

APPROVED BY:  
Resolution of the Board of Directors  
of HALS-Development JSC  
Minutes No. 3  
September 23, 2011

**Regulations on  
Nomination and Compensation Committee of the Board of Directors  
of Joint Stock Company HALS-Development**

Moscow, 2011

## **1. General**

1.1. These Regulations on Nomination and Compensation Committee of the Board of Directors of HALS-Development JSC (hereinafter, "Regulations") shall be developed and approved in accordance with the laws of the Russian Federation, Articles of Association of HALS-Development JSC (hereinafter, the "Company"), and also the Regulations on the Company's Board of Directors.

These Regulations shall define the status and competence of the Nomination and Compensation Committee of the Company's Board of Directors (hereinafter, the "Committee"), rights and responsibilities of the Committee, the Committee's membership, the procedure for its formation, operation and interaction with the management bodies and structural units of the Company.

1.2. The Committee shall be established under a resolution passed by the Company's Board of Directors and assist in engagement of qualified specialists to management of the Company and formation of stimuli required for their successful work.

1.3. In its work, the Committee shall be completely accountable to the Company's Board of Directors.

1.5. The Committee shall act within the powers vested to it by the Company's Board of Directors pursuant to these Regulations.

1.6. In its work, the Committee shall be guided with the laws of the Russian Federation, Articles of Association of the Company, these Regulations and other internal documents of the Company, resolutions of the General Meeting of the Company's shareholders and those of the Company's Board of Directors.

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

2.1 The main purpose of the Committee shall be working out and presenting recommendations to the Company's Board of Directors on the issues relating to framing the priorities of the Company's policy in:

- remuneration of members of the Company's management bodies, bodies overseeing the financial and economic activity of the Company, CEOs of the major structural units of the Company and any other payments in favor of the said persons at the expense of the Company (including health and life insurance, non-governmental pension security), and also criteria for evaluating their activity;

- social policy, including issues of forming the ethical rules (norms) of conduct in the Company;

- social responsibility;

- environmental safety.

2.2. The Committee's objectives shall be as follows:

2.2.1. To render advisory assistance to the Company's Board of Directors in order to elaborate strategy and form the policy and standards of the Company aimed at engagement of qualified specialists to management of the Company.

2.2.2. To inform members of the Company's Board of Directors on personnel matters and remuneration paid to members of the Company's management bodies, bodies overseeing the financial and economic activity of the Company, CEOs of the major structural units of the Company, to provide for actual participation of the members of the Company's Board of Directors in overseeing the personnel and remuneration structure.

2.2.3. To render advisory assistance to the Company's Board of Directors in order to elaborate the Company's strategy on issues of:

- implementing social programs, providing benefits and guarantees to the Company's employee payable at the Company's expense;
- establishing favorable conditions for oversight by the Company's Board of Directors of spending the Company's funds allocated for social programs;

- ensuring ‘transparency’ and accessibility of social programs implemented by the Company;
- developing the corporate social programs providing the Company’s employees and their families with opportunities in non-governmental pension security, voluntary medical insurance, health improvement, exercises and sports, cultural leisure;
- implementing environmental measures, labor and industrial safety measures;
- providing charitable aid.

2.2.6. To oversee implementation of decisions in the sphere of nomination and remunerations to members of the Company’s management bodies, bodies overseeing the financial and economic activity of the Company, CEOs of the major structural units of the Company, decisions in the sphere of social policy made by the Company’s Board of Directors.

### **3. Rights and Responsibilities (Powers) of the Committee**

3.1. Authorities and powers of the Committee shall include the following functions:

3.1.1. to submit to the Company’s Board of Directors recommendations on priorities of the Company in the sphere of nomination and remunerations to members of the Company’s management bodies, bodies overseeing the financial and economic activity of the Company, CEOs of the major structural units of the Company;

3.1.2. to hold preliminary evaluation of candidates nominated as a sole executive body of the Company, members of a collegiate executive body of the Company, CEOs of the major structural units of the Company with a view to furnish the Company’s Board of Directors with relevant recommendations;

3.1.3. to submit to the Company’s Board of Directors recommendations on material terms and conditions of labor agreements with the Company’s sole executive body, members of the Company’s collegiate executive body;

3.1.4. to analyze progress results generated by members of the management bodies of the Company and bodies overseeing the financial and economic activity of the Company, *inter alia*, in the context of possible increase in their remuneration, including their salary, and their re-election;

