

DEVELOPING POTENTIAL

Our people are vital to the achievement of our strategic goals. Ensuring the well being of our employees, and creating the right conditions for their growth and development, are key company priorities.

2017 achievements:

Headcount planning and staff expenses

- Developing labour standard for main production equipment operators;
- Implementing automated accounting for labour costs;
- Regulating methodology of piecework remuneration and monthly bonuses for open pit workers.

Recruitment and retention

- Further work on increasing internal staff mobility between the company's facilities and regions. Programmes for workforce redistribution between production facilities make it possible to retain qualified personnel within the company and sharpen our focus on solving priority tasks;
- Further implementation of a housing programme for employees;
- Implementation of a programme aimed at attracting young people into the company: school graduates in the regions where the company operates are offered training in higher education institutions in the occupations required by SUEK; we have also set up a youth forum of students and university graduates to help identify and recruit talented young people.

1. In accordance with the Russian Government Decree No. 162 of 25 February 2000 to approve the list of arduous jobs and jobs with harmful or dangerous working conditions forbidden to women, women are not allowed to occupy a significant part of the underground jobs.

Overview

SUEK operates in eight regions of Russia and 12 countries around the world. It is one of the largest employers in the Russian coal industry. Our average headcount is 33,583 employees. The socio-demographic characteristics of our workforce are consistent, and in 2017 the ratio of men to women remained practically unchanged from 2016, with men making up 75% and women 25% of our workforce.¹

Our human resources management is regularly reviewed by the Nomination and Compensation Committee of the Board of Directors (for details see page 105).

Performance management and remuneration

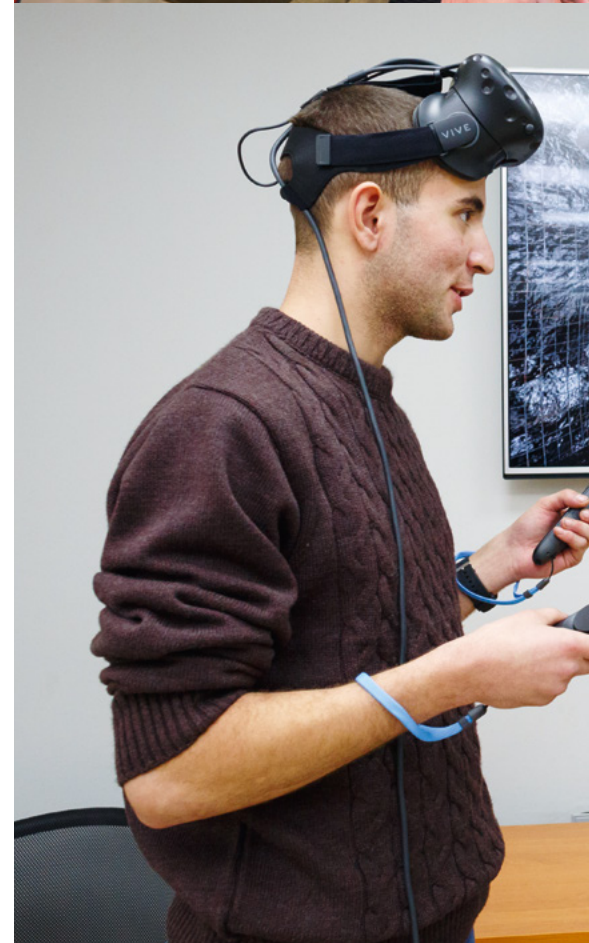
SUEK's remuneration system facilitates the effective management of human capital assets. Its objectives are to ensure a competitive and fair wage level; to establish a clear and transparent relationship between the achievement of strategic goals and the level of compensation; and to stimulate employees to do their jobs in the safest and most rational way.

SUEK regularly monitors the labour market and analyses the latest trends in employee benefits, both in the industry and the economy as a whole. The analysis of this information helps the company to create an attractive working environment, which in turn enables the hiring and retention of personnel with the requisite skills and qualifications.

SUEK's incentive system is based on compliance with objectives and key performance indicators (KPIs), which, along with business indicators, include industrial safety, observing regulatory requirements, meeting the company's obligations, and cooperation with stakeholders.



Training at Kharanorsky open pit in Zabaikaiye.





