



Overview

SUEK's system of corporate governance is designed to ensure we deliver effective, responsible business, and value creation for all stakeholders. Our corporate governance system is underpinned by the following principles:

- Treating all shareholders equally, recognising and protecting their rights;
- Ensuring the efficiency of our strategic and operational management and internal control and audit mechanisms;
- Ensuring the company's informational and financial transparency by providing stakeholders with accurate information in convenient formats;
- Adhering to rigorous ethical standards in business;
- Providing a decent, safe and healthy working environment for our employees.

The key internal documents relating to corporate governance at SUEK are our Charter, Regulation on the Board of Directors, Regulation on the Management Board, Corporate Governance Code, SUEK's Code of Corporate Ethics and our Information Policy. The procedure for preparing, convening and holding the General Meeting of Shareholders

is also governed by relevant regulations. These documents are available on the company's website.



FOR MORE INFORMATION, SEE THE 'REGULATORY DOCUMENTS' ON THE WEBSITE WWW.SUEK.COM

In developing our system of corporate governance, we are guided by the provisions of the Corporate Governance Code recommended by the Bank of Russia, as well as by the best international practices. The company has adopted a set of recognised international approaches:

- The positions of Board Chairman and CEO are separate;
- The company's Board of Directors consists mainly of Independent Non-Executive Directors;
- The status of Independent Director is confirmed by the Board of Directors;
- The Board includes the Strategy Committee, the Audit Committee and the Nomination and Compensation Committee, all of which include Independent and Non-Executive Directors with relevant experience;
- When making decisions, Board members avoid potential conflicts of interest;
- The Board's work is assessed on an annual basis.

Governing bodies

SUEK's governing bodies are the General Meeting of Shareholders, the Board of Directors, the Management Board and the CEO.

General Meeting of Shareholders

The General Meeting of Shareholders is SUEK's highest governing body. It makes decisions on the most important issues relating to our business. These include amendments to the Charter; any reorganisation of the company; the increase or decrease of authorised capital; the distribution of profit and the selection of members of the Board of Directors and our external auditors.

Throughout 2017, the company's sole shareholder took decisions relating to the competence of the General Meeting. In the reporting period, the General Meeting of Shareholders approved new versions of the Charter and internal documents regulating the activities of our governing bodies' activities. It also authorised major transactions. At the Annual General Meeting of Shareholders, the 2016 Annual Report and financial statements were approved, the members of the Board of Directors and Internal Auditing Commission were elected and JSC KPMG was re-appointed as SUEK's external auditor for 2017.

Board of Directors

The Board of Directors is a key element of SUEK's corporate-governance system. The legislation of the Russian Federation and internal documents of the company vest the Board with the authority to ensure the efficient management of the company. The key objectives of the Board include increasing the value of the company's assets over the long term, protecting shareholders' rights and legitimate interests, and ensuring the completeness, reliability and objectivity of public information about the company. The Board of Directors is entitled to make decisions on priority issues for the company's development.

SUEK seeks to maximise the efficiency of the Board of Directors' activities. This is ensured by the high proficiency of its members, the personal responsibility of each Board member and the collective responsibility of the Board as a whole for its decisions.

The Board of Directors consists of competent professionals with extensive experience in various fields. Most members are Independent Directors, whose experience in the mining, power-generation and financial sectors promotes a high-quality strategic view and helps solve all relevant problems.

The Board of Directors runs three Committees:

- Strategy Committee;
- Audit Committee;
- Nomination and Compensation Committee.

The activities of all Committees are aimed at improving the efficiency and quality of decisions made by the Board of Directors.

Composition of the Board of Directors

SUEK's Board of Directors consists of nine members. Five of these are Independent Directors: Klaus-Dieter Beck, Natalia Izosimova, Stefan Judisch, Iain Macdonald and Olga Vysotskaya. Three are Non-Executive Directors: Alexander Landia, Andrey Melnichenko and Kuzma Marchuk. The Board also includes SUEK's CEO, Vladimir Rashevsky. Alexander Landia serves as the Chairman of the Board.

The Nomination and Compensation Committee oversees the selection and nomination of new Board members and ensures that it is well balanced and that the competence of Directors is in line with the company's strategic objectives.

Candidates for the Board are directors who have knowledge of the coal-mining sector, the electric power and the heat generation industries; they should also be highly proficient in finance and business administration.

