

## Internal control and audit

Internal control functions at Russian Railways are based on the current organisational and methodological framework prepared in accordance with the best international and national professional practices and meet the ethical standards in matters of internal audit and control adopted in the modern Russian and global business communities.

The internal control system was established to provide reasonable assurance that the Russian Railways Group will achieve its goals.

The internal control system at Russian Railways is governed by a combination of subjects and objects. The objects of the internal control system are the financial and economic activities of Russian Railways divisions and business processes. The subjects of the internal control system are determined by the organisational structure of Russian Railways.

**The main objectives of the Russian Railways Group's internal control system are:**

- to ensure the efficiency and effectiveness of financial and economic activities;
- to safeguard assets and use resources in a cost effective manner;
- to identify and manage risks;
- to ensure the accuracy and completeness of accounting (financial) and other types of reporting;
- to observe the law and regulatory legal acts of the Russian Federation and the regulatory documents of Russian Railways.

The goal of the internal audit system is to provide independent and objective information to the Board of Directors and executive management bodies about the status of financial and business activities, the reliability and effectiveness of the risk management and internal control systems and the corporate governance practice at the Company and its subsidiaries in order to maintain financial stability,

enhance the effectiveness and efficiency of business processes, improve performance and achieve the Company's goals.

The Russian Railways Group has updated its Internal Corporate Standards System for Auditing Activities in accordance with the requirements of the regulatory documents of the Russian Federation and international professional internal audit standards and also taking into account best practices, including for the introduction of the process approach, and amendments to the organisational and administrative documents of Russian Railways.

The Russian Railways Board of Directors and the Audit and Risk Committee under the Russian Railways Board of Directors determine the general focuses for organising the internal control and audit system, consider the assessment results of its effectiveness and analyse its actual condition taking into the nature, scale and conditions of the Russian Railways Group's activities.

The Vice President and Internal Audit and Control Director of Russian Railways handles matters related to internal control and audits at the Company's divisions.

A major role in the internal audit and control system at Russian Railways is played by the divisions that conduct an independent assessment of the activities of structural units and inform Company management about audit results – the Zheldorkontrol Internal Control Centre and Zheldoraudit Internal Audit Centre, which are directly subordinate to the Vice President and Internal Audit and Control Director of Russian Railways.

The Zheldorkontrol Internal Control Centre conducts audits of the financial and business activities of Russian Railways divisions, monitors compliance with measures to eliminate any violations or shortcomings that are found in the internal control system, coordinates the work of Russian Railways divisions as regards organising and carrying out internal control and provides Russian Railways management with reliable information about the financial and business activities of Russian Railways.

The Zheldoraudit Internal Audit Centre assesses the actual condition and effectiveness of the internal control system, including monitoring the quality of the independent assessments conducted by Russian Railways divisions, drafts recommendations to improve the effectiveness of the internal control system and introduce additional internal control procedures, and prepares information for Russian Railways management about the reliability of internal control procedures at the Company's divisions.

The Zheldorkontrol and Zheldoraudit Centres have a total of 710 employees.

The Zheldorkontrol Centre includes regional offices located in the railway operating domains and has audit divisions.

**The main objectives of internal audits and control are:**

- to organise and conduct audits that aim to improve the efficiency and effectiveness of business processes at the Russian Railways Group and the reliability of reporting, safeguard assets and comply with the requirements of the laws of the Russian Federation and the regulatory documents of Russian Railways;
- a systematic and consistent assessment of the reliability and effectiveness of the internal control and risk management system as well as an assessment of corporate governance practices;
- to provide information in a timely manner to Russian Railways management about the status of financial and economic activities, the effectiveness of business processes, the reliability of internal control and risk management procedures as well as corporate governance at Russian Railways divisions and at S&A and other organisations of Russian Railways in the prescribed manner;
- to draft proposals and recommendations on ways to improve activities and enhance

the reliability and effectiveness of the risk management and internal control systems as well as the corporate governance practices of the entity being audited (divisions of Russian Railways, business process and other subjects) and/or the Company as a whole.

Continuous development and improvements to the internal audit and control system allow the Company to respond in a timely and proper manner to changes in the external environment and enhance the effectiveness and efficiency of activities.

Complete information about the procedures used to monitor the financial and business activities of the Company's structural divisions and business processes enables management to adopt effective decisions and achieve the Company's goals while ensuring a high level of control.

## Biographical information about internal control and audit executives

### Anatoly Chabunin

Vice President and Internal Control and Audit Director of Russian Railways.

Born in 1960.

Education: higher, Novosibirsk Institute of National Economy.

#### Professional experience at Russian Railways:

- 2015 – Vice President and Internal Control and Audit Director, Russian Railways.

### Anastasia Dolgaleva

Director of the Zheldorkontrol Centre.

Born in 1977.

Education: higher, Altai State University.

#### Professional experience at Russian Railways:

- 2015-2016 – Deputy Director, Zheldorkontrol Internal Control Centre, Russian Railways;
- 2016 – Director, Zheldorkontrol Internal Control Centre, Russian Railways.

### Yury Podkopayev

Director of the Zheldoraudit Centre.

Born in 1963.

Education: higher, Moscow Institute of Railway Engineers and a Master's of Business Administration certificate of continuing professional education in corporate audit with in-depth foreign language study.

#### Professional experience at Russian Railways:

- 2003–2012 – Deputy Director, Zheldorkontrol Internal Control and Audit Centre, Russian Railways; Director, Regional Management Centre in Moscow;
- 2013 – Director, Zheldorkontrol Internal Audit Centre, Russian Railways.

## Auditor of statements according to international standards

The auditor of the Company's consolidated financial statements in accordance

with IFRS is Ernst & Young.

## Auditor of statements according to Russian accounting standards

In accordance with Order No. 1370-r of the Russian Government dated 30 June 2016, BDO Unicon was approved as the auditor of the accounting (financial) statements of Russian Railways for 2016 according to Russian Accounting Standards.

The amount of annual remuneration for BDO Unicon under the Contract dated 1 July 2016 is RUB 29,950,000, including VAT of RUB 4,568,644.