

HEALTH AND SAFETY

Providing a safe working environment for our people and minimising the risks related to coal production are key priorities within SUEK's operations.



Degasation station
in Kemerovo



OUR PRIORITIES:

Continually improve our production management to ensure occupational and workplace safety;

Address atmospheric safety issues;

Ensure our production sites have the latest equipment and introduce modern safety systems and monitoring instruments;

Ensure our health and safety information system functions at a company-wide level;

Improve the skills and capabilities of safety professionals, through the provision of dedicated training, staff education on safe working practices and improvements in workplace discipline;

Reduce the negative impacts of coal production on employee health and wellbeing;

Ensure all employees are supplied with modern, high-quality work clothes and protective equipment, in line with our corporate standards; and

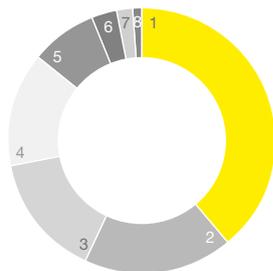
Implement special preventative medical programmes.

Our approach

The system we have in place for managing health and safety across the company is regulated by our internal Occupational Health and Safety Policy and complies with the most up-to-date international standards. It is designed to minimise injuries and accidents at our production sites. Our corporate health and safety standards cover company staff and contractors providing services at our sites and facilities. Our production facilities in Kuzbass, Krasnoyarsk and Khakasia undergo regular audits to assess our compliance with the OHSAS 18001 occupational health and safety management standard.

To minimise industrial risks, every year the company updates and implements a comprehensive range of health and safety measures. In 2016, SUEK allocated \$48m to health and safety programmes, interventions and initiatives.

Allocation of funding for health and safety in 2016



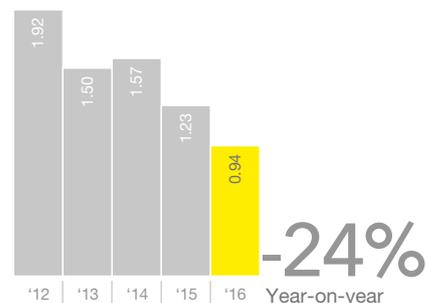
1. Technical measures **39%**
2. Mine rescue teams and other emergency response units **18%**
3. Improvements in the hygiene and technical conditions of sites and facilities **15%**
4. Procurement of personal protective equipment **14%**
5. Organisational measures **8%**
6. Health and safety research and design work **3%**
7. Procurement of equipment and instruments **2%**
8. Insurance **1%**

Overview

From 2012 to 2016, the lost time injury frequency rate (LTIFR) across SUEK's production sites went down from 1.92 to 0.94. In 2016, the LTIFR was down 8% on the previous year, with total lost time amounting to 7,421 days. Our production sites recorded 49 industrial injuries, compared to 62 in 2015.

Despite all our efforts, there were three industrial fatalities at our production sites in 2016. These occurred during open-pit mining operations in Buryatia and Krasnoyarsk, and during underground mining works in Kuzbass. We deeply regret this loss of life and extend our heartfelt condolences to the families and friends of the deceased. The main causes of these fatalities were organisational failures relating to the violation of health and safety requirements, as well as a lack of discipline and skill in key health and safety areas. To avoid such accidents in the future, we carefully analyse them and implement best practice in the field of occupational health and safety. We also fully understand the need to educate those who take unnecessary risks in the workplace, and are urging each and every one of our employees to be more responsible for their own safety and that of their colleagues. In 2016, we rolled out training sessions for our safety managers and professionals to increase levels of awareness, competence and skill and continued to organise express safety-knowledge testing among our production workers.

Lost time injury frequency rate (LTIFR)



FOR MORE INFORMATION ABOUT HEALTH AND SAFETY STRATEGIC PRIORITIES AND KPIS, SEE PAGE 40; FOR RISK MANAGEMENT, SEE PAGE 48.



Our efforts to improve health and safety systems and emergency response procedures are coordinated by the Industrial Safety Committee of SUEK's Management Board. In 2016, the Committee held three in-person meetings, during which 17 agenda items were considered. These included:

- Analysis of the circumstances and causes of industrial injuries with severe or fatal outcomes;
- Status of actions taken and planned to prevent similar accidents in the future;
- Programme of organisational and technical measures to improve the level of industrial and occupational safety at our sites;
- Introduction of the wireless information system for surveillance, providing warning and tracking for people who may be caught up in an accident;
- Results of the development and implementation of a pilot project enabling industrial safety to be monitored and controlled remotely.

The Nomination and Compensation Committee of the Board of Directors also regularly reviews health and safety issues.

Measures to improve health and safety

The main risks in coal mining include the formation of potentially explosive concentrations of methane, and the pollution of working areas in mine sites by explosive airborne coal dust. The company therefore pays particular attention to measures for improving air quality and conditions.

Improving the reliability of multifunctional health and safety systems and systems for monitoring air and gas conditions underground

Our mines are equipped with a multifunctional system that ensures the safety and control of our mining operations, and the safe management of technological and manufacturing processes under normal and emergency conditions.

Currently, the company's mines operate a number of subsystems as part of the general multifunctional health and safety system, including:

- Atmospheric safety system in charge of:
 - Monitoring and control of stationary fan systems, local ventilation fans and gas-suction units;
 - Monitoring and control of gas-drainage units and networks;
 - Monitoring of air and gas conditions.
- Systems for the monitoring and prediction of gas-dynamic phenomena;
- Systems for detecting early signs of endogenous and exogenous fires;
- Systems for the monitoring and management of fire, water supply and drainage;
- Systems enabling workforce communication, warning and tracking:
 - Tracking the location of personnel in underground mines;
 - Locating people caught up in accidents;
 - Delivering emergency underground communication and alerts via loudspeakers.

We have developed a range of measures designed to improve the reliability of our multifunctional health and safety system. At the SUEK head office in Moscow, our situational analytical centre is designed to monitor our systems in real time. At this centre, we also analyse system parameters and coordinate efforts with regional branches and industrial facilities during emergencies.

In addition, we have established a centralised health and safety control and analysis centre in Kuzbass. Here, our health and safety controllers receive information about atmospheric conditions and gas levels, as well as the safety of production processes in our mines. This information is monitored 24/7 to control production teams are not adversely affected by inappropriate atmospheric conditions.

