

Board Committees reports

STRATEGY COMMITTEE

Members of the Committee



ANDREY MELNICHENKO
(CHAIRMAN)

KLAUS-DIETER BECK

STEFAN JUDISCH

ALEXANDER LANDIA

VLADIMIR RASHEVSKY

Areas of responsibility:

The Strategy Committee is responsible for reviewing the management's proposals, assessing associated risks and developing recommendations to support the Board's decision-making in the following key areas:

- Developing the company's overall strategy, strategic plans for business segments and strategies by functional area
- Defining the company's operating priorities and evaluating the operational efficiency of management
- Carrying out investment planning, project management and capital management
- Improving key business processes

As Chairman of the Strategy Committee, I focus the Committee's work on the most important, relevant and significant matters for the company's development. In 2018, we discussed the medium and long-term possibilities for the company's coal business, along with our diversification into the energy business.

In 2018, the Committee focused on monitoring trends and opportunities in both the global coal market and the domestic electricity and heat market, and on analysing other external factors significant for SUEK. As a part of the consolidated strategy, we analysed the feasibility of investing in energy assets in the domestic market and prepared recommendations for the acquisition of SGC.

We supervised the updating of macroeconomic forecasts and operating performance targets for strategic and budget planning, to take into consideration market conditions, banking sector and industry analyst forecasts, and the consolidation of SGC into the SUEK Group.

We revised the company's consolidated coal sales strategy, setting objectives and targets for the next five years. At the same time, we assessed strategic management initiatives to expand our resource base, taking into account long-term market development forecasts. We also updated key strategic priorities for the production and logistics assets (Tugnuisky and Apsatsky mines) and approved asset development projects in Kuzbass and Vanino Bulk Terminal. We supported a long-term management plan for further research into the most promising areas of coal processing, and the development of alternative strategies for monetising coal in the domestic market.

As part of a focus on improving efficiency at our production assets, in 2018 the Committee approved the second stage of SUEK's energy efficiency programme, along with a development strategy for the processing facilities and the capital construction development programme.

In our analysis of the Energy Segment's strategy, we looked at the key characteristics of the DPM-2 programme and evaluated the key advantages of the strategy and its approach to identifying priority modernisation projects. We adjusted the strategy's objectives for the company's coal assets targeted at domestic consumption.

During the year, the Committee monitored the processes of budgeting, accounting and reporting, and investment. It analysed the outcomes of several successful investment projects.

In accordance with the programme for developing our management system and improving the company's business processes, the Committee set tasks aimed at further optimising business processes within the coal production division and the company's legal support function.

With due consideration for the importance of environmental issues, the Committee analysed the key elements of the company's updated ecology and environmental protection strategy and supported areas of priority for reducing SUEK's environmental impact.

ANDREY MELNICHENKO,
CHAIRMAN OF THE STRATEGY COMMITTEE

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IN-PERSON MEETINGS IN 2018

NOMINATION AND COMPENSATION COMMITTEE

Members of the Committee



ALEXANDER LANDIA
(CHAIRMAN)

KLAUS-DIETER BECK

NATALIA IZOSIMOVA

Areas of responsibility:

- Making recommendations to the Board of Directors regarding HR strategy, nominations and compensation, corporate governance and social policy
- Ensuring the continuity of senior management, developing a succession pool and talent pipeline and designing and assessing programmes for developing managers
- Ensuring compliance with industrial and environmental safety standards at our enterprises with regulatory and corporate requirements; monitoring our system of key performance indicators in this area
- Analysing the causes and consequences of accidents and developing recommendations on their future prevention

As Chairman of the Nomination and Compensation Committee, my colleagues and I do everything possible to ensure that the Board of Directors and our executives have the necessary skills, knowledge, experience and independence to enable us to achieve our strategic goals and create more value for all stakeholders. In 2018, the Committee paid particular attention to improving the motivation systems and integrating the energy segment into the common incentive system. Due to the higher number of fatalities, we gave much attention to industrial safety issues, especially drawing on the significant experience of Klaus-Dieter Beck.

