SUEK Group\(^1\) is one of the largest coal companies in the world and the leading coal producer in Russia.

About this Annual Report
As the global population grows and the quality of people’s lives improves, around the world we are using more technology, more machinery and, therefore, more energy. At SUEK, we believe that our overarching mission is to make people’s lives better and more comfortable. Our 2015 Annual Report sets out what we have done to meet the increasing needs and demands of the world’s growing population, and how we are planning to deliver success long into the future.

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1. In this report, each of the terms ‘SUEK Group’, ‘SUEK’, ‘the Group’, ‘the company’, ‘we’ refers to all companies consolidated in the IFRS financial statements of SUEK PLC, including, inter alia, JSC SUEK (Russia) and its subsidiaries, Russian brown coal assets, SUEK AG (Switzerland) and its subsidiaries.
Coal plays a vital role in meeting global energy demand – helping to heat our homes, light our cities and power modern technology. As the population increases, global energy consumption is also going up. To meet this rising energy demand, we need to keep coal, the most widely available and reliable fuel source, at the heart of the global energy system.

Facing the twin challenges of a volatile global macroeconomic environment and more stringent carbon regulation, SUEK is committed to improving the economic and environmental efficiency of its operations. Our aim is to ensure that our quality products continue to be part of the global energy mix for many years to come.

SEE HOW WE ARE HELPING TO POWER THE WORLD

MAKE OUR HOMES WARMER

SEE PAGES 14-15

MAKE OUR CITIES BRIGHTER AND BIGGER

SEE PAGES 16-17

MAKE THE WORLD GO ROUND

SEE PAGES 18-19
OUR MISSION

Our mission is to fuel the world by producing coal safely and sustainably, helping to ensure global energy security while delivering value to all our stakeholders.

OUR VALUES

- **Safety and efficiency**
  For more details please see page 11

- **Professionalism and cooperation**
  For more details please see page 13

- **Stability and development**
  For more details please see page 11

- **Social responsibility**
  For more details please see page 13

OUR VISION

Already the top coal producer in Russia, we want to be one of the leading coal companies in the world. We will achieve this by expanding our existing mining and processing assets, investing in new production facilities and further developing our transportation and logistics systems. We also aim to increase output from deposits located closer to our target markets, while continuing to drive innovation and change across the business.
SUEK is a vertically integrated business with extensive control of its value chain. We oversee all stages of the coal lifecycle, from extraction, processing and transportation through to worldwide sale and distribution.

The SUEK Group is one of the ten largest coal groups in the world by output and reserves, with an estimated 5.51 billion tonnes of reserves under the JORC Code. We have 26 active large-scale open-pit and underground mines in Siberia and far eastern Russia. Our processing and coal-washing facilities enable us to enhance the quality of our mined coal by reducing ash and moisture and producing a full range of products to suit international requirements.

We constantly focus on increasing operational efficiency to meet the rising demand for higher-quality, premium-priced coal.

This continued investment in the quality of our product, and our increased efficiencies in production, processing and distribution, mean we are able to optimise margins and reinforce our position as a long-standing, sustainable leader in the global mining sector.

1. The Group’s proven and probable reserves, according to the April 2011 report by SRK Consulting, amounted to 5.9 billion tonnes. Including extraction between April 2011 and December 2015 and SRK assessment of the Apsatsky coalfield carried out in 2015, these reserves stood at 5.5 billion tonnes as at 31 December 2015.
We sell coal to customers in Russian, Atlantic and Asia-Pacific markets through our extensive sales network. We continue to enhance our position as the largest exporter of coal from Russia, focusing particularly on supplying high-quality, premium-priced coal to the growing markets of Asia as well as maintaining our share in the Atlantic market.

Some of our assets are located in the east of Russia, much closer to the markets of Asia-Pacific than most other Russian coal companies. This gives us a competitive advantage in terms of ease and cost of transportation. For instance, our Tugnuisky open pit is located 2,500 km closer to these markets than the mines of other Russian producers, while our Urgal and Primorye assets are up to 5,000 km closer, delivering significant savings on transportation costs.

We are also the largest supplier of thermal coal to the Russian market. In 2015, we accounted for 39% of the total Russian thermal coal market.

Our logistics and transportation system is fundamental to the overall success of our business. Our own rail infrastructure, and ports where the Group is one of the major shareholders, enable us to deliver effectively to both Russian and international markets, and we are currently enhancing the capacity of our port facilities.

In 2015, despite operating in a challenging market we were able to achieve our sales targets for the year and increase sales to the Asia-Pacific region, especially Japan, Taiwan and India.

Our sales geography on the international markets is presented on pages 24-25 and on the Russian market on page 28.

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**International sales by the world’s leading coal producers in 2015 (million tonnes)**

<table>
<thead>
<tr>
<th>Company</th>
<th>Sales (million tonnes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Glencore</td>
<td>1003</td>
</tr>
<tr>
<td>BHP Billiton</td>
<td>93.7</td>
</tr>
<tr>
<td>Anglo American</td>
<td>55.9</td>
</tr>
<tr>
<td>SUEK</td>
<td>46.9</td>
</tr>
<tr>
<td>Bumi</td>
<td>44.4</td>
</tr>
<tr>
<td>Adaro</td>
<td>30.4</td>
</tr>
<tr>
<td>Peabody</td>
<td>28.7</td>
</tr>
<tr>
<td>Banpu</td>
<td>37.5</td>
</tr>
<tr>
<td>RKEV*</td>
<td>18.1</td>
</tr>
<tr>
<td>MGL*</td>
<td>19.4</td>
</tr>
</tbody>
</table>

*Sources: SUEK’s estimates, companies’ reporting*

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**Domestic thermal coal supplies by leading Russian companies in 2015**

<table>
<thead>
<tr>
<th>Company</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>SUEK</td>
<td>39%</td>
</tr>
<tr>
<td>Russian coal</td>
<td>8%</td>
</tr>
<tr>
<td>En+ Group</td>
<td>8%</td>
</tr>
<tr>
<td>UGMK</td>
<td>7%</td>
</tr>
<tr>
<td>Mechel</td>
<td>3%</td>
</tr>
<tr>
<td>Other</td>
<td>35%</td>
</tr>
</tbody>
</table>

*Source: Russian Government statistics*
SUEK is a socially responsible business with a core focus on sustainability. Our sustainability priorities include achieving a high standard of industrial safety, improving the efficiency of our production, looking after the health and wellbeing of our staff, and developing our employees.

We are proud to be one of the largest employers in Russia. This means we invest in the health and safety of our workforce and support the professional and personal advancement of our staff. Meanwhile, our regular technical improvements help to make the workplace safer, more efficient and more productive. Over the past five years our lost time injury frequency rate (LTIFR) has been almost halved.

We use natural resources responsibly and harness technologies which reduce any negative impacts our business may have on the environment. These activities include the minimisation of emissions and waste, responsible water and energy use, and land remediation. In addition, we focus on technologies that enable us to increase efficiency and decrease emissions from our coal. Over the past five years, we have more than doubled our coal washing volumes, thereby reducing ash and increasing the calorific value of our product.

Our social activities aim to improve living conditions and encourage sustainable socio-economic development in the regions where we operate.

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Our social activities aim to improve living conditions and encourage sustainable socio-economic development in the regions where we operate.

FOR MORE DETAILS SEE THE SUSTAINABILITY SECTION ON PAGES 62-80.

32,124 employees work for SUEK Group in ten countries and territories

$13m spent on social and community projects in 2015

$15m spent on environmental projects in 2015
RESILIENCE, STRENGTH AND NEW OPPORTUNITIES

Each year, we measure our financial and non-financial performance in order to assess our progress against the company’s strategic goals. In 2015, despite tough market conditions we recorded a good operational performance and maintained financial stability. Our efforts to enhance coal washing technologies also laid the foundations for future growth and opportunities, ensuring we can continue to help to meet global energy needs in an efficient and environmentally friendly way.

In 2015, a challenging market environment and further drop in global coal prices affected SUEK’s earnings and EBITDA. However, the company managed to preserve and strengthen its leading position in the Russian and international markets. This performance was the result of timely investment in washing and sizing capacity and transport infrastructure, as well as the expansion of trading activities. A particular focus on operational efficiency and safety also led to increased productivity and a reduced injury rate.

Non-financial highlights

**Lost time injury frequency rate (LTIFR)**

<table>
<thead>
<tr>
<th>Year</th>
<th>LTIFR</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>1.23</td>
</tr>
<tr>
<td>2014</td>
<td>1.57</td>
</tr>
<tr>
<td>2013</td>
<td>1.50</td>
</tr>
</tbody>
</table>

-22% compared to 2014

**Production (million tonnes)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Production</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>97.8</td>
</tr>
<tr>
<td>2014</td>
<td>98.9</td>
</tr>
<tr>
<td>2013</td>
<td>96.5</td>
</tr>
</tbody>
</table>

-1% compared to 2014

**Coal washed (million tonnes)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Coal washed</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>33.3</td>
</tr>
<tr>
<td>2014</td>
<td>32.1</td>
</tr>
<tr>
<td>2013</td>
<td>28.1</td>
</tr>
</tbody>
</table>

+4% compared to 2014

**Productivity of mining unit production workers (tonnes per man-month)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Productivity</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>448</td>
</tr>
<tr>
<td>2014</td>
<td>421</td>
</tr>
<tr>
<td>2013</td>
<td>391</td>
</tr>
</tbody>
</table>

+3% compared to 2014

Measurement and relevance to the business: Lost time injury frequency rate (LTIFR) is a key indicator of the company’s performance in health and safety. LTIFR demonstrates work-related injury frequency for the purpose of developing measures to track and promote safety at production units across the Group. LTIFR is calculated according to the number of lost time injuries per one million hours worked within the calendar year.

Performance: In the past few years, the LTIFR at our production units has been steadily decreasing. The 2015 indicator dropped by 22% to 1.23 as a result of our comprehensive health and safety action plan. We remain committed to improving our LTIFR index and will accelerate our efforts in this area in future.

**Strategic priority:** Achieving high safety standards

Measurement and relevance to the business: Our production volumes show us how SUEK Group is performing and demonstrate the rate of growth of our coal mining business.

Performance: In 2015, SUEK Group’s coal mining units produced 97.8 million tonnes of coal, which was a 1% decrease year-on-year compared to 2014.

**Strategic priority:** Focusing on efficient growth

Measurement and relevance to the business: The washing of mined coal is the main method of improving product quality. It enables us to remove rock and high-ash coal from pure coal. It also separates products into size ranges suited to different markets, and enables moisture levels to be controlled. In this way, we produce higher value products for international markets. Additionally, due to reduced rail transportation of waste materials, coal washing leads to lower overall transportation costs.

Performance: In 2015, we washed and processed 33.3 million tonnes of coal at our washing plants, a 4% rise compared to the previous year. The increase in volumes was due to increased output at the newly commissioned Chegdomyn plant in Khabarovsk, the commissioning of a new washing plant in Kuzbass and upgrading of existing facilities.

**Strategic priority:** Improving operational efficiency and productivity

Measurement and relevance to the business: The productivity of production workers at our mining units is a measure of our workforce efficiency and the success of our business strategy. Labour productivity is calculated as coal mined, divided by the average number of production personnel at our mining units within the calendar year.

Performance: Labour productivity at our production units increased by 3% in 2015. This was the result of improved operational efficiency at our mines and open pits.

**Strategic priority:** Improving operational efficiency and productivity
Financial highlights

**EBITDA ($m)**

<table>
<thead>
<tr>
<th>Year</th>
<th>EBITDA ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>887</td>
</tr>
<tr>
<td>2014</td>
<td>1,044</td>
</tr>
<tr>
<td>2013</td>
<td>1,033</td>
</tr>
</tbody>
</table>

-15% compared to 2014

**EBITDA margin (%)**

<table>
<thead>
<tr>
<th>Year</th>
<th>EBITDA margin (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>21%</td>
</tr>
<tr>
<td>2014</td>
<td>21%</td>
</tr>
<tr>
<td>2013</td>
<td>19%</td>
</tr>
</tbody>
</table>

Net debt/Bank EBITDA

<table>
<thead>
<tr>
<th>Year</th>
<th>Net debt/Bank EBITDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>2.96</td>
</tr>
<tr>
<td>2014</td>
<td>2.99</td>
</tr>
<tr>
<td>2013</td>
<td>3.09</td>
</tr>
</tbody>
</table>

-1% compared to 2014

**International sales volumes (million tonnes)**

<table>
<thead>
<tr>
<th>Year</th>
<th>International sales volumes (million tonnes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>46.9</td>
</tr>
<tr>
<td>2014</td>
<td>45.6</td>
</tr>
<tr>
<td>2013</td>
<td>42.4</td>
</tr>
</tbody>
</table>

+3% compared to 2014

**Sales to Russian market (million tonnes)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales to Russian market (million tonnes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>54.2</td>
</tr>
<tr>
<td>2014</td>
<td>49.7</td>
</tr>
<tr>
<td>2013</td>
<td>50.2</td>
</tr>
</tbody>
</table>

+9% compared to 2014

**Share of supplies to Russian thermal coal market (%)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Share of supplies to Russian thermal coal market (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>39%</td>
</tr>
<tr>
<td>2014</td>
<td>38%</td>
</tr>
<tr>
<td>2013</td>
<td>36%</td>
</tr>
</tbody>
</table>

**Measurement and relevance to the business:**

International sales volumes demonstrate the Group’s performance and position in major coal markets.

**Performance:**

SUEK’s international sales volumes have been steadily increasing year-on-year. In 2015, we saw growth in the Asian markets with the largest volumes going to Japan, China, South Korea and Taiwan. The Group also started to explore new markets, including Sri Lanka, Vietnam and the Philippines. In the Atlantic market, sales volumes remained consistent with 2014, but there was a change in the focus of sales: supplies to the UK decreased, while coal sales to the Netherlands and Mediterranean countries increased.

**Strategic priority:** Focusing on efficient growth

**Measurement and relevance to the business:**

We are focused on maintaining and increasing the Group’s share in the Russian market and retaining our position as the largest supplier of thermal coal in the country.

**Performance:**

In 2015, the Group’s sales to the Russian market increased by 9% driven by higher consumption of coal-fired power plants. This was the result of low water levels, particularly in the reservoirs of Siberia and the Far East, which led to reduced output from hydroelectric power plants.

**Strategic priority:** Focusing on efficient growth

**Measurement and relevance to the business:**

EBITDA is a key indicator of the company’s financial performance and is used to assess the company’s operating profitability. It is calculated as earnings before interest on loans, taxes, depreciation and amortisation within the calendar year. EBITDA margin is a measurement of the company’s primary profit margin and is calculated as EBITDA divided by revenue. EBITDA and EBITDA margin are important indicators of our financial health. They exclude depreciation and amortisation, therefore providing a more accurate view of our operating profitability and a clear measure of the success of strategy implementation.

**Performance:**

In 2015, EBITDA decreased by 15% compared to 2014 to $887m. Meanwhile, increased coal sales volumes in the Russian and international markets, and the reduced cost of coal sold in US dollars due to the devaluation of the Russian Rouble, partially compensated for the negative impact of global coal prices on our financial performance. The Group managed to maintain its EBITDA margin at 21%.

**Strategic priority:** Focusing on efficient growth

**Measurement and relevance to the business:**

International sales volumes demonstrate the Group’s performance and position in major coal markets.

**Performance:**

SUEK’s international sales volumes have been steadily increasing year-on-year. In 2015, we saw growth in the Asian markets with the largest volumes going to Japan, China, South Korea and Taiwan. The Group also started to explore new markets, including Sri Lanka, Vietnam and the Philippines. In the Atlantic market, sales volumes remained consistent with 2014, but there was a change in the focus of sales: supplies to the UK decreased, while coal sales to the Netherlands and Mediterranean countries increased.

**Strategic priority:** Focusing on efficient growth

**Financial highlights**

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<td>1,044</td>
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<td>2013</td>
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</tbody>
</table>

-15% compared to 2014

**EBITDA margin (%)**

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<tr>
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<td>21%</td>
</tr>
<tr>
<td>2013</td>
<td>19%</td>
</tr>
</tbody>
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Net debt/Bank EBITDA

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<th>Year</th>
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</tr>
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<td>2014</td>
<td>2.99</td>
</tr>
<tr>
<td>2013</td>
<td>3.09</td>
</tr>
</tbody>
</table>

-1% compared to 2014

**Measurement and relevance to the business:**

Net debt to bank EBITDA is a measure of the ability of the company to pay off its debts. As such, it clearly demonstrates our financial health and liquidity position. Net debt to bank EBITDA is calculated as the Group’s total financial borrowings, minus cash and cash equivalents, divided by bank EBITDA.

**Performance:**

At 31 December 2015, net debt to bank EBITDA equalled 2.96x, which was well below the maximum 4.0x provisioned by our current loan agreements. These figures demonstrate that the Group has sufficient funds to meet its financial obligations.

**Strategic priority:** Focusing on efficient growth
FAVOURABLE GEOGRAPHICAL POSITION

WHERE WE OPERATE

FOR MORE DETAILS SEE GROUP’S ASSETS ON PAGES 48-52.

OUR PRODUCTION ASSETS

<table>
<thead>
<tr>
<th>Location</th>
<th>Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kemerovo</td>
<td>2</td>
</tr>
<tr>
<td>Khakasia</td>
<td>3</td>
</tr>
<tr>
<td>Krasnoyarsk</td>
<td>3</td>
</tr>
<tr>
<td>Buryatia</td>
<td>1</td>
</tr>
<tr>
<td>Zabaikalye</td>
<td>3</td>
</tr>
<tr>
<td>Khabarovsk</td>
<td>1</td>
</tr>
<tr>
<td>Primorye</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>14</td>
</tr>
</tbody>
</table>
The favourable geographical spread of our production assets, as well as our extensive sales network, enables us to ensure the timely, seamless and efficient supply of coal to our customers across the globe.
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. Supplemented by 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.

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.
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.

Despite the challenging economic environment, the Group delivered a robust operating performance in 2015. Our strong sales and high production rates, combined with a focus on operational efficiency, contributed to a stable financial position for the year.
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.
Coal is one of the world’s main sources of power. Fuelling our lives. Heating our homes. Keeping us warm in winter. Affordable and widely available, it brings light and heat to all four corners of the Earth, satisfying people’s basic needs even in remote and less developed regions.