In our Komsomolets mine in Kuzbass, we have piloted an automated remote system for monitoring the safety of mining operations, which enables information support, control and the management of technological processes in normal and emergency conditions. It also helps us to identify critical changes in operating parameters and predicts pre-emergency situations. At this stage in the project, monitored items include stationary fans and gas-drainage units. We plan to develop the system further with a view to improving safety conditions within our mines.

Improving gas drainage

To reduce the risk of explosive concentrations of methane forming, we carry out comprehensive gas drainage in our mines where methane content exceeds 10 m³/tonne of coal. We remove methane from our mining areas via a system of integrated gas-drainage wells. Since 2010, the total depth of our gas-drainage wells has increased by 50% to 331km, including 272km of gas-drainage wells in underground mines. We are constantly introducing new methods, equipment and technology to maximise the efficiency of the gas-drainage process.

To ensure we are more energy efficient, we use some of the methane removed from the workings to generate heat and electricity at the mines. This also allows us to reduce our greenhouse gas (GHG) emissions, thereby minimising our environmental footprint.

FOR MORE INFORMATION ON METHANE UTILISATION, SEE PAGES 70-71.



Reducing coal dust

To reduce the risk of coal dust explosions, SUEK mines have in place strict rules and requirements regarding stone-dusting using inert dust. Activities in this area include:

- Improving the quality of stone-dusting in our mines through the use of more than 300 mechanical stone-dusting units;
- Delivering a threefold increase in stone-dusting in our Kuzbass mines in the past six years, from 6,100 to 18,040 tonnes per year.

We are also constantly looking to enhance the efficiency of the measures we deploy to reduce coal dust emissions:

- Introducing vacuum collection, transportation and discharge of fine coal dust at our washing plants in Khakasia and Buryatia;
- Equipping production facilities and warehouses at Vanino Bulk Terminal with fog-generation units and foam generators that use foam and water to suppress dust – a unique technology that has never been used anywhere else before;
- Pre-project modelling of shields that will suppress over 80% of the dust generated at Murmansk Commercial Seaport. The design works are planned to be completed by the end of 2017. We also launched a fog-generation dust suppression system, which allowed us to reduce dust generation by 49%, along with storm water treatment facilities to be commissioned in 2017.

Tighter health and safety controls

SUEK has a zero-tolerance policy for violations of health and safety regulations. Preventing such violations plays a vital role in reducing the risk of accidents and injuries at our sites. To this end, we have developed and introduced specialised software to keep track of all health and safety-related incidents. This software prevents shift tasks from being issued until all identified health and safety violations have been dealt with. The system has already been deployed at all mining and processing sites across the company.

Personnel training and development

We work hard to ensure all employees have the knowledge, skills and training they need to carry out their roles safely and responsibly. All equipment purchased by the company comes with a special training video showing how to maintain high levels of health and safety during assembly, operation and maintenance.

In 2016, as part of our commitment to continuous staff training and health and safety awareness, we equipped all our mining facilities with computer terminals to enable complex pre-shift examination. Now, before starting a shift, each miner takes a test to check their health and safety knowledge.

In June 2016, under the supervision of SUEK's Chief Operations Officer, Vladimir Artemiev, Krasnoyarsk hosted our annual conference on industrial and occupational safety, medicine and ecology. The conference, at which we presented results from 2015 and set targets for the future, was attended by more than 150 company employees. It included a modelling workshop, attended by directors of production facilities and heads of health and safety services, to identify the causes and prevent hazardous production situations.

Promoting health and safety

In addition to training videos on safe working methods, SUEK has developed a series of video manuals on how to use and maintain personal protective equipment. Each video manual lasts between three and four minutes, and is accessible via information panels in office buildings, briefing rooms and on company buses.

SUEK's production sites also feature an HSE feedback system called Alarm Sheet, whereby employees can write down any hazards associated with a specific workplace or process. In the reporting year, the company organised a traditional health and safety contest using Alarm Sheet, under the slogan 'Reward Vigilance'. All winners were awarded prizes from SUEK.

In 2016, in order to promote a culture of safety across all our production sites, we held regular health and safety months

and competitions. Winners were awarded in the categories of 'Best facility', 'Best structural unit' and 'Best Health and Safety Officer'.

Identifying employees who are prone to excessive risk-taking

We test candidates applying for job vacancies and engineering positions to determine whether these potential hires are prone to excessive risk-taking. Our tests include factors such as a candidate's risk appetite, and their ability to learn and follow rules. These tests form an integral part of our recruitment and selection process, informing our hiring decisions at all levels.

Provision of modern work clothes and personal protective equipment

To minimise the negative impact of occupational hazards on our staff, the company has developed standard requirements for work clothes, footwear and other personal protective equipment. All SUEK employees receive up-to-date protective kit in the form of special clothing and footwear, helmets, respirators and goggles. In addition, our units carry out regular inspections to ensure compliance with corporate standards in this area.

In 2016, SUEK's units conducted six workshops on the use of personal protective equipment in Kuzbass, Krasnoyarsk region, and Khakasia. The workshops were devoted to the practical use of personal protective equipment, major changes to health and safety legislation and preventative measures to reduce occupational injuries and diseases.

The company has also set up an automated system of accounting for personal protective equipment, thereby improving planning and enabling the timely purchase of clothing, kit and equipment for employees.

Healthcare

In order to minimise the risk of occupational diseases, SUEK promotes preventative measures and healthy lifestyles among employees. We always try to make sure all our employees understand the importance of looking after their own health and adhering to health and safety regulations at work. Our goal is to develop effective health and safety measures that take into account both industrial and individual risk factors.

Since 2010, as part of our company-wide Health programme, we have been working to identify occupational diseases in their early stages, carrying out systematic healthcare work and promoting healthy lifestyles. All our employees are offered medical services, education about various medical conditions, consultations, diagnostic services and treatment.

The Health programme not only improves the living standards of our employees, but also translates into savings for the company as it reduces lost time due to injuries and illness. In the period 2010-2016, time lost through sick leave fell by more than 50% across the company, averaging 6.9 days per employee per year.

We have set up a special medical unit at our office in Moscow, staffed by highly-skilled practising doctors. The main task of this unit is to ensure the necessary conditions for the preservation, protection and promotion of workers' health, taking into account production risks and individual risks alike. Its main areas of focus include:

- Preventing occupational diseases;
- Reducing the temporary incapacity rate;
- Reducing the number of employees with recurrent or long-term illnesses.

