

# FLEXIBILITY, STRENGTH AND PROGRESS

We delivered a solid performance in 2015 and reacted flexibly to market conditions. Total production remained consistent with 2014, with improvements in core areas such as transportation and, crucially, in our output of washed coal. Throughout the year, we made targeted investments to upgrade and maintain our production assets and enhance our coal washing capabilities, in line with strategic objectives.

## Production highlights

million tonnes	2015	2014	Change, %
<b>Mining</b>			
Production	<b>97.8</b>	<b>98.9</b>	<b>(1%)</b>
• hard coal	61.1	65.0	(6%)
• brown coal	36.7	33.9	8%
• open-pit	69.2	68.0	2%
• underground	28.6	30.9	(7%)
<b>Washing</b>			
Coal washed	<b>33.3</b>	<b>32.1</b>	<b>4%</b>
<b>Transportation</b>			
Rail shipments on public tracks	<b>82.9</b>	<b>78.6</b>	<b>5%</b>
Shipment by sea	<b>43.8</b>	<b>41.7</b>	<b>5%</b>
• Vanino Bulk Terminal	18.3	17.0	8%
• Murmansk Commercial Seaport	13.6	13.9	(2%)
• Maly Port	2.6	2.6	0%
• Other ports	9.3	8.2	13%

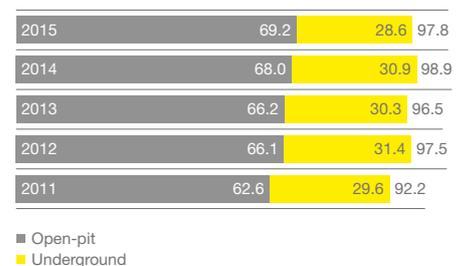
## Mining highlights

In 2015, SUEK Group's coal mining units produced 97.8 million tonnes of coal – 1% less than our total output in 2014. Open-pit coal production increased by 2% to 69.2 million tonnes, and underground production decreased by 7% to 28.6 million tonnes.

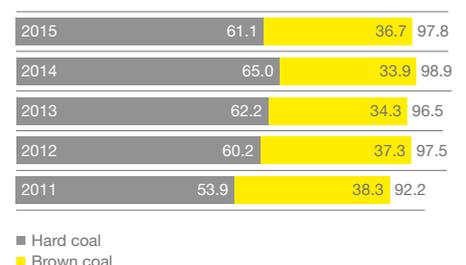
High-quality hard coal accounted for 62% of total production, almost half of which was produced by our underground and open-pit operations in the Kemerovo region. Hard coal production saw a 6% decrease, due mainly to geological factors which affected our underground mines in Kuzbass and Ural.

Meanwhile, brown coal production went up by 8% compared to 2014 – a result of increased demand from Russian power-generating companies after low river levels affected hydropower output. Overall, brown coal accounted for 38% of our total production, with 78% of that volume coming from the open-pit mines of the Krasnoyarsk region where production increased by 1.5 million tonnes. We also increased brown coal production in the Primorye region by 1.6 million tonnes.

## Production by mining method (million tonnes)



## Production by coal type (million tonnes)



**-1%** compared to 2014

## Safety

The safety of our employees and contractors is a fundamental priority for SUEK. Between 2011 and 2015, we reduced the lost time injury frequency rate (LTIFR) at our production units from 2.02 to 1.23. The general injury rate over the past five years also decreased by almost half as we significantly increased funding for health and safety programmes. In 2015, we registered 62 industrial accidents with our employees at our production units, compared to 77 in 2014.

Despite our strenuous efforts, tragically there were five fatal accidents at our sites in 2015. We deeply regret this loss of life and extend our sincere condolences to the families and friends of the deceased. In order to avoid such accidents in the

future, we are carrying out a rigorous analysis of each case and aim to adopt best safety practice across the Group. We fully understand the need to educate those who take unnecessary risks in the workplace, and we are urging each and every one of our employees to be more responsible for their own safety and that of their colleagues.