41% every 5th individual in the world still lacks access to electricity¹

<table>
<thead>
<tr>
<th>Country</th>
<th>Share of coal in electricity generation (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>73%</td>
</tr>
<tr>
<td>China</td>
<td>71%</td>
</tr>
<tr>
<td>India</td>
<td>70%</td>
</tr>
<tr>
<td>South Africa</td>
<td>69%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>46%</td>
</tr>
<tr>
<td>Germany</td>
<td>42%</td>
</tr>
<tr>
<td>South Korea</td>
<td>41%</td>
</tr>
<tr>
<td>USA</td>
<td>37%</td>
</tr>
<tr>
<td>UK</td>
<td>32%</td>
</tr>
<tr>
<td>Japan</td>
<td>25%</td>
</tr>
</tbody>
</table>

Sources: SUEK estimates, International Energy Agency

As the world’s population grows, more and more people are living in urban areas. A major component of urban energy systems, coal will keep the bright lights on in the big cities for many years to come. Coal also fuels the production of cement, steel and glass – vital materials that form the living fabric of urban growth and infrastructure.

1 tonne of coal is used to produce every five tonnes of cement.

Growth of urban and rural population of the world in 2010-2050


1. World Coal Association
In the world’s growing economies, coal is critical to the development of transport infrastructure because it is essential to the production of steel, aluminium and cement. Coal can also provide liquid fuel for cars and jets and generate power for electric vehicles. Meeting the energy needs of modern transport. Keeping people moving. Making the world go round.

50% 770kg
50% share of coal in the power mix used in aluminium production globally¹
770kg of coal is used to produce a tonne of crude steel¹

Coal consumption by industries in 2015

1. Power industry 58%
2. Metallurgical sector 16%
3. Cement industry 5%
4. Other non-power sector 21%

Sources: WoodMacKenzie, SUEX estimates
1. World Coal Association
Alongside the other two primary fossil fuel resources (oil and gas), coal is an integral part of the global energy mix. In particular, coal has a key role to play in emerging economies where, due to its cost efficiency and reliability, it can provide long-term solutions to energy needs.

6,911Mt
World coal consumption

Source: Energy study 2014, BGR
COAL FUNDAMENTALS

With the global population projected to reach 8.7 billion by 2035, power and electricity will continue to play a vital role in meeting people’s basic needs in developing regions, driving economic growth and enabling social resilience and wellbeing.

Coal is a mineral resource, formed over millions of years from the organic residue of prehistoric plants. Over time, as layer upon layer of these dead plants built up, heat and pressure changed their physical and chemical composition, forcing out the oxygen and leaving carbon-rich deposits beneath the earth’s surface.

Coal was one of the first fossil fuels to be used by mankind. For centuries, its main usage was as a domestic fuel. However, in the 19th century coal became the driving force of the Industrial Revolution. In turn, the Industrial Revolution helped to develop and expand the coal industry, creating the foundations of the global economic system.

Growing population of the Earth requires universal access to affordable, reliable and modern energy services

3bn people still have no access to modern energy services

over 1.1bn people do not have access to electricity

Rising urbanisation and industrialisation drive demand for energy and infrastructure

36% increase in global urban population by 2035 with 90% of that growth taking place in Asia and Africa

31% of electricity generation will be accounted for by coal in 2035

30% increase in demand for steel by 2030

Primary energy demand is forecast to rise 27% by 2035


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1. United Nations
2. World Steel Association, Global Steel Market Outlook, 2015
Coal – helping to ensure global energy security

Methane capture and utilisation
During underground mining, highly concentrated methane (CH₄) can be captured and removed through the use of extraction systems. Where practical, this gas is used to generate electricity or heat mining facilities.

High-quality coal
High-rank coals are high in carbon and low in ash and moisture. This means that, when burned, less fuel is required to vaporise moisture and less heat is lost to the ash. Furthermore, washing coal prior to combustion helps not only to reduce the coal’s ash content by more than 50%, but also the sulphur content. Therefore, the higher the quality of coal, the fewer emissions there are for the same amount of electricity produced.

State-of-the-art coal-fired stations
Increasing the efficiency of coal plants also leads to fewer CO₂ emissions without affecting the power output. A one percentage point improvement in the efficiency of a conventional pulverised coal combustion plant results in a 2-3% reduction in CO₂ emissions¹.

Currently, most coal-fired power plants operate under sub-critical steam conditions and have an average efficiency of 35%. New technologies enable coal-fired plants to work at supercritical and ultra-supercritical temperatures, with an efficiency increase of 40% or 50% and above at ultra-supercritical plants¹. Increasing the efficiency of all coal-fired power plants from 33% to 40% would cut CO₂ emissions by an amount equal to expanding the world’s current solar power capacity by 195 times¹.

Carbon capture and storage (CCS) technologies
An emergent technology, post-combustion carbon capture can decrease CO₂ emissions from coal-fired generation by up to 90%, though with some loss of power efficiency. Once captured, CO₂ can be deposited and stored within geological formations (underground rock strata), or utilised as a chemical feedstock for the synthesis of other chemicals, the cultivation of microalgae for biofuel, or mineral carbonation.

¹ World Coal Association
Coal is utilised by almost all major industries

**Electric power industry**
Today, coal is mainly used in the electric power industry. Within electric power plants, coal is burned to heat water in boilers, generating steam which in turn propels turbines and generators. In this way, coal’s chemical energy is transferred into mechanical energy, and then into electric energy.

**Thermal energy**
Coal is used to produce thermal energy. As part of this process, coal-fired thermal power plants or dedicated boilers supply hot water to residential buildings and industrial facilities. The use of power and heat co-generation increases the efficiency of coal-fired power plants from 33-37% to 70-80%\(^1\).

**Metallurgical industry**
About 70%\(^2\) of global steel is produced using coking coal, which has high carbon content and low levels of sulphur and phosphorus. Coke is also used as a foundry fuel in the chemical and ferroalloy industries. Pulverised coal injection (PCI) allows for cheaper coal to be consumed in a blast furnace, replacing expensive coke, thereby cutting down on costs.

**Chemical industry**
Coal provides a vital raw material for the chemical industry, where coking by-products are used to create materials such as synthetic rubber, benzene, naphthalene and other products. Coal derivatives also form the basis of pigments, synthetic medicines, varnishes, plastics and many other products.

**Fuel and gas industry**
Coal can be processed into other fuels, such as gas or liquid coal fuel, which have similar properties to petrol or diesel fuel. These coal-derived fuels are sulphur-free and low in particulates and nitrogen oxides, which means they can play a key role in meeting the growing energy needs of the transport sector.

**Construction industry**
Coal is used as the main source of energy in cement production. Coal combustion products such as fly ash, which has good binding properties, also play an important role in cement and concrete manufacture and in the construction industry generally.

**Other industries**
Other major industrial consumers of coal include the paper, textile and glass industries. Coal is also used to produce carbon fibre and special components for household appliances and personal hygiene products.

1. International Energy Agency
2. World Coal Association

The advantages of coal

**Safety**
Compared to alternative fossil fuels which can easily ignite, coal is easier and safer to handle and store.

**Versatility**
Coal is the most versatile source of energy. Besides power generation, it is one of the basic components in cast iron and steel making. Coal is also required for various engineering and manufacturing processes, including electrolysis to produce aluminium, and the production of paper and chemicals.

**Affordability**
Compared to other fossil fuels, coal transportation does not require high pressure pipelines, expensive safety precautions or preliminary processing. Additionally, coal is easy to stockpile, which contributes to making it the most affordable energy source in the world.

**Usability**
After extraction, coal does not require complex processing and can be used almost immediately. Other fossil fuels require lengthy and expensive processing, while the generation of wave, wind and solar energy depends on the weather, which undermines consistency and reliability.

**Cost-effectiveness**
Due to its abundance, ease of use and low transportation costs, coal is an affordable source of energy.
SUEK’S INTERNATIONAL SALES GEOGRAPHY

SUEK’S SALES TO ATLANTIC REGION

19.2Mt
41% of international sales

1. Netherlands 21%
2. United Kingdom 15%
3. Germany 10%
4. Morocco 8%
5. Turkey 8%
6. Other countries 38%
SUEK’S SALES TO ASIA-PACIFIC REGION

27.7Mt

59% of international sales

1. Japan 24%
2. China 21%
3. South Korea 19%
4. Taiwan 13%
5. India 13%
6. Other countries 10%

FOR MORE DETAILS ON SUEK’S SALES TO RUSSIAN MARKET SEE PAGE 28.
INTERNATIONAL COAL MARKET

A challenging global environment

In 2015, the international coal market was characterised by oversupply, decreasing seaborne demand and falling prices. During the year, coal companies started to cut back production, but not in the volumes required to bring balance and stability to the market. The major contributing factors to these challenging conditions were China’s decision to drastically reduce its coal imports by 32%1 year-on-year, tightening of environmental standards, and abnormally warm weather in Europe. As a result, in 2015 the seaborne thermal coal market shrank for the first time since 2008, with an overall reduction of 50 million tonnes2. Additional external factors, such as weak oil prices and the depreciation of many national currencies, while providing a short-term lifeline to producers, further exacerbated the challenging price environment.

Atlantic market

In the Atlantic market, demand for thermal coal declined in 2015, principally due to a sharp reduction in UK imports. Indeed, total imports to the UK during the year almost halved compared to 2014. The reason for such a dramatic drop was an increase in the carbon emissions tax, introduced in April, from £9.55/t of CO2 to £18.08/t of CO2. This tax rise, coupled with reduced natural gas prices, accelerated coal-to-gas switching. There were several positive trends within the Atlantic market in 2015, with coal imports to Spain, the Netherlands, Turkey and Egypt increasing by an estimated 10 million tonnes3 overall. In Spain, the uplift in year-on-year demand was due to low rainfall and very poor conditions for hydroelectric power generation. In Turkey and the Netherlands, imports were up due to the commissioning of new coal-fired generating facilities, while Egypt expanded its volumes of internationally purchased coal to meet the needs of its domestic cement industry.

At the end of 2015, Germany’s coal imports were stable year-on-year, whereas Scandinavian countries reduced their coal purchases – mainly due to the very high levels of hydro resources in the region. In terms of coal supply to the Atlantic market, US exports of thermal coal continued to fall in 2015, albeit at slower rates than in previous years. US exports for the full year stood at 24 million tonnes, down 5 million tonnes year-on-year, 4 million tonnes of which was the result of reduced imports to the Atlantic basin4. Currently, virtually no types of US coal are competitive in the European market, with the exception of some high-sulphur coal grades mined in the Illinois and Northern Appalachian coal basins. However, although several large US producers declared bankruptcy during the year, US coal output did not decline significantly. South African exports to the Atlantic basin countries fell by 2 million tonnes during 2015. These export reductions were offset by a 6 million tonne5 increase in Colombian thermal coal exports, although Colombia’s growth was partly due to a resumption of supply following sanctions against a domestic producer for environmental non-compliance in 1Q 2014. Furthermore, following a change of ownership, another Colombian production facility resumed coal mining operations in 2015, which stimulated export growth from zero in 2014 to 2 million tonnes6 for the full reporting year. Overall, the short-term prospects for the Atlantic thermal coal market are still somewhat uncertain. Abnormally warm weather in Europe, the growth of renewable generation facilities7 and falling oil prices, combined with tougher environmental regulation, are likely to limit coal demand in the Atlantic region for some time to come.

1. China Customs Statistics
2. Wood Mackenzie, SUEK estimates
3. SUEK estimates
4. US National Mining Association, SUEK estimates
5. Seaborne coal export statistics, SUEK estimates
6. Deep Blue Agency
7. According to Fraunhofer Institute, AGEE, BMWi, Bundesnetzagentur in 2015, Germany added 6.9 GW to its renewable generation facilities.
Pacific market

Trends and developments in China still have a major impact on the entire international coal market. In 2015, this impact was mostly negative as China imposed severe restrictions on its thermal coal imports: international purchases for the full year went down by 71 million tonnes, or 32%, year-on-year to 154 million tonnes. While the Chinese domestic coal market is characterised by multiple production facilities with excess capacity, 90% of all enterprises in the country are loss-making. The deceleration of thermal coal consumption growth in China is due to economic slowdown and structural changes, as well as tightening environmental regulations. In 2015, power output increased no more than 2%, while the share of coal generation remained unchanged from the previous year.

In India, meanwhile, thermal coal imports increased strongly in the first half of 2015, but fell later in the year. The country’s coal imports for the full year went down by approximately 9 million tonnes due to the intensive growth of domestic production, coupled with reduced coal demand linked to structural issues within the Indian energy industry. In 2015, India overtook China to become the largest player in the global seaborne thermal coal market, importing an estimated 159 million tonnes of thermal coal during the year. The Indian market still has high potential for additional import growth, so long as its national power sector reforms are successful and domestic coal production slows down.

In 2015, coal imports to Japan increased by 4 million tonnes since the Fukushima nuclear disaster of 2011, Japan has restructured its approach to domestic power generation and become increasingly dependent on coal. In 2015, Japan reversed its phase-out of nuclear power and restarted two of its nuclear reactors, with another five-to-seven units potentially restarting in 2016. However, this move is not expected to have any short-term impact on coal consumption, and Japan remains a potentially strong growth market for coal imports in the future. In 2015, Taiwan reduced its imports by 2 million tonnes, which is likely to be followed by growth in 2016 as the country plans to launch new coal-fired power plants with a total capacity of 2 GW.

On the supply side, Indonesia, the largest thermal coal exporter, suffered most from falling demand. In 2015, Indonesian coal exports fell by 49 million tonnes to 339 million tonnes. As a result of low market prices, more stringent procedures for export coal shipments and lower demand from China and India, many suppliers were pushed out of the market. Those most affected were small companies which had previously mined and exported coal illegally. In addition, since most Indonesian coal producers’ costs are denominated in US Dollars, the depreciation of the national currency during the year did not bring down production costs in US Dollar terms, resulting in an overall decline in the competitiveness of Indonesian coal.

Australia exported 202 million tonnes of thermal coal in 2015, up by 1 million tonnes year-on-year. Australian coal retained its market position due to the optimisation of production costs and a weak national currency. In this respect, there is no dominant trend in the Australian coal industry. On the one hand, coal output is declining, and a number of coal producers have announced the sale of their assets, suspension of mining activities or final mine closures. On the other hand, other producers continue to increase their output and bring new capacity to the market.

Meanwhile, Russia and South Africa increased their coal supplies to the Pacific market by 7 million tonnes and 5 million tonnes respectively. Moreover, 80% of South Africa’s coal exports to the Pacific market were destined for India.

8. China Customs Statistics
10. In 2015, the coal output of Coal India Limited, India’s largest coal producer, grew by 8% to 525 million tonnes.
11. Wood Mackenzie, SUEK estimates
RUSSIAN COAL MARKET

SUEK’S SALES TO RUSSIAN MARKET

54.2Mt
54% of total sales

1. Power plants 80%
2. Public utilities 14%
3. Other 6%
Domestic market growth and export market challenges

In 2015, the total production of brown coal in Russia was 74 million tonnes, while hard thermal coal production was 217 million tonnes\(^1\). Brown coal is primarily used in domestic power generation and by public utility companies. Hard coal fuels these industries as well, but is also used to produce cement, metals and other industrial goods, while a large proportion of the high-quality hard coal produced in Russia is exported.

Total sales of brown and hard thermal coal increased by 3% in 2015 compared to 2014, and reached 274 million tonnes\(^1\). Domestically, this uplift was driven by reduced hydroelectric output, which led to increased loads being processed by coal-fired power plants. Despite challenging international market conditions, Russian suppliers also saw increased export sales in the Asia-Pacific region, which outweighed the decline in sales to the Atlantic region.

Generally, Russian coal exporters, including SUEK, remained competitive by engaging in cost optimisation programmes and benefiting from the devaluation of the Russian Rouble during the year.

Domestic sales

Following increased demand from power generation companies, domestic sales of thermal coal rose by 3% in 2015, reaching 135 million tonnes\(^1\). During the year, low water levels, particularly in the reservoirs of Siberia and the Far East, led to reduced output from hydroelectric power plants\(^2\), which in turn drove up demand for coal from coal-fired power plants.

Overall, Russian suppliers saw an 8% uplift in sales of thermal coal to power plants compared to 2014, with total sales to power plants reaching 94 million tonnes\(^3\).

By contrast, sales to public utility companies declined in 2015. This was primarily due to relatively warm weather during the winter, and the fact that utility companies still had plenty of stocks left over from the previous year. As a result, sales of thermal coal to public utility companies in 2015 dropped by 9%, totalling only 21 million tonnes\(^3\).

In terms of pricing, the ongoing decline in international thermal coal prices did not have a significant impact on Russia’s domestic market. In Russia, the majority of domestic sales are made under long-term contracts between coal suppliers and power generation companies. Within these contracts, prices are adjusted annually to account for inflation and changes in transportation costs.

Export sales

In 2015, the long-term trend of rising thermal coal export sales continued. Total export sales reached 139 million tonnes\(^4\), which is a 3 million tonne (+2%) increase compared to 2014. Despite a decrease in export sales to Europe, export sales to Asia-Pacific continued to grow. Indeed, during the year the Asian market accounted for 45% of the total export sales of Russian thermal coal.

The breakdown of export sales by country changed significantly in 2015. In the Atlantic market, a sharp decline in demand from the UK was partially balanced by increased export sales to the Netherlands, Turkey, Germany and Spain. In the East, there was a drop in export sales to China, while export sales to South Korea, India, Japan, Taiwan and Malaysia went up. Overall, the largest importers of Russian thermal coal in 2015 included South Korea, the Netherlands, Japan, Turkey and Germany\(^4\).

---

1. Russian Government statistics, SUEK estimates
2. According to the Federal Statistics Service of Russia, electricity production at Russian hydroelectric power plants fell by 3% in Russia in 2015, down to 170 billion KWH, while in Siberia and the Far East, the amount of electricity generated by hydroelectric power plants fell by 6%, down to 108 billion KWH.
3. Russian Government statistics, SUEK estimates
4. RZhD statistics
Securing our leading position in the industry is an important goal for SUEK Group. We continually look for opportunities to reinforce competitive advantage, expand our market share and develop a socially responsible business. To meet these objectives, we have identified five strategy pillars.
Our objective is to increase supply to and strengthen our presence in the premium, high-margin markets, especially in the Asia-Pacific region. We are growing the share of washed coal within our product portfolio, developing sales of premium sized coal and increasing the trading of semi-soft and hard coking coal with international and Russian metallurgical customers. Current investment in the development of new coal deposits is solely targeted at the most economically efficient projects. We also expect to maintain synergies from association with the Russian electric power industry by signing long-term contracts with energy producers.

We maintain low-cost and efficient coal production by refining our operational processes and modernising our equipment and production units. We will continue to improve internal management processes with the express intention of boosting the profitability of the business.