OUR PRIORITIES

Recruit qualified and motivated employees to meet the company's needs

Increase the level of industrial safety at our sites and facilities

Develop our employees, improve their living standards, and provide favourable conditions for work and rest

Improve the efficiency of personnel cost management

Improve labour productivity and headcount management

Develop our corporate culture and internal communications



☐ SUEK uses modern virtual reality technologies to model activities in the mine at its Personnel Training and Development Centre in Kuzbass.

One of our key performance indicators for senior and middle managers is the level of industrial safety. This parameter is based on the analysis of the Lost Time Injury Frequency Rate (LTIFR)¹. In case of non-compliance with the established limits, annual payments to managers responsible for monitoring and implementing occupational safety standards are reduced by up to 50%.

Our remuneration system for production workers includes fixed and variable parts. The fixed part 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 variable elements is set at 70/30.

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 the end of 2017, 474 employees participated in this long-term motivation programme as part of their involvement in one or more projects.

Social support

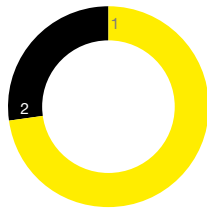
SUEK provides employees with safe and comfortable working conditions, fair and competitive remuneration, and decent benefits packages. Collective bargaining agreements with trade union organisations, bilateral territorial agreements with trade unions, and SUEK’s Code of Corporate Ethics, guarantee SUEK’s fulfilment of social commitments. About 91% of our employees (production and logistic facilities) are covered by collective bargaining agreements, while the benefits provided for by collective bargaining agreements apply to all company employees.

SUEK employees are provided with the following social benefits:

- Voluntary medical insurance;
- Accident insurance;
- Payment for travel to holiday resorts for employees and their families;
- Payment upon retirement of 15% of an employee’s average salary for each year of employment in the coal industry;
- Financial aid for pensioners, parental leave and high-priced medical treatment, or for the funerals of company employees;

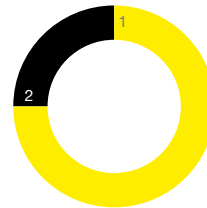
Composition of employees (%)

by personnel categories



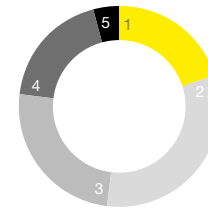
1. Production workers 73%
2. Managers and specialists 27%

by gender



1. Men 75%
2. Women 25%

by age



1. 18-30 years 20%
2. 31-40 years 32%
3. 41-50 years 25%
4. 51-60 years 19%
5. over 60 years 4%

- Supply of coal to miners for domestic heating and compensation for energy expenses;
- Compensation for children’s summer holidays and for treatment and rehabilitation.

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 to all employees at our production sites and facilities.

Training and staff development

SUEK’s staff training system is designed to ensure the development of the company’s human capital assets, which we consider the most important factor in effectively addressing our strategic challenges. The main aim of the system is to create conditions that promote professional fulfilment among employees, ensure the systematic development of their professional and managerial competencies, and thereby establish SUEK’s talent and succession pool.

The key areas of staff development are:

- Professional training;
- Retraining;
- Qualification enhancement;
- Training in new occupations;
- Development of talent for key management positions.

SUEK runs its own regional network of occupational training institutions for all staff. It includes 17 training centres and shops with state licences. Their main functions are training in new occupations, training in additional occupations, and

qualification enhancement. A core focus is on staff training in the field of labour and industrial safety. In addition, SUEK’s regional educational network is designed to train over 20,000 people a year.

SUEK Corporate University is the key element of the company’s system of personnel training and development, ensuring consistent improvement of skills of key groups of employees, an analytical, methodological and advisory centre in the field of knowledge management and human resources development.

In 2017, we introduced two new Corporate University programmes: ‘Power Engineer’ and ‘Engineering Technician’, aimed at developing lean production skills and enhancing employees’ economic knowledge. The duration of each programme is two years.

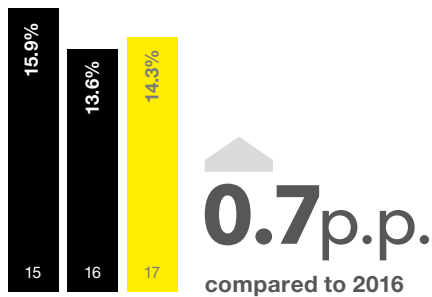
We have also devised a step-by-step training system designed to develop the company’s succession pool: from site mechanics and mine foremen to the heads of regional production companies. Such a training chain provides career opportunities within the company and enables us to create the necessary pool of qualified candidates for vacant managerial positions.