As part of our efforts to ensure adherence to labour laws, in 2016 we completed a special assessment of working conditions at our sites across the company, which included identifying and measuring risk factors and updating workplace classifications in accordance with hazard levels. We are adopting special measures aimed at protecting workers' health as indicated by the findings of the assessment.

Health School programme

In 2016, as part of our commitment to health and safety, we implemented a 'Health School' programme aimed at promotion of a healthy lifestyle and culture, which included the following initiatives:

- As part of the company-wide Health programme, we made planned purchases of equipment for health posts, medical units and canteens totalling \$0.8m;
- As part of our anti-smoking initiative, we developed campaign posters and a programme to support the company's employees in quitting smoking, including the use of special medications and individual consultations. SUEK's units also organised mass anti-smoking sports and entertainment events. As a result, more than 1,200 SUEK employees have quit smoking;
- To implement our Healthy Eating programme at our facilities in the Krasnoyarsk and Primorye regions and Kuzbass, we provided partially subsidised hot meals for employees, based on a special low-calorie menu;
- We are also running a pilot project called Firefly, in which SUEK employees and their families are made aware of the need to ensure visibility on the road; reflectors are regularly issued to employees free of charge;
- To help prevent viral infections, we regularly administer vaccinations for flu, pneumococcus and tick-borne encephalitis;
- Our First Aid programme includes regular training sessions for rescue teams in the company's mines and open pits.



Water treatment facility in Kemerovo

ENVIRONMENT

Environmental considerations and commitments underpin all our managerial and production decisions. We are aware of the environmental impact of our operations and the environmental risks inherent in coal mining, washing and shipment. We are also aware of our responsibility to help protect and preserve the environment for present and future generations.



OUR PRIORITIES:

Create conditions that facilitate employee involvement in environmental risk mitigation activities, and improve our environmental management system and performance indicators;

Improve the company's environmental management system and relevant performance indicators;

Allocate relevant financial, engineering, human and other resources for these purposes and ensure their efficient use; and

Disclose environmental reports, ensuring transparency of environmental information, and engage public and local authorities in preparing, discussing, making and implementing environmental decisions.



Wastewater quality control in Khakasia

Our approach

Ensuring environmental safety, minimising ecological risks and maximising environmental protection measures are an integral part of SUEK's sustainable development strategy. Our programmes in the field of environmental protection include measures to reduce emissions, protect water resources, process and dispose of waste, reclaim land and achieve energy efficiency. These initiatives contribute to the sustainable development of the regions where we operate, improve the quality of people's lives, help us reduce operational risks and enhance our overall performance. In addition, we participate in international and Russian projects aimed at the prevention of climate change and biodiversity conservation; among other initiatives, these include the Clean Coal Association, the Russian National Carbon Agreement, the Bureau of Best Available Technologies technical working group, and the Mainstreaming Biodiversity Conservation into Russia's Energy Sector Policies and Operations project.

Our approach to environmental safety is enshrined in SUEK's Environmental Policy. This document defines our principles, commitments and mechanisms for implementation in the field of environmental protection. It provides the foundation for the development and delivery of all our environmental programmes and initiatives. In addition, our Environmental Policy is based on the environmental legislation of the Russian Federation. The company also adheres to international law and the precautionary principle as an approach to environmental risk reduction.

At SUEK's facilities in Khakasia, Krasnoyarsk and Kemerovo, we have an environmental management system in place that meets the requirements of the ISO 14001:2004 international standards. Our sites regularly undergo independent external audits to assess their management systems against these standards. In 2016, SUEK's facilities in Khakasia were certified and recertified for compliance with these standards.

We also provide training so our employees can enhance their environmental knowledge and qualifications. We collaborate with research bodies and expert organisations to introduce innovative and efficient environmental safety technologies. And we regularly publish information relating to the results of our sustainable development projects.

SUEK invested \$11m in environmental activities during 2016.

SEE SUEK'S POSITION ON CLIMATE CHANGE ON OUR WEBSITE WWW.SUEK.COM/EN/SUSTAINABILITY/ENVIRONMENT/



FOR MORE INFORMATION ABOUT ENVIRONMENTAL STRATEGIC PRIORITIES AND KPIS, SEE PAGE 41; FOR RISK MANAGEMENT SEE PAGE 49.

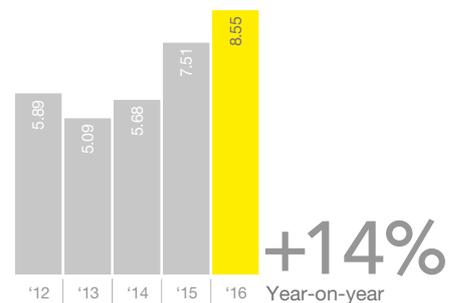


Air

In order to improve mine safety, we regularly conduct gas drainage within our mines. This process results in methane (natural gas) emissions, which account for 88% of SUEK's total air emissions.

In all our mining areas, where methane content exceeds 10 m³/tonne of coal, we carry out comprehensive gas drainage which includes the preliminary removal of gas from working coal seams, and the extraction of gas from mined-out areas. It is achieved via drilled surface holes and mine openings.

Methane utilisation (million m³ of CH₄)



Public recognition in 2016

In 2016, our environmental projects won a number of awards:

Winner of the 'Best Comprehensive Solution in the Field of Green Technologies' category at the Evolution Awards. These Awards recognise achievements relating to environmental aspects of sustainable development within the Russian Federation, including the development and use of green technologies. The key projects presented by SUEK were 'Clean Water' and 'Clean Air'. The core of the 'Clean Water' project is the construction of wastewater treatment facilities at the Rubana mine in Kuzbass. Unique for the coal industry, these facilities treat water used in production processes and return it to the environment cleaner than before being used. The 'Clean Air' project aims to guarantee the full recovery of methane emissions from longwalls, therefore limiting greenhouse gas emissions. This project has been successfully implemented at SUEK Kuzbass mines.

Winner of the 'Clean Production Development' category at the EraEco Awards, for measures aimed at reducing the negative impact of industrial operations on the environment, with support from UNIDO (United Nations Industrial Development Organization) and the Ministry of Natural Resources of the Russian Federation. These measures encompassed initiatives aimed at the reduction of emissions (including methane usage), the management and treatment of wastewater (in particular, the use of clean technologies at the Rubana mine), land reclamation (joint project between the Chernogorsky open pit and the Khakasia Research Institute of Agrarian Problems on biological land reclamation), improving energy efficiency, and the conservation of biodiversity in the regions where SUEK operates.

