Sustainability at the core of our operations

As one of the largest producers in Russia, we realise the important role we play in the lives of our employees and their families, in the regions where we operate and in society as a whole. We recognise the importance of establishing a favourable environment for our workforce. This means we support their professional advancement and aim to improve their quality of life. We actively cooperate with government and local communities to support social stability in the regions where we operate, which in turn helps us to fulfil our strategic objectives. This is why social responsibility is a core element of our activities.

**Strategic priorities in terms of sustainable development**

- **Health and safety**
  - Attaining the maximum level of industrial safety, occupational safety and health protection of our staff.

- **Our people**
  - Developing our employees and upgrading their professional skills;
  - Improving programmes which motivate staff to improve operational efficiency and to ensure safe operations.

- **Environmental protection**
  - Employing technologies to reduce the adverse industrial impact on the environment by introducing innovations in coal mining and coal processing.

- **Communities**
  - Improving the quality of life of those living in the regions where we operate;
  - Encouraging sustainable socio-economic development in these areas by participating in social projects;
  - Developing open communication with stakeholders while meeting the challenges of sustainable development.

For more information refer to pages 82-85.

For more information refer to pages 86-88.

For more information refer to pages 89-91.

For more information refer to pages 92-93.
Our approach to sustainability
Our Corporate Social policy is based on current international principles and standards including the United Nations Global Compact, the Social Charter of Russian Business, the ISO 26000 Standard (Guidelines on Social Responsibility) and recommendations of the Global Reporting Initiative and defines integrated application of the principles, approaches and areas of the company’s activities related to social responsibility.

The principles behind our sustainable development and corporate social responsibility strategy are also reflected in corporate regulatory documents covering:

- Environmental policy;
- Industrial and occupational safety policy;
- Quality policy for coal products;
- Information policy;
- Agreements defining social and economic relationships between employer and employees.

Relationships with stakeholders
We make decisions and take actions every day that affect our employees, their families, communities where we operate and other stakeholders and we strive to maintain our long-term ability to continue creating value for these stakeholders.

Our key groups of stakeholders:

- Shareholders;
- Financial stakeholders;
- Employees;
- Customers;
- Suppliers and business partners;
- Local communities in the regions where we operate;
- Expert and non-governmental organisations;
- State bodies.

The basic principles of our relationships with stakeholders are defined in JSC SUEK’s Code of corporate conduct. They are to:

- Maintain relationships with stakeholders;
- Accommodate the interests of all parties via active cooperation based on fairness, openness and mutual respect;
- Ensure transparency of information and financial affairs;
- Observe ethical standards of business conduct;
- Comply with all relevant legislation and regulations.

We engage with stakeholders by ensuring regular and easy access to full, prompt and reliable information about the Group.

Internal communication channels include corporate media, intranet portal, website, telephone hotline and conferences for employees. Regular meetings between staff and managers to discuss topical issues are held at the Group’s production units.

Our system of external communications includes corporate website, press releases, press tours and conferences, media interviews and production site visits. We also hold roundtable events, seminars, conferences and public hearings, where we disclose topical information to stakeholders.
Shareholders

The key areas for engaging with our shareholders include ensuring sustainable growth of the company and increasing its shareholder value. We respect all shareholders’ rights and are striving to provide them with full and timely access to all necessary information.

Financial stakeholders

Our communications with these stakeholders are based on demonstrating investment potential by developing our corporate governance and operational efficiency. We are striving for full disclosure of information which is of interest to investors, including information about our strategy, our production and financial performance. The information is published in corporate annual reports, our website under the ‘Investors’ heading, as well as in the media.

Employees

When engaging with our employees, our priority is to provide fair remuneration, fulfill our social commitments and develop the professional and personal skills of staff. We also aim to improve labour productivity and safety, provide good healthcare and implement social programmes to improve the living standards of employees and their families.

Suppliers and business partners

By engaging with our suppliers and business partners, we are striving for development of long-term sustainable business relations and cooperation in value creation. Our main principles in this area are adherence to business ethics and fulfillment of our contract obligations. We engage with our suppliers by carrying out open tenders and business meetings, participating in Russian and international professional unions and organisations and through media publications.

Priorities for engaging with stakeholders

We engage with stakeholders both formally and informally. For instance, formal meetings include agreeing and implementing collective bargaining or socio-economic cooperation agreements; while informal events include conferences and roundtable discussions.

Local communities in the regions where we operate

Engagement between the company and local communities focuses on upgrading social infrastructure, developing local entrepreneurship and implementing environmental projects. We are trying to engage local communities in addressing topical social issues and challenges, which is one of the requirements for sustainable development in many regions where we operate.

