

Organisational model

Organisational structure of the Russian Railways Group

The Company's existing organisational structure was formed as a result of the transition from the territorial principle of management to organising activities by business type. Its core components are the corporate centre and business units.

Corporate centre – the body of Russian Railways divisions that specialises in managing the Group as a set of business divisions. The Corporate Centre primarily performs the functions of strategic goal-setting as well as monitoring and coordinating the activities of business divisions.

The Corporate Centre includes:

- at the central management level: the Russian Railways Management Board, advisory bodies and administrative staff consisting of departments, offices and structural divisions of Russian Railways;

- at the regional management level: railways – branches of Russian Railways that perform the functions of Regional Corporate Governance Centres (RCGC).

Business Division – the part of the Company that handles specific types of business activities and has the property complex, specialised manufacturing and management technologies, personnel and management structure required to perform such activities.

Within the logic of the organisational structure adopted by the Group, business units are responsible for the results and effectiveness of business activities: branches, structural divisions and subsidiaries of Russian Railways. They are granted broad powers to make decisions on operational issues and determine ways to achieve the Company's development goals as well as financial and non-financial indicators,

including decisions on the development of production facilities and labour resources, and determining their own production, regional and organisational structure, among other things, in full compliance with corporate policies, norms, standards and regulations for interaction.

The management system for the organisational model of Russian Railways includes modern approaches: strategic management, a process approach, risk management and project management, among other things.

This has made it possible to implement a matrix-based management principle by balancing the functional (vertical) and regional (horizontal) approaches to managing the Company



Functions of the core components of the Company's organisational structure

The functions of the core components of the Russian Railways organisational structure are carried out in accordance with the division of powers of the Company's management bodies and take into account the requirements of the Corporate Governance Code of the Russian Federation.

The Russian Railways Board of Directors manages the Company's activities within its scope of competence and pursues a policy focused on dynamic development and enhancing the sustainability and profitability of its work.

The Russian Railways president handles the day-to-day management of the Company's activities, except for matters that fall within the purview of the General Meeting of Shareholders and the Board of Directors, and performs the functions of the Company's CEO.

The Russian Railways Management Board, which consists of Russian Railways executives working on behalf of the Russian

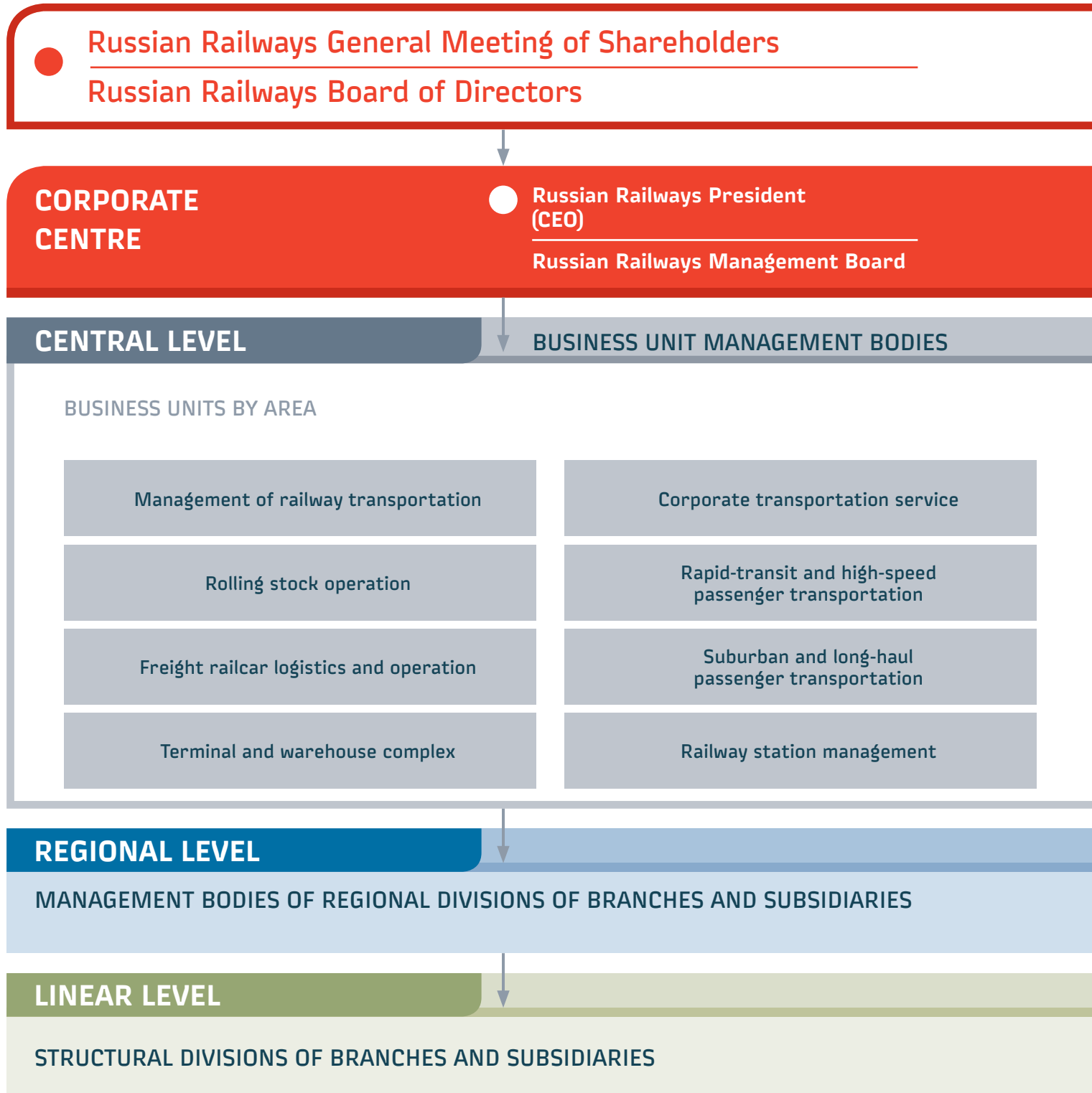
Federation, considers proposals to identify priority areas of the Company's activities and future development plans, determines unified corporate policies, norms, rules and standards developed by the Corporate Centre and monitors their compliance and the achievement of the strategic goals of the Company's divisions throughout all chains of command.

