

# CORPORATE GOVERNANCE

Russian Railways is gradually implementing an organisational reform to upgrade the Group's corporate governance system.



## Corporate governance system

Russian Railways is gradually implementing an organisational reform to build a corporate governance system factoring in, among other things, recommendations of the Corporate Governance Code. In its push to comply with the Corporate Governance Code, Russian Railways relies on the support provided by the Russian Government Expert Council.

In 2017, Russian Railways drafted amendments to the Company's Charter and Regulation on the Board of Directors to embrace recommendations of the Corporate Governance Code. These amendments are expected to be approved in 2018.

The Russian Government Expert Council suggested seven criteria to assess compliance of state-owned companies' charters and regulations on the board of directors with key recommendations of the Corporate Governance Code:

- powers of the board of directors in relation to control over the company's management;
- powers of the board of directors in relation to transactions made by controlled entities;
- powers of the board of directors in relation to the governance bodies of controlled entities;
- right of the board members to access documents and information of the company and its controlled entities;
- matters pertaining to the board members' conflicts of interests;
- matters to be decided on by meetings held in person;
- matters to be decided on by a simple majority of votes cast by board members.

Once the Company's Charter and Regulation on the Board of Directors are amended, Russian Railways will meet six of these criteria. The seventh criterion (competence of the board of directors to establish the company's sole executive body) cannot be satisfied as the establishment of Russian Railways' sole executive body is governed by Federal Law No. 29-FZ On the Specifics of Administration and Disposal of Railway Transport Property dated 27 February 2003, which delegates the powers of appointing or dismissing the Chief Executive Officer – Chairman of the Management Board of Russian Railways to the Government of the Russian Federation.

Russian Railways remains committed to replacing operational management of the Group's subsidiaries and affiliates with the strategic one and implementing best corporate practices. The corporate governance system put in place for the Company's subsidiaries and affiliates enables Russian Railways Group to:

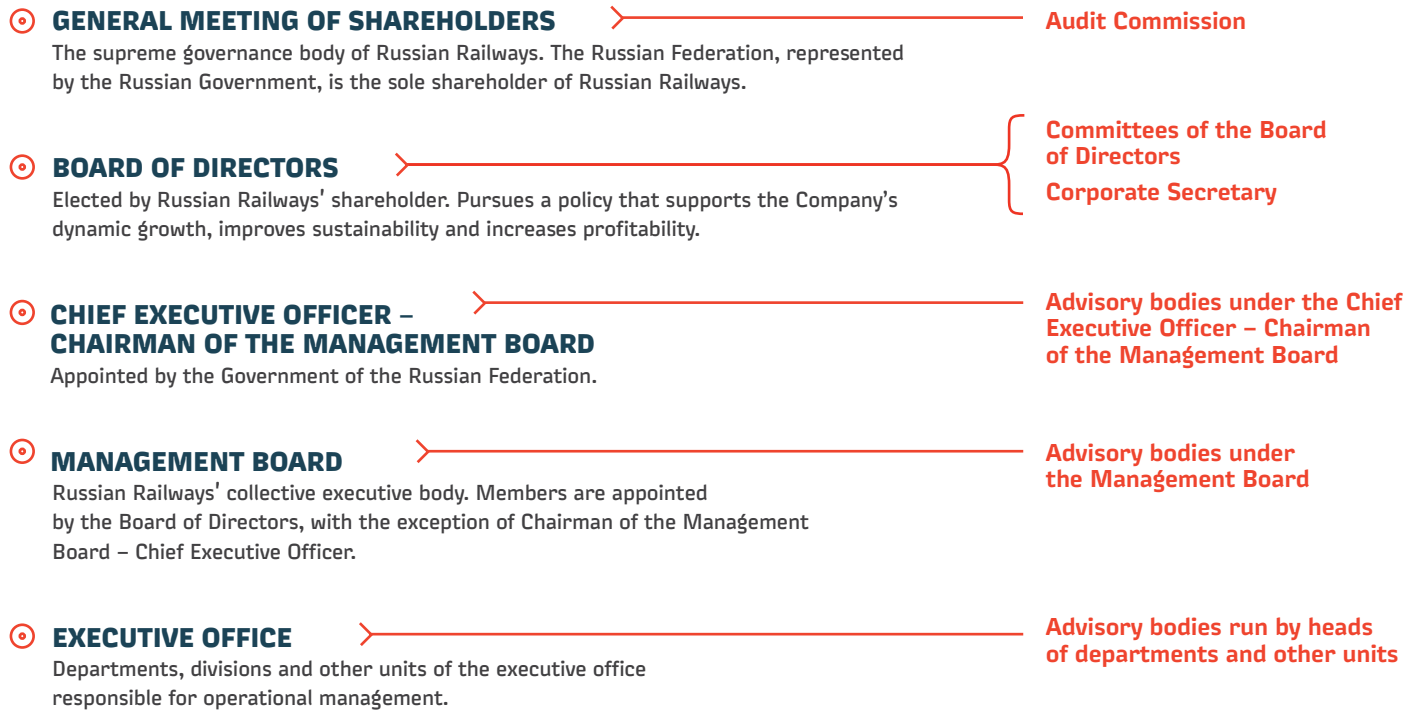
- implement Russian Railways' policies (including the dividend one) in relation to its subsidiaries;