We are implementing charity projects in healthcare and education, improving housing standards, promoting sports and supporting disadvantaged social groups. By cooperating with the local communities, we are able to build relationships and understand what people need. We organise local roundtable discussions, seminars and conferences on a regular basis to gather feedback and new ideas.

State bodies

Our engagement with the Russian government is based on strict compliance with current legislation and regulations. Our key objectives for engaging with government bodies include development of partnerships to improve the competitive position of the Russian national and regional economies, social development of the mining regions and addressing environmental issues.

Customers

Our priority when dealing with our customers is to provide the highest quality of service – this means shipments are on time and uninterrupted. We are consistently improving the quality of our products and are striving to develop a personal approach to every customer. We pay constant attention to the loyalty of our customers and what they expect from us. We have developed an information system for recording customers’ complaints and responding to them.

Expert and non-governmental charitable organisations

We engage with expert and non-governmental organisations in Russia to evaluate the effectiveness of our social projects and our environmental safety programmes. Our cooperation with these organisations is based on transparency and equal partnership, the objective being sustainable growth of the company while ensuring a positive impact on society.

We have cooperated on social projects with organisations including the New Eurasia fund, the Managers’ Association, Donors’ Forum (a non-commercial partnership of grant-awarding organisations) as well as with charitable organisations such as Rusfond.

Local communities in the regions where we operate

Engagement between the company and local communities focuses on upgrading social infrastructure, developing local entrepreneurship and implementing environmental projects. We are trying to engage local communities in addressing topical social issues and challenges, which is one of the requirements for sustainable development in many regions where we operate.

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Providing a safe working environment for employees and minimising risks associated with coal production are major priorities for the SUEK Group.

Work safety
The system for managing safety at the Group’s industrial facilities complies with the most advanced international standards and is designed to minimise injury rates and eliminate fatalities at our production units. Our corporate health and safety standards cover staff and all contractors working at the company’s production sites.

We aim to reduce risks in the workplace by:
- Continually improving mechanisms to ensure occupational and workplace safety;
- Training to improve the skill levels of safety professionals, educating employees on safe working practices and improving workplace discipline;
- Addressing mine atmospheric safety issues to eliminate the risk of explosion and to minimise the risk of dust-related disease;
- Equipping mines with modern machinery and introducing modern safety systems and monitoring devices;
- Introducing a unified health and safety information system.

To minimise industrial risks, we now develop and implement a comprehensive health and safety action plan every year. In 2014, the Group allocated $70m for this plan.

Allocation of funding for health and safety in 2014

- Technical measures 41%
- Mine rescue teams and other emergency response units 19%
- Procurement of personal protective equipment 13%
- Organisational measures 12%
- Improvement to hygienic and technical condition of workplaces 7%
- Procurement of equipment and instrumentation 3%
- Health and safety research and design work 3%
- Insurance 2%

$70m
SPENT ON HEALTH AND SAFETY IN 2014
**Measures to improve safety**

**Improving reliability of multifunctional safety and air and gas monitoring systems**

The following multifunctional systems are used at the Group’s production units: wi-fi personnel tracking and communication, personnel locator and gas monitoring, personnel tracking and underground radio communication, and atmospheric monitoring. These operate with the following objectives:

- Monitoring and tracking the workforce underground;
- Enabling emergency alert messages to be sent to the workforce at any location;
- Searching for and rescuing people trapped underground, including being able to track their location through 20 m thick layers of rock with accuracy.

In the head office of JSC SUEK we have established a situational control centre for online monitoring and analysis of production safety and for coordinating our activities with the regional offices and mining units in any emergency situation.

A centralised mine production and safety control service was established in Kuzbass. Information on ventilation and gas levels at all of our mines is displayed on monitors in the central control room at the regional headquarters and production safety controllers check the mines round the clock both at mine and regional level.

**Improving efficiency of coal dust safety**

- Mechanical stonedusting equipment has been introduced at our underground mines to improve the quality of underground roadway stonedusting. We have improved automation of stonedusting using machines designed to suit the conditions of production units;
- Systems for collection, transportation and discharge of fine coal dust have been introduced at the Vanino Bulk Terminal and the Tugnuisky and Chernogorsky washing plants;
- A dust suppression system which uses binding foam has been commissioned on belt conveyors at Vanino Bulk Terminal. A similar system is being tested at the Chegdomyn washing plant.

**Improving underground mine ventilation systems**

To improve ventilation systems, the amount of fresh air being supplied to high-capacity longwall sections has increased from 1,500 to 2,500 m³/min.

**Improvements in gas drainage systems**

New technology is enabling us to use a wide range of gas drainage techniques – from pre-drainage of gas from coal seams before commencement of mining operations, to gas drainage during mining.