The criteria that Independent Directors must satisfy are defined in SUEK's Corporate Governance Code and comply with the Corporate Governance Code recommended by the Bank of Russia. Board members are elected for the period up until the next Annual General Meeting, with the possibility of re-election. The Nomination and Compensation Committee evaluates the compliance of prospective Board members with the independence criteria.

Board meetings

The Board's schedule and work plan are approved for the following year, with adjustments every six months. The Board of Directors held 11 meetings in 2017 (six in-person meetings, and five in-absentia meetings), at which decisions were taken on issues affecting different areas of the company's operations. Most in-person meetings were fully attended.

The Corporate Secretary supports the work of the Directors and Board Committees. The Corporate Secretary and CEO make every effort to provide Board members with the materials for meetings in advance.

Board members regularly communicate with the company's management teams. Between meetings, Non-Executive Directors receive monthly management reports, notifications about significant events and overviews of the coal-mining industry. Members of the Board also regularly consult industry experts and visit the company's production sites. During these visits, Directors can personally evaluate the state of our assets, communicate with regional managers and assess our corporate culture and safety systems at first hand.

Members of the Board have access to information on the activities of all Board Committees and may attend any Committee meeting. Directors often exercise this right, meaning that the majority of Board members regularly attend reviews of complex issues alongside relevant members of the management team.



BIOGRAPHICAL DETAILS OF THE MEMBERS OF THE BOARD ARE AVAILABLE ON PAGES 102-103.

Board effectiveness and evaluation

The Board's effectiveness is assessed on a regular basis. In 2017, the annual assessment was overseen by the Nomination and Compensation Committee. This took the form of a questionnaire in which each Director assessed various aspects of the Board's activities.

While the Directors expressed their general approval of the Board's effectiveness, they also recommended specific improvements. The Board's near-term focus was on issues related to legal and organisational changes in the company, as well as on ensuring the continuity of key management positions and second-tier managers.

Board report

In 2017, the Board's work included the review of a number of strategic initiatives, the approval of major transactions and the analysis of the short- and long-term financing of the business to ensure the company's overall debt portfolio remains manageable. It also included regular issues, such as the revision of strategy, budget and investment planning, setting objectives for top managers and assessing their performance. Board members also considered other matters that require Board approval in accordance with the Charter.

During the year, the Board focused on the following issues:

- Maintaining business stability to enable rapid reaction to changes in the economic environment. The measures supported by the Board included further improvement of operational efficiency, cost reductions, the development of the company's own logistics and sales networks;
- Industrial safety, including the assessment of management actions aimed at preventing accidents and improving industrial safety;
- The strategic development of SUEK and its individual business segments. This includes updating the company's ten-year consolidated strategy, refining target vectors within segment strategies, adjusting key investment projects due to changes in market conditions; developing the procedure for creating a coordinated set of macro-parameters for

Directors' participation in Board meetings in 2017

(as at 31.12.2017)

Director	Board meetings	Audit Committee	Nomination and Compensation Committee	Strategy Committee
Total number of meetings	11 ¹	9	6	7
Klaus-Dieter Beck	11	–	6	7
Natalia Izosimova	11	–	6	–
Stefan Judisch	11	–	–	7
Alexander Landia	11	–	6	7
Iain Macdonald	11	9	–	–
Kuzma Marchuk	11	9	–	–
Andrey Melnichenko	11	–	–	6 ²
Vladimir Rashevsky	11	–	–	7
Olga Vysotskaya	10 ³	9	–	–

1. Including six in-person meetings, five in-absentia meetings.

2. Andrey Melnichenko did not attend the Strategy Committee meeting on 21.01.2017.

3. Olga Vysotskaya did not attend the Board meeting on 09.09.2017.

strategic and budgetary planning, and outlining key sales targets, taking into account the current market situation;

- Environmental issues: the Board approved a new strategy in the field of ecology and environmental protection. It also determined the key priority areas for reducing SUEK's impact on the environment and supported environmental programmes in the regions where the company operates;
- Developing SUEK's IT strategy and regularly monitoring its step-by-step implementation;
- Personnel matters, including assessments of the company's human resources function and issues affecting the continuity of senior management. In particular, the Board updated the HR strategy, assessed the progress of senior managers towards personal goals set in 2016 and further improved the incentive system for SUEK's senior management.

Board remuneration

The remuneration paid to Board members is based on how they perform their general duties and their membership and chairmanship of the Board Committees. They also receive reimbursement of all reasonable expenses they incur in relation to their work as Directors.