SUEK is committed to the ongoing recruitment of young professionals. 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 order to attract young people into the company, we actively cooperate with Russia’s leading and vocation-oriented mining universities, and offer occupational

1. Lost Time Injury Frequency Rate (LTIFR) is the number of lost time injuries occurring in a workplace per 1 million man-hours worked

Staff turnover rate (%)



guidance to pupils and school graduates in the key regions of the company's operations. Over 400 students currently participate in SUEK's targeted education programmes.

To help share knowledge, ideas and experiences within the company, we have developed various tools and mechanisms, including our professional skills competitions. In 2017, the coal industry celebrated the 70th anniversary of the professional holiday Miner's Day. To commemorate this important date, the 'Olympics-2017' professional skills competitions were held at production facilities in Kuzbass, Khakasia and the Krasnoyarsk region. Young workers and experienced professionals from all SUEK units competed in 43 categories, demonstrating their level of professional training and their proficiency in advanced working methods and innovative technologies.

In September 2017, ten SUEK managers started their education under the MBA programme in Strategic Management in Mining Companies. This programme has been jointly developed by the Centre for Strategic Management and Commodity Market Environment of the Mining Institute (National University of Science and Technology 'MISiS') and the Moscow State Institute of International Relations.

Corporate culture and internal communications

The development of the internal communications system is conducted in accordance with the general approaches to internal and external communications adopted by the company. The main

objective of the internal communications system is to ensure the most open and effective dialogue with our employees.

Our main internal communications channels include:

- Meetings of employees and managers;
- Corporate intranet portal;
- Corporate media system;
- Employee surveys and their analysis;
- Hot Line;
- Feedback system 'Alarm Sheet';
- Bulletin boards, plasma panels, brochures in corporate transport, information stands, electronic newsletters, corporate intranet portals at our production facilities and head office.

Our corporate culture is based on the company's mission and longstanding work and professional traditions. Its main platform is the Code of Corporate Ethics and its execution system.

As part of the programme aimed at developing our corporate culture and internal communications system in 2017, we supported further implementation of our Code of Corporate Ethics by relevant information campaign; thematic competitions dedicated to corporate values and others.

In 2017 we:

- Performed a survey aimed at monitoring changes in the company's corporate culture after implementation of our new Code of Corporate Ethics, which included the participation of 2,500 employees. The analysis of the results showed positive dynamics in terms of increasing the level of employees' trust in the company, as well as improving SUEK's corporate culture and internal environment.
- Held a number of internal awareness campaigns in support of corporate initiatives: these included producing brochures about SUEK's facilities and communities where the company operates and recruit employees from other regions.

We initiated the development of the methodology for the work of our Ethics Coordinators, which includes manuals for processing staff messages, ethics fundamentals, and general algorithms for dealing with common ethical situations. The introduction of these manuals is scheduled for 2018.



Q: How does SUEK attract bright and talented young people into the mining industry?

A: First of all, we offer young people from mining cities stable employment and a clear career path. Our system of targeted employee engagement, which we call 'School – University – Company', starts with occupational guidance for pupils. Within this system, we have established vocation-oriented classes for high school students preparing to enrol on mining courses at technical schools and universities. Through our collaboration with these institutions, we help to provide the highest quality training to ensure that our future engineering and technical workers develop the knowledge and skills they require.

Q: How does the company retain young employees in a seemingly conservative industry?

A: We give all our employees opportunities to develop and innovate – to grow professionally and personally and to push themselves in all areas. All our production facilities have youth councils, and today the total number of participants in SUEK's youth movement exceeds 800. Youth council members work on projects aimed at increasing production efficiency. They also discuss work-related and career development issues, share ideas, and take part in training and conferences.

Since 2012, we have been involved in the Applied Science Youth Forum 'Mining School'. Over the past six years, 464 SUEK employees have taken part in Forum activities. Each year, Forum winners participate in the Presidential Programme for the Training of Engineers. The programme covers the most up-to-date principles of production and financial management, including lean manufacturing basics through internships at Nokian Tyres and Hyundai, and practical training at mining engineering companies in Germany.

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