1. In this Report, each of the terms ‘SUEK’, ‘SUEK Group’, ‘the Group’, ‘the company’, ‘we’ refer to all companies consolidated in the IFRS financial statements of JSC SUEK (Russia), including, inter alia, SUEK LTD, SUEK AG, SGC and their subsidiaries.
In 2018 SUEK was transformed into a vertically integrated coal and energy business. Our strategic vision is now to be not only a global leading coal producer but also an efficient supplier of heat and electricity to end consumers.

Our integrated coal, heat and power strategy is now even more committed to quality growth to meet increasing power demand and environmental requirements.

Our coal business will focus more and more on supplying high-CV coals to premium Asian markets. In the power business we are strong advocates of co-generation of heat and power. This is the most efficient and environmentally friendly solution to providing the heat supply needed by millions of people during nine months of the year in one of the world’s coldest regions.

With a targeted strategy, proactive risk management and financial policy, and dedicated personnel, we are empowered for sustainable growth.

ANDREY MELNICHENKO,
SUEK’S MAIN BENEFICIARY
OUR INVESTMENT CASE

A leading coal and energy company

SUEK is a global top-five thermal coal exporter and Russia’s largest producer of electricity and heat from solid fossil fuels, with assets of $14 billion and revenue of $8.3 billion as at 31 December 2018.

Our multi-product fully vertically integrated business model includes coal, heat, power and logistics and logistics assets and enables us to achieve both significant cost efficiencies and diversified revenue streams. These in turn underpin SUEK’s strong margins, cash generation and balance sheet.

FULLY-INTEGRATED AND HIGHLY COST-EFFICIENT

- Large reserves of high-calorific low-sulphur and low-nitrogen coals and 30+ years life of mine
- World-class washing plants, owned railcars and ports and extensive marketing infrastructure in all major importing regions
- Co-generation power plants fuelled by locally-produced coals

WITH LEADING POSITIONS IN PREMIUM COAL AND RESILIENT ENERGY MARKETS

- A top-5 coal supplier to the international coal market
- No.1 electricity and heat producer from solid fossil fuel in Russia

Coal and power production by leading Russian companies in 2018

<table>
<thead>
<tr>
<th>Company</th>
<th>Coal Capacity (Mt)</th>
<th>Power Capacity (GW)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SUEK</td>
<td>110</td>
<td>10.9</td>
</tr>
<tr>
<td>BHP Billiton</td>
<td>69.9</td>
<td></td>
</tr>
<tr>
<td>Anglo American</td>
<td>61.5</td>
<td></td>
</tr>
<tr>
<td>Glencore</td>
<td>55.4</td>
<td></td>
</tr>
<tr>
<td>Glencore</td>
<td>49.8</td>
<td></td>
</tr>
<tr>
<td>Adaro</td>
<td>40.8</td>
<td></td>
</tr>
<tr>
<td>Yancoal</td>
<td>37.1</td>
<td></td>
</tr>
<tr>
<td>Kuzbassrazrezugol</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>Peabody</td>
<td>29.8</td>
<td></td>
</tr>
<tr>
<td>Iliampe</td>
<td>26.9</td>
<td></td>
</tr>
</tbody>
</table>

International sales by the world’s leading coal producers in 2018 (Mt)

<table>
<thead>
<tr>
<th>Producer</th>
<th>Sales (Mt)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Glencore</td>
<td>98.6</td>
</tr>
<tr>
<td>BHP Billiton</td>
<td>69.9</td>
</tr>
<tr>
<td>Anglo American</td>
<td>61.5</td>
</tr>
<tr>
<td>SUEK</td>
<td>55.4</td>
</tr>
<tr>
<td>Bumi</td>
<td>49.8</td>
</tr>
<tr>
<td>Adaro</td>
<td>40.8</td>
</tr>
<tr>
<td>Yancoal</td>
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<td>Kuzbassrazrezugol</td>
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<td>Peabody</td>
<td>29.8</td>
</tr>
<tr>
<td>Iliampe</td>
<td>26.9</td>
</tr>
</tbody>
</table>

Source: Company data

FOR MORE DETAILS, SEE OUR ASSETS ON PAGES 50-62.
FOR MORE DETAILS, SEE MARKET REVIEW ON PAGES 64-69.

SUEK’s SWOT analysis

- SEE PAGE 22.
GENERATING ROBUST AND SUSTAINABLE EBITDA

- Most our coal mining assets are positioned in the lower end of the global cost curve due to economies of scale, efficient production and RUB denominated cost base
- Synergy between coal and energy businesses

AND STABLE CASH FLOW DUE TO DIVERSITY

Over 50% exposure to international markets, where our high-quality coals trade in premium markets

- 70% of coal produced at open-pit mines
- 80% of international coal sales are high-CV products

WITH SOLID TRACK RECORD OF ESG PRACTICES

0.75
One of the lowest LTIFRs in coal mining both in Russia and globally

10+
years of financial and CSR disclosure in line with international standards (IFRS, GRI, IIRC)

Environmental compliance with international standards

PROVIDING HEAT TO >5 MILLION PEOPLE

Isotherm average for January -10°C

SUEK’s power consumers

For more details, see financial review on pages 78-83.
For more details, see strategy on pages 23-33.
For more details, see ESG section on pages 84-110.
For more details, see where we operate on pages 6-7.
Our strategic focus on high-CV coal and enhanced business model enabled us to achieve solid results.

**WE ACHIEVED STRONG FINANCIAL PERFORMANCE,**

**EBITDA and EBITDA margin ($m, %)**

<table>
<thead>
<tr>
<th>Year</th>
<th>EBITDA</th>
<th>EBITDA margin (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>2,541</td>
<td>31%</td>
</tr>
<tr>
<td>2017</td>
<td>2,069</td>
<td>30%</td>
</tr>
<tr>
<td>2016</td>
<td>989</td>
<td>25%</td>
</tr>
</tbody>
</table>

23% **COMPARED TO 2017**

**... AND INTEGRATING SGC,**

**Revenue ($m)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Coal</th>
<th>Energy</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>5,956</td>
<td>2,042</td>
<td>8296</td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>5,079</td>
<td>1,610</td>
<td>6939</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>3,880</td>
<td>4,002</td>
<td>8982</td>
<td></td>
</tr>
</tbody>
</table>

20% **COMPARED TO 2017**

**SUEK’s coal sales to SGC (Mt)**

<table>
<thead>
<tr>
<th>Year</th>
<th>2018</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal</td>
<td>30.2</td>
<td>24.8</td>
<td>23.8</td>
</tr>
</tbody>
</table>

22% **COMPARED TO 2017**

**ENJOYING A FAVOURABLE INTERNATIONAL MARKET ENVIRONMENT...**

**High-CV coal indices**

- **NEWC**
- **AP12**

**SUEK’s international coal sales (Mt)**

<table>
<thead>
<tr>
<th>Year</th>
<th>2018</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal</td>
<td>30.2</td>
<td>24.8</td>
<td>23.8</td>
</tr>
</tbody>
</table>

2% **COMPARED TO 2017**
THINKING ABOUT THE FUTURE WHILE EXECUTING STRICT CONTROL OVER CAPITAL ALLOCATION…

<table>
<thead>
<tr>
<th>Year</th>
<th>CAPEX ($m)</th>
<th>Net debt/EBITDA (ratio)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>903</td>
<td>1.4</td>
</tr>
<tr>
<td>2017</td>
<td>763</td>
<td>2.0</td>
</tr>
<tr>
<td>2016</td>
<td>483</td>
<td>2.9</td>
</tr>
</tbody>
</table>

18% COMPAARED TO 2017

0.4x COMPARED TO 2017

…and committed to sustainable development

<table>
<thead>
<tr>
<th>Year</th>
<th>LTIFR (ratio)</th>
<th>Total air emissions from heat and power generation (ths t)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>0.29</td>
<td>356.2</td>
</tr>
<tr>
<td>2017</td>
<td>0.57</td>
<td>375.1</td>
</tr>
<tr>
<td>2016</td>
<td>0.47</td>
<td></td>
</tr>
</tbody>
</table>

0.25 COMPAARED TO 2017

0.28 COMPARED TO 2017

— Moody’s up to Ba2 —

— Fitch Ratings at BB —

— Expert ruAA —

1. Capital expenditures represented a cash outflow.

Our worldwide reach and distribution

SUEK’s coal, energy and logistic assets are located in 11 Russian regions, while sales and representative offices operate in key export regions around the world. The geographic spread of our operations and access to key transport infrastructure enable us to supply coal effectively to Russian, Western and Eastern markets, as well as supply heat and power to millions of people.

1,900 CUSTOMERS IN 48 COUNTRIES

>5 M HEAT CUSTOMERS

30 SALES OFFICES WORLDWIDE

3 PORTS

WHERE WE OPERATE

---

**High-CV coals**
- Kuzbass, Buryatia, Khabarovsk
- Atlantic markets
- Asian markets

**Metallurgical coal**
- Kuzbass
- France

**Sized coal**
- Khakassia, Kuzbass
- Poland
- the Baltic States

**Fines**
- Buryatia, Khabarovsk
- China
- India

---
SIBERIAN CLUSTER INTEGRATION

Our efficient co-generation power plants fuelled by locally-produced coals enable SUEK to be a leading heat and power producer in Siberia.
MEETING ESSENTIAL HUMAN NEEDS...

