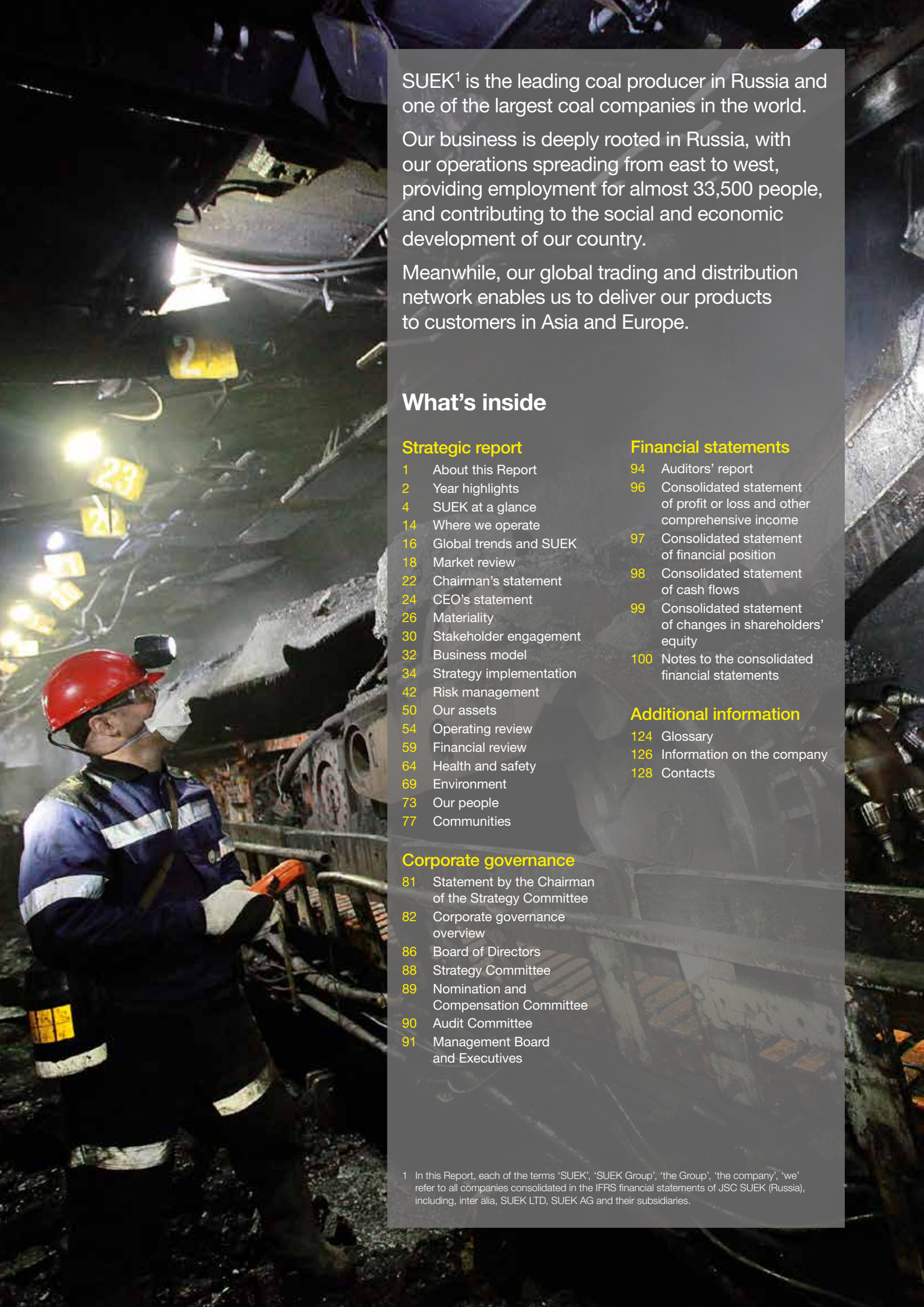




**FAR**  
**REACHING**

**DEEPLY**  
**INVOLVED**





SUEK<sup>1</sup> is the leading coal producer in Russia and one of the largest coal companies in the world.

Our business is deeply rooted in Russia, with our operations spreading from east to west, providing employment for almost 33,500 people, and contributing to the social and economic development of our country.

Meanwhile, our global trading and distribution network enables us to deliver our products to customers in Asia and Europe.

## What's inside

### Strategic report

- 1 About this Report
- 2 Year highlights
- 4 SUEK at a glance
- 14 Where we operate
- 16 Global trends and SUEK
- 18 Market review
- 22 Chairman's statement
- 24 CEO's statement
- 26 Materiality
- 30 Stakeholder engagement
- 32 Business model
- 34 Strategy implementation
- 42 Risk management
- 50 Our assets
- 54 Operating review
- 59 Financial review
- 64 Health and safety
- 69 Environment
- 73 Our people
- 77 Communities

### Financial statements

- 94 Auditors' report
- 96 Consolidated statement of profit or loss and other comprehensive income
- 97 Consolidated statement of financial position
- 98 Consolidated statement of cash flows
- 99 Consolidated statement of changes in shareholders' equity
- 100 Notes to the consolidated financial statements

### Additional information

- 124 Glossary
- 126 Information on the company
- 128 Contacts

### Corporate governance

- 81 Statement by the Chairman of the Strategy Committee
- 82 Corporate governance overview
- 86 Board of Directors
- 88 Strategy Committee
- 89 Nomination and Compensation Committee
- 90 Audit Committee
- 91 Management Board and Executives

<sup>1</sup> In this Report, each of the terms 'SUEK', 'SUEK Group', 'the Group', 'the company', 'we' refer to all companies consolidated in the IFRS financial statements of JSC SUEK (Russia), including, inter alia, SUEK LTD, SUEK AG and their subsidiaries.

## About this Report

Our 2016 Annual Report aligns with the principles of integrated reporting, as set out in the International Integrated Reporting Council (IIRC)'s Framework. In disclosing non-financial information, it also adheres to the Global Reporting Initiative (GRI)'s G4 Core level guidelines, as well as Russian legislative requirements.

Through our engagement with integrated reporting, our goal is to prioritise and focus the Report on 'material matters' – those aspects of our business and its impacts which are currently most relevant to the company's value creation as well as to key stakeholders (for the list of stakeholders, see pages 30-31). To ensure this Report addresses material matters and relevant topics, in 2016 we carried out in-depth engagement and consultation with our stakeholders. The methods we used to determine relevant topics and material matters are set out in the 'Materiality' section of this Report.

Overall, our research revealed that internal and external stakeholders considered various aspects of our business to have been material in 2016, including our financial performance, health and safety, production efficiency and product quality, as well as corporate governance.

Within this Report, we have also addressed how the company adjusts its strategy and governance to changing macroeconomic conditions and stakeholder requests. We have disclosed our key strategic goals together with the company's risks, enabling our stakeholders to better understand our future focus, challenges and opportunities.

We believe that this development of our reporting practice reflects our commitment to sustainable development in all areas of our performance – financial, operational, social and environmental – and to value creation for all stakeholders.

This Annual Report should be read together with our 2016 audited financial statements, prepared in accordance with International Financial Reporting Standards (IFRS).



FOR MORE INFORMATION ABOUT  
OUR SUSTAINABILITY PERFORMANCE  
PLEASE SEE GRI TABLES ON OUR  
WEBSITE [WWW.SUEK.COM](http://WWW.SUEK.COM)

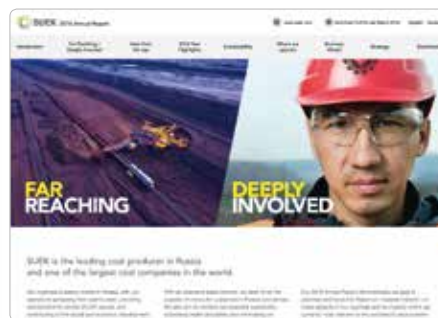


The Report was prepared under the supervision of SUEK's Chief Financial Officer, with the Audit Committee of the Board of Directors also collectively contributing to its preparation and ensuring its overall integrity. The Report was approved by the Board in March 2017. It is published in both English and Russian.

As part of our commitment to continuous improvement,  
we would be keen to hear your thoughts on this Report.  
Please send your feedback to: [ir@suek.ru](mailto:ir@suek.ru)



For more information  
please visit [www.suek.com](http://www.suek.com)



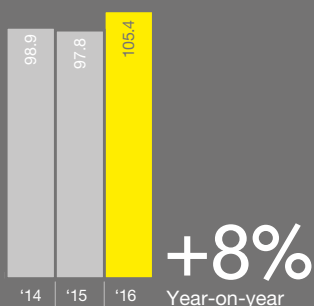
This Annual Report is also available  
online as an interactive document  
at [www.ar2016en.suek.com](http://www.ar2016en.suek.com)

# A SOLID PERFORMANCE

Our effective integrated business model allows SUEK to ensure sustainable results in all market conditions. In 2016, despite continued challenging market environment, we achieved a record operational performance and maintained financial stability. Constantly committed to the responsible development of our business, we continued to pay special attention to health and safety and environmental protection.

Despite historically low coal prices in the first half of 2016, the company delivered a strong financial performance and managed to preserve and strengthen its leading position in the Russian and international markets. This was the result of timely investments in washing capacities and transport infrastructure, as well as the expansion of trading activities. A particular focus on operational efficiency and safety also led to increased productivity and a significantly reduced injury rate.

## Production (million tonnes)

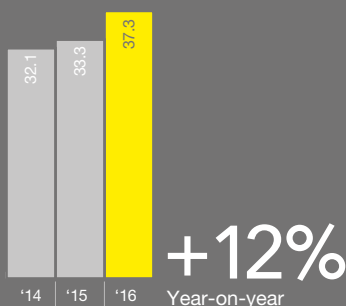


STRATEGIC PRIORITY:  
FOCUSING ON EFFICIENT  
GROWTH

**S1**

In 2016, the SUEK Group's coal mining units produced a record 105.4 million tonnes of coal, an 8% year-on-year increase compared to 2015. This significant uplift in production volumes was the result of further implementation of our operational efficiency programme, the launch of new highly productive mining equipment at mines in Kuzbass and Khakasia, and the development of the Nikolsky hard-coal open pit in Buryatia.

## Coal washed (million tonnes)

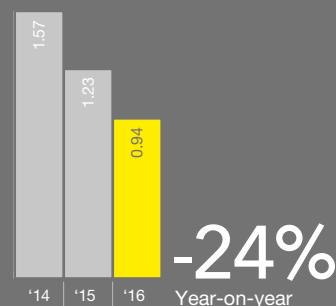


STRATEGIC PRIORITY:  
IMPROVING OPERATIONAL  
EFFICIENCY AND PRODUCTIVITY

**S2**

In 2016, we washed and processed 37.3 million tonnes of coal at our washing plants, a 12% rise compared to the previous year. This increase in volumes was due to the expansion of our coal-washing capacities, achieved by upgrading and increasing the load of existing plants to satisfy the growing demand for coal of a higher calorific value.

## Lost time injury frequency rate (LTIFR)



STRATEGIC PRIORITY:  
ACHIEVING HIGH SAFETY  
STANDARDS

**S4**

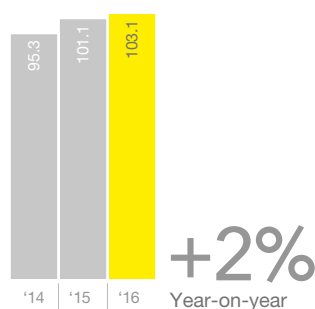
In 2016, LTIFR at our production units fell by 24% to 0.94, the lowest in SUEK's 15-year history and one of the lowest levels in the global coal industry. This was a result of the continuing improvements we are making to our industrial safety systems and the promotion of a safety culture across the company.

FOR OUR STRATEGY, SEE PAGES 34-49.  
FOR OPERATING REVIEW, SEE PAGES 54-58.  
FOR FINANCIAL REVIEW, SEE PAGES 59-63.





### Total sales volumes (million tonnes)

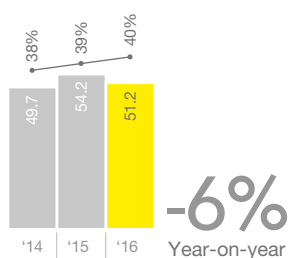


STRATEGIC PRIORITY:  
FOCUSING ON EFFICIENT GROWTH

S1

In 2016, strong demand from the Pacific region for imported coal, coupled with the development of SUEK's export sales network, contributed to record sales of 103.1 million tonnes of coal, which represented 2% year-on-year growth.

### Share of supplies to the Russian thermal coal market (%) Sales to the Russian market (million tonnes)

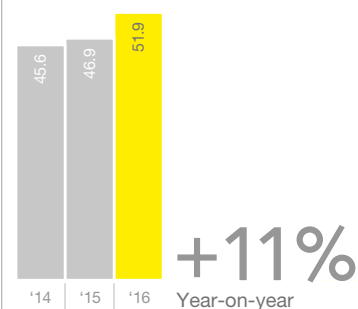


STRATEGIC PRIORITY:  
FOCUSING ON EFFICIENT GROWTH

S1

In 2016, SUEK's sales to the Russian market totalled 51.2 million tonnes of coal, with 77% of volumes supplied to power-generating plants. The 6% year-on-year decline in sales was mainly due to lower coal consumption by power plants, as high water levels in Siberia and the Russian Far East supported higher output at hydropower plants. Still, we maintained a 40% market share in Russia.

### International sales volumes (million tonnes)

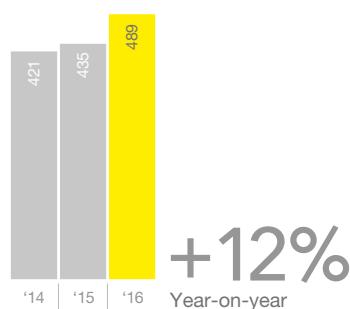


STRATEGIC PRIORITY:  
FOCUSING ON EFFICIENT GROWTH

S1

In 2016, SUEK's international sales volumes increased by 11%. We saw 16% growth in the Asian markets, with the largest volumes going to South Korea, Japan, China and Taiwan. In the Atlantic market, sales volumes increased by 3% compared to 2015, but there was a change in the sales mix: supplies to the UK fell, while sales to the Netherlands and Mediterranean countries increased.

### Productivity of mining unit production workers (tonnes per man-month)

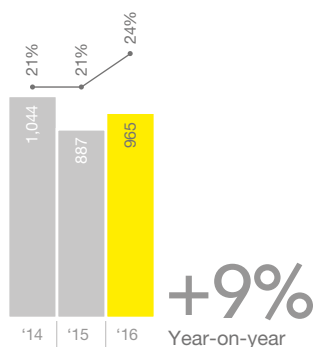


STRATEGIC PRIORITY:  
IMPROVING OPERATIONAL EFFICIENCY AND PRODUCTIVITY

S2

Labour productivity at our production units increased by 12% in 2016. This was the result of modernised equipment, improved operational efficiency and staff development programmes at our mines and open pits.

### EBITDA margin (%) EBITDA (\$m)

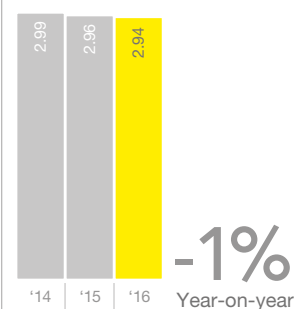


STRATEGIC PRIORITY:  
FOCUSING ON EFFICIENT GROWTH

S1

In 2016, EBITDA increased by 9% compared to 2015, to \$965m. Factors including a substantial increase in sales to premium markets, caution regarding costs, the efficiency of our logistic assets and the expansion of our sales and distribution network, led to an EBITDA margin of 24% in 2016, up from 21% a year earlier.

### Net debt/bank EBITDA (ratio)



STRATEGIC PRIORITY:  
FOCUSING ON EFFICIENT GROWTH

S1

At 31 December 2016, net debt to bank EBITDA stood at 2.94x, substantially below the maximum 4.0x provisioned by our current loan agreements. These figures demonstrate that the company has sufficient funds to meet its financial obligations.

# STABLE COAL COMPANY

## A LEADING COAL PRODUCER

SUEK is one of the ten largest coal producers in the world by output and sales, with hard coal reserves set to last for over 30 years.

SUEK is a vertically integrated business with extensive control of its value chain. We oversee all stages of the coal lifecycle, from extraction, processing and transportation through to worldwide sales and distribution. We have large-scale open pits and underground mines in Siberia and Far-Eastern Russia, as well as modern washing and processing facilities that enable us to enhance the quality of our coal. We also own our railway and port infrastructure, which means we can efficiently reach our customers in Russian, Atlantic and Asia-Pacific markets.

FOR MORE  
DETAILS  
SEE OPERATING  
REVIEW  
ON PAGES  
54-58.



## A RELIABLE COAL SUPPLIER

Our product portfolio, infrastructure and extensive sales network enable us to satisfy customer demand in Russia and abroad.

We are the largest supplier of thermal coal to the Russian market, accounting for 40% of domestic sales. Located close to major consumers, and with a large railcar fleet, we provide fuel for major power-generating companies, which in turn supply electricity and heat to industry and households across the country.

Our aim is to enhance our position as the largest exporter of coal from Russia, focusing particularly on supplying high-quality coal. Some of our assets are located much closer to the Asia-Pacific markets than those of most other Russian coal companies – 4,300 km closer, in the case of our Urgal production facilities. This means our delivery times are shorter and transportation is more reliable, giving us a distinct competitive advantage. Similarly, our ports in the west and east of Russia help us avoid shipping bottlenecks, even in the busiest seasons.

FOR MORE  
DETAILS ABOUT  
SUEK'S SALES TO  
RUSSIAN AND  
INTERNATIONAL  
MARKETS,  
SEE PAGES 54-55.



## FOCUSED ON SUSTAINABILITY

Our sustainability priorities include achieving high standards of industrial and environmental safety, improving the efficiency of our production, and looking after our employees' health, wellbeing and development.

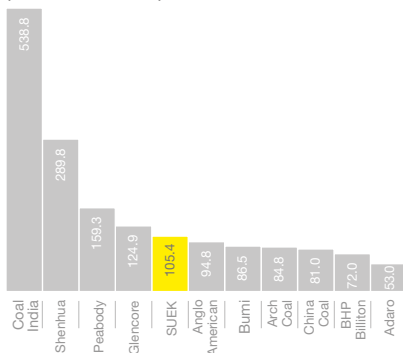
Across our business, we invest in the health and safety of our employees and support their professional and personal advancement. Our regular technical improvements help to make the workplace safer, more efficient and more productive.

We also harness technologies which are designed to reduce the negative environmental impacts of our operations. Our coal-washing facilities enhance the calorific value of mined coal by reducing ash and moisture, enabling our customers to decrease emissions during coal combustion.

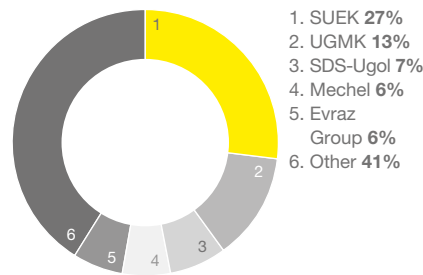
FOR MORE  
DETAILS,  
SEE THE  
SUSTAINABILITY  
SECTION  
ON PAGES 64-80.



### Coal production by the world's leading companies in 2016 (million tonnes)



### Coal production by leading Russian companies in 2016



Sources: SUEK's estimates, companies' reporting

**5.4**  
Billion tonnes  
reserves<sup>1</sup>

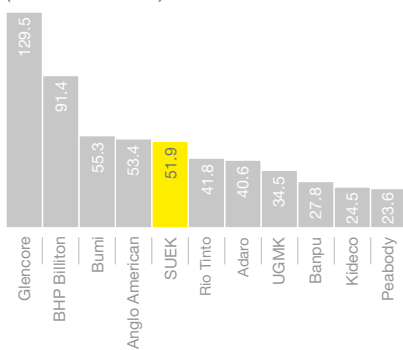
**27**  
Open pits and  
underground  
mines

**9**  
Washing  
plants

**3**  
Ports

Sources: SUEK's estimates, companies' reporting

### Coal export sales by the world's leading producers in 2016 (million tonnes)



**1,700**  
Customers in  
38 countries

**25**  
Trading and  
distribution  
offices in  
Russia and key  
global markets

### Advantageous assets and port locations

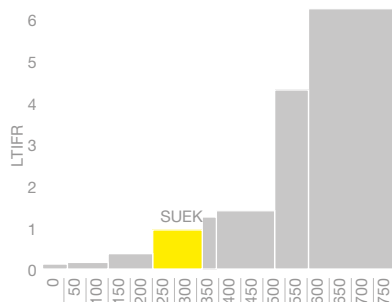


Our ports in the west and east of Russia help us avoid shipping bottlenecks, even in busiest seasons.

Some of our assets are located much closer to the Asia-Pacific markets than those of other Russian coal companies.

Sources: SUEK's estimates, companies' reporting

### One of the lowest LTIFR in Russian and global mining



Coal production by the world's leading exporters in 2016, million tonnes

**33,429**  
Employees work  
for SUEK  
in ten countries

**\$15m**  
Spent on community  
projects in 2016

**\$11m**  
Spent on  
environmental  
activities in 2016

<sup>1</sup> SUEK's proven and probable reserves, according to the April 2011 report by SRK Consulting, amounted to 5.9 billion tonnes. Taking into account extraction between April 2011 and December 2016 and SRK's assessment of the Apsatsky coalfield carried out in 2015, these reserves stood at 5.4 billion tonnes as at 31 December 2016.

# SPANNING FROM WEST TO EAST

## FAR REACHING

From Murmansk in the west to Khabarovsk in the east, SUEK operates effectively in all climates and conditions. In heat, wind, ice and snow. Across eight Russian regions and seven time zones. Through forest, tundra and permafrost.

## DEEPLY INVOLVED

From urban centres to remote areas, SUEK's operations are interwoven with the Russian landscape, people and economy, helping to sustain social wellbeing and development.

# 22:00

Buryatia (MSK+5)



Buryatia, Tugnuisky open pit





# 17:00

Murmansk (MSK)

SUEK's coal can be shipped efficiently in all weather conditions.

WINTER TEMPERATURE:

**-40C°**

SUMMER TEMPERATURE:

**+30C°**

COAL SHIPPED THROUGH PORT:

**14.2Mt**

Murmansk Commercial Seaport



SUEK is involved in the life of every family in the remote Buryatia town of Sagan-Nur.

SAGAN-NUR  
POPULATION :

**7,000**

EMPLOYED BY SUEK:

**2,067**

SUEK'S KEY ASSETS  
IN SAGAN-NUR:

**2** OPEN PITS

**1** WASHING PLANT

**140km**

OWN LOADING  
AND RAILWAY  
INFRASTRUCTURE

**1** SWIMMING POOL





# 33,429

Employees  
at SUEK



**SUEK fire alarm training at  
Kharanorsky open pit, Zabaikalye**

**1,500**

PROFESSIONS AT SUEK

**17**

EDUCATIONAL CENTRES  
AT SUEK

Since 2012, SUEK has been actively developing the Apsatsky coking coalfield, situated near the Trans-Siberian railway and around 1,000km away from the nearest city and surrounding infrastructure. We have built a new employee camp, with essential social infrastructure including accommodation, canteen and sports and recreational facilities.

