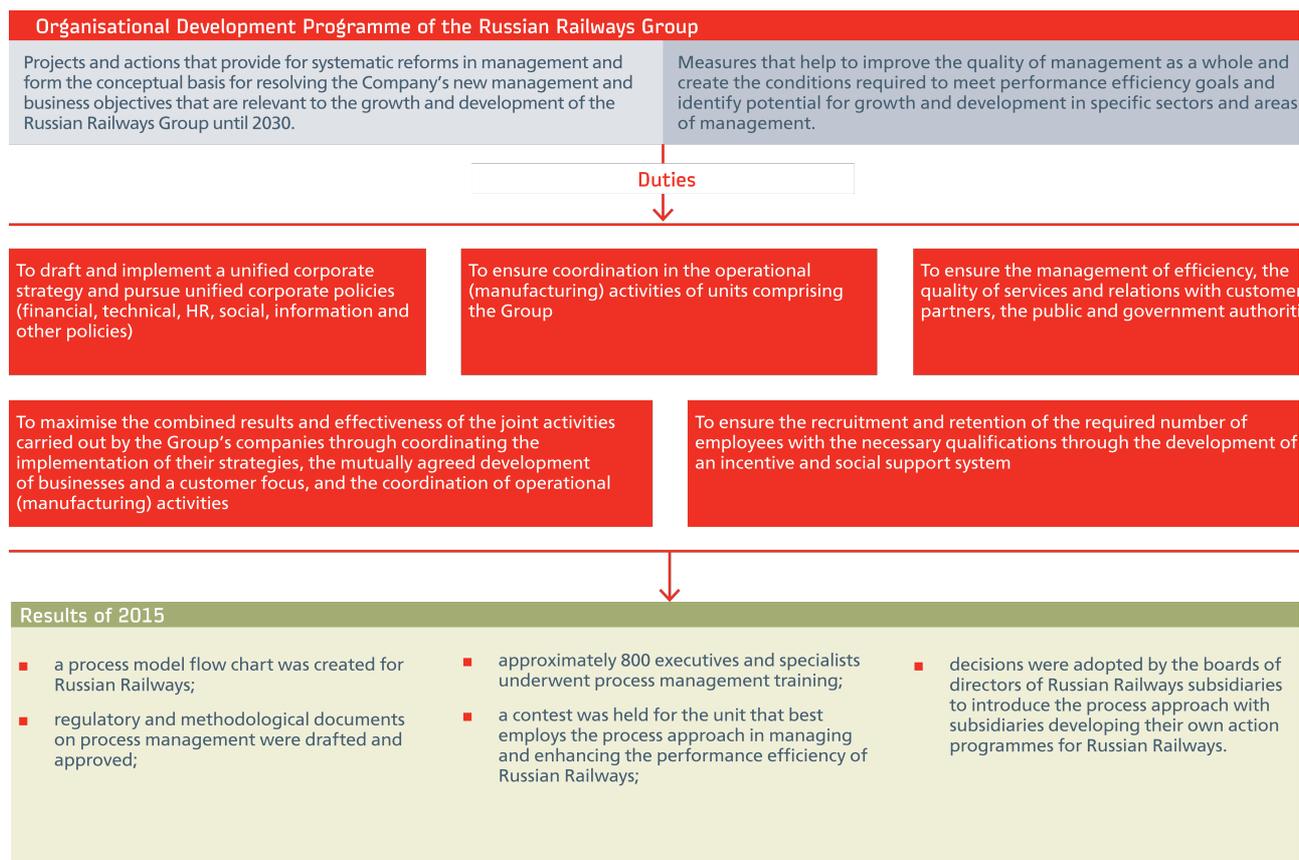


[/ Strategy / Organisational model](#)

Organisational model

Organisational development of the Russian Railways Group

The Russian Railways Group's Organisational Development Programme until 2015 was implemented to ensure the targeted development of all components of the management system.



The existing management system and organisational structure of the Russian Railways Group was established under the influence of the business model established by the Company, target markets as well as the composition and structure of its assets.

The Russian Railway Group's management system consists of processes to manage the business side, employees involved in such processes, the organisational structure and tools that ensure the adoption of effective decisions. It is designed to ensure the Group's long-term economic efficiency, financial stability and competitiveness through the optimal alignment of its economic goals and the capabilities (manufacturing, financial, intellectual and material) of both its internal and external environment. In order to achieve this, the system must respond efficiently and promptly to any changes that occur, resolve contradictions, conflicts and crisis situations, dynamically develop the Group's internal environment and also impact the external environment taking into account possible synergy.

