

## EXTERNAL AUDIT

The Company's auditor for 2019 was selected following an open tender to conduct a statutory audit of Russian Railways' financial (accounting) statements and the consolidated IFRS financial statements for 2019. The tender was held in accordance with the Federal Law No. 44-FZ On the Contract System in the Federal and Municipal Procurement

of Goods, Works and Services for State and Municipal Needs dated 5 April 2013.

As per Order No. 1393-r of the Russian Government dated 29 June 2019, Ernst & Young was approved as Russian Railways' auditor for 2019.

The external auditor disclosed and submitted to the Audit and Risk Committee of the Board of Directors information

on all relations and matters to be assessed for compliance with independence criteria. In performing its duties, the auditor had no conflict of interest.

Ernst & Young's remuneration for conducting the statutory audit of the Russian Railways' financial (accounting) statements and consolidated IFRS financial statements is RUB 138 m, including VAT of RUB 23 m.

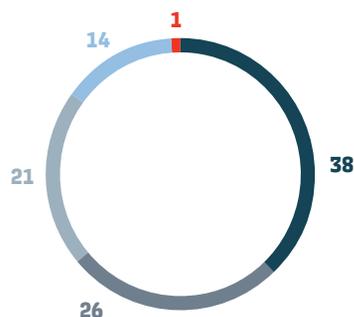
# Anti-corruption

## CONFLICTS OF INTEREST

Resolution of conflicts of interest is one of top priorities of the Company's anti-corruption policy. Russian Railways has put in place procedures to identify, resolve and prevent conflicts of interest.

The conflict of interest procedures for the members of the Company's Board of Directors are outlined in the Regulation

### Measures to resolve conflicts of interest in 2019, %



- Renouncing of personal interest by the employee
- Suspension
- Change of job duties
- Reassignment
- Limiting of access to information

on the Board of Directors of Russian Railways<sup>3</sup>. The members of the Company's Board of Directors, acting reasonably and in good faith, are expected to make decisions considering all available information, in the absence of a conflict of interest. The members of the Company's Board of Directors may not use their official position and information about the Company's operations for their personal advantage or allow using the same by third parties. Directors have a duty to disclose to the Board of Directors any matter under consideration by the Board of Directors in which they have a personal interest before the discussion of such matter begins and a duty to abstain from voting on any such matter.

There is a procedure in place obliging the members of the Board of Directors to inform the Audit Commission and the Company's auditor about any legal entities, in which they independently or jointly with their affiliated person (persons) own 20 or more percent of voting shares (interests, stakes), as well as about their participation in the governance bodies of legal entities, any known or proposed

transactions, in which they may be considered as interested parties, and about an intention to establish or hold interest in any entities competing with the Company.

In accordance with the Regulation on the Settlement of the Conflict of Interest of Russian Railways<sup>4</sup>, all employees, including the members of the Management Board, are required to disclose conflicts of interest.

In 2019, 184 cases of conflict of interest were revealed (up 75% vs 2018) due to improved ways of identifying them. Measures were taken to resolve each conflict of interest depending on the case (see the chart).

In order to identify and eliminate causes of and conditions conducive to the emergence of conflicts of interest, ensure an objective and timely consideration and resolution of conflicts of interest, and protect the legitimate interests of Russian Railways and the rights of its employees, the Company has established a Conflict of Interest Commission<sup>5</sup>.

<sup>3</sup>. Approved by Order No. 265-r of the Russian Government dated 25 February 2004 (as amended).

<sup>4</sup>. Approved by Russian Railways' Order No. 321 dated 24 February 2016.

<sup>5</sup>. As per Russian Railways' Order No. 322r dated 25 February 2016.

## RUSSIAN RAILWAYS' ANTI-CORRUPTION POLICY

### Key focus areas of Russian Railways' Anti-Corruption Action Plan for 2018–2020

Identify and resolve conflicts of interest; support the work of relevant commissions	Cooperate with public prosecution and law enforcement agencies
Monitor the compliance of Russian Railways' employees with anti-corruption requirements, restrictions, and prohibitions	Implement anti-corruption initiatives jointly with the Russian Ministry of Labour and Social Protection, non-governmental organisations, major business associations and business community in general
Make sure that employees read and acknowledge the Company's by-laws	Assess and update the register of corruption risks
Arrange legal training and promote anti-corruption initiatives among employees	Take measures to minimise corruption risks
Train and educate employees	Take measures to prevent corruption

Russian Railways' anti-corruption policy is based on a set of interrelated principles, procedures and initiatives designed to prevent and combat corruption and mitigate corruption risks. It is intended to ensure that managers and employees, as well as Board members, the investment community and other parties align around the idea of zero tolerance to corruption in all forms and manifestations and inevitability of punishment for corruption-related offences.

The measures taken by the Company to prevent corruption were approved by experts as meeting anti-corruption laws and provisions of the Anti-Corruption Charter of the Russian Business.

The Company operates in accordance with the National Anti-Corruption Plan<sup>1</sup> and Russian Railways' Anti-Corruption Action Plan for 2018–2020.

In 2019, the Group implemented the following key initiatives:

- submission of income, expenses, assets and liabilities statements by employees holding corruption-prone positions;
- ensuring that employees comply with restrictions, requirements, and prohibitions with respect to notifying the employer of the attempts to induce them to commit corruption offences as well as with the procedure for reporting gifts received in an official capacity or while discharging their duties;
- holding best practice workshops involving representatives of government and law enforcement agencies, public organisations and Russian Railways' employees responsible for the activities aimed at preventing and combating corruption in Khabarovsk and Rostov-on-Don;
- implementing anti-corruption initiatives jointly with the Russian Ministry

of Labour and Social Protection, Office of the Prosecutor General, Russian Union of Industrialists and Entrepreneurs, Chamber of Commerce and Industry of the Russian Federation, educational institutions and business community to improve, unify, and enforce legislation, assess anti-corruption practices, shape and encourage responsible behaviour of employees;

- notifying the Audit and Risk Committee of Russian Railways' Board of Directors of the results of monitoring of risk management processes and internal anti-corruption control, as well as the effectiveness of anti-corruption initiatives implemented by Russian Railways.

An effective feedback channel is Russian Railways' Anti-Corruption Hotline. In 2019, the number of messages received by the Hotline more than doubled – 654 vs 323 in 2018.

<sup>1</sup> Approved by the Russian President's Decree No. 378 dated 29 June 2018.