We have developed gas management systems to remove methane using boreholes drilled from the surface in accessible locations. We are able to drain gas from underground roadways and from behind stoppings which are installed in roadways connected to the old workings.

For the first time in Russia, a technique for draining gas from adjacent seams using long directional boreholes was introduced by the Group.

**Minimising the adverse impact of human factors**

In roadway development operations we have introduced new electrical starters which eliminate the risk of accidental or unauthorised disconnection of tripping devices. We are gradually replacing existing starting equipment with this new type.

At Kotinskaya and Yalevskogo mines we are implementing a pilot project to install infrared surveillance cameras in the main conveyor roadways to improve safety. We have also purchased and are installing the required equipment at Kirova and Rubana mines.

**Tighter controls on industrial safety**

SUEK Group has introduced a zero-tolerance approach to violation of health and safety rules. An important aspect of minimising the risk of injury and disaster is preventing rule violations. We have developed software so all shift tasks are recorded in a database. This has already been introduced at mines in Khakasia and Kuzbass. We carry out weekly monitoring of the number of violations which have been recorded and dealt with.

**Personnel training and development**

Based on the results of a pilot project at Komsomolets mine, in 2014, all production units in Kuzbass now test the knowledge of the workforce before a shift.

All new equipment purchased by the Group is accompanied by special video instructions on safe implementation of assembly, operation and maintenance.
Promoting safe work
We have developed a set of video clips on occupational safety and safe working procedures. These clips are displayed on screens inside mine office buildings, in briefing rooms and on company buses. As part of the visual promotion of safety we have placed health and safety notice boards in all of our mines.

We are continuing efforts to engage the workforce into our system for managing occupational and industrial safety. We have introduced a system where an employee can record any noted hazards on an ‘Alarm sheet’. At the end of a shift these ‘Alarm sheets’ are gathered and handed to the dedicated Production Safety Supervision department which considers them and initiates necessary corrective actions.

Provision of modern work clothes
Following resolutions of the Industrial Safety Committee of JSC SUEK’s Management Board, we are imposing strict requirements for personal protective equipment. We have supplied modern comfortable work clothes and personal protective equipment to all our mines in order to improve safety.

Identifying employees taking undue risks
We have carried out tests to identify underground workers who, intentionally or not, take unnecessary risks in the workplace. The test included factors like appetite for risk, learning capability and ability to follow established rules. Employees were divided into groups based on the results and the findings were used to develop areas of knowledge relating to safety. Testing is carried out on an ongoing basis as part of the assessment of potential new workers and engineers – the testing results are taken into account in the recruitment process.

In the last four years, the key industrial safety index, LTIFR, at our production units has decreased from 2.02 to 1.57, and the general injury rate has decreased by almost two times. But despite the continuing focus on providing safe working conditions, we recorded 77 industrial accidents at our production units in 2014, while the number of lost working days due to industrial injuries amounted to 9,883 days.

Unfortunately, all of the implemented measures were still not enough to prevent fatal industrial incidents. In 2014, we suffered eight fatalities. We deeply regret this loss of life. The main causes of industrial injuries are organisational in nature and relate to both violations of health and safety rules and lack of skills and discipline of the workforce in terms of safety. Six of these fatal incidents occurred in Kuzbass, of which five occurred in underground mines and one in an open pit. The other two fatalities were in an open pit in Primorye and a railway accident in Buryatia.

The details and causes of all accidents, regardless of the severity of sustained injuries, have been examined by investigation panels and we have developed measures for prevention of similar accidents. The objective is to achieve zero fatal accidents throughout the company.

The Industrial Safety Committee under JSC SUEK’s Management Board coordinates the work to improve occupational and industrial safety systems and ensures we are fully prepared to respond to emergencies at our production units. The committee reviews the details and causes of each accident which resulted in serious injury, and evaluates the adequacy of actions taken. It also assesses the procedures in place to prevent similar accidents occurring.

During the five meetings in 2014, the Industrial Safety Committee of JSC SUEK reviewed a number of important issues regarding industrial and occupational safety; analysed reports of regional managers on the results of their work; and approved action plans for establishing mine rescue teams. It also reviewed the results of special-purpose inspections of our production units and the findings of an independent external audit by RAG Mining Solutions GmbH of Kuzbass mines, and actions taken as a result of this. It reviewed a set of measures to improve safety of railway operations and the programme for managing the quality of personal protective equipment used by the workforce.

Since providing a safe working environment is a top priority, during each meeting of JSC SUEK’s Board of Directors the industrial safety situation within the company is discussed in detail and in 2014 a separate item on the agenda was to review and approve the key approaches and measures for ensuring industrial safety.