In accordance with the business development goals set by the Group and the external environment, improvements to the management system in the period until 2020 will aim to introduce tools and establish processes that allow for continuously enhancing performance efficiency and the quality of services while also meeting customer demand, including through:

- forming and implementing mutually agreed plans and development programmes for Russian Railways and its S&A;
- coordinating the operating activities of the Group's business units;
- optimising production and management processes;

- implementing unified corporate policies (financial, technical, HR, social, information and other policies);
- recruiting and retaining the required number of employees with the necessary qualifications.

Contribution of the procedural approach to improving the Group's performance efficiency

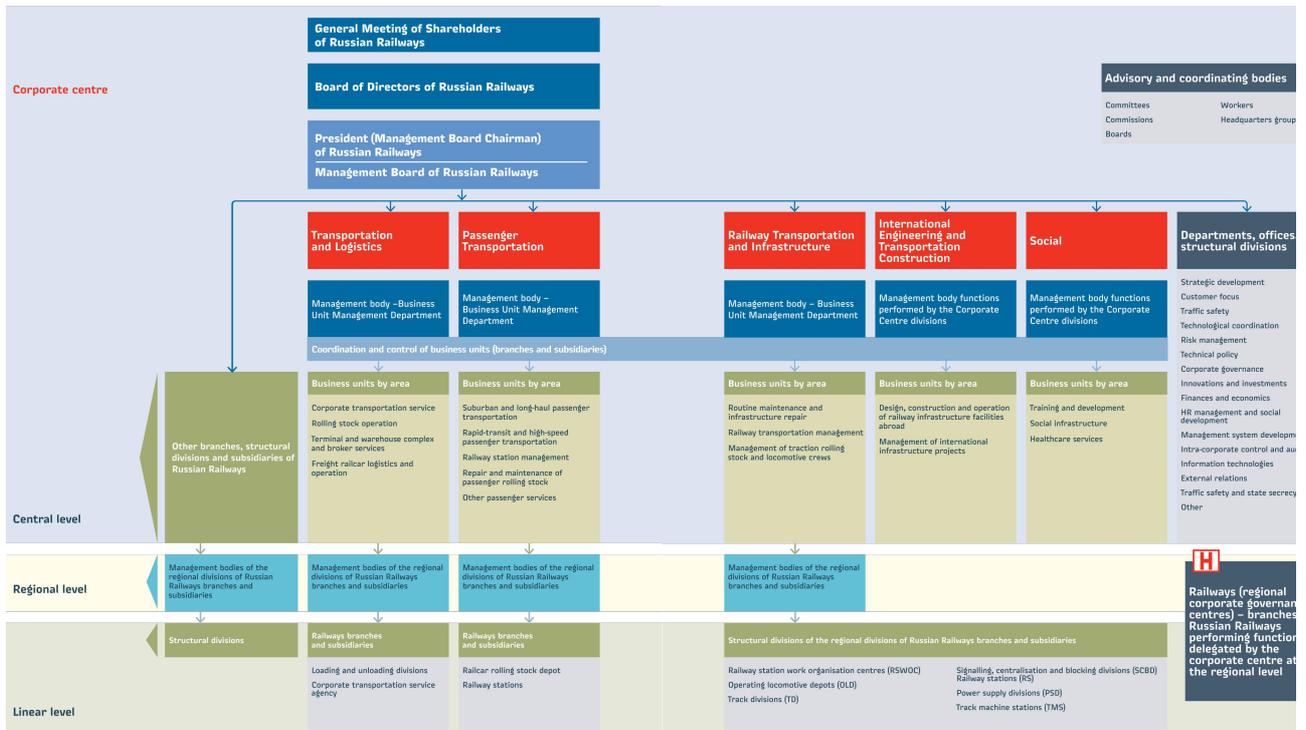
In 2016, Russian Railways set the objective of describing processes to an extent that allows for optimising end-to-end processes to improve customer satisfaction.



Organisational, technical and technological measures are being developed to improve performance efficiency, optimise costs and increase income as part of an Action Programme to improve the performance efficiency of Russian Railways in 2013-2015.

Work to improve the Company's performance efficiency is organised on project-based principles. Organisational methods to improve performance efficiency have been established and are being further developed.

Diagram of organisational model



Description of the organisational model

The Group's Corporate Centre and business divisions grouped into business units are the core components of the organisation model.

The Corporate Centre is 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.

A business division is a 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.

A business unit is a structural entity that includes several business divisions and is responsible for the Company's top priority businesses.

The Corporate Centre includes:

- at the central management level: the Russian Railways Management Board, advisory bodies and administrative staff consisting of departments (including Business Unit Management 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 divisions are grouped into business units to optimise the work of the Corporate Centre. The inclusion of a business division in a business unit ensures it focuses on fulfilling the strategic objectives of the business unit and enables the Corporate Centre to perform monitoring and coordination functions more effectively.