**2nd**

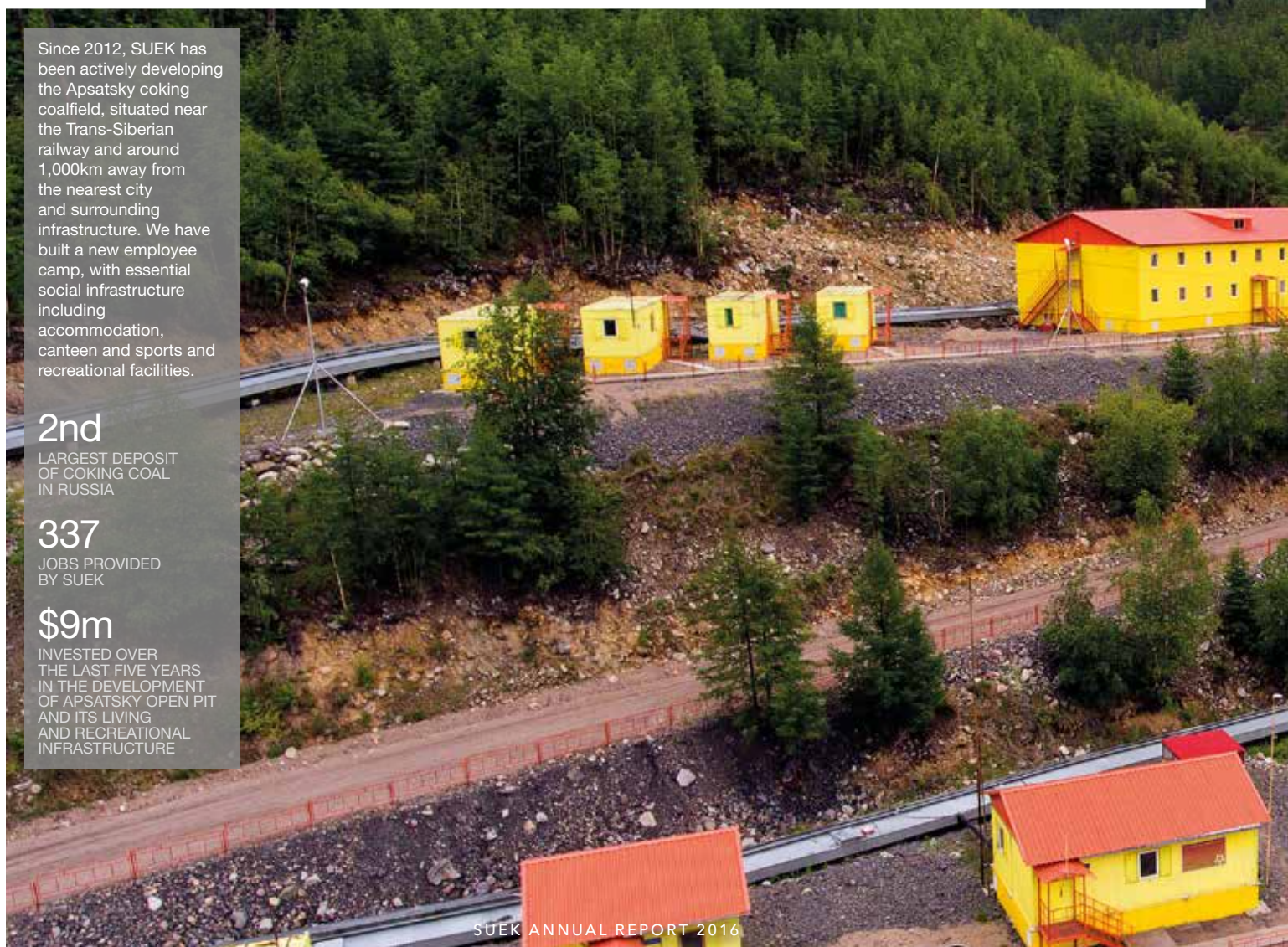
LARGEST DEPOSIT  
OF COKING COAL  
IN RUSSIA

**337**

JOBS PROVIDED  
BY SUEK

**\$9m**

INVESTED OVER  
THE LAST FIVE YEARS  
IN THE DEVELOPMENT  
OF APSATSKY OPEN PIT  
AND ITS LIVING  
AND RECREATIONAL  
INFRASTRUCTURE





# SUPPORTING REGIONAL ECONOMIES

## FAR REACHING

As one of the largest employers in the Russian coal industry, we provide jobs for almost 33,500 people across different regions, from miners and engineers to lab specialists and machine operators. We also invest in remote areas and provide opportunities for external contractors in local industries.

## DEEPLY INVOLVED

Wherever we operate, SUEK aims to bring stability and development. As one of the largest payers of tax in the regions where we operate, we directly support regional budgets while helping to develop social and economic infrastructure.



\$59m

SUEK's total tax  
contributions in 2016

Employee camp at the Apsatsky  
coking coal open pit, Zabaikalye





# SOCIALLY INVOLVED

## FAR REACHING

SUEK's operations touch the lives of people of every age, nationality and background. People from every walk of life. From west to east, our business embraces and reflects the social diversity of Russia.

## DEEPLY INVOLVED

SUEK cares deeply about the local communities where it operates. We support schools and programmes for children, as well as care initiatives for the elderly. And we provide internships for young people and students, investing in the future of our company and our country.



Krasnoyarsk chess club



Miner's Day in Kemerovo,  
August 2016

\$15m

SUEK spent  
on social and  
community  
programmes  
in 2016

SUEK provides assistance for veterans, people with disabilities, retirees, large and low-income families and their public associations.

In June 2016, Krasnoyarsk hosted the first inter-regional SUEK 'Chess Hopes' tournament for the children of our employees.

35  
PARTICIPANTS

21  
GAMES, PLAYED  
SIMULTANEOUSLY WITH  
THE WORLD CHAMPION  
ANATOLY KARPOV





The Vanino Bulk Terminal is equipped with state-of-the-art equipment that prevents the impact of dust on employee health and safety and the environment at every stage of the shipping process.

**38%**  
DUST SUPPRESSION BY  
FOG GENERATORS

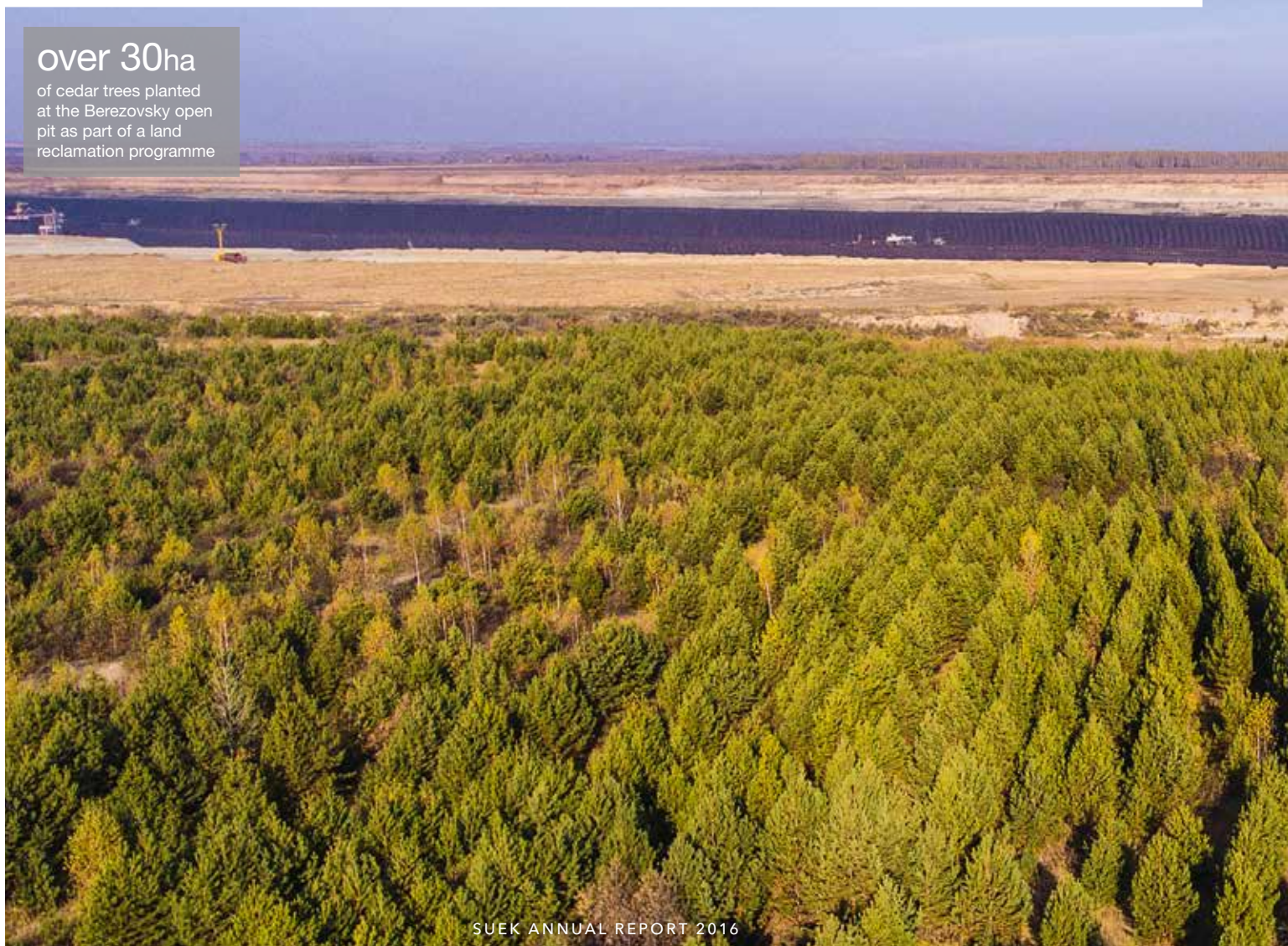
**Closed**  
WATER CYCLE

Fog generators at Vanino Bulk Terminal



over 30ha

of cedar trees planted  
at the Berezovsky open  
pit as part of a land  
reclamation programme





# MINIMISING OUR IMPACT

## FAR REACHING

Wherever SUEK operates, we take care to minimise our impact on the local environments with which we interact. Looking to balance commercial interests with ecological considerations, we aim to tread responsibly as we move forward.

## DEEPLY INVOLVED

Through efficiency measures such as methane utilisation, coal washing, dust control, land reclamation and other measures, we take responsibility for our actions and try to reduce our environmental footprint. We also seek to meet the demand for innovative technologies for the production of cleaner, high-grade coal.

# 397ha

of land restored  
by SUEK in 2016

Reclaimed land at the Berezovsky  
open pit, Krasnoyarsk



# FAVOURABLE GEOGRAPHICAL POSITION

Our facilities are located across a range of geographical zones, while our engagement with the local communities where we operate means we influence and enhance the lives of many people. The geographic spread of our operations and access to key transport infrastructure enable us to supply coal effectively to Russian, Western and Eastern markets.

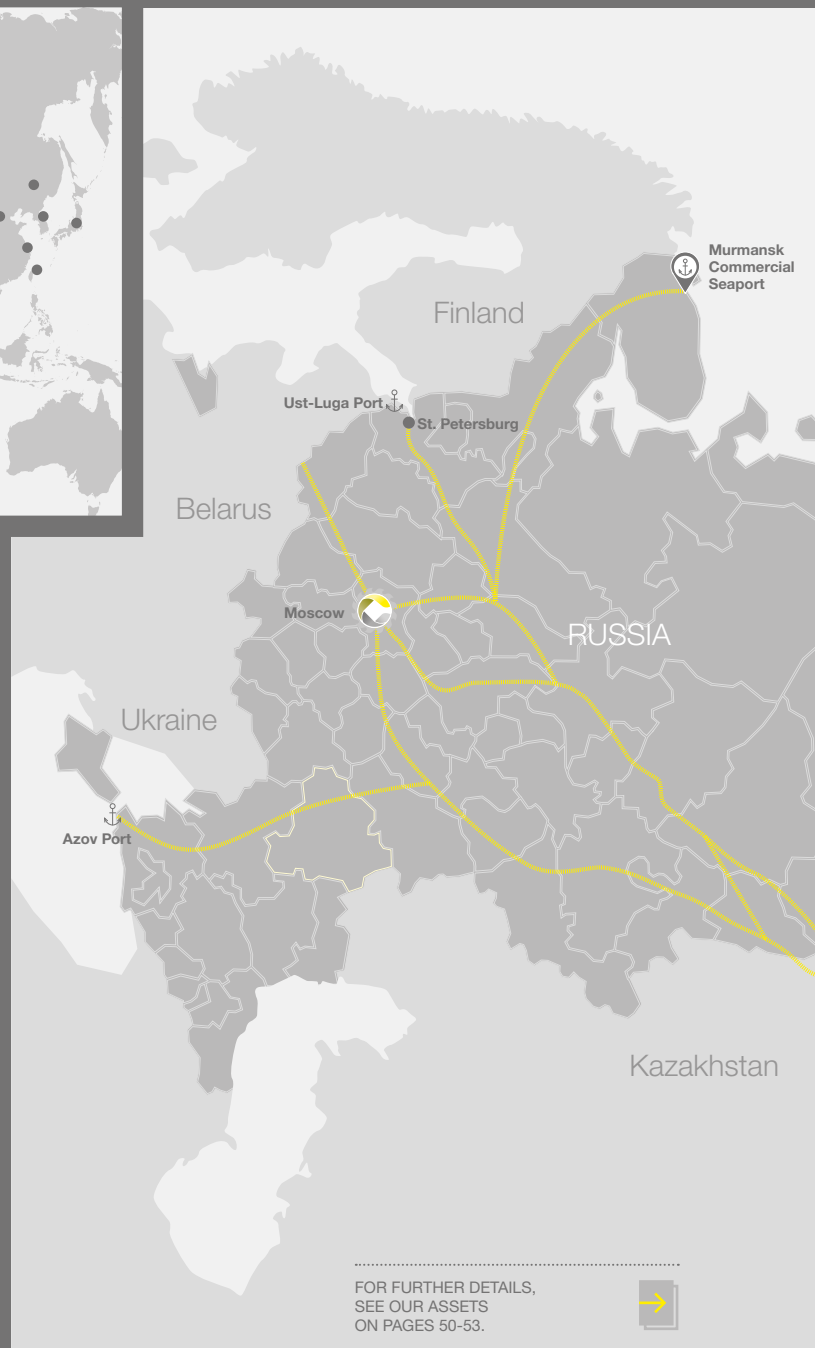


## OUR GLOBAL PRESENCE

SUEK Baltic  
**Lithuania**  
SUEK Polska Ltd  
**Poland**  
SUEK Logistic  
Moscow Branch  
**Russia**  
SUEK AG  
**Switzerland**  
SUEK AG Corp.  
US Branch office  
**US**

SUEK Shanghai  
Trading Co.  
Beijing Branch  
**China**  
SUEK Shanghai  
Trading Co. Limited  
**China**  
SUEK Shanghai Trading  
Co. Harbin Branch  
**China**  
PT. SUEK Indonesia  
**Indonesia**

SUEK AG  
Japan office  
**Japan**  
SUEK Korea Ltd  
Seoul,  
**South Korea**  
SUEK AG,  
**Taiwan**



Hard coal assets



Brown coal assets



Open-pit mining



Underground mining



Washing plants and  
processing facilities



Port facilities, where SUEK  
is one of the major shareholders



Third-party ports



SUEK Head Office



















RZhD Railways

FOR FURTHER DETAILS,  
SEE OUR ASSETS  
ON PAGES 50-53.



## OUR PRODUCTION ASSETS

We are highly competitive in the coal industry thanks to our well-developed assets. These include large, high-quality coal deposits, modern quality-assured washing plants, efficient logistics and sales networks.

1	2	3	4	5	6	7
<b>Kemerovo</b>	<b>Khakasia</b>	<b>Krasnoyarsk</b>	<b>Buryatia</b>	<b>Zabaikalye</b>	<b>Khabarovsk</b>	<b>Primorye</b>
Coal production: <b>Hard 37.7Mt</b>	Coal production: <b>Hard 13.2Mt</b>	Coal production: <b>Brown 27.1Mt</b>	Coal production: <b>Hard 14.0Mt</b>	Coal production: <b>Coking 0.3Mt</b> <b>Brown 4.1Mt</b>	Coal production: <b>Hard 5.5Mt</b>	Coal production: <b>Hard 0.6Mt</b> <b>Brown 2.9Mt</b>
Employees: <b>14,540</b>	Employees: <b>3,161</b>	Employees: <b>5,122</b>	Employees: <b>2,067</b>	Employees: <b>1,466</b>	Employees: <b>2,431</b>	Employees: <b>1,766</b>
2  9  4 	3  1  1 	3    	2    1 	3    	1  1  2 	1  1  1 
Distance to ports in Far-Eastern Russia						
5,450-6,000km	4,950km	4,520-5,180km	3,500-3,700km	2,550-2,950km	980-1,560km	315km
Distance to Murmansk Commercial Seaport						
4,750km	5,250km	—	3,500-3,700km	—	—	—
Weighted average distance by rail to Russian customers						
264km	1,497km	670km	702km	From Apsatsky open pit – 2,772km From Kharanorsky and Vostochny open pits – 225km	1,028km	263km





# GLOBAL TRENDS AND SUEK

The coal industry is facing the double challenges of rising demand for cheap and reliable power, and ever more urgent and rigorous environmental regulations. SUEK strives to meet these challenges by balancing the pursuit of commercial opportunities with the implementation of environmentally-sustainable production processes.

## Macro trends

## Coal industry and power generation adaptation

## SUEK's response

### GROWING POPULATION NEEDING BETTER ACCESS TO ELECTRICITY



Rapid development of coal-fired power generation in the regions where other sources are less economically viable.

Stable supplies of coal to developing economies and growth of trade network.

**+8%**

CAGR of export sales over five years

### PARIS CLIMATE CHANGE AGREEMENT



Construction of higher-efficiency coal-fired power stations.

Spread of co-generation power stations producing heat and electricity.

Development of Carbon Capture and Storage (CCS).

Coal washing to meet customers' requirements for cleaner coal.

**>50%**

of SUEK's hard coal is washed

SEE SUEK'S POSITION ON CLIMATE CHANGE ON OUR WEBSITE [WWW.SUEK.COM/EN/SUSTAINABILITY/ENVIRONMENT/](http://WWW.SUEK.COM/EN/SUSTAINABILITY/ENVIRONMENT/)



### GROWING REQUIREMENTS OF GREEN INVESTMENTS



Investments in most cost-efficient projects with best prospects.

Greater focus on health, safety and environmental improvements to reduce operational impact, including construction of treatment facilities.

Focus on coal washing to reduce emissions from final product and to meet requirements of new-generation coal-fired stations.

SEE COAL MARKET OVERVIEW  
ON PAGES 18-21.



## Macro trends

Generating energy from coal remains the world's most reliable and cost-efficient power supply option. Coal can and will continue to meet the global challenge of providing energy for 1.2 billion people worldwide, who still have no access to electricity, heat or water treatment, and who lack functioning schools and hospitals and modern household utilities.

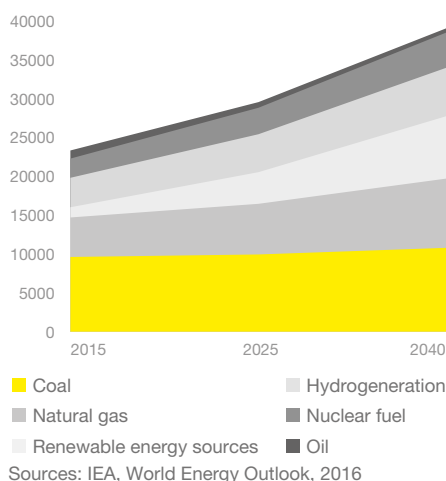
Meanwhile, the global environment agenda has been communicated through the Paris agreement on climate change, which came into force in October 2016. The agreement urges the world "to undertake ambitious efforts to combat climate change and adapt to its effects, with enhanced support to assist developing countries to do so"<sup>1</sup>. As a result, many countries have pledged to reduce their GHG emissions within the next two decades.

One of the most significant recent technological trends is the accelerated use of electricity. On the one hand, electricity is the basis for better industrial and social development. On the other, it enables a shift from diesel and petrol-fuelled transport to electric engines, decreasing emissions in large cities. According to the International Energy Agency (IEA), if current energy-efficiency pledges are introduced and fulfilled, by 2040 the number of electric vehicles on the road will have grown 115 times and electricity use will have risen by 67% compared to present levels<sup>2</sup>.

Massive investments in clean energy have also been reported. However, currently only 23% of total electricity is produced from renewable sources, with the majority accounted for by hydro<sup>2</sup>. Coal, meanwhile, accounts for 40% of global electricity generation.

Demand for higher-calorific-value coal is being stimulated by the construction of new-generation coal-fired power plants, which are more efficient and less carbon-intensive than their predecessors. Every 1% rise in energy efficiency decreases CO<sub>2</sub> emissions by 2-3%, and already over 50% of international coal trading is focused on higher-grade coal.

**Electricity generation by source (TWh)**



Furthermore, if Carbon Capture and Storage (CCS) technologies become widespread, there will be increased opportunity to reduce emissions from coal-fired power plants, enabling society to enjoy the advantages of coal, such as high affordability and versatility, cost effectiveness and its relative ease of extraction and transportation.

## Industry developments

In 2016, the global seaborne thermal coal market was volatile. The global price indices dropped to below \$50 per tonne in February and reached a peak level of more than \$100 per tonne in November, before starting to retreat once more. Such significant price movements were mainly caused by Chinese regulations on internal coal production, which influenced the balance of supply and demand.

In the Asian market, the consumption of imported thermal coal grew by 4% compared to 2015, totalling 708 million tonnes for the full year. In Japan and South Korea, stable demand persists for high-quality thermal coal with a calorific value exceeding 5,600 kcal/kg, and we expect consumption to increase. At the same time, the Atlantic market weakened slightly in its cumulative volume of imports, the balance between importers has changed.

Going forward, analysts anticipate conservative coal market growth, driven by stable growth in Pacific region countries such as Japan, South Korea, Taiwan, Malaysia, Vietnam and others. These forecasts are based on the following market drivers:

- Economic growth in China and India, albeit at slower rates;
- Continued industrialisation in Asia;
- Growing world population and increasing demand for electricity.

## Challenges and opportunities for SUEK

Despite global coal-price volatility, in 2016 SUEK continued to benefit from its integrated business model. Based on economies of scale, cost efficiency and effective logistics, this ensures sustainable value creation. The relatively weak Russian Rouble also helped to maintain our strong competitive position against global exporters. Even so, the company remained focused on further improving the efficiency of its facilities and operational processes.

As SUEK invests in coal washing and the development of premium-quality deposits, such as those at Urgal, Apsatsky, Nikolsky and Kemerovo, we are able to meet the growing demand for higher-quality coal from countries including Japan, South Korea, Malaysia, the Philippines, Thailand and Hong Kong. India and China are also constructing high-efficiency coal plants that will require higher coal grades.

Possible changes in national regulations relating to environmental issues and climate change could negatively impact coal sales in certain markets. In 2016, Germany, the UK and some of the Nordic states articulated plans to reduce or completely eliminate coal-fired power generation. Meanwhile, the expansion in power plants in the developing world is providing new markets for coal-fired power generation, making up for decreased consumption in certain developed countries. We expect stable demand from middle-income regions, such as China and the Mediterranean. Coal consumption in Russia is also stable, and coal remains one of the country's key energy sources.

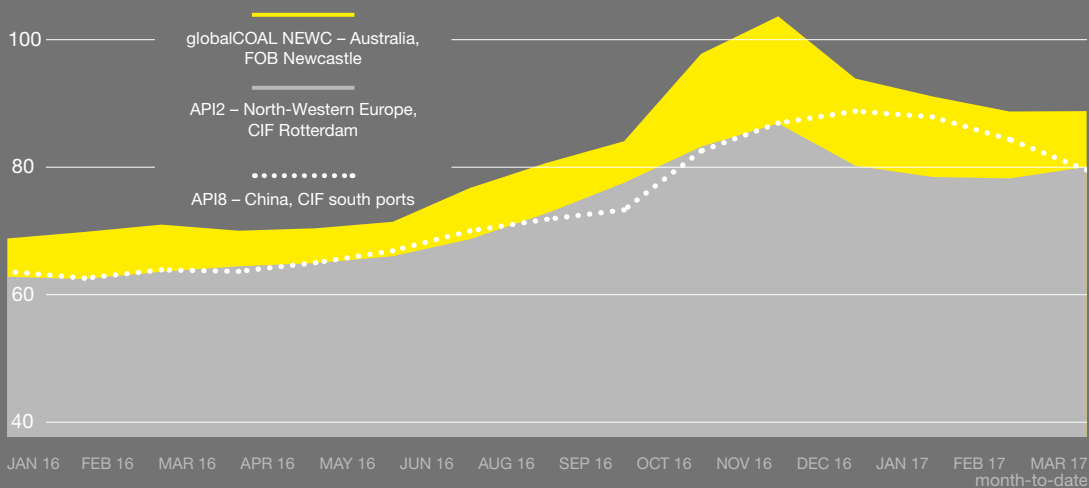
<sup>1</sup> United Nations Framework Convention on Climate Change, [www.unfccc.int/files/essential\\_background/convention/application/pdf/english\\_pari\\_agreement.pdf](http://www.unfccc.int/files/essential_background/convention/application/pdf/english_pari_agreement.pdf)

<sup>2</sup> International Energy Agency, World Energy Outlook 2016, [www.iea.org/media/publications/weo/WEO2016Infographic.jpg](http://www.iea.org/media/publications/weo/WEO2016Infographic.jpg)

# COAL MARKET

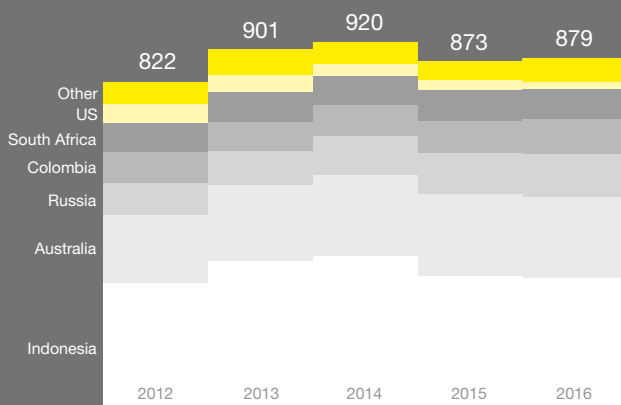
In 2016, the international coal market was characterised by unexpectedly high levels of price volatility. The main cause of this turbulence was a series of reforms carried out during the year by the Chinese government to regulate China's domestic coal market, which in turn impacted the entire international market. However, the overall international seaborne thermal coal market was stable at 879 million tonnes.

