposal of the Audit Committee make amendments to this Regulation.