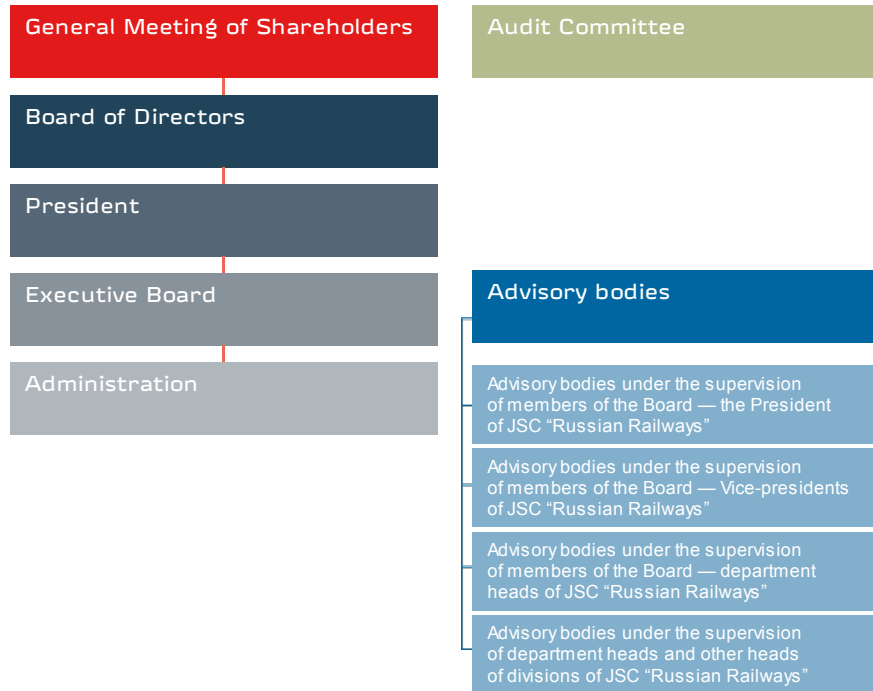


Corporate Governance Principles of JSC “Russian Railways”

1. Effective Performance of Governing and Supervisory Bodies



Board of Directors of JSC “Russian Railways”

The Board of Directors consists of highly professional managers with the necessary knowledge and expertise to address long-term strategic objectives of social development and with significant experience in governing boards.

The business practice of the Board of Directors of JSC “Russian Railways” is to involve members of the Board of Directors at a high level to shape the strategy of JSC “Russian Railways” and determine how it shall interact with stakeholders.

According to the state policy to promote the practice of election of independent directors to the governing bodies of state-owned companies, since 2008 independent directors have been regularly elected to the Board of Directors of JSC “Russian Railways”.

The rights and obligations of the members of the Board of Directors, their responsibilities, as well as the Board of Director’s work schedule and its decision-making process, are set forth in the Regulation of the Board of Directors approved by the Government of the Russian Federation.

To ensure timely decision-making to a high quality the following bodies have been established by the Board of Directors: the Committee for Audit, Risks and Remuneration of the Board of Directors of JSC “Russian Railways”, and the Committee for Strategic Planning of the Board of Directors of JSC “Russian Railways”.

Meetings of the Board of Directors are held regularly in accordance with long-term plans; materials for the meetings of the Board of Directors are provided in advance to ensure the thoroughness and effectiveness of decisions adopted by the Board of Directors.

Internal Company documents set out the obligations of members of the Board of Directors to disclose information on their ownership and transactions with securities of JSC “Russian Railways”. The procedures for the disclosure by members of the Board of Directors of any affiliations help to reduce the risk of conflict of interests.

Executive Bodies

A collegial executive body — the Executive Board — has been established in JSC “Russian Railways” to ensure collective decision-making in a number of key areas regarding the Company’s activities.

Basic operational principles and functional responsibilities of the Executive Board are governed by the Regulation of the Executive Board.