## Thermal coal price indices (\$ per tonne)

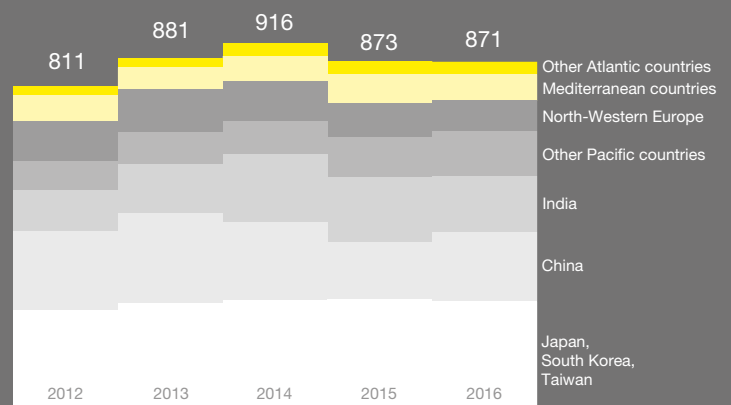


Sources: Argus McCloskey Index, globalCOAL

## Thermal coal exports (million tonnes)



## Thermal coal imports (million tonnes)<sup>1</sup>



Sources: public filings, SUEK estimates

<sup>1</sup> Total import volumes differ from total exports due to time lag and coal stocks variation.



## INTERNATIONAL COAL MARKET

### Pacific market

The Pacific market was fairly strong in 2016, with imports of thermal coal totalling 711 million tonnes, a 4% increase on 2015.

In 2016, developments in China continued to have a major impact on the international coal market. The year started with industry-wide losses and market fragility due to growing oversupply and Chinese coal producers facing potential bankruptcy. In response, the Chinese government cut working hours for coal miners, introducing a new 276 working-day regime (compared to 330 days) which delivered 303 million tonnes of supply reduction in 2016, a 10% decrease year-on-year. As a result, the Chinese domestic market started to rebalance. Moreover, due to weather conditions, hydrogeneration reduced drastically in 3Q 2016, which meant coal consumption increased and stocks depleted rapidly. At the same time, reports of a potentially cold winter began to circulate. Combined, these factors caused global prices to reach more than \$100 per tonne by November. Seeing the rapid increase in prices, the Chinese government decided to take action, initially lifting the 276 working-day regime for 'advanced mines', then for all mines by mid-November 2016 until March 2017. At the same time, the government also decided to regulate prices and pushed coal miners to sign long-term contracts with power plants. By the end of the year, Chinese imports totalled 174 million tonnes, which is 22% higher than in 2015. The Chinese government will continue to monitor the situation closely and is likely to intervene further in 2017 if prices break the corridor levels of RMB 470 on the downside or RMB 600 on the upside.

In India, meanwhile, increased domestic production and stagnating overall demand combined with high levels of inventory at mines, power plants and ports. Together, these factors drove import volumes of 138.5 million tonnes, a 13% decline year-on-year. However, the potential for growth in India remains, primarily through power sector reforms.

In East Asia, demand from Japan, South Korea and Taiwan was moderate at 279 million tonnes. In 2016, coal imports to Japan reduced by 3% to 130.6 million tonnes. This was partly due to increased-calorific-value imports during the first half of the year, which enabled consumers to use less tonnage for the same energy content. The demand outlook in Japan is still very positive, with about 20 GW of new coal-fired power generation coming online in the next five to ten years.

Despite the commissioning of new coal-fired power plants, delays and transmission problems meant that South Korea did not perform as expected. However, during the second half of 2016, nuclear outages caused by an earthquake triggered sudden coal demand that contributed to a more bullish scenario. Similarly, while demand in Taiwan was somewhat flat, coal consumption increased as the year progressed due to nuclear capacity shortage.

Meanwhile, South-East Asia saw robust imports to the Philippines, Thailand, Malaysia and, most notably, to Vietnam, with imports increasing by 13% to 71 million tonnes across the region as a whole.

On the supply side, there were no significant changes compared to 2015. Exports from Indonesia in the first half of the year went down, while in the second half of the year they partially ramped up, despite severe rainy weather. The increment in prices was a welcome respite for the Indonesian coal mining industry; it moved up in the Free On Board (FOB) cash cost curve, as their cost structure is mainly in US Dollars and therefore did not benefit from national currency depreciation as other exporters did in previous years.

In Australia, exports were largely flat at 200 million tonnes, down by 1.6 million tonnes year-on-year. The substantial rise of the hard-coking coal price also influenced the PCI and semi-soft coking coal market. This incentivised companies to maximise sales of washed coal volumes sold as Pulverised coal injection (PCI) and semi-soft coking coal, which reduced the availability of thermal coal on the market. In addition, a number of mines were suspended, shut down or involved in sales procedures, which also resulted in coal shortages. However, after the global coal price recovery, some companies announced the re-start of idle mines (mainly those mining metallurgical coal).

Meanwhile, South Africa and Russia increased their coal supplies to the Pacific market, by 5 million tonnes and 9.1 million tonnes respectively. However, restricted railway capacity and lack of railcars constrained Russian coal transportation in the second part of the year, preventing further export growth.



## Atlantic market

In 2016, demand for imported thermal coal in the Atlantic market fell by 11% year-on-year to 169 million tonnes.

This decline was mainly due to a sharp, 80% reduction in UK imports, to 4.2 million tonnes. This was caused by higher gas consumption linked to rising carbon tax and the decommissioning of several coal-fired plants. Spain and Portugal also saw reduced imports in 2016, primarily due to record levels of generation from hydroelectric power plants. In the Netherlands, coal consumption suffered due to the decommissioning of three coal-fired power plants at the end of 2015. Consumption in Italy decreased mainly in the first part of the year as a result of warm weather and technical issues. The decrease in imports to all these countries, including the UK, amounted to 18.7 million tonnes.

Demand from Scandinavian countries was stable, with a weak start due to a mild winter followed by an uplift in the second half of the year linked to low levels of hydrogeneration.

In the Mediterranean region, there were several positive developments. Demand from Turkey continued to improve, despite a tax on coal imports which came into force in August 2016, while demand in Egypt was boosted by higher consumption in the cement industry. Demand from Morocco also improved slightly. This growth was partially balanced by lower imports in Israel, following the government's imposition of a 15% reduction in coal consumption due to environmental regulations.

As a result of limited coal supply and a colder winter, Atlantic market conditions in the second half of 2016 were much better than in the first half. There was a significant drop in US exports, by 7.5 million tonnes over the year, including the 5-million-tonne reduction in supply to the Atlantic market. A series of bankruptcies restricted the ability of US suppliers to respond to price increases on the international market, causing US producers to focus predominantly on their domestic market. The US market also improved during the year, making it more profitable for US producers to concentrate their efforts domestically.

Colombia responded to decreasing demand in Europe by diverting about 8 million tonnes of coal from Atlantic to Asian markets (India, Pakistan, South Korea, Japan, Taiwan, the UAE and Thailand).

Russia also decreased seaborne exports to the Atlantic market by about 5.4 million tonnes. In the first half of 2016, this decline was mainly due to extremely low prices in the region. In the second half, supplies were impacted by railway constraints related to increased railcar usage.

Similarly, South Africa's supply to the Atlantic market reduced drastically, with an overall reduction of 9 million tonnes as South African prices exceeded those in Europe.

## RUSSIAN COAL MARKET

In 2016, supplies of Russian thermal coal increased by 3 million tonnes compared to 2015, totalling 278 million tonnes<sup>1</sup>.

This increase was due to an uplift in exports, while domestic shipments decreased slightly. Substantial growth in hydropower generation resulted in lowered consumption at coal-fired power plants, which led to weakened demand for thermal coal in Russia. The major increase in export shipments was delivered through seaports and across borders in the East of Russia, while westward export shipments remained similar to the previous year.

At year-end, brown coal production in Russia remained similar to 2015, amounting to 71 million tonnes, while production of hard thermal coal increased by 6% to 230 million tonnes. Brown coal is mostly supplied to Russian power-generation and public utilities. Hard coal is also used by these industries, as well as for the production of cement, metals and other industrial uses.

International thermal coal prices in 2016 were highly volatile. At the start of the year they reached a multi-year low, then jumped two-fold in the second half of the year before starting to settle (see International market review on pages 18-20). Russian market prices remained relatively constant during this period. Most coal is shipped to Russian consumers under long-term contracts, with prices normally adjusted every year based on changes in inflation rates and transportation costs.





### Russian market supplies

Supplies of thermal coal to the Russian market decreased by 4% in 2016, totalling 129 million tonnes. This decrease was due to weakened demand for coal among energy producers. Heavy rain in the summer resulted in high levels of hydropower generation, both in Siberia and the Far East (where most coal-fired power plants are located) and across the rest of Russia. According to data from the Unified Energy System grid operator, electric power generated by Russian hydropower plants increased by 10% in 2016 to 187 TWh, while hydropower generation in Siberia and the Far East grew by 15% to 113 TWh. As a result, by year-end, coal supplies to power producers had decreased by 8% to 87 million tonnes.

Coal supplies to public utilities during 2016 remained similar to the previous year, with annual deliveries of thermal coal to this sector amounting to 21 million tonnes.

Russian imports of thermal coal, which mainly comes from Kazakhstan, decreased by 9% to 20 million tonnes. This was due to reduced consumption at coal-fired power plants and the conversion of several power plants to natural gas.

### Export supplies

At year-end, Russian thermal coal exports increased by 10 million tonnes (+7%) to 149 million tonnes<sup>1</sup>. There was an increase in coal shipped to the East, while westward deliveries remained similar to the previous year. Shipments to Asia-Pacific markets accounted for 48% of total Russian exports of thermal coal, totalling 71 million tonnes.

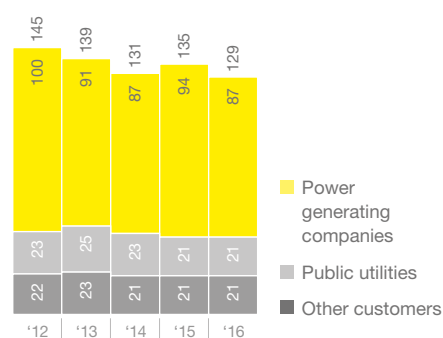
It should be noted that, due to substantial growth in demand for and prices of thermal coal on the international market during the second half of 2016, Russian exporters might have achieved better results. Coal exports were limited by the shortage of railcars across the railway network.

Structural changes to the seaborne export of Russian thermal coal in 2016 affected both the Atlantic and Asia-Pacific markets.

Shipments of coal to the UK, which until a few years ago was one of the key export markets for Russian coal, dropped significantly due to the conversion of many power plants to natural gas. Exports to Spain, Italy, the Netherlands and Belgium also declined. However, exports to Mediterranean countries – Turkey, Morocco and Egypt – increased in line with the growing demand in those countries.

In the East, major importers purchased more Russian coal during the year, with the biggest uplifts seen in China, Vietnam and India. Overall, the largest importers of Russian thermal coal during 2016 were South Korea, China, Japan, Turkey and the Netherlands<sup>2</sup>.

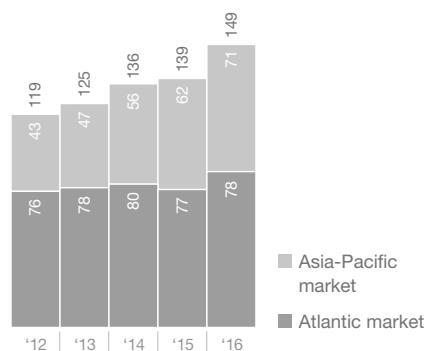
**Thermal coal supplies to the Russian market by customer**  
(million tonnes)



Sources: statistical data from Russian government agencies, SUEK estimates

<sup>1</sup> Statistical data on seaborne coal exports, SUEK estimates.

**Russian thermal coal supplies to the international market**  
(million tonnes)



Sources: statistical data on railway coal transport, SUEK estimates

FOR DETAILS ON SUEK'S SALES TO THE RUSSIAN MARKET, SEE PAGES 54-55.



# A YEAR OF QUALITY CHANGES



SUEK is about so much more than just coal production and sales. We are not only **far reaching** in the geographical spread of our operations and the numbers of people we employ, but also **deeply involved** in the social and economic development of our nation.



## Leading the way in social development

We're committed to supporting local people and communities through numerous programmes, initiatives and investments. SUEK is a responsible payer of taxes, making a significant contribution to federal, regional and municipal budgets, and is a key player in the economy of the Russian Federation.

In 2016, the Russian Union of Industrialists and Entrepreneurs acknowledged SUEK a special award for our contribution to the social development of the territories in which we operate. Of the many prizes we have received, this is among the most important to me. For many years, SUEK has been stimulating social and economic development in nearly 50 towns in the remote regions of Siberia and the Russian Far East, and it is very gratifying that our contribution in this area has been recognised.



### Adapting to change

It's common knowledge that the last five years have been a very volatile period for the energy resources markets. Additionally, the coal industry is facing the twin challenges of rising demand for cheap and reliable power, and increasing pressure from stricter environmental regulations and intensified efforts towards decarbonisation. To overcome such challenges, SUEK strives to balance its response to customers' demands with the implementation of environmentally sustainable production processes.

During 2016, in response to shifting market conditions, the Board revised the company's ten-year consolidated strategy and key strategic objectives. Our strategic goal is to develop a sustainable portfolio of high-quality thermal and coking coal in order to satisfy market demand and customer requirements. We will focus our key investment projects on developing high-quality deposits and coal-washing capacities in order to ensure higher-calorific-value products. We will therefore be able to strengthen our presence in premium, high-margin markets, especially in the Asia-Pacific region, focusing in particular on Japan, South Korea, Taiwan and South-East Asia.

SUEK will also maintain stable supplies of coal to developing economies in regions where other energy sources are less effective. Additionally, efficient supply chain management and distribution will contribute to the optimum allocation of deliveries to targeted markets.

In 2017, the Board and management will maintain a strong focus on health, safety and the environment, with a view to driving improvements that will reduce our overall operational impact. We will also oversee the development of our coal-washing capabilities in order to reduce the emissions from our products and meet the requirements of new-generation coal-fired stations.

In response to the present market volatility, our overriding aim is to ensure we are in a strong position to deliver steady business growth, and withstand the challenges of the ever-changing macroeconomic environment. To these ends, in 2016 the Board of Directors endorsed a number of special measures, including strict investment controls, an increased focus on operational efficiency, cost savings, and the development of our own distribution and logistics networks.

### Corporate development

During 2016, we implemented a new comprehensive compliance system to help strengthen our approach to corporate governance. Our new compliance processes will add to the best practices we currently employ. They will ensure that all business decisions are made as effectively as possible, taking into account the interests of the company's stakeholders and society as a whole.

### Outlook

In 2017, we will further refine our internal management processes in order to increase efficiency, transparency and the overall profitability of the business.

We will also continue to adhere to best reporting practice, setting new quality standards among Russian mining companies. In the beginning of 2017, the 'Leaders of Russian Business' award went to SUEK for the quality of our sustainable development reports. And I am absolutely certain that 2017 will be another year of strong results and high achievements. Beyond all doubt, with our relentless focus on improving operational efficiency, SUEK remains exceptionally well placed to deliver steady, sustainable growth and achieve ultimate success.

ALEXANDER LANDIA  
CHAIRMAN OF THE BOARD OF DIRECTORS



# STABILITY AND ACHIEVEMENT



With our core strategic focus on cost efficiency, product quality improvement, environmental safety and network expansion, we can look ahead with confidence, and with a deep conviction in our capabilities and self-reliance.



## **A milestone year**

2016 was a milestone year for the Russian coal-mining industry. For the first time in history, the 100 million tonne production mark by a single company was surpassed in our country; and I am proud to announce that it was SUEK, in its 15th year of operation, that achieved this remarkable feat. I hope that, with this achievement, we have brought some light to the coal-mining community, which for so long has operated in challenging market conditions.

Extreme coal-price volatility was the most crucial feature of the global market in 2016. The Pacific market increased, while the Atlantic market saw a continuous decline in demand. The Russian market remained relatively stable, although high water levels in the rivers of Siberia and the Far East led to decreased coal consumption by power-generation companies.



In this challenging market environment, SUEK's achievements were only possible through well-coordinated teamwork and the efficient cooperation of all our branches. Our strategic focus on the development of high-quality deposits, the expansion of our coal-washing capacity, and the modernisation of existing plants, delivered remarkable results. Increased productivity, the use of higher-capacity mining equipment, and the improvement of our logistical and distribution network, enabled us to achieve stable operational growth: +8% year-on-year in production, +12% year-on-year in coal-washing volumes, and +2% year-on-year in sales volume.

In 2016, we efficiently adapted to changing market conditions and demonstrated high flexibility in our sales. Thus, given the reduced consumption of brown coal domestically, we increased its export, and for the first time in the company's history we supplied over 1 million tonnes of brown coal to other countries.

Our efforts led to stable financial results. EBITDA grew 9% compared to 2015, to \$965m, while our EBITDA margin increased by 3% to 24%, mainly due to our focus on premium markets and increased sales efficiency. Net profit, meanwhile, grew by half to \$303m.

#### **Key focus areas: safety, efficiency and sustainable development**

The health and safety of our people remains our number-one priority. As such, one of the most important results we achieved in 2016 was a significant decrease in the accident rate at our production units. Our Lost Time Injury Frequency Rate (LTIFR) fell by a quarter, not only to the lowest level in SUEK's history, but to one of the lowest levels in the global coal industry.

This vital achievement came as a result of concerted efforts to protect the health and wellbeing of our employees, such as the implementation of the most advanced available technologies and procedures across our production assets. In December 2015, SUEK's management unveiled a new SUEK's Code of Corporate Ethics that placed Safety and Efficiency at the top of a list of corporate values. We seek that the whole community of 33,500 SUEK employees strongly adheres to these safety principles. Indeed, health and safety is now deeply embedded across the organisation, both in our everyday actions as individuals, and in our collective ethos and commitments.

In 2016, we analysed our operational performance against that of other leading international coal producers. Based on the results of this exercise, we implemented a number of measures designed to achieve further improvements in efficiency, including changes in our coal storage management, the monitoring of coal quality in transportation, and the enhancement of our drilling and blasting operations. The analysis also enabled us to study and understand the various breakdowns, incidents, accidents and injuries that occur within the coal industry, and to take prompt steps to prevent such situations arising at our own production facilities. Examples of complex accident control initiatives rolled out during the year include the introduction and operational adaptation of our company-wide automated safety system, as well as the close monitoring and improvement of all health, safety and environmental measures.

Alongside safety comes our firm commitment to social and environmental responsibility, upheld through our deep involvement in the lives and wellbeing of Russian people and communities, and in the protection of our national landscape. At SUEK, we consider it a point of duty to do everything possible to preserve the environment for future generations, and in 2016 we signed important agreements with the Ministry of Natural Resources and the Environment, and with several regional authorities. These agreements will form a reliable framework for our environmental activities in 2017, which has been declared the Year of Ecology across the Russian Federation.

#### **Outlook**

Despite our strong operational and financial results in 2016, we know there is still uncertainty within the global industry. However, even in such circumstances, we are uniquely placed to tackle any future challenges we may encounter. With our core strategic focus on cost efficiency, product quality improvement, environmental safety and network expansion, we can look ahead with confidence, and with a deep conviction in our capabilities and self-reliance.

VLADIMIR RASHEVSKY  
CHIEF EXECUTIVE OFFICER



# HOW WE RESPOND

In defining our strategic priorities and the content of our corporate reports, we analyse the matters that are most important to the company, our value-creation processes and our stakeholders.

Continuous monitoring of our operational, financial and social activities, along with the identification of interrelated and significant material matters, gives us a better view of the impact that our business has on the world around us, and of how our future value creation may be impacted by our stakeholders.

## TO DEFINE MATERIALITY, WE:

1

**Made a preliminary list of relevant matters according to their potential to affect our ability to create value.**

2

**Surveyed key company employees regarding the importance and priority of these matters, and added other matters they considered significant.**

3

**Surveyed external stakeholders regarding the importance and priority of these matters, and added other matters they considered significant.**

4

**Built a 2016 matrix based on internal and external surveys.**

5

**Prioritised material matters.**

Our assessment of these identified matters helps us to understand their causes and interrelationships and organise our work, taking into account their impact on our business processes and value creation. See how these matters affect our performance and how we manage them in the relevant sections of this Report.

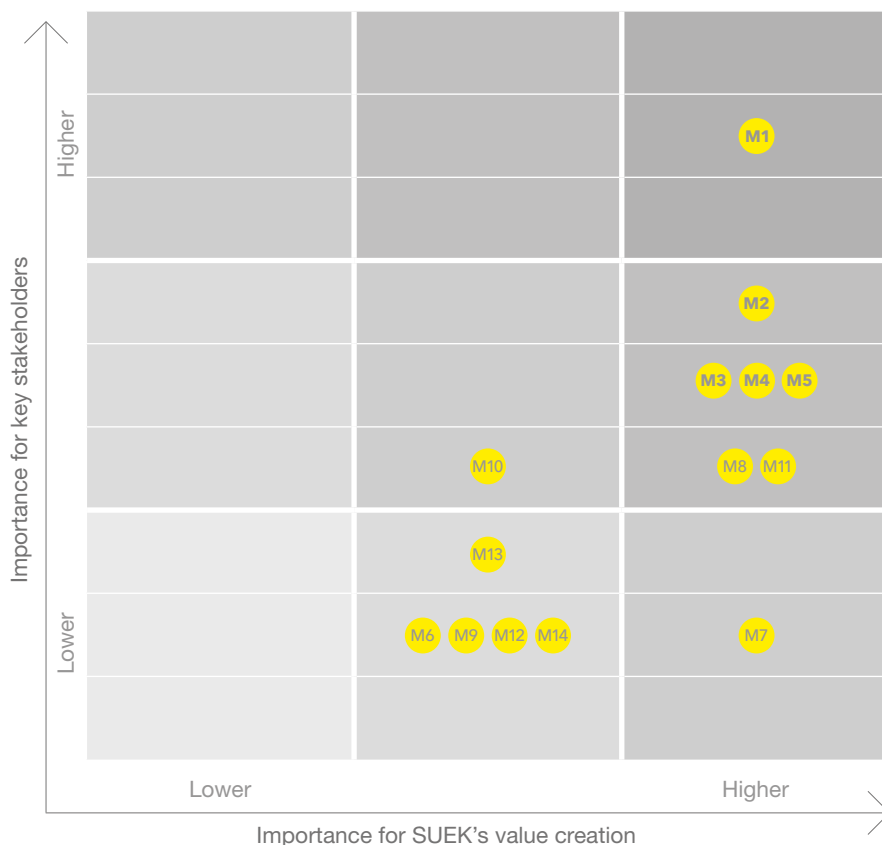


We have defined ‘material matters’ as those which are of significance to the company’s value-creation potential, and those which are important to our key stakeholders. In preparing this Annual Report, we conducted a thorough analysis of the external and internal environment, carried out surveys among our employees, and interacted with a number of external stakeholders.

Through this process, we identified relevant matters which we believe are important for the growth, success and sustainability of our business, such as reputation, financial performance, delivery of strategy and licence to operate.