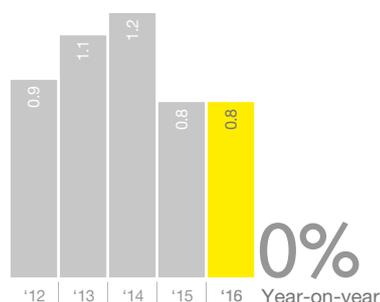
In 2016, as part of our commitment to reducing our environmental impact and supporting the Paris agreement on climate change, we continued to utilise captured methane for power generation and boiler combustion, thereby reducing greenhouse gas (GHG) emissions into the air. Our Kirova and Komsomolets mines are equipped with recovery systems and engine plants that capture gas and use it to generate heat and electricity. In 2016, we utilised 8.55 million m³ of methane captured from mined-out areas.

The rest of our air emissions relate to CO₂, NO_x and SO₂, which are below the limits prescribed by Russian legislation.

 FOR MORE INFORMATION ABOUT OUR SUSTAINABILITY PERFORMANCE PLEASE SEE GRI TABLES ON OUR WEBSITE WWW.SUEK.COM 

Additionally, we work to decrease dust emissions across the whole production and transportation cycle from mine to port. We use state-of-the-art technology for the vacuum collection, transportation and discharge of fine coal dust at our washing plants in Khakasia, Buryatia and Vanino Bulk Terminal. In 2016, we carried out the pre-project modelling of shields that will suppress over 80% of the dust generated at Murmansk Commercial Seaport. The design works are planned to be finalised by the end of 2017. We also launched a fog-generation dust suppression system, which allowed us to reduce dust generation by 49%, along with storm water treatment facilities to be commissioned in 2017.

The effect from methane utilisation (\$m)



Water

Most of the wastewater used by the company during its production cycle is natural water that is pumped out of mining areas during mining operations, with characteristics typical of local groundwater. The company does not withdraw water from sources believed either to be vulnerable and protected by the state, or especially valuable for local communities and biodiversity.

SUEK production sites are equipped with facilities for treating industrial wastewater and sewage. Through our continuous pollution-control and resource-conservation efforts, in 2016 our suspended and dissolved solids in wastewater level decreased to 0.23 kg per tonne of production, or by 9% year-on-year.

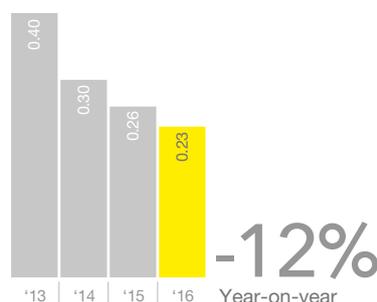
In 2016, we continued to design and construct advanced treatment facilities for mine, open-pit and household wastewater, and we overhauled our existing water supply and sewage system. These efforts should further reduce the concentration of solids in wastewater at a number of our facilities.

 FOR MORE INFORMATION ABOUT OUR SUSTAINABILITY PERFORMANCE PLEASE SEE GRI TABLES ON OUR WEBSITE WWW.SUEK.COM 

Energy efficiency

As part of the Russian government's nationwide energy-efficiency initiative, SUEK has developed and implemented an Energy Saving and Energy Efficiency Programme designed to reduce the company's energy consumption.

Suspended and dissolved solids in wastewater (kg per tonne of production)



In addition to its economic benefits, this programme enables us to achieve an important environmental objective, as reducing our energy consumption helps to minimise our overall impact on the environment.

In 2016, these measures helped us to reduce our rate of electricity consumption per unit of output by 5% compared to 2015. Our electricity consumption rate per m³ of rock extracted decreased by 6% year-on-year.

We also achieved other energy-efficiency targets: utilisation time and the diesel consumption of our dump trucks per tonne-kilometre.

Since 2014, we have been running an Energy Saving staff incentive Programme for energy efficiency performance improvement. In 2015-2017 we plan to reduce the consumption of key energy resources by an average of 4-5% per m³ of extracted rock.

To implement our Energy Efficiency Programme, in 2016 we carried out the following activities:

- Scheduled replacement of eight obsolete excavators with modern, energy-efficient models;
- Upgraded excavator control and power supply systems at the following open pits: Chernogorsky in Khakasia, Vostochny in Zabaikalye and Borodinsky in the Krasnoyarsk region;
- At the Tugnuisky open pit we commissioned an ESh-20/90 dragline, with innovative switched reluctance drives for pull, lift and swing. As a result, the unit power consumption reduced by 55% and productivity increased by 10%;
- Automated pumping stations at the Kharanorsky and Vostochny open pits in Zabaikalye and the Tugnuisky open pit in Buryatia;
- Implemented voltage stabilisation programmes in the Yalevskogo and Rubana mines in Kuzbass;
- Reconstructed power-supply networks at the Yalevskogo and Kotinskaya mines in Kuzbass;
- Scheduled energy audits at our facilities in Buryatia, Khakasia, Khabarovsk, Primorye and Zabaikalye;

- In Krasnoyarsk and Khakasia, introduced energy management systems, including incentive schemes designed to reduce energy consumption by promoting best practices and ensuring staff are engaged and interested; and
- At all sites, optimised production processes to boost the operating efficiency of energy-consuming equipment through reducing idle time and route optimisation.

We also made considerable efforts to improve the reliability of metering data for energy consumption. All the company's energy-intensive facilities now have automated measurement systems in place that quantify the financial value of the electric power we consume. We use these systems to clarify and calculate settlements with electricity suppliers for all SUEK sites.

Across SUEK facilities, we have a number of systems designed to track energy consumption for commercial purposes. In addition, all fuel-consuming machinery has been equipped with automated control systems, including a performance-monitoring system for mine trucks and other transport. This has enabled us to develop an effective system to control fuel consumption based on reliable instrumental measurements.

Land reclamation and biodiversity

None of SUEK's production sites are situated on protected or natural reserve areas; no rare or endangered species of animals, plants and fungi have been identified at our operational sites.