JSC “Russian Railways” also provides mechanisms to remunerate members of its executive bodies depending on the Company’s performance. These mechanisms create appropriate incentives for the executive bodies of JSC “Russian Railways” to help achieve their targets and meet the expectations of shareholders.

The Company’s internal documents set out the procedure for disclosing any conflicts of interest of members of the executive bodies of JSC “Russian Railways” and for the mandatory reporting of such conflicts to the Board of Directors.

A foundation of JSC "Russian Railways" sustainable development is the pool of suitable employees to replace the heads of departments, which ensures the continuity of JSC "Russian Railways" middle management.

The System of Control over financial and economic activities of JSC "Russian Railways" is performed by the Audit Committee, the Committee for Audit, Risks and Remuneration of the Board of Directors of JSC "Russian Railways", structural units of JSC "Russian Railways" — the Centre for Internal Audit "Railways Audit" and an independent auditor.

The composition of the Audit Committee of JSC "Russian Railways" does not include persons occupying management positions in the Company nor Company employees, which ensures the Committee's independence.

The main objectives and powers of the Committee for Audit, Risks and Remuneration regarding control over the financial and economic activities of JSC "Russian Railways" are set out in the relevant Regulation approved by the Board of Directors.

The most important functions assigned to the Railways Audit Centre include the development of plans, new business lines, forms and methods of internal audit and control over the economic and financial activities of JSC "Russian Railways".

The Company carries out comprehensive work on the development of the risk-oriented internal control and audit system compliant with corporate governance best practice.

2. Disclosure of Information

The Board of Directors of JSC "Russian Railways" has approved the Regulation on the Information Policy of the Company.

JSC "Russian Railways" discloses financial and accounting statements in accordance with Russian (RAS) and International (IFRS) standards.

The Company's annual report contains information, which is important for the Company's stakeholders, and meets requirements of the regulations for the structure and content of the annual report submitted to shareholders in preparation for the general meeting.

The Company's web site contains information on the development strategy of JSC "Russian Railways" and internal Company documents. Important information on the Company's activities is disclosed in English.

3. Implementation of the Company's Ethical Principles

The Board of Directors of JSC "Russian Railways" has approved the Code of Business Conduct, which is a set of rules and standards of conduct followed by the Company including all employees and officials of JSC "Russian Railways" in their relations with shareholders, investors, customers, suppliers, subsidiaries and affiliates.

The Code contains a list of measures aimed at strengthening team spirit and settling corporate conflicts. The Code communicates the Company's values to all employees, unites them on common corporate objectives and, consequently, strengthens their corporate identity.

4. Social Responsibility

JSC "Russian Railways" is committed to implementing its corporate strategy with a high level of social responsibility. JSC "Russian Railways" has an obligation to society and the country's economy and its performance criteria in this area include: comprehensive promotion of regional development, growth of the population's mobility, open and transparent information regarding its activities, continuous efforts to improve the quality of the services it provides and the full implementation of all government social programs.

The Company has adopted the Code of Corporate Social Responsibility of JSC "Russian Railways". The adoption of the Code demonstrates the Company's commitment to carrying out its economic activities with due regard to the interests of all stakeholders and to contributing to the balanced development of all stakeholders.

The Company has implemented the practice of regular social reporting and disclosure of its results to the public.

JSC "Russian Railways" provides charity support to individuals, public, religious and other organizations. Its charity activities are socially oriented to further strengthen the Company's image and are carried out in line with the unified policy of JSC "Russian Railways" to maintain social infrastructure and welfare programs, support education, healthcare, science, art, sports and personal development.

As an environmentally-oriented company, JSC "Russian Railways" pays great attention to the reduction of human impact on the environment.

5. Effective Management System of Subsidiaries

JSC "Russian Railways" manages its subsidiaries and affiliates through its corporate procedures. The corporate management of its subsidiaries and affiliates is carried out through the participation of representatives of JSC "Russian Railways" in general meetings of shareholders, Boards of Directors and audit committees of subsidiaries and affiliates.

