

Internal control and audit

In accordance with the concept of organisational development at Russian Railways for the period up to 2015 and the action plan for the functional strategy implementation to create a single system of internal audit and control at the Russian Railways, approved by the president of Russian Railways, V.I. Yakunin, in a new edition in October 2013, systematic and consistent work towards improvement and the development of the internal audit and control functions has been carried out.

The appointment of an internal control and audit director at Russian Railways was included in the new executive office structure. At the Centre for Control and Internal Audit ("Zhheldorcontrol"), there are now two independent, but interconnected structural units — the Internal Audit Centre ("Zhheldoraudit") and the Internal Control Centre ("Zhheldorcontrol").

The implementation of these structural changes will facilitate the execution of the intended tasks for control vertical buildup during the transition to the target system management of the Russian Railways and the construction of a risk-oriented internal control system, with the development and improvement of forms, methods and trails of the internal audit and control function at Russian Railways.

The main tasks of the "Zhheldoraudit" and "Zhheldorcontrol" centres are the following:

- ▶ Organisation and execution of the internal audit, aimed at achieving greater efficiency and performance of business processes for Russian Railways, including soundness of assets, compliance with the requirements of legislation of the Russian Federation and internal documents of the Company;
- ▶ System effectiveness evaluation of internal control and risk management in the units of the Russian Railways, according to the established procedures in the SAF;
- ▶ Performance evaluation of business processes in the units of the Russian Railways and in accordance with the established procedures in the SAF;
- ▶ Organisation and execution of the internal audit, aimed at achieving economic stability and financial transparency in the units of the Russian Railways and in accordance with the established procedures in the SAF;
- ▶ Timely provision to the executive management of the Russian Railways of information about the Company's financial and economic activities, problems detected, tax and financial risks, business process efficiency and the reliability of internal control procedures and risk management in the units of the Russian Railways in accordance with the established procedures in the SAF.

New forms and methods of work in the field of internal audit and control of the Russian Railways are based on leading global practices and international standards, ensuring the timely identification of systemic problems in order to formulate appropriate recommendations for cost savings, income loss enhancement and more effective business processes.

Auditor of statements in accordance with international standards

Russian Railways draws consolidated financial statements according to the International Financial Reporting Standards (IFRS) and conducts its audit twice a year: in the first half of the reporting year — in the format of the review engagement, and for the reporting year — in the format of the audit. Since 2009 the preparation and audit period of the consolidated statements has been decreased by 5 months. The auditor of the consolidated financial statements of Russian Railways, according to the IFRS, is Ernst and Young", ranked among the top 4 of the internationally accepted audit companies.

Auditor of statements in accordance with Russian standards for financial statements

The Close Joint Stock Company "BDO" carries out independent checking of the financial statements of Russian Railways in accordance with Russian standards.

The selection of an auditor is carried out on a competitive basis according to legislative requirements. The Board of Directors recommends a candidate for auditor, chosen by the contest committee, on approval for the shareholder's general meeting. The Close Joint Stock Company "BDO" was approved as the auditor of the Russian Railways for the year 2013, according to the Government edict of the Russian Federation dd. November 08, 2013.

The auditor's level of service payment is determined by the Russian Railways Board of Directors. For the year 2012, it was 31.65 million roubles (exclusive

of VAT).