

## Performance report of the Board of Directors in 2015

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 2015:

- made amendments to the Company's Long-term Development Programme taking into account Directive No. 1346p-P13 of the Russian Government dated 5 March 2015 (as part of the Russian Railways Group's Development Strategy until 2030);
- approved the terms of reference for an audit of the implementation of the Long-term Development Programme of Russian Railways and its S&A for 2014;
- approved an adjustment to the Russian Railways Investment Programme and Financial Plan for 2015 based on the results of the first half of 2015;
- approved the Russian Railways Investment Programme and Financial Plan for 2016;
- considered the principles for forming the Investment Programme of Russian Railways and the Company's Investment Programme for 2012-2014, which was reclassified based on the criteria for the designated purpose, payback period and sources of funding of projects taking into account the decisions

adopted at a meeting of the Russian Government on 26 November 2015 and the recommendations of the Strategic Planning Committee of the Russian Railways Board of Directors;

- approved the Russian Railways Investment Programme and Financial Plan for 2016;
- approved a report on the implementation in 2014 of the Russian Railways Innovative Development Programme for the period until 2015;
- considered an analysis of the core risks facing Russian Railways in 2015 with a probability assessment of adverse events and their impact on production, financial and business performance as well as options for actions to take if such adverse events occur;
- approved the Regulation on the Russian Railways Quality Management System, the Regulation on the Russian Railways Risk Management System, a new version of the Regulation on the Internal Audit of the Russian Railways Group and the Regulation on the Procedure for Developing and Implementing the Innovative Development Programme of the Russian Railways Group taking into account Directive No. 3984p-P13 of the Russian Government dated 24 June 2015;
- tentatively approved the Russian Railways annual report for 2014 and prepared recommendations for the Company's Annual General Meeting of Shareholders on the approval of the report.

As part of updates to the Company's Innovative Development Programme, clarifications were made to its efficiency indicators and a medium-term plan was compiled for its implementation that includes measures for R&D, the development of new technologies (modernisation), improvements to the organisation of innovative development and business processes, international scientific and engineering cooperation and the development of cooperation with entities working in innovative environments, including with universities and scientific institutions. The Programme is linked to the Russian Railways Group's Development Strategy until 2030 and identifies the key performance indicators for innovative development and measures that aim to develop and introduce new technologies, innovative products and services that meet international standards. The programme is being implemented based on the medium-term plan the Company prepared and may be adjusted. The updates are made taking into account the requirements of the Russian Ministry of Economic Development for the preparation of innovative development programmes for companies with government participation and for reporting on their implementation.

In addition, the Russian Railways Board of Directors approved a list of KPI for quarterly bonuses to the Russian Railways president as well as a list and target values for general corporate KPI for annual bonuses to Russian Railways executives for 2015.

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.

As regards remuneration for the executive bodies, the Russian Railways Board of Directors in 2015 decided to pay a bonus to the Company's president and assess his work performed in the fourth quarter of 2014 and approved a draft regulation on remuneration and compensation paid to members of Russian Railways Board of Directors Management Board.

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

In 2015, 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 2014 budget, the approval of the budget for 2015-2017 and the election of the sole executive body.

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

In 2015, the Russian Railways Board of Directors approved a new version of the Business Ethics Code, approved the Regulation on the Internal Control System at the Russian Railways Group, approved the Russian Railways Anti-Corruption Policy and amended the Regulation on the Strategic Planning Committee and the Regulation on the Audit and Risk Committee. The Board of Directors approved the Regulation on the Priority Investment Project Committee of the Russian Railways Board of Directors and the members of the Committee.

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

## Remuneration for members of the Board of Directors

Shareholders decided at the Annual General Meeting in 2015 to pay remuneration to the Board of Directors for the period from 4 July 2014 to 30 June 2015 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 18 May 2015).

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 42,090,909 were spent on remuneration paid to members of the Russian Railways Board of Directors.