

Performance report of the Board of Directors in 2016

The Board of Directors determines the Company's business priorities and approves its long-term plans and core programmes, including the budgets and investment programme. The main objective of the Board of Directors is to pursue a policy that supports the Company's dynamic development, improves the sustainability of its operations and also increases profitability.

In order to implement these functions, the Russian Railways Board of Directors in 2016:

- approved and endorsed an adjustment to the Russian Railways Investment Programme for 2016;
- fully approved proposals of Russian Railways on drafts of the consolidated financial plan of Russian Railways and its core subsidiaries and the Russian Railways Investment Programme for 2017;
- approved the proposals of Russian Railways for an adjustment to the Russian Railways Investment Programme and Financial Plan for 2016 and based on operational results for the first half of 2016;
- approved the Russian Railways Investment Programme and Financial Plan for 2017 and the planned period of 2018 and 2019;
- fully approved the draft terms of reference for an external independent cost audit of Russian Railways taking into account the results of an express analysis of Russian Railways operations to identify priority reserves for optimisation as well as the criteria for selecting a consultant to perform work;
- tentatively approved the Russian Railways Annual Report for 2015 and prepared recommendations for the Company's Annual General Meeting of Shareholders on the approval of the report;
- prepared recommendations for the Russian Railways Annual General

Meeting of Shareholders on the approval of the Company's annual accounting (financial) statement for 2015, including the profit and loss statement;

- took under advisement the consolidated financial statement of Russian Railways for 2015 prepared in accordance with IFRS;
- took under advisement the report on the procurement activities of Russian Railways for 2015;
- approved proposals on the organisation of the pricing monitoring system for the main range of procured goods, work and services of Russian Railways and its subsidiaries and affiliates. Took under advisement a comparative analysis of the procurement activities of Russian Railways for 2015 for the main range of procured goods, work and services, including the volume of procurements, and the procurement activities of major legal entities covered by Federal Law No. 223-FZ dated 18 July 2011 'On Procurements of Goods, Work and Services by Certain Types of Legal Entities';
- considered the development and adoption of local regulatory acts of Russian Railways that establish the standardisation of procurements of certain types of goods, work and services as well as the mandatory application of procurement standards when planning and performing the business activities of Russian Railways as part of the execution of Directive No. 2793p-P13 of the Government of the Russian Federation dated 19 April 2016;
- approved an increase in spending by Russian Railways on charity in 2016, approved the Sponsorship and Charitable Activities Policy of Russian Railways and approved spending focuses and the allocation of funds for the sponsorship and charitable activities of Russian Railways and its subsidiaries;
- approved the road map developed by Russian Railways to organise risk

management and internal control processes in preventing and combating corruption at Russian Railways;

- considered issues concerning the reorganisation of certain educational institutions of Russian Railways (public and private preschool educational institutions) as well as the reorganisation of certain general educational institutions of Russian Railways (private general educational institutions);
- supported the main approaches for updating the Concept for the Reform of Healthcare Facilities of Russian Railways taking into account the recommendations of the Strategic Planning Committee of the Russian Railways Board of Directors, which was coordinated with the Ministry of Health of the Russian Federation;
- approved the Non-core Asset Disposal Programme of Russian Railways and the Register of Non-core Assets of Russian Railways.

In addition, the Russian Railways Board of Directors established that a list of KPI for quarterly bonuses to the Russian Railways president (approved by the Russian Railways Board of Directors on 18 May 2015) with amendments made by the Russian Railways Board of Directors on 15 December 2015 shall apply for quarterly bonuses to the Russian Railways president when summarising the operational results for the second quarter of 2016. The Personnel and Remuneration Committee of the Russian Railways Board of Directors along with Russian Railways management were instructed to continue work to improve the 'Integral Operating Efficiency Indicator' of Russian Railways as well as the procedure for its approval and monitoring by the Russian Railways Board of Directors.