Based on the importance and impact of relevant matters, we made a list of material matters, which was subsequently used in the assessment of our long-term goals, strategic priorities and governance, as well as in defining the content of the Report. In total, in 2016 we identified 14 key issues, of which the first five were deemed the most material for the year.

## 2016 MATERIALITY MATRIX



### Key material matters

- M1** Financial stability and development prospects
- M2** Industrial safety and emergency preparedness
- M3** Quality of corporate governance and risk management
- M4** Production efficiency
- M5** Product quality and high-value products

### Other important matters

- M6** Attitude towards climate change
- M7** Fair remuneration and social support for employees
- M8** Human resources policy and labour relationships
- M9** Staff training, including training for new jobs
- M10** Company participation in the development of local communities
- M11** Environmental impact of the company's operations and environmental measures
- M12** Clear specifications and requirements for suppliers and support for local suppliers
- M13** Mutual adherence to business ethics
- M14** Company's role in the development of the potential of mono-industry towns

FOR THE LIST OF SUEK'S  
STAKEHOLDERS,  
SEE PAGES 30-31.



MATERIALITY / CONTINUED

Material issue	SUEK's context in 2016	Impact on our value creation	How we responded
<b>M1</b> <b>Financial stability and development prospects</b>	<ul style="list-style-type: none"> <li>In 2016, the coal market experienced unpredicted price volatility.</li> <li>During the reporting year, due to geopolitical complications, several international banks applied restrictions on the financing of Russian companies.</li> <li>Moreover, in light of the Paris climate change agreement and unclear coal industry prospects, some international banks introduced restrictions on the financing of coal projects.</li> </ul>	<p>An inability to finance our operating activities could adversely affect the company's operations and business as a whole. An increase in the cost of investment and operating costs, as well as the need to attract more financing, may impact SUEK's financial results.</p>	<ul style="list-style-type: none"> <li>SUEK managed to prove that the company has a positive cash flow, sustainable margins and comprehensive environmental programmes. These enabled it to secure a \$1.3bn pre-export finance facility from a pool of international banks.</li> <li>Moreover, the company used favourable conditions in the Russian market to issue RUB 8bn in bonds.</li> </ul>
<b>M2</b> <b>Industrial safety and emergency preparedness</b>	<ul style="list-style-type: none"> <li>Coal mining is associated with risks related to geological factors, technical conditions within mines, emergency situations and human error. These risks are of ongoing major importance to the company, its employees and regulatory authorities. Despite all our efforts, in 2016 there were three fatal accidents at the company's production facilities. We deeply regret this loss of life and extend our condolences to the families and friends of the deceased.</li> </ul>	<p>Industrial accidents and emergencies may result in human fatalities, environmental damage or suspension of operations. Subsequently, they can result in direct losses for the company, fines, reputational damage, refusal of business partners to continue relationships, or claims from lenders for early loan repayments.</p>	<ul style="list-style-type: none"> <li>SUEK implements a comprehensive health and safety programme, including the promotion of international safety standards, employee training, the provision of modern personal protective equipment and the modernisation of production facilities.</li> <li>We also conduct thorough investigations of every accident, with the aim of preventing them in future.</li> <li>In 2016, these measures enabled us to further reduce our LTIFR to 0.94, which is one of the lowest levels in the Russian and global coal-mining industries.</li> </ul>
<b>M3</b> <b>Quality of corporate governance and risk management</b>	<ul style="list-style-type: none"> <li>In 2016, following political developments in Russia, our key stakeholders in Russia and abroad increased their focus on transparency and the quality of our corporate governance and compliance procedures.</li> </ul>	<p>Lack of transparency in corporate governance, as well as non-compliance with national regulations, can lead to additional requests from state authorities, lenders and business partners; it can also impact the company's operations as claims to the company are extended.</p>	<ul style="list-style-type: none"> <li>We are committed to best practice in corporate governance. In 2016, SUEK completed its intragroup reorganisation, consolidating its reporting and corporate governance under JSC SUEK, which is headquartered in Moscow, Russia.</li> <li>In 2016, new independent and highly experienced directors were appointed to our Board of Directors; currently five out of nine Directors are independent.</li> <li>SUEK also created a Compliance Officer Service in June 2016, which led to the development and launch of a comprehensive compliance policy for the company at all levels. All procedures are planned to be completed by June 2017.</li> </ul>

STRATEGIC REPORT  
CORPORATE GOVERNANCE  
FINANCIAL STATEMENTS

Material issue	SUEK's context in 2016	Impact on our value creation	How we responded
<p><b>M4</b></p> <p><b>Production efficiency</b></p>	<ul style="list-style-type: none"> <li>A multi-year low in international coal prices, and decreasing demand in several countries in 1H 2016, made all coal producers focus on cost efficiency to maintain financial stability.</li> <li>Moreover, tighter environmental regulations following the Paris climate change agreement have increased demand for higher-quality coal.</li> </ul>	<p>Inefficient production processes can increase costs and diminish the company's competitive advantages.</p>	<ul style="list-style-type: none"> <li>SUEK regularly carries out modernisation programmes, substituting outdated equipment with more efficient kit. We constantly analyse all business processes to make them more effective and efficient, as well as optimising space-planning solutions in our mines.</li> <li>SUEK pays particular attention to operational-efficiency projects associated with reducing the duration of longwall face equipment moves and increasing energy efficiency.</li> <li>As a result of these initiatives, in 2016 the productivity of our mining personnel increased by 12%. The company also managed to keep its costs in the lowest quartile of the global cost curve, and achieved record production levels exceeding 105 million tonnes.</li> </ul>
<p><b>M5</b></p> <p><b>Product quality and high-value products</b></p>	<ul style="list-style-type: none"> <li>In 2016, many Pacific countries increased demand for higher-quality coal. This was due to tighter environmental regulations and the introduction of more efficient coal-fired plants requiring higher grades of coal;</li> <li>The 2016 International Energy Outlook forecasts that by 2040, around 400 GW of new supercritical and 330 GW of new ultra-supercritical coal-fired power generation will be built. It also predicts that the share of coal demand coming from subcritical plants will drop from around 70% today to 30% in 2040. These new plants require high-quality coal.</li> </ul>	<p>Tighter domestic and international environmental standards on coal quality, and stricter requirements from new coal-fired power stations, may result in a lower demand for lower-grade coal. This trend could adversely impact the company's financial and operational performance.</p>	<ul style="list-style-type: none"> <li>We invest in the development of high-grade coal deposits and improved washing capacities to meet demand for higher-quality products from international markets.</li> <li>We also develop sales of sized and metallurgical coals. In 2016, we increased sales of higher-calorific thermal coal and coking coal by 8%.</li> </ul>



# COMMITTED TO OPEN DIALOGUE

Effective stakeholder engagement is an integral part of how SUEK operates. In the process of developing relations with our stakeholders, we are committed to open dialogue and trusted partnership. This enables us to understand and respond to the interests and expectations of key stakeholders.

We determine our key stakeholders by assessing the impact that different groups have, or might have, on our performance, as well as the impact that the company has on their wellbeing.

When building stakeholder relationships, the basic principles we adhere to are defined in SUEK's Code of Corporate Ethics. They include:









- Regulation of stakeholder relations by law in Russia and other countries where SUEK operates;
- Respect for the interests of all stakeholders, and the promotion of active cooperation based on honesty, transparency and mutual respect;
- Informational transparency;
- Compliance with ethical standards relating to business conduct.

When interacting with stakeholders regarding identified material matters, we use a comprehensive communications system. This system helps to ensure the completeness, timeliness, objectivity, reliability and consistency of information, as well as providing free and open access to this information.

For communication with stakeholders, in 2016 we used a range of communications channels, such as the corporate website, press releases, interviews and media reports, press conferences, visits to production sites, and meetings with management. To reach out to our employees, we employ internal communications channels such as corporate media, the SUEK intranet portal,

our corporate website, a 'hotline' and conferences for employees. In addition, we regularly hold staff meetings, attended by management, at which topical matters are discussed.

We use special channels that are designed both to inform our stakeholders about all material matters that could affect the company's operations, and to gather their feedback on our financial and non-financial disclosures. These channels include conferences, round tables, seminars and public hearings at which we disclose information relevant to certain stakeholder groups.

The company's stakeholders	Relevant material issues	Channels and formats of engagement
<b>Shareholders</b>  We seek to ensure sustainable growth for the company and increase its long-term value for the benefit of our shareholders. We always respect shareholders' rights and enable full access to necessary company data and information.	  	<ul style="list-style-type: none"> <li>• General Meeting of Shareholders</li> <li>• Corporate reporting</li> <li>• Corporate media</li> </ul>
<b>Financial stakeholders and potential investors</b>  Our relations with financial stakeholders and potential investors are based on the improvement of the company's investment potential through the development of our corporate governance and operational efficiency. We aim for maximum disclosure of relevant information in this area, including information regarding the company's strategy, production and financial performance.	  	<ul style="list-style-type: none"> <li>• Meetings with banks and potential investors</li> <li>• Corporate reporting</li> <li>• Corporate website, press releases and investor presentations</li> </ul>
<b>Employees</b>  Across the business, we offer fair remuneration, fulfil our social commitments and provide professional and personal development and training for our staff. We also aim to improve labour efficiency and safety, protect workers' health and implement social programmes to raise living standards for our employees and their families.	 	<ul style="list-style-type: none"> <li>• Staff training and development systems</li> <li>• Meetings between management and employees</li> <li>• Corporate media</li> <li>• Staff opinion surveys</li> <li>• Agreements with trade unions and collective arrangements</li> <li>• Social programmes</li> <li>• Multi-channel hotline</li> </ul>

The company's stakeholders	Relevant material issues	Channels and formats of engagement
<p><b>Suppliers and business partners</b></p> <p>In our relations with suppliers and business partners, we try to create and develop long-term and constructive partnerships. Our principles of cooperation are based on the observance of business ethics and the complete fulfilment of contractual obligations, as well as responsible supply chain management (for details on our supply chain, see page 57). We also include health, safety, social and environmental issues in our arrangements with contractors.</p>	<p>M3</p> <p>M4</p>	<ul style="list-style-type: none"> <li>• Cooperation agreements</li> <li>• Business meetings</li> <li>• Conferences and exhibitions</li> <li>• Open tenders</li> <li>• Participation in professional Russian and international unions and organisations</li> <li>• Section of website, <a href="http://www.suek.ru">www.suek.ru</a>, that is dedicated to suppliers</li> <li>• Publication in the media</li> </ul>
<p><b>Customers</b></p> <p>We focus on providing the highest-quality service, which means ensuring seamless, uninterrupted and timely delivery of coal shipments. We are constantly improving our product quality and strive to personalise our approach with each and every one of our customers. We also use an IT system dedicated to customer claims, ensuring we respond to all queries and communications in a timely and efficient way.</p>	<p>M1</p> <p>M4</p> <p>M5</p>	<ul style="list-style-type: none"> <li>• Cooperation agreements</li> <li>• Conferences and exhibitions</li> <li>• Business meetings</li> <li>• Claims resolution and accounting systems</li> <li>• Corporate reporting</li> <li>• Our corporate media system, which includes a special section on the corporate website where customers can submit online coal purchase requests</li> </ul>
<p><b>State authorities</b></p> <p>Our key objectives in cooperating with state authorities include: the development of partnerships to improve the competitiveness of the national and regional economies; the promotion of social development throughout the regions; and the creation of solutions to environmental problems. The company's interaction with the state is based on strict adherence to all applicable laws and requirements. We actively cooperate with representatives of state bodies of the Russian Federation, at both federal and regional levels. Government agencies also call upon our industry expertise to help inform strategic decision-making on Russian fuel and energy issues and purpose-oriented programmes.</p>	<p>M3</p>	<ul style="list-style-type: none"> <li>• Social and economic partnership agreements</li> <li>• Joint working groups</li> <li>• Committees and conferences</li> <li>• Round tables and meetings</li> <li>• Corporate reporting</li> </ul>
<p><b>Local communities in the regions where we operate</b></p> <p>In our interaction with local communities, we aim to jointly develop social infrastructure, create human capital, implement social activities, and deliver projects focused on environmental protection. We implement social and charity projects in healthcare, education, housing improvement and development. We also provide communal services, culture, sports and business development initiatives, as well as support to disadvantaged social groups. In addition, we encourage and enable local communities to get involved in solving urgent social problems, which is a pre-requisite for sustainable development.</p>	<p>M2</p> <p>M4</p>	<ul style="list-style-type: none"> <li>• Employment of local population</li> <li>• Social, charity and environmental projects</li> <li>• Public hearings and round tables</li> <li>• Seminars and conferences</li> <li>• Corporate reporting</li> <li>• Our corporate media system</li> </ul>
<p><b>Expert organisations and NGOs</b></p> <p>Engagement with expert and public organisations allows us to receive feedback on how to deliver better business, social and environmental outcomes. We engage specialist organisations and Non-Governmental Organisations (NGOs) in the study, evaluation and implementation of social projects and programmes in the field of environmental management. Our relations with such organisations rely on open dialogue, transparency and parity.</p>	<p>M2</p> <p>M4</p>	<ul style="list-style-type: none"> <li>• Joint implementation of social projects</li> <li>• Seminars</li> <li>• Round tables</li> <li>• Corporate reporting</li> </ul>

# HOW WE CREATE VALUE

## VALUE CHAIN



### MINING

Our cost-efficient mining activities deliver a sustainable supply of high-quality thermal coal. Using open-pit and underground mines, we produce brown and hard coal. By investing in regular upgrades of our production units, SUEK is able to maintain a leading position within its sector.



### WASHING AND PROCESSING

Washing plants and processing facilities adjacent to our mines and open pits improve the quality of our coal. Washing reduces ash, increases heat content and ultimately improves our coal's market value. The coal is also crushed and screened so that it can precisely meet customers' size specifications without affecting quality.

## OUR ASSETS

Natural	Financial	Human	Operational		Social and relationships
<b>5.4Bt of coal reserves<sup>1</sup></b> Water, air, soil	Optimal capital structure	<b>33,429 employees</b> Skills and experience	<b>12 mines and 15 open pits</b> <b>9 washing and processing facilities</b> Research and Development (R&D) Institute <sup>2</sup>	<b>12,000 higher-capacity railcars</b> under management <b>3 ports</b> Extensive international trade and distribution network	Open engagement with stakeholders

## DRIVERS FOR SUSTAINABLE GROWTH

### Product development

Our R&D team constantly looks at ways to increase the quality of our coal, while also developing coal-based products for use in a wide range of industries.

### Efficiency increase

Our investments in modern mining equipment and operational improvements deliver increased productivity and cost efficiency.

### Corporate governance

We are committed to high standards of corporate governance in line with international good practice.

### Stakeholder engagement

We engage actively with our stakeholders, ensuring we remain focused on creating value for them at all times.

<sup>1</sup> SUEK's proven and probable reserves, according to the April 2011 report by SRK Consulting, amounted to 5.9 billion tonnes. Taking into account extraction between April 2011 and December 2016 and SRK's assessment of the Apsatsky coalfield carried out in 2015, these reserves stood at 5.4 billion tonnes as at 31 December 2016.

<sup>2</sup> At our Siberian Coal Processing Research Institute, located in Moscow, with branch offices in Kuzbass and Krasnoyarsk, we design coal-processing plants and develop specific resource-saving technologies for coal processing. We also look at ways of improving workplace safety and of enhancing production and processing technologies at existing facilities.



## OUR MAIN DIFFERENTIATORS

Our business model is based on integrated operations, which enable operational and cost controls over the whole business cycle. Such an integrated model results in the following competitive advantages:

1

**Economies of scale**

2

**Own rail and port infrastructure**

3

**Own trade and distribution**



### LOGISTICS

The favourable location of our assets, with good access to key transport infrastructure, enables SUEK to reliably and cost-efficiently supply the major markets of Russia, Europe and Asia-Pacific.



### SALES

SUEK's extensive sales network ensures reliable coal supplies to customers in 38 countries. Our established offices in all key markets help mitigate business risks and allow us to sell products in local currency. More than 80% of our international sales are direct to end users.

Through our focus on operational efficiency, cost control and corporate responsibility, we deliver value to a wide range of stakeholders, including:

## DELIVERING VALUE TO OUR STAKEHOLDERS

Shareholders and financial stakeholders	Employees	Customers	Suppliers and business partners	Local communities	State authorities
We deliver sustainable capital returns.	SUEK offers competitive remuneration and benefits at all levels We offer stimulating and challenging career development opportunities.	We are able to assure a quality product Our coal is delivered on time and according to contract.	We have established long-term and mutually beneficial relationships with our suppliers, contractors and other counterparties.	SUEK improves personal wellbeing through social projects in all the regions where we operate.	SUEK provides a significant tax contribution to federal, regional and municipal budgets.
<b>\$965m EBITDA</b>	<b>33,429 jobs</b>	<b>103.1Mt coal sold</b>		<b>\$15m investments in social activities</b>	<b>\$59m paid in taxes</b>

### Health, safety and environmental protection

Our priority is to minimise safety and environmental risks at each stage of the operational cycle.

### Personnel development

By investing in our people, we not only increase employees' skill levels and job satisfaction, we also improve the company's operational efficiency.

### Risk management

Proactive management of internal and external risks at every stage of our business cycle helps us meet strategic targets and secure long-term growth.

FOR MORE INFORMATION ABOUT OUR ENGAGEMENT WITH STAKEHOLDERS, SEE PAGES 30-31.



SEE OUR 2016 KEY RESULTS ON PAGES 2-3 AND KPI PERFORMANCE ON PAGES 36-41.



# STRATEGY IMPLEMENTATION

We believe that our focus on efficiency, safety, continuous improvement and value growth will help us fulfil our mission and achieve our targets.

## MISSION

Our mission is to fuel the world by producing coal safely and sustainably, helping to ensure global energy security while delivering value to all our stakeholders.

## VISION

Already the top coal producer in Russia, we want to be one of the leading coal companies in the world. We will achieve this by expanding our existing mining and processing assets, investing in new production facilities and further developing our transportation and logistics systems. We also aim to increase output from deposits located closer to our target markets, while continuing to drive innovation and change across the business.

## VALUES

### Safety and efficiency

We are a results-oriented company. As such, we are always looking to improve efficiencies and maximise opportunities.

But our returns must never compromise safety. Coal mining has inherent high production risks, and we apply every effort to mitigate them. Safety is embedded in all our processes and is a non-negotiable part of everyday life across the business.

### Professionalism and cooperation

Professionalism for us means making an active contribution to the company and supporting colleagues. Cooperation is the ability to listen, understand and respect each other.

As part of our commitment to corporate responsibility and professionalism, we comply with all applicable laws and regulations, build respect into all our interactions with stakeholders, and constantly evolve in order to maintain our high level of performance.

### Stability and development

The stability of our company is underpinned not only by our financial and operational strength, but by the skills and also commitment of our employees. SUEK puts the welfare and development of its people above all else. We aim to offer fair remuneration, good benefits and decent working conditions, thereby ensuring that our employees can operate to the very best of their abilities.

Continual development is also crucial to our success. We progress by implementing new technologies, improving working conditions, delivering high-quality products and ensuring the safety, health and productivity of our employees.

### Social responsibility

We seek to have a positive impact on the world around us. We take seriously our commitments to society and the environment, and to the communities and regions in which we operate, and follow best practice in social and environmental responsibility. Company interaction with local authorities and public and business associations is focused on the long term, and on mutually beneficial interests and objectives.

Securing our leading position in the industry is an important goal for SUEK.  
We continually look for opportunities to reinforce competitive advantage,  
expand our market share and develop a socially responsible business.  
To meet these objectives, we have identified five strategy pillars.

S1	S2	S3	S4	S5
FOCUSING ON EFFICIENT GROWTH	IMPROVING OPERATIONAL EFFICIENCY AND PRODUCTIVITY	DEVELOPING COAL SUPPLY LOGISTICS	ACHIEVING HIGH SAFETY STANDARDS	COMMITTED TO SUSTAINABLE DEVELOPMENT
Our priorities				
Increasing production of high-quality and desirable coal products.	Improving the efficiency of production facilities and processes.	Developing the company's rail infrastructure and rail fleet.	Promoting high international standards in health and safety.	Developing social infrastructure in the regions where we operate.
Achieving balanced management of the reserves portfolio.	Developing washing capacities to improve coal quality.	Ensuring the efficient management of port facilities and expand our ship-loading capacity to maximise exports from Russia.		Reducing adverse environmental impacts.
Strengthening our position in the Asia-Pacific region and retain our presence in the Atlantic market.				
Retaining our position as the largest coal producer and supplier of thermal coal in Russia.				
Increasing sales in metallurgical and sized coal in premium markets.				
Stakeholders				
Shareholders	Shareholders	Customers	Employees	Local communities
Financial stakeholders and potential investors	Financial stakeholders and potential investors	Suppliers and business partners	Local communities	Employees
Employees	Employees		State authorities	State authorities
Customers	Suppliers		Shareholders	NGOs
	Customers		NGOs	Financial stakeholders and potential investors
				Shareholders





## FOCUSING ON EFFICIENT GROWTH

Our objective is to increase supply to and strengthen our presence in high-margin markets, particularly in the Asia-Pacific region. To this end, we are growing the share of washed coal within our product portfolio, developing sales of sized coal and increasing our trade in semi-soft and hard coking coal with international and Russian metallurgical customers.

Currently, our investments in the development of new coal deposits are solely targeted at the most economically efficient projects.

We also expect to maintain synergies through our association with the Russian electric power industry by signing long-term contracts with energy producers.

2016 results	KPIs, 2016 performance	2017 plans
<b>Increasing production of high-quality and desirable coal products</b>		
<p>SUEK's production exceeded 105Mt for the first time in the company's history.</p> <p>During 2016, we developed a number of hard coal deposit sites, including the Magistralny mine in Kuzbass and the Nikolsky open pit in Buryatia. These will compensate for depleting capacities at nearby sites.</p> <p>We increased the efficiency and output of the Komsomolets mine washing plant, exceeding the annual targets for this plant by 35%.</p> <p>At our new Taldinskaya-Zapadnaya 1 washing plant, we achieved an annual total capacity utilisation of 87%, exceeding the 80% target.</p>	<p><b>TOTAL PRODUCTION</b></p> <p><b>105.4Mt</b> <b>+8%</b> Year-on-year</p> <hr/> <p><b>TOTAL SALES</b></p> <p><b>103.1Mt</b> <b>+2%</b> Year-on-year</p> <hr/> <p><b>COAL WASHED</b></p> <p><b>37.3Mt</b> <b>+12%</b> Year-on-year</p>	<p>The company's priority is to increase the profitable production of high-quality and desirable coal products through the delivery of key investment projects along the value chain, with a key focus on production and washing.</p> <p>We plan to sustainably increase our volume of washed coal to satisfy the growing demand for high-grade coals in premium markets.</p> <p>We are committed to delivering our key investment projects in production and washing on budget and on time.</p>
<b>Achieving balanced management of the reserves portfolio</b>		
<p>The company is maintaining a sustainable, high-quality reserves portfolio of thermal and coking coal.</p>	<p><b>RESERVES<sup>1</sup></b></p> <p><b>5.4Bt</b></p> <hr/> <p><b>AVERAGE LIFE OF HARD COAL DEPOSITS</b></p> <p><b>over 30 years</b></p>	<p>Our goal is to ensure a sustainable portfolio of high-quality thermal and coking coal in order to satisfy market demand and customer requirements.</p> <p>We will continue to monitor attractive coal deposits.</p>
<b>Strengthening our position in the Asia-Pacific market and retain our presence in the Atlantic market</b>		
<p>SUEK's coal sales to Asia totalled 32.1Mt in 2016, 16% higher than in 2015.</p> <p>Our 2016 coal sales to the Atlantic market totalled 19.8Mt, 3% over 2015.</p> <p>Coal sales to the premium Japanese market increased by 6%.</p> <p>We increased our presence in Poland, Turkey, Indonesia and the Baltic states through strategic partnerships and the acquisition of distributors.</p>	<p><b>TOTAL INTERNATIONAL SALES</b></p> <p><b>51.9Mt</b> <b>+11%</b> Year-on-year</p> <hr/> <p><b>SALES TO ASIAN COUNTRIES</b></p> <p><b>32.1Mt</b> <b>+16%</b> Year-on-year</p>	<p>We intend to enhance our presence in Japan, South Korea, Taiwan and premium markets in South-East Asia.</p> <p>We plan to increase direct sales by further developing our distribution networks in China, South Korea, Poland and the Baltic states.</p>

<sup>1</sup> SUEK's proven and probable reserves, according to the April 2011 report by SRK Consulting, amounted to 5.9 billion tonnes. Taking into account extraction between April 2011 and December 2016 and SRK's assessment of the Apsatsky coalfield carried out in 2015, these reserves stood at 5.4 billion tonnes as at 31 December 2016.