3.1.5. to submit to the Company’s Board of Directors of recommendations on the amount of remunerations paid to members of the body overseeing the financial and economic activity of the Company;

3.1.6. to evaluate candidates nominated for election to the Company’s Board of Directors, in terms of their compliance with the qualifications of an independent director;

3.1.7. to perform comparative analysis and inform the Company’s Board of Directors on the policy and programs on remuneration of members of management bodies in other companies;

3.1.8. to perform analysis and inform the Company’s Board of Directors on the priorities in development of social policy implemented by governmental and local authorities, and other companies;

3.1.9. to submit to the Company’s Board of Directors proposals on including into an agenda of the General Meeting of the Company’s Shareholders an issue of the Company’s participation in associations of business entities majoring in social programs;

3.1.10. to participate in oversight and audit of implementation of resolutions passed by the Company’s Board of Directors on matters of the Committee’s functioning.

3.2. In order to discharge the vested powers and authorities, the Committee shall be entitled to request and obtain any information needed for its work from the sole executive body of the Company, members of the collegiate executive body of the Company, CEOs of the structural units of the Company, and other employees of the Company, who possess such information in virtue of their functions. A request for provision of information and documents shall be executed in writing and signed by the Chairman of the Committee.

The above-mentioned information and documents shall be submitted to the Committee via the Secretary of the Committee.

#### **4. Membership of the Committee and Procedure for Election and Removal of the Committee's Members**

4.1. The Committee shall consist of two (2) members to be elected from among independent directors of the Company's Board of Directors and members of the Board of Directors, not being the Company's officials, and shall be headed by an independent director.

Independent directors shall be members of the Company's Board of Directors who:

(1) have not been within the recent 3 years and are not officials (manager) or employees of the Company, as well as officials or employees of the Company's management company;

(2) are not officials of any other business entity, in which any of this Company's officials is a member of the nomination and compensation committee of the board of directors;

(3) are not affiliates of an official (manager) in the Company (an official of the Company's management company);

(4) are not the Company's affiliates, and affiliates of such affiliates;

(5) are not, together with the Company, parties to obligations, under conditions of which they may acquire property (receive cash funds) amounting to 10 and more per cent of the aggregate annual income of the said persons, save remuneration for participation in activity of the Company's Board of Directors;

(6) are not a major counterparty of the Company (a counterparty, an aggregate volume of whose transactions with the Company within a year is 10 or more per cent of the book value of the Company's assets);

(7) are not representatives of the State.

An independent director may not be considered as independent upon expiration of 7 years of being a member of the Company's Board of Directors.

4.2. If on occurrence of certain events s/he ceases to be qualified as an independent director, a member of the Company's Board of Directors elected to the Committee as an independent member should bring to notice of the Company's Board of Directors that s/he has lost such a status, within five (5) business days from the time of losing the status of an independent director of the Committee.

4.3. Members of the Committee shall be elected at a meeting of the newly elected Company's Board of Directors from among members of the Board of Directors. Powers of the members of the Committee shall be terminated concurrently with termination of their powers as members of the Company's Board of Directors. A resolution to elect members of the Committee shall be passed by a simple majority vote of the total membership of the Company's Board of Directors present at the meeting.

4.4. Members of the Committee may be re-elected an unlimited number of times.

4.5. If so decided by the Company's Board of Directors, powers of all or a part of members of the Committee may be terminated ahead of time.

4.6. Authority and powers of the Committee's member shall be terminated ahead of time in the following cases:

4.6.1. If the Committee's member resigns from the office of the Committee's member at his/her own will, having notified accordingly the Chairman of the Company's Board of Directors and the Chairman of the Committee by forwarding a relevant written application one (1) month prior to the date of retirement.

4.6.2. If the Company's Board of Directors removes the Committee's member by its resolution.

4.7. If powers of the Committee's member are terminated in virtue of para.4.6.1. hereof, the Company's Board of Directors shall elect a new member of the Committee at the nearest meeting but not later than one (1) month from the date of forwarding a written application for retirement by the said member of the Committee. Until such time, the Committee's member continues to discharge his/her responsibilities in full.

4.8. If powers of the Committee's member are terminated in virtue of para. 4.6.2. hereof, the Company's Board of Directors shall elect a new member of the Committee at the same meeting.

4.9. For election of the Committee's members, candidates with higher education in law, economics and management, and also with professional experience of work on executive positions.

4.10. Members of the Committee, within their competence, possess unimpaired access to documents and information of the Company subject to adherence to the rules specified by the laws of the Russian Federation, constituent documents and internal documents of the Company.