Health protection
To minimise the risk of occupational diseases, we are making continuous efforts to reduce the adverse effect of the industrial environment on the health of our employees.

In 2014, we implemented pilot projects in Kuzbass, Khakasia and Krasnoyarsk regions, to evaluate working conditions and hazardous industrial factors and, most importantly, to develop technical and organisational mechanisms to reduce their effect on the health of the workforce. In 2015, these workplace assessments will cover all of the Group’s production units.

In order to improve employee working conditions, we have developed a standard for work clothing and personal protective equipment used by our employees. It requires all personal protective equipment used by the company to be of a specified quality, and employees now have improved personal protective equipment – including special clothing, footwear, helmets, protective masks and safety goggles. We have also held training seminars on efficient use of personal protective equipment at our production units.
Since 2010, JSC SUEK has been implementing its ‘Health’ programme which includes measures for identifying industrial diseases at early stages, reduction of work time losses due to these diseases, management of systematic health protection of our employees and promotion of healthy lifestyles.

Realising the importance of employee health, we have established a special medical sub-division in the head office of JSC SUEK, which is staffed with highly proficient medical practitioners. Their main objectives are:

- Introduction of the ‘Policy for health protection and medical support at SUEK’s industrial facilities’;
- Medical support as part of production safety processes;
- Setting up an efficient management system for the company’s medical services;
- Organisation, planning and supervision of mandatory medical campaigns within the Group;
- Development of local regulations, instructions and guidelines under SUEK’s policy for health protection and occupational medicine.

In 2014, our ‘Health’ programme managed to:

- Establish corporate standards for preliminary and pre-shift medical examinations;
- Introduce drug testing as part of pre-shift medical examinations for locomotive crews;
- Set up a specialised medical unit in Kuzbass;
- Purchase and install additional physiotherapeutic equipment for medical rooms at the mines and ultrasonic diagnostic devices for regional medical units;
- Carry out vaccinations against flu, which covered 90% of the workforce, and pneumococcal disease, which covered 18,856 workers;
- Start work on designing special meal services for the workforce;
- Set up an anti-smoking campaign.

Our goal is to make all our employees aware of the importance of individual health protection and techniques for safer working. Our objective is to introduce effective health protection measures in relation to both industrial and individual risk factors. All our employees have access to comprehensive medical services including information support, medical advice/diagnosis and treatment.

In addition to improving the quality of life of our employees, our ‘Health’ programme has economic benefits for the company by reducing work time lost due to disease and injury. At the start of the programme in 2010, lost work time amounted to 12.4 calendar days per employee per year. In 2014 this was reduced to 7.2, which is 7% lower than in 2013.

Introduction of on-site test centres in Kuzbass

All the Group’s mining facilities in the Kuzbass region have introduced on-site touch-screen centres to test the safety skills of their employees. The tests cover occupational risks inherent in specific mining jobs and functions. Employees must pass these health and safety tests before they can access the workplace.

With the touch-screen centres in place, the company can effectively identify employees with a poor understanding of occupational health and safety. The company will suspend work permits for employees deemed to be below par while at the same time continually working to improve the corporate health and safety culture across the business in general.

A total of 96 knowledge test centres costing $225,000 were introduced across the Kuzbass region in 2014. In 2015, the project is likely to be extended to cover all mining facilities in all regions.
SUEK Group is a major employer in the regional labour markets in Russia. Our average headcount is 31,400 people, 74% of whom are production workers, and 26% are managers, specialists or administration staff. The social and demographic characteristics of the company’s staff are consistent with previous years. The average employee age is 40.8 years and the ratio of males to females among SUEK Group employees remains at 77% male to 23% female.

The main objective of our HR Strategy is to ensure we have sufficient people with the necessary skills to meet our operational requirements.

31,400 EMPLOYEES AT SUEK GROUP
Employee remuneration
The objective of our remuneration system is to ensure employees receive competitive and fair salaries and are motivated to work efficiently and productively. We regularly monitor changes in the labour market and closely review compensation and benefits across the industry to ensure we are offering attractive remuneration.

We have successfully implemented motivation programmes in areas of particular importance for the company and bonuses for meeting predefined targets. There are also annual financial incentives for managers based on meeting key annual performance indicators.

We combine financial and non-financial incentives to motivate employees. We regularly hold professional skills competitions to promote achievements and best practice and to help raise the status of blue-collar occupations. As well as acknowledgment from managers and recognition from colleagues, winners of these competitions receive valuable gifts and cash bonuses. Employee and divisional achievements are regularly publicised in our corporate newspaper and on the intranet.