FOR KEY RISKS,  
SEE PAGES 42-49.



2016 results	KPIs, 2016 performance	2017 plans
<b>Retaining our position as the largest coal producer and supplier of thermal coal in Russia</b>		
We remained the leading thermal coal supplier in Russia, with a market share of 40%.	<p>SHARE OF SUPPLIES TO RUSSIAN THERMAL COAL MARKET</p> <p><b>40%</b></p> <hr/> <p>SALES TO RUSSIAN MARKET</p> <p><b>51.2Mt</b> <b>-6%</b> Year-on-year</p> <hr/> <p>SALES TO SGK</p> <p><b>23.8Mt</b> <b>0%</b> Year-on-year</p>	<p>We plan to maintain our leadership in the Russian market and to seek new opportunities to increase sales to Russian customers.</p> <p>We intend to continue selling coal to the major Russian energy producers – SGK, Unipro, Gazprom Energoholding, TGK-14, DGK and others.</p>
<b>Increasing sales in metallurgical and sized coal in premium markets</b>		
<p>International sales of metallurgical coal grew to 2.7Mt in 2016, while Russian sales totalled 0.4Mt.</p> <p>Our sized coal sales in 2016 totalled 2.8Mt, including sales of sized coal to Poland which increased by 30% compared with 2015.</p>	<p>METALLURGICAL COAL SALES TO INTERNATIONAL MARKET</p> <p><b>2.7Mt</b> <b>+50%</b> Year-on-year</p> <hr/> <p>METALLURGICAL COAL SALES TO RUSSIAN MARKET</p> <p><b>0.4Mt</b> <b>+95%</b> Year-on-year</p> <hr/> <p>SIZED COAL INTERNATIONAL SALES</p> <p><b>2.8Mt</b> <b>+22%</b> Year-on-year</p>	<p>We plan to develop our presence in the metallurgical coal export market through the sale of Kirova mine concentrate and by increasing supplies to customers in this sector in Asia.</p> <p>We also aim to increase sales of sized coal to international markets in a sustainable way, mainly through doubling sales to Poland and Turkey over the next few years.</p>

## Strategy in action



### Developing assets to substitute for depleting capacities


The company has a coal-mining licence for the Nikolsky hard coal deposit located near the Tugnuisky open pit and washing plant. The Nikolsky deposit contains 270 million tonnes of mineable reserves. Nikolsky coal is high quality, and will facilitate the production of washed products with higher calorific value, thereby increasing the prospect of sales within premium markets. We actively developed the Nikolsky open pit in 2016 and produced the first million tonnes of coal from Nikolsky at year-end. Our target for 2017 is 2 million tonnes.

In 2016, we also accelerated the development of the Magistralny site in Kuzbass, which will enable us to retain the team from the November 7th mine, where reserves have been depleted. The tentative commissioning date for the first longwall panel at Magistralny is the end of 2017.



## IMPROVING OPERATIONAL EFFICIENCY AND PRODUCTIVITY

We maintain efficient, low-cost coal production by refining our operational processes and modernising our equipment and production units. We will continue to improve internal management processes with the express intention of boosting the overall profitability of the business.

2016 results	KPIs, 2016 performance	2017 plans
<b>Improving the efficiency of production facilities and processes</b>		
<p>We achieved a number of new productivity records in 2016:</p> <ul style="list-style-type: none"> <li>The Kotinskaya mine produced 1,050 tonnes of coal in one month from a longwall face – an all-time Russian record;</li> <li>SUEK reached 100Mt of production on 14 December;</li> <li>The Chernogorsky open pit set a new world excavation record using a Komatsu PC-4000 (1,075 tonnes per month).</li> </ul> <p>Technological and automation upgrades and achievements in 2016 include:</p> <ul style="list-style-type: none"> <li>Commissioning of an ESh-20/90 dragline, with innovative switched reluctance drives for pull, lift and swing, at our Tugnuisky open pit. An upgrade of a dragline on this scale has never been undertaken in Russia before. All of the drives were manufactured at our own Borodinsky machinery and repair plant. This technology has reduced unit power consumption by 55% and increased productivity by 10%.</li> </ul>	<p><b>PRODUCTIVITY OF MINING UNIT PRODUCTION PERSONNEL</b></p> <p><b>489 tonnes per man-hour</b> <b>+12%</b> Year-on-year</p> <hr/> <p><b>ELECTRICITY CONSUMPTION PER UNIT OF OUTPUT</b></p> <p><b>13.7kWh</b> <b>-1%</b> Year-on-year</p> <hr/> <p><b>INVESTMENT IN MODERN MINING EQUIPMENT</b></p> <p><b>\$235m</b> <b>+12%</b> Year-on-year</p>	<p>We plan to increase overall production by improving our underground mine layouts (including expanding longwall length up to 400m), overcoming geological challenges in some reserve areas, improving operational efficiency and modernising equipment.</p> <p>We also plan to continue implementing an energy-efficiency improvement programme across all our production sites.</p> <p>FOR DETAILS, SEE PAGES 71-72. </p> <p>We will remain focused on modernising our equipment as one of the levers for improved operational efficiency.</p>

### Developing washing capacities to improve coal quality

<p>During 2016, we upgraded the Polysaevskaya mine washing plant.</p> <p>We increased the efficiency and output of the Komsomolets mine washing plant, exceeding the annual targets for the plant by 35%.</p> <p>The new Taldinskaya-Zapadnaya 1 washing plant achieved an annual utilisation rate of 87%, exceeding the 80% target.</p>	<p><b>COAL WASHED</b></p> <p><b>37.3Mt</b> <b>+12%</b> Year-on-year</p>	<p>We intend to maximise the utilisation and improve the productivity of our coal-washing facilities.</p> <p>Plans to increase our coal-washing capacities include the engineering of a new washing plant at the Kotinskaya mine and the expansion of the existing washing plant at the Tugnuisky open pit.</p> <p>We will also improve and optimise the portfolio of products we offer at our coal-washing facilities.</p>
--	---	---

### Strategy in action



#### Improvements in blasting and maintenance

In the first half of 2016, the company started to implement a new strategy for improving drilling and blasting operations. As part of this process, we identified the following key improvement factors: reducing the cost and consumption of explosives, and reducing drilling costs.

In 2016, we also began to implement a new technical policy, 'Labour-saving equipment for ancillary processes'. This has the objective of ensuring that systematic and standardised labour-saving equipment is provided for ancillary work and maintenance tasks. To date, we have developed generic solutions for equipping automotive, maintenance, installation and railway workshops and boiler houses under this policy.



S3

## DEVELOPING COAL SUPPLY LOGISTICS

We plan to keep our costs under control by making focused investments. Increasing the loading capacity of our port facilities will maximise the exports we can ship from our own ports. Working with Russian Railways, we are also carrying out projects to reduce the time it takes to deliver coal by rail.

2016 results	KPIs, 2016 performance	2017 plans
<b>Developing the company's rail infrastructure and rail fleet</b>		
<p>In 2016, the fleet of higher-capacity railcars under SUEK's management grew by 30%, to 12,000 by the end of the year.</p> <p>We also received a new main-line locomotive at our Tugnuisky open pit, while our railcar turnover was improved.</p> <p>We continued our collaboration with Russian Railways to develop the traffic capacity of our own railway stations. Other key achievements in 2016 include:</p> <ul style="list-style-type: none"> <li>• Development of Murmansk station (to be completed in 2017);</li> <li>• Development of Vanino Bulk Terminal railway infrastructure (to be completed in 1H 2017);</li> <li>• Increase of Kamyshta station capacity for the Vostochno-Beisky open pit in Khakasia by 60%.</li> </ul>	<p><b>RAILCARS WITH HIGHER CAPACITY UNDER MANAGEMENT</b></p> <p><b>12,000</b> <b>+30%</b> Year-on-year</p>	<p>We aim to increase our loading-station capacity in line with production growth.</p> <p>We plan to acquire additional higher-capacity railcars. This will further reduce transportation costs and increase coal shipments through our port facilities.</p>
<b>Ensuring the efficient management of port facilities and expand our ship-loading capacity to maximise exports from Russia</b>		
<p>We continued to develop our Vanino Bulk Terminal. We commissioned the first and second facilities as part of our 'External development of Far East transportation hub's railway infrastructure' project.</p> <p>We also commissioned new portal cranes and other higher-capacity equipment at Murmansk Commercial Seaport and Maly Port and started expanding railway infrastructure at Murmansk Commercial Seaport.</p>	<p><b>SHIP-LOADING CAPACITY THROUGH OUR PORTS</b></p> <p><b>41.5Mt</b></p> <hr/> <p><b>SHIPPED THROUGH OUR PORTS</b></p> <p><b>36.5Mt</b> <b>+6%</b> Year-on-year</p>	<p>We intend to meet all our ship-loading needs through our own dedicated ports.</p> <p>We plan to increase the ship-loading capacity of Vanino Bulk Terminal to 24Mt by 2018, and of Murmansk Commercial Seaport to 16Mt by the end of 2017.</p>

### Strategy in action



#### Increasing coal shipment through Murmansk Commercial Seaport

In 2016, we began to modernise our railway infrastructure at Murmansk Commercial Seaport, with the aim of increasing the number of railcars handled to 600 units a day. Our main priority is to remove any constraints created by capacity limitations on the railway which leads to the port. We plan to complete the final stage of expanding the railway infrastructure in mid-2017, with the goal of achieving an annual shipment capacity of 16 million tonnes from this port.

We have also installed seven new portal cranes at the port and are using higher-capacity bucket grabs, which increase shipment capacity and suppress dust generation. We expect to install another six cranes in the next three years.

Murmansk Commercial Seaport is the largest year-round ice-free seaport north of the Arctic Circle. At the year-end SUEK held a 75.5% stake in the voting shares of the port. The port is able to service ships with a deadweight of up to 160,000 tonnes. It ships both bulk and general loads and provides regular access to the Atlantic Ocean and links to ports in Western Europe, the Mediterranean and on the eastern seaboard of the US.



## ACHIEVING HIGH SAFETY STANDARDS

All SUEK companies comply with leading international standards in occupational and industrial safety. Our fundamental aims are to reduce injury rates and prevent fatal accidents.

2016 results	KPIs, 2016 performance	2017 plans
<b>Promoting high international standards in health and safety</b>		
<p>SUEK continued to invest time and money in developing monitoring and safety alert systems.</p> <p>In 2016, as part of our commitment to continuous staff training and health and safety awareness, we equipped all our mining facilities with terminals for complex pre-shift examination. Now, before starting a shift, all miners take a test to check their knowledge on health and safety matters.</p> <p>The occupational health and safety management system for open-pit coal mining and processing in Khakasia was certified as conforming to the OHSAS 18001:2007 standard.</p>	<p>LTIFR</p> <p><b>0.94</b> <b>-24%</b> Year-on-year</p> <hr/> <p>FATAL ACCIDENTS</p> <p><b>3</b></p> <hr/> <p>INVESTMENTS IN HEALTH AND SAFETY</p> <p><b>\$48m</b></p>	<p>We are committed to ongoing investment and improvement in the monitoring and provision of safety alerts, particularly for ventilation, gas drainage and stone-dusting systems, and in the installation of modern explosion-proof starters.</p> <p>We plan to deliver additional personnel training programmes to help reduce the number of accidents at our sites.</p>

### Strategy in action



#### SUEK rescue team among leaders at the International Mines Rescue Competition in Canada

In 2016 SUEK's auxiliary mine rescue team placed 5th at the International Mines Rescue Competition (IMRC) held in Sudbury, Canada. For the first time in Russian history, a team of non-professional rescuers participated in the international rescue competition. To be a member of the team requires a high level of training. SUEK's team was headed by Oleg Yurchenko, an experienced rescuer and a member of Russia's Militarised Mine Rescue Unit for 15 years.

The IMRC has been held since 1999, and represents a unique opportunity for rescue teams of volunteers and professionals from around the world to meet and improve their mine rescue skills, while sharing technical and organisational knowledge and practical experience. In Sudbury, 27 teams from 13 countries (Canada, Russia, China, Poland, Australia, Ireland, the US, Slovakia, Vietnam, India, Colombia, and an Americas team) competed in six competitive events at the IMRC, including underground firefighting, first aid, mine rescue simulation, as well as in a technician competition and theory exam. The next IMRC will be held in Russia in 2018 in the city of Novokuznetsk, Kemerovo region.



#### Unified control and analytical centre

The company's head office features a unified control and analytical centre, where the objectives are to improve the quality and efficiency of managerial decisions and to prevent crisis and emergency situations. It aims to achieve these goals by conducting timely reviews, ensuring real-time access to information resources and videoconferences, and by conducting briefings using visualisation tools.

Our unified information space provides the technological basis for managing industrial safety at SUEK. For example, our IT-technologies, containing mine atmospheric safety and emergency preparedness solutions, help us to meet industrial safety standards, organise the operational management of production processes and improve planning efficiency. Our integrated industrial-safety system includes a range of key processes – from geology to surveying and power supply – and is implemented through our head office, regional offices and each individual mine.

S5

## COMMITTING TO SUSTAINABLE DEVELOPMENT

Our aim is to contribute to global energy security by producing coal safely and sustainably, while also delivering value to all our stakeholders. Our environmental programmes are designed to minimise any negative impacts our business might have. SUEK also seeks to sustain its position as one of the most attractive employers in the Russian mining industry, primarily through the quality of our employee training and development programmes. In addition, through ongoing investment in environmental, public, educational and social projects, we aim to improve quality of life in the communities where SUEK operates.

2016 results	KPIs, 2016 performance	2017 plans
<b>Developing social infrastructure in the regions where we operate</b>		
<p>We continued to collaborate with regional and municipal governments to develop social and educational infrastructure in the communities where we work.</p> <p>We provided support for various local infrastructure development initiatives and gave financial assistance to 20 projects across Russia.</p> <p>We continued to support charities and organisations that provide treatment and care for children. We extended our involvement in a care programme for children from coal-mining regions, which we run in cooperation with the Office of the President of the Russian Federation.</p> <p>The company also worked on a range of educational programmes, including leadership, economic and social entrepreneurship programmes.</p>	<p><b>INVESTMENT IN PUBLIC AND SOCIAL PROJECTS</b></p> <p><b>\$15m</b></p> <hr/> <p><b>NEW ORGANISATIONS CONTRIBUTING TO COMMUNITY DEVELOPMENT IN THE REGIONS WHERE WE OPERATE</b></p> <p><b>66</b> <b>+18%</b> Year-on-year</p>	<p>SUEK has a long-term commitment to developing social infrastructure, and supports local communities in the regions where we operate.</p> <p>We will continue to invest in key public and social projects.</p>
<b>Reducing adverse environmental impacts</b>		
<p>2016 key environmental projects included water treatment, reduction of greenhouse gas emissions and land rehabilitation.</p> <p>In 2016, we utilised 8.55 million m<sup>3</sup> of methane captured from mines to generate heat and electricity, a 14% increase compared to 2015.</p> <p>We constructed water-treatment facilities at the Kotinskaya mine.</p> <p>At Murmansk Commercial Seaport, we continued to use higher-capacity grabs to suppress dust, reducing emissions by 20% over the last four years. In 2016, we launched a fog-generation dust suppression system, which allowed us to reduce dust generation by 49%. We carried out the pre-project modelling of shields that suppress over 80% of the dust generation.</p> <p>SUEK Khakasia was certified in compliance with the ISO 50001:2011 energy management system.</p> <p>SUEK signed environmental agreements with relevant regional governments, including plans for the construction of water-treatment facilities, installing fog-generation equipment (to decrease airborne dust) and other projects. Total expenditure to be involved amounts to \$40m.</p>	<p><b>INVESTMENT IN ENVIRONMENTAL ACTIVITIES</b></p> <p><b>\$11m</b></p> <hr/> <p><b>METHANE UTILISATION</b></p> <p><b>8.55mln m<sup>3</sup> +14%</b> Year-on-year</p> <hr/> <p><b>SUSPENDED AND DISSOLVED SOLIDS IN WASTEWATER</b></p> <p><b>0.23kg per tonne of production -12%</b> Year-on-year</p> <hr/> <p><b>LAND REHABILITATED</b></p> <p><b>397ha</b> <b>+85%</b> Year-on-year</p>	<p>SUEK aims to minimise its environmental impact by implementing appropriate programmes, including projects for reducing methane emissions and the construction of treatment facilities.</p> <p>We will continue to implement energy-saving schemes by introducing automated energy-management systems. This will enable us to monitor and control energy consumption linked to mining equipment, and ultimately to decrease emissions.</p> <p>By the end of 2017, we plan to complete the design works of dust-suppression shields at Murmansk Commercial Seaport, along with commissioning of storm water treatment facilities.</p>

### Strategy in action



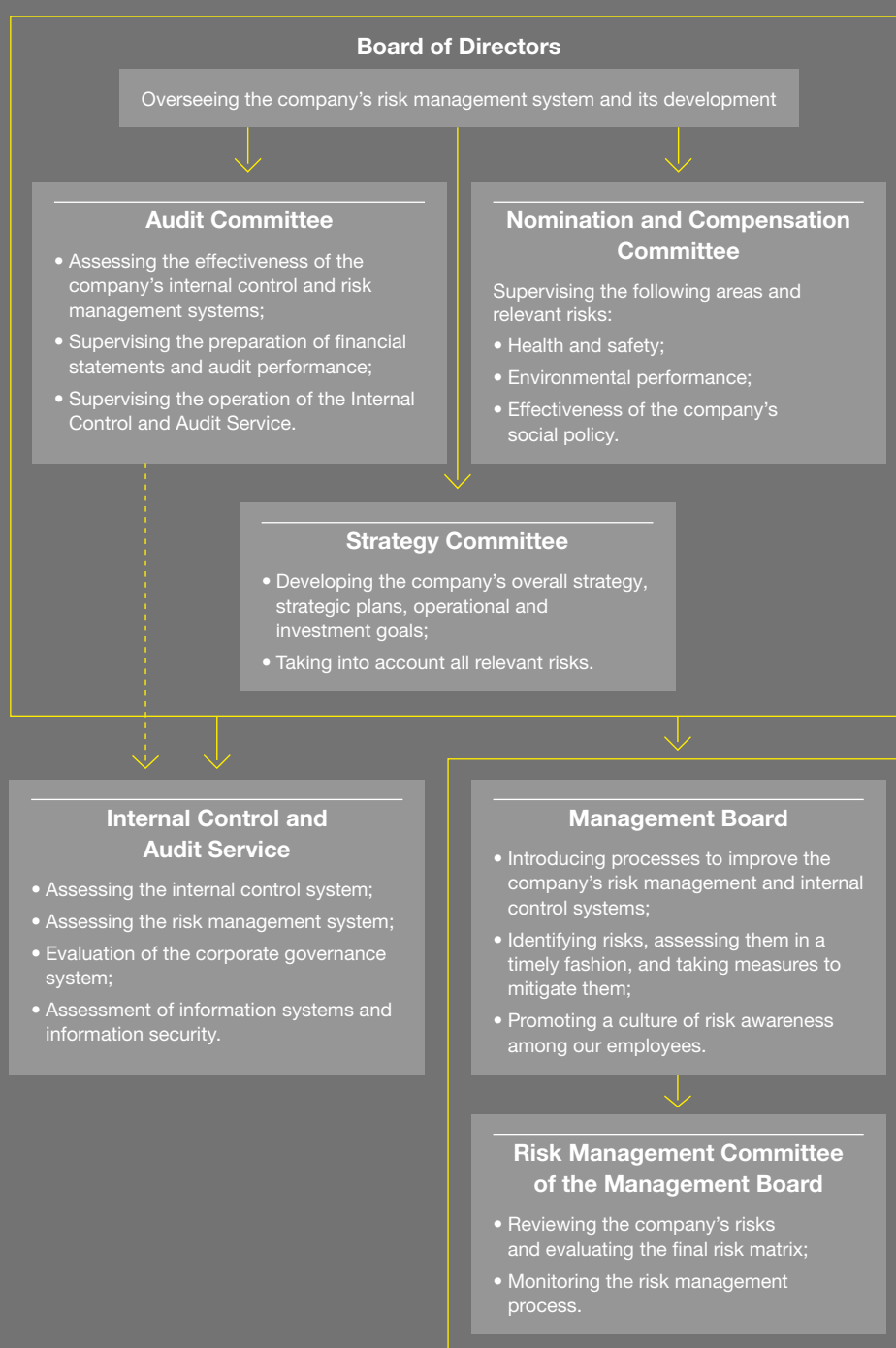
#### Creating comfortable living environment

In 2016, for the sixth consecutive year, SUEK ran a multi-regional competition for development projects to improve urban land. Called 'Comfortable Living Environment', the competition includes five categories: 'Cosy courtyard, cosy home', 'Beauty around us', 'Clean city – healthy future', 'Health zone' and 'Discovering Russia'. SUEK received 230 applications, almost a third of the total number of applications received over the past six years. Of these, 20 projects received financial support. The winners included the following proposals: new street lights for the town of Sagan-Nur and development of a playground in Nikolsk town in Buryatia; construction of a playground in Leninsk-Kuznetsky in Kemerovo; park landscaping in Primorye and in the Khabarovsk region; development of a sports ground in Khakasia; construction of a health and sports ground and a mobile library for children in the Krasnoyarsk region; creating an 'Autotown' ground for children to learn traffic regulations in Zabaikalye.



# PROACTIVE RISK MANAGEMENT

Effective risk management is essential to the achievement of SUEK's strategic goals. We are committed to the continuous improvement of our risk management system, which enables us to identify external and internal risks, analyse them, and develop efficient mitigation measures.



## Risk management system

Given the nature of the coal-mining industry, we pay close attention to the risks related to our operations. We understand that, as our operational, commercial and financial activities grow, and as the external environment remains volatile, the need to manage a wider range of risks increases. To this end, we continue to improve our corporate risk management system by developing additional risk-mitigation measures and introducing them across the company.

Our Risk Management Committee of the Management Board of SUEK controls and monitors the company's risk management system, working closely with the Audit Committee of the Board of Directors. The risk management process is carried out in accordance with the risk management procedure developed and approved by the Risk Management Committee. This procedure includes the main objectives and principles of risk management, and methods for their identification, assessment and mitigation. The Risk Management Committee holds meetings at least once a quarter and considers changes within the area of controlled risks. Where appropriate, adjustments are made to the risk management action plan and the risk management system is changed as needed.

The Risk Management Committee also ensures cross-functional interaction between senior managers and internal operational experts. Employees responsible for managing certain types of risks devise appropriate responses to emerging issues, and inform the Risk Management Committee of all measures taken to mitigate the risks in question.

In order to ensure a timely response to possible adverse developments, we continuously monitor and analyse trends in key markets and related industries, and in the macroeconomic situation, both in Russia and in countries importing SUEK's products. Based upon this analysis, we can further adjust the company's production, sales and financial policies.

We monitor changes in risk levels through our established, annually-reviewed risk map. The risk map helps to analyse the identified risks and determine the most critical risks in each area of the company's operations. The responsibility for managing specific risks is then delegated to employees within the relevant departments.

## Risk mitigation achievements in 2016:

The Risk Management Committee analysed the risk map for 2015, after which it reviewed and approved a new risk map for 2016, incorporating new risks and a new approach to risk assessment.




In view of continuing changes in the macroeconomic and market environment, the Risk Management Committee focused on the following risk-mitigation initiatives:

- Monitoring restrictions on coal use resulting from international and national regulatory decisions and PR campaigns;
- Monitoring legislative amendments that could affect the company;
- Implementing measures to prevent an increase in rail costs due to structural changes in how rail tariffs are set;
- Approving measures to monitor social and regulatory restrictions that may prevent planned actions relating to unprofitable assets.




## REVIEW OF KEY RISKS

Below we set out a list of the key risks which may have a major impact on SUEK's operational and financial performance. Within this Annual Report, the list of risks which may affect the company's operations and financial situation is not exhaustive. There are other inherent risks which are not listed below and may have an adverse impact on SUEK's performance.