Most of the waste generated from coal mining consists of non-hazardous overburden, which is stored in internal and external dumps. This is used for filling sinkholes, backfilling and reclaiming land disturbed by mining operations, in accordance with approved programmes for the use of mineral-resource deposits.

We run extensive reclamation projects on land disturbed by SUEK mining projects, including rock-dump levelling, soil remediation, tree planting and landscaping. For many years, we have been conducting a unique land-reclamation and research

project in partnership with the Research Institute of Agrarian Problems of Khakasia, with the aim of developing recommendations on biological forestry restoration.

This process involves the creation of 'biodynamical' focal points in the hollows between coal dump ridges. In the autumn, the rock waste in the hollows becomes seeded with grass, bushes and trees, which we treat with bio-fertilisers. During the winter, the seeds are protected by snowfall from wind and solar radiation. They then emerge in the spring to create a humus layer that allows plants to spread across the dump areas, helping to improve floral diversity and grass cover. In seven to ten years, this reclamation method can transform coal dumps into comprehensive ecosystems.

In 2016, SUEK supported the construction of two major projects: the Sable Rehabilitation Centre in the Barguzin State Nature Biosphere Reserve, and the Seal Centre in Zabaikalye National Park.

We also launched a new environmental charity project in Kiselevsk, Kemerovo region. Called 'Save the Leopard Together', this project aims to raise funds for the Land of the Leopard National Park in Primorye. We also encouraged and enabled the town of Borodino, Krasnoyarsk region, to organise a charity fair supporting the rare Far Eastern leopard.

 FOR MORE INFORMATION ABOUT OUR SUSTAINABILITY PERFORMANCE PLEASE SEE GRI TABLES ON OUR WEBSITE WWW.SUEK.COM 

Tyre-recycling in Khakasia

In December 2016, a tyre-recycling project was launched in the city of Chernogorsk (Khakasia), the aim of which is to convert worn dump-truck tyres into new products: tiles for injury-free sports coatings, as well as rubber granules for road surfacing. This recycling unit has enough capacity to recycle all the worn tyres from every SUEK mine and open pit in the region, and the recycling process it uses is completely environmentally safe.

The rubber granules, when mixed into road asphalt, improve grip and make road surfaces more resistant to temperature change. Rubber gives elasticity to the surface and prevents it from cracking through expansion or contraction. Porous rubber tiles, meanwhile, can be used as an injury-free coating for sports grounds. Such an integrated recycling processing is primarily aimed at reduction of the amount of waste and re-using tyres to extend their life cycle.



OUR PEOPLE

Our people are our most important asset, and we strive to create the most favourable conditions for them. We continually work to improve health and safety, promote personal and professional development, and provide social support to all employees and their families.



OUR PRIORITIES:

Ensure a high level of industrial safety and labour protection;

Improve quality of life for all employees, creating favourable conditions at work and at rest;

Improve our professional training and development system, and enhance career opportunities across the company;

Recruit qualified employees to meet the company's needs;

Develop the internal communications system and promote our corporate culture.

2016 achievements:

Headcount planning and staff expenses

- Further development of labour standards for personnel operating our main production equipment;
- Further development of automation of staff budget and actual expenses calculation.

Recruitment and retention

- Increased staff mobility between the company's units and regions. By managing internal resources through the redeployment of employees, we retained qualified staff and harnessed their skills to focus on priority goals and objectives;
- Development and implementation of a comprehensive housing programme for employees;
- Implementation of a programme aimed at attracting talented young people into the company.

Assessment, development and training

- Further development of a training system for various staff categories (from Mine Foremen to Unit Directors);

- Continued development of 'HiPo' programme for talented employees;
- Ongoing creation of a succession pool for key management positions. Assessment of current level of employees' competency versus existing competency models. Realisation of individual development plans.

Internal communications and corporate culture

- Introduction of new internal communications tools providing better transparency (bulletin boards, plasma displays, information desks etc.);
- Rollout of internal information campaigns and other activities to support SUEK's corporate values;
- Further SUEK's Code of Corporate Ethics promotion.

HR administration

- Refinement of internal processes to reflect changes in labour laws;
- Introduction of changes within our HR administration processes;
- Updated regulations on units and job descriptions.

Overview

SUEK operates in eight regions of Russia and is the largest employer in the Russian coal industry. It is also represented in ten other countries and territories around the world – Poland, China, Japan, South Korea, Indonesia, the US, Taiwan, Cyprus, Switzerland and Lithuania.

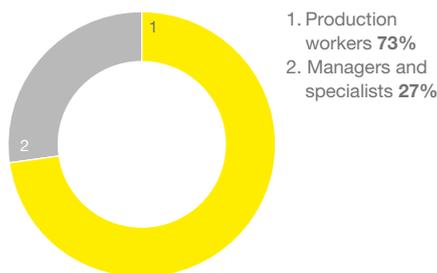
Our average headcount is 33,429¹ employees, 73% of whom are production workers and 27% are managers, specialists and administration staff. The socio-demographic characteristics of our workforce remain consistent. In 2016, the average age of our employees was 40.2, while the ratio of men to women remained practically unchanged from 2015, with men making up 75% and women 25% of our workforce. Staff turnover has also decreased steadily over the past three years.

Human resources management is regularly reviewed by the Nomination and Compensation Committee of the Board of Directors (for details see page 89).

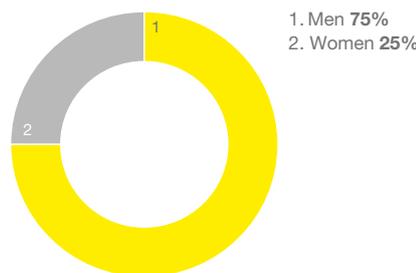
Assessment, remuneration and social support

SUEK regularly analyses the labour market and participates in annual salary surveys, which allows the company to make flexible and fair decisions related to pay and remuneration, taking into account the dynamics of salaries and trends in the

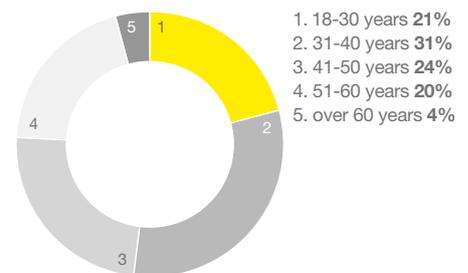
Composition of employees by personnel categories



Gender diversity of employees



Composition of employees by age



¹ The average number of SUEK personnel in 2016 increased following the consolidation of Murmansk Commercial Seaport by SUEK in December 2016.

provision of social benefits. SUEK regularly adjusts employees' salaries in response to the data provided by the Russian Federal State Statistics Service. As of the end of 2016, indexation of tariff rates and fixed salaries amounted to 12.9%.

