

# INDUSTRY LEADERSHIP AND COMPETITIVE ADVANTAGE



We believe that coal will be a reliable and sustainable source of energy for many years to come, helping to make our homes warmer, our cities brighter, and enabling vital infrastructure growth. SUEK is well placed to meet increased demand for cleaner coal, with our strategic expansion of coal washing capacity, logistics and trading capabilities giving us a competitive edge in premium growth markets.



The past several years have been challenging for the coal industry. Global macroeconomic volatility, seaborne market oversupply, slowing demand in China and the tightening of environmental regulations in the European Union have slowed down demand growth significantly. Lower energy prices and currency depreciation in several coal-producing countries have led to downward pressure on coal prices, with the average annual coal price falling by 53% over the past five years.

These challenges, however, have highlighted one of SUEK's key competitive strengths: the ability to adapt and react flexibly to shifting market conditions. For example, in 2015, the situation in China was particularly concerning for coal producers, with structural changes in the economy, the introduction of protectionist policies, and rigorous environmental strictures leading to a decline in coal imports. In response, we quickly redirected our international sales to other Asia-Pacific markets where coal consumption is growing, such as Malaysia, Vietnam and Thailand.

By expanding our trading franchise through regional subsidiary offices, we strengthened our presence in Asia-Pacific and laid the foundations for future growth. Indeed, we are well positioned to deliver stable supplies of coal to this market and beyond, with one of the lowest production cost profiles in the industry.

The situation in China also sharpened our focus on Japan, currently one of the largest global importers of thermal coal. Although nuclear generation capacity is gradually restarting in the country following the Fukushima disaster of 2011, Japan remains our priority export market.

Supplementing our own production with purchases of third-party coal, we were able to preserve a leading position in the international markets, supplying 46.9 million tonnes overseas in 2015, which accounted for 75% of our revenues. Meanwhile, the Group remained the No.1 thermal coal company in the Russian market, accounting for 39% of local supplies.

## Solid financial performance

Despite the multiple challenges of operating in a depressed market, in 2015 our financial performance was encouraging. Lower coal prices in the global market impacted our Group revenues, which amounted to \$4,132m, compared to \$5,053m in 2014, while EBITDA came to \$887m, compared to \$1,044m in the previous year. However, in terms of EBITDA margin, the impact of declining year-on-year prices was offset by decreasing costs as a result of our cost-optimisation programme and Rouble depreciation. We also reduced our expansion capital expenditure and targeted our investments at the most profitable projects, which, combined with stable cash flow generation and zero dividend payments, allowed us to achieve our strategic priority of bringing down our net debt to \$2,786m, compared to \$3,342m at the end of 2014. Our net debt to bank EBITDA ratio also decreased slightly from 2.99x to 2.96x.

### A quality product for premium markets

While the overall growth in demand for thermal coal is slowing down, the demand for high-quality coal is likely to grow. Over 40% of the new coal-fired power plants globally are now of the advanced category with higher efficiency and lower emissions (HELE) technologies requiring higher coal grades. Following the COP21 Paris Agreement in December 2015, in the coming years the world will see a more balanced coal sector, with an emphasis on technologies that utilise coal in more efficient and environmentally friendly ways.

We are certainly well placed to meet increased demand for cleaner coal, with our strategic expansion of coal washing capacity giving us a major competitive edge in premium growth markets around the world.

### New Code of Corporate Ethics

As part of our strategy overview, in 2015 we revised our values and unveiled a new Code of Corporate Ethics, including a new list of corporate values: Safety and Efficiency, Stability and Development, Professionalism and Cooperation, and Social Responsibility. A key milestone in the evolution of our corporate culture, these values will underpin our day-to-day activities and long-term programmes as we continue to adapt to the challenges and changes that lie ahead.

It is no coincidence that Safety comes first in our new list of values because we believe that the protection of human life and health is of supreme importance. To this end, we seek to implement in our production assets the most advanced available technologies and procedures. As recent accidents in the Russian coal mining industry and abroad suggest, the scale of such a commitment cannot be overestimated. We deeply regret and mourn the five workers who lost their lives at SUEK production facilities during the last year. As a company, we are now doing all we can to prevent such accidents happening again in the years to come.

Our Code of Corporate Ethics will guide our conduct, reaffirm our commitments and inform key decisions and investments going forward. It will also ensure we continue to put corporate sustainability, with a core focus on people and the environment, at the heart of our business and operations.

### Fuelling industry, powering the world

At SUEK, we believe strongly that coal will be a reliable and sustainable source of energy for many years to come, helping to make our homes warmer, our cities brighter, and enabling vital infrastructure growth and development.

There are currently over 1 billion people in the world without access to electricity and nearly 3 billion without access to clean cooking facilities. For these people, electricity enables sustainable development and social resilience, in line with the UN's development goals. Affordable and widely available, coal provides light, heat and energy to people the world over, helping to meet basic needs even in remote and less developed regions.

It is expected that given the marked growth in energy demand in the coming decades globally coal will power about a third of all electricity in the next 20 years, and will continue to play an important role in the development of cities and transport infrastructure. In the main, this demand will be driven by demographic change, urbanisation and economic growth in emerging economies, particularly in Southeast Asia, as key economies in the region look for affordable, reliable and abundant sources of energy.

SUEK is strategically well positioned to meet growing demand and increased consumption in potentially dynamic coal markets. Strengthening our presence through expanded sales networks and subsidiary offices, we are also enhancing our coal quality, logistics and trading capabilities with a view to contributing to global energy security.

ANDREY MELNICHENKO  
CHAIRMAN OF THE BOARD OF DIRECTORS

## Our values

### Safety and efficiency

We are a results-oriented company. As such, we are always looking to improve efficiencies and maximise opportunities.

But our returns must never compromise safety. Coal mining has inherent high production risks, and we apply every effort to mitigate them. Safety is embedded in all our processes and is a non-negotiable part of everyday life across the business.

### Stability and development

The stability of our company is underpinned not only by our financial and operational strength, but by the skills and commitment of our employees. SUEK puts the welfare and development of its people above all else. We aim to offer competitive salaries, good benefits and decent working conditions, thereby ensuring that our employees can operate to the very best of their abilities.

Continual development is also crucial to our success. We progress by implementing new technologies, improving working conditions, delivering high-quality products and ensuring the safety, health and productivity of our employees.