

STABILITY AND EFFICIENCY



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In 2015, SUEK successfully navigated another difficult year for the global coal industry. Despite the challenging economic environment, the Group delivered a robust operating performance, supporting our leading position in the Russian and international markets. Our strong sales and high production rates, combined with a focus on operational efficiency and cost-saving programmes, contributed to a stable financial position for the year.

For SUEK, efficiency and competitive advantage were the hallmarks of 2015. One of our strategic priorities was to continue the expansion of our coal washing capacity and upgrade existing plants. We increased the utilisation rate at the newly commissioned Chegdomyn washing plant, a 6-million-tonne capacity site located in the Russian Far East, and brought into operation the Taldinskaya-Zapadnaya 1 washing plant in Kuzbass. As a result of these developments and our plant modernisation programme, SUEK's coal washing volumes more than doubled from 15.3 million tonnes in 2010 to 33.3 million tonnes in 2015. In addition, the increased production of washed and

premium-quality coal enhanced our performance in key global markets, where we consistently outperformed our competitors.

In addition to expanding our washing capacities, over the past several years we have invested heavily in the refurbishment of our facilities with high-production equipment. In 2012-2015 we invested almost \$1bn in new equipment for our production facilities, which, combined with operational process improvements, enabled us to increase our productivity by 11% over the same period.

When buying new equipment, we always pay attention to its energy efficiency potential, which is another strategic focus for us. In addition to higher efficiency equipment, we use integrated automated systems to control electrical equipment and equip new machines with fuel consumption metering and performance monitoring systems. Since 2014, we have also been running an energy-saving incentive programme for staff. As a result of these measures, in 2015, SUEK's electricity consumption rate per unit of output decreased by 6% compared to 2014.

The company's competitive edge is further sharpened by the development of our logistical capabilities. Currently, more than 80% of our coal exports go through the shipping ports at Vanino and Murmansk. During 2015, we continued to increase loading capacity at our own Vanino Bulk Terminal, the largest and most advanced coal terminal in Russia, with a target of reaching 24-million-tonne capacity by 2018. As part of this project, we increased and enhanced railway infrastructure to improve the flow of coal along major rail routes to the port. With one of the largest managed railcar fleets in Russia, we plan to further increase our numbers of higher capacity railcars in the next three to five years. With 75 and 77-tonne capacity (compared to 69 tonnes for conventional cars) and a service life of up to 32 years, these railcars enable us to transport larger payload volumes with greater efficiency and expand our export shipments. In 2015, these higher capacity transport assets, combined with reduced cycle times on the Russian railways, enabled us to decrease our railcar needs by 10%.

Focus on safety and environment

In 2015, SUEK demonstrated the lowest LTIFR rate in its history: 1.23. The result was achieved largely due to the promotion and implementation of our safety policy principles – safety first and foremost; zero injuries and accidents; zero tolerance for deceit and concealment; and professionalism and competence. In 2015, the company also invested \$46m in health and safety programmes and initiatives, with a core focus on technical measures, the development of mine rescue teams and emergency units, the procurement of personal protective equipment and safety training.

Despite these measures, unfortunately over the past year there were five industrial fatalities at our production sites. We offer our sincere condolences to the families and friends of the five workers who lost their lives. We have carried out in-depth investigations into the causes of these tragic accidents, and we hope that the findings will help to prevent such incidents in the future.

One of the most important measures we undertake each year to ensure the safety of our mining operations is the extraction of methane from mines where concentration of the gas is high. Moreover, in order to decrease the environmental burden of methane emissions and ensure energy efficiency, we utilise part of the captured methane for power generation at our mine sites. In 2015, methane utilisation

for power generation grew by 32% to 7.51 million m³.

Overall, our investments in environmental programmes in 2015 amounted to \$15m. Committed to the sustainable development of our operations, we seek to minimise their environmental impact and carry out a full range of environmental measures including the reduction of emissions and waste, responsible use of water and energy, reclamation of used lands and the preservation of biodiversity.

Contribution to social wellbeing

We believe that the development of human capital is the basic pre-condition for the sustainable development of regions and territories. We actively support the social development of local communities, and one of our main projects in 2015 was the promotion of entrepreneurial activity.

The core focus was to advance entrepreneurial expertise among local community members, which in turn would enable them to further develop their own social and educational infrastructure. The project covered Primorye, Khabarovsk, Kemerovo, Krasnoyarsk, Buryatia and Khakasia regions. It comprised three main elements for different age groups, with a School of Social Entrepreneurship for the employees of municipal institutions, nonprofit groups and small-scale businesses. During the year we organised training workshops and sessions for participants, and facilitated the sharing

of knowledge and experience. By the end of the year the School's graduates had launched 19 projects. Meanwhile, teenagers took part in a Youth Entrepreneurship project, developing 87 school-level business projects. We also supported student business and scientific project contests, as well as cultural, educational and sporting events.

Outlook

Looking ahead, we anticipate another difficult year for the global coal industry in 2016. The downturn is likely to continue for some time to come, although the growth potential of key markets in Asia-Pacific and Eastern Europe provides ground for cautious optimism. Despite the challenging environment in which we are operating, our continued focus on operational efficiency, cost control, and targeted investments in new equipment, facility upgrades, innovation and logistics, will ensure we maintain our financial stability and competitive advantage. The expertise, skill and dedication of our employees give me total confidence that we will continue on our path of stability and strength for many years to come.

VLADIMIR RASHEVSKY

CHIEF EXECUTIVE OFFICER, JSC SUEK
MEMBER OF THE BOARD OF DIRECTORS

Our values

Professionalism and cooperation

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

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

Social responsibility

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