FOR MORE DETAILS, SEE BOARD COMMITTEES' REPORTS ON PAGES 104-106.

Management Board

SUEK's activities are managed by executive bodies – the Chief Executive Officer and the Management Board. The CEO is elected for an indefinite period. Vladimir Rashevsky has been the CEO of SUEK since 2004 and Chairman of the Management Board since 2005.

The Management Board reports to the Board of Directors and the General Meeting of Shareholders. In order to achieve its targets, under the Regulation on the Management Board SUEK creates committees and panels that enable key managers and experts from different functions to interact on the main issues affecting the company's operations. The primary responsibilities of the CEO and the Management Board are to ensure the development and implementation of the company's production, commercial and other operational plans and improvement programmes. They are also responsible for the timely and effective coordination of the resolutions of the company's executive bodies.

Composition of the Management Board

As of 31 December 2017, the Management Board was comprised of the following four members:

- Vladimir Rashevsky
– Chief Executive Officer
- Vladimir Artemiev
– Chief Operations Officer
- Igor Gribanovsky
– Chief Commercial Officer
- Nikolay Pilipenko
– Chief Financial Officer

During the year, nine senior managers who are not members of the Management Board regularly attended Management Board meetings.

Meetings of the Management Board

In 2017, there were 17 meetings of SUEK's Management Board: 12 in-person and five in-absentia.

The main areas of the Management Board's activities in 2017 were:

- The timely and effective implementation of resolutions taken at the General Meeting of Shareholders and by the company's Board of Directors;
- The implementation of SUEK's joint segmented strategies and functional strategies (those in the field of ecology and environmental protection and our IT strategy);
- Developing and implementing policies around our compliance with international tax legislation, and our logistics and commercial activities;
- The monthly monitoring of our performance in meeting approved budget and production targets in volatile market conditions;
- Systematic monitoring of actions aimed at managing key risks;
- Ensuring safe working conditions, minimising the risks associated with coal mining and developing a strong safety culture;
- Improving labour productivity in all areas through the integrated optimisation of all production and business processes used by the company, its subsidiaries and associates;



BOARD ON SITE

In September 2017, SUEK's Board members and Management team visited the company's facilities in the Khabarovsk region. They took the opportunity to supervise the whole operational cycle – from coal mining and washing at the Urgal deposit to its transshipment through Vanino Bulk Terminal – along the export route to growing Asian markets.

During the meeting with local managers, the Board and Management discussed development plans up to 2021 for the Urgal deposit, where a new open pit was launched in 2017. They also considered opportunities for expanding the Chegdomyn washing plant.

The visitors also paid special attention to issues of environmental policy, industrial safety and the company's HR policy. Natalia Izosimova, a member of the Board and the Nomination and Compensation Committee, visited the town of Chegdomyn in advance, where 12,000 inhabitants are mainly employed by SUEK and infrastructure companies. There, she reviewed the socio-economic problems people face in this remote town, which is 16 hours by train from the regional centre of Khabarovsk. She also discussed how the company could contribute further to the town's development. Following her visit, the

region's social challenges were discussed in detail during the Board meeting, as the company aims to attract and retain qualified personnel in this distant area. Particular attention was paid to the issue of further increasing transshipment volumes at Vanino Bulk Terminal, enabled by the improvement of rail access to the port.

Board members regularly visit the company's production units to understand better the challenges they face and the progress being made in introducing new production methods and safety standards. Such trips help the Board assess opportunities in many areas, including the implementation of advanced international technologies, and gain a better understanding of regulatory issues and new insights into specific characteristics of the Russian coal industry.

- Improving our systems of compliance;
- Ensuring the effective implementation of major investment projects and improving the quality of how they are monitored;
- Enhancing project management and HR policy.

Some items relating to operational management and current activities were reviewed at meetings of specialist committees established in line with the company's Charter. In 2017, eight special-purpose committees under the Management Board held 67 meetings:

- Industrial Safety Committee;
- Risk Management Committee;
- Investment Committee;
- Procurement Committee;
- Information Technology Committee;
- Budget Committee;
- Project Committee;
- Sales Policy Committee.