### External risks

Description of risk and its potential impact	Change over the year	Actions to mitigate the risk
<b>Risk of reduction in coal prices</b>		
<p>Reduced use of coal by power-generation companies and the emergence of alternative fuels may result in lower demand for coal. This trend could adversely impact the Group's performance. Tighter international environmental standards on coal quality and production conditions could also result in reduced demand for the coal we produce.</p> <p>STRATEGIC PRIORITY</p> <p><b>S1</b></p> <p>FOR MORE DETAILS, SEE GLOBAL CONTEXT ON PAGES 16-17 AND MARKET REVIEW ON PAGES 18-21.</p> 	<p></p> <p>In 2016, Germany, the UK and some of the Nordic states articulated plans to reduce or completely eliminate coal-fired power generation to fulfil their pledges under the Paris agreement on climate change.</p>	<p>We wash our coal to improve its quality, enabling us to meet demand for higher-value products from international markets. We constantly monitor the production, sales and market environment within the industry, and prepare coal-demand forecasts based on studies and reports by investment analysts. We diversify our sales to stable and growing markets to make up for declining sales in slowing markets. We also expand our presence in emerging markets and participate in projects to develop new technologies of coal-fired power generation.</p>
<b>Inflation risk</b>		
<p>Inflation risk relates to rising inflation rates in the countries where SUEK's companies conduct their main operations, as well as to individual business transactions. Rising inflation can result in higher production costs.</p> <p>STRATEGIC PRIORITY</p> <p><b>S1</b></p>	<p></p> <p>In 2015, the continuation of sanctions imposed by the US and the EU in 2014, as well as OPEC's decisions on limiting oil output, resulted in the devaluation of the Russian Rouble. In 2016, we saw the return of more stable exchange rates against the US Dollar, the Euro and other currencies, although the macroeconomic and political environment, coupled with an unpredictable rate of inflation in Russia, may still impact SUEK's financial performance in 2017. In addition, pricing methods based on export netbacks fixed in various foreign currencies, which are used by most equipment manufacturers and suppliers, may increase the cost of the Group's investment projects.</p>	<p>In order to ensure the appropriate level of protection, we hedge inflation risks by using derivatives and investing available cash assets in a stable foreign currency. Most export contracts for coal are concluded in US Dollars, which largely compensates for the effect of inflation in Russia on the Group's EBITDA.</p>




## Key to the risks

-  The risk has decreased
-  The risk has not changed
-  The risk has increased

## External risks





Description of risk and its potential impact	Change over the year	Actions to mitigate the risk
<b>Risk of changes in current legislation</b>		
<p>The company follows Russian statutory regulations and other regulatory acts in the jurisdictions where it produces and sells its products. We also abide by the regulations of the countries and regions from which the Group imports goods and services.</p> <p>In Russia, changes in legislation can relate to tax, customs and foreign exchange regulations, securities market law, anti-monopoly and corporate law, licensing and mineral resources law and judicial practices. They can also arise through the tightening of environmental protection requirements. SUEK's business can be significantly affected by decisions made by Russian governmental agencies to impose tariffs, quotas, trade restrictions, restrictions on the ownership rights of non-residents, subsidies, licensing and anti-monopoly policies and refinancing rates.</p> <p>In the international market, we operate via our subsidiary SUEK AG, which has representative offices and subsidiaries in Poland, China, Japan, South Korea, Lithuania, Indonesia, the US and Taiwan. The Group's companies operate in full compliance with the statutory and regulatory requirements of all of these countries and regions.</p> <p>SUEK's companies can also be affected by unfavourable regulatory acts implemented by foreign authorities. Such changes can involve additional controls on export coal and its subsequent sale in certain countries and regions, or the setting of special conditions for importing goods and services to Russia.</p> <p>International sanctions against Russian individuals and legal entities, as well as industry (sectoral) sanctions, can also impose the limitations on certain sectors of the Russian economy. At the moment, existing sanctions do not directly target Russia's coal-mining industry, the Group's companies or their operation. However, a number of economic limitations do currently affect our business and necessitate special control in the selection of counterparties (while closing financial deals, for example). They also affect the availability of financial resources across the Russian market in general, and make it difficult for companies operating in Russia to import certain types of equipment.</p>	<p> During 2016, the Russian authorities introduced new tax regulations, effective from 1 January 2017, which set out new taxation procedures. The Russian government's tax policy for 2017-2019 is aimed at further changing of tax legislation.</p>	<p>We constantly monitor proposed projects to amend legislation, as well as Russian legislative and other regulatory requirements. We also review and summarise law enforcement practices, taking into consideration the company's operation. This enables us to quickly adapt our business processes and organisational structure to any changes in the legislative environment, and to operate in full compliance with the current regulatory and legal framework.</p> <p>SUEK's senior managers and experts are actively involved in governmental policy panels for the coal-mining industry, coal markets, transportation, technical supervision, social and labour relations and financial markets.</p> <p>SUEK constantly monitors (either independently or through external consultants) relevant changes in legislation and law enforcement in other countries where our transactions may fall under local jurisdiction. The company's management also monitors international sanctions and informs SUEK's companies and employees about relevant limitations and what they mean for their activities.</p>
STRATEGIC PRIORITIES <div>    </div>		

## Credit risk




<b>Credit risk</b>		
<p>Increase in overdue receivables under domestic coal supply contracts. Transition of overdue receivables to problematic or uncollectible accounts, which results in direct losses for the company.</p>	<p> In the Russian housing and public utilities sector, the situation regarding late or non-payment for supplied coal under contractual obligations has continued to deteriorate.</p>	<p>We focus on liaising with the financial departments of regional governments where we supply coal. The aim here is to improve or establish a mechanism which would ensure timely payments by housing and public utility companies, as well as upfront payment clauses in supply contracts.</p> <p>The company may suspend coal deliveries to customers who carry debt, and if necessary re-direct supplies to more financially reliable customers – for example, retail and small-scale wholesale buyers using our own storage network.</p>
STRATEGIC PRIORITY <div>  </div>	FOR MORE DETAILS, SEE FINANCIAL REVIEW ON PAGES 59-63. 	











## External risks

Description of risk and its potential impact	Change over the year	Actions to mitigate the risk
<b>Regulatory risk</b>		
<p>Our production operations are governed by numerous laws and regulations covering natural-resource management, mineral exploration and mining, healthcare and industrial safety.</p> <p>Coal-mining licences, obtained by production companies, can be suspended, terminated ahead of schedule or left unrenewed upon expiry. These risks are mostly dependent on the decisions made by the supervisory agency (Rosnedra) holding scheduled and ad hoc inspections at the Group's companies.</p> <p>Changes in national environmental and labour regulations may also influence the thermal coal market.</p> <p>STRATEGIC PRIORITY <b>S1</b></p>		<p>We make every effort to comply with current legislation, thereby minimising the risk of suspension of operations at our production units. We rigorously monitor any changes in the legislative environment.</p> <p>SUEK's companies have implemented procedures in order to ensure compliance with licence requirements for timely renewal or new applications. If any discrepancies with licence requirements are detected, we strive to complete the instructions from the regulator as quickly as possible.</p> <p>We also seek to adjust our product quality in line with the regulations of the countries where our customers operate.</p>
<b>Anti-monopoly risk</b>		
<p>SUEK's companies occupy leading positions in the production and sale of thermal coal in a number of Russian regions. Consequently, our operations are subject to the anti-monopoly requirements set out in Russian legislation, including obligations and limitations introduced to protect competition within the thermal coal market.</p> <p>STRATEGIC PRIORITY <b>S1</b></p>		<p>SUEK has implemented procedures ensuring full compliance with the applicable anti-monopoly regulations.</p>
<b>Risk of reduction in coal prices</b>		
<p>The company's business may be affected by a decline in demand for coal and a reduction in coal prices due to oversupply and growth in demand for other types of fuel. A reduction in global prices for coal and natural gas (the main types of fuel in the power industry) is a key factor which could change the situation for the worse.</p> <p>STRATEGIC PRIORITY <b>S1</b></p>		<p>We continuously monitor and forecast the price behaviour of commodities in general and coal in particular. We also monitor trade policies relating to long-term contracts. We constantly analyse the correlation between demand trends, coal-mine opening and expansion, the closure of existing mines and the postponement of development projects.</p>
<p>STRATEGIC PRIORITY <b>S1</b></p> <p>FOR MORE DETAILS, SEE MARKET REVIEW ON PAGES 18-21.</p> 		

#### Key to the risks

-  The risk has decreased
-  The risk has not changed
-  The risk has increased


### External risks

Description of risk and its potential impact	Change over the year	Actions to mitigate the risk
<p><b>Foreign exchange and interest rate risks</b></p> <p>Changes in market indicators such as currency exchange and interest rates can have an adverse effect on the Group's financial performance. They can also impact our debt burden and the value of the financial instruments on the company's balance sheet. Currency and interest rate risks need to be managed to mitigate the unfavourable effects of exchange and interest rate fluctuations.</p> <p>STRATEGIC PRIORITY  FOR MORE DETAILS, SEE FINANCIAL REVIEW ON PAGES 59-63. </p>		<p>SUEK analyses the risks relating to changes in currency exchange and interest rates on a regular basis. We strive to keep these risks within acceptable limits, and to achieve optimal profitability where possible. We also make use of 'natural hedging' as a significant part of the company's revenue, and the majority of our loans are denominated in US Dollars.</p>
<p><b>Liquidity risk</b></p> <p>Liquidity risk is directly related to cash turnover. It arises if the company cannot fulfil its payment obligations. It is often linked to the effects of inflation, foreign exchange and interest rate risk. The effective management of liquidity risk requires maintaining an adequate level of cash and cash equivalents while ensuring the prompt raising of funds using available lines of credit.</p> <p>Liquidity risk also arises from decreases in coal sales volumes or price, which can result in insufficient revenue being generated to serve the Group's external debt.</p> <p>STRATEGIC PRIORITY  FOR MORE DETAILS, SEE FINANCIAL REVIEW ON PAGES 59-63. </p>		<p>We continuously monitor loan covenants and use a comprehensive forecasting system to ensure we comply with them. At present, the amount of credit lines provided to SUEK fully covers its financing needs.</p>
<p><b>Risk of emergency situations</b></p> <p>Coal mining is inherently dangerous. The risk of accidents and emergency situations at our production facilities is therefore constant and requires robust management and mitigation.</p> <p>Preventing fatal accidents and decreasing the number of injuries we experience is one of the company's most important tasks. Damage to or destruction of property due to explosions, fire or failures in equipment operation can result in direct losses. The costs of emergency response and recovery, as well as forced downtime at individual production units, can also negatively impact the Group's financial results.</p> <p>STRATEGIC PRIORITY </p>		<p>We continuously monitor hazards at all stages of operation, paying close attention to safe production processes and procedures. All accidents are thoroughly investigated by experts who serve as members of special panels. Based on the results of their work, we prepare packages of measures to prevent similar accidents from happening in the future.</p>

## Operational risks

Description of risk and its potential impact	Change over the year	Actions to mitigate the risk
<p><b>Production risk</b></p> <p>In our operations, we face various production risks linked to different factors. These can be either internal (downtime, adverse geology, reduced coal quality) or external (growth of fuel, electricity and equipment requirements and service prices, and the failure of suppliers and contractors to fulfil their obligations). Such factors can affect production targets, which sometimes requires additional expenses, resulting in an increase in our overall production costs.</p> <p>STRATEGIC PRIORITIES</p> <p>S1 S2</p>		<p>At all of our production units, we have introduced Life of Mine (LoM) deposit development models. Based on geological data and created using XPAC-XERAS software, the LoM models enable each production unit to check its annual budgeted and actual expenses on a regular basis. As part of this process, we pay special attention to operational-efficiency projects associated with reducing the duration of longwall face moves.</p> <p>We also monitor projects designed, among other aims, to improve work rates and increase the availability and deployment of opencast mining equipment.</p> <p>In addition, we employ a monthly reporting procedure based on Key Performance Indicators (KPIs), and Enterprise Resource Planning (ERP) systems, allowing management to assess the performance of SUEK and its subsidiaries on a regular basis.</p>




## Health and safety risk

<p>Coal mining is associated with an elevated risk of accidents and emergencies, which can occur due to geological factors, technical conditions and the action or inaction of individuals. Major emergencies can negatively impact SUEK, leading to a possible increase in reputational risk, the discontinuation of business partnerships or claims from the company's lenders for early loan repayments.</p> <p>STRATEGIC PRIORITY</p> <p>S4</p>		<p>Every meeting of the Board of Directors and the Nomination and Compensation Committee of the Board starts with a review of health and safety issues. Our Industrial Safety Committee of the Management Board analyses every injury sustained at our sites and proposes actions to prevent similar accidents in the future.</p> <p>As owners of dangerous industrial equipment, all the Group's companies maintain general liability insurance against possible damage to life, health and the property of third parties. In addition, we insure our employees against permanent or temporary disability.</p>
---	---	---













FOR MORE DETAILS, SEE  
HEALTH AND SAFETY  
SECTION ON PAGES 64-68.



## Key to the risks

-  The risk has decreased
-  The risk has not changed
-  The risk has increased

## Operational risks

Description of risk and its potential impact	Change over the year	Actions to mitigate the risk
<p><b>Human resource risk</b></p> <p>Experienced and highly qualified personnel, in particular mining engineers and mine workers, are the company's most important assets. Failure to recruit and retain qualified personnel can result in missed production targets and increased costs.</p> <p>The socio-demographic situation in Russia increases the risk of a qualitative and quantitative human-resource deficit. Factors complicating recruitment include a decline in birth rates and underdeveloped housing infrastructure in the regions where we operate, plus a shortage of vocational training institutions and low levels of professional skills among graduates.</p> <p>STRATEGIC PRIORITIES   FOR MORE DETAILS, SEE OUR PEOPLE SECTION ON PAGES 73-76. </p>		<p>SUEK develops a system of employees training and professional development. We also work to improve motivation initiatives and enhance remuneration. In terms of recruitment, we actively search out and support talented vocational college and university students, providing them with employment opportunities at SUEK's companies. In addition, we implement projects aimed at delivering social development, including improving housing conditions in the regions where we operate.</p>
<p><b>Risk of restricted infrastructure availability</b></p> <p>When it comes to infrastructure availability, risks consist of reduced access to railway and port infrastructure, electricity networks and water facilities.</p> <p>Limited access to infrastructure can result in reduced profit due to higher operational costs, and losses due to downtime at our production units. For SUEK, this risk can increase as a number of our companies operate in regions where harsh environments can impact power supply and transportation. Availability of infrastructure is also dependent, to a significant degree, on whether our service providers meet their obligations. Refusal to provide services can result in forced suspension of production, which in turn can negatively impact our operational and financial performance.</p> <p>Certain infrastructure is operated by state-owned monopolies. Operation of such facilities is subject to tariff regulation, which can affect the availability and quality of the services in question.</p> <p>STRATEGIC PRIORITIES   FOR MORE DETAILS, SEE OPERATING REVIEW ON PAGES 54-58. </p>		<p>The Group's production and logistics units actively create long-term relations with infrastructure providers. When executing contracts, we pay special attention to the technical conditions and servicing of railway tracks at connecting stations, railway and port-loading facilities, electrical substations and networks.</p> <p>We also invest in the development of infrastructure that is critical to our business, such as Vanino Bulk Terminal.</p>
<p><b>Environmental risk</b></p> <p>The environmental risks related to coal mining and washing include air emissions of pollutants and coal dust, contamination of soil and water and noise pollution. These negative impacts can result in claims from regulatory authorities and the suspension of operations, which in turn affect the company's operational and financial performance.</p> <p>STRATEGIC PRIORITIES   FOR MORE DETAILS, SEE ENVIRONMENT SECTION ON PAGES 69-72. </p>		<p>We seek to minimise environmental risks by developing and implementing projects for land rehabilitation, mine methane disposal, and health protection in case of production operations in the immediate vicinity of inhabited areas. The company takes measures to reduce environmental and ecosystem impacts and pollutant emissions, and to ensure the efficient disposal and recycling of waste. The frequency of these measures is determined by current legislation, as well as by the company's environmental policy and protection programme.</p>



# OUR ASSETS

## RUSSIA

### 1 Kemerovo



In the Kemerovo region, SUEK mines high-quality hard coal from underground mines and open pits located in the Kuznetsk basin (Kuzbass).

To refine the mined coal and achieve the quality required by our customers, we treat it at four washing plants. Products with calorific values of 5,800-6,100 kcal/kg are principally supplied to energy companies in Europe and Asia. High-quality concentrate from Kirova mine is supplied to metallurgical coal markets in Asia and Russia. Meanwhile, coal with a calorific value of 5,000-5,700 kcal/kg is mainly required by Russian power-generation companies.

In 2016, we rolled out capacity development projects aimed at increasing the efficiency of export-quality coal production. These included:

- Launching new highly productive mining equipment at the Yalvskogo and Taldinskaya-Zapadnaya mines;
- Continuing the modernisation of the Polysaevskaya mine washing plant.

As one of the major employers and taxpayers in the region, SUEK makes a significant contribution to social development in Kemerovo region. Each year, we fund and support various education, healthcare and infrastructure development projects.

#### Production units

Kamyshansky open pit

Kirova mine

Komsomolets mine

Kotinskaya mine

November 7<sup>th</sup> mine

Polysaevskaya mine

Rubana mine

Taldinskaya-Zapadnaya 1 mine

Taldinskaya-Zapadnaya 2 mine

Yalvskogo mine

Zarechny open pit

#### Washing facilities

Kirova mine WP (modules No.1 and No.2)

Komsomolets mine WP

Polysaevskaya mine WP

Taldinskaya-Zapadnaya 1 mine WP

In addition, the company also operates five coal-sizing facilities in the region.

### 2 Khakasia



Our units in the Minusinsk basin in Khakasia produce premium hard thermal coal with a high calorific value. Coal is mined from three open pits and one underground mine and washed at a single washing plant.

We export more than half of the coal from this region (including deliveries of premium sized thermal coal) to Europe and Asia. An integral part of the company's strategy is to increase sales of washed, sized coal with a calorific value of 5,500-5,700 kcal/kg from Khakasia to the Atlantic market, as it is sold at a premium compared to un-sized thermal coal.

Our largest Russian customers are power plants and coal-distribution companies supplying households and public utilities.

In 2016, we focused on increasing the share of export-quality coal and developing environmental initiatives. Key projects included:

- Developing the Chernogorsky open pit and Chernogorsky washing plant;
- Constructing water-treatment facilities at the Vostochno-Beisky open pit.

SUEK is fully committed to the social development of the region, and provides funds for various education, healthcare and infrastructure initiatives. As part of our work with the Global Environment Facility and United Nations Development Programme (UNDP), we have been running a project called 'Mainstreaming Biodiversity Conservation into Russia's Energy Sector Policies and Operations'.

#### Production units

Chernogorsky open pit

Izykhsky open pit

Khakasskaya mine

Vostochno-Beisky open pit

#### Washing facility

Chernogorsky WP

In addition, the company also operates three coal-sizing facilities in the region.

#### Key to the assets



SUEK's operations in Russia extend from west to east across eight regions and seven time zones. Our efficient production assets, port facilities and rail infrastructure are widely spread across the country, enabling strong connections with our customers in all key markets.

As one of the largest companies and employers in Russia, we are also deeply committed to sustainable business development, providing social, environmental and economic support to the regions where we operate.

### 3 Krasnoyarsk



Our production units in Krasnoyarsk region extract brown coal from three open pits in the Kansk-Achinsk basin. This coal is supplied mostly to the Russian market, principally to heat and power stations and public utilities within the region.

Our mining operations in Krasnoyarsk are relatively straightforward and low-cost due to limited overburden thickness. This means the units here have the lowest stripping ratio among SUEK's production units. Operational efficiency is also boosted by the fact that the coal loading is performed directly into railcars or onto conveyor belts.

As part of our commitment to sustainable development in Krasnoyarsk, our Berezovsky open pit team completed the reforestation of former coal-mining areas in 2016. Planting cedar saplings over 30 hectares of land, they set a new record for the region.

#### Production units

Berezovsky open pit

Borodinsky open pit, named after M.I. Shchadov

Nazarovsky open pit

In addition, the company also operates two coal-sizing facilities in the region.

### 4 Buryatia



We extract high-quality hard coal at the Tugnuisky open pit and the Nikolsky open pit, located in Buryatia and Zabaikalye. We use modern equipment and employ sophisticated planning, operational and management systems at these pits.

Coal from the open pits is washed at the Tugnuisky washing plant, which has an annual capacity of 10.3 million tonnes. Washing reduces ash content from 28% to 18% and increases calorific value from 4,830 kcal/kg to 5,340 kcal/kg.

Most of this coal is exported to the Asia-Pacific market. The low-nitrogen hard coal extracted at Tugnuisky and Nikolsky meets the requirements of Japanese power utilities. Some coal is delivered directly to China by rail across the Russian-Chinese border. It is also sold to Russian power plants and utilities.

In 2016, key capacity-development projects included:

- Developing the Nikolsky open pit, including the purchase of additional excavating equipment and dump trucks;
- Starting the construction of pit water treatment facilities at the Tugnuisky and Nikolsky open pits.

On the social development side, SUEK encourages social entrepreneurship in the region. We have set up a resource centre in Buryatia to support small businesses and NGOs by providing targeted education for their future leaders. Buryatia also participates in a company programme aimed at promoting social entrepreneurship among young people called 'Future of the region – future of SUEK'.

#### Production units

Nikolsky open pit

Tugnuisky open pit

#### Washing facility

Tugnuisky WP

In addition, the company also operates one coal-sizing facility in the region.

### 5 Zabaikalye



In Zabaikalye, two open pits – Kharanorsky and Vostochny – produce brown coal, which is supplied predominantly to local Russian power stations.

In 2012, SUEK started to develop the Apsatsky coking coal deposit. Located 40km from the Baikal-Amur Mainline (BAM) railway, Apsatsky extracts high-quality, mid-volatile coking coal, which is in high demand in Asian coking coal markets and in Russian metallurgical markets.

During 2016, Zabaikalye continued to participate in our 'Comfortable Living Environment' competition, which identifies and supports the best ideas for the development of the natural environment. Winners of the regional and interregional stages receive funding to support their efforts. SUEK also continued to focus on improving the living conditions in the Apsatsky open-pit camp, where employees work on a rotational basis.

#### Production units

Apsatsky open pit

Kharanorsky open pit

Vostochny open pit

In addition, the company also operates two coal-sizing facilities in the region.

## RUSSIA (CONTINUED)

### 6 Khabarovsk



The company's mining operations in Khabarovsk are located on the Urgal deposit in the Bureinsky basin. The proximity of Khabarovsk's assets to our Vanino Bulk Terminal represents a significant strategic advantage.

The Bureinsky open pit and the Severnaya underground mine both produce hard coal. This coal is washed at the processing facility and at our state-of-the-art Chegdomyn washing plant, increasing its calorific value from 4,600 kcal/kg to 5,850 kcal/kg. Coal from this region is mainly transferred to our nearby Vanino Bulk Terminal and to the Asia-Pacific market, and also to Russian power-generation customers located in the Khabarovsk and Primorye regions. As the Urgal deposit mines high-calorific-value hard coal and is well located strategically, the company invests significantly in its mining, washing and transshipment capacity, as well as its environmental safety.

In 2016, capacity-development projects at Urgal included:

- Increasing the capacity of thermal mining facilities with new conveyors and trucks;
- Purchasing new transport and mining equipment;
- Constructing infrastructure for the development of the Pravoberezhny mining site.

Located on Russia's east coast, the Vanino Bulk Terminal (JSC Daltransugol) was constructed in 2008 by SUEK specifically for the shipment of our coal. The terminal is a crucial export gateway from Russia to the Asia-Pacific market. It provides the shortest route from our production facilities (with direct access to the Trans-Siberian Railway and Baikal-Amur Mainline) to customers in China, South Korea, Japan and Taiwan. In 2016, SUEK shipped 19.5 million tonnes through the terminal. The company continued to develop external railway infrastructure at the Vanino Bulk Terminal to increase annual loading capacity to 24 million tonnes and procured new equipment for the terminal to ensure environmental safety.

As part of our commitment to sustainable development, during 2016 we continued to run our School of Social Entrepreneurship in the Khabarovsk region, providing support to staff at municipal authorities, local NGOs and small businesses. In order to attract qualified staff, we have also been constructing new houses for employees.