Social support
The social package for our employees is based on current legislation, industry agreements with trade unions and collective arrangements at individual enterprises.

The package includes payment for travel to holiday resorts for employees and their families; payment upon retirement of 15% of the average salary for each year of employment in the industry; financial aid; voluntary medical insurance; and supply of coal for heating to some miners. In 2014, the total expenditure associated with social benefits amounted to $29m.

In 2014, all of our production units signed voluntary medical insurance contracts ensuring every employee of the company can now receive medical care as and when required. According to recent staff polls, voluntary medical insurance is one of the most valuable employee benefits and helps promote loyalty to the company.

Training and staff development
Last year, the Group implemented a number of important measures to improve its employee training programme. The measures covered employees at all levels from production workers right up to senior managers. We continue to expand our internal skill pool and support continual transfer of knowledge within the company.

In the reporting year we established a system for training and building up the succession pool from frontline production supervisors to top regional management. In addition to our existing programmes – ‘Top List’, ‘Locomotive’, ‘Director’, and ‘Section Head’ – we introduced a programme called ‘School of Overmen’ to improve skills and build up the middle management pool. During the year, 100 employees participated in the programme, and 75 successfully graduated.

As part of efforts to improve the quality of worker training, we made structural changes to our training centres and schools in several regions, including:

• Upgrading a training point in Buryatia to a training centre and purchasing training simulators for a Belaz truck and a Komatsu PC excavator;
• Establishing a professional development centre in Khakassia; purchasing training simulators for a bulldozer, a dump truck, a front-end loader and an excavator;
• Developing a draft design for a training centre for underground mining in the Kemerovo region and considering options to attract co-funding for construction from the government.

Recruitment of staff
The deteriorating demographic situation in several of the regions where we operate is a concern. It has forced us to develop measures to minimise the risk of core skilled worker shortages and to identify new potential sources of recruitment.

• We have compiled a list of key roles in underground mining, open-pit mining, washing plants and ports and we regularly monitor shortage of personnel in these areas;
• We have significantly expanded the geography of personnel recruitment. We have held meetings with workers from rival companies who are working at mines due to be closed – these meetings have been held in Kuzbass, Rostov, Krasnoyarsk, Irkutsk, Yakutia and other Russian regions;
• Because of the difficult situation in the mining region of Donbass in Ukraine, there is significant migration to Russia. We are actively hiring Ukrainian citizens to work in our mines and supporting them in terms of processing documents to obtain temporary Russian resident permits. We are also helping them find and rent apartments, providing travel expenses and paying workers and each member of their family lump sum relocation allowances;
• We have increased the rotation of our engineers, supervisors and workers between different regions to promote interchange of knowledge.

In 2014, we particularly focused on recruiting and retaining younger employees:

• We established Youth Councils in all the regions where we operate and at all our production units. There are currently over 800 people signed up;
• SUEK mines run continuous work placement programmes for youth employees and special-purpose training programmes to retain and develop younger workers;
• 180 young professionals participated in a research and practice youth conference ‘Mining School’ in the Krasnoyarsk region. Members of the team from Krasnoyarsk which came first in this event subsequently took part in a presidential training programme in Russia and Germany.
In 2014, JSC SUEK held a professional skills competition among its production units called ‘Mining Olympics 2014’.

The main objectives of the competition were:

• Developing and maintaining mining traditions;
• Encouraging enthusiasm and creative initiative among employees;
• Incentivising workers to improve their productivity;
• Assessing professional qualification of young workers and recognising their skills;
• Promoting blue-collar jobs among the younger generation;
• Sharing experience and advanced operational skills between mines.

The final stage of the competition was held in four regions – Kuzbass, Khakasia, Krasnoyarsk and Buryatia. Approximately 150 workers won prizes in 27 various professional categories. They received commemorative medals, cups and cash bonuses. The Mining Olympics received extensive coverage in the mass media and attracted significant attention in the hosting regions.

Communications within the company
During the year, research studies were conducted and measures were taken to improve communications with our workforce:

• A study enabled us to identify the major motivational drivers of our employees, both financial and non-financial. We evaluated our existing incentive system and the social benefits currently available to our employees;
• Based on results of a diagnostic study, we compiled a report and submitted suggestions on how to develop our internal communications system;
• Questionnaires for employees who voluntarily leave were introduced and analysed to identify reasons for staff turnover and personnel shortages. The surveys established that one of the main reasons people leave some of our Kuzbass mines is ‘remoteness from home’. In response to this, we decided to improve employee transportation arrangements from residential areas to production units, purchasing additional modern, comfortable buses. These vehicles are decorated with SUEK logos and contact details of HR departments for recruitment purposes.
• To improve the level of feedback in relation to health and safety – an ‘Alarm Sheet’ has been developed and introduced. It includes a list of mandatory questions – a health and safety checklist for particular types of work, required tools, personal protective equipment etc. Once the sheet is filled out, it is dropped into a special collection box and then processed by health and safety officials, who then fill out the back of the sheet outlining what actions have been taken to remove identified hazards.