We supply heat to 5 million people in regions where the temperature drops below 0˚C for more than half the year.

No.3
BY HEAT GENERATION IN RUSSIA

46 M Gcal IN 2018
...AND IMPROVING LIVING STANDARDS

We offer secure fuel supply to developing economies in need of improved access to electricity.

COAL SUPPLIES TO

48 countries
THROUGH DELIVERING PURE CALORIES

We wash our coal to ensure minimal ash transportation and emissions during combustion.

42 Mt
COAL WASHED IN 2018

>80%
OF INTERNATIONAL SALES ARE HIGH-CV COALS¹

¹ 5,600+ kcal/kg
OUR BUSINESS MODEL

Our sustainable value chain

OUR INPUTS

Natural

COAL RESERVES
5.2 Bt
with >30 years life of mine

Human

EMPLOYEES
64,000
14

Operational

27
24

Financial

– Financial discipline

Relationships

– 1,900 coal customers in 48 countries
– Contracts with 2,429 electricity consumers
– Contracts with equipment suppliers from 47 countries
– Partnership agreements with federal and regional authorities and NGOs

OUR PROCESSING CYCLE

Develop and mine

Rehabilitate

Washing

High-CV coal

Logistics

Coal sales

Electricity sales

Heat sales

Energy generation

Factors determining our ability to demonstrate long-term growth

Commitment to health, safety and the environment

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

See more on pp. 89-93.

Product development

Our R&D team constantly evaluates ways to increase the quality of our coal, whilst developing coal-based products for a wide range of industries.

See more on p. 72.

Focus on efficiency

Our investments in modern mining equipment and operational improvements contain the increase in the cost of coal and energy production and increase productivity.

See more on p. 72.

Risk management

Our commitment to proactively managing internal and external risks helps us meet strategic targets and secure long-term growth.

See more on pp. 41-49.
Our Value

Customers and society at large

<table>
<thead>
<tr>
<th>Coal supplies to</th>
<th>Heat and electricity supplies to</th>
</tr>
</thead>
<tbody>
<tr>
<td>48 countries</td>
<td>5 M people in 6 Russian regions</td>
</tr>
</tbody>
</table>

Employees

<table>
<thead>
<tr>
<th>Jobs</th>
<th>Paid to staff</th>
<th>Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>64,000</td>
<td>$962m</td>
<td>31%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Local suppliers</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>$370m</td>
<td>spent on utilities, goods and services</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Government and communities</th>
<th>United heat supplier in</th>
<th>Financial institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>$633m</td>
<td>paid in taxes in Russia</td>
<td></td>
</tr>
<tr>
<td>86%</td>
<td>of cities where we operate</td>
<td></td>
</tr>
<tr>
<td>$38m</td>
<td>invested in social infrastructure projects</td>
<td></td>
</tr>
<tr>
<td>$68.3m</td>
<td>spent on environmental projects</td>
<td></td>
</tr>
<tr>
<td>&gt;60</td>
<td>cities and towns supported by the company</td>
<td></td>
</tr>
</tbody>
</table>

Revenue

$8,296m

<table>
<thead>
<tr>
<th>Trackline coal sales</th>
<th>Energy sales</th>
<th>Other revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>$51m</td>
<td>$2,042m</td>
<td>$298m</td>
</tr>
</tbody>
</table>

Net profit

$1,164m

Corporate governance

We strive to meet the highest standards of corporate governance in line with international best practice. See more on pp. 111-126.

Corporate culture

Our corporate culture encourages employees to achieve results without compromising safety, our approach to the environment or ethics. See more on pp. 100-105.

Personnel development

We invest in the development of our employees at all levels. In turn, we are proud to have a committed and highly productive workforce who are critical to the long-term success of our business. See more on p. 104.

Stakeholder inclusion

We engage actively with our stakeholders, ensuring that we create value for them at all times. See more on pp. 38-40.

Local suppliers

$370m

- Joint R&D to increase equipment efficiency

Government and communities

$633m

- United heat supplier in 86% of cities where we operate

Financial institutions

REPAID AS FINANCE COSTS

$311m

1. Including intragroup sales to SGC.
Economies of scale and operational efficiency

In-demand high-calorific coals with low sulphur and nitrogen content

Co-generation of heat and electricity fuelled by local coals

Favourable geographical location of our assets to logistics and markets

Own logistics infrastructure

One of the largest coal sales networks globally

Stringent control over environmental safety throughout the whole cycle

**OUR MAIN DIFFERENTIATORS**

**DEVELOPING**
We research new mining and processing technologies as well as new products that will deliver maximum operational efficiency and minimal environmental impact for all stakeholders.

**MINING**
Regular upgrades of our mining units enable us to maintain a leading position within our sector.

**WASHING**
Coal washing reduces ash and increases heat content, thereby reducing the environmental footprint of our products, whilst raising their market value.

**DELEVERING**
Advanced transport infrastructure enables us to reliably and cost-effectively supply our major markets, Russia, Europe and Asia-Pacific, and minimise the environmental impact of transportation.

**COAL MARKETING**
SUEK’s extensive sales network ensures reliable coal supplies to customers in 48 countries, and effective delivery of our ‘premium products for premium customers’ strategy.

**ENERGY GENERATION**
Our upgraded power generating facilities consistently and reliably supply heat and electricity to 6 regions of Russia.

**PROCESS DESCRIPTION**

**REHABILITATION**
We restore natural habitats for future generations in the areas where we operate.
**Strong growth prospects underpinned by enhanced financial profile**

We are empowered for long-term growth, with a vertically-integrated business model, well-invested assets, prudent strategy and financial policy.

---

**A strengthened business model**

Having established SUEK as one of the world’s largest coal mining companies, and a leader in terms of quality and cost performance, supplying coal worldwide, in 2018 we strengthened the company’s profile through the evolution of the business model: we have added the energy business to the coal business.

SUEK’s coal exports grew by 30% over the past five years and demand from premium markets for high-quality Russian coal continues to grow. However, the international coal market is susceptible to the cyclical nature of commodity and fuel markets, and to pressures from the climate change agenda, exposing an increasing share of SUEK’s revenues to a potentially volatile pricing environment.

To address this risk, in 2018 we made two strategic decisions.

**Targeting growth markets for high-CV coal**

In 2018 demand for high-CV coals from Japan, South Korea and several Southeast Asian countries continued to grow, caused by a significant build-up of high-efficiency low-emissions (HELE) power plant capacities, in response to rising electricity needs combined with increasingly stringent environmental policy requirements.

In FY 2018 the share of higher margin, high-CV coal in SUEK’s total exports exceeded 80%, and we remain focused on increasing our sales to premium Asian markets even further. To support this, we are continuing to expand our coal washing capacities, having already delivered 50% growth in the past five years. Meanwhile, we are also further developing our railcar and port infrastructure to ensure we can manage increased volumes without compromising our high standards of customer service.

**Consolidation of SGC – focusing on cost-efficient energy and heat production**

The Russian power market has undergone significant investment and regulatory reform in recent years resulting in a more predictable pricing and demand environment. Following a programme of investment to upgrade its power capacities, SGC started delivering a strong and sustainable operational and financial performance. This is driven by improved efficiencies and underpinned by sustained demand from consumers of energy and heat in some of the coldest habitated regions of the world.
The acquisition of SGC in August 2018 brought with it a number of benefits. Primarily, it de-risked SUEK’s financial profile through the diversification of the Group’s revenue streams. The consolidation of SGC has already enhanced the stability of the enlarged group’s operational and financial performance. In 2018 the Group’s revenue rose to $8.3bn while EBITDA reached $2.5bn, reflecting both higher international coal prices year-on-year and the expansion of our energy business. Importantly, it has also enabled us to take more control over managing the environmental impact of our business throughout the supply chain.

As part of our continuing work to optimise the integration of SGC into the Group, the Board is focused on developing a cohesive environmental policy that will ensure transparent reporting and the highest environmental standards throughout every part of SUEK’s business.

We continue to focus on promoting the co-generation of electricity and heat, which provides significant improvement in thermal efficiency and economies of fuel and costs, as well as lower emissions and water consumption per power unit. Our modernisation and business improvement efforts will lead to the stand alone old heat boilers being replaced with co-generation power plants.

Responding to challenges

One of the mining industry’s major challenges is the necessity to constantly improve health and safety. SUEK’s people are its most important asset and the driving force behind our success. We are committed to ensuring they have the appropriate safety tools and training. Maintaining safe operating environments is critical and a key priority is improving the company’s LTIFR performance. I am very sad to report that in 2018 we had six fatalities in the business. This is unacceptable given the company’s improving overall safety performance. Each of these cases has undergone thorough investigation, with decisive measures taken to prevent similar incidents from occurring again.

Our stable position in the global energy markets is backed not only by our low cost assets and investments, but also by our ability to effectively respond to new challenges and changing conditions. We pay special attention to environmental requirements, social needs of the population in the regions where we operate and changes in the legislation of consuming countries.