The Board of Directors determines the Company's policy for the remuneration of members of the Board of Directors, executive bodies as well as other key executives of the Company. As part of performing these functions, the Russian Railways Board of Directors prepared recommendations for the Company's Annual General Meeting of Shareholders

on matters concerning the payment of remuneration to members of the Board of Directors and Audit Commission.

The Russian Railways Board of Directors set the target value for ROIC on unregulated types of activities for 2015 at the actual level for 2015 and also established a generalised qualitative assessment of the activities of the Management Board and Russian Railways as a whole based on the results for 2015.

In accordance with the Regulation on the Remuneration System for Members of the Russian Railways Management Board approved by a resolution of the Russian Railways Board of Directors, the Russian Railways Board of Directors approved the final fund for the long-term bonus payments to the the Russian Railways Management Board for 2013-2015.

In accordance with the Company's Charter, the Board of Directors plays a key role in decision-making with respect to S&A.

In 2016, the Russian Railways Board of Directors approved a list of S&A for which the Board of Directors adopts decisions in accordance with sub-clause 23 of clause 71 of the Russian Railways Charter. The Board of Directors considered reports on budget execution by key S&A of the Russian Railways Group and determined the position of Russian Railways (Company representatives) at meetings of the boards of directors of the Russian Railways Group's S&A on the following agenda items: on the execution of the 2015 budget, the approval of the budget for 2016, the election of the sole executive body and the approval of the agenda for general meetings of shareholders and meetings of the boards of directors of S&A.

The Russian Railways Board of Directors monitors the corporate governance practice at the Company.

In 2016, the Russian Railways Board of Directors approved an action plan

(road map) to introduce the provisions of the Corporate Governance Code, made amendments to the Regulation on the Audit and Risk Committee of the Russian Railways Board of Directors, made amendments to the Regulation on the Procurement of Goods, Work and Services for the Needs of Russian Railways approved by the Russian Railways Board of Directors on 30 June 2014 and supported the main approaches for updating the Concept for the Reform of Healthcare Facilities of Russian Railways.

Meetings of the Russian Railways Board of Directors and the committees of the Russian Railways Board of Directors, high-quality preparations for such meetings and active participation in such meetings by members of the Board of Directors and committee members ensure the Board of Directors functions effectively.

Remuneration for members of the Board of Directors

Shareholders decided at the Annual General Meeting in 2016 to pay remuneration to the Board of Directors for the 2015/2016 corporate year in the amount and manner prescribed by the Regulation on Remuneration and Compensation Paid to Members of the Russian Railways Board of Directors (approved by the decision of the Russian Railways Board of Directors on 19 May 2016).

Under the Regulation developed in accordance with the recommendations of the Russian Federal Property Management Agency and the Code of Corporate Governance, remuneration is calculated using a formula based on the main component of remuneration, which is equal to RUB 2,000,000 and depends on the participation of members of the Board of Directors in Board meetings.

Board members are paid additional remuneration for performing additional functions that is calculated according to the base portion of remuneration and increased by the following ratio:

- 3 for the Chairman of the Board of Directors (excluding individuals who perform the functions of the Chairman of the Board of Directors in his absence);
- 2 for a member of the Board of Directors who performs the functions of Chairman of the Board of Directors;
- 1.5 for a member of the Board of Directors who performs the functions of a member of a committee under the Board of Directors.

Additional remuneration shall be paid for participation in the work of committees, provided that the member of the Board of Directors personally attended (submitted a written opinion for)

at least 75% of the in-person meetings held over the course of the corporate year.

If a member of the Board of Directors performs the functions of a member and/ or the chairman of a committee under the Board of Directors on more than one committee, additional remuneration shall be paid for the functions performed on each committee.

The Regulation does not apply to members of the Board of Directors who are members of the executive bodies of Russian Railways or who are restricted or prohibited from receiving any payments from commercial organisations by the legislation of the Russian Federation.

According to the decision of the Russian Railways Annual General Meeting of Shareholders, a total of RUB 39,400,000 were spent on remuneration paid to members of the Russian Railways Board of Directors.