Safety related measures
In 2014, SUEK Group was among the first coal mining companies in Russia to introduce a personal approach to identifying behavioural factors contributing to violation of industrial safety rules. We began to test our employees’ attitude to risk. All of our staff, from workers, heads of technical and production departments at the mines as well as regional health and safety departments, took the tests – in total, about 24,000 people.

The test results have helped our employees to recognise their personal responsibility for safety at work. All employees who took the tests received individual feedback based on the results. Each evaluation sheet contained a recommendation of how that employee could promote safer behaviour.

We also sent instructions to mine managers on ways of applying the test results. We suggested they refer to the results when making new appointments, for building teams (to balance the number of ‘cautious’ workers and those who have a ‘propensity for unsafe behaviour’) and for additional supervision in areas where employees were identified as taking undue risks.
Environmental protection

We strive to develop our business in a sustainable manner, ensuring favourable conditions for future generations. This is why our activities and investment decisions consistently take account of environmental concerns.

Our approach
SUEK Group is highly aware of the environmental impact of its operations and the risks inherent in coal mining. Consequently, we view environmental protection as an integral part of our business. We invested $15m in environmental activities in 2014.

Committed to the concept of sustainable development, we are implementing a full range of projects to mitigate our negative impact on the environment. These include the reduction of hazardous emissions, improvements in the treatment of wastewater, waste disposal and processing, land reclamation and energy efficiency. We are also improving our environmental training programme and participating in global initiatives aimed at averting climate change and preserving biodiversity.

Expenditure on environmental activities ($m)

<table>
<thead>
<tr>
<th>Year</th>
<th>Expenditure</th>
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<tbody>
<tr>
<td>2013</td>
<td>12</td>
</tr>
<tr>
<td>2014</td>
<td>15</td>
</tr>
</tbody>
</table>

+25%
Air, water and soil

Comprehensive gas drainage is applied in all mining areas where methane content exceeds 10 m³/tonne of coal. This drainage includes preliminary removal of gas from working coal seams, and extraction of gas from mined-out areas with the help of holes drilled in the surface and also from mine openings.

Our Kirova and Komsomolets facilities in Kuzbass are equipped with gas recovery and gas engine plants capturing gas and using it for heat and electricity generation. In 2014, we utilised almost 5.7 million cubic metres of methane at these facilities, generating 9,300 MWh of electricity and 17,000 MWh (14,651 Gcal) of heat, and recovering 10,700 Gcal through methane combustion. As a result, electricity savings amounted to 15% of the total energy consumption at Kirova mine and heat savings amounted to 10% of the total heat supplied at Komsomolets mine. The total value of electricity and heat savings in Kuzbass in 2014 reached $1.2m.

In 2014, we developed an innovative investment project to build a facility for mine gas processing and production of liquefied natural gas (LNG) in Kuzbass. The newly produced LNG will be used as motor fuel at our facilities and made available to third parties. This project will reduce open-pit coal mining costs as LNG is cheaper than petrol but performance is comparable to petrol and diesel fuel. Moreover, the use of LNG will result in lower greenhouse gas emissions – compared to petrol, LNG produces 50% less carbon dioxide, 40% less hydrocarbons, 35% less nitrogen oxides and 50% less ozone.

The Group’s production sites are equipped with industrial wastewater and sewage treatment facilities. Most of our wastewater is natural water taken in during mining operations, with characteristics typical of local groundwater. Through our continuous pollution control and resource conservation efforts, in 2014 our wastewater pollution level decreased to 0.3 kg per tonne of production, or by 25% year-on-year.

Design and construction of advanced treatment facilities for mine, quarry and household wastewater, and an overhaul of the existing water supply and sewage system, are works in progress and should further reduce pollutant concentration in wastewater. In 2014, as part of the wastewater pollution control initiative, the Group invested in:

• Construction of a modular mine water treatment plant at our Kotinskaya mine;
• Overhaul of the existing water supply and sewage system at our Berezovsky open pit (design stage);
• Design of a treatment facility for mine and household wastewater at our Taldinskaya-Zapadnaya 1 mine;
• Design of a mine water treatment facility at our Severnaya mine at Urgal.