Confident about our prospects

SUEK is showing strong growth driven by clear long-term demand for our premium and simultaneously low-cost product. In many respects, this is the result of our large-scale investments: over the last ten years, SUEK has invested about $8.5bn in the upgrading and creation of new facilities and has increased labour productivity at our mining assets by 68%.

As one of the world’s leading coal and heat and power businesses, with a focus on technological advancement and customer service, SUEK is well-positioned to develop further to take advantage of premium growth opportunities in line with our strategy. Meanwhile our new foothold in the Russian heat and power markets has given us the financial stability to support these growth opportunities into the long term.

ALEXANDER LANDIA,
CHAIRMAN OF THE BOARD OF DIRECTORS
Significant investment in new equipment, a focus on process optimisation and a wide use of state-of-the-art technologies have driven annual increases in coal production to match increased demand for our products from domestic and international customers.

In 2018 SUEK acquired SGC, the leading coal-fired heat and power producer in Russia. SGC employs over 30,000 people in six Russian regions. We welcome SGC employees into SUEK Group and will do our best to integrate them comfortably into our corporate family.

Operational progress
In 2018, SUEK set an all-time record with coal production of more than 110 Mt and achieved an increase in labour productivity at our mining operations to 540 tonnes a month. International coal shipments increased by 2% to 55.4 Mt, while shipments to the domestic market, including our own power plants, surged by 10% to 58.4 Mt.

This growth primarily reflected the large-scale investment programme of over $900m in 2018 and significant investments in the previous years, as well as the dedication of our highly qualified miners. We supported our teams in reaching their full potential to deliver excellent results through the ongoing equipment modernisation programme. This involved the introduction of the best available technologies for coal mining, processing and transportation, complemented by a highly efficient system of advanced training.

Our power assets also achieved excellent operational results, producing over 46bn kWh of electricity and providing heat to more than 5 million people. This performance was made possible through the expansion of the business into the Novosibirsk region and a programme to optimise capacity utilisation at co-generation power plants.

Focus on people
2018 was marked by considerable sadness as we lost six people in fatal work accidents during the year. Our thoughts are with the families and friends of those people. We have carried out thorough investigations into these accidents and our findings have been discussed in depth by the Health and Safety Committee of the Management Board. In addition to continuing to ensure we have the best available health and safety equipment and systems in place, we are doubling our efforts to promote a culture of zero tolerance towards any breach of health and safety rules.

The sustainable development of our business is reliant on SUEK’s commitment to operating responsibly towards communities in the regions where we operate, the development of human capital and the improvement in the quality of life. In 2018, which was declared the Year of Volunteers in Russia, SUEK’s social policy received the most prestigious awards for social responsibility allocated to both Russian and international companies. The Russian Union of Industrialists and Entrepreneurs also awarded SUEK the Grand Prix in the ‘Contribution to the Social Development of Territories’ category.

Continuous development
We have continued to firmly maintain our position as Russia’s largest coal company and one of the world’s top five in terms of international coal sales. Our growth strategy is centred on addressing changes in the global energy markets, the international sustainable development agenda and the spread of new technologies.
As new coal-fired power plants continue transition to HELE technologies requiring higher-quality fuel, SUEK will produce more and more coal with a calorific value of 5,800+ kcal/kg. To this end, in 2019, we will continue the upgrade of a number of underground and open-pit mines in Kuzbass and Khakassia. This will involve the introduction of high-performance equipment as well as the construction of new washing plants in Buryatia and Khakassia.

To give us greater access to the growing markets in the Asia-Pacific region, SUEK is participating in the Eastern Polygon development programme alongside Russian Railways. This programme aims to increase Russian coal transportation towards the Far-Eastern ports to 185 Mt. To support this growth, we are planning a three-stage capacity expansion project of Vanino Bulk Terminal, from 24 to 40 Mt, and will expand the Maly Port to 4 Mt.

In Russia, the main factor driving growth in demand for coal-fired power generation will be the delivery of the Comprehensive Plan for Mainline Infrastructure Development and National Projects. This will involve the construction of new industrial facilities in Siberia, the development of the Baikal-Amur Mainline (BAM) and the Trans-Siberian railway, and large-scale housing construction. Based on this activity, we estimate the consumption of thermal coal in the domestic market to rise by 10-14 Mt over the next five to ten years.

It is of fundamental importance to us that SUEK’s power and heat generating assets conform with current environmental requirements and best in class practice. To ensure this, we upgrade our generating facilities, reconstruct heat pipelines and replace inefficient boiler houses with co-generation plants.

Our participation in the new state programme to modernise heat generation will make our coal-fired plants considerably more environmentally friendly. The programme will enhance the initiatives we are already running to reduce our environmental impact such as the introduction of a closed waste utilisation cycle and the installation of ash filters.

SUEK’s exciting growth prospects continue to be driven by our leading position within the energy markets, responsible social and environmental policies and our transparent relationships with all local, national and international stakeholders.

VLADIMIR RASHEVSKY,
CHIEF EXECUTIVE OFFICER
Stable market fundamentals for SUEK's high-CV coal

Growing electricity demand in Asia and the necessity to provide heat to millions of people in Russia drive demand for SUEK’s coal.

GLOBAL TRENDS

- Population growth and rising incomes
- Urbanisation and industrialisation
- Development of services and digital technologies
- Growing number of electric vehicles

ELECTRICITY DEMAND TO GROW BY 60% BY 2040 (CAGR 3%)¹

STABLE INTERNATIONAL COAL DEMAND

Growing Asian demand compensating for a declining European market:
- Japan
- South Korea
- Taiwan
- India
- Southeast Asia

>30% of international market by 2027
+4% CAGR by 2027
+2.3% CAGR by 2027

SUEK’S RESPONSE

- Low-sulphur and low-nitrogen coals
- Deposits and washing capacities to produce high-CV coals
- Position in the lower end of the global cost curve
- Downstream integration into domestic power and heat business

LIMITED INTERNATIONAL HIGH-CV COAL SUPPLY

- Depleting high-CV reserves
- Rising costs

Global trends
By 2040, rising incomes and an extra 1.7 billion people, mostly in urban areas in developing economies, will drive growth in global energy demand of more than 25%\(^2\). This increase would be twice as large if it were not for continued improvements in energy efficiency, aimed at addressing energy security and sustainability concerns.

Most of the growth in power consumption comes from developing economies, chiefly India. As recently as the year 2000, Europe and North America accounted for more than 40% of global energy demand and developing Asian economies for around 20%. Now, six of the top-ten power companies by installed capacities are Chinese. The shift in energy consumption to Asia has affected all fuel types and technologies, as well as investment in energy. However, coal consumption is expected to see the most profound growth in Asia of more than 100%\(^2\).

The electricity sector is experiencing its most dramatic transformation in over a century. Electricity is increasingly the ‘fuel’ of choice in economies that are more reliant on lighter industrial sectors, services and digital technologies, as well as electric vehicles for city transportation (growing at 14% per year). Since 2000, global electricity demand has grown by 3% a year, around two-thirds faster than total energy consumption, and it is expected to grow another 60% by 2040\(^2\). Developing economies account for around 85% of this increase.

Coal-fired generation, though remaining mostly flat at today’s level, is forecast to still be the largest source of electricity to 2040, with the reduced consumption in advanced economies being offset by expansion in developing countries, especially Asia. Power systems need to be increasingly more flexible to accommodate a rising contribution from wind and solar photovoltaics, the share of which is set to grow from the current level of 6% to above 20% over the next 20 years.
Coal industry developments

Major trends in the coal-fired power generation industry include increasing plant efficiency (requiring higher grades of coal), toughening restrictions on sulphur and nitrogen emissions, and stable global coal consumption, as decreasing demand in the EU, US and China is balanced by rising demand in India and Southeast Asia.

Power generation, which is already the biggest consumer of coal, is expected to increase coal consumption by 17% in the next 20 years, when it will represent over 35% of total coal consumption.

Coal remains a basic fuel for power generation in Asia, where the demand is projected to grow at a CAGR of 1.3% over the next ten years. The key drivers are listed below:

**Japan and South Korea**

Will remain the major markets for high-calorific-value low-sulphur and low-nitrogen coals for the next decade, as the average efficiency rate of their coal-fired power stations is already 42% compared to the global level of 37%. Japan plans to launch 36 new high-efficiency low-emission (HELE) coal-fired power stations through 2027.

**Southeast Asia**

The most significant driver of global coal trade is the increase of imports to countries such as Southeast Asia, including Vietnam, Taiwan, Malaysia, Thailand and the Philippines. This reflects the development of their power generation industries, a lack of significant coal reserves and increased industrialisation. Total imports to this group of countries are forecast to grow by 82 Mt by 2027.

**China**

Continued overcapacity in China and reduced growth rates for coal-based power generators are expected to drive a decline in China’s demand for imported coal at a CAGR of -4.9% (representing a 73 Mt decrease in seaborne import volumes by 2027).

**India**

India, which became the world’s second-largest coal consumer in 2015, is the single largest source of global demand growth. India is pushing to expand the role of renewables in its power mix. However, robust growth in electricity demand will still drive a near-doubling in coal-fired power output by 2040. Although India has set ambitious targets for domestic coal production, imports continue to rise at a rate of 4% per year, increasing India’s share in global trade to 20% in the next ten years.