Our remuneration system for production workers and specialists includes fixed and variable elements. The former is paid for the performance of professional duties at the required level. The variable part is an incentive to improve working efficiency. The ratio of the fixed to the variable elements is set at 70/30. Among other criteria, the variable part consists of bonuses for basic production and commercial operations, and for compliance with industrial and technical directives, safety rules and rules of the operation of machinery.

SUEK also applies a system of annual incentives for its management staff, based on compliance with key performance indicators (KPIs) and on the achievement of individual and company goals. This system focuses employees' efforts on key objectives and contributes to the implementation of the company's strategy in various functional areas.

We have also developed a special bonus system for employees participating in projects. The system includes long-term strategic projects, operational improvements and business-development programmes. As of 2016, 426 specialists

and managers participated in this long-term motivation programme as part of their involvement in one or more projects.

The following benefits extend to all employees within our production units. They are based on current legislation, industry agreements with trade unions and collective arrangements:

- Voluntary medical insurance;
- Payment upon retirement of 15% of an employee's average salary for each year of employment in the coal industry;
- Payment for travel to holiday resorts for employees and their families;
- Financial aid for pensioners, parental leave, high-priced medical treatment or for the funerals of company employees;
- Supply of coal to miners for domestic heating;
- Compensation for energy and other expenses;
- Compensation for the medical treatment and rehabilitation of employees and their children;
- Christmas gifts for children of employees.

One of the most important aspects of our social support for employees is our health promotion programme. Since 2014, we have extended voluntary medical insurance¹ to all employees at our production sites and facilities.

In 2016, total expenditure linked to benefits prescribed in collective arrangements amounted to \$21m.

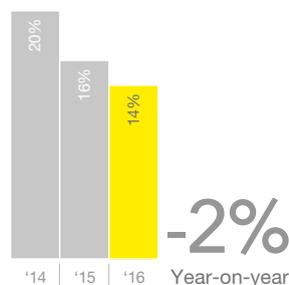
SUEK also actively cooperates with trade unions, in keeping with the principles of social partnership and constructive dialogue. This cooperation helps us to avoid or diffuse any tensions or grievances among our workforce, to respond quickly to changes in social climate and to resolve any problems quickly and efficiently. SUEK's social commitments are also enshrined in bilateral regional agreements with trade unions and collective arrangements regulating social and labour relations between employer and employees. To date, 94% of our employees are covered by such collective arrangements.

As well as financial incentives for employees, SUEK makes extensive use of non-material incentive schemes. As part of this approach, the best employees receive state, departmental and corporate awards. In 2016, the following awards were granted for exceptional work:

- According to the Russian Presidential Decree, 27 SUEK employees received state awards, including the highest state awards for seven senior managers in recognition of their effective management of one of Russia's largest companies;

Staff turnover rate

(%)



¹ Medical insurance is among the highest-priority benefits for employees, according to SUEK's surveys.

Housing for employees from Chegdomyn

As part of our commitment to enhancing quality of life through local development, in 2016 we began building a new residential area for employees at Urgal, Khabarovsk region. A pilot project, the 'Miner' residential complex is being developed as part of our efforts to improve living conditions in Chegdomyn, a town with 12,200 inhabitants. It will include 180 apartments, each fully refurbished, and will feature a large recreation area with a playground, sports facilities and a sports field, as well as onsite parking. The complex is due to be completed in the first half of 2017.

SUEK employees who choose to buy an apartment in the 'Miner' complex will receive an advantageous mortgage offer based on the lowest interest rates. They will also receive a soft loan from the company to help pay their first instalment, which can be written off at a later date. SUEK is also engaging with the relevant local authorities to facilitate additional subsidies for individual employees.

- 135 employees received awards from the Ministry of Energy of Russia;
- Over 1,000 SUEK employees were granted corporate awards.

Training and staff development

When implementing our approved HR management strategy, we focus closely on improving our training and development system for our employees, both at local and corporate level.

The key areas of staff development are:

- Professional training, retraining and qualification enhancement;
- Training in new occupations, and the development of talent for key positions at different levels.

Professional training at SUEK (training, retraining and development) is carried out at our 17 training centres. We are actively upgrading and improving our training facilities and materials, and we continually update our training programmes in line with company requirements. Training centres now feature a mentoring system designed to enable the sharing of knowledge and experience, and to improve the process of induction and adaptation for younger staff. In 2016, SUEK's training centres provided training for over 30,000 employees.

Working with young staff

SUEK is committed to the ongoing recruitment of young specialists. Targeted education for students, especially those from the regions where the company operates, improves our selection process and accelerates the integration of new recruits. In 2016, more than 400 students participated in our targeted education programmes at seven vocation-oriented universities in Russia.

SUEK has been involved in the Applied Science Youth Forum 'Mining School' since 2012. In 2016, 120 young specialists took part in its activities, and half of them (students from technical colleges in the Kemerovo and Khabarovsk regions) expressed a desire to work for SUEK. Each year, the Forum winners receive training under the Presidential Programme for the Training of Engineers.

This includes education at the country's leading mining universities and internships at production facilities in Japan, during which they study the principles of lean manufacturing and general management. In 2016, the Applied Science Youth Forum 'Mining School' won the 'HR Leader of the Year' award at the XII Russian Mining Forum.

Since 2014, SUEK's production facilities have also hosted youth councils comprising over 800 members. The youth councils' members develop projects aimed at improving production efficiency. They also participate in training programmes devoted to the development and career growth of young professionals.

Corporate culture and internal communications

We introduced an updated edition of our SUEK's Code of Corporate Ethics¹ at the end of 2015, as part of our efforts to develop our system of internal communications and improve staff loyalty.

We currently employ over 40 Ethics Coordinators and run Ethics Commissions with the involvement of our enterprise heads. Employees can put questions about the Code to their Ethics Coordinator (anonymously if they prefer) via special messaging boxes, either via an electronic form on the corporate portal or by using a multi-channel hotline.