In 2015, we rolled out training sessions for our safety managers and professionals to increase levels of awareness, competence and skill. We also addressed atmospheric safety issues in our mines, and began equipping our sites with more modern machinery and cutting-edge safety systems and monitoring devices.

FOR DETAILED INFORMATION ON SAFETY MEASURES REFER TO PAGES 67-69.



## LTIFR



**-22%** compared to 2014

## Washing highlights

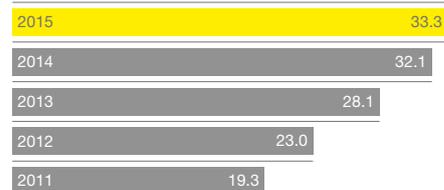
As part of our focus on expanding the production of premium-quality coal, in 2015 we increased our share of washed hard coal to 55%, up from 49% in 2014. In terms of volume, our washed product grew by 4% to 33.3 million tonnes. This was achieved through the commissioning of new facilities and the upgrading of our existing washing plants.

During the year we increased output at the recently commissioned Chegdomyn washing plant and completed the initial reconstruction phase of the processing facility at the Bureinsky open pit. In 3Q 2015, we brought a new washing plant

into operation at the Taldinskaya-Zapadnaya 1 mine, with a planned annual washing capacity of 3 million tonnes. We also implemented several projects aimed at improving washing plant efficiencies across the Group.

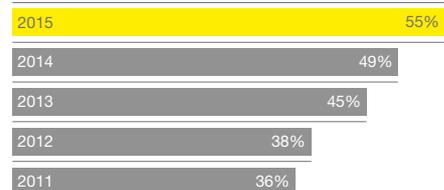
As a result of these efforts, by the end of the year our washing and processing capacity increased by 9%, reaching 45.4 million tonnes, which enabled us to supply more premium-quality product to customers around the world.

## Coal washed (million tonnes)



**+4%** compared to 2014

## Coal washed share of produced hard coal (%)



## Transportation highlights

### Rail transportation

For SUEK, rail provides a vital means of cost-efficient coal transportation and delivery. In 2015, we transported 82.9 million tonnes of coal via Russian Railways, which constituted 26%<sup>1</sup> of the total coal tonnage transported on the network during the year.

The Russian Railways network is of crucial strategic importance to SUEK. We use it to deliver vast amounts of coal, including 100% of our export supplies to the Vanino Bulk Terminal in the Russian Far East. It also enables us to reach ports in Primorye and those in the north-west of Russia. Together with RZhD, we are carrying out projects to increase the capacity of the railways and to make more efficient use

of railcars. Also of key importance is the Eastern Polygon development programme, which involves the expansion of tracks and major junctions across the Trans-Siberian Railway and the Baikal-Amur Mainline by 2018. By eliminating infrastructural restraints along the routes we use for cargo transportation, we will be able to increase our export shipments of coal, including those passing through the Vanino Bulk Terminal.

We also use our own railway infrastructure, which includes 746 km of railway track, 26 internal loading stations and 190 locomotives, to provide access to the national railway network. Projects are underway to increase the throughput

of our internal railway stations and tracks, which will benefit our production units in Kuzbass, Khakasia and Buryatia.

With 45,000 railcars used monthly for coal transportation, SUEK currently operates one of the largest railcar fleets in Russia. In 2015, we were able to reduce our numbers of active fleet cars by 10% compared to 2014 due to the increase in railroad delivery speed along SUEK's routes. This fleet also includes 9,160 new railcars with 75 and 77-tonne capacity (compared to the 69-tonne capacity of conventional cars) and a service life of up to 32 years. We will obtain another 3,200 of these high-capacity cars in 2016.

### Coal shipment

In 2015, we increased our total amount of shipped coal to 43.8 million tonnes – a new company record.