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**More efficient technologies change coal demand (Mtce)**

![Graph showing the change in coal demand across different sectors](source: International Energy Agency, World Energy Outlook 2018)
High-calorific-value coal (of 5,600 kcal per kg and higher) already accounts for 45% of international thermal coal trade¹. Demand for it, primarily in Japan, South Korea and Taiwan, will be underpinned by tightening environmental regulations and limited transition of high-efficient plants to lower-grade coals.

On the supply side, coal producers are currently unable to respond promptly to demand increases by boosting coal extraction. Global capacity excess is currently estimated at 55 Mt, which is only 6% of the international market, and is mostly in the lower-CV category.

Meanwhile new capacities are likely to be at the higher end of the global cost curve. The potential for increasing production and transportation cost efficiencies appears to be almost fully exhausted, as oil and metal prices have increased, salaries have increased and mining parameters (overburden ratios and transportation distances) have deteriorated. Meanwhile Indonesia, the largest exporter of coal, has seen a gradual depletion of its high-CV reserves.

As China remains one of the largest coal importers, its regulation of local production and prices will also influence international prices in the medium term, though mostly lower-CV. In 2016-2017, China completed 50% of its programme to shut down 800 Mt of inefficient and dangerous mining capacities by 2020. During this period, less than 280 Mt of capacity was commissioned in China. These newly commissioned enterprises will take some time to launch production, due to significant technical, staff rehiring and security check challenges. In addition, major Chinese producers have been maintaining flat production levels to keep prices high.

In January 2017, China introduced a domestic spot prices regulation scheme – ‘corridor mechanism’, to reduce price volatility and ensure sustainable relationships between coal and power companies. This mechanism stipulated a cap of 600 CNY/t (equivalent to $86.5/t FOB NEWC) for domestic contractual prices, with higher prices triggering regulatory intervention. Similarly, the floor figure is 470 CNY/t ($66.4/t FOB NEWC), which also entails regulatory action. Overall, in 2017-2018, prices were in the upper range of the corridor. Most market players believe that the scheme will remain in effect until at least 2020 and will continue to influence the global coal market.

Overall, in the next 20 years coal-fired generation will remain the chief source of reliable, scalable and affordable power for rapidly developing countries, where people are in dire need of access to secure and uninterrupted electricity. In other parts of the world, the future of coal-fired generation will depend on cost-effective adaptation to the increasing flexibility of energy systems, as well as toughening environmental and climate regulations.

¹. Global Coal Imports and Exports Outlook by Quality, December 2018 HIS Markit.
Major suppliers of thermal coal to the Russian market include SUEK, Vostsibugol, Russian Coal, Kuzbassrazrezugol and Luchegorsky open pit. Products supplied by these five companies cover approximately 56% of the total demand for thermal coal in Russia. 17% of Russian thermal coal demand is also covered by imports, mainly from Kazakhstan.

Russia's major coal deposits are concentrated in the Siberian and Far Eastern regions of the country: they account for 96% of total production. The largest single region is Kuzbass, where almost 60% of all Russian coal is mined.

Prospects for increasing the consumption of thermal coal in Russia are closely linked to the rising demand for electricity in Siberia. Siberia, where SUEK's energy assets are located, is a developing industrial region, with relatively densely populated cities and good payment discipline. Its gross regional product grew 6% from 2011 to 2016, which translated into 5.94% growth in electricity consumption (with an elasticity coefficient of 0.99 between these two indicators).

Hydroelectric generation provides up to 50% of Siberian power supply, with coal and gas accounting for 48% and 2% respectively. Coal-fired power generation is the most beneficial power supply to the local economy as it consumes local coals.

The aluminium industry is the major consumer of electricity in Siberia, accounting for 30% of demand. Changes in aluminium output therefore significantly influence the energy balance of the region. New aluminium capacities planned for launch by 2025 (Boguchansky and Taishet aluminium smelters) may increase Siberian electricity demand by 9%. There are a number of other industrial and infrastructure projects that may increase the demand for coal-fired power, given the absence of hydropower-generation expansion projects.
Risks and opportunities for SUEK

In the current environment, SUEK is one of the most competitive suppliers to the international market both in the high energy and low energy coal segments. SUEK responds to demand for high-CV coals from the premium Asian Pacific and Atlantic markets, by developing high-quality coal deposits and washing capacities to produce high-calorific-value coal (5,600 kcal per kg and above) with low sulphur content, which already represents over 80% of SUEK’s export portfolio. SUEK’s coal from Tugnui and Urgal also has the low nitrogen content demanded in Japan, where over 70% of coal consumed is above 5,500 kcal per kg. Producing the necessary coal blend, our geographic proximity to Japan, South Korea and Taiwan and our own sales network enable us to continuously enhance our presence in these lucrative markets. Over the past five years SUEK has increased shipments to this region by 40%.

Meanwhile, the development of our own railcar fleet and port capacities has helped us reduce infrastructure restrictions and ensure timely deliveries to our clients.

SUEK’s vertically integrated business model and economies of scale ensure operational efficiency and cost control at every stage of the business cycle. This enables us to maintain our position at the lower end of the global cost curve and generate profitability even during the bottom of the commodity cycle.

The consolidation of the heat and power business in 2018 has provided synergistic opportunities to increase the utilisation rate of the mines that supply locally to our energy assets. As a result, the reliability of fuel supplies to heat and power plants in Siberia, where SUEK plays the role of one of the major energy producers, has increased.

The co-generation of heat and power provides cost savings. SUEK’s power assets operate at a utilisation rate exceeding 50% and work in a combined cycle for nine months of the year. The short transportation routes from the mining sites to the power plants make it possible to utilise all grades of coal, including hard coal fines which cannot be transported over long distances.

SUEK’s power assets have been significantly upgraded over the course of the state-regulated ten-year capacity delivery agreement programme. The new programme and the transfer to the ‘alternative boiler’ method will enable us to modernise our power and heat capacities further.

In 2018, the international community, state authorities, banks and industries, reiterated their environmental commitments at the COP24 climate summit in Poland. All of SUEK’s development projects, both in the Coal and Energy Segments, include investments in environmental initiatives to ensure they comply with international standards of environmental responsibility.

On the financial side, SUEK’s transfer to a multi-product business model with the integration of the heat and power business in 2018 has improved the credit risk profile of the company. It has also decreased revenue volatility and the company’s dependence on global coal prices, making the Group’s financial performance easier to forecast. SUEK has diversified its pool of financing institutions to include Asian banks, to ensure it has access to necessary capital from the countries which are amongst its major consumers.
SUEK’s SWOT analysis

**Strengths**

- Vertically-integrated business model and economies of scale ensuring cost control
- 30+ years of high-quality low-sulphur coal reserves, efficient mining and washing capacities
- Diversified coal portfolio for all key markets, including high-CV coals
- One of the largest global coal sales networks

**Weaknesses**

- Favourable geographic locations of heat and power assets close to fuel supply and large consumers
- Co-generation of heat and power
- Access to funding and prudent financial policy ensuring financial stability
- Effective and transparent ESG programmes

**Opportunities**

- Stable demand for high-CV coals
- New coal applications
- New financing opportunities
- New housing and energy-intensive industrial facilities in the regions where we operate

**Threats**

- Sensitivity of earnings to global coal prices and RUB exchange rate
- Energy CAPEX dependence on state regulations
- Cap on electricity generation output at several assets due to restricted power grids in several regions

- Sensitivity of earnings to global coal prices and RUB exchange rate
- Cap on electricity generation output at several assets due to restricted power grids in several regions

- New power supply agreement programme
- Transfer to the ‘alternative boiler’ tariff

- More stringent CO₂ regulations for power stations
- More stringent CSR requirements from the financial community
- Russian railway infrastructure restrictions
Focused on quality growth

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

Vision
Already the largest coal producer in Russia, our aim is to be one of the world’s leading coal and energy companies. We will achieve this by expanding our existing mining, processing and power generating assets, investing in new production facilities and continuing to develop our logistics systems. We also aim to increase our coal output and heat and power generation from assets located closer to our target markets, while continuing to drive innovation and change across the business.
We are continually looking for opportunities to reinforce our competitive advantage, expand our market share and develop a socially responsible business. Following the consolidation of the power generation business in 2018, we have updated our five strategy pillars and KPIs.