We plan to keep costs under control through focused investment. Increasing the loading capacity of our port facilities will maximise exports shipped out of our own ports. Working with Russian Railways (RZhD), we are also undertaking projects to reduce the time it takes to deliver coal by rail.

Our competitive advantages

**Vast mineral reserves**
The average life of our hard coal deposits exceeds 30 years.

**Cost-efficiency**
Cost control at each stage of the business cycle makes us one of the most cost-efficient coal producers globally.

**Integrated business model**
Control over the value chain secures operational and cost efficiency.

**High operational efficiency**
Investment in modern production equipment and employee development programmes helps to increase productivity across the company.

**Favourable geographic position**
We benefit from reduced transportation costs as we are closer to key Asian markets than many of our Russian competitors.

**Reputation**
We have a proven track record as a reliable supplier to the Russian and international markets.

**Highly skilled personnel and expertise**
We hire and retain talent by offering scholarships, internships and career development opportunities. Training through experience-sharing, SUEK is also able to transfer a wealth of knowledge from skilled experts within the Group.

Our aim is to contribute to global energy security by producing coal safely and sustainably while delivering value to all our stakeholders. Our environmental programmes are designed to minimise any impact our business might have in the areas where we work. SUEK also seeks to sustain its position as one of the most attractive employers in the Russian mining industry, primarily through the quality of our employee training and development programmes. Ongoing investment in environmental, public, educational and social projects should improve the quality of life within the communities where SUEK operates.
Increasing production of high-quality and desirable coal products

2015 results
In 2015, SUEK Group decreased production by 1.1 million tonnes compared to 2014. This decrease is explained by difficult geological conditions during underground mining.

The proportion of washed hard coal by the Group increased from 49% in 2014 to 55% in 2015.

In 2015, a new washing plant was launched at the Taldinskaya-Zapadnaya 1 mine. The first unit of the Chegdomyn washing plant reached its maximum operating capacity.

KPI according to strategy

<table>
<thead>
<tr>
<th>KPI</th>
<th>2015 results</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL PRODUCTION</td>
<td>In 2015, SUEK Group decreased production by 1.1 million tonnes compared to 2014.</td>
</tr>
<tr>
<td>SHARE OF WASHED HARD COAL</td>
<td>The proportion of washed hard coal by the Group increased from 49% in 2014 to 55% in 2015.</td>
</tr>
<tr>
<td></td>
<td>In 2015, a new washing plant was launched at the Taldinskaya-Zapadnaya 1 mine. The first unit of the Chegdomyn washing plant reached its maximum operating capacity.</td>
</tr>
</tbody>
</table>

Plans for 2016

- The Group’s priority is to produce quality products which are in high demand in international and Russian markets;
- We intend to improve operational efficiency, cost control and productivity;
- We plan targeted investments in mining expansion at the most economically attractive deposits. We are planning to expand mining in Urgal by developing an open pit in the Pravoberezhny area;
- In 2016, we plan to increase shipments of coal through ports where the Group has a major shareholding interest.

Balanced management of the reserves portfolio

2015 results
In 2015, we acquired licences for developing new coal mining areas in Kuzbass, close to existing SUEK facilities.

KPI according to strategy

<table>
<thead>
<tr>
<th>KPI</th>
<th>2015 results</th>
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<tbody>
<tr>
<td>JORC RESERVES</td>
<td>In 2015, we acquired licences for developing new coal mining areas in Kuzbass, close to existing SUEK facilities.</td>
</tr>
<tr>
<td>AVERAGE LIFE OF HARD COAL DEPOSITS</td>
<td>over 30 years</td>
</tr>
</tbody>
</table>

Plans for 2016

- The objective is to ensure a sustainable portfolio of high-quality thermal and coking coal to satisfy market demand. We will continue to monitor promising coal deposits.

Strengthening our position in the Asia-Pacific region and retaining our presence in the largest Atlantic markets

2015 results
SUEK coal sales to Asia in 2015 totalled 27.7 million tonnes, 5% higher than in 2014.
SUEK coal sales to the Atlantic market in 2015 totalled 19.2 million tonnes, flat year-on-year.

KPI according to strategy

<table>
<thead>
<tr>
<th>KPI</th>
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</tr>
</thead>
<tbody>
<tr>
<td>TOTAL EXPORT SALES</td>
<td>SUEK coal sales to Asia in 2015 totalled 27.7 million tonnes, 5% higher than in 2014.</td>
</tr>
<tr>
<td>SALES TO ASIAN COUNTRIES</td>
<td>SUEK coal sales to the Atlantic market in 2015 totalled 19.2 million tonnes, flat year-on-year.</td>
</tr>
</tbody>
</table>

Plans for 2016

- We intend to enhance our presence in the premium markets of Japan, Korea and Taiwan;
- We plan to increase direct sales by developing further our distribution networks in China, South Korea and Poland.
Retaining our position as the largest coal producer and supplier of thermal coal in Russia

2015 results
We strive to remain the leading thermal coal supplier in the Russian market – the Group’s market share in 2015 was 39%.

<table>
<thead>
<tr>
<th>KPI according to strategy</th>
<th>Plans for 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>SALES TO RUSSIAN MARKET</td>
<td>• We plan to maintain our leadership in the Russian market and to seek new opportunities to increase sales to Russian customers;</td>
</tr>
<tr>
<td>54.2Mt</td>
<td>• We intend to continue selling coal to the major Russian energy producers – SGK, E.ON, Gazprom Energoholding, TGK-14, DGK and others.</td>
</tr>
<tr>
<td>+9%</td>
<td></td>
</tr>
<tr>
<td>SALES TO SGK:</td>
<td>• We aim to increase sales of sized coal to Poland through our dedicated distribution company SUEK Polska, as the Polish government plans to close the country’s loss-making coal mines.</td>
</tr>
<tr>
<td>23.9Mt</td>
<td></td>
</tr>
<tr>
<td>+16%</td>
<td></td>
</tr>
</tbody>
</table>

Increasing sales in metallurgical and premium sized-coal markets

2015 results
International sales of metallurgical coal amounted to 1.8 million tonnes in 2015, while Russian sales were 0.2 million tonnes. In 2015, sized-coal sales totalled 2.3 million tonnes.

<table>
<thead>
<tr>
<th>KPI according to strategy</th>
<th>Plans for 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>METALLURGICAL COAL SALES</td>
<td>• We plan to increase production of premium, low-ash, semi-hard, mid-volatile coking coal from the Apsatsky open pit;</td>
</tr>
<tr>
<td>TO INTERNATIONAL MARKET</td>
<td>• We also intend to grow sales of semi-coking high-volatile coal in the new markets;</td>
</tr>
<tr>
<td>1.8Mt</td>
<td>• We aim to increase sales of sized coal to Poland through our dedicated distribution company SUEK Polska, as the Polish government plans to close the country’s loss-making coal mines.</td>
</tr>
<tr>
<td>-18%</td>
<td></td>
</tr>
<tr>
<td>METALLURGICAL COAL SALES</td>
<td></td>
</tr>
<tr>
<td>TO RUSSIAN MARKET</td>
<td></td>
</tr>
<tr>
<td>0.2Mt</td>
<td></td>
</tr>
<tr>
<td>+241%</td>
<td></td>
</tr>
<tr>
<td>SIZED-COAL INTERNATIONAL</td>
<td></td>
</tr>
<tr>
<td>SALES</td>
<td></td>
</tr>
<tr>
<td>2.3Mt</td>
<td></td>
</tr>
<tr>
<td>+28%</td>
<td></td>
</tr>
</tbody>
</table>

Strategy in action
Targeted investment in efficient expansion
At the end of 2015, SUEK acquired a licence to develop the Kotinsky Zapadny area in Kuzbass. The reserve block is rich in low-ash coal with high calorific value (similar to coal currently mined at the Kotinskaya mine) and can be exported without washing. Acquisition of these reserves means SUEK can postpone the transition to high-ash seams at the Kotinskaya mine and defer the costs associated with construction of a washing plant.

In 2015, the company commissioned a new washing plant at the Taldinskaya-Zapadnaya 1 mine. The plant will wash coal mined at Taldinskaya-Zapadnaya 1 and Taldinskaya-Zapadnaya 2 mines and the nearby Zarechny open pit. It will produce coal with calorific value of 6,500 kcal/kg for deliveries to premium international markets. In this way, the new plant will ensure the production of coal with high calorific value, even when areas with elevated ash content and lower-quality coal are mined.
## Improving operational efficiency and productivity

### Improving efficiency of production activities

**2015 results**
In 2015, we achieved a number of new productivity records, including:
- a world record in excavating coal in Khakasia;
- a world record in loading overburden into dump trucks at the Tugnuisky open pit;
- a world record in gas drainage hole drilling rates in Kuzbass; and
- a Russian record in underground roadway development rates at the Taldinskaya Zapadnaya 2 mine in Kuzbass.

At the Tugnuisky open pit we introduced automated centralised lubrication systems for excavators, thus reducing lubrication time. We optimised the engine and transmission control programme for dump trucks, resulting in lower fuel consumption. We developed and implemented an automated system for the logging of timesheets on shifts. We also introduced an IT system to collect and exchange innovative ideas within the workforce.

### Improving coal quality

**2015 results**
We completed the construction of the washing plant at the Taldinskaya-Zapadnaya 1 mine. We made it possible to produce sized coal at the Kirova and Polysaevskaya washing plants.

### Ongoing programme for modernising mining equipment

**2015 results**
To optimise the costs of equipment modernisation, the company implemented a programme aimed at increasing purchases from suppliers in Russia and CIS countries. We acquired BELAZ dump trucks, and bulldozers from the Cheboksary Tractor Plant. Foreign equipment, for which there are no Russian equivalents, was purchased from the major international manufacturers: Joy, Komatsu, Famur and DML.

### KPI according to strategy

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2015 Result</th>
<th>Plan for 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Productivity of mining unit production personnel</td>
<td>435 tonnes per man-month +3%</td>
<td>• The Group plans to increase overall production by improving underground mine layouts, overcoming geological challenges in some reserve areas, improving operational efficiency and modernising equipment; • We will also continue to implement a programme for improving energy efficiency across all our production units.</td>
</tr>
<tr>
<td>Coal washed</td>
<td>33.3Mt +4%</td>
<td>• We intend to fully utilise our coal-washing facilities and improve their productivity; • We plan to reach the optimum operating capacity at the Chegdomyn washing plant.</td>
</tr>
<tr>
<td>Investment in modern mining equipment</td>
<td>$190m</td>
<td>• In 2016, we will continue to modernise mining equipment and will focus on strategically important investment projects.</td>
</tr>
</tbody>
</table>

### Strategy in action
**First deployment of unmanned longwall mining technology in Russia**
In August 2015, we commissioned new longwall equipment for Panel 1747 in the 1.6-metre-thick Breyevsky seam at the Polysaevskaya mine in Kuzbass. The panel has 2.1 million tonnes of reserves, and the investment in the technical upgrade exceeded $26m.

The Polysaevskaya longwall is unique in the Russian coal mining industry. It is based on cutting edge technology, co-developed by SUEK-Kuzbass and German companies Marco and Eickhoff, which enables remote, unmanned mining. By removing people from potentially hazardous areas, the major advantage of unmanned longwall mining is safety. The equipment is controlled by an operator from the adjacent gate road, utilising multiple sensors on the shearer and roof supports, as well as special infra-red surveillance cameras that can work in the dark. Software automatically controls the most efficient movement of the shearer, advance of the roof supports and push-over and operation of the face conveyor. According to the designers, other than SUEK only one coal producer in Australia is currently using this ground-breaking technology.

Despite the limited thickness of the seam, the expected monthly longwall coal production is 300,000 tonnes.
### Developing coal supply logistics

#### Development of Group’s rail infrastructure and rail fleet

<table>
<thead>
<tr>
<th>Year</th>
<th>KPI according to strategy</th>
<th>Plans for 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>RAIL CARS WITH HIGHER CAPACITY: 9,160 (+41%)</td>
<td>• We will continue to increase capacities at our dedicated loading stations and to modernise our locomotive fleet;  • In 2016, we aim to acquire additional higher-capacity rail cars. This will reduce transportation costs and increase coal shipments through port facilities.</td>
</tr>
</tbody>
</table>

#### Efficient management of port facilities and expansion of our export ship-loading capacity from Russia

<table>
<thead>
<tr>
<th>Year</th>
<th>KPI according to strategy</th>
<th>Plans for 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>SHIP-LOADING CAPACITY THROUGH DEDICATED PORTS: 41 Mt</td>
<td>• We intend to meet all of our ship-loading needs within our own dedicated ports;  • We plan to increase the ship-loading capacity of Vanino Bulk Terminal to 24 million tonnes by 2018 and Murmansk Commercial Seaport to 16 million tonnes by 2017.</td>
</tr>
</tbody>
</table>

#### Strategy in action

**Increase in coal shipment through Vanino Bulk Terminal**

In 2015, SUEK continued its modernisation of the Vanino Bulk Terminal with the aim of reaching a ship-loading capacity of 24 million tonnes by 2018. The key priority is to remove the constraints created by the limited capacity of the railway leading to the terminal.

The first stage of expansion of the railway infrastructure was completed in 2015. This included construction of a connection line and an adjacent road, culvert pipes, electricity infrastructure, a cross-over bridge and facilities to thaw coal in wagons. Investment in the project over the year amounted to $24m.

In 2016, we plan to continue the second stage of construction, with a view to increasing the port’s capacity up to 24 million tonnes.
Introducing high international standards in Health and Safety

2015 results
We have significantly improved the supervision of industrial safety in all areas where we operate. In 2015, we developed a new company-wide Occupational Health and Safety Policy, which set out the key principles that all SUEK employees must follow to eliminate workplace injuries and accidents across the Group. We conducted a special assessment of working conditions to identify hazards potentially affecting personnel at our production sites in Khakasia, Zabaikalye, Buryatia, Krasnoyarsk, Khabarovsk and Primorye.

We also implemented a video information system to develop and monitor employees’ competence and compliance with safety requirements.

Tragically there were five fatal accidents at our sites in 2015. We deeply regret this loss of life, and during the year we carried out a rigorous investigation into each case in order to prevent such accidents reoccurring in the future.

KPI according to strategy

<table>
<thead>
<tr>
<th>FATAL ACCIDENTS</th>
<th>LTIFR</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>1.23</td>
</tr>
</tbody>
</table>

-22%

Plans for 2016
- During 2016, we will continue to invest time and money in developing systems for monitoring and providing safety alerts, particularly in relation to ventilation and gas drainage, stonedusting and the installation of explosion-proof starters;
- We will conduct a special assessment of working conditions to identify hazards potentially affecting personnel at our production sites in Kuzbass;
- Structured personnel training programmes should reduce accidents at work.

Achieving high safety standards

Strategy in action
Improving reliability of safety and monitoring systems in Kuzbass
Several of SUEK’s mines in Kuzbass have been equipped with the following multifunctional systems: wi-fi personnel tracking and communication, computerised gas and atmospheric monitoring and underground radio communication. These monitoring systems are able to track workers underground, send emergency alert messages to workers at any location, and assist search and rescue operations for people trapped underground.

Information on ventilation and gas levels at all of our mines is displayed on monitors in the central control room at regional headquarters. Production safety controllers also check the mines round the clock both at mine and regional level.
Developing social infrastructure in the regions where we operate

2015 results
We are actively cooperating with regional and municipal governments to develop social infrastructure and educational institutions in the communities where we work.

In 2015, we developed a model of the Municipal Centre of Social Development, providing support to socially beneficial business initiatives and social projects. Under this programme, 93 projects are being implemented.

We sponsored the treatment of more than 1,000 employees’ children and 250 labour veterans in leading Russian health centres.

The company is working with different educational institutions. SUEK provides funding for equipment and research, and awards scholarships to the best students.

KPI according to strategy
INVESTMENT IN PUBLIC AND SOCIAL PROJECTS
$13m

Plans for 2016
• We will continue to invest in important public and social projects.

Reducing adverse environmental impact

2015 results
We use modern technologies to reduce the adverse impact of our operations on the environment. We design and construct water treatment plants, implement projects for reducing greenhouse gas emissions as a result of methane drainage activities, and improve land rehabilitation.

During 2015, we utilised almost 7.51 million m³ of methane captured from mined-out areas for the generation of heat and electricity, a 32% increase compared to 2014.

Our Chernogorsky open pit and washing plant and Vostochno-Beisky open pit in Khakasia were certified compliant with ISO 14001:2004 environmental management system standard.

We developed a draft of the comprehensive environmental programme for 2016-2019, aimed at mitigating environmental risks.

KPI according to strategy
INVESTMENT IN ENVIRONMENTAL ACTIVITIES
$15m

Plans for 2016
• We will strive to minimise our environmental impact by implementing appropriate programmes, including projects for reducing methane emissions and construction of treatment facilities;
• We will continue to implement energy saving programmes by introducing automated energy management systems. This will enable us to control energy consumption by monitoring mining equipment energy consumption rates and ultimately decrease emissions.

Strategy in action
Treatment and rehabilitation of children from the regions where SUEK operates
For the last five years, SUEK has been sponsoring treatment in the Rehabilitation Centre of the Department of Presidential Affairs of the Russian Federation located in Moscow region for children from all the regions where SUEK operates. This includes, among others, children from orphanages and from vulnerable families who have little financial support.

The Rehabilitation Centre uses state-of-the-art equipment to run diagnostics quickly to develop treatment and rehabilitation programmes for every child. Since its inception, around 800 children have benefited from treatment under the programme, which is run in collaboration with the Department of Presidential Affairs.
In order to achieve its strategic goals, SUEK depends on an effective risk management system. We continue to improve the risk management of the company by identifying, analysing and developing effective ways of mitigating external and internal risks on a timely basis.

**Board**
- Overseeing the Group-wide risk management system

**Audit Committee**
- Assessing the effectiveness of the system of internal controls and risk management of the company
- Supervising preparation of financial statements and performance of the external auditor
- Overseeing the work of the Internal Audit Department (IAD)

**Nomination and Compensation Committee**
- Monitoring of health and safety standards, protecting the environment and social politics of the company

**Risk Management Committee of the Management Board of JSC SUEK**
- Reviewing the company’s key risks and evaluating the summary risk matrices
- Monitoring the risk management process
Risk management system

We recognise the specific risks associated with the coal mining industry. We also understand that, as our production, sales and financial activities grow, the need for efficient management of a wider range of risks increases every year. We continue to improve the corporate system of risk management by developing effective methods of risk mitigation and introducing them across the Group.