The Committee continued to develop new motivational tools for the top management. We proposed and approved a new corporate KPI and initiated the process of aligning the motivation system of the Energy Segment with the Group's existing system. At the end of the year, we also assessed management performance in 2018 and agreed on the goals for 2019.

We reviewed employee motivation programmes in relation to important activity and projects. This involved refining a methodology for calculating the parameters of the incentive systems and assessing the payment schemes linked to current motivation programmes.

Our team assessed the current capacity of the company's human resources function. We also developed measures to support management continuity at various levels, including the position of CEO, and scheduled the development of a unified model of managerial competencies within the Group.

In connection with the consolidation of energy assets, we adjusted our work plan to include energy HR policy issues. SUEK's budget for 2019 was reviewed in terms of personnel costs, including the headcount increases after the energy business acquisition. Tasks were set to improve management of HR business processes.

Throughout the year, the Committee monitored actions to improve industrial safety and the labour safety system, including across SUEK's power assets. We approved management's accident prevention activities, and supported the initiative of sharing industrial and environmental safety experiences between the Coal and Energy Segments. Roman Milyaev, a former member of SGC's Nomination and Compensation Committee, participated in our work as a safety consultant. A Committee member, Klaus-Dieter Beck, visited the Kuzbass assets to evaluate the industrial safety standards, the technical condition of the mines and to analyse the production process at the mining units, paying particular attention to roadway development operations.

As part of our communications strategy, we continued to review the opinions of target audiences in the regions where SUEK operates with a view to assessing the effectiveness of the company's communications processes. The first results were evaluated following the introduction of new communications channels and the Committee approved further activities to develop the company's communications for 2019–2020.

Our team supervised the annual assessment of the Board's performance and identified areas that require further attention. We also reviewed opportunities for the professional development of Directors, confirmed the status of the company's Independent Directors and selected and reviewed candidates for the Board of Directors.

ALEXANDER LANDIA,
CHAIRMAN OF THE NOMINATION
AND COMPENSATION COMMITTEE

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IN-PERSON
MEETINGS
IN 2018

AUDIT COMMITTEE

Members of the Committee



IAIN MACDONALD
(CHAIRMAN)

TOM CAIRNS

STEFAN JUDISCH

Areas of responsibility:

- Ensuring the integrity of published financial statements
- Guiding the development of management reporting with regular reviews of performance reports
- Overseeing the implementation of budget-planning policies and evaluating the effectiveness of budgeting systems
- Evaluating the performance of the external auditor and its process
- Assessing the effectiveness of internal control and risk management
- Supervising the work of the Internal Control and Audit Service (ICAS), including the quarterly analysis of audit findings and annual analysis of audit effectiveness

As Chairman of the Audit Committee, I am here to ensure that the Committee works efficiently and conducts its activities diligently. The Committee's focus in 2018 was on both the consideration of regular matters and, to a large extent, issues related to the acquisition of the energy business.

In the reporting period, we reviewed planned reporting matters. Special attention was paid to quality control of the company's IFRS financial statements and the transition to consolidated reporting after SGC joined the Group in 2018. We also identified the main finance and internal control and audit and IT considerations for the integration of SGC into the SUEK Group.

Our team ensured that activities planned for 2018 to automate business processes as part of the IT strategy were implemented. We also considered the opportunities for the development of the Group's IT strategy in view of the SGC integration process.

During the year, the Committee monitored the functioning of the company's compliance system and ensured compliance with sanctions. In the reporting period, we supervised regular monitoring of risks of violation of compliance standards and developed road maps to minimise these risks. We held regular reviews of fraud and corruption investigation cases.

The Committee reviewed reports from the Internal Control and Audit Service (ICAS) on a quarterly basis. It approved internal audit plans and the ICAS budget and held regular meetings with the head of ICAS without management present.

We also approved the updated structure of SUEK's Annual Report in particular regard to the consolidation of the energy business.

We considered the usual issues relating to the evaluation of the external auditor's effectiveness, remuneration and independence.

IAIN MACDONALD,
CHAIRMAN OF THE AUDIT COMMITTEE

6 IN-PERSON MEETINGS IN 2018

5 CONFERENCE CALLS