The Corporate Centre works out strategic decisions, develops unified corporate policies, norms, rules and standards based on these decisions in order to achieve them, monitors and analyses the execution of the strategic decisions and the achievement of the Company's goals, distributes the most important and limited resources, and also ensures branches interact amongst each other and with the "external environment" at all levels of management as well as the functioning of the monitoring system. In addition, the Corporate Centre organizes corporate governance and monitors subsidiaries and affiliates.

The Russian Railways Group's branches, structural divisions, subsidiaries and affiliates are responsible for the results and effectiveness of business activities. The responsible divisions are granted broad powers based on their functional affiliation (vice presidents and departments that oversee work) to make operational decisions and determine ways to achieve the Company's development goals as well as financial and non-financial indicators in full compliance with the corporate policies, norms, standards and regulations.

It is impossible to fully abandon the territorial approach to the Group's management: the Company's business network covers the entire territory of the Russian Federation and is a significant factor in the country's economic development. Given the geographical scale of the business network, it would be ineffective for Russian Railways to fully perform its management functions without the existence of regional management bodies.

Flowchart of the Russian Railways Group's organisational model



Departments, offices,
structural divisions

Advisory and coordinating bodies

(BRANCHES AND SUBSIDIARIES)

Other passenger services

Design, construction and operation of railway infrastructure abroad

Repair and maintenance of passenger rolling stock

Personnel training and development

Routine maintenance and repair of infrastructure

Provision of healthcare services

Management of traction rolling stock and locomotive crews

Health resort services

Management of international projects

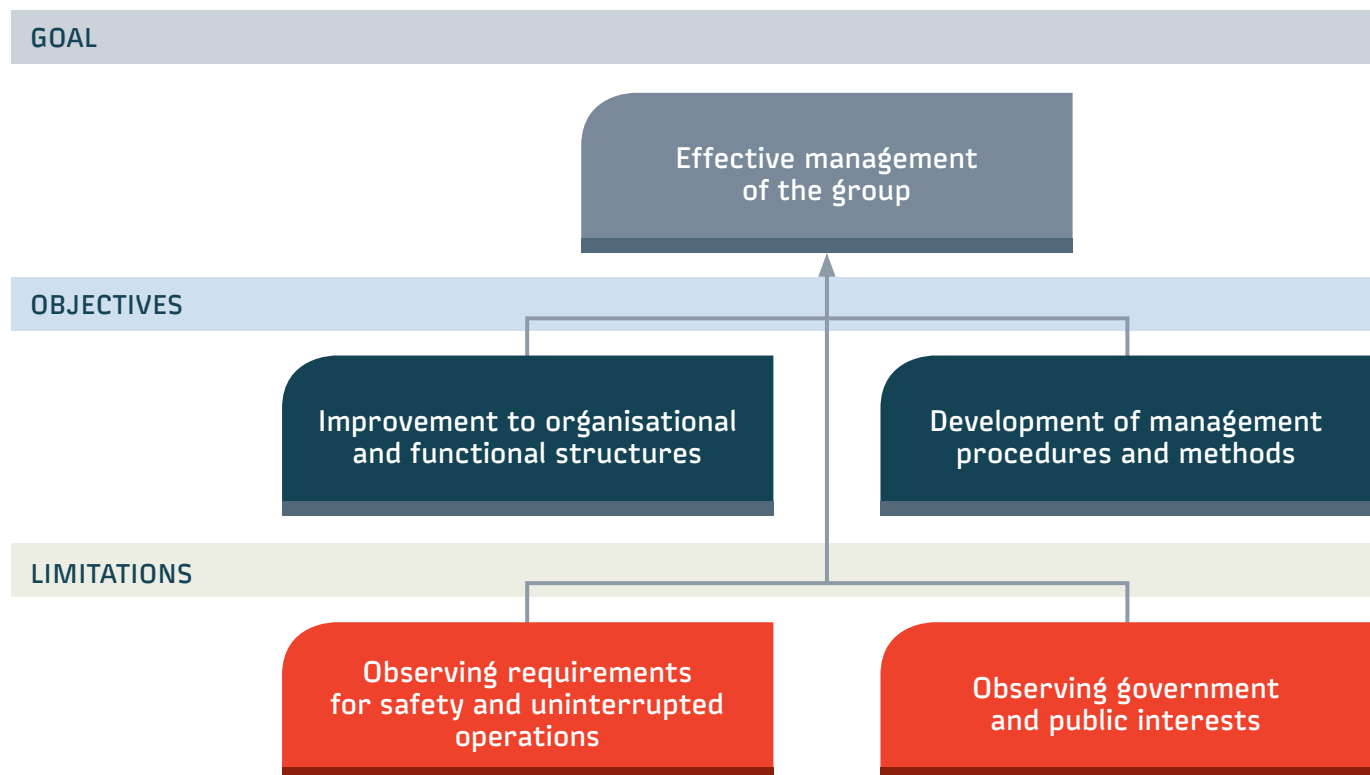
Scientific, technological, experimental, design and research activities

RCGC
(railways)

Organisational development

The organisational development of the Russian Railways Group aims to ensure the effective management of the Company and its business network in a rapidly changing external environment by forming an effective management system and optimal organisational structure.

Flowchart of organisational development goals and objectives



Organisational development primarily involves the further development of a strong corporate hierarchy, including the Management Board, advisory councils, the management apparatus and its divisions. This hierarchy ensures the implementation of the development strategy, efficiency and traffic safety as well as the achievement of target operational parameters set by the Company.