The Risk Management Committee of the Management Board of JSC SUEK controls and monitors the company’s risk management system, working closely with the Audit Committee of the Board of Directors of SUEK PLC. The risk management process is carried out in accordance with the risk management procedure developed and approved by the Risk Management Committee. This procedure includes the main objectives and principles of risk management – risk identification, assessment and mitigation. An improved approach to risk map management helps analyse the identified risks and determine those most significant in each area of our operations. The responsibility for managing specific risks is then delegated to the appropriate departments.

Issues related to changes in the controlled risk are discussed at the meetings of the Risk Management Committee.

Where appropriate, adjustments are made in the action plan for risk management, as well as changes in the risk management and assessment system. In order to ensure timely response to possible adverse developments, we continuously monitor and analyse trends in key markets, in related industries, and in the macroeconomic situation both in Russia and in the countries importing our products. This detailed analysis can prompt modifications to the production, sales and financial policies of the company.

Changes in the risk level are monitored according to the established procedure through the annually reviewed risk matrix. The Risk Management Committee ensures cross-functional interaction of key senior managers and experts on operational issues, holding a meeting at least once a quarter. The people responsible for managing certain types of risks (according to the risk map) provide a timely response to emerging changes and inform the Risk Management Committee about the measures taken to mitigate the risks.

In 2015, we continued to use the approach adopted the previous year to systemise information and prepare reports for the Board of Directors on various types of risks and subsequent action taken.

Achievements in 2015 that helped mitigate key risks:

- We analysed the risk matrix for 2014. The Risk Management Committee reviewed and approved a new risk map for 2015, with new risks added.
- Due to the ongoing challenging market conditions, the Risk Management Committee focused on the following initiatives in order to mitigate risks:
  - Continued implementation of measures to improve the internal control and marketing systems as part of the sales function. The automation of the sales function within the United Information System (UIS) is expected to increase its reliability and harmonisation;
  - Approval of measures to optimise production unit costs, which exceeded the average costs across the company. A new development strategy was developed for three underground mines and one open pit;
  - Actions taken to monitor and comply with international sanctions that might affect SUEK’s business in the areas of financing, procurement, sales, legal structure and other areas;
  - Measures implemented to prevent the growth of working capital during an economic crisis;
  - The introduction of action plans to mitigate social instability in the regions where SUEK operates during challenging macroeconomic environment.
Review of the key risks

Below is a list of the key risks which may have a major impact on the Group’s financial and operational performance. The Annual Report does not contain an exhaustive list of all the risks which may affect the company’s business and its financial health. Other risks not detailed in the report may also be material and may have an adverse impact on SUEK’s performance.

### External risks

<table>
<thead>
<tr>
<th>Description of risk and its potential impact</th>
<th>Changes year on year</th>
<th>Actions to mitigate the risk</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Risk of reduction in coal prices</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Group’s business may be affected by a decline in demand for coal and a drop in prices due to a period of excessive supply in the industry as well as competition from other types of fuels. A decrease in global prices for coal and natural gas represents a great risk as they are the main types of fuel in the power industry.</td>
<td></td>
<td>We continuously monitor and forecast price behaviour of commodities in general and coal in particular, as well as observe trade policy relating to long-term contracts. We constantly analyse data showing correlation between demand trends, and coal mine expansion, as well as the closure of existing mines and postponement of development projects.</td>
</tr>
<tr>
<td><strong>Country risk</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>We follow the legal and regulatory requirements set by the governments of the countries where we produce and sell our products, as well as the countries from which we import goods and services. The Group’s operating activity mainly takes place in Russia, therefore this is where country risk is mainly associated. This risk may relate to economic and political turmoil, instability of the banking system, inconsistencies of law enforcement practices, or negative changes in the Russian investment climate. For example, we are often affected by government rulings on taxation, tariffs, quotas, trade restrictions, foreign exchange regulation, subsidies, licensing, anti-monopoly policies and the setting of refinancing rates. The performance of the Group largely depends on statutory and regulatory requirements imposed on our business, as well as the costs associated with their implementation. For us, areas of tightest regulation are land tenure, mineral extraction and environmental and industrial safety. In recent years, the imposed requirements have increased and the penalties for violation have become stricter. In particular, we have seen regulatory bodies such as the Russian Federal Agency for Mineral Resources (Rosnedra), the Russian Federal Agency for Natural Resources (Rosprirodnadzor), and the Federal Environmental, Industrial and Nuclear Supervision Service (Rostechnadzor) enforce tighter controls. The Group operates in the international market via SUEK AG, headquartered in Switzerland, which has offices in seven key countries and territories: Poland, China, Japan, Taiwan, South Korea, Indonesia and the US. The Group’s companies operate in compliance with the statutory and regulatory requirements of all of these countries.</td>
<td></td>
<td>We constantly monitor compliance with all applicable legislation. We also follow internal policies with regard to organisation of business processes to minimise the risk of claims raised by regulatory bodies. Our senior managers and experts are well-represented on industry panels. These expert panels assess the impact of national and regional policy on the coal mining industry, coal markets, transportation, technical supervision, labour relations and financial markets. Our management also monitors the sanctions situation and responds to any emerging risks.</td>
</tr>
</tbody>
</table>

**The risk has increased**
In 2015, coal prices came under pressure following the excess supply on the seaborne market as several countries including China decreased their import demands.

**The risk has increased**
Following the situation in Ukraine in 2015, the US, EU and a number of other countries expanded and prolonged personal sanctions against some Russian individuals and companies and sectorial sanctions aimed at creating restrictions for certain industries within the Russian economy. Whilst none of the sanctions directly target the coal mining industry, or the Group’s companies or business, they do affect the availability of financial resources in the Russian market and complicate the import of certain types of equipment used by companies operating in Russia. If sanctions are tightened in future, the Group may be confronted with increased risks, although the consequences cannot be assessed at present.
### External risks (continued)

<table>
<thead>
<tr>
<th>Description of risk and its potential impact</th>
<th>Changes year on year</th>
<th>Actions to mitigate the risk</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Country risk (Continued)</strong></td>
<td>SUEK PLC is registered in the Republic of Cyprus and therefore ruled by its legislation and that of the EU. US sanctions that can be applied extraterritorially should also be taken into account. Additionally, SUEK PLC must comply with sanctions in accordance with covenants set forth by its credit agreements, whereby the breach of the applicable sanctions regimes under certain conditions empowers the creditors to request an early debt repayment. Sanctions may result in a decline of business activity and have a negative impact on our market value and business environment, including the conditions and execution of commercial contracts and the raising of bank financing by SUEK PLC.</td>
<td></td>
</tr>
<tr>
<td><strong>Foreign exchange and interest rate risks</strong></td>
<td>Changes in market indicators such as currency exchange and interest rates can have an adverse effect on the financial performance of the Group, on its debt burden, and on the fair value of the financial instruments on the balance sheet. Currency and interest rate risk needs to be managed to mitigate unfavourable effects of rate fluctuation.</td>
<td><strong>The risk has increased</strong> In 2015, foreign exchange and interest rate risk continued to increase due to the prolongation and enlargement of scope of the economic sanctions imposed by the US and the EU. Another factor was OPEC’s decision not to decrease oil production amid a slump in demand. This culminated in a further drop in oil prices with financial derivatives trading also affected. The combination of augmented sanctions and a fall in oil prices resulted in further devaluation of the Russian Rouble. There was also a continued freezing of available foreign currency financing, an increase in Russian bank rates for obtaining new Rouble loans, as well as reduced opportunities for risk hedging using foreign currency swaps.</td>
</tr>
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</table>
## External risks (continued)

<table>
<thead>
<tr>
<th>Description of risk and its potential impact</th>
<th>Changes year on year</th>
<th>Actions to mitigate the risk</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Inflation risk</strong></td>
<td></td>
<td>We analyse the risks associated with capital movements and interest rates on a regular basis. In order to ensure an appropriate level of protection, SUEK Group's companies hedge inflation risk by using derivatives and by investing available cash assets in a stable foreign currency. Most export contracts for coal supply are concluded in US Dollars, which significantly reduces the effect of inflation on the Group.</td>
</tr>
<tr>
<td>The risk relates to rising inflation rates in countries where we carry out our main operations as well as where we conduct individual business transactions. Increasing inflation rates may result in higher production costs.</td>
<td><strong>The risk has increased</strong></td>
<td>In 2015, the continuing sanctions imposed by the US and the EU, as well as OPEC’s decisions regarding regulation of oil production, resulted in further devaluation of the Russian Rouble against the US Dollar, Euro and other currencies, and rising inflation rates which could increase further in 2016. The hard-to-predict 2016 inflation rate and the pricing method based on export netbacks fixed in various foreign currencies (used by most equipment manufacturers and suppliers) may increase the cost of investment, escalate operating costs and ultimately reduce the Group’s financial results.</td>
</tr>
<tr>
<td>We adhere to the legal and regulatory requirements applied in the countries where we operate and sell our products, as well as those countries where we import goods and services. In Russia, legislation changes may relate to tax, customs and foreign exchange regulations, securities market law, anti-monopoly and corporate law, licensing and mineral resources law, judicial and enforcement practices, as well as tightening of legislation relating to environmental safety. Our business may be significantly affected by the Russian government imposing tariffs, quotas, trade restrictions, stricter ownership rights for non-residents, subsidies, licensing and anti-monopoly and setting refinancing rates. Our companies may also feel the impact of restrictions imposed by governmental bodies within other jurisdictions. This could involve additional controls on exported coal and its subsequent sale in specific countries, or the setting of special conditions for goods and services to Russia.</td>
<td><strong>The risk has not changed</strong></td>
<td>We constantly monitor changes in legislation and regulatory requirements in Russia as well as review and summarise the law enforcement practices. This allows us to quickly adapt the Group’s business processes and organisational structure to the new environment and to operate in full compliance with the current regulatory and legal framework. Either independently or using external consultants, we also monitor relevant changes in the legislation and law enforcement practices in other countries where business transactions of the Group come under local jurisdiction.</td>
</tr>
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</table>
External risks (continued)

<table>
<thead>
<tr>
<th>Risk of reduction in coal demand</th>
<th>Description of risk and its potential impact</th>
<th>Changes year on year</th>
<th>Actions to mitigate the risk</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The reduced use of coal in power generation and the emergence of alternative fuels may result in a lower demand for coal which could adversely impact the performance of the Group. Tighter international environmental standards on coal quality and production conditions may also affect the Group’s business.</td>
<td>The risk has not changed</td>
<td>Through washing we improve the quality of our coal, enabling us to deliver higher-value products to international markets. We constantly monitor the production and sales environment within the industry. Our forecasts for coal demand are based on detailed research by industry experts and reports by investment analysts. Our offices in the major consuming countries also analyse the sales markets.</td>
</tr>
</tbody>
</table>

| Liquidity risk | Liquidity risk is directly related to cash turnover of a production unit and arises if the Group’s companies cannot fulfil their payment obligations when they fall due. It is often linked to the effects of inflation and foreign exchange and interest rate risks. Prudent management of liquidity risk requires maintaining an adequate level of cash and cash equivalents, while also ensuring prompt access to available lines of credit. There are also liquidity risks in relation to decreases in coal production and falls in prices or demand for coal. The resulting reduction in revenue could affect the ability to service external debt. | The risk has not changed | The Group continuously monitors loan covenants and uses an extensive system of forecasting to ensure compliance with covenants. At present, the amount of our open credit lines significantly exceeds our financing needs. |

| Risk of emergency situations | Coal mining is an inherently dangerous industry so the risks of disaster and emergency situations at our production facilities are constant and require effective management and mitigation. Preventing loss of life or serious injury is our primary concern. Damage due to explosions, fires or failures in the operation of mining equipment may result in direct losses for our production units. The costs of emergency response and recovery, as well as forced downtime at individual production units, may negatively impact the financial result of the Group. | The risk has not changed | The Group remains vigilant at detecting potential hazards in the workplace and ensuring all its production facilities operate as safely as possible. All accidents are thoroughly investigated by experts who serve as members of special panels. Based on the results of their work, action plans are developed to prevent similar emergencies reoccurring. |

| Regulatory risk | The Group’s mining and production operations are governed by extensive legislation covering exploration, use of mineral resources, healthcare and industrial safety. Coal mining licences granted to production companies may be suspended, terminated or not extended upon their expiry. Licences are awarded or rescinded largely at the discretion of the respective Russian regulatory body (Rosnedra). All coal production companies are subject to scheduled and random inspections. | The risk has not changed | We make every effort to comply with current legislation, thus minimising the risk of suspension of operations at our production units. We monitor any changes in legislation as a matter of course. All companies within the SUEK Group have implemented compliance procedures in order to ensure necessary and timely renewals of licences. We also strive to act quickly if the regulator notes any discrepancy with licence requirements. |

| Anti-monopoly risk | As a leading thermal coal producer selling to a number of regions within Russia, the Group’s operations are subject to Russian anti-monopoly controls, including compliance with specific covenants and restrictions aimed at preservation of competition within the market. | The risk has not changed | We have set up and follow strict compliance procedures to ensure we adhere to all applicable anti-monopoly legislation and regulation. |
## Operational risks

<table>
<thead>
<tr>
<th>Description of risk and its potential impact</th>
<th>Changes year on year</th>
<th>Actions to mitigate the risk</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Production risks</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Group's operations are vulnerable to a number of internal factors (e.g. downtime, adverse geology, reduced coal quality) and external factors (price increases in fuel, electricity, equipment, services or failure of suppliers/contractors to fulfil their obligations). These factors may affect production targets, which in turn could require additional investment and might lead to an increase in sales costs.</td>
<td>The risk has not changed</td>
<td>We are introducing Life of Mine (LoM) deposit development models at all of our production units. Based on geological data, the LoM models have been created using the XPAC-XERAS software package. Annual budgeted and actual expenses are checked against LoM models by each production unit on a regular basis. We pay special attention to operational efficiency projects, associated with reducing the duration of longwall face moves and improving availability and deployment of opencast mining equipment. We also focus on methods to improve work rates. JSC SUEK has a well-established system of Key Performance Indicators (KPIs) and an Enterprise Resource Planning (ERP) system that allows the Management Board to assess the performance of JSC SUEK and its subsidiaries on a monthly basis.</td>
</tr>
<tr>
<td><strong>People risk</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| Experienced and highly qualified personnel are an essential asset – especially skilled engineers and experienced mine workers. Failure to recruit and retain adequate personnel may result in missed production targets and increased costs.  
  The socio-demographic situation in Russia means it is a challenge to attract sufficient numbers of people with the necessary skills. Declines in population and poor housing in the regions where we operate, shortage of secondary education institutions and low professional skill levels amongst graduates, are all factors which make recruitment difficult. | The risk has not changed | To tackle potential skill shortages, we have designed employee training programmes to enable ongoing professional development. To incentivise staff we have improved motivation initiatives and enhanced remuneration. We look to support talented students in targeted universities, providing them with employment opportunities in our companies. To improve quality of life, we also invest in social projects in the regions where we operate. |

For more detailed information refer to pages 70-72.
## Operational risks (continued)

<table>
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<th>Description of risk and its potential impact</th>
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<tbody>
<tr>
<td><strong>Health and safety risk</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coal mining is associated with an elevated risk of accident – whether attributable to geological factors, conditions within mines or human error. Major accidents can impact the Group negatively – whether that be reputational damage, refusal of business partners to continue relationships or claims from lenders for early loan repayments.</td>
<td>The risk has not changed</td>
<td>Every meeting of SUEK’s Board of Directors and of its Nomination and Compensation Committee starts with a review of health and safety issues. We also have an Industrial Safety Committee which reports to JSC SUEK’s Management Board. It logs and tracks every injury, analysing the causes and proposing actions to prevent similar accidents in future. All the Group’s companies hold general liability insurance cover as owners of dangerous industrial equipment that could cause personal injury or damage to third-party property. There is also insurance in place in the event of death or permanent/temporary disability to staff.</td>
</tr>
<tr>
<td><strong>Risks of infrastructure availability</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The risk here is associated primarily with access to railway or port infrastructure, electricity networks and a reliable supply of water. Inefficient or limited infrastructure may result in reduced revenue owing to higher operating costs and direct losses due to downtime at our production units. For the Group, this risk may increase because a number of our facilities operate in harsh climatic regions where power and transportation infrastructure is dated. Availability of infrastructure is also dependent on whether service providers fulfil their obligations to supply our production units. Refusal to provide these services may result in forced suspension of production, negatively impacting our operations and the financial results of the Group. Certain infrastructure facilities are operated by state-owned monopolies which are subject to regulated tariffing. This may sometimes adversely affect the availability of such infrastructure and the performance quality of the service provider.</td>
<td>The risk has not changed</td>
<td>The Group’s production and logistics units strive to create sustainable, long-term relationships with infrastructure providers. When agreeing contracts, we pay special attention to the technical condition and regular servicing of railway tracks at connecting stations, railway and port-loading facilities, electric substations and networks. We also invest in infrastructure critical to our business, such as the SUEK-owned Vanino Bulk Terminal. See more details in Operating Review on Pages 53–56.</td>
</tr>
<tr>
<td><strong>Environmental risk</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>There are environmental risks associated with coal mining and processing – including emission of pollutants into the atmosphere, discharge of coal dust, soil and water contamination and noise pollution.</td>
<td>The risk has not changed</td>
<td>We seek to minimise risks by implementing projects for land rehabilitation, methane use/disposal and health protection in the inhabited areas close to our facilities. We have introduced measures to lessen the environmental impact in the ecosystems where we operate, reducing pollution and ensuring efficient disposal and recycling of waste. While many measures are stipulated under government law, we also follow our own strict environmental policy and protection programme. For more detailed information refer to Pages 73–76.</td>
</tr>
</tbody>
</table>
INTEGRATED BUSINESS MODEL

How we create value
We create value in a number of ways within four key areas of activity:

Mining
Our cost-efficient mining delivers a sustainable supply of high-quality thermal coal. Using open-pit and underground mines, we produce brown and hard coal. By investing in regular upgrades of our production units, SUEK is able to maintain a leading position within its sector.

Washing and processing
Washing plants and processing facilities adjacent to our mines and open pits improve the quality of our coal. Washing reduces ash, increases heat content and ultimately improves the coal’s market value. The coal is also crushed and screened so that it can precisely meet customers’ size specifications without altering quality.

Sustainability factors

Coal exploration
We constantly explore new coal deposits to replenish our resources and build our business for the future.

Efficiency increase
Investment in modern mining equipment and operational improvements deliver increased productivity and cost efficiency.

Product development
Our R&D team looks at ways to increase the quality of our coal while also developing coal products for use in a wide range of industries.

Corporate governance
We are committed to high standards of corporate governance in line with international good practice.