Interests of the parent company in the activities of its subsidiaries are managed through the design and implementation of uniform standards of corporate governance. Uniform standards ensure the creation of a single legal entity in the Holding company, the implementation of common strategic objectives and their contribution to the effective operation of governing bodies of all Group companies, as well as a reduction in management costs.

The subsidiaries of the Holding company are managed effectively through the following principles and approaches:

- ▶ the direct linking of the Holding company's strategy with the strategies of its subsidiaries and affiliates; the coordination and balancing of the strategies of Group companies to achieve the best general outcome, minimize competition within the Holding companies and increase the possibility of sharing the Holding company's resources to increase the efficiency of its subsidiaries and affiliates (for example, Holding-wide centralized procurement, repair and services provided by the Holding's divisions to its subsidiaries and affiliates in the personnel management, accounting, IT, etc.);
- ▶ a clear, transparent and efficient procedure for strategic goal-setting and management that ensures the communication of strategic
- ▶ business tasks of the Holding through corporate procedures (e.g. as specific measurable objectives for the executives of the subsidiaries and affiliates); clear reporting lines/supervision of each of the subsidiaries and affiliates by one of the executives of JSC "Russian Railways", responsible for the management of their performance;
- ▶ ensuring an adequate level of operational and commercial freedom of managers of subsidiaries and affiliates within the approved business tasks and specific business segments;
- ▶ appropriate mechanisms of corporate control of the subsidiaries and affiliates to achieve strategic goals (through the Board of the Directors and relevant Board committees, as well as through the development and implementation of unified management standards that contribute to the achievement of the Holding company's common strategic goals and those of the management bodies of the parent company, its subsidiaries and affiliates).

The main organizational elements of the Holding company are the Corporate Centre of the Holding company and its business units.

The Corporate Centre includes:

- ▶ The Executive Board of JSC "Russian Railways"
- ▶ Advisory bodies of the Holding (committees, commissions, working groups);
- ▶ The management of the Corporate Centre comprising departments, divisions and
- ▶ other units of JSC "Russian Railways";
- ▶ Governing bodies of business blocks;
- ▶ Railways — subsidiaries of the Russian Railways..

The Holding company's Corporate Centre

The management of the Holding company, comprising senior managers of JSC "Russian Railways", heads of key branches, subsidiaries and affiliates, acting in the interest of the Russian state, determines the priority areas of the Holding company's activities and long-range development plans, approves the appointment of key managers, manages unified corporate policies, standards and rules developed by the Corporate Centre, controls their compliance and achievement of strategic targets of the business units.

The Corporate Centre develops the strategic decisions to be approved by the Executive Board of the Holding company, develops unified corporate policies, rules and standards on the basis of the adopted decisions and, for the purpose of their achievement, ensures the control and analysis of the implementation of the strategic decisions and the achievement of their goals, organizes the ongoing allocation of the most important and limited resources and coordinates the interaction of branches, subsidiaries and affiliates internally as well as with the "external environment" at all levels in relation to the governance and performance of the control system.

The planned structure of the Corporate Centre will be organized by operational areas to ensure a unified and coordinated management of all business units in the relevant functions.

To maintain control at all levels, branches of JSC "Russian Railways" are included in the Corporate Centre and carry out some of their functions at a regional level.

Business Units

The responsibility for the performance and efficiency of specific activities is held at a business unit level — the branches, structural divisions, subsidiaries and affiliates of JSC "Russian Railways". Strict compliance with corporate policies, standards, rules and regulations of interaction is required. However, the business units have the freedom to take operational decisions, and determine ways of achieving their goals, financial and non-financial indicators.

Taking into account the common tasks, technologies and additional synergies of coordinated activities, business units have been combined into three business blocks: Passenger Transportation, Transport and Logistics, and Infrastructure.

Each business block, as well as each business unit, is responsible for the achievement of the established parameters of their activities.