During 2016, we received more than 500 messages from employees through our system for enforcing the Code. These messages were mainly concerned with health and safety, technical devices and personal protective equipment, voluntary medical insurance and holiday and treatment centres. All messages were recorded and analysed, and mandatory feedback was provided to the senders (if not anonymous).

In 2017, we will roll out initiatives and activities to help further implement the SUEK's Code of Corporate Ethics. These will include photo exhibitions at the company's production units, thematic contests, newsletters and meetings with managers.

¹ THE FULL VERSION OF CODE OF CORPORATE ETHICS IS AVAILABLE ON OUR WEBSITE: WWW.SUEK.COM



COMMUNITIES

Social activities are an integral part of SUEK's strategy. We implement various programmes focused on the development of the regions where we operate, with a view to improving the living standards of our employees, their families and local communities, and enabling open dialogue with all stakeholders.

We coordinate our actions with regional governments and engage with non-profit organisations and the business community.



Swimming pool in the town of Sagan-nur in Buryatia



OUR PRIORITIES:

Create a favourable and stable social environment in the regions where we operate;

Together with regional governments, improve housing facilities and develop education, sports, medical care and culture for the inhabitants of mining cities and towns;

Increase awareness among young people of coal mining as a career opportunity;

Improve the efficiency of the company's community investments by implementing modern technologies and approaches in the social sphere.



The village of Kirba near Vostochno-Beisky open pit in Khakasia



Our approach

Our social strategy is aimed at capacity building, that enables further development of local infrastructure and knowledge. We firmly believe that the development of human capital is the basic pre-condition for the sustainable development of regions and territories.

Our Corporate Social Policy is based on international standards including the UN Global Compact, the Social Charter of Russian Business, the ISO 26000 Standard and recommendations of the Global Reporting Initiative.

Overview

SUEK's social and charitable programmes can be divided into the following categories:

- Education;
- Sports and healthy lifestyle;
- Medical care;
- Urban land and infrastructure development;
- Leisure, culture and fulfilment of creative potential;
- Development of local community members' social and business skills;
- Affordable housing and public utilities;
- Improving local self-governance;
- Environment;
- Charity and assistance to vulnerable social groups.

SUEK implements community development programmes at all its key facilities. Overall, in 2016 SUEK implemented 150 social and charitable projects. The amount spent on community investment totalled \$15m.

SUEK to the Regions, a non-profit charitable organisation, is the main tool for implementing the company's social policy at regional level. The fund enables our regional teams to develop programmes based on the needs of individual communities.

Planning and assessment of social programmes

The planning and execution of our social programmes is based on our analysis of the social environment in each region where we operate, while their implementation is assessed by independent and corporate experts. Regional and local community development is monitored using integrated social research, cluster polls and feedback on activity outcomes.

Most of the company's social programmes are long term. We test each programme in one or two of the regions, and disseminate successful models to other regions. This networked project format allows us to optimise budget, maintain created new social organisations to and raise federal and regional funds for community development.

We regularly assess the efficiency of our social investments based on quantitative and qualitative measures.

Quantitative measures:

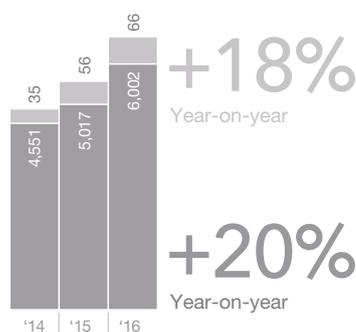
- Number of new organisations contributing to community development created as a result of the company's social activities;
- Amount of funds raised from various sources;
- Number of beneficiaries;
- Number of events held.

Qualitative measures:

- Increased efficiency of public-private partnership programmes;
- Sustainability of previously implemented social projects (a project continues to run independently, raising funds from various sources, with no financial support from the company);
- Favourable conditions for interaction with state authorities, the public and other stakeholders;
- Enhancement of SUEK's reputation as a socially responsible company.

During the reporting period, 12 programmes were assessed for efficiency.

Social investment performance indicators



- Number of created new organisations contributing to community development
- Number of direct participants in these programmes

Assessment of community investment programme efficiency

	2016	2015	2014
Number of programmes assessed for efficiency	12	10	9
Number of participants within these programmes	6,002	5,017	4,551
Number of created new organisations contributing to community development	66	56	35

Economic Camp for schoolchildren

SUEK's 'Economic Camp' programme for schoolchildren aims to develop initiative and entrepreneurial spirit among young people, and to help schoolchildren achieve a sense of professional identity. By creating a talent pool across the regions where we operate, the programme stimulates a desire for knowledge and helps young people develop self-study skills. It also supports teenagers from dysfunctional families. In 2016, 32 students from grades 8 to 11 attended the 'Economic Camp'. The students learned skills which are essential for finding a job and establishing oneself in adult life. Through business games and project competitions, they gained new knowledge in important areas such as the development of leadership skills, the ability to work as a team, time planning, project planning and information processing. They also acquired a range of useful contacts and interpersonal communication skills.

Efficiency assessments of the programmes we implement show that the social investment principle (i.e. when we fund programmes with the potential for development and measurable outcomes, rather than individual social projects) is the most effective tool for tackling regional socio-economic problems, for the following reasons:

- Development of small and medium-sized businesses allows the local population to purchase goods and services in their local area, creates new jobs and reduces the outflow of funds from the region;
- Development and execution of social programmes enables us to engage local communities and finance to help tackle current problems and create new organisations for social infrastructure;
- Development of small businesses and the non-commercial sector increases several times the efficiency of community-based real estate and infrastructure facilities;
- Targeted increases in the skills of community workers enable us to attract significant budgets and state funds for infrastructure development in a more efficient manner.

Key programmes in 2016

Urban land improvement and infrastructure development

In 2016, for the sixth consecutive year, we held our inter-regional urban land development competition called 'Comfortable Living Environment'. Taking place in every region in Russia where we operate, its objective is to identify and support the best ideas for creating comfortable living environments. It also aims to engage non-profit organisations and citizens' action groups in local urban land development.

FOR MORE INFORMATION ABOUT THE COMPETITION, SEE PAGE 41.



Development of social and business skills and activities

Our 'School of Social Entrepreneurship' programme focuses on tackling regional social problems by supporting enterprising individuals who want to start their own business. In 2016, participants implemented over 50 social and business projects, which included setting up new social infrastructure facilities in education, medical care, culture, sports, youth development and personal services.