Assets
Within our integrated business model, we have identified five key assets which encompass our operating facilities, activities and impacts as a company:

Natural
5.5 Bt of coal reserves
- Water, air, soil

Financial
- Optimal capital structure

Human
32,124 employees
- Skills and experience

Operational
14 open pits
12 mines
10 washing plants and processing facilities
- Our own research and development institute in Kuzbass
- 3 port facilities where SUEK Group is one of the major shareholders
- Extensive international trade network

Social and relationships
- Open engagement with stakeholders
By exercising control over the whole business cycle and economies of scale, we are able to ensure efficiency and cost savings across our entire operations and sustain our leading industry position.

Delivering value to stakeholders

Through our focus on operational efficiency, cost control and corporate responsibility, we deliver value to a wide range of stakeholders, including:

- **Shareholders and financial stakeholders**
  - We deliver sustainable capital returns
- **Employees**
  - SUEK offers competitive remuneration and benefits at all levels
  - We provide stimulating and challenging career development opportunities
- **Customers**
  - We are able to assure a quality product
  - Our coal is delivered on time and to order
- **Suppliers and business partners**
  - The Group has established long-term, mutually beneficial relationships
- **Local communities**
  - SUEK is committed to improving personal wellbeing through social projects in the regions where the Group operates
  - Environmental programmes help to counter the impact of our mining operations
- **State bodies**
  - SUEK provides a significant tax contribution to municipal, regional and federal budgets
  - SUEK is a valuable source of cross-industry expertise

Stakeholder engagement

We engage actively with all our stakeholders, ensuring we remain focused on creating value for them.

Health, safety and environmental protection

Our priority is to minimise safety and environmental risks at each stage of the operational cycle.

Personnel development

By investing in our people we not only increase the skill levels and job satisfaction of SUEK employees but also improve the Group’s operational efficiency.

Risk management

Proactive management of internal and external risks at every stage of our business cycle helps us meet strategic targets and secure long-term growth.
We are highly competitive in the coal industry thanks to our well-developed assets. These include our large, high-quality coal deposits, modern quality-assured washing plants, efficient logistics and sales network, and our own research institute.
In the Kemerovo region, SUEK Group mines high-quality hard coal from nine underground mines and two open pits located in the Kuznetsk basin (Kuzbass).

To improve coal quality, we operate five washing plants. Products from most of our mines and open pits in this region have calorific values of 5,800-6,100 kcal/kg and are principally supplied to energy companies in Europe and Asia. Meanwhile, coal with calorific value of 5,000-5,700 kcal/kg is mainly sold to Russian power generation companies.

Our Siberian Coal Processing Research Institute (LLC Sibniiugleobogashchenie), also located in Kuzbass, helps to design coal processing plants and develop specific resource-saving technologies for coal processing. It also enables us to enhance production and process technologies at existing facilities and identify ways to improve workplace safety.

Our units in the Minusinsk basin in Khakasia produce premium hard steaming coal with high calorific value. Coal is mined from three open pits and one underground mine and washed at a single washing plant.

We export more than half of the coal from this region (including deliveries of premium sized steam coal) to Europe and Asia. An integral part of the Group’s strategy is to increase sales of washed, sized coal with calorific value of 5,500-5,700 kcal/kg from Khakasia to the Atlantic region, as it is sold at a premium compared to un-sized steam coal.

Our largest Russian customers are power plants, as well as coal distribution companies which supply households and public utilities.

---

### Key to the assets

- **Hard coal**
- **Underground mine**
- **Reserves**
- **Russian sales market**
- **Employees**
- **Brown coal**
- **Open-pit mine**
- **Washing plant**
- **International sales market**
- **Expansion capital expenditure**

### Kemerovo

In the Kemerovo region, SUEK Group mines high-quality hard coal from nine underground mines and two open pits located in the Kuznetsk basin (Kuzbass).

To improve coal quality, we operate five washing plants. Products from most of our mines and open pits in this region have calorific values of 5,800-6,100 kcal/kg and are principally supplied to energy companies in Europe and Asia. Meanwhile, coal with calorific value of 5,000-5,700 kcal/kg is mainly sold to Russian power generation companies.

Our Siberian Coal Processing Research Institute (LLC Sibniiugleobogashchenie), also located in Kuzbass, helps to design coal processing plants and develop specific resource-saving technologies for coal processing. It also enables us to enhance production and process technologies at existing facilities and identify ways to improve workplace safety.

<table>
<thead>
<tr>
<th>Production units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kirova mine</td>
</tr>
<tr>
<td>November 7th mine</td>
</tr>
<tr>
<td>Polysaevskaya mine</td>
</tr>
<tr>
<td>Komsomolets mine</td>
</tr>
<tr>
<td>Rubana mine</td>
</tr>
<tr>
<td>Yalevskogo mine</td>
</tr>
<tr>
<td>Kotinskaya mine</td>
</tr>
<tr>
<td>Taldinskaya-Zapadnaya 1 mine</td>
</tr>
<tr>
<td>Taldinskaya-Zapadnaya 2 mine</td>
</tr>
<tr>
<td>Zarechny open pit</td>
</tr>
<tr>
<td>Kamyshansky open pit</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Washing facilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kirova mine WP No.1</td>
</tr>
<tr>
<td>Kirova mine WP No.2</td>
</tr>
<tr>
<td>Komsomolets mine WP</td>
</tr>
<tr>
<td>Polysaevskaya mine WP</td>
</tr>
<tr>
<td>Taldinskaya-Zapadnaya 1 mine WP</td>
</tr>
</tbody>
</table>

### Khakasia

Our units in the Minusinsk basin in Khakasia produce premium hard steaming coal with high calorific value. Coal is mined from three open pits and one underground mine and washed at a single washing plant.

We export more than half of the coal from this region (including deliveries of premium sized steam coal) to Europe and Asia. An integral part of the Group’s strategy is to increase sales of washed, sized coal with calorific value of 5,500-5,700 kcal/kg from Khakasia to the Atlantic region, as it is sold at a premium compared to un-sized steam coal.

Our largest Russian customers are power plants, as well as coal distribution companies which supply households and public utilities.

<table>
<thead>
<tr>
<th>Production units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chernogorsky open pit</td>
</tr>
<tr>
<td>Vostochno-Beisky open pit</td>
</tr>
<tr>
<td>Izykhsky open pit</td>
</tr>
<tr>
<td>Khakasskaya mine</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Washing facility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chernogorsky WP</td>
</tr>
</tbody>
</table>

### Key figures

- **30.1 Mt**
- **803 Mt**
- **14,623**
- **$59 M**

Distance to ports in far-eastern Russia – **5,450-6,000 km**

Distance to Murmansk Commercial Seaport – **4,750 km**

Weighted average distance by rail to our Russian customers – **515 km in 2015**

---

**Note:** The data provided is a summary of the content from the SUEK Annual Report 2015. For detailed information, please refer to the full report.
Krasnoyarsk production units extract brown coal from three open pits in the Kansk-Achinsk basin. This coal is supplied mostly to the Russian market, principally to power stations and public utilities within the region.

Our mining operations at Krasnoyarsk are relatively straightforward and low cost due to limited overburden thickness. This means the units here have the lowest stripping ratio across the Group. Operational efficiency is also boosted by the fact that many excavators in this region load coal directly into railway wagons or onto conveyor belts.

Production units
- Borodinsky open pit
- Bereozovsky open pit
- Nazarovsky open pit

| Weighted average distance by rail to our Russian customers | 570 km in 2015 |

SUEK Group extracts high-quality hard coal at the Tugnuisky open pit, located mainly in Buryatia and partly in Zabaikalye. The open pit uses modern equipment and employs sophisticated planning, operational and management systems. Coal from the open pit is washed at the Tugnuisky washing plant, which has an annual capacity of 10.3 million tonnes. Washing reduces ash content from 28% to 18% and increases calorific value from 4,830 kcal/kg to 5,340 kcal/kg.

Most of this coal is exported to the Asia-Pacific region. The low-nitrogen, hard coal extracted at the Tugnuisky open pit meets the requirements of Japanese power utilities. Some coal from Tugnuisky is delivered directly to China by rail across the Russian-Chinese border. The remaining coal is sold to Russian power plants and utilities.

Production units
- Tugnuisky open pit

Washing facility
- Tugnuisky WP

| Distance to ports in far-eastern Russia | 3,500-3,700 km |

Two open pits – Kharanorsky and Vostochny – produce brown coal, which is supplied predominantly to local Russian power stations. In 2012, the Group also started to develop the Apsatsky coking coal deposit. Located 40 km away from the Baikal-Amur Mainline (BAM) railway, Apsatsky extracts high-quality mid-volatile coking coal, which is in high demand both in Asian coking coal markets and in Russian metallurgical markets.

Production units
- Apsatsky open pit
- Kharanorsky open pit
- Vostochny open pit

| Weighted average distance by rail from Apsatsky open pit to Russian customers | 2,155 km |

| Weighted average distance by rail from Kharanorsky and Vostochny open pits to Russian customers | 200 km |
Khabarovskyk

The Group’s mining operations in Khabarovskyk are located in the Urgal deposit in the Bureinsky basin. The location of Khabarovskyk’s assets close to our Vanino Bulk Terminal represents a significant strategic advantage.

The Bureinsky open pit and the Severnaya underground mine both produce hard coal which is washed at our state-of-the-art Chegdomyn washing plant, increasing its calorific value from 4,600 kcal/kg to 5,850 kcal/kg. Coal from this region is mainly sold to the Asia-Pacific market, but also to Russian power generation customers located in the Khabarovskyk and Primorye regions.

Primorye

Our assets in Primorye are located in the Pavlovsky brown coal basin and the Lipovetsky hard coal basin. The Group’s Primorye mines are situated near Russia’s eastern coast, which generates significant savings on transportation costs when supplying coal to Asia-Pacific markets.

The Vostochnoe underground mine produces hard coal with calorific value of 4,800 kcal/kg. The Pavlovsky open pit produces brown coal with calorific value of 2,800-3,000 kcal/kg for the Russian market.

Coal washing and processing facilities

To improve the quality of its products, the Group enriches coal at washing plants and processing facilities adjacent to our mines and open pits. The Group operates eight coal washing plants (WPs), five in the Kemerovo region, with the others in Khakasia, Buryatia and Khabarovskyk. The Group also operates two processing facilities for cleaning of larger size coal in Khabarovskyk and Primorye.

Coal washing plants

- Kirova mine WP No.1 (Kemerovo)
- Kirova mine WP No.2 (Kemerovo)
- Komsomolets mine WP (Kemerovo)
- Polysaevskaya mine WP (Kemerovo)
- Taldinskaya Zapadnaya 1 mine WP (Kemerovo)
- Chernogorsky WP (Khakasia)
- Tugnuisky WP (Buryatia)
- Chegdomyn WP (Khabarovskyk)

Coal processing facilities

- Processing facility at Bureinsky open pit (Khabarovskyk)
- Dry coal separator at Vostochnoe mine (Primorye)
Located on Russia’s east coast, the Vanino Bulk Terminal, owned by SUEK, was constructed in 2008 specifically for the shipment of our coal. The port is a crucial export gateway from Russia to the Asia-Pacific market. It provides the shortest route from our production facilities (due to direct access to two independent main railway lines – Trans-Siberian Railway and Baikal-Amur Mainline) to customers in China, South Korea, Japan and Taiwan. In 2015, the Group shipped 18.3 million tonnes through Vanino.

In the Primorye region of eastern Russia, SUEK ships coal through Maly Port; the Group is one of the port’s major shareholders (49.9%). In 2015, the Group shipped 2.6 million tonnes through Maly Port to Asia-Pacific customers, mainly in Japan, South Korea, China, Taiwan and Vietnam.

Murmansk Commercial Seaport (of which SUEK holds 39.3% of voting shares) is located in the north-western part of Russia. It provides access to the Atlantic Ocean and ultimately the ports of western Europe, the Mediterranean, and the east coast of the US. In 2015, the Group shipped 13.6 million tonnes of coal through Murmansk to European countries, including the UK, Germany and the Netherlands.

Rail assets

Railway transport is crucial to the coal production and distribution chain. In 2015, SUEK’s coal constituted 7.7% of the total cargo conveyed on Russian railways, which are operated by the state monopoly Russian Railways (RZhD). The Group operates one of the largest rail fleets in Russia. We also run 190 locomotives and have 26 dedicated loading stations.

SUEK’s own rail system provides efficient connections between the national rail network and the Group’s mines and port facilities.

Port facilities

746 km – length of own railway lines connecting company’s mines and port facilities with RZhD network

45,000 – average number of railcars involved in transportation of SUEK’s coal each month

9,160 – fleet of new, 75-tonne capacity rail cars

Sales network

In the Russian market, the Group sells coal to large industrial companies, key energy providers and smaller customers. The commercial department of JSC SUEK manages the sales function in Russia.

International coal sales are overseen by SUEK AG based in Switzerland. SUEK AG is able to maximise the efficiency of coal sales and secure the Group’s position in international markets through a network of offices and subsidiaries in countries and regions of strategic importance to the Group – such as Poland, China, Japan, Taiwan, South Korea, Indonesia and the US, which help sell products in local currency and deliver additional services. SUEK AG also constantly studies overseas markets, including information about coal producers, competitors, customers and logistics.

THE MAP OF SALES TO INTERNATIONAL MARKETS IS PRESENTED ON PAGES 24-25, TO RUSSIAN MARKET ON PAGE 28.

1,500 customers in 37 countries
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.

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 Urgal.

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 highlights

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

Production by mining method (million tonnes)

<table>
<thead>
<tr>
<th>Year</th>
<th>Open-pit</th>
<th>Underground</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>69.2</td>
<td>28.6</td>
</tr>
<tr>
<td>2014</td>
<td>69.0</td>
<td>30.9</td>
</tr>
<tr>
<td>2013</td>
<td>66.2</td>
<td>33.8</td>
</tr>
<tr>
<td>2012</td>
<td>66.1</td>
<td>31.9</td>
</tr>
<tr>
<td>2011</td>
<td>62.6</td>
<td>33.6</td>
</tr>
</tbody>
</table>

Production by coal type (million tonnes)

<table>
<thead>
<tr>
<th>Year</th>
<th>Hard coal</th>
<th>Brown coal</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>61.1</td>
<td>36.7</td>
</tr>
<tr>
<td>2014</td>
<td>65.0</td>
<td>31.9</td>
</tr>
<tr>
<td>2013</td>
<td>62.2</td>
<td>34.3</td>
</tr>
<tr>
<td>2012</td>
<td>60.2</td>
<td>37.3</td>
</tr>
<tr>
<td>2011</td>
<td>53.9</td>
<td>38.3</td>
</tr>
</tbody>
</table>

-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.

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 Q3 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)

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>33.3</td>
<td>32.1</td>
<td>28.1</td>
<td>23.0</td>
<td>19.3</td>
</tr>
</tbody>
</table>

Coal washed
(%) of produced hard coal

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>55%</td>
<td>49%</td>
<td>45%</td>
<td>36%</td>
<td>36%</td>
</tr>
</tbody>
</table>
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%¹ 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.

<table>
<thead>
<tr>
<th>Shipment (million tonnes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015 18.3 13.6 2.6 9.3</td>
</tr>
<tr>
<td>2014 17.0 13.9 2.6 8.2</td>
</tr>
<tr>
<td>2013 15.7 13.1 2.5 6.2</td>
</tr>
<tr>
<td>2012 12.0 11.8 2.5 4.9</td>
</tr>
<tr>
<td>2011 10.1 8.2 2.5 6.1</td>
</tr>
</tbody>
</table>

¹ RZhD statistics

For more details about port facilities refer to page 52.

For more details about rail fleet refer to page 52.
OPERATING REVIEW / CONTINUED

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 Polysayevskaya 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.

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.
Despite challenging global market conditions, in 2015 SUEK maintained a position of financial stability as a result of Rouble devaluation and our efforts to increase productivity.

As coal prices went down during the year we recorded a decrease in revenue compared to 2014; however, by reducing our capital expenditure through focused and efficient investments, and by generating stable cash flow, we achieved our strategic priority of bringing down our net debt. We also managed to optimise our transportation costs through the improvement of railcar turnover, while simultaneously enhancing rail and shipment capacity for the future. Our investments in high-productive equipment and washing capacities, as well as our own logistics, ensure that SUEK can remain cost-competitive and occupy a strong and financially sustainable position for many years to come.

**Financial highlights**

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
<th>Change, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>4,132</td>
<td>5,053</td>
<td>(16%)</td>
</tr>
<tr>
<td>Revenue from international sales (including purchased coal)</td>
<td>3,023</td>
<td>3,605</td>
<td>(16%)</td>
</tr>
<tr>
<td>Revenue from sales in Russia</td>
<td>993</td>
<td>1,315</td>
<td>(24%)</td>
</tr>
<tr>
<td>Other revenue</td>
<td>116</td>
<td>133</td>
<td>(13%)</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(3,576)</td>
<td>(4,455)</td>
<td>(20%)</td>
</tr>
<tr>
<td>Cash cost of coal sold</td>
<td>(1,124)</td>
<td>(1,532)</td>
<td>(27%)</td>
</tr>
<tr>
<td>Transportation</td>
<td>(1,267)</td>
<td>(1,902)</td>
<td>(33%)</td>
</tr>
<tr>
<td>Depreciation</td>
<td>(448)</td>
<td>(554)</td>
<td>(19%)</td>
</tr>
<tr>
<td>Purchased coal (including transportation)</td>
<td>(653)</td>
<td>(347)</td>
<td>88%</td>
</tr>
<tr>
<td>Other</td>
<td>(84)</td>
<td>(120)</td>
<td>(30%)</td>
</tr>
<tr>
<td>Gross profit</td>
<td>556</td>
<td>598</td>
<td>(7%)</td>
</tr>
<tr>
<td>Gross profit margin, %</td>
<td>13%</td>
<td>12%</td>
<td></td>
</tr>
<tr>
<td>Selling, general and administrative expenses</td>
<td>(102)</td>
<td>(115)</td>
<td>(11%)</td>
</tr>
<tr>
<td>EBITDA</td>
<td>887</td>
<td>1,044</td>
<td>(15%)</td>
</tr>
<tr>
<td>EBITDA margin, %</td>
<td>21%</td>
<td>21%</td>
<td></td>
</tr>
<tr>
<td>Income tax</td>
<td>(81)</td>
<td>164</td>
<td>(149%)</td>
</tr>
<tr>
<td>Net (loss)/profit</td>
<td>200</td>
<td>(807)</td>
<td>125%</td>
</tr>
<tr>
<td>Net margin, %</td>
<td>5%</td>
<td>(16%)</td>
<td></td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>355</td>
<td>496</td>
<td>(28%)</td>
</tr>
<tr>
<td>Net debt</td>
<td>2,786</td>
<td>3,342</td>
<td>(17%)</td>
</tr>
<tr>
<td>Debt</td>
<td>2,890</td>
<td>3,693</td>
<td>(22%)</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>104</td>
<td>351</td>
<td>(70%)</td>
</tr>
<tr>
<td>Net debt/bank EBITDA$ ratio</td>
<td>2.96x</td>
<td>2.99x</td>
<td>(1%)</td>
</tr>
<tr>
<td>Bank EBITDA/interest expense ratio</td>
<td>7.52x</td>
<td>9.31x</td>
<td>(19%)</td>
</tr>
</tbody>
</table>

**Overview**

SUEK Group is the largest thermal coal exporter from Russia, with over 45% of the Group’s supplies going to the Atlantic and Asia-Pacific markets. Consequently, changes in world macroeconomics have a major effect on our operational and financial performance.