Most of the waste generated from coal mining consists of non-hazardous overburden stored in internal and external dumps. It is used for filling sinkholes, backfilling, and reclamation of land disturbed by mining operations, in accordance with duly approved programmes.

We run extensive land reclamation projects, including surface restoration, rock dump levelling, soil remediation, tree planting and landscaping.

Together with the Research Institute of Agrarian Problems of Khakasia, we run a unique project on land reclamation and research into biological restoration of forestry. Biological restoration includes an experimental technique of planting fruit and berry crops and conifers in waste dumps. Research suggests that thanks to biological restoration, the humus layer in coal dumps can be restored 2.5 times faster. The key point is that instead of being levelled, dumps are left with ridges and hollows, providing a perfect place for plants to grow. In terms of efficiency, this technique requires less work and has lower associated reclamation costs.

<table>
<thead>
<tr>
<th>Methane utilisation (million m³ of CH₄)</th>
<th>The effect from methane utilisation ($m)</th>
<th>Total wastewater (million m³)</th>
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</thead>
<tbody>
<tr>
<td>2011  5.99  5.89  5.09  5.68</td>
<td>2011  1.2  2012  0.9  2013  1.1  2014  1.2</td>
<td>2011  168.3  2012  158.3  2013  110.1  2014  103.3</td>
</tr>
</tbody>
</table>
SUEK Group participates in international environmental projects, achieving and demonstrating its environmental expertise. For example, it is taking part in the Mainstreaming Biodiversity Conservation into Russia’s Energy Sector Policies and Operations (2012-2016) project run by the United Nations Development Programme, Global Environment Fund, the Ministry of Natural Resources and Environment of the Russian Federation in the Kemerovo and Khakasia regions. The project aims to develop innovative biodiversity solutions for the oil, coal and hydroelectricity sectors. The Chernogorsky open pit was chosen as the pilot site within the ‘Reclamation of Land Disturbed by Coal Mining in the Natural and Climatic Conditions of Khakassia’ focus area.

Although there are no landscape protection areas where we operate, we are committed to mitigating our impact on the biodiversity in these regions. We monitor areas of water, including their biological make-up and shoreline buffer zones, on a regular basis, and carry out environmental checks on the borders of sanitary protection zones at our facilities.

Energy efficiency

With our coal production steadily growing over recent years, the company is facing higher energy consumption. Consequently we are implementing our ‘Energy Saving and Energy Efficiency Programme’ designed to reduce both energy consumption and production and thus minimise our environmental impact.

Over the past three years, electricity consumption rate in overburden removal decreased by 4%, and the diesel fuel consumed by mining trucks and railway locomotives fell 11% and 10%, respectively. This strong decline in energy consumption was driven by the commissioning of modern, high-performance, energy-efficient equipment: excavators, mining trucks, etc. In addition, we have focused on the upgrade of existing equipment to cut down energy consumption. In 2014, we completed the main phase of excavator upgrades at Borodinsky, Berezovsky, Nazarovsk, Chernogorsky and Vostochno-Beisky open pits. The annual electricity savings are approximately 6 million kWh or $440,000 per year.

We have made considerable efforts to improve the reliability of metering data for energy consumption. Many of the Group’s facilities have an automated measuring system with fiscal accounting of electric power in place. The system is used for settlements with electricity suppliers to all high-consuming facilities.

We have equipped all major diesel machines with automated control systems, including a performance monitoring system for mine trucks and other transport. This has enabled us to develop an effective fuel consumption management system based on reliable instrumental measurements.

The approved targets and standards serve as the basis for an energy-saving incentive programme for our staff, which was initiated across our facilities in 2014. We also have ambitious plans for energy efficiency for 2015-2017, when the consumption of key energy resources is expected to be reduced by an average of 4-5% per tonne.

By implementing this project, we intend to:

• Continue to commission modern, highly efficient equipment;
• Upgrade existing equipment;
• Equip new machines with fuel consumption metering and performance monitoring systems;
• Adopt incentive programmes designed to reduce energy consumption through promoting best practices and ensuring the staff are engaged and interested;
• Optimise production processes to boost operating efficiency of the energy-consuming equipment through idle time reduction, route optimisation etc.
We believe our social activities play an important role in meeting our strategic objectives. That is why, independently and in cooperation with regional governments, non-profit and non-governmental organisations, we are implementing a range of socio-economic and charitable programmes.

Our approach and our priorities
Sustainable development is important to SUEK and we are implementing programmes to create favourable social environments in the regions where we operate, improving the quality of life of our employees and their families.

In the areas where we have a presence, we are developing constructive relationships with the regional and municipal authorities, non-governmental organisations and the public. Our social programmes cover 48 cities and towns in regions of Russia where we operate. In 2014, social investment was $16m.