## **5. Chairman of the Committee and his/her Election Procedure**

5.1. A Chairman of the Committee shall be elected from among of the Committee's members at a meeting of the newly elected Company's Board of Directors. A resolution to elect the Chairman of the Committee shall be passed by a simple majority vote of the total number of members of the Company's Board of Directors present at the meeting. The Board of Directors shall be entitled to re-elect the Chairman of the Committee at any time by a majority vote of the total number of members of the Company's Board of Directors present at the meeting.

5.2. The Chairman of the Committee shall be elected from among independent directors.

5.3. The Chairman of the Committee shall provide for general organization of the Audit Committee activity, in particular, s/he shall:

5.3.1. Call for meetings of the Committee and preside on them.

5.3.2. Approve agendas of the Committee's meetings following the results of discussion with the Committee's members.

5.3.3. Arrange for transacting a business at meetings of the Audit Committee, and also hearing for persons invited to participate in the meeting.

5.3.4. Allocate responsibilities among the members of the Committee.

5.3.5. Furnish the Company's Board of Directors with written reports relating to the Committee's progress and provide necessary explanations with regard to their contents.

5.3.6. Sign documents worked out and approved as part of exercising the powers.

5.3.7. Arrange for making minutes of the Committee meetings and sign the same.

5.3.8. Perform other functions envisaged by the laws of the Russian Federation, Articles of Association of the Company, these Regulations and other internal documents of the Company.

## **6. Secretary of the Committee**

6.1. Functions of the Committee's Secretary shall be performed by the Secretary of the Company's Board of Directors.

6.2. The Secretary of the Committee shall ensure preparing and holding meetings of the Committee, collecting and filing materials to meetings, timely furnishing the members of the Committee and invited persons with notices of meetings, their dates, time and places, with agendas, materials under the agenda items, keeping minutes of meetings, preparing draft resolutions of the Committee, and also subsequent keeping all relevant materials. The Secretary shall ensure that the members of the Committee obtain any necessary information.

## **7. Time and Procedure for Calling Meetings of the Committee, Proceedings at Meetings and Execution of Resolutions Passed by the Committee**

7.1. Meetings of the Committee shall be held as and when necessary.

7.2. Meetings of the Committee shall be held at the initiative of the Committee's Chairman, by request of any member of the Committee, member of the Company's Board of Directors, the sole executive body of the Company.

A decision to hold meetings of the Committee, their date, time, place and agenda items, as well as a decision on a list of persons invited for attending the meeting shall be made by the Chairman of the Committee.

7.3. Any persons entitled, under para.7.2 hereof, to demand calling a meeting of the Committee shall furnish the Secretary of the Committee with a request for holding a meeting of the Committee, not later than seven (7) business days prior to the proposed date of holding the same. The Secretary of the Committee shall communicate such request to the Chairman of the Committee not later than the day following the day when the said request has been received.

7.4. Within five (5) business days from the date when the request for holding the meeting has been submitted, the Chairman of the Committee shall make a decision to hold a meeting of the Committee, to appoint the date, time and place of its holding or the absentee voting date or to refuse to hold a meeting of the Committee. A motivated refusal to hold a meeting of the Committee shall be sent to the requesting person or the Company's body within two (2) business days from the time when the Chairman of the Committee has decided to refuse to hold the meeting.

7.5. The Chairman of the Committee may decide to refuse to hold the Committee's meeting in the following cases:

7.5.1. An issue (issues) proposed for the agenda of the Committee meeting is (are) beyond its competence as specified by these Regulations.

7.5.2. An agenda item that is contained in the request for holding the Committee meeting has been already entered into the agenda of the nearest meeting to be held according to the decision made by the Chairman of the Committee before the receipt of the above request.

7.5.3. The procedure for submission of requests for holding a Committee's meeting specified herein is not complied with.

7.6. A notice of the Committee's meeting with its agenda should be executed by the Committee's Secretary and forwarded to persons participating in the meeting, not later than one (1) business day before the date of the Committee's meeting.

7.7. The Committee's Secretary shall prepare a meeting of the Committee under the guidance of the Chairman of the Committee.

7.8. The Chairman of the Committee shall take a chair at the Committee's meetings.

7.9. A meeting of the Committee shall be competent (have a quorum), if all members of the Committee are present there. If no quorum required for holding a meeting of the Committee is present, the adjourned meeting of the Committee with the same agenda should be held within five (5) business days.