The Group’s presentation currency in financial statements is the US Dollar. As an exporter from Russia, most of our revenue (over 70%) is received in US Dollars while most expenditure is denominated in Russian Roubles because our mining and processing facilities are located in Russia.

In 2015, the Russian Ruble to US Dollar exchange rate continued to drop as oil prices fell and Russia faced ongoing geopolitical challenges. The average RUB to USD exchange rate fell by 59% year-on-year in 2015, while the Rouble devaluation had a positive effect on the Group’s operational performance by significantly reducing production costs in US Dollar terms.

For the coal mining industry, 2015 was yet another difficult year on the international market. Coal prices and demand for coal continued to decline, with global prices falling by an average of 21%. At the same time, in Russia there was a spike in coal sales as low water levels in the rivers of Siberia and the Far East led to restricted hydroelectric power output, meaning power companies and utilities had to buy more coal.

**Exchange rates**

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
<th>Change, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average for the year</td>
<td>60.9579</td>
<td>38.4217</td>
<td>59%</td>
</tr>
<tr>
<td>At the year end</td>
<td>72.8827</td>
<td>56.2584</td>
<td>30%</td>
</tr>
</tbody>
</table>

Source: Central Bank of Russia

1. Bank EBITDA calculated in accordance with our existing credit agreements

Despite the challenging coal market conditions, SUEK managed to retain its competitive advantages in the international market. In 2015, SUEK’s international sales remained stable, reaching 46.9 million tonnes. This allowed the company to maintain its position as one of the top ten coal suppliers in the world. SUEK also retained its leadership in the Russian coal market, with sales in Russia up 9%, reaching 54.2 million tonnes during the year.

SEE MORE DETAILS IN MARKET REVIEW ON PAGES 24-29.
Revenue

In 2015, SUEK’s sales revenue decreased by 18%, falling to $4,132m. However, even as the average selling price of coal in the international market fell drastically (by an average of 20%), the Group’s revenue from international sales declined by only 16%, down to $3,023m as a result of increased sales volumes.

The 24% fall in US Dollar-denominated sales in Russia, down to $993m, resulted from the depreciation of the Rouble. This was partially balanced by the increase in sales volumes of 9% in 2014 and the rise in Rouble prices for coal in Russia by an average of 10%.

Sales highlights

<table>
<thead>
<tr>
<th>Million tonnes</th>
<th>2015</th>
<th>2014</th>
<th>Change, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>International sales¹</td>
<td>46.9</td>
<td>45.6</td>
<td>3%</td>
</tr>
<tr>
<td>Asia-Pacific region</td>
<td>21.8</td>
<td>23.5</td>
<td>(7%)</td>
</tr>
<tr>
<td>Atlantic region</td>
<td>14.9</td>
<td>16.9</td>
<td>(12%)</td>
</tr>
<tr>
<td>Purchased coal</td>
<td>10.2</td>
<td>5.2</td>
<td>96%</td>
</tr>
<tr>
<td>Russian sales</td>
<td>54.2</td>
<td>49.7</td>
<td>9%</td>
</tr>
<tr>
<td>Brown coal</td>
<td>35.9</td>
<td>33.4</td>
<td>7%</td>
</tr>
<tr>
<td>Hard coal</td>
<td>18.3</td>
<td>16.3</td>
<td>12%</td>
</tr>
<tr>
<td>Total sales</td>
<td>101.1</td>
<td>95.3</td>
<td>6%</td>
</tr>
</tbody>
</table>

Average price of coal sold in Russia

<table>
<thead>
<tr>
<th>Year</th>
<th>($ per tonne)</th>
<th>(RUB per tonne)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>18</td>
<td>1,116</td>
</tr>
<tr>
<td>2014</td>
<td>26</td>
<td>1,016</td>
</tr>
<tr>
<td>Change, %</td>
<td>-31%</td>
<td>+10%</td>
</tr>
</tbody>
</table>

1. Only hard coal is supplied to international markets.
Cash cost of coal sold
In 2015, the cash cost of coal sold per tonne in US Dollar terms reduced by 35%. The major factor which affected the decrease in production costs was the devaluation of the Russian Rouble.

We continue to pay close attention to our cash cost and to improving our operational efficiency by implementing various strategic initiatives. These include programmes for improving the efficiency of mining and major mining equipment, as well as measures to reduce the frequency of equipment remounts.

Transportation costs
In 2015, SUEK kept rail transportation volumes on a level with 2014, remaining one of the largest railway consignors in Russia. During the year, our spending on rail transport was down by 38% ($553m) on the previous year. This decrease in expenditure was influenced significantly by the devaluation of the Rouble. In addition, we were able to reduce our railcar needs by 10% compared to 2014 due to an increase in delivery speed via Russian railroads along SUEK’s routes.

SUEK is one of a few coal companies in the world that ships the majority of its coal via its own port terminal (Vanino Bulk Terminal) and via ports in which it is a major shareholder (Maly Port and the Murmansk Commercial Seaport). In 2015, 79% of the coal sold by the company to customers abroad was shipped via these ports, which provided additional savings. As a result, our port services expenses per tonne decreased by 20% year-on-year.

Throughout 2015, we shipped 13.6 million tonnes of coal via the Murmansk Commercial Seaport and 18.3 million tonnes via the Vanino Bulk Terminal, which was 8% more than the previous year. In 2015, sea freight costs were down 7% on the previous year as a result of falling international freight rates.

SEE MORE DETAILS IN OPERATING REVIEW ON PAGES 53-56.
Selling, general and administrative expenses

Our general and administrative expenses reduced by 11% in 2015 as a result of Rouble devaluation, while a significant part of these expenses attributable to sales offices was denominated in other currencies (Swiss Francs, US Dollars, Polish Zloty, Chinese Yuan and others).

EBITDA

In 2015, an increase in international and Russian coal sales volume, and a decrease in the cost of sales in US Dollar terms due to Rouble devaluation, partially compensated for the adverse effect of falling international coal prices on SUEK’s financial performance. EBITDA was down 15% on the previous year, totalling $887m, while the return on EBITDA remained stable at 21%.

Capital expenditure

SUEK remains a major investor in coal mining in Russia. In 2015, the Group’s capital expenditure totalled $355m. This represents a 28% reduction in capital expenditure compared to the previous year, due largely to the weakening of the Russian Rouble and our focus on investment projects with the highest and quickest returns.

During the year, our major investment projects included:

- Increasing production of thermal coal at those mines that are relatively close to the Asia-Pacific markets (i.e. in the Khabarovsky region); increasing the productivity of the Tugnisky washing plant; and completing the construction of the Chegdomyn washing plant;
- Increasing the share of premium, export-quality coal within our total sales by introducing a new washing module at the Taldinskaya-Zapadnaya 1 mine, and renovating the washing plants at the Polysaevskaya and Komsomolets mines;
- Expanding the export coal mining capacity at the Kuzbass mines by expanding the capacity of existing mines and buying new licences;
- Developing the Vanino Bulk Terminal’s external rail infrastructure to enable an increase in shipments to 24 million tonnes a year;
- Increasing brown coal mining capacity in the Primorsky region from 2.5 to 4.5 million tonnes to meet the demand for thermal coal in the domestic market.

Net profit

In 2015, SUEK went from making a net loss to making a net profit of $200m. This was the result of the changes in accounting policy regarding the presentation of currency exchange differences rising on the revaluation of the Group debt.

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Net profit

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Operating cash flow and net debt
In 2015, the company saw its cash flow from operating activities increase by 64% on 2014, totalling $905m. A significant decrease in our working capital compared to the previous year contributed to this trend.

Our decrease in working capital was achieved through a strong focus on efficiency, whereby we reduced coal stocks in our warehouses and increased the amount of advance payments for coal. At the same time, the effective management of current assets enabled us to continue to generate positive free cash flow.

As of 31 December 2015, our net debt was down 17% on 2014, totalling $2,786m. On this date, the ratio of net debt to our bank EBITDA was 2.96x, which meets the current covenants of our loan agreements, according to which this ratio must not exceed 4.0x.

As of 31 December 2015, most of the Group’s bank loans (87%) were nominated in US Dollars, with an effective interest rate of 3.54%. The rest of the Group’s debt is nominated in Euros, with an effective interest rate of 3.54%, and Rouble nominated loans with an effective rate of 3.78% (with currency-interest swaps taken into account). We selected US Dollars as the main functional currency because this allows us to use natural hedging (the debt can be serviced because we have positive cash flow in US Dollars generated by sales in the international market). In addition, loans in US Dollars have a lower interest rate than loans denominated in Roubles.

Moody’s
Ba3, Stable outlook
SUEK’s rating confirmed by Moody’s in April 2016
In April 2016, Moody’s confirmed the Ba3 rating of SUEK with a stable outlook. Moody’s assessed positively the company’s ability to control operating costs via increase in efficiency and effectiveness of operations, substantial coal reserves and favourable geological conditions of deposits, control over a considerable portion of the transportation infrastructure including port facilities, well-diversified Russian and international customer base, high profitability and adequate liquidity.

Operating cash flow vs capital expenditure

<table>
<thead>
<tr>
<th>Year</th>
<th>Operating cash flow</th>
<th>Capital expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>342</td>
<td>905</td>
</tr>
<tr>
<td>2014</td>
<td>489</td>
<td>552</td>
</tr>
<tr>
<td>2013</td>
<td>785</td>
<td>1,410</td>
</tr>
</tbody>
</table>

1. Debt in US Dollars 87%
2. Rouble debt hedged by cross-currency and interest rate swaps 6%
3. Debt in Euros 6%
4. Debt in Russian Roubles 1%
We are committed to creating lasting and sustainable value for all our stakeholders.

We know we have a responsibility to look after our employees, their families and local communities, and the natural habitats through the geographical spread of our operations. Sustainability is also an integral part of our efforts to help meet global energy demands, as we contribute to making homes warmer, cities brighter, and improve the quality of life around the world.

Our aim is to produce coal safely, making every effort to minimise injuries and fatalities, and to minimise the environmental impact of our business activities. By introducing new technologies to boost productivity and product quality, rationalise water and energy use, and minimise waste and emissions, we intend to contribute to the global fuel supply in the most sustainable way possible.

As one of the largest companies with assets in Russia, we play an important role in the lives of our employees and their families. We have an influence and impact on local communities, and on society as a whole.

In order to achieve our goals, we know that we need to create a favourable and enabling working environment, maintain constructive dialogue with the state and society, and promote social stability in the regions where we operate. For these reasons, we view sustainability as one of our core business principles.

Our strategic priorities regarding sustainability include:

- Improving our systems in order to maximise health and safety across the Group;
- Providing professional and personal development for our employees, including training, education and skills enhancement, and incentivising and motivating our people to improve their performance and ensure high standards of health and safety;
- Minimising the environmental impact of our operations, maximising resource efficiency and introducing innovations in coal mining and processing;
- Improving the quality of life for our employees, their families and the communities in the regions where we operate, and encouraging sustainable socio-economic development by participating in local community projects.

Our core sustainability focus areas and activities are outlined in the following corporate documents:

- Environmental Policy;
- Occupational Health and Safety Policy;
- Quality Policy for Coal Products;
- Corporate Social Policy;
- Information Policy;
- Agreements defining our social and economic relationships with employees.

Our production sites undergo regular audits to assess our compliance with OHSAS 18001 occupational health and safety requirements, ISO 14001 environmental management standards and ISO 9001 quality management standards.

When implementing our corporate social policy, we follow relevant international principles and standards, including the United Nations Global Compact, the Social Charter of Russian Business, ISO Standard 2600 (Social Responsibility Manual), and the recommendations of the Global Reporting Initiative (GRI).
Our position on climate change

In December 2015, 195 countries, including Russia, sent delegations to the United Nations Climate Change Conference, where participants supported a global agreement to address climate change by making cuts in greenhouse gas (GHG) emissions. Russia committed to restrict its anthropogenic GHG emissions to 70-75% of 1990 levels. Indeed, Russia has already fulfilled its obligations, cutting emissions by 43% including the carbon absorption capacity of its large forest territories. The Russian coal industry and coal-fired power generation have contributed to this progress, cutting CO2 emissions from thermal coal combustion by 50% compared to 1990 levels.

At SUEK, we recognise that the production of coal and coal-fired generation are associated with GHG emissions, and we are deeply aware of our responsibilities to help preserve the Earth’s environment for current and future generations. As a major coal producer, we also recognise our responsibility to continue providing the energy people need.

In our view, environmental problems are part of a complex and multi-faceted scientific and sustainable development agenda. It’s an agenda that also embraces the need to support economic development and to help to improve the quality of life of billions of people in developing nations. As the most affordable and widely available fuel on Earth, coal will long be a vital and cost-effective resource to meet rising demand for energy across the world.

The task we share with many others, therefore, is to develop and introduce new coal-production and energy-generation technologies and working practices that will help to reduce environmental impact while continuing to meet global energy demands.

We will therefore:

• research and invest in technologies that improve the efficiency and safety of our production processes;
• continue to implement measures aimed at further decreasing our own emissions, including the use of methane captured from our mines for energy generation;
• invest in our washing capacity to reduce ash and increase calorific value to decrease emissions during combustion; and
• work in partnership with our peer group to meet shared targets for reduced emissions across the coal industry.

FOR MORE INFORMATION REFER TO OUR CORPORATE SOCIAL RESPONSIBILITY REPORT
Stakeholder engagement

We understand the importance of maintaining positive and efficient cooperation and harmonious relationships with all our stakeholders. These relationships are underpinned by honesty, transparency and mutual respect, with a view to creating long-term, lasting value.

As one of the largest companies with assets in Russia, SUEK’s business activities impact a range of stakeholders. At the same time, the stakeholders also have an impact and influence on the company.

Our key stakeholder groups include:

- Shareholders;
- Financial stakeholders and potential investors;
- Employees;
- Customers;
- Suppliers and business partners;
- Local communities in the regions where we operate;
- Specialist and public organisations;
- State authorities.

The basic principles which guide our engagement and cooperation with stakeholders are outlined in our Code of Corporate Conduct and in our Communications Policy. These principles include:

- Maintaining good relations with all stakeholders;
- Respecting the interests of all stakeholders and promoting active cooperation based on honesty, transparency and mutual respect;
- Treating all stakeholders equally, with no preferential treatment or bias;
- Providing access to adequate, comprehensive and reliable information about the company;
- Observing high ethical standards in all business conduct;
- Abiding by applicable laws and other regulations.

The communication channels we use to engage our stakeholders include the corporate website, press releases, press tours, conferences, media interviews and visits to production sites. We also organise round table discussions, seminars, conferences and public hearings to disclose information that might be of relevance and interest.

In addition, our employees have access to corporate mass media, the SUEK intranet portal, website, telephone hotline and conferences. We also organise regular meetings at production sites between management and employees to provide company updates and discuss topical issues.

Employees

Across the business we offer fair remuneration, fulfil our social commitments and provide professional skills development and training for our staff. We also aim to provide a safe working environment in line with international standards, while developing social programmes aimed at improving the quality of life of our employees and their families.

Financial stakeholders and potential investors

With regard to financial stakeholders and potential investors, our main aim is to demonstrate the company’s investment potential by developing our corporate governance and operational efficiency. We try to maximise opportunities and channels for the disclosure of relevant information. For example, our website has a special section for investors where we publish information on our strategies, production and financial performance. We also report this information in the media.

Customers

When it comes to customers, we focus on providing the highest-quality service, which means ensuring seamless, uninterrupted and timely delivery of coal shipments. We are constantly improving our product quality and strive to personalise our approach with each and every one of our customers. We have also developed an IT system dedicated to customer claims, ensuring we respond to all queries and communications in a timely and efficient way.
State authorities
Our cooperation with state authorities is based on strict adherence to all applicable laws and requirements. Our key goal in this area is to foster partnerships that ensure sustainable business operations through participation in regional economic development, community support and environmental protection.

Specialist and public organisations
Engagement with specialist and public organisations allows us to improve efficiencies across our operations. We invite these organisations to assess our social and environmental programmes and help us address complex industry issues. Our relations with such bodies rely on open dialogue, transparency and parity.

Suppliers and business partners
In our relations with suppliers and business partners, we try to nurture constructive and long-term business partnerships. The key guiding principles in this area include adhering to business ethics and observing contractual obligations. To this end, we hold open tenders for selecting suppliers, convene regular business meetings, participate in professional unions and associations in Russia and abroad, and publish relevant information in the media.

Local communities
We work with local communities to improve the quality of life of our employees, their families and the general public in the regions where we operate. Our programmes focus on upgrading social infrastructure, including improvements to housing and education and healthcare facilities. We also develop local entrepreneurship and support environmental projects. We strongly believe that the active participation of local communities in delivering change is a necessary precondition for sustainable regional development.

Shareholders
We engage with shareholders by ensuring sustainable growth for the company and increasing its long-term value. We always respect shareholders’ rights and enable full access to all necessary company data and information.
One of SUEK’s top priorities as an employer is to provide a safe working environment for our people and minimise the risks related to coal production.

Priorities:

- Continually improving the mechanisms and methods for ensuring occupational and workplace safety;
- Addressing atmospheric safety issues to prevent accidents and minimise the negative impact of coal dust on employees;
- Ensuring our production sites have the latest equipment and introducing modern safety systems and monitoring instruments;
- Ensuring our health and safety information system functions at a Group-wide level;
- Improving the skills and capabilities of safety professionals through dedicated training provision, educating staff on safe working practices and improving workplace discipline;
- Developing and implementing measures to reduce the negative impacts of coal production on employee health and wellbeing;
- Ensuring all employees are supplied with modern, high-quality work clothes and protective equipment, in line with our corporate standards; and
- Implementing special preventive medical programmes.
Health and safety at work

Across our industrial facilities, the system we have put in place for managing health and safety complies with the most up-to-date international standards and is designed to minimise injuries and accidents at our production sites. Our corporate health and safety standards cover both company staff and contractors providing services at our sites and facilities. Our production facilities undergo regular audits to assess our compliance with the OHSAS 18001 occupational health and safety management standard.

