

## Russian Railways approaches to and principles of corporate management

**Restructuring is carried out by Russian Railways on a phased basis, including the terms by which the reorganization of corporate management is implemented.**

The Company aims to create strategic change in the operational management activities of SAF, with the implementation of best corporate practice. The system of corporate management established by Russian Railways, allows for:

- ▶ Implementation of Company policy, including dividend policy in respect of SAF;
- ▶ The creation of governance bodies and control of SAF;
- ▶ Management of the business planning process and of the financial and economic activity of SAF;
- ▶ Cooperation with shareholders and investors with observance of the minority shareholders' rules when dealing with organisations connected to the purchase and sale of SAF shares.

Within the frameworks established by the Russian Railways corporate management system, best practices are used, namely:

- ▶ Involvement of independent directors in the Boards of Directors of subsidiaries (at the end of the annual shareholders' general meetings held in 2013, the participation of independent directors in the Boards of Directors was provided to 20 major subsidiaries);
- ▶ Preliminary consideration of items by the committees affiliated with the Board of Directors (committees affiliated with the Board of Directors in 2013 were operating in the 33 largest subsidiaries).

In addition, the following activities are held by Russian Railways:

- ▶ Creation of collegial executive bodies (managing boards) in the largest SAF;
- ▶ Development of the Board of Directors and members of the Board of Directors effectiveness evaluation system, to improve the quality of decision-making by the SAF governance bodies.

The high-quality management of subsidiaries, carried out by the corporate centre of the Company, allows for the implementation of the following principles and approaches in the management system:

- ▶ Direct links between the Group strategy and SAF strategies, with coordination and balancing of strategies for Group companies in order to maximise overall effect and minimise intercompany competition and the possible resource-sharing of the Group in order to increase SAF efficiency (for example, central purchasing in the order of Group, maintenance, general services of Group units for SAF in the field of HR management, accounting, and IT);
- ▶ Clear and rational procedures for strategic goal-setting and management, transmitting the strategic business objectives of the Group through corporate procedures, in specific measurable objectives for SAF authorities. This introduces clear lines of subjection/supervisory control of each strategic SAF to a member of the Company's senior management team, with the management team taking responsibility for activity results;
- ▶ Providing a sufficient level of operating and commercial freedom of SAF managers within the approved business objectives and specific business segment;
- ▶ Introducing corporate control mechanisms for SAF activity, sufficient for meeting the strategic objectives (through the Board of Directors and the relevant committees affiliated with the Board of Directors, as well as through the development and implementation of common management standards, which allow the implementation of the general strategic objectives of the Group and operational comfort for the governance bodies of the parent company and SAF).