7.10. Meetings of the Committee may be held in the form of joint presence of the Committee's members or in the form of absentee voting.

7.11. Issues indicated in paras. 3.1.2-3.1.5 hereof may be discussed only at the meetings held in the form of joint presence.

7.12. Every member of the Committee shall have one vote for voting. Resolutions of the Committee shall be passed unanimously.

7.13. The Secretary of the Committee shall make the minutes of the held meeting within three (3) business days following the meeting of the Committee in the form of joint presence of the Committee's members or absentee voting.

The minutes of the Committee meeting shall be signed by the Chairman of the Committee, who is responsible for correctness of the minutes, and by the Secretary of the Committee. The Company's seal shall be affixed on the minutes. The minutes shall be made in two original copies, one of them shall be forwarded to the Company's Board of Directors accompanied with the prepared materials and recommendations, and the second copy shall be kept on file with the Committee.

The minutes of the Committee meeting shall contain the following:

- date, place and time of the meeting (or the date of absentee voting);
- list of the Committee's members, who participated in the meeting (absentee voting);
- agenda;
- items put for voting and voting results (with indication of voting results per every member of the Committee, who participated in the meeting);

- resolutions passed.

The minutes shall be appended with the prepared by the Committee materials, opinions, proposals and recommendations, as well as dissenting opinions of the Committee's members.

7.14. The Company's officials and employees, including a person exercising functions of the sole executive body of the Company, members of the collegiate executive body of the Company, experts engaged by the Committee and other persons may be invited to meetings of the Committee for delivering reports and explanations.

## **8. Accountability of the Committee**

8.1. The Committee shall submit an annual progress report to the Company's Board of Directors.

8.2. The report of the Committee should contain information on its operations during a year, in particular, on:

8.2.1. submitted recommendations on material terms and conditions of labor agreements with the Company's sole executive body, members of the Company's collegiate executive body, on the amount of remunerations paid to members of the body overseeing the financial and economic activity of the Company;

8.2.2. preliminary evaluation of candidates nominated as a sole executive body of the Company, members of a collegiate executive body of the Company, CEOs of the major structural units of the Company;

8.2.3. proposals on priorities of the Company in the sphere of nomination and remunerations to members management bodies of the Company and body overseeing the financial and economic activity of the Company.

The report of the Committee may contain any other material information at the discretion of the Committee.

8.3. The Company's Board of Directors shall review the report of the Committee at the nearest meeting of the Company's Board of Directors.

8.4. The Company's Board of Directors shall be entitled to entrust the Committee with submission of an opinion on individual issues included into its competence. In such case the Company's Board of Directors should establish in its mandate the reasonable time limits of its fulfillment by the Committee.

8.5. The Committee shall be entitled to furnish, at its discretion, the Company's Board of Directors with its recommendations on any issue within its competence, and in cases specified herein, it should prepare an opinion for the Board of Directors.

8.6. The matter whether it is advisable to consider recommendations of the Committee forwarded to the Company's Board of Directors under para. 8.5 hereof shall be resolved at the meeting of the Company's Board of Directors.

8.7. The Company's Board of Directors shall have the right to demand at any time during a year that the Committee submits a report on the current progress of the Committee. The time limits for preparation and submission of such report shall be determined by a resolution passed by the Company's Board of Directors.

## **9. Insider Information**

9.1. Any material information relating to the Company's operations, shares and other securities in the Company and transactions with them, which is not in the public domain and disclosure of which may have a material affect on the market value of the shares and other securities in the Company, shall be referred to insider information.

9.2. Members of the Committee and the Committee's Secretary shall not be entitled to disclose insider and other confidential information.

## **10. Approval and Amendment of these Regulations**

10.1. These Regulations as well as all additions and amendments hereto shall be approved by the Company's Board of Directors by a majority vote of the total number of members of the Company's Board of Directors present at the meeting.

10.2. All issues not covered herein shall be governed under the laws of the Russian Federation, Articles of Association of the Company, Regulations on the Company's Board of Directors and other internal documents of the Company.

10.3. If changes in the laws of the Russian Federation result in contradiction of some articles of these Regulations to the provisions of redrafted federal laws and/or subordinate legislation, such articles shall not be applicable, and until these Regulations are amended the members of the Committee shall be governed with federal laws and subordinate legislation of the Russian Federation.

10.4. The report of the Committee to be submitted to the Company's Board of Directors pursuant to Article 8 hereof may contain recommendations to the Company's Board of Directors stating that amendment of these Regulations is necessary.