Measures to develop the management system must comply with the principles of specialisation at the companies being managed (separating the management of a company as a whole and specific types of activities and business at the central and regional levels of management) and ensure a balance in the responsibility and powers of managers at all levels.

By organising management according to different areas – strategy, finances,

economics, property, innovations, and so on – and by the type of business activity – traction, infrastructure, passenger transportation, etc., the Company seeks to ensure the personal responsibility and motivation of managers for the business results and create additional incentive for them to perform systematic work to improve efficiency in each area of management and type of activity. Narrowing specialisation also aims to enhance the quality of planning and the effectiveness of monitoring and make it possible to simultaneously make improvements in different functional areas as well as production and technological sectors.

To put these principles into practice, the Company has organised regular work to improve the efficiency, completeness and quality of management and operational processes.

In terms of improving and developing the management system, the Company paid special attention in 2016 to defining and optimising the existing distribution of powers and responsibility among managers of the structural divisions of functional branches at all levels of management and introducing a process approach. The existing Organisational Development Programme of the Russian Railways Group has implemented a number of projects and measures that help to improve management quality and create the conditions required for increased efficiency.

The Company did not make any changes to the development strategy and Long-term Development Programme in 2016 compared with the previous year.

Structural reforms after the reporting date

In accordance with a decision made by the Company's management, the oversight of transportation logistics and commercial activities has been transferred to the senior vice president for strategic development, economics and finance.

The position of a Russian Railways director of economics and finance has been introduced in the management structure in an effort to improve the Company's

activities in economics and finance. The director is directly in charge of the departments of corporate, treasury, economics, management accounting and reporting.

A number of operating units have been consolidated into a single Investment Department in order to improve the management structure of the Company's investment activities.

In an effort to improve the management structure in the planning and standardisation of logistics resources, the relevant functions have been assigned to the Economics Department.

The Company is working on creating remote infrastructure to improve the efficiency of low intensity railway sections.