#### Production units

Bureinsky open pit

Severnaya mine

#### Washing and processing facilities

Chegdomyn WP

Processing facility at Bureinsky open pit

#### Port

Vanino Bulk Terminal

### 7 Primorye



Our assets in Primorye are located in the Pavlovsky brown-coal basin and the Lipovetsky hard-coal basin. SUEK's Primorye mines are situated near Russia's eastern coast, which generates significant savings on transportation costs when supplying coal to Asia-Pacific markets.

The Pavlovsky open pit produces brown coal with a calorific value of 2,800-3,000 kcal/kg for the Russian market. The Vostochnoe underground mine produces hard coal with a calorific value of 4,800 kcal/kg.

In the Primorye region, SUEK ships coal through Maly Port, where the Group is one of the port's major shareholders (49.9%). In 2016, we shipped 2.8 million tonnes through Maly Port to Asia-Pacific customers, mainly in Japan, South Korea, China, Taiwan and Vietnam.

During the year, SUEK continued to support social and environmental projects in the region, including ongoing sponsorship of the 'Land of the Leopard' national park.

#### Production units

Pavlovsky open pit

Vostochnoe mine

#### Coal processing facility

Dry coal separator at Vostochnoe mine

In addition, the company also operates one coal-sizing facility in the region.

#### Port

Maly Port

## 8 Murmansk region



In the Murmansk region, located in north-western Russia, SUEK ships coal through Murmansk Commercial Seaport (in which SUEK holds 75.5% of voting shares). The port provides access to the Atlantic Ocean and the ports of western Europe, the Mediterranean and the east coast of the US. In 2016, SUEK shipped 14.2 million tonnes of coal through Murmansk Commercial Seaport to European countries, including the UK, Germany and the Netherlands.

In 2016 SUEK started modernisation of its railway infrastructure at Murmansk Commercial Seaport, with the aim of increasing the number of railcars handled to 600 units a day. We also installed seven new portal cranes and are using higher-capacity bucket grabs, which increase shipment capacity and reduce dust generation.

### Port

Murmansk Commercial Seaport

## Rail assets

Railway transport is crucial to the coal production and distribution chain. In 2016, SUEK's coal constituted 6.1% of the total cargo conveyed on Russian railways, which are operated by the state monopoly Russian Railways (RZhD). SUEK operates one of the largest rail fleets in Russia. We also run 190 locomotives and have 16 dedicated loading stations.

Our rail system provides efficient connections between the national rail network and the company's mines and port facilities.

Length of own railway lines connecting company's mines and port facilities with RZhD network

**746km**

Average number of railcars involved in the transportation of SUEK's coal each month

**48,500**

Fleet of higher-capacity 75- and 77-tonne railcars operated in 2016

**12,000**

## Sales network in Russia

In the Russian market, SUEK sells coal to large industrial companies, key energy providers and smaller customers through our commercial network of local offices covering different regions.

## INTERNATIONAL

SUEK's international operations mainly include financial, sales, trading and distribution activities.

SUEK is active in the international debt capital markets, and coordinates its activities through SUEK Ltd (Cyprus).

International coal trading and sales are conducted by SUEK AG (based in Switzerland), whose main role is to maximise the efficiency of coal sales and secure the company's position in the international market. We achieve sales goals through our own network of branch offices and subsidiaries registered in jurisdictions of strategic importance, such as Poland, China, Japan, Taiwan, South Korea, Indonesia, Lithuania and the US.

In 2016 we increased our presence in Poland, Turkey, Indonesia and the Baltic states by strategic partnerships and acquisitions of distributors.

This marketing structure allows SUEK AG to conduct its sales and resource procurement in local currency, arrange delivery directly to end users' sites, and provide corresponding services to customers. SUEK AG continually analyses the international coal market, and gathers information that influences the balance of supply and demand. In particular, it looks at information related to the deployment of new power-generating capacities, changes in coal production and export, and the dynamics of logistics capacity.

**1,700 customers  
in 38 countries**

### International trading and distribution network

China	Lithuania	Switzerland
Indonesia	Poland	Taiwan
Japan	South Korea	US



# PROGRESS AND ACHIEVEMENT

In 2016, we delivered an outstanding operational performance through the implementation of our strategic programme, with a core focus on efficiency improvements at our mining, washing and transportation facilities and on the development of our sales and distribution network.

For the first time in SUEK's history, coal production for the year exceeded 100 million tonnes, while sales volumes also rose due to the strong demand in the Asia-Pacific market. In addition, expanded washing and transportation capacities helped us to achieve better coal-washing and shipment results.

## Operational highlights

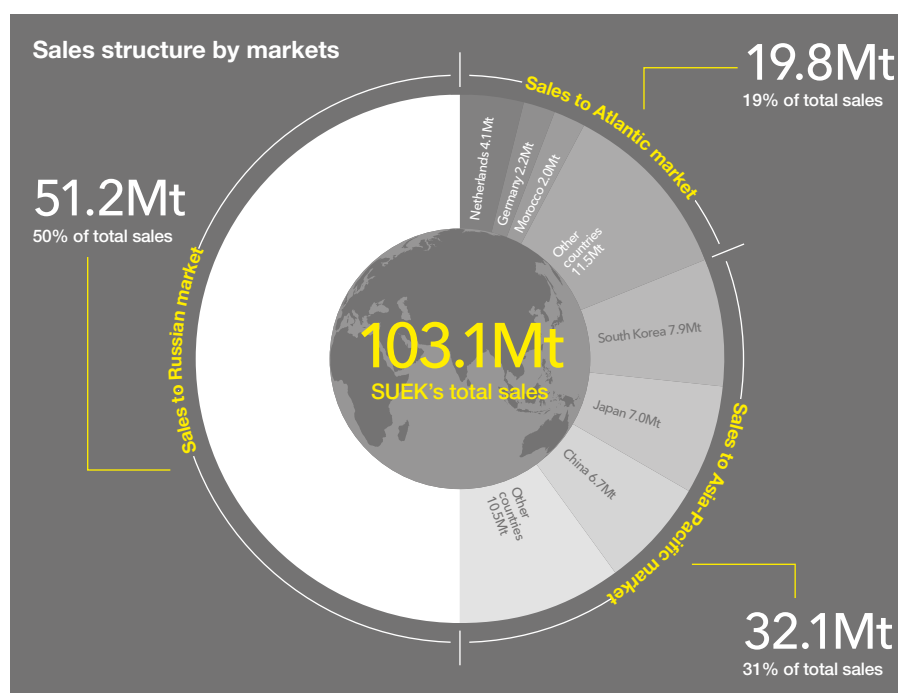
million tonnes	2016	2015	%
<b>Mining</b>			
Production	<b>105.4</b>	<b>97.8</b>	<b>8%</b>
• hard coal	71.3	61.1	17%
• brown coal	34.1	36.7	(7%)
• open-pit	69.6	69.2	1%
• underground	35.8	28.6	25%
<b>Washing</b>			
Coal washed	<b>37.3</b>	<b>33.3</b>	<b>12%</b>
<b>Transportation</b>			
Rail shipments on public tracks	<b>87.9</b>	<b>82.9</b>	<b>6%</b>
Shipment by sea	<b>46.5</b>	<b>43.8</b>	<b>6%</b>
• Vanino Bulk Terminal	19.5	18.3	7%
• Murmansk Commercial Seaport	14.2	13.6	4%
• Maly Port	2.8	2.6	8%
• Other ports	10.0	9.3	8%
<b>Sales</b>	<b>103.1</b>	<b>101.1</b>	<b>2%</b>
International sales	<b>51.9</b>	<b>46.9</b>	<b>11%</b>
• Asia-Pacific market	25.6	21.8	17%
• Atlantic market	17.3	14.9	16%
• Third-party coal	9.0	10.2	(12%)
Domestic sales	<b>51.2</b>	<b>54.2</b>	<b>(6%)</b>
• brown coal	32.8	35.9	(9%)
• hard coal	18.4	18.3	1%

## Sales highlights

In 2016, our sales volumes increased by 2% year-on-year, reaching 103.1 million tonnes of coal. We sold 50% to Russian customers and 50% to export markets.

International sales volumes grew by 11% to 51.9 million tonnes. The main markets we sold to globally included South Korea, Japan, China, Taiwan, the Netherlands, India, Germany, Turkey and Poland. In accordance with SUEK's strategic priorities, we increased the share of supply to premium markets by 22%, from 26.4 million tonnes to 32.1 million tonnes. This uplift was achieved as a result of the higher average calorific value of our products, as well as the expansion of our sales and distribution network through strategic partnerships and purchases of distributors in Poland, Turkey, Indonesia and Lithuania.

FOR MARKET REVIEW  
SEE PAGES 18-21.



SUEK's sales to Asia grew by 16% to 32.1 million tonnes. This was the result of increased exports to the traditional premium markets of Japan, South Korea, Taiwan and Hong Kong, as well as new markets such as Vietnam and Thailand.

Coal shipments to the Atlantic market grew by 3% to 19.8 million tonnes. The sales mix among countries in the Atlantic market continued to change in 2016. This meant the decline in UK sales was offset by strong demand for our products from the Netherlands and Germany, as well as countries from the Mediterranean region, including Morocco and Turkey.

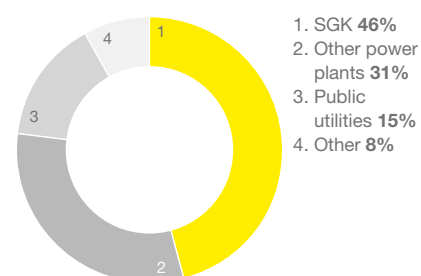
FOR MORE DETAILS, SEE FINANCIAL REVIEW  
ON PAGES 59-63.



We also focused on sales of sized coal through our own distribution networks in Poland and in the domestic market of West Siberia. In total, sales of sized coal increased by 22% to 3.25 million tonnes. Sales of metallurgical coal rose by 50% to 2.7 million tonnes.

Sales to the Russian market totalled 51.2 million tonnes, 39.5 million tonnes of which were sold to electric power plants. The 6% decline in sales compared to 2015 is explained by the significant expansion of Russia's hydropower sector, resulting in lower loads within coal-fired power plants. An additional contributing factor was a fire in one of the units at Berezovskaya GRES, a coal-fired power plant in the Krasnoyarsk region. The damaged unit was decommissioned for unscheduled repairs in February 2016.

#### SUEK's Russian sales structure



### Mining highlights

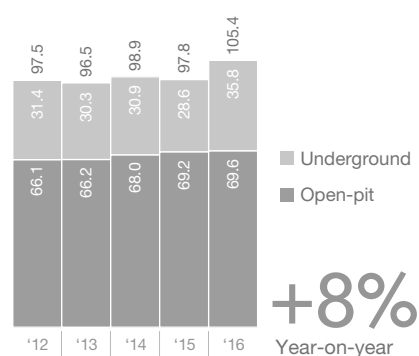
Strong demand for SUEK's products and stable operations at our production facilities enabled us to produce 105.4 million tonnes of coal in 2016, an overall increase of 8%. Underground mining rose by 25% to 35.8 million tonnes of coal, while open-pit mining grew by 1% to 69.6 million tonnes year-on-year.

High-quality hard coal accounted for 68% of our total production, more than half of which was produced at the mines and open pits of the Kemerovo region. Hard coal production increased by 17%, mainly due to the introduction of high-tech solutions based on new high-performance equipment at our production sites in Buryatia, Khakasia and Kemerovo.

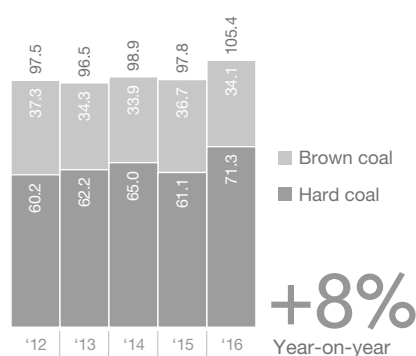
Brown coal production decreased by 7% year-on-year, as a result of reduced demand for coal from Russian power-generating companies, due to the growth of hydropower generation. Brown coal accounted for 32% of total production output, 79% of which was mined from the open pits of the Krasnoyarsk region.

The productivity of production workers at our mining units increased by 12% as a result of improved operational efficiency and staff development programmes.

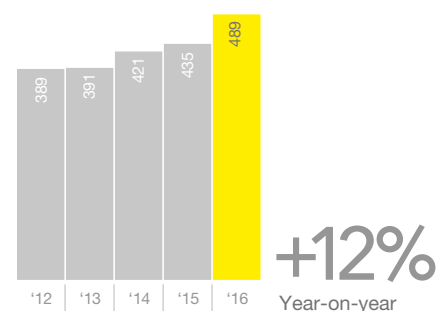
#### Production by mining method (million tonnes)



#### Production by coal type (million tonnes)



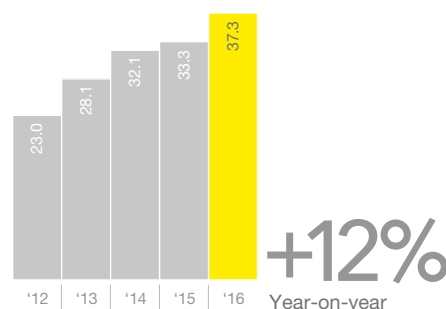
#### Productivity of mining unit production workers (tonnes per man-month)



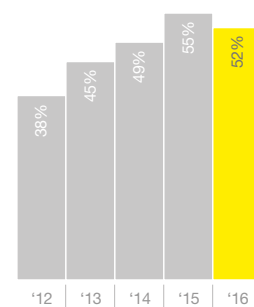
## Washing highlights

In line with the strategic priority of increasing our output of high-quality products, the total volume of washed coal grew by 12% to 37.3 million tonnes year-on-year. This was achieved through capacity upgrades and increased volumes at our existing washing plants. Washed coal, as a share of produced hard coal, was 52% in 2016 compared to 55% in 2015. This decline was due to an increase in the production of high-quality coal that does not require washing.

**Coal washed**  
(million tonnes)



**Washed coal share of hard coal produced (%)**



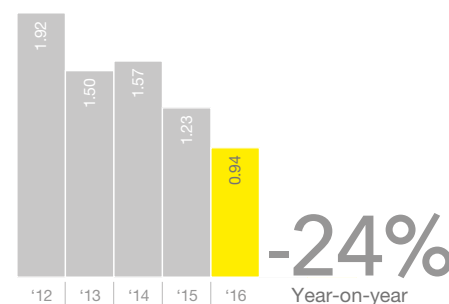
## Industrial safety

Ensuring safe working conditions for employees, and minimising the risks associated with coal mining and processing, are among our top priorities. From 2012 to 2016, our main indicator of industrial safety – the Lost Time Injury Frequency Rate (LTIFR) – fell from 1.92 to 0.94 at our production units. We have allocated additional funding to programmes aimed at improving industrial safety and labour protection, reaching \$48m in 2016. Furthermore, as a result of adopted measures, our overall injury rate has decreased by 51% over the last five years. In 2016, we registered 49 industrial accidents at our production sites, compared to 62 in 2015, a 21% decrease.

Regrettably, there were three fatal accidents at the company's production facilities in 2016. These occurred during open-pit mining operations in Buryatia and the Krasnoyarsk region, and during underground mining operations in Kuzbass. We deeply regret this loss of life and extend our heartfelt condolences to the families and friends of the deceased. To avoid such accidents in the future, we are carefully analysing their causes and continue to implement best health and safety practice across the company.

We also rolled out training sessions for our safety managers and professionals to increase levels of awareness, competence and skill and organised express safety-knowledge testing among our production workers.

**Lost time injury frequency rate (LTIFR)**



FOR MORE DETAILS,  
SEE INDUSTRIAL SAFETY MEASURES  
ON PAGES 64-68.



## Transportation highlights

### Rail transportation

For SUEK, rail provides a vital means of cost-efficient coal transportation and delivery. The Russian railway network is of crucial strategic importance to SUEK, and in 2016 we transported 80.1 million tonnes of coal via Russian Railways (RZhD). This amount constituted 24%<sup>1</sup> of the total tonnage of coal transported on the network during the year.

We use railways to deliver our products to Russian consumers and reach ports in the Far East and the north-west of Russia. Together with RZhD, we are carrying out projects to increase the capacity of the railways and to make a more efficient use of railcars. Also of key importance is the

Eastern Polygon development programme, which involves the expansion by 2018 of tracks and major junctions across the Trans-Siberian Railway and the Baikal-Amur Mainline (BAM). By eliminating infrastructural restraints along the routes we use for cargo transportation, we will be able to increase our export shipments of coal, including those that pass through the Vanino Bulk Terminal.

Our own railway infrastructure includes 746km of railway track, 16 internal loading stations and about 190 locomotives, providing access to the national railway network. Projects are underway to increase the throughput of our internal railway stations and tracks to increase the volumes

of transported coal. This will benefit our developing production units in Kuzbass, Khakasia and Buryatia.

With 48,500 railcars used monthly for coal transportation, SUEK currently manages one of the largest railcar fleets in Russia. In 2016, we were able to reduce our numbers of third-party railcars by 9% compared to 2015, due to the increase in railroad delivery speed along SUEK's routes. Our fleet also includes 12,000 new railcars under SUEK's management, with 75- and 77-tonne capacity (compared to the 69-tonne capacity of conventional cars) and a service life of up to 32 years. In 2016, the company increased its fleet by 3,000 of these high-capacity cars.

<sup>1</sup> RZhD statistics.

## Coal shipment

In 2016, we increased our total amount of shipped coal by 6% to 46.5 million tonnes. Shipment through our own ports represented 78% of the total shipment volume.

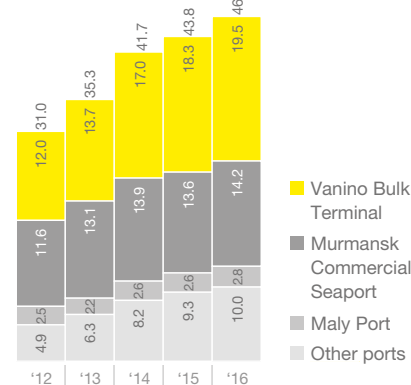
The amount of coal shipped to Asia-Pacific customers via our Vanino Bulk Terminal was 19.5 million tonnes, 7% more than in 2015. Throughout the year, we continued to upgrade Vanino Bulk Terminal, with a view to reaching our target annual capacity of 24 million tonnes. Our main project includes measures to expand public rail

infrastructure, and in 2016 we successfully completed second-stage construction of railways, roads and other facilities. This project is due to be completed in the first half of 2017.

In 2016, SUEK consolidated a 75.5% share of Murmansk Commercial Seaport. We shipped 14.2 million tonnes of coal to the Atlantic market through the port in 2016, a 4% year-on-year increase.

We also shipped 2.8 million tonnes through Maly Port, located in the Russian Far East, an 8% increase year-on-year; and 10.0 million tonnes through other ports.

## Coal shipment (million tonnes)



FOR MORE DETAILS ABOUT OUR PORT FACILITIES, SEE PAGES 52-53.



## Product quality

As a responsible supplier, SUEK strives to meet customers' needs for product quality and to ensure strict fulfilment of contractual obligations. Our work at all levels – from exploration, design and development of production to warehousing, shipping, transportation and end-use by our customers – is aimed at ensuring the required level of product quality.

In accordance with SUEK's Quality Policy, the company's mining units and washing plants run strict quality-control systems that provide:

- Quality control for produced, washed and shipped coal at every stage of the process;
- Compliance with relevant regulatory requirements;
- Effective interaction with our customers on product quality issues.

Since 2009, SUEK has been implementing a quality management system according to

ISO 9001:2008. The system is in use and subject to a regular external audit at the company's units in Kemerovo, Krasnoyarsk and Khakasia. At other units, product quality control is carried out in accordance with SUEK's Quality Policy.

Our main approach to improving the quality of our products is to increase the volume and depth of coal washing. Washing coal reduces its ash content and increases its calorific value, which enables us to deliver high-quality products with high added value and improve our business profitability.

## Supply chain

Our interaction with suppliers and business partners is aimed at the development of reliable, long-term relationships based on the strict fulfilment of contractual obligations and compliance with business ethics.

We pay special attention to our suppliers' compliance with the principles of social responsibility, particularly in the field of

industrial safety and labour protection. Adherence to standards in this area is one of our contractual requirements for suppliers. We also closely monitor quality control within suppliers' production processes.

SUEK's supplier selection process is based on regulated competitive procedures. This provides the necessary level of transparency and efficiency for all procurement activities. In 2016, the

number of SUEK's suppliers totalled 6,816, a 12% increase over 2015. About 99% of the company's suppliers are located in Russia. Only when we need equipment that is unobtainable in Russia, we do look to leading international manufacturers.

ALL INFORMATION REQUIRED FOR SUPPLIERS CAN BE FOUND IN THE PROCUREMENT SECTION ON THE COMPANY'S WEBSITE [WWW.SUEK.RU](http://WWW.SUEK.RU)





## Investment projects

Due to the challenging market environment in 2016, our main investment focus was on projects relating to maintenance, industrial safety and environmental safety, on key development projects and on those projects close to completion. Total capital expenditures in 2016 reached \$492m.

In 2016, the company implemented a range of key investment projects, including:

- Developing the Pravoberezhny area in Ural, with a prospective annual capacity up to 3 million tonnes, and developing the Magistralny area in Kuzbass, with a prospective annual capacity up to 3.5 million tonnes;

- Increasing production of thermal, export-quality coal in the Kuzbass mines, including the transition to developing a 400-metre wide longwall in the Kotinskaya mine (a unique undertaking in Russia, which is in line with best international practices);
- Completing the second phase of infrastructure development at Vanino Bulk Terminal;
- Expanding our railcar fleet under management by 3,000 railcars with higher capacity;
- Investment in environmental programmes, including early construction of treatment facilities for a number of units using advanced wastewater treatment technology.

FOR MORE DETAILS ABOUT OUR CAPITAL EXPENDITURES, SEE PAGE 62.



## Our priorities for 2017

Our priorities for 2017 are to achieve long-term competitive advantages by improving the operational efficiency of the entire business chain, developing our railway and port logistics, expanding our coal washing capacities, and investing in assets that maximise our export margins.

In 2017, the main emphasis of our investment programme will be on maintaining the capacity achieved and on implementing key development projects.

In 2017, we plan to produce more than 104 million tonnes of coal. As part of our development strategy, we are going to reduce production at mines that are shortly to cease production due to resource depletion: November 7<sup>th</sup> mine and Vostochnoe mine; we will also develop the Magistralny site in Kuzbass, Pravoberezhny site, Severnaya mine and Bureinsky open pit in Ural in the Khabarovsk region.

In addition, we intend to increase washing volumes, primarily at the Chegdomyn and Polysaevskaya mine washing plants. As a result, our production of thermal coal with a high calorific value, along with metallurgical and sized coal, will grow significantly in 2017.

In terms of logistics, we will continue to change our transportation structure, in particular, by significantly increasing the share of owned and leased railcars we manage (both standard and modern high-capacity railcars), with the aim to guarantee 70% of the railcar volume we require. Furthermore, our development programme is aimed at improving the efficiency of rail transportation in general.

After the completion of the main stage of infrastructure development at Vanino Bulk Terminal, shipment volumes to the Asia-Pacific market through the terminal may exceed 21 million tonnes in 2017. SUEK also plans to ship 3 million tonnes of coal through Maly Port to Asia, and over 14 million tonnes of coal through Murmansk Commercial Seaport to Atlantic market.

Safety improvements remain our top priority, and in 2017 we aim to avoid fatal accidents and to further decrease our LTIFR ratio.

# FINANCIAL REVIEW

Despite ongoing volatility in the thermal coal market, in 2016 SUEK increased its profitability compared to the previous year, and maintained financial stability.

The decline in world coal prices in the first half of 2016, and a reduction in domestic demand, affected the company's revenue, which decreased compared to 2015. However, several key factors helped to neutralise the negative impact of these conditions on SUEK's financial results, including the redistribution of volumes to premium Asian markets and an increase in coal prices in the second half of the year; the effective management of our railcar fleet; and the development of our trade and distribution network. Our investments in highly productive equipment and coal washing capacities, as well as our own logistics, will also help to ensure we remain cost-competitive and occupy a strong and financially sustainable position for many years to come.

## Overview

SUEK supplies 50% of its coal to the international markets and receives a substantial portion of its revenues (about 74%) in US Dollars. Accordingly, changes to the global macroeconomic environment have a significant impact on the company's operational and financial performance. The majority of our costs are denominated in Russian Roubles because our production facilities are located in Russia. Therefore, the economic situation in the country also influences our financial performance.