Our 'Future of the Community – Future of SUEK' programme aims to develop public social initiatives in education, youth and child development, and maternal support. Helping to identify enterprising (and primarily young) individuals, the programme includes training workshops on social design, as well as an inter-regional social project competition. By engaging young people, non-profit organisations and other groups, we have established a mechanism for disseminating social design experience and skills among different communities. This has particularly improved the quantity and quality of the social project proposals submitted to our annual 'Comfortable Living Environment' competition.

Since 2005, we have implemented the 'SUEK's Work Teams' programme, which aims to support teenagers during their summer vacations. The project's main objectives are to prevent infringements of the law by minors, to support lower-income and multi-child families, provide professional guidance to teenagers, promote mining as a career and improve the condition of mining towns. In 2016, 2,113 teenagers enrolled on the programme. They helped with urban land development, tree planting, providing assistance to organisations, veterans and the disabled, looking after monuments, and restoring and installing architectural landscape features. They also became acquainted with production practices at SUEK facilities. As part of the programme, our regional offices held charity fairs whose proceeds went towards the Kommersant Publishers' 'Rusfond' and the 'Land of the Leopard' national park in Primorye.

SUEK's 'Young Leaders Course' focuses on developing young people's leadership and entrepreneurial skills and design experience. Based on acquired knowledge and skills, in 2016 the young participants identified social issues and developed appropriate projects under three categories: social entrepreneurship, social design, and inventive and investigative thinking. Projects designed by the participants will be implemented in the regions where SUEK operates.

FOR MORE INFORMATION ABOUT THE COMPANY'S STRATEGY AND KPIS, SEE PAGES 34-41.



The 'Leadership and Entrepreneurial Skills Training' programme focuses on developing a system of general and vocational training throughout the regions, in line with modern educational standards. In 2016, we held four training workshops for the staff of general and vocational educational institutions and departments from Khabarovsk, Khakasia, Krasnoyarsk, Primorye, Buryatia and Kemerovo. Since May 2016, the teachers trained as part of the programme have been developing and running entrepreneurship marathons among schoolchildren on 'Carbon gold for the 21st century'. These events cover about 2,000 students from 15 schools and colleges.

Education

SUEK's 'Our New Kindergarten' programme focuses on introducing innovative types of education and childrearing in line with current educational standards to kindergartens in the regions where SUEK operates. In 2016, we held training workshops for heads of kindergartens from Krasnoyarsk, Khakasia and Kemerovo. The new educational methods enable communities to achieve a new level of developmental progress and help to better prepare children for school.

Sports and healthy lifestyle

Each year, we hold the 'Children's Olympic Games' to promote sport and healthy lifestyles among teenagers, with a view to identifying promising athletes and bringing our employees' children together. In April 2016, 150 athletes took part in the Games, held in the town of Nazarovo in Krasnoyarsk region. Aged 13 to 16, the athletes came from mining towns located in Krasnoyarsk, Kemerovo and Khakasia regions. They competed in eight sports overall: darts, chess, draughts, volleyball, basketball, football, table tennis and a relay race.

In December, we held the 'SUEK Winter Olympics' in the city of Leninsk-Kuznetsky (Kemerovo region). The competition, which celebrated the company's 15th anniversary, hosted nine children's teams from all the regions, with each team competing in six sports: an individual ski race, a skiing medley relay, athletics, winter mini-football, tug-of-war and a 'winter fun' relay race. Evgeny Ustyugov, a two-time Olympic biathlon champion, attended the event as a guest of honour.

In January 2016, we launched 'Dream Ski', a programme which aims to help rehabilitate children and adults with various disorders. With SUEK's support, activities took place at the Tashtagol downhill skiing and snowboarding centre in the Kemerovo region. In February, during the Krasnoyarsk Economic Forum, we launched a second 'Dream Ski' site at the Bobrov Log centre in Krasnoyarsk. During the year, over 200 children from Kemerovo and Krasnoyarsk attended the rehabilitation programme, which is also supported by the Civic Chamber of the Russian Federation.

In March, we initiated a programme called 'Chess to Mining Regions', which is designed to promote chess in mining towns and improve the skills of young chess players. This programme was followed in June by our first interregional children's chess competition, 'Chess Hopes of SUEK', which was held in Krasnoyarsk. Young chess players representing the top six coal-mining regions of Russia – Krasnoyarsk, Khabarovsk, Zabaikalye, Primorye, Kemerovo and Khakasia – were given the opportunity to compete against Anatoly Karpov, the 12th World Chess Champion.

Leisure, culture and fulfilling creative potential

Our annual 'Children's Art Festival', also called 'Little Stars', targets young artistic talent among the 6-18 age group in the Krasnoyarsk region. The festival encompasses three categories: vocal music, instrumental music and choreography. Since the start of the programme in 2013, the number of participants has doubled. In 2016, 2,000 talented youngsters and about 300 performance groups took part in the festival.

Since 2007, we have been organising tours by Moscow theatre companies throughout the regions where we operate. Over the years, with SUEK's support, more than 10,000 residents of Kuzbass and Krasnoyarsk have watched charitable performances. At the end of each performance, actors meet with our employees and sometimes visit our mines.

Medical care

In cooperation with the Department of Presidential Affairs of Russia, SUEK has been organising medical treatment and healthcare since 2009 for the company's employees and children from mining regions. All treatment is provided at the Rehabilitation Centre of the Department of Presidential Affairs, a modern multi-disciplinary facility practising cutting-edge medical science. In 2016, over 180 children from eight Russian regions received high-quality medical diagnostics and a range of health services. In addition, over 40 SUEK employees received expert medical assistance at the Centre. We also launched a programme called 'Telemedicine', with pilot projects in Sagan-Nur township in Buryatia and Chegdomyn township in the Khabarovsk region. These are aimed at providing medical counselling services to local residents at leading medical centres and facilities.

Since 2013, the company has also been providing assistance for the medical treatment and rehabilitation of children with disabling conditions such as cancer, cerebral palsy and musculoskeletal system disorders. This programme is underpinned by cooperation with several Russian charitable funds: Rusfond (Kommersant Publishers), Gift of Life, and the Union of Charitable Organisations of Russia. During the year, we also provided financial support to regional charity funds, such as Shield and Happy Childhood, which support disabled children.