Our social priorities within the regions where we operate include:
- Establishing a favourable social climate for efficient development of the Group;
- Providing a stable social environment and improving the quality of life for inhabitants of mining cities and towns;
- Working alongside regional authorities to improve housing standards and develop education, sports and medical care;
- Making regions where the Group operates more attractive to the younger generation, thereby helping to recruit young people to work in the coal mining industry;
- Improving efficiency of social investment in the regions and encouraging greater engagement with non-governmental organisations and the business community.

SUEK Group implements and upgrades its social programmes in response to the rate of development in the territories where it operates. Data from sociological studies and surveys allow us to assess performance of the programmes and to develop new areas for social investment.

Main projects
In 2014, we introduced 24 social projects; completed 50 school programmes which engaged more than 80 students; held 31 training seminars attended by more than 500 people; organised two inter-regional competitions for social projects; and held various competitions and festivals.
In 2014 we remained committed to social and charitable programmes despite the tough economic environment. We firmly believe that regardless of the crisis, we need to build on what we have achieved so far, to establish a solid foundation for the future and to look after our people. Our social programmes are an important element of our long-term development strategy and for the regions where the Group operates.

SERGEI GRIGORIEV,
PRESIDENT OF THE ‘SUEK TO THE REGIONS’ CHARITY FUND
PUBLIC RELATIONS AND COMMUNICATIONS DIRECTOR, JSC SUEK

Our main social projects in 2014:
• Creating new social infrastructure facilities in education, youth development and medical care. For example, in Khakasia we established a vision correction room, a children’s development centre and a kids swimming club; while in Krasnoyarsk region we set up a music club for teenagers and a museum of astronomy;
• Encouraging teenagers to consider a career in mining and electricity generation through various festivals and competitions. For example, in 2014 we held a festival of science, education and entrepreneurship in Kemerovo region, which was attended by more than 350 senior high school students. We organised an inter-regional competition for undergraduate students with the best work selected and shown as ‘SUEK’s golden candidates pool No.3’. We also introduced an entrepreneurial marathon in schools of Khabarovsk, Krasnoyarsk, Khakasia and Primorye regions;
• Expanding the range of pre-school educational services. We established early development clubs for children and clubs for expectant mothers in Krasnoyarsk and Kemerovo regions;
• Introducing social projects in the towns where the Group operates, aimed at improving the service industry and living conditions. We held several inter-regional competitions for social projects aimed at improving the living environment.

Our projects in collaboration with the federal authorities:
• Health improvement programmes in Siberia and far eastern Russia. For example, a joint project of children’s medical treatment and health improvement has been running for four years between the Department of Presidential Affairs and the ‘SUEK to the Regions’ charity fund. During this period, more than 700 children have been successfully treated. We also provide assistance to mining veterans, with over 200 retired miners receiving high-quality medical treatment in 2014.

The main areas of our charitable activities in 2014:
• Supporting veterans, the disabled, pensioners and families with multiple children and low incomes;
• Giving financial support for medical institutions, purchasing modern medical equipment, promoting healthy lifestyles, funding and implementing health improvement programmes;
• Providing funding to cultural and educational establishments;
• Funding renovation and construction projects of youth sports facilities, purchasing sporting equipment, organising competitions among young people, the disabled and other groups;
• Helping to fund the construction and renovation of ethno cultural and religious facilities and supporting initiatives to preserve regional culture.

The ‘SUEK’s Little Stars’ project was a runner-up in the First All-Russian Competition ‘Creating the future’, organised by the Ministry of Education and Science of the Russian Federation, as well as in the ‘Eventiade Awards 2014’ for excellence in communications.

In 2014, we held the Second Children’s Art Festival ‘SUEK’s Little Stars’ in Krasnoyarsk region. Major partners of the project included local authorities, departments of culture and educational institutions. The key objective is to help children’s spiritual development by familiarising them with national and regional traditions and customs, from folklore, dance and singing, to music and art. Ideas and learning are shared between children from mining towns within a region, creating a sense of community amongst the children of SUEK’s employees. ‘Little Stars’ also identifies any gifted children, helping them to make the most of their creative potential through our funding for youth arts.

The festival first took place in 2013. More than 1,200 children from mining communities and regions submitted their applications for the first stage. They had a chance to show off their talents in the following categories: ‘Vocal performance’, ‘Choreography’, and ‘Instrumental performance’.

In 2014, more than 1,500 children attended the festival. Elimination rounds took place in October-November and the finalists represented their communities at a gala concert in Krasnoyarsk in December 2014. Winners were announced in three age groups: 6-10 years (junior), 11-14 years (middle) and 15-18 (senior).