To minimise industrial risks, every year the company reviews and updates a comprehensive range of health and safety measures. In 2015, SUEK allocated $46m to health and safety programmes, interventions and initiatives.

Overview

From 2011 to 2015, the lost time injury frequency rate (LTIFR) across SUEK’s production sites went down from 2.02 to 1.23. In 2015, the LTIFR was down 18% on the previous year with total lost time of 8,071 days. Our production sites recorded 62 industrial injuries, compared to 77 in 2014.

It is with deep regret that we announce that there were five industrial fatalities at our production sites in 2015. The main causes of these fatalities were organisational failures, violations of health and safety regulations, and a lack of discipline and skill in key health and safety areas. During the year, special commissions carried out in-depth inquiries into the incidents, investigating all causes and circumstances. The findings from these inquiries have since been used to develop measures designed to prevent such incidents from occurring again in the future.

Our efforts to improve health and safety systems and emergency response procedures are coordinated by the Industrial Safety Committee of JSC SUEK’s Management Board. In 2015, the Committee reviewed a number of important health and safety issues, and heard reports from regional managers on programmes planned for 2016 to improve health and safety at our open pits. It also reviewed a working group report on the implementation of key measures to improve our Group-wide health and safety system, and looked at proposals for emergency ‘self-escape’ measures for miners. The concept of self-escape includes the provision of tools and organisational measures to enable miners to leave hazardous areas in the event of an emergency. The main idea is that miners should be able to follow self-escape procedures on their own, with a view to engaging them in emergency prevention and ensuring they are in a constant state of preparedness.

Measures to improve health and safety

Improving the reliability of multifunctional health and safety systems and systems for monitoring underground air and gas conditions

Currently, the Group’s production facilities use the following multifunctional health and safety systems:

- A system for tracking the location of our workforce and maintaining communications with them via wi-fi and underground radio;
- Gas level sensors;
- Air condition monitoring systems.

These systems enable us to:

- track the location of our workforce in underground mine shafts;
- equip personnel with the tools and training they need to raise an alarm in the event of an emergency, regardless of where they might be;

Health and Safety Policy

In 2015, SUEK approved a company-wide corporate Occupational Health and Safety Policy. Within this policy, the SUEK management defined their obligations regarding health and safety and set out the key principles that all SUEK employees must follow in order to eliminate workplace injuries and accidents across the Group.

These core principles include:

Safety first and foremost

Before any job is undertaken, the ability of those involved to complete the project safely must be considered and assessed. If the pursuit of industrial/commercial objectives looks likely to compromise safety in any way, these objectives must be reviewed or cancelled.

Zero injuries and accidents

All accidents and injuries must be treated as emergencies. They are a clear indication that something is wrong in our approach to managing health and safety.

Zero tolerance for concealment

Full transparency around health and safety issues must be ensured at all times; any concealment or non-disclosure of information relating to health and safety will be taken extremely seriously.

Professionalism and competence

An employee can only be assigned a job if he/she has the right qualifications and skills to complete it.
• conduct search and rescue operations for people in underground mine areas; the systems we currently employ enable us to accurately track people within 20 metres and also to locate them through up to 20 metres of rock.

We have developed a range of measures designed to improve the reliability of these multifunctional health and safety systems. At the JSC SUEK head office in Moscow, for example, we have a situational control centre designed to monitor the state of the company’s industrial health and safety system in real time. At this centre we also analyse system parameters and coordinate efforts with regional branches and industrial facilities during emergencies.

In addition, we have established a centralised health and safety control and analysis centre in Kuzbass. At the centre, our health and safety controllers receive information about atmospheric conditions and gas levels in our mines. This information, displayed on large screens in our regional office, is monitored 24/7 to ensure production teams operating in the Kuzbass region are not adversely affected by atmospheric conditions.

Improving gas drainage
Across our mine sites, we remove methane from our mining areas through a system of integrated gas drainage wells. To maximise the efficiency of the gas drainage process, we are constantly introducing new methods, equipment and technology. Furthermore, to ensure we are more energy efficient, we use some of the methane removed from the workings to generate heat and electricity at the mines. This also allows us to reduce our greenhouse gas emissions, thereby minimising our environmental footprint.

Improving mine ventilation
We have recently increased the amount of fresh air supplied to high-capacity longwall sections of our mines from 1,500 m³ per minute to 2,500 m³ per minute. In total, between 2007 and 2015 fresh air consumption within our mines increased by a factor of 1.5, from 93,798 m³ per minute to 140,600 m³ per minute.

Reducing coal dust
SUEK mines have strict requirements for stone-dusting, and a high consumption of inert dust to reduce the risk of coal dust explosions. Actions include:
• Delivering a threefold increase in stone-dusting in our Kuzbass mines in the past five years, from 6,100 to 18,040 tonnes a year;
• Improving the quality of stone-dusting in our mines through the use of mechanical stone-dusting units.

We are also constantly looking to enhance the efficiency of our measures to reduce coal dust emissions; recent achievements in this area include:
• Introducing vacuum collection, transportation and discharge of fine coal dust at the washing plants located in Khakasia and Buryatia;
• Completing a key stage of the Vanino Bulk Terminal modernisation programme for coal dust suppression; the terminal is now equipped with fog generation units and unique foam generators that suppress dust using foam and water – a unique technology that has never been used anywhere else before.

Tighter health and safety controls
SUEK Group has introduced a zero-tolerance policy for violations of health and safety regulations. Preventing such violations plays a huge role in reducing the risk of accidents and injuries. To this end, we have developed and introduced specialised software to keep track of all health and safety related incidents. The software prevents shift tasks being issued until all identified health and safety violations have been dealt with.

The system has already been deployed at all mining and processing sites across the Group.

Personnel training and development
We work hard to ensure all staff have the knowledge, skills and training they need to carry out their roles safely and responsibly. All equipment purchased by the Group comes with a special training video showing how to maintain high levels of health and safety during assembly, operation and maintenance.

In 2015, all of our coal mining facilities in Kuzbass and Buryatia carried out pre-shift employee health and safety awareness assessments. The initiative, which features special quiz terminals, was launched after the implementation of a pilot project at the Komsomolets mine in 2014.

In July, the company held an annual conference in Khakasia on health, safety and the environment led by JSC SUEK’s Chief Operations Officer. More than 150 employees took part in the conference, which focused on the company’s health and safety performance in 2014 and targets for 2015. It also included a seminar with production site directors and heads of HSE units. During the seminar, participants learned how to use modelling methods to assess health and safety risks.

Promoting health and safety
SUEK has developed a series of video manuals on health and safety regulations that must be followed when performing specific jobs. These videos are accessible via information panels in office buildings, briefing rooms and on company buses. All SUEK production sites have health and safety notice boards to help promote and reinforce core safety messages.

SUEK’s production sites feature an HSE feedback system called Alarm Sheet, whereby employees can write down any hazards associated with a specific workplace or process. The idea is to engage and include our workforce in the development of a health and safety culture. In the reporting year, the company organised a special health and safety contest under the slogan ‘Reward Vigilance’. All winners were awarded prizes from SUEK.
Identifying employees prone to excessive risk-taking
We constantly test candidates applying for job vacancies and engineering positions to determine whether or not these potential hires are prone to excessive risk-taking. Our tests include factors such as a candidate’s risk appetite, and their ability to learn and follow rules. These tests form an integral part of our recruitment and selection process, informing our hiring decisions at all levels.

Provision of modern work clothes and personal protective equipment
We have deployed an automated system to keep track of personal protective equipment (PPE) across the Group. This system is designed to improve the quality of PPE and ensure all workers are supplied and equipped in accordance with regulatory requirements, corporate standards and working conditions. It also enables us to improve the planning and procurement of PPE over the long term.

Healthcare
In order to minimise the risk of occupational diseases, SUEK makes every effort to reduce the adverse impact of industrial environments on employee health and wellbeing.

As part of our commitment to improve working conditions, we have developed standard requirements for special clothes, footwear and other PPE utilised by SUEK employees. In 2015, we increased the reliability of key PPE items, such as footwear, hard hats, respirators and goggles, and introduced work clothes inspections at the start of production shifts to ensure Group-wide compliance with our corporate standards.

Since 2010, we have been working to identify occupational diseases in their early stages, reduce lost time due to medical conditions, and organise regular medical check-ups and healthy lifestyle promotion. All our employees are offered comprehensive healthcare, which includes education about various medical conditions, consultations, diagnostic services and treatment.

The Group-wide Health Programme not only improves the living standards of our employees, but also translates into savings for the company as it reduces lost time due to injuries and illness. In the period 2010-2015, across the company time off for sick leave reduced by 50%, averaging seven days per employee per year.

Appreciating the importance of employee health and wellbeing, we have set up a special medical unit at our office in Moscow, staffed by highly skilled practising doctors. The main functions of the unit are to:

• Introduce our Policy on Health Safety and Healthcare at Hazardous Industrial Facilities;

• Provide medical support for all health and safety programmes across our industrial processes;

• Provide effective management of the SUEK healthcare service;

• Organise, plan and monitor the implementation of mandatory medical campaigns; and

• Develop corporate regulations and manual and methodological recommendations in accordance with the company’s health, safety and healthcare policy.

We always try to make sure all our employees understand the importance of looking after their own health and adhering to health and safety regulations at work. Our goal is to develop effective health and safety measures that take into account both industrial and individual risk factors.

As part of our efforts to ensure adherence to labour laws and protect the health of our employees, in 2015 we carried out a special assessment of working conditions at our production sites in Khakasia, Zabaikal’ye, Buryatia, Krasnoyarsk, Khabarovsk and Primorye. The assessment included identifying workplace risk factors and updating workplace classifications in accordance with hazard levels. We used the findings of the assessment to offer fringe benefits and extra compensation to employees working in hazardous and adverse environments, and adjusted payroll tax accordingly. In addition, in order to consolidate, systematise and analyse these findings, we began to deploy a specialised computer programme called Labour-Expert Management. Similar assessment is being carried out in Kuzbass.

Health School programme
In 2015, as part of our commitment to health and safety, we implemented the following initiatives:

• Developing manuals on healthy eating for company employees and employees of catering services, including a seven-day menu of low-calorie dishes. Two promotional booklets, ‘Basic Principles of Healthy Eating’ and ‘Diets Best Suited for Various Medical Conditions’, were produced, as well as billboards promoting healthy dietary habits;

• Implementing a programme called ‘Water’ to ensure our miners drink sufficient amounts of mineral water before, during and after their shifts. Water is critical for miners, who tend to lose salts and microelements at an accelerated rate; it also helps to prevent gastrointestinal conditions;

• Helping to prevent viral infections by administering flu, pneumococcus and tick-borne encephalitis vaccinations;

• Organising sports and entertainment events in all regions as part of our anti-smoking programme. We also produced an educational video demonstrating the damaging effects of nicotine on the body.
OUR PEOPLE

Our people are one of our key assets. We constantly strive to create safe working conditions and offer all employees opportunities for professional growth and career advancement.

Priorities:
- Efficiently employ the talents and skills of our staff;
- Create good conditions for work and recreation;
- Improve our professional training system and offer people a wider range of career advancement opportunities within the Group;
- Build and promote a corporate culture.
Overview
The SUEK Group is represented in ten countries and regions in the world and is one of the largest employers within the Russian coal mining industry. In 2015, we had an average annual headcount of 32,124 people, 74% of whom were production workers and 26% were managers, specialists and administration staff.

The socio-demographic characteristics of our workforce remain fairly consistent from year to year. In 2015, the average age of SUEK employees was 40.2 years, while the ratio of men to women remained practically unchanged from 2014, with men making up 75% of our staff and women 25%.

Remuneration and benefits
SUEK Group monitors trends in the labour market on an ongoing basis, paying particular attention to remuneration and fringe benefits in the regions where we operate. We seek to offer our employees competitive remuneration, rewarding those who achieve high productivity, show initiative and adhere to health and safety requirements.

The company offers an incentive scheme for management staff based on the achievement of individual and Group targets, as well as key performance indicators designed to engage employees with strategic objectives.

The following social package extends to all employees within our Russian business units. It is based on current legislation, industry agreements with trade unions and collective arrangements:

- Voluntary medical insurance;
- Payment upon retirement of 15% of an employee’s average salary for each year of employment in the coal industry;
- Payment for travel to holiday resorts for employees and their families;
- Financial aid;
- Supply of coal to miners for domestic heating;
- Compensation for energy and other expenses.

In 2015, total expenditure linked to benefits prescribed in collective arrangements amounted to $22m.

We also provide non-monetary incentives for our employees. Employees credited with making significant contributions to the development of the Group and the coal industry in general are nominated for state, industry and corporate awards. In addition, every year, on the eve of Coal Miner Day, we hold professional skills competitions, with valuable gifts and cash bonuses for the winners.

Training and staff development
In our approach to professional development, our areas of focus are: professional training, retraining, qualification enhancement, training in new occupations, and training replacements for key positions at different levels.

We currently offer professional training to workers at special training centres and Group facilities. We have 16 dedicated training facilities licensed to offer professional training, retraining and secondary occupation courses, as well as qualifications enhancement courses for all key production roles.

Our training programme for key positions involves a set of core requirements that candidates must meet. For each position, we have developed a list of candidates who are offered training to develop relevant competencies and skills.

Our replacement training programme, meanwhile, includes the following positions: Regional Manager, Extraction Company Manager, Technical Manager, Repairs Shop Manager, Production Area Manager, Production Area Mechanic, and Mining Supervisor. In addition, in collaboration with the Saint Petersburg Mining University and the Kemerovo Professional Development Institute, we provide a series of Mining Mastery School courses.

In 2015, we launched a new professional development and HR reserve programme for the position of Senior Company Engineer and Production Director. 30 people took part in the scheme, while 264 people in total received training as part of various HR reserve programmes.

Composition of employees by type
1. Production workers 74%
2. Managers and specialists 26%

Gender diversity of employees
1. Men 75%
2. Women 25%

Composition of employees by age
1. 18-30 years 22%
2. 31-40 years 30%
3. 41-50 years 23%
4. 51-60 years 21%
5. over 60 years 4%
We also continued to roll out our Locomotive programme that aims to hone the leadership skills of our most talented employees. Participants are selected either during HR reserve programme training or through the recommendations of production facility managers. Every year, 40 people take part in the programme.

**Working with young staff**

Across SUEK Group, we aim to nurture and develop talent from an early age. Offering training to students and getting them involved in our projects while they are still studying enables us to locate young talent and facilitate graduate hiring and orientation. As of late 2015, over 400 students from seven universities enrolled in our additional training programme for mining specialists.

Since 2012, we have been involved in the Applied Science Youth Forum Mining School. The Forum is designed to identify the most talented young people and students and engage them with real-world production challenges. In 2015, 166 young specialists took part in the Forum, which received the backing of the Ministry of Energy of the Russian Federation and key universities, as well as leading fuel and energy companies.

Each year, the Forum winners receive training under the Presidential Programme for the Training of Engineers, including additional courses in leading Russian mining universities, learning the basics of lean production through internships at Toyota production facilities, as well as internships at mining companies in Australia. In addition, in 2015 the winners of the Investment Ideas Competition were given the opportunity to take part in the international China Coal and Mining Expo as part of the delegation of the Ministry of Energy of the Russian Federation. We also regularly support the mining categories of the Russian National Fuel and Energy Championships.

All SUEK’s production facilities have youth councils and implement programmes for the youth movement members. These measures extend to over 800 members, as well as to all students undergoing additional training offered by the company.

**Communications within the company**

Our Group-wide internal communications system consists of tools for encouraging employee engagement and motivation. We inform personnel of company developments via bulletin boards at production sites, brochures, the information portal, our monthly corporate newspaper and reference meetings with production site management and senior management.

As part of our efforts to develop our internal communications, in 2015 we revised our Corporate Ethics Code. We updated our main objectives and corporate values, and added new recommendations regarding how employees should behave at work.

At all operational sites, ethics coordinators will ensure the Code is adhered to across the Group. These coordinators will undergo special training in communication, conflict resolution and complaints management. Workers can submit complaints via a multi-channel telephone line accessible via a single number, and through an anonymous online submission form hosted on the corporate portal. Employees can also use special mail boxes at production sites or speak directly to their ethics coordinator.

In 2016 and beyond, the approved Corporate Ethics Code and compliance system will serve as a key platform for communicating with personnel and other relevant parties.

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**Project management system improvements**

As part of our efforts to improve project management in 2015, we refined our general incentive scheme to encourage greater employee engagement with projects across the Group. In addition to long-term strategic projects, the scheme now extends to other programmes aimed at achieving significant operating improvements, increasing business process efficiency and driving business development. The new project management incentive scheme will help to ensure project team stability and sustainability.

In 2015, there were 387 participants in the long-term projects incentive scheme, including specialists and managerial staff. We anticipate that, due to the introduction of the new scheme and the implementation of new projects, significantly more employees will take part in the incentives programme in the future.
We aim to develop our business in a sustainable manner, ensuring our present activities enhance, rather than compromise, environmental conditions and quality of life for future generations. For this reason, in all our programmes and investment decisions we consistently look to address environmental issues and concerns.

Priorities:

- Create conditions that facilitate employee involvement in environmental risk mitigation activities, and enable the improvement of our environmental management system and production indicators;
- Allocate relevant financial, engineering, human and other resources for these purposes and ensure their efficient use; and
- Disclose environmental reports, ensuring transparency regarding environmental information, and engage public and local authorities in preparing, discussing, making and implementing environmental decisions.
Our approach

SUEK is highly aware of the environmental impact of its operations and the environmental risks inherent in coal mining and processing. Consequently, we view environmental protection as an integral part of our business. When planning our operations, we carefully assess environmental risks and seek to minimise environmental impact. In 2015, we invested $15m in environmental activities.

Fully committed to the concept of sustainable development, we have implemented a range of projects designed to gradually mitigate our impact on the environment. These include the reduction of hazardous emissions, responsible water usage, waste disposal and processing, land reclamation and energy efficiency. We also participate in global initiatives aimed at averting climate change and preserving biodiversity.

