

Internal control and audit

At Russian Railways, the internal control system (internal control) is understood to include follow-up internal control and internal control as part of the integrated risk management and internal control system (for details see the Risk Management section).

The Company's internal control system is designed to provide reasonable assurance that Russian Railways will achieve its goals. Russian Railways' internal control system leverages the most up-to-date organisational and methodological framework and best international and national professional practices, operating in full compliance with the ethical standards applied by the internal audit and control functions in the Russian and global business communities.

The main objectives of the internal control system are:

- to ensure the efficiency and robustness of business operations;
- to safeguard assets and use resources in a cost effective manner;
- to identify and manage risks;
- to ensure the accuracy and completeness of financial (accounting) and other types of statements;
- to ensure compliance with the laws and regulations of the Russian Federation and by-laws of Russian Railways.

The Company's internal control system is determined by its focus areas and internal control structures. The internal control system focuses on the business operations of Russian Railways' units and the Company's business processes. The main structures in charge of the internal control function and their responsibilities are as follows:

- governance bodies such as the Board of Directors and its Audit and Risk Committee, the Chief Executive Officer – Chairman of the Management Board of Russian Railways, relevant deputies of the Chief Executive Officer, and the Director for Internal Control and Audit are responsible for putting internal controls in place at the corporate level;
- heads of branches, departments, divisions and units are responsible for putting internal controls in place and ensuring their smooth running at the operational level;
- employees are responsible for the timely and efficient execution of the existing internal control procedures;
- in addition to implementing internal controls and ensuring their smooth running in relevant business units, certain departments and divisions are also responsible for exercising functional internal control within the given terms of reference in relation to end-to-end processes;
- special internal control structures are responsible for select functions. The Zheldorkontrol Internal Control Centre is in charge of follow-up internal control to identify violations and materialised risks. The Zheldoraudit Internal Audit Centre is responsible for assessing the organisation and functioning of the internal control system.

Russian Railways' Board of Directors and its Audit and Risk Committee determine the overall concept of the internal control system, review its performance assessment results, and analyse its actual state subject to the nature, scale and conditions of Russian Railways' operations.

The Deputy Chief Executive Officer – Director for Internal Control and Audit of Russian Railways supervises the internal control and internal audit activities, with the Zheldorkontrol Internal Control Centre and the Zheldoraudit Internal Audit Centre reporting directly to the Director.

The Zheldorkontrol Internal Control Centre is a structural unit of Russian Railways. It has the following key responsibilities:

- to organise and conduct follow-up internal control focused on promoting the economic stability and financial transparency, including follow-up control procedures and audits of financial and business operations of the Company's business units, its subsidiaries and affiliates as required, as well as other companies, including non-commercial entities of Russian Railways;
- to provide Company management with timely information on business and financial performance; violations and gaps; tax, financial and other risks identified at business units, subsidiaries, affiliates and other entities of the Company, as required, for management decision-making purposes;
- to ensure timely elimination of violations and gaps in the operations of the Company's business units and other entities identified by the Centre.

The main focus areas of the Centre's follow-up control at business units, subsidiaries, affiliates and other entities of the Company, as required, include:

- control of business and financial operations;
- control of the progress of investment projects and capital repairs plans;
- control of procurement;
- control of transportation operations and the completeness of revenue collection;
- control of property management.

The Centre has 15 regional departments situated across the Company's operating domains.

Internal audit

The continuous development and enhancement of the internal audit function is focused on supporting the strategic goals of Russian Railways and improving operational performance and the effectiveness of business processes, the reliability and efficiency of the Company's risk management and internal control systems, and corporate governance practices.

The objective of the internal audit function is to assist the Board of Directors and executive management bodies with enhancing the efficiency of management practices and improving business and financial performance of the Company through a systematic and consistent approach to the review and assessment of the risk management and internal control system and corporate governance practices to provide reasonable assurance that the Company will achieve its goals.

The internal audit has the following key objectives:

- to organise and conduct internal audits at Russian Railways to improve the efficiency and effectiveness of business processes, reliability of reporting, safety of assets, compliance with the laws of the Russian Federation and by-laws of Russian Railways;
- to systematically and consistently assess the design, reliability and efficiency of the risk management and internal control system and evaluate corporate governance practices;
- to promptly and accurately inform Russian Railways' management and governance bodies about the state of financial and business operations, the efficiency of business processes, and the reliability and efficiency of risk management and internal control procedures and corporate governance practices at Russian Railways and its business units;
- to prepare proposals and recommendations on improving operations, enhancing the reliability and efficiency of the risk management and internal control system and corporate governance practices for the entities subject to internal audit and/or Russian Railways as a whole.

The Zheldoraudit Internal Audit Centre, a structural unit of Russian Railways ("Zheldoraudit"), is in charge of internal audit. The work of Zheldoraudit is governed by the Regulation on Internal Audit¹, which was developed in accordance with methodological guidelines and recommendations on internal audit prepared by the Federal Agency for State Property Management and approved by instructions of the

Russian Government, the Listing Rules of the Moscow Exchange², Internal Auditor Occupational Standard³, subject to International Standards for the Professional Practice of Internal Auditing, to the extent they do not contradict Russian laws, and the Regulation on the Zheldoraudit Internal Audit Centre.

The Regulation on Internal Audit ensures that Zheldoraudit complies with the requirement for the segregation of administrative and functional reporting lines and is functionally reporting to the Board of Directors and administratively reporting to the CEO – Chairman of the Management Board; provides for a balance of internal audit competences between Russian Railways' Board of Directors, its Audit and Risk Committee, and the CEO – Chairman of the Management Board; and guarantees the adherence to the principle of independent and objective internal audit to enable the fulfilment of the main internal audit tasks and functions.

Zheldoraudit's headcount is 58 FTEs.

¹ Approved by the Company's Board of Directors (Minutes No. 19 dated 22 July 2020) and enforced by Russian Railways' Order No. 1795/r of 21 August 2020.

² Approved by the Supervisory Board of the Moscow Exchange on 21 January 2020.

³ Approved by the Ministry of Labour and Social Protection of the Russian Federation on 24 June 2015.

In 2020,

Zheldoraudit

won the

Best Internal Audit Function

award in the annual **National Efficient Internal Control and Internal Audit Awards run by the National Union of Internal Auditors and Controllers.**

External audit

The Company's auditor for 2020 was selected following an open electronic tender¹ to conduct a statutory audit of Russian Railways' accounting (financial) statements and the consolidated IFRS financial statements for 2020.

Order No. 2509-r of the Russian Government, dated 30 September 2020, approved by Ernst & Young as Russian Railways' auditor for 2020.

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 2020 statutory audit of the Russian Railways' accounting (financial) statements and consolidated IFRS financial statements is RUB 138 m, including VAT of RUB 23 m.

¹ Held in accordance with Federal Law No. 44-FZ On the Contract System in the Procurement of Goods, Works and Services for State and Municipal Needs dated 5 April 2013.