- appoint members of the subsidiaries' management and supervisory bodies;
- oversee business planning and business activities of subsidiaries and affiliates;
- oversee divestment of non-core business activities held by Russian Railways' subsidiaries;
- stay in touch with the shareholders and investors and protect the rights of minority shareholders, including in the context of transactions to buy or sell stakes in the subsidiaries and affiliates;
- balance the goals of Russian Railways Group and strategic business lines of the Group's companies.

Russian Railways' corporate governance system employs the following best practices:

- independent directors are engaged to sit on the boards of directors at Russian Railways and its subsidiaries. There are three independent directors sitting on the Board of Directors at Russian Railways;
- following the annual general meetings of shareholders held in 2017, independent directors were elected as board members at 12 of the Group's largest subsidiaries;
- agenda items are previewed by committees of the board of directors. Russian Railways' Board of Directors has four committees: Audit and Risk Committee, Personnel and Remuneration Committee, Strategic Planning Committee and Priority Investment Projects Committee;
- boards of directors of Russian Railways Group's 26 major subsidiaries had relevant board committees in place;
- most of the Corporate Governance Code adoption initiatives were implemented by Russian Railways' subsidiaries in 2015–2017;
- a treasury control system was put in place to exercise control over the Group's subsidiaries.

## Governance structure of Russian Railways



## General Meeting of Shareholders

The supreme governance body of Russian Railways is its General Meeting of Shareholders. Pursuant to Article 47 of the Federal Law On Joint-Stock Companies, resolutions of the General Meeting of Shareholders are adopted by Russian Railways' sole shareholder – the Russian Federation represented by the Government of the Russian Federation.

In 2017, one Annual General Meeting of Shareholders and 13 Extraordinary General Meetings of Shareholders were held.

The Annual General Meeting of Shareholders (Order No. 1395-r of the Government of the Russian Federation dated 30 June 2017) adopted the following resolutions:

- approval of the annual report, balance sheet and income statement for 2016;
- distribution of profit based on the year's financial performance;

- allocation of funds to pay dividends to the holders of Russian Railways' ordinary shares based on performance in 2016 and remuneration to members of Russian Railways' Board of Directors and Audit Commission;
- determination of size of Russian Railways' Board of Directors and Audit Commission and appointment of their members, approval of the 2017 auditor.

The Extraordinary General Meetings of Shareholders adopted the following resolutions:

- increase of the charter capital, amendment of Russian Railways' Charter and its appendices,
- amendment of Russian Railways' Regulations on the Board of Directors, Management Board, Audit Commission and Appointment of the Chief Executive Officer – Chairman of the Management Board.