Corporate Centre

The Corporate Centre is where strategic decisions are made and general policies and standards are formed in the target structure.

The Corporate Centre's main area of responsibility is to determine the Group's long-term development objectives, distribute the Group's resources based on such objectives and also coordinate the interaction of business units and business divisions amongst each other and with external parties.

The Corporate Centre does not directly manage business activities.

Railways – branches of Russian Railways that perform the functions of Regional Corporate Governance Centres (RCGC)

The Russian Railways Group's business covers the entire territory of the Russian Federation and is a significant factor in the country's socioeconomic development. Given the geographic scale of the business complex, the Group's management functions are fully performed at the regional level by railways - branches of Russian Railways. Railways are authorised representative offices of the Russian Railways administrative staff in the regions. They are centres of corporate control and organisational support at the local level.

Business unit management bodies

Business unit management bodies coordinate the activities of business divisions during the planning, operational and investment activity stages at the central, regional and linear management levels.

Business unit management bodies are centres responsible for achieving a business unit's targeted benchmarks.

Business divisions

Business divisions handle operating activities within the Russian Railways Group. Each business division is organisationally or legally a separate component of the Russian Railways Group and a centre of responsibility for the results and effectiveness of the type of activities it performs as well as achieving a business division's targeted benchmarks.

Business divisions perform activities in strict compliance with corporate policies, norms, standards and regulations on business processes and are responsible for resolving problems and achieving the indicators prescribed by the Corporate Centre and business unit management bodies.

The goals, objectives and strategy KPIs of business divisions are determined by breaking down the goals, objectives and targeted benchmarks of the Group Development Strategy.

Business divisions are granted broad powers in adopting operational decisions and determining ways to achieve strategic goals as well as financial and non-financial indicators.

Business divisions are granted the right to independently identify methods to achieve their strategic development provided that these goals are consistent with the Group's Development Strategy, the business unit's development programme and general corporate policies.

Function:

- organising work with consignors;
- establishing and developing a transport service system;
- developing operator and logistics activities.

Operating within the business unit are subsidiaries, affiliates and branches of Russian Railways, which include the major freight operators:

- Federal Passenger Company;
- UTLC;
- GEFCO.

A strategic priority is for the Russian Railways Group to establish a diversified product basket with a transition from providing mostly transportation services to providing freight owners with complex integrated door-to-door services with a subsequent expansion in the spectrum from 2PL to 3PL and 4PL services and the formation of global logistics chains.

Passenger Transportation Business Unit

Functions:

- providing transportation services for passengers, baggage and cargo luggage;
- passenger service and passenger rolling stock maintenance.

Transportation activities within the business unit are performed by:

- suburban transportation — 25 suburban passenger companies (Suburban Passenger Company) and Russian Railways (via High-Speed Transportation Directorate — branch of Russian Railways);
- the main long-haul carrier is Russian Railways subsidiary Federal Passenger Company.

A strategic priority is to expand the range of advanced transportation services offered to customers by accelerating and increasing multimodal transportation and improving the quality of traditional services in trains and areas related to transportation.

One of the key objectives is to expand the operating domain of rapid-transit and high-speed transportation between the country's largest metropolitan areas on the basis of modern efficient solutions.

Railway Transportation and Infrastructure Business Unit

Function:

- maintaining infrastructure and the public railway transportation locomotive fleet.

Activities within the business unit are performed by the following structural divisions of Russian Railways:

- Central Infrastructure Directorate;
- Traction Directorate;
- Central Traffic Control Directorate.

The Railway Transportation and Infrastructure Business Unit is the largest unit within the Russian Railways Group in terms of asset size (75%), investment and essential personnel (70%). The business unit's activities ensures the Russian Railways Group's services comply with the market and economic requirements for the quality and accessibility of transportation, orders for technological innovations and the creation of conditions for the development of the Group's other business units. Approximately 74% of the Group's income depends on this business unit's activities.

International Engineering and Transportation Construction Business Unit

Function:

- Providing services for the design, construction and supply of equipment required to maintain and operate infrastructure facilities.

Activities within the business unit are performed by structural divisions and S&A of Russian Railways, including:

- RZD International LLC;
 - RasonKonTrans JV.
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Social Unit

Function:

- overseeing the social responsibility policy with respect to employees, society and the government.

Activities within the business unit are performed by the following structural divisions and S&A of Russian Railways:

- Social Development Department;
 - Personnel Management Department;
 - Labour Organisation, Remuneration and Motivation Department;
 - Russian Railways Health;
 - Railway Trading Company.
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