The amount of coal shipped to Asia-Pacific customers via our Vanino Bulk Terminal was 18.3 million tonnes, which is 8% more than in 2014. Throughout the year we continued to upgrade Vanino Bulk Terminal, with a view to reaching our target capacity of 24 million tonnes a year. This project, due to be concluded in 2017, includes measures to expand and improve public rail infrastructure, and during the

year we successfully completed the construction of roads, railway lines and other facilities.

The Group shipped 13.6 million tonnes of coal to the Atlantic market through Murmansk Commercial Seaport in 2015, which is 2% less than in 2014. We also shipped 2.6 million tonnes through Maly Port, located in the Russian Far East, the same quantity as in 2014, and 9.4 million tonnes through other ports.

FOR MORE DETAILS ABOUT RAIL FLEET REFER TO PAGE 52.



### Shipment (million tonnes)

Year	Vanino Bulk Terminal	Murmansk Commercial Seaport	Maly Port	Third-party ports	Total
2015	18.3	13.6	2.6	9.3	43.8
2014	17.0	13.9	2.6	8.2	41.7
2013	13.7	13.1	2.2	6.3	35.3
2012	12.0	11.6	2.5	4.9	31.0
2011	10.1	8.2	2.5	6.1	26.9

■ Vanino Bulk Terminal ■ Murmansk Commercial Seaport  
■ Maly Port ■ Third-party ports

**+5%** compared to 2014

FOR MORE DETAILS ABOUT PORT FACILITIES REFER TO PAGE 52.



1. RZhD statistics

## Investment projects

Our core strategic goals are to expand SUEK's presence in international markets and ensure consistent product quality by washing most of our exported hard coal. In support of these objectives, in 2015 we invested \$355m, mainly in priority projects designed to sustain and expand our major production assets.

During the year, our key investment projects included:

- Completing the first phase of infrastructure development at Vanino Bulk Terminal;
- Increasing the capacity of export-quality coal production in Kuzbass (from our mines in the Kiselevsk area);
- Completing the construction of the Chegdomyn washing plant (Urgal) and the Taldinskaya-Zapadnaya washing plant (Kuzbass) to increase our quantities of washed coal for export; and
- Increasing production in the Primorye region to take advantage of reduction in supply from competitors' mines.

FOR MORE DETAILS ABOUT OUR CAPITAL EXPENDITURE REFER TO PAGE 60.



## Our priorities for 2016

Looking ahead to 2016, our priorities include maximising revenue by focusing on sales of higher-value products, tightly managing all operating costs and investing in maintenance projects and strategically important development projects. At the same time, we will attempt to achieve long-term competitive advantage by improving the overall efficiency of our business chain, developing logistics and washing capabilities, and investing in assets that can maximise export margins.

In 2016, we plan to produce over 100 million tonnes of coal. As part of our development strategy, we are going to expand production of export-quality coal from the mines and open pits of Urgal, as well as in Kuzbass.

We also plan to expand our washing volumes, first and foremost by increasing throughput at the Chegdomyn and Polysaevskaya washing plants, and by testing the new washing plant at Taldinskaya-Zapadnaya 1 in Kuzbass. As a result, in 2016 we plan to significantly increase sales of high-calorific thermal and metallurgical coal.

In terms of transportation, we expect to see an increase in the amount of coal conveyed by rail to customers in Russian and international markets. In the year ahead we will be changing the structure of our rail rolling stock, with a core focus on expanding our fleet of high-capacity railcars. In addition, we will be improving the efficiency of rail deliveries as part of our target development programme.

We expect to see about 19 million tonnes of coal shipped through the Vanino Bulk Terminal to Asia-Pacific countries in 2016. SUEK Group also plans to ship 2.8 million tonnes through Maly Port to the Asia-Pacific region and over 14 million tonnes through Murmansk Commercial Sea port to the Atlantic region.

Due to the challenging coal market environment, in 2016 we will postpone a number of investment projects. We will limit our investments to equipment upgrades at our existing production facilities, and to development projects that will enable us to increase production and shipment capacity in a cost-efficient way.

Safety is always a major priority for us. We seek to achieve zero fatalities and further decrease our LTIFR in 2016 and beyond.