We are guided by international practice in the field of environmental management, including the ISO 14001 environmental management system standards. Our production facilities are regularly audited by independent auditors who assess our compliance with these and other standards. In 2015, our Chernogorsky open pit and washing plant and Vostochno-Beisky open pit in Khakasia were certified ISO 14001:2004-compliant.

We also provide training so our employees can enhance their environmental knowledge and qualifications, and we collaborate with research bodies and specialist organisations to introduce innovative and efficient environmental safety technologies. We also regularly publish information relating to the results of our sustainable development projects and activities.

Air

In order to improve mine safety, we regularly conduct mine gas drainage. This process results in methane (natural gas) emissions, which account for 88% of SUEK’s total air emissions.

In all our mining areas, we carry out comprehensive gas drainage where methane content exceeds 10 m³/tonne of coal, which includes the preliminary removal of gas from working coal seams, and the extraction of gas from mined-out areas. It is achieved via drilled surface holes and mine openings.

In 2015, as part of our commitment to reduce our environmental impact and support the Kyoto Protocol agreements, we continued to utilise captured methane for power generation to reduce greenhouse gas emissions into the air.

Our Kirova and Komsomolets facilities are equipped with gas recovery systems and gas engine plants that capture gas and use it for the generation of heat and electricity. In 2015, we utilised almost 7.51 million m³ of methane captured from mined-out areas, including:

- 2.9 million m³ for electricity generation;
- 1 million m³ for boiler combustion; and
- 3.6 million m³ for flare combustion.

The rest of our air emissions relate to CO, NOx, SO₂, which are below the limits prescribed by legislation.

Additionally, we work to decrease dust pollution across the whole production and transportation cycle – from mine to port. We have recently introduced state-of-the-art technology for the vacuum collection, transportation and discharge of fine coal dust at our washing plants in Khakasia and Buryatia. In 2015, we completed a key stage of the Vanino Bulk Terminal modernisation programme for coal dust suppression; the terminal is now equipped with fog generation units.

FOR OUR POSITION ON CLIMATE CHANGE SEE PAGE 63.

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<th>Methane utilisation (million m³ of CH₄)</th>
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<td>2.9</td>
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## Water

The Group’s production sites are equipped with industrial wastewater and sewage treatment facilities. Most of our wastewater is natural water that is pumped out of mining areas during mining operations, with characteristics typical of local groundwater.

Through our continuous pollution control and resource conservation efforts, in 2015 our wastewater pollution levels decreased to 0.26 kg per tonne of production, or by 11% year-on-year.

In 2015, we continued efforts to design and construct advanced treatment facilities for mine, open-pit and household wastewater, and overhauled our existing water supply and sewage system. These efforts should further reduce the concentration of pollutants in wastewater at a number of our facilities. During the year, we implemented the following projects:

- 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 in the Khabarovsk region (Urgal);
- Design and construction of a physical and chemical treatment facility for industrial and household wastewater at our Pavlovsky open pit in Primorye;
- Design of a mine water treatment facility at our Vostochno-Beisky and Izykhsky open pits in Khakasia.

## Energy efficiency

Our ‘Energy Saving and Energy Efficiency Programme’ is designed to reduce the company’s energy consumption and production, thereby minimising our overall environmental impact.

At each of the Group’s facilities, we regularly measure and monitor our main energy-consuming equipment, which enables us to plan energy consumption and costs more effectively. In addition, as part of our analysis of the Group’s energy balance, we conduct detailed energy audits on a regular basis.

Since 2014, we have been running an energy-saving incentive programme for staff. We have also developed ambitious energy efficiency plans for 2015-2017, when the consumption of key energy resources is expected to be reduced by an average of 4-5% per m³ of extracted rock.

By implementing this project, we intend to:

- continue to commission modern, highly efficient equipment;
- upgrade our main production and auxiliary equipment;
- introduce an integrated automated system to control electrical equipment;
- equip new machines with fuel consumption metering and performance monitoring systems;
- use additional equipment to reduce the consumption of energy resources;
- introduce energy management systems, including incentive schemes designed to reduce energy consumption by promoting best practice and ensuring staff are engaged and interested; and
- optimise production processes to boost the operating efficiency of energy-consuming equipment through idle time reduction, route optimisation etc.

In 2015, SUEK’s electricity consumption rate per unit of output decreased by 6% compared to 2014. This strong decline in energy consumption was driven by the commissioning of modern high-performance, energy-efficient equipment such as excavators and mining trucks.

In addition to purchasing new equipment, we have focused on the upgrade of existing equipment to cut down energy consumption. For example, we have upgraded excavators operating at the Borodinsky, Berezovsky, Nazarovsky, Chernogorsky and Vostochno-Beisky open pits.

At our facilities in Khakasia and Krasnoyarsk, we also introduced an energy management system in 2015 that should allow SUEK facilities to systemise and standardise energy efficiency efforts.

We also made considerable efforts to improve the reliability of metering data for energy consumption. Many of the Group’s facilities now have automated measuring systems in place that quantify the financial value of electric power consumption.

At our high-consuming facilities, these systems are used to clarify and calculate settlements with electricity suppliers.

Across the SUEK Group’s facilities, we have a number of systems designed to track energy consumption for commercial purposes. In 2015, we introduced a system that tracks consumption for technological purposes, focusing on individual pieces of equipment in specific production areas.

We also set up a single energy control office for the entire Kuzbass region, as well as a single control system for our production units in Khabarovsk (Urgal).

In addition, all fuel-consuming machinery has been equipped 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.

### Total wastewater (million m³)

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
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<tr>
<td>2015</td>
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<tr>
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<td>159.3</td>
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<tr>
<td>2011</td>
<td>168.3</td>
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Land reclamation and biodiversity
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 the reclamation of land disturbed by mining operations, in accordance with approved mineral resource deposit development programmes.

On lands disturbed by SUEK mining projects, we run extensive reclamation projects, including rock dump levelling, soil remediation, tree planting and landscaping. In partnership with the Research Institute of Agrarian Problems of Khakasia, for many years we have been conducting a unique land reclamation and research project, the aim of which is to develop recommendations on biological forestry restoration. This process involves the creation of ‘biodynamical’ focal points in the hollows between coal dump ridges. In the autumn, the rock waste in the hollows becomes seeded with grass, bushes and trees which we treat with bio-fertilisers. During the winter, the seeds are protected by snowfall from wind and solar radiation. They then emerge in the spring to create a humus layer that allows the spread of plants across the dump areas, helping to improve floral diversity and grass cover. In seven to ten years this reclamation method can transform coal dumps into comprehensive ecosystems.

Furthermore, as part of our cooperation with the Global Environmental Facility (GEF) and the United Nations Development Programme (UNDP), we are now supporting the implementation of the Mainstreaming Biodiversity Conservation into Russia’s Energy Sector Policies and Operations project. We also finance the environmental outreach campaign of the Nature foundation within the Russian Geographic Society Festival intended to defend Far Eastern leopards and Amur tigers and support activities of the Leopard Land Park in the Primorye region.

Supporting Leopard Land Park
In 2015, SUEK launched a programme of support for the Leopard Land Park in the Primorye region. The Land of the Leopard National Park was founded in 2012, following a decree from the Russian Government. This project focuses on protecting rare feline species, and comes under the patronage of the Chief of Staff of the Presidential Executive Office, Sergei Ivanov.

The Park has been instrumental in saving the Amur leopard, one of the world’s rarest feline species, and driving up their numbers. Today, experts believe there are about 80 Amur leopards in the wild, most of them living in Primorye. During 2015, SUEK provided financial support for a number of conservation activities within the Park. We also provided funding for a series of outreach and promotional campaigns for the Nature Foundation and the Russian Geographic Society, also aimed at protecting Far Eastern leopards.

In September, SUEK earned the right to name one of the Primorye leopards following a charity auction at the Eastern Economic Forum, the proceeds from which were donated to the Land of the Leopard National Park. We held a naming competition among SUEK employees and their families, finally deciding on the name Aman, after the Governor of the Kemerovo region, Aman Tuleev.
The overarching strategic goal of our social activity is the comprehensive development of the regions in which we operate. For us, this means improving quality of life for our employees, their families and local people and communities.

Priorities:

- Revitalise local communities;
- Expand and diversify our social programmes;
- Promote employment;
- Expand the range of local social welfare services; and
- Introduce innovative technologies and approaches within the social sphere.
Our approach and focus areas
Our social strategy is closely linked to our business strategy, and all community programmes and activities we initiate align with and support our business objectives. One of our core focus areas is capacity building, which enables the further development of local infrastructure and knowledge. We are guided in this area by our firm belief that the development of human capital is the basic pre-condition for the sustainable development of regions and territories. Furthermore, by engaging local people in initiatives designed to improve their local communities and environments, we believe we can deliver positive change by helping to develop social resilience and independence.

To this end, cooperating and consulting with community stakeholders to assess their needs and aspirations forms a core part of our social strategy and programmes. This not only helps us to connect the needs of our stakeholders to our business priorities, but also maximises opportunities for local community development.

To ensure we make a meaningful impact on local communities in the regions where we operate, we focus on the following key areas of social activity:
• Environment;
• Education;
• Sport and healthy lifestyle;
• Healthcare;
• Improving and developing infrastructure;
• Leisure, culture and unlocking creative potential;
• Improving local self-government;
• Developing local social and business activity, increasing personal fulfilment opportunities;
• Affordable housing, services and utilities.

The primary tool for the implementation of our social policy is a non-profit charity fund called ‘SUEK to the Regions’. Covering all our territories of operation, the fund develops and implements its own programmes, taking into account specific local needs and priorities.

Major projects in 2015
Despite the challenging economic environment, in 2015 we continued to implement our social initiatives as planned, in accordance with our strategy. We continued our focus on long-term projects and initiated new programmes aimed at creating favourable social conditions and addressing key development issues.

Education
During the year we conducted a number of educational projects, including:
• The ‘Talent Pool Development Project’, aimed at providing vocational guidance for young people and facilitating real-time communication between the labour market and education. Targeting employees of educational institutions and representatives of the municipal education departments, the project also helps us to identify potential future talent among student bodies.
• ‘Modernising the Municipal Labour Force Training System’, aimed at improving the municipal education system and developing the coal industry’s talent pool, in compliance with all current requirements. Already underway in the Kemerovo region, this project targets teaching personnel from regional universities and colleges, HR managers within Kuzbass companies and students at technical universities. Project participants have been trained in creating an integrated educational environment for workers and engineers.
• The ‘Golden Candidates Pool Project’, an inter-regional student competition designed to identify promising ideas for the development of the coal industry, and find and support creative young professionals for the innovation economy. Students from a range of target universities participate, with category winners receiving a diploma and scholarship.
• Financial support to local schools, including the purchase of textbooks and interactive whiteboards and the financing of repair and restoration work. This project aims to encourage the best graduates and reward the best teachers, while also assisting in the organisation of school holidays and providing support to other educational charity funds.

Sports and a healthy lifestyle
In 2015, we provided support for a number of youth sport programmes and events. We also financed the repair and construction of various sports institutions, and purchased sports equipment and inventory. In the Krasnoyarsk region, we built a winter sports complex and purchased gymnastic equipment for the Training Centre for Gymnasts in Kuzbass. Among other projects, we also provided financial support for:
• A regional girls’ volleyball tournament, called ‘Spring Drops’;
• A sports festival called ‘Eyes on the Victory’;
• An Athlete of the Year competition in Kemerovo;
• A children’s open rugby tournament;
• A regional chess tournament; and
• A municipal basketball competition in Krasnoyarsk.

In 2015, we also held the SUEK Olympic Games for children – an event aimed at promoting sports and healthy living among teenagers in the Krasnoyarsk region. The Games were attended by 130 young athletes who competed in futsal, volleyball, basketball, chess and other sports.
Healthcare
We carried out a range of healthcare initiatives during the year, including:

- A treatment and rehabilitation project for children in the regions where we operate, implemented in partnership with the Department for Presidential Affairs of the Russian Federation. As part of this project, each year over 150 children, including children from orphanages and socially disadvantaged families, are treated in a rehabilitation centre in the Moscow region. Thanks to the most advanced equipment and innovative techniques, the centre offers quick and thorough diagnosis, enabling the development of effective treatment and rehabilitation programmes.

- Co-financing partnerships with charitable funds for the treatment of seriously ill children, and financial support for the purchase of modern medical equipment. Project partners include the following charity funds: Rusfond, ‘Gift of Life’, ‘Happiness to Children’, ‘Let there Always Be Me’, ‘Mercy’ and others. In 2015, we purchased medical equipment for the Krasnoyarsk Regional Hospital of War Veterans and fitness equipment for a rehabilitation centre in Kuzbass.

- Financial support for the treatment of mining veterans. Covering treatment and procedures at the health centre of the Department for Presidential Affairs of the Russian Federation, this project enables miners to gain access to qualified medical examinations and receive special procedures and recommendations. Over 40 mining veterans visit the centre each year.

Improving and developing infrastructure
In 2015, we implemented several infrastructure and development projects, including:

- A competition called ‘Comfortable Living Environment’, which takes place in all the Russian regions in which we operate. The competition aims to identify, distribute and support the best ideas for the development of the natural environment. During the regional and inter-regional phases, winners receive financial support to implement their plans and proposals. In 2015, 15 winning projects received funding exceeding $46,000. They included initiatives designed to improve memorials dedicated to the Great Patriotic War.

- A competition called ‘Best Yard: Turn the Dream into Reality’, held in the Krasnoyarsk region, aimed at developing the local community of Borodino. Local citizens who want to improve the quality of life in their town and, in particular, the grounds of their buildings, are invited to put their ideas forward. The winning groups are awarded with the installation of children’s playgrounds in their yards.

Leisure, culture and unlocking creative potential
As part of our commitment to supporting leisure and culture, in 2015 we:

- Supported initiatives designed to preserve national cultures, programmes and activities and promote the spiritual development of people. For example, we provide assistance to a programme focused on ‘Historical and Cultural Heritage as a Resource for Social and Cultural Development’, and financial support to the International Eco-Ethnic Festival of Puppet Theatres, ‘Chir Chayaan’, in Khakasia, and a Buryat wrestling competition in Buryatia.

Youth Entrepreneurship Project
SUEK’s Youth Entrepreneurship Project works to promote small businesses and engages students in entrepreneurial activities. The participants learn about entrepreneurship and take their first steps towards launching their own business ventures or enterprises.

In 2015, we created municipal teams made up of educational department employees, schoolteachers, entrepreneurs and representatives of municipal organisations. These teams were then deployed in Primorye, Khabarovsk and Khakasia to provide support to small businesses and help students learn about entrepreneurship. This was followed by workshops and training for the municipal teams on setting up and solving problems relating to student entrepreneurship, as well as activities to engage students with small business issues through surveys, games and training.

The project led to the development of 87 fully supported student business projects. In October, the best projects were put forward as part of the inter-regional Youth Entrepreneurship Competition in Moscow.
• Provided support for cultural institutions and events, including:
• Reconstruction of the museum-estate of the national Buryat writer Isay Kalashnikov;
• Renovation of a cinema in Chegdomyn village;
• Organisation of a city-wide festival called ‘Farewell bell’ in Kuzbass;
• Sponsorship of children taking part in a charity event called ‘We help children together’;
• Staging of a New Year’s Eve performance for orphans, children with disabilities, children from large families and at-risk children in Krasnoyarsk;
• Financing of a festival for disabled children called ‘From Heart to Heart’;
• Enabling the participation of children with disabilities, and children from low-income and large families from the Khabarovsk region, in a charity gala concert at the International House of Music in Moscow;
• Helped to finance the construction and reconstruction of religious and ethno-cultural facilities.

Improving local self-government
In Khabarovsk region in 2015, we launched the SUEK Public Debate Club, the aim of which is to share our problem-solving knowledge and capabilities with local communities, identify and develop public initiatives and promote our social projects. The project includes a series of round tables, during which representatives of local communities, administrations, governments, NGOs and the ‘SUEK to the Regions’ fund share their experiences of solving social problems. In 2015, these meetings included:
• A round table dedicated to exploring social entrepreneurship opportunities as part of the development of Vanino village and district in the Khabarovsk region;
• Round tables in Khabarovsk focused on ‘Social Entrepreneurship as an Effective Mechanism for Solving Social Problems’.

Developing local social and business activity, increasing personal fulfilment opportunities
In 2015, our social and business activity development initiatives comprised:
• Ongoing efforts as part of our ‘Work Teams’ programme, which aims to engage young people aged 14 to 18 in the socio-economic development of their regions, promote socialisation, provide vocational guidance, and improve the image of mining.
• Implementation of the ‘Youth Entrepreneurship Project’ in Khakasia, Primorye and Khabarovsk. Participation in such projects contributes to social adaptation and increases options for vocational guidance. The target audience includes employees of municipal institutions and local entrepreneurs, thereby ensuring consistent regional support for young people. In 2015, students developed 87 business projects. The programme led to the establishment of the ‘School of Social Entrepreneurship Coaches’ in the Kemerovo region.
• Establishment of resource centres for the development of social entrepreneurship in Kemerovo, Krasnoyarsk, Khakasia and Buryatia. The project aims to develop problem-solving capacity within local communities. The centres are established to provide support for small businesses or public organisations through targeted training of their future executives.
• The launch of the ‘Future of the Territory - Future of SUEK’ project, which aims to encourage social entrepreneurship among young people. The project covers Buryatia, Primorye and Kemerovo. During the year, participants attended workshops and took part in competitions dedicated to social initiatives, with the winners receiving money for their projects. Overall, 18 projects were implemented in support of mothers and children, education and youth development.

Public recognition of SUEK Group’s social activities
During 2015, we received a number of awards and commendations for our social activities:
• Prize winner in the ‘Social Partner’ category for ‘SUEK's Work Teams’, and winner in the ‘Start-up’ category for ‘Youth Entrepreneurship’ at the Second All-Russian Competition for the best employment practices in the development of human capital;
• Prize winner at the All-Russian Competition of Student and Corporate Communication projects, at the ‘Eventiade Awards 2015’, in the ‘Best Project for Young People’ category for ‘SUEK’s Little Stars’ festival;
• ‘SUEK’s Little Stars’ project was also included in the ‘Best Social Projects of Russia’ national programme;
• Prize winner in the ‘Basis of Growth’ competition for supporting small and medium-sized business in the ‘Regional Programme of the Year’ category;
• SUEK ranked 18th out of 65 among the companies that participated in the ‘Corporate Charity Leaders 2015’ competition;
• SUEK Group’s social programmes were included in the Donors’ Forum collection of best projects under the ‘Company Practices in Charity and Social Investment’ category, as well as in the RSPP’s Library of Corporate Practices and the Business to the Regions collection.