2016 was another challenging year for the coal industry, which witnessed extreme price volatility in the world markets: from a historical low in the first half of the year, to a gradual recovery in the second half of the year. This positive trend was due mainly to rising prices in the Asian markets linked to regulatory measures adopted by the Chinese authorities to cut working hours for coal miners, which led to increased demand for imported coal.

Despite the volatility of the global coal market, SUEK maintained its leading position by responding quickly to changing

## Financial highlights

\$m	2016	2015	Change, %
<b>Revenue</b>	<b>4,002</b>	<b>4,132</b>	<b>(3%)</b>
Revenue from international sales (including purchased coal)	2,965	3,023	(2%)
Revenue from sales in Russia	915	993	(8%)
Other revenue	122	116	5%
<b>Cost of sales (including transportation)</b>	<b>(3,314)</b>	<b>(3,576)</b>	<b>(7%)</b>
Cash cost of coal sold <sup>1</sup>	(990)	(1,124)	(12%)
Transportation	(1,365)	(1,267)	8%
Depreciation	(395)	(448)	(12%)
Purchased coal (including transportation)	(470)	(653)	(28%)
Other	(94)	(84)	11%
<b>Gross profit</b>	<b>688</b>	<b>556</b>	<b>24%</b>
Gross profit margin, %	17%	13%	—
<b>Selling, general and administrative expenses</b>	<b>(114)</b>	<b>(102)</b>	<b>12%</b>
<b>EBITDA</b>	<b>965</b>	<b>887</b>	<b>9%</b>
EBITDA margin, %	24%	21%	—
<b>Income tax</b>	<b>(85)</b>	<b>(81)</b>	<b>5%</b>
<b>Net profit</b>	<b>303</b>	<b>200</b>	<b>52%</b>
Net margin, %	8%	5%	—
<b>Capital expenditure</b>	<b>492</b>	<b>355</b>	<b>39%</b>
<b>Debt</b>	<b>3,308</b>	<b>2,890</b>	<b>14%</b>
Cash and cash equivalents	330	104	218%
Net debt	2,978	2,786	7%
Net debt/bank EBITDA ratio <sup>2</sup>	2.9x	3.0x	(3%)
Bank EBITDA/interest expense ratio	7.54x	7.52x	0.3%

conditions and extending its own trade and distribution network to robust markets. In 2016, our international sales volumes grew by 11% compared to 2015, reaching 51.9 million tonnes and reinforcing our position as one of the top five largest coal suppliers in the world.

During 2016, Russian coal prices remained fairly stable. At the same time, there was a reduction in demand from coal-fired power plants due to increased hydropower generation linked to high water levels in Siberia and the Far East. SUEK maintained its leading position in the domestic market, with our sales to Russian customers totalling 51.2 million tonnes.

## Exchange rates

RUB/US\$	2016	2015	Change, %
Average for the year	67.03	60.96	10%
At the year end	60.66	72.88	(17%)

Source: Central Bank of Russia

<sup>1</sup> Less non-cash cost items.

<sup>2</sup> Bank EBITDA is calculated in accordance with our existing credit agreements.

In 1Q 2016, the depreciation of the Russian Rouble continued, due to the negative market environment. A rise in oil prices and the strengthening of the national currency from April onwards did not fully offset the negative trend seen at the beginning of the year, and on average the Russian Rouble depreciated by 10% compared to 2015. On the one hand, our revenue from Russian sales went down in US Dollar terms; but on the other, this decrease helped the company maintain its position in the lower segment of the global cost curve.

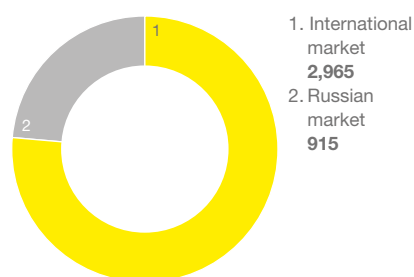
## Revenue

In 2016, SUEK's export revenue from coal sales decreased by 2% to \$2,965m. This downward trend was due to a 13% decrease in the sales price factor, partially offset 11% by an increase in the sales volume factor. Actual sales prices had a delayed reaction to changes in market conditions, as a result of the prices within certain contracts, fixed as at the date of agreement, while contract implementation and revenue recognition are delayed.

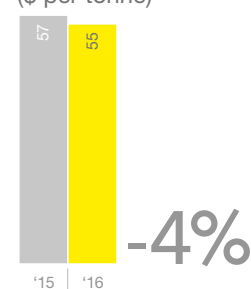
Revenues in the Russian market in US Dollar terms declined by 8% to \$915m. This scenario is explained by weaker year-on-year sales volumes (-6%) and the effect of Rouble devaluation, partially offset by higher average Rouble prices in the Russian market (+8%). Sales volumes were weakened by reduced demand from domestic coal-fired power plants (see above), and by a fire in one of the units at the Berezhovskaya GRES coal-fired power plant in the Krasnoyarsk region. The damaged unit was decommissioned for unscheduled repairs in February 2016.

FOR SUEK'S MARKETS AND SALES VOLUMES  
SEE PAGES 54-55.

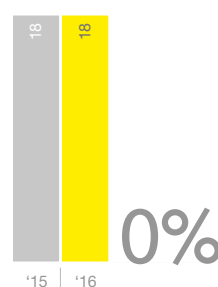
### Revenue by market (\$m)



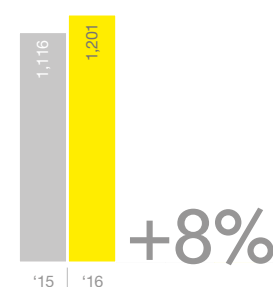
### Average price of coal sold on international markets, FOB basis (\$ per tonne)



### Average price of coal sold in Russia (\$ per tonne)



### (RUB per tonne)



## Transportation costs

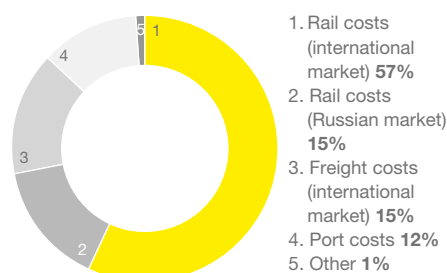
In 2016, rail transportation costs in US Dollar terms increased by 8% (\$76m) compared to the previous year, due to greater rail transportation volumes (+6%), and higher average Rouble-denominated transportation costs offset by the weakening Rouble. The growth of transportation costs was due mainly to the extension of routes because of the increased share of exports in the turnover structure.

Higher Rouble rates for domestic and export traffic (+9 and +10%, respectively) were the result of an increase in operator rates in 4Q 2016 and a lack of available railcars. Railcars fleet consolidation in the market and the accelerated write-off of old railcars led to limited vehicle availability, while demand for new railcars outstripped supply. However, the effective management of our fleet and timely changes to SUEK's logistic chain helped to minimise the negative impact of the above-mentioned external factors.

### Transportation costs

\$m	2016	2015	Change, %
Rail costs	991	915	8%
Freight costs	195	212	(8%)
Port costs:	166	130	28%
• Own ports	43	29	48%
• Third-party ports	123	101	22%
Other	13	10	30%
<b>Total transportation costs</b>	<b>1,365</b>	<b>1,397</b>	<b>(2%)</b>

### Transportation cost structure



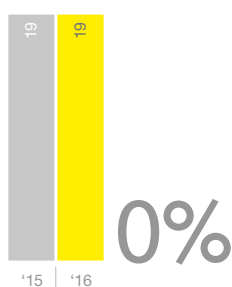
## Transportation costs (continued)

As part of the strategy to enhance our railcar fleet, in 2016 we increased the number of innovative railcars under SUEK management to 12,000.

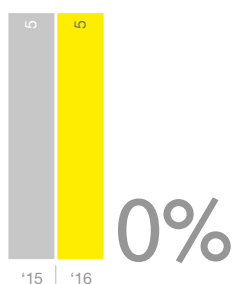
SUEK is among the few coal companies in Russia with its own port facilities for coal shipment: Vanino Bulk Terminal, Murmansk Commercial Seaport and Maly Port. In the reporting year, our share in the Murmansk Commercial Seaport was raised to 75.5% after acquiring a 36% stake from EuroChem. In 2016, 78% of the coal we supplied to the international market was shipped through our ports, which provided additional savings on shipment costs. Overall, coal shipments via our ports increased by 6%. As a result, port costs per tonne of shipped coal were down 15% compared to 2015. Freight costs also decreased by 8% year-on-year, following the fall of the freight cost in the international markets.

However, due to an increase in coal volumes shipped to premium Asian markets under the favourable pricing conditions in the second half of 2016, we did incur some higher shipment costs at third-party ports.

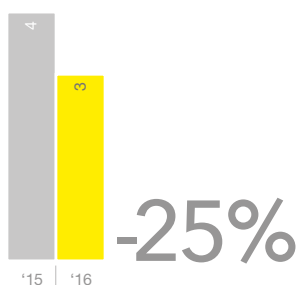
### Rail costs (international market) (\$ per tonne)



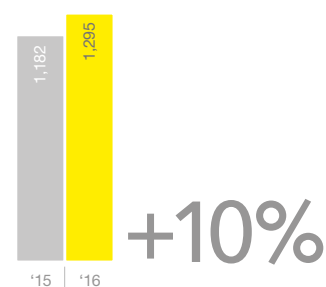
### Rail costs (Russian market) (\$ per tonne)



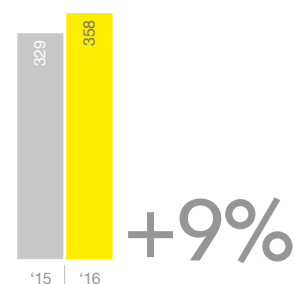
### Port costs (international market) (\$ per tonne)



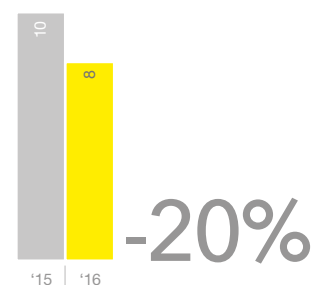
### (RUB per tonne)



### (RUB per tonne)



### Freight costs (international market) (\$ per tonne)



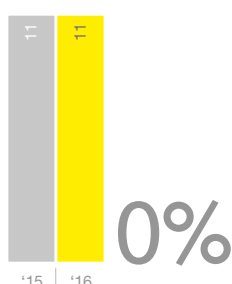
FOR MORE DETAILS,  
SEE OPERATING REVIEW  
ON PAGE 54-58.



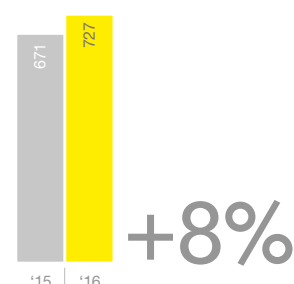
## Cash cost of coal sold

In 2016, the cash cost of coal sold per tonne in US Dollar terms did not change compared to 2015 because of the lower Rouble exchange rate. However, the cash cost of coal sold per tonne in Rouble terms increased by 8% due to inflation and the structural shift in production – that is, an increase in the more expensive underground mining of hard coal, and a decrease in the less expensive, open-pit mining of brown coal.

### Average cash cost of coal sold (\$ per tonne)



### (RUB per tonne)





## Selling, general and administrative expenses

In 2016, our selling, general and administrative expenses went up by 12%, mainly due to growth in wages and increased charitable donations.

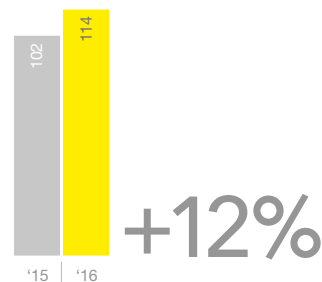
## EBITDA

In 2016, an increase in the volume of international coal sales, and a decrease in the cost of sales in US Dollar terms due to Rouble devaluation, compensated for the adverse effect of falling international coal prices in the first half of the year. EBITDA was up 9% on the previous year, totalling \$965m, while the return on EBITDA rose by 3%, amounting to 24%.

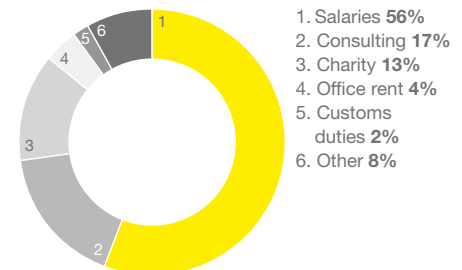
## Net profit

In 2016, SUEK's net profit increased by \$101m, totalling \$303m.

## General and administrative expenses (\$m)



## General and administrative expenses structure



## Capital expenditure

SUEK remains a major investor in coal mining industry in Russia. Our total capital expenditure in 2016 amounted to \$492m, which represents a 39% increase compared to the previous year. Given the market conditions at the beginning of 2016, our main goal was to focus on investment projects related to maintenance, industrial and environmental safety, as well as the implementation of key development projects. The more favourable pricing environment in the second half of 2016 also made it possible to initiate a number of development projects with a short payback period.

In 2016, we implemented the following key investment projects:

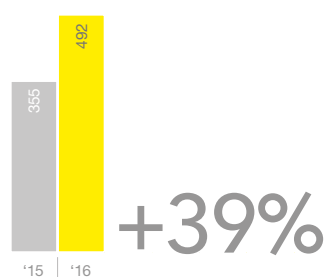
- Increased production of export-quality thermal coal in the Kuzbass mines, including the initial development works for the construction of a 400-metre longwall in the Kotinskaya mine, which is a first in Russia and is in line with best international practices (the completion of development works is planned in 1H 2017);
- Completion of the second phase of infrastructure development at Vanino Bulk Terminal;
- Expanded our railcar fleet under management by 3,000 higher-capacity railcars;

- Capacity development, including an open pit in the Pravoberezhny area in Ural, with prospective capacity of 3 million tonnes per year, and the Magistralny underground site in Kuzbass, with prospective capacity of 3.5 million tonnes per year;
- Our investments in 2016 also had a strong environmental focus, for example in the construction of treatment facilities at a number of units, using advanced wastewater treatment technology.

FOR MORE DETAILS, SEE ENVIRONMENT SECTION ON PAGES 68-72.

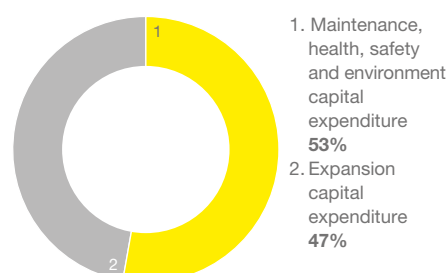


## Capital expenditure<sup>1</sup> (\$m)

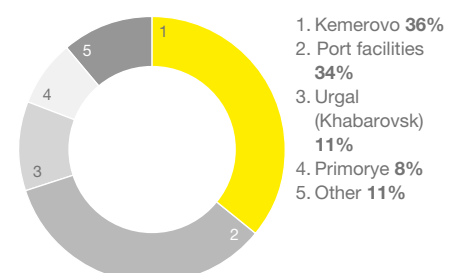


<sup>1</sup> The graph represents costs incurred during the year.

## Capital expenditure by type



## Expansion capital expenditure by project



## Operating cash flow and net debt

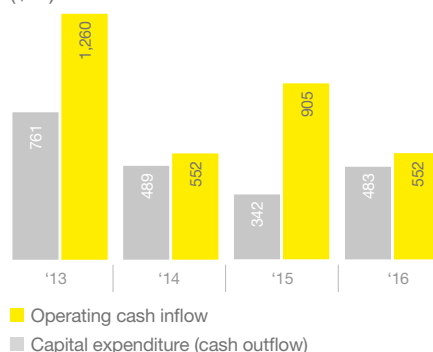
In 2016, the company saw its cash flow from operating activities decrease by \$353m (39%) on 2015, totalling \$552m. This trend was influenced by a significant increase in our working capital compared to the previous year, for example a rise in trade receivables by \$125m, in finished goods and materials inventory by \$146m, and recoverable taxes by \$30m.

As of 31 December 2016, our net debt was up 7% on 2015, totalling \$2,978m. At that date, the ratio of net debt to our bank EBITDA was 2.94x, which meets the current covenants of our loan agreements, according to which this ratio must not exceed 4.0x.

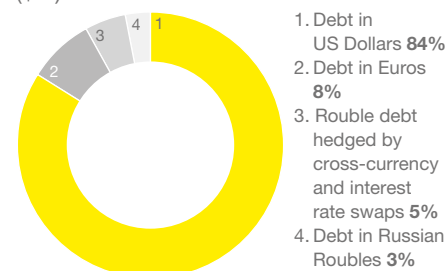
As of 31 December 2016, most of the Group's bank loans (84%) were denominated in US Dollars, with an effective interest rate of 4.4%. The rest of the debt is denominated in Euros, with an effective interest rate of 1.5%, and in Roubles, with an effective rate of 7.9% (with currency-interest swaps taken into account). We chose US Dollars as the main functional currency because this allows us to use natural hedging (meaning the debt can be serviced, as we have a positive US Dollar cash flow generated by international sales). In addition, loans in US Dollars have a lower interest rate than loans denominated in Roubles.

Our main borrowing instrument is pre-export finance secured by international revenue. In 2016, its share together with financing provided by export credit agencies (ECAs) accounted for 80% of the company's total debt portfolio. In addition, flexible financing was ensured through open credit lines: at 31 December 2016, the company had \$1,560m of available credit lines.

## Operating cash flow vs capital expenditure (\$m)



## Debt structure as at 31 December 2016 (\$m)



## MOODY'S

### Ba3, Stable outlook

#### SUEK's rating confirmed by Moody's

In April 2016, Moody's confirmed SUEK's Ba3 rating with a stable outlook. Moody's positively assessed the company's ability to control operating costs via an increase in operational efficiency and effectiveness; its substantial coal reserves; favourable geological conditions; control over a considerable portion of the transportation infrastructure (including port facilities); its well-diversified Russian and international customer base; high profitability; and adequate liquidity.

# 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



Fire alarm training at Kharanorsky open pit in Zabaikalye



## 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

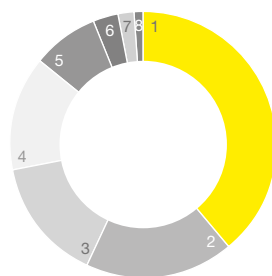
Implement special preventative medical programmes.

## 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



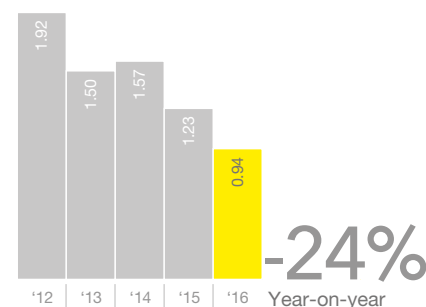
1. Technical measures **39%**
2. Mine rescue teams and other emergency response units **18%**
3. Improvements in the hygiene and technical conditions of sites and facilities **15%**
4. Procurement of personal protective equipment **14%**
5. Organisational measures **8%**
6. Health and safety research 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 m<sup>3</sup>/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/](http://WWW.SUEK.COM/EN/SUSTAINABILITY/ENVIRONMENT/)



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

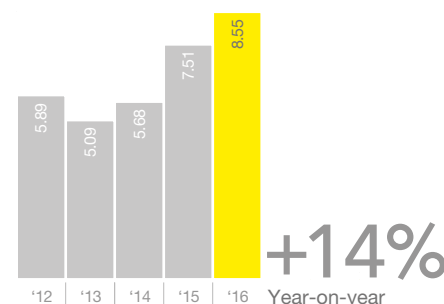


## Air

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 m<sup>3</sup>/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 m<sup>3</sup> of CH<sub>4</sub>)



## 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 m<sup>3</sup> of methane captured from mined-out areas.

The rest of our air emissions relate to CO<sub>2</sub>, NO<sub>x</sub> and SO<sub>2</sub>, which are below the limits prescribed by Russian legislation.

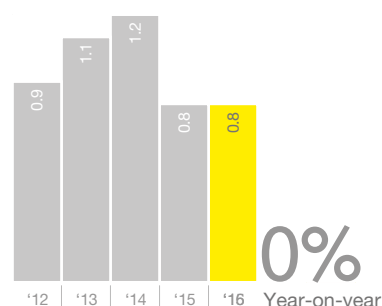


FOR MORE INFORMATION ABOUT OUR SUSTAINABILITY PERFORMANCE PLEASE SEE GRI TABLES ON OUR WEBSITE WWW.SUEK.COM



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.



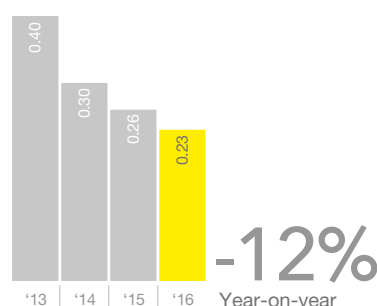
FOR MORE INFORMATION ABOUT OUR SUSTAINABILITY PERFORMANCE PLEASE SEE GRI TABLES ON OUR WEBSITE WWW.SUEK.COM



#### 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 m<sup>3</sup> 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 m<sup>3</sup> 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 Yalvskogo and Rubana mines in Kuzbass;
- Reconstructed power-supply networks at the Yalvskogo 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](http://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.



Miners of Kotinskaya  
mine in Kuzbass



BELAZ dump truck driver at  
Chernogorsky open pit in Khakasia

## 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.

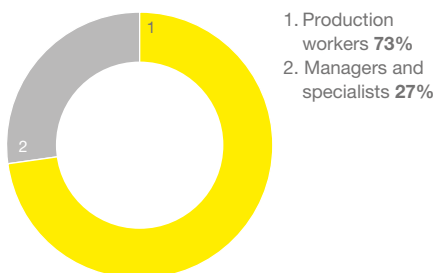
Our average headcount is 33,429<sup>1</sup> employees, 73% of whom are production workers and 27% are managers, specialists and administration staff. The socio-demographic characteristics of our workforce remain consistent. In 2016, the average age of our employees was 40.2, while the ratio of men to 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).

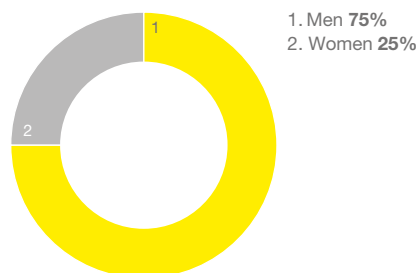
## Assessment, remuneration and social support

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

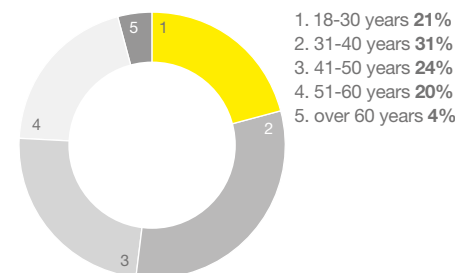
### Composition of employees by personnel categories



### Gender diversity of employees



### Composition of employees by age



<sup>1</sup> 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 insurance<sup>1</sup> to all employees at our production sites and facilities.

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

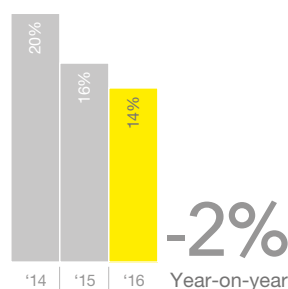
SUEK also actively cooperates with trade unions, in keeping with the principles of social partnership and constructive dialogue. This cooperation helps us to avoid or diffuse any tensions or grievances among our workforce, to respond quickly to changes in social climate and to resolve any problems quickly 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

(%)



<sup>1</sup> 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 Ethics<sup>1</sup> 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.

<sup>1</sup> THE FULL VERSION OF CODE OF CORPORATE ETHICS IS AVAILABLE ON OUR WEBSITE: [WWW.SUEK.COM](http://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:

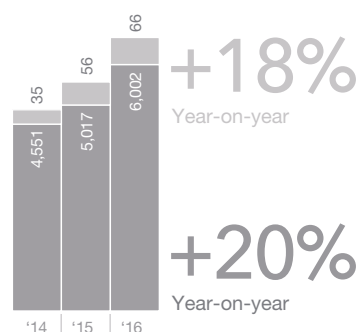
- Number of new organisations contributing to community development created as a result of the company's social activities;
- Amount of funds raised from various sources;
- Number of beneficiaries;
- Number of events held.

### 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 21<sup>st</sup> 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 15<sup>th</sup> 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 12<sup>th</sup> 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.