Management Board remuneration

The remuneration of members of the Management Board and the CEO of SUEK consists of a fixed basic salary and bonus elements, as well as long-term incentives for the completion of specific strategic projects. The fixed element is based on the official duties of the relevant individual. The variable part provides an incentive to accomplish SUEK's strategic objectives and helps to attract and retain key managers. The amount of annual bonus paid is based on the achievement of KPIs, which are set annually on an individual basis for each member of the Management Board and the CEO. The KPIs are based on a detailed analysis of SUEK's strategic objectives. In 2016, the total remuneration paid out to the members of the Management Board and the CEO of SUEK, based on their performance during the year, was \$7.4m.



Q: In 2016, SUEK decided to establish a new compliance system. What are the main objectives of this system?

A: The main objectives of the system are to help us prevent, find and solve issues. In developing our Compliance Policy and regulations, which describe the implementation of compliance procedures, we adhered to the most up-to-date international standard, ISO 19600:2014. By mid-2017 we had developed and implemented all key processes.

Q: How do you monitor compliance?

A: Within our compliance procedures, we have singled out three lines of interaction: Legal Department, Internal Control and Audit Service. As part of the legal service, we created the role of a vertically integrated Compliance Officer. We also established a Compliance Department in the head office, and introduced compliance manager posts in two large regions. In other regions, compliance functions are assigned to directors in charge of legal issues and compliance procedures.

Q: How was the system implemented?

A: Our compliance managers received training in the International Compliance Association's (ICA's) basic programmes. They also received internationally recognised ICA certificates in compliance management. During the year, they conducted over 170 on-site employee workshops dedicated to the basics of compliance. Over 5,000 people – more than 90% of the total management personnel – attended the training, which took place in all regions where we operate. We also used remote interactive training, which was supplemented by compliance memos and a compliance portal hosted on SUEK's intranet, where relevant information is now posted.

Q: How can employees report compliance violations?

A: To enable and encourage employees to report compliance issues of any kind, we have created a feedback function on our compliance portal. Using this function, any site visitor can leave a message, anonymously if they wish. SUEK's hotline can also now receive compliance-related calls and messages. We have created a secure electronic account, compliance@suek.ru, and have put 99 compliance-stands with boxes for receiving messages at our facilities.

Q: What did you learn through the initial system implementation?

A: We conducted online tests to assess employees' knowledge of compliance basics across all the company's subsidiaries. Online surveys showed that the average knowledge assessment score exceeded 4.5 out of 5 points. In addition, we also made a routine assessment of compliance threats (risks of violations of compliance standards). The results will be reviewed by the Compliance Panel, which is supervised by the CEO, and presented to the members of the Audit Committee of the Board of Directors.

Q: What are your plans regarding compliance system development?

A: We will adapt and develop the compliance system in line with the results of our compliance threat assessment, paying special attention to the most relevant areas for the company. The key goal for us is to embed compliance values into our collective employee mindset and corporate culture. The success indicator in this work will be a reduced number of compliance violation.

DMITRY KANTEROV,
SUEK'S CHIEF COMPLIANCE OFFICER

Major compliance areas

1. SUEK's Code of Corporate Ethics;
2. Anti-corruption compliance;
3. Compliance in the field of covenants/limits and international sanctions;
4. Anti-monopoly compliance;
5. Tax compliance;
6. Compliance in the field of licensed activities and natural resource management;
7. Compliance in the field of land and property matters;
8. Counterparties' compliance;
9. Corporate management compliance;
10. Fraud-prevention compliance;
11. Health and safety compliance;
12. Exchange regulation compliance.

Compliance procedures

Legislation monitoring;

Adoption of local regulations related to the company's business areas;

Adoption of local compliance regulations;

Employee training, knowledge testing, questioning;

Changes to job descriptions and employment contracts;

Compliance with applicable requirements;

Reporting system;

Conducting inspections and compliance investigations;

Regular assessment of compliance threats.



SUEK REPORTING AWARDED

In March 2017, SUEK received an award from the Russian Union of Industrialists and Entrepreneurs (RSPP) 'For high quality reporting in the field of sustainable development' during the annual 'Russian Business Leaders: Dynamics and Responsibility' competition.

In September, SUEK's 2016 Annual Report got silver for its printed version in the 'International' category as well as bronze for its online version at The Corporate & Financial Awards in London.

In November, during the award ceremony for the 20th Annual Report Competition organised by the Moscow Stock Exchange and the RCB media group, SUEK's 2016 Annual Report received the top prize as 'Best Annual Report Design and Concept'.

The RAEX Rating Agency (Expert RA) commended SUEK's 2016 Annual Report as the 'Best Integrated Annual Report' as well as for 'Design and Typography' within the 'Non-financial Sector' category.