### Priorities

#### FOCUSDING ON EFFICIENT GROWTH
- Efficiently managing our reserves portfolio
- Increasing production of high-quality and high-demand coal products
- Strengthening our position in the Asia-Pacific region and retaining our presence in the Atlantic market
- Increasing sales of metallurgical and sized coal in premium markets
- Consolidating our position in the Russian thermal coal, heat and electricity market

#### IMPROVING OPERATIONAL EFFICIENCY AND PRODUCTIVITY
- Improving operational efficiency and productivity
- Expanding our port capacity to maximise exports
- Developing transport infrastructure and the company’s railcar fleet

### Stakeholders

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>S1</th>
<th>S2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholders</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial stakeholders and potential investors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>State authorities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Power consumers, electricity and coal customers</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Relevant risks

<table>
<thead>
<tr>
<th>S1</th>
<th>S2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk of changes to current legislation</td>
<td>Risk of changes in current legislation</td>
</tr>
<tr>
<td>Regulatory risk</td>
<td>Cyber risk</td>
</tr>
<tr>
<td>Risk of reduction in coal demand</td>
<td>Credit risk</td>
</tr>
<tr>
<td>Risk of reduction in coal prices</td>
<td>Risk of restricted infrastructure availability</td>
</tr>
<tr>
<td>Anti-monopoly risk</td>
<td>Production risk</td>
</tr>
<tr>
<td>Inflation risk</td>
<td>Environmental risk</td>
</tr>
<tr>
<td>Liquidity risk</td>
<td>Human resource risk</td>
</tr>
<tr>
<td>Foreign exchange and interest rate risks</td>
<td></td>
</tr>
<tr>
<td>Emergency risk</td>
<td></td>
</tr>
<tr>
<td>Risk of restricted infrastructure availability</td>
<td></td>
</tr>
<tr>
<td>Production risk</td>
<td></td>
</tr>
</tbody>
</table>

*M1-M14 ARE MATERIAL ISSUES FOR REVIEW SEE PAGES 34-37.*
## S3 MAINTAINING A ROBUST BALANCE SHEET

### Priorities
- Sustaining profit against the cyclical nature of the business
- Maintaining a conservative financial policy

### Stakeholders
- Shareholders
- Financial stakeholders and potential investors
- State authorities

### Relevant risks
- Risk of reduction in coal demand and prices
- Anti-monopoly risk
- Inflation risk
- Credit risk
- Liquidity risk
- Risk of changes in current legislation
- Regulatory risk
- Foreign exchange and interest rate risks
- Emergency risk
- Health and safety risk

## S4 ACHIEVING HIGH SAFETY STANDARDS

### Priorities
- Prevention of accidents

### Stakeholders
- Employees
- Local communities
- State authorities
- Shareholders
- NGOs
- Financial stakeholders and potential investors

### Relevant risks
- Emergency risk
- Health and safety risk
- Environmental risk
- Human resource risk

## S5 COMMITTED TO SUSTAINABLE DEVELOPMENT

### Priorities
- Reducing adverse environmental impacts
- Development and well-being of our employees
- Developing social infrastructure in the regions where we operate

### Stakeholders
- Shareholders
- Financial stakeholders and potential investors
- State authorities
- Employees
- Local communities
- NGOs

### Relevant risks
- Regulatory risk
- Environmental risk
- Human resource risk
Strategy in action

FOCUSING ON EFFICIENT GROWTH

Our objective is to strengthen our presence in stable high-margin international coal markets to provide long-term business sustainability. In Russia we focus on the synergies between coal and energy businesses and the co-generation of heat and electricity to remain a cost-efficient and responsible power producer.

Efficiently managing our reserves portfolio

Increasing production of high-quality and high-demand coal products

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

2018 results

The company maintains a sustainable, high-quality reserves portfolio of thermal and coking coal.

2018 results

SUEK’s total production exceeded 110 Mt for the first time in the company’s history in line with our plan, with hard coal accounting for 65% of total production. The share of washed hard coal rose to 59%, which enabled us to increase the share of high-calorific coal products in our export portfolio to a record 84%.

2018 results

SUEK’s deliveries to Asia increased to 33.1 Mt, due to larger supplies to the premium markets of Japan, South Korea and Southeast Asia. Our sales to the Atlantic market increased by 2% year-on-year due to increased sales to Germany, Denmark and the UK.

KPIs

Reserves

5.2 Bt

Average life of hard coal deposits over 30 years

Coal production

<table>
<thead>
<tr>
<th>Coal production (Mt)</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hard coal production</td>
<td>71.3</td>
<td>72.2</td>
<td>72.1</td>
</tr>
</tbody>
</table>

Share of washed hard coal (%)

<table>
<thead>
<tr>
<th>Share of washed hard coal (%)</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hard coal production</td>
<td>52%</td>
<td>58%</td>
<td>59%</td>
</tr>
</tbody>
</table>

The share of high-calorific coals in exports (%)

<table>
<thead>
<tr>
<th>The share of high-calorific coals in exports (%)</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thermal coal</td>
<td>73%</td>
<td>77%</td>
<td>84%</td>
</tr>
</tbody>
</table>

2019+ plans

Our goal is to maintain a sustainable portfolio of high-quality thermal and coking coal in order to satisfy market demand, customer requirements and our own power generating needs. We will continue to explore and monitor attractive coal deposits.

2019+ plans

We plan to continue developing high-quality deposits and washing capacities, to ensure 100% of exported coal washed. We aim to increase hard coal output at open-pit mines in Buryatia, Khakassia and Khabarovsk. Accordingly, we will develop our washing capacities, building new washing plants in Buryatia and Khakassia and increasing utilisation rate at the Chegdomyn plant in Khabarovsk region.

2019+ plans

We intend to further enhance our presence in Japan, South Korea, and premium markets in Southeast Asia. We plan to continue increasing direct sales through our distribution networks in China, South Korea, Poland and the Baltic states.

1. SUEK’s proved and probable reserves, according to the April 2011 report by SRK Consulting, amounted to 5.9 Bt. Including extraction between April 2011 and December 2018 and SRK assessment of the Apsatsky coalfield carried out in 2015, these reserves stood at 5.2 Bt as at 31 December 2018.

2. Coals with a calorific value of 5600+ kcal per kg.

3. Includes petcoke and other sales.
Increasing sales of metallurgical and sized coal in premium markets

2018 results

International sales of metallurgical coal remained stable at 2.9 Mt, while sales in the Russian market grew by 20% year-on-year, mainly due to an increase in demand from metals producers. Our sized coal sales to the international market in 2018 totalled 3.3 Mt, a 0.7 Mt decline year-on-year, due to redirection of sales into higher priced thermal coal markets.

Consolidating our position in the Russian thermal coal, heat and electricity market

2018 results

SUEK’s domestic coal sales grew by 10% due to increased supplies to its own power generation facilities. The company increased its heat and electricity market shares in Siberia to 40% and 23% respectively. This was due to the acquisition of new assets in the Novosibirsk and Altai regions and the replacement of inefficient stand alone boilers with heat supplied by co-generation heat and power plants.

KPIs

<table>
<thead>
<tr>
<th>Metallurgical coal sales (Mt)</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russian market</td>
<td>0.4</td>
<td>0.5</td>
<td>0.6</td>
</tr>
<tr>
<td>International market</td>
<td>2.7</td>
<td>2.9</td>
<td>2.9</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sized coal sales (Mt)</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russian market</td>
<td>1.3</td>
<td>4.0</td>
<td>3.3</td>
</tr>
<tr>
<td>International market</td>
<td>4.1</td>
<td>5.4</td>
<td>4.5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Coal sales to Russian market (Mt)</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other customers</td>
<td>23.8</td>
<td>24.8</td>
<td>30.2</td>
</tr>
<tr>
<td>Own generation</td>
<td>51.2</td>
<td>53.4</td>
<td>58.4</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Heat generation (million Gcal)</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share in Siberian heat generation (%)</td>
<td>24%</td>
<td>44%</td>
<td>46%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Electricity generation (TWh)</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share in Siberian electricity generation (%)</td>
<td>17%</td>
<td>18%</td>
<td>23%</td>
</tr>
</tbody>
</table>

2019+ plans

We plan to develop our presence in the metallurgical coal export market through selling concentrate from Kirov and coking coal from Apsatsky, and by increasing supplies to customers in this sector in Asia. We also aim to increase sales of sized coal to international markets, mainly to Poland, China and Turkey.

2019+ plans

We plan to increase coal production at Borodinsky to 23.6 Mt in 2019 and further to meet the rising demand. We plan to maintain our increased market share in the Siberian heat and electricity market through capacity upgrades. We will also submit tenders for participation in the DPM-2 state-supported power capacity development programme. In 2019 we will submit our capacity supply proposals for 2022-2025 and will plan our investment programme accordingly.
We constantly drive for increased operational efficiency and productivity to remain one of the most efficient coal and energy producers in Russia and globally.

### Improving operational efficiency and productivity

#### 2018 results

The productivity of mining personnel continued to improve due to the extension of the longwall at Yalevsky mine to 350–400 metres, and the introduction of more efficient open-pit mining equipment.

Capacity utilisation at the power plants remains stable at around 49%, due to the long period of work in the combined generation cycle.

#### KPIs

<table>
<thead>
<tr>
<th>KPI</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Productivity of mining unit production personnel (tonnes per man-month)</td>
<td>489</td>
<td>535</td>
<td>640</td>
</tr>
<tr>
<td>Specific fuel consumption per unit of energy production (gram of equivalent fuel/kWh)</td>
<td>337</td>
<td>338</td>
<td>336</td>
</tr>
</tbody>
</table>

**SUEK**

**Russian average (%)**

<table>
<thead>
<tr>
<th>KPI</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Installed power capacity utilisation rate (%)</td>
<td>43%</td>
<td>44%</td>
<td>43%</td>
</tr>
<tr>
<td>Specific fuel consumption per unit of heat (kg of equivalent fuel/Gcal)</td>
<td>163</td>
<td>162</td>
<td>163</td>
</tr>
</tbody>
</table>

**Share of heat output in co-generation cycle of the total heat output (%)**

<table>
<thead>
<tr>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>95%</td>
<td>96%</td>
</tr>
</tbody>
</table>

#### 2019+ plans

SUEK plans to continue introducing advanced underground mine layouts and upgrading equipment to increase the length of longwalls in other underground mines to 350–400 metres. At our open-pit mines we will optimise loads for excavator and truck units to ensure we increase output and reduce investment costs.

We also plan to construct a conveyor between the Nikolsky mine and Tugnisky washing plant to speed up processing.

We will continue to focus on co-generation of heat and electricity to further optimise the capacity utilisation and fuel consumption.

#### Expanding our port capacity to maximise exports

#### 2018 results

SUEK transshipped a record 37.9 Mt, which is over 80% of the company’s coal exports, through its own ports.

Transshipment increased at the Vanino Bulk Terminal following the recently completed capacity development programme. In March 2018 we delivered a new monthly transshipment record of 2.1 Mt, and the largest bulker ship ever berthed in any Russian port moored at Vanino. Transshipment also increased at the Murmansk Commercial Seaport, where we continued the development programme, including crane renovation, berth reconstruction and environmental activities.

#### KPIs

<table>
<thead>
<tr>
<th>KPI</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transshipment through dedicated ports and share of volume (Mt, %)</td>
<td>36.5</td>
<td>37.0</td>
<td>37.9</td>
</tr>
</tbody>
</table>

**Transshipment volume**

<table>
<thead>
<tr>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>78%</td>
<td>77%</td>
<td>80%</td>
</tr>
</tbody>
</table>

**Share of total volume (%)**

<table>
<thead>
<tr>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>95%</td>
<td>96%</td>
</tr>
</tbody>
</table>

#### 2019+ plans

We will begin upgrading the Vanino Bulk Terminal to reach the shipment capacity of 40 Mt per year.

The company will continue developing the Murmansk Commercial Seaport to achieve the target coal-shipment capacity of 15.5 Mt, including a long-term environmental programme of introducing the best available technologies in line with international best practice, as well as attracting third-party goods, including for the development of the Arctic.

We plan to complete the upgrading of Maly Port in order to increase its capacity to 4 Mt per year.
Developing transport infrastructure and the company’s railcar fleet

2018 results

SUEK’s railcar fleet under management increased to 42,900 units, covering 80% of SUEK’s transportation needs.

We continued the development and introduction of new-generation railcars, designed according to SUEK’s specifications.

The company also continued to collaborate with Russian Railways in the following areas:

– Improving railcar turnover along SUEK’s routes
– Eliminating constraints on infrastructure
– Increasing the capacity of connecting stations and their approaches in Kuzbass, Khakassia and Murmansk, and at Nakhodka-Vostochnaya station in the Far East

KPIs

<table>
<thead>
<tr>
<th>Railcar fleet under management and transportation needs coverage (units, %)</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Railcar fleet</td>
<td>59%</td>
<td>70%</td>
<td>80%</td>
</tr>
<tr>
<td>Transportation needs (%)</td>
<td>27,650</td>
<td>34,300</td>
<td>42,900</td>
</tr>
</tbody>
</table>

2019+ plans

We plan for SUEK managed railcars to continue supplying at least 80% of the company’s needs.

We will continue to develop technology in cooperation with Russian Railways to improve the railcar turnover along SUEK’s routes.

We will continue interacting with Russian Railways and state authorities to attract investment for the development of priority sections of the national rail network infrastructure and approaches to the ports used by SUEK. The first of these will be access routes to the ports in Vanino, Murmansk and Nakhodka. We plan to increase the capacity of our loading stations as production output increases.
S3 MAINTAINING A ROBUST BALANCE SHEET

The company’s goal is to maintain profitability by controlling costs, diversifying cash flow and focusing on premium markets.

### Sustaining profit against the cyclical nature of the business

**2018 results**

Increased coal sales volumes and higher year-on-year international coal prices, as well as the consolidation and expansion of the energy business enabled SUEK to boost its revenue by 20% to $8,296m. A favourable pricing environment and cost control contributed to EBITDA growth of more than 23%, with the EBITDA margin increasing to 31%.

### Maintaining a conservative financial policy

**2018 results**

Despite the large-scale CAPEX programme, the company maintained its Net debt/EBITDA ratio well within the limits required by SUEK’s credit facilities.

### 2019+ plans

In 2019, the company plans to sustain its profitability by maintaining cost control and focusing on high-margin markets.

### 2019+ plans

In 2019, we plan to maintain the optimal ratio of Net debt/EBITDA within the target KPI.

---

**KPIs**

<table>
<thead>
<tr>
<th>KPIs</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue ($m)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>4,002</td>
<td>5,079</td>
<td>5,956</td>
</tr>
<tr>
<td>Coal</td>
<td>3,668</td>
<td>2,754</td>
<td>2,688</td>
</tr>
<tr>
<td>Energy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>7,670</td>
<td>9,687</td>
<td>9,624</td>
</tr>
<tr>
<td><strong>Net debt/EBITDA (ratio)</strong></td>
<td>2.9</td>
<td>2.0</td>
<td>1.6</td>
</tr>
<tr>
<td><strong>EBITDA ($m)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Energy</td>
<td>989</td>
<td>1,514</td>
<td>1,973</td>
</tr>
<tr>
<td>Coal</td>
<td></td>
<td>552</td>
<td>568</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>989</td>
<td>1,514</td>
<td>1,973</td>
</tr>
<tr>
<td><strong>EBITDA margin (%)</strong></td>
<td>25%</td>
<td>30%</td>
<td>31%</td>
</tr>
<tr>
<td><strong>Operational cash flow/cash CAPEX (ratio)</strong></td>
<td>1.2</td>
<td>2.3</td>
<td>2.1</td>
</tr>
</tbody>
</table>

---

The company’s goal is to maintain profitability by controlling costs, diversifying cash flow and focusing on premium markets.
Prevention of accidents

2018 results

A strict focus on safety, wider introduction of digital control systems and new equipment enabled SUEK to decrease its LTIFR in both its coal and power businesses.

SUEK developed its monitoring and safety alert systems further.

We added new control subsystems, including dynamic phenomena, local ventilation fans, fire water supply, pumping stations and power supply within our mines.

In 2018, there were no fatal group accidents in SUEK. Regrettably, there were six single fatal accidents at our operations.

KPIs

<table>
<thead>
<tr>
<th>LTIFR (ratio)</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy</td>
<td>1.0</td>
<td>0.47</td>
<td>0.29</td>
</tr>
<tr>
<td>Coal</td>
<td>0.75</td>
<td>0.57</td>
<td>0.47</td>
</tr>
</tbody>
</table>

In 2018, SUEK’s coal assets were certified for compliance with the requirements of the Bettercoal Code.

Bettercoal is a global not-for-profit membership-based organisation set up by a number of leading European energy utilities to advance continuous improvement of corporate social responsibility, including social, environmental, and ethical practices, in the coal supply chain.

Bettercoal experts noted that SUEK has a coherent management structure at corporate and site levels, with the capacity to implement sustainability policies and apply good business practices in order to fulfil its commitment to the Bettercoal Code.

A significant role in the positive assessment of SUEK was played by the availability of the compliance system: its implementation and distribution to employees is indicated in the report as a best practice.

Passing the audit increases the company’s competitive advantages in contracting volumes to European coal consumers.

2019+ plans

We will continue to promote our occupational safety culture, including zero tolerance to accidents, across all of SUEK’s units.

We plan to deliver additional personnel training programmes to help limit accidents at our sites.

SUEK will continue investing in the development of monitoring and safety alert systems.
COMMITTED TO SUSTAINABLE DEVELOPMENT

Our aim is to contribute to global energy security by producing coal and power safely while also delivering value to all our stakeholders.

Reducing adverse environmental impacts

2018 results
We focused on air emissions and water consumption minimisation in the energy business. SUEK’s air emissions from power facilities remained flat well below the required limit. We started replacement of inefficient boiler houses with supply from co-generation power plants. We also upgraded cleaning equipment, wet gas cleaning systems for flue gases and electric filters at the power plants.

We also continued to develop our coal washing capacities, which resulted in reduced emissions during the transportation and use of our products. Higher-performance transshipment and dust-suppressing equipment installed at the Vanino Bulk Terminal and Murmansk Commercial Seaport enabled us to further reduce the environmental impact of our ports.

SUEK ports in 2018 received certificates of environmental management ISO 14001, Clean Port voluntary certification system, as well as from the Japanese Nomura Research Institute. Water consumption by power facilities decreased due to the implementation of measures for the prudent use of natural resources, such as closed water cycle use and others.

We also launched a major resource-saving project to reuse ash and slag waste from power generation and incorporate them back into our processes, including for mine rehabilitation. The company’s coal assets were certified for compliance with the requirements of the Bettercoal Code.

KPIs

<table>
<thead>
<tr>
<th>Air emissions from power facilities (CO, NOx, SO2) (Kg/kWh)</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.008</td>
<td>0.008</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Waste utilisation of the total waste (%)</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy</td>
<td>77%</td>
<td>73%</td>
</tr>
<tr>
<td>Coal</td>
<td>11%</td>
<td>19%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Water consumption by power facilities (m³/kWh)</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.050</td>
<td>0.048</td>
</tr>
</tbody>
</table>

2019+ plans
SUEK aims to minimise its environmental impact through environmental programmes, including projects to reduce air and water emissions, and projects to increase waste recycling.

We will continue our initiatives to reduce air emissions from our power plants including the construction of taller chimneys and the installation of filters. We will also proceed with the substitution of inefficient stand alone boilers with co-generation power plant heat.

We will also continue to develop our coal washing facilities to enhance the calorific value of our products, which reduces air emissions and energy use during coal transportation, transshipment and combustion.

Development and well-being of our employees

2018 results
Employee turnover in 2018 remained flat in the Coal Segment and increased by 7.7 p.p. in the Energy Segment due to the administrative staff optimisation implemented as part of the consolidation.

We focused on the measures to attract and retain talent:
- work to increase the internal mobility of employees between the company’s enterprises and regions
- continued implementation of the housing assistance programme
- a comprehensive programme to attract young people

KPIs

<table>
<thead>
<tr>
<th>Employee turnover (%)</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy</td>
<td>14.4%</td>
<td>14.5%</td>
<td>14.5%</td>
</tr>
<tr>
<td>Coal</td>
<td>11.5%</td>
<td>14.8%</td>
<td>15.2%</td>
</tr>
</tbody>
</table>

2019+ plans
We will continue to run programmes aimed at improving employee development and the well-being and satisfaction of our employees and their families.

We will also continue the process, initiated after the consolidation of the energy business, of unifying the Group’s corporate values systems. This aims to develop common principles and approaches, in order to develop a strong corporate culture. It will also extend SUEK’s Code of Corporate Ethics and its implementation system across the Group.

1. SUEK’s coal air emissions and water consumption account for less than 6% of the Group’s total air emissions and water consumption.
Developing social infrastructure in the regions where we operate

2018 results
During the year, SUEK provided around 64,000 jobs and paid $633m taxes in Russia. SUEK delivered over 220 social and charitable projects in the regions where we operate, increasing community investment by over 70% to $38m.

The number of new organisations contributing to community development (‘growth points’) increased steadily thanks to the active involvement of local populations in social entrepreneurship programmes.

KPIs

<table>
<thead>
<tr>
<th>Growth points</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>70</td>
<td>78</td>
<td>80</td>
</tr>
</tbody>
</table>

2019+ plans
We will continue our long-term commitments to developing social infrastructure and supporting local communities in the regions where we operate.

We will also continue to collaborate with regional and municipal governments to develop local social and educational infrastructure.
TO DEFINE MATERIALITY IN 2018, WE:

1. Surveyed key company employees regarding the importance and priority of the relevant matters defined in 2017 for the year 2018, and added other matters they considered significant.

2. Surveyed external stakeholders regarding the importance and priority of these matters, and added other matters they considered significant.

3. Updated our Materiality Matrix based on internal and external surveys.

4. Prioritised material matters.

In defining our strategic priorities and the content of our corporate reports, we analyse the matters that are most important to the company, our value-creation processes and our stakeholders.

Continuous monitoring of our operational, financial and social activities, along with the identification of interrelated and significant material matters, gives us a better view of the impact that our business has on the world around us, and of how our future value creation may be impacted by our stakeholders.
We define ‘material matters’ as those which are significant to the company’s value creation potential, and those which are important to our key stakeholders.

In preparing our 2018 Annual Report, we conducted a thorough analysis of the external and internal environment, carried out surveys among our employees, and interacted with a number of external stakeholders to expand the survey scope due to the energy business consolidation. Through this process, we identified relevant matters which we believe are important for the growth, success and sustainability of our business, such as reputation, financial performance, delivery of strategy and licence to operate.

The updated Materiality Matrix was used to assess the company’s long-term goals and strategic priorities, as well as develop this Report.

In total, we identified 14 key issues, of which the first six were deemed the most material for the year:
<table>
<thead>
<tr>
<th>Material issue</th>
<th>Context 2018</th>
<th>Impact on our value creation</th>
<th>How we responded</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>M1</strong> Financial stability and development prospects</td>
<td>In 2018, the international debt market tightened sanctions against Russian companies due to geopolitical reasons. Restrictions on the financing of coal projects, imposed by a number of banks following the Paris Climate Change Agreement, continued.</td>
<td>Inability to finance our operating activities could adversely affect the company’s operations and business as a whole. Limited diversification of our international debt portfolio and the necessity to attract higher-cost financing from Russian banks instead of coal-exiting European banks may impact SUEK’s financial results.</td>
<td>The diversification of the international debt portfolio to include Chinese and Japanese banks helped SUEK to attract the necessary financing in the form of pre-export finance facility from a pool of international banks. Consolidation of the energy business diversified SUEK’s cash flow decreasing EBITDA dependence on volatile global coal prices and ensured predictable and stable financial results, enabling the Group to upgrade its credit rating.</td>
</tr>
<tr>
<td><strong>M2</strong> Product quality and high-value products</td>
<td>In 2018, the demand for high-CV coal remained at a consistently high level due to the growing number of new, high-efficiency coal-fired power plants consuming premium-quality coal, and because of tighter environmental standards. At the same time, the market experienced a shortage of coal with a calorific value of 6,000 kcal/kg, which led to a sharp rise in quotations and an increase in the price difference between low and high-CV coals. In Russia, the issue of the quality of heat energy supplies is becoming increasingly important for consumers. Due to increasing deterioration of heat networks, there are risks of interruptions in the supply of heat energy.</td>
<td>Stricter requirements from new coal-fired power stations and tighter domestic and international environmental standards of coal quality may result in a lower demand for lower-grade coal. This trend could influence the company’s financial and operational performance. Accidents on heat networks and restrictions in the supply of heat reduce customer satisfaction with the quality of services.</td>
<td>We invest in the development of high-grade coal deposits and improve washing capacities to meet demand for higher-quality products from international markets. In 2018, SUEK increased its share of washed hard coal to 59% and began the construction of new washing plants in Buryatia and Khakassia. In the energy sector SUEK has developed, and proposed to local authorities, investment projects for the modernisation of heat supply systems in the cities where SUEK operates, which will significantly improve the quality of heat supply.</td>
</tr>
<tr>
<td><strong>M3</strong> Industrial safety and emergency preparedness</td>
<td>Coal mining is associated with high production risks related to natural and man-triggered hazards, mining and geological factors, regularly changing working conditions and the human factor. Work at power plants and heat networks is also associated with high risks to human life and health. Despite all our efforts, in 2018 there were six fatal accidents at the company’s facilities.</td>
<td>Industrial accidents and emergencies may potentially result in a number of tragic and adverse consequences: loss of life, direct property or environmental damage, temporary suspension of operations and, consequently, losses and fines, social unrest, or damage to business reputation. They may encourage partners to discontinue business relationships or lenders to demand early loan repayments.</td>
<td>We continued implementation of comprehensive programmes improving the level of industrial and labour safety, introducing the best international practices. We thoroughly investigated all accidents and incidents, analysed their causes and took actions to prevent their re-occurrence in the future, and reiterated our commitment to zero tolerance for accidents and breaches of safety requirements. The Lost Time Injury Frequency Rate (LTIFR) dropped to 0.75 for the mining and to 0.29 for the energy facilities. These figures are among the lowest for the coal and energy industries in Russia and abroad.</td>
</tr>
<tr>
<td>Material issue</td>
<td>Context 2018</td>
<td>Impact on our value creation</td>
<td>How we responded</td>
</tr>
<tr>
<td>----------------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>M4 Environmental impact of the company’s operations</td>
<td>Environmental responsibility issues are becoming increasingly important for SUEK’s product consumers, financial institutions and potential investors. Consolidation of the energy business brought additional attention to our environmental programmes from non-governmental, environmental, financial and other dedicated organisations.</td>
<td>In the event of environmental damage or degradation, there may be claims from supervisory bodies, as well as on the part of financial institutions and potential investors. These claims could, in turn, influence the company’s production and financial performance indicators; negatively affecting our ability to raise funds through the debt market.</td>
<td>In 2018, SUEK continued the implementation of its Environmental Strategy adopted in 2017 and extended its effect on energy facilities. The fundamental principle of this strategy is to minimise our environmental impact by reducing harmful emissions and maximising the recycling of production waste. The company constantly monitors emissions at power plants. In 2018, an environmental programme was launched at Krasnoyarskaya CHPP-1 related to the modernisation and replacement of inefficient boilers. As in the Coal Segment, the company seeks to recycle waste and, in 2018, ash and sludge waste and from power generation began to be transformed into materials for land reclamation and construction. SUEK increased investment in environmental protection by 144% year-on-year. The company also raised coal washing rates, thereby reducing the environmental impact of our products during their transportation and use. The company’s coal assets were certified for compliance with the requirements of the Bettercoal Code.</td>
</tr>
<tr>
<td>M5 Corporate governance and risk management</td>
<td>Our key stakeholders in Russia and abroad have traditionally paid much attention to transparency, corporate governance and risk management. Energy business consolidation posed new integration challenges that can ensure sustainable corporate governance, including risk management.</td>
<td>Lack of transparency in corporate governance and non-compliance with national regulations can lead to additional requests from state authorities, lenders and business partners. It can also impact the company’s operations as claims to the company are increased.</td>
<td>We strive to consistently develop our corporate governance, relying on the best Russian and global practices. The consolidation of the coal and energy businesses allowed the management of the integrated company to aggregate the best practices of both entities in various areas of management, risk management and internal control, and to extend them to the entire Group.</td>
</tr>
<tr>
<td>M6 Operational efficiency</td>
<td>SUEK continued to focus on production efficiency and cost optimisation in order to maintain profitability and competitiveness in the global market. Furthermore, tighter environmental regulations following the Paris Agreement and an increase in the number of HELE coal-fired stations have increased demand for higher-quality coal.</td>
<td>Inefficient production processes can increase costs and decrease product quality, consequently diminishing the company’s competitive advantages.</td>
<td>SUEK carries out modernisation programmes, substituting outdated equipment at mining and washing facilities and ports with more efficient and innovative items. We achieved record coal production levels of 110.4 Mt. The consolidation of the coal and energy businesses made it possible to improve the Group’s operational efficiency, tighten control over all stages of the operational cycle, optimise utilisation rates at mining facilities and fuel supplies to generating companies and refine administrative functions within the consolidated company. As a result, the company’s EBITDA margin remained at the target level.</td>
</tr>
</tbody>
</table>
Effective stakeholder engagement is an important part of how SUEK operates. Our stakeholder relationships are built on the basis of open dialogue and mutual trust. This enables us to understand and respond to the interests and expectations of key stakeholders.

We determine our key stakeholders by assessing the impact that different groups have, or might have, on our performance, as well as the impact that the company has on their well-being. When building stakeholder relationships, the basic principles we adhere to are defined in SUEK’s Code of Corporate Ethics and Information Policy.

They include the following:
- Regulation of stakeholder relations by law in Russia and other countries where SUEK operates
- Respect for the interests of all stakeholders, and the promotion of active cooperation based on honesty, transparency and mutual respect
- Informational transparency
- Compliance with ethical standards relating to business conduct

When interacting with stakeholders regarding material matters, we use a comprehensive communications system. This system helps ensure the completeness, timeliness, objectivity, reliability and consistency of information, as well as providing open access to this information. In 2018, in addition to traditional channels, SUEK significantly expanded its communications with employees, residents of SUEK’s operating regions and thermal energy consumers via social networks.

In 2018, to ensure feedback is as objective as possible, the company held opinion polls in the regions where SUEK operates. The polls covered 11 regions of the Russian Federation, and over 17,500 people participated.

Following the consolidation of SGC, our stakeholders now also include consumers of heat and electricity, as well as employees and residents in the regions where SGC supplies energy.
<table>
<thead>
<tr>
<th>The company’s stakeholders</th>
<th>Relevant material issues</th>
<th>Channels and formats of engagement</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Customers</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| We focus on providing high-quality service, which means ensuring seamless, uninterrupted and timely delivery of coal shipments. We are constantly improving our product quality and we strive to personalise our approach with each and every one of our customers. We develop new customer services when working with consumers of heat, and build direct relationships with them. | M1 M2 M4 M6 | – Cooperation agreements  
– Conferences and exhibitions  
– Business meetings  
– Claims resolution and accounting systems  
– Corporate reporting  
– Corporate media system  
– Online coal purchase form on the corporate website  
– Personal account on the company’s website and mobile application for heat consumers  
– Centres for consumers of heat  
– Hotline on issues of heat supply |
| **Shareholders**           |                         |                                   |
| We seek to ensure sustainable growth for the company and increase its long-term value for the benefit of our shareholders. We always respect shareholders’ rights and provide full access to the required company data. | M1 M2 M3 M4 M5 M6 | – General Meeting of Shareholders  
– Corporate reporting  
– Corporate media |
| **Financial stakeholders and potential investors** | | – Meetings with banks and potential investors  
– Corporate reporting  
– Corporate website, press releases and investor presentations  
– Site visits |
| Our financial stakeholder and potential investor relations are focused improving the company’s investment case through the development of our corporate governance and financial profile. We aim for maximum disclosure of relevant information in this area, including information regarding the company’s strategy and operational and financial performance. | M1 M2 M4 M5 | – Meetings with banks and potential investors  
– Corporate reporting  
– Corporate website, press releases and investor presentations  
– Site visits |
| **Employees**              |                         |                                   |
| We offer fair remuneration, fulfil our social commitments and offer professional and personal development and training to our staff. We also aim to improve labour efficiency and safety, protect the health of our employees and implement social programmes to raise living standards for them and their families. SUEK is actively engaged in the development of the regions where it operates. | M1 M3 M6 | – Staff training and development  
– Meetings between management and employees  
– Corporate media  
– Staff opinion surveys  
– Agreements with trade unions and collective arrangements  
– Social programmes and corporate medical programmes  
– Multi-channel hotline |
| **Suppliers and business partners** | | – Cooperation agreements  
– Business meetings  
– Conferences and exhibitions  
– Open tenders  
– Participation in professional Russian and international unions and organisations  
– Section of website www.SUEK.ru that is dedicated to suppliers  
– Publications in the media |

1. For 2018 material issues review, see pages 34-37.
The company’s stakeholders | Relevant material issues | Channels and formats of engagement
---|---|---
State authorities | Our key objectives in cooperating with state authorities include the following: the development of close cooperations and partnerships to improve the competitiveness of the national and regional economies; the promotion of social development throughout the regions; and the creation of solutions to environmental problems. The company’s interaction with the state is based on strict adherence to all applicable laws and requirements. Government agencies also call upon our industry expertise to help with strategic decision making on Russian fuel and energy issues and purpose-oriented programmes. | – Social and economic partnership agreements
– Joint working groups
– Committees and conferences
– Round tables and meetings
– Corporate reporting
– Publications on SUEK website

Local communities in the regions where we operate | In our interaction with local communities, we aim to jointly develop social infrastructure, create human capital, implement social activities and deliver projects focused on environmental protection. We implement social and charitable projects in healthcare, education, housing improvement and development. We also provide communal services, culture, sport and business development initiatives, as well as support to disadvantaged social groups. In addition, we actively encourage and enable local communities to get involved in solving urgent social problems, which is a prerequisite for sustainable development. | – Employment of local population
– Social, charity and environmental projects
– Public hearings and round tables
– Seminars and conferences
– Corporate reporting
– Our corporate media system
– Publications in the media
– Publications on SUEK website
– Excursions for representatives of the local community to the company’s mining, washing and generating facilities

Expert organisations and NGOs | Engagement with expert and public organisations allows us to receive feedback on how to deliver better business, social and environmental outcomes. We engage specialist organisations and NGOs in the study, evaluation and implementation of social projects and programmes in the field of environmental management. Our relations with such organisations rely on open dialogues, transparency and parity. | – Joint implementation of social projects
– Seminars and conferences
– Round tables and working groups
– Corporate reporting
– Publications on SUEK website

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1. For 2018 material issues review, see pages 34-37.
Effective risk management is essential for us to achieve our strategic goals. We are committed to continually improving our risk management system in order to identify external and internal risks and develop effective mitigation processes.

**SUEK’S RISK MANAGEMENT SYSTEM**

**Board of Directors**
- Overseeing the company’s risk management system and its development

**Audit Committee**
- Assessing the effectiveness of the company’s internal control and risk management systems
- Supervising the preparation of financial statements and audit performance
- Supervising the operation of the Internal Control and Audit Service

**Nomination and Compensation Committee**
- Supervising the following areas and relevant risks KPIs:
  - Health and safety
  - Environmental performance
  - Effectiveness of the company’s social policy

**Strategy Committee**
- Supervising the company’s overall strategy, strategic plans, operational and investment goals, whilst taking into account all relevant risks

**Internal Control and Audit Service**
- Assessing the risk management system
- Evaluating the corporate governance system
- Evaluating the effectiveness of operations
- Assessment of compliance with external and internal regulatory requirements
- Assessment of the reliability of the company’s external and internal reporting

**Management Board**
- Introducing processes to improve the company’s risk management and internal control systems
- Identifying risks, assessing them in a timely fashion, and taking measures to mitigate them
- Promoting a company culture of risk awareness

**Business units – risk owners**
- Operational control, monitoring and risk management during all day-to-day operations

**Risk Management Committee of the Management Board**
- Reviewing the company’s risks and evaluating the final risk matrix
- Monitoring the risk management and mitigation process
SUEK has a corporate risk management system, which is continually enhanced through the development of new measures to minimise risks across the company. The company’s management is fully informed on all significant risks and approves all key parameters for the risk management system. We give full consideration to risk management issues and processes in our strategic planning and they influence all of our operational decisions.

Our Management Board controls and monitors the company’s risk management system, working closely with the Audit Committee of the Board of Directors. The process of risk management is carried out in accordance with the risk management procedure. It is developed and approved by SUEK’s Risk Management Committee, which factors in both the specifics of the Group and recommendations of Russian and international risk management standards. This procedure includes the main objectives and principles of risk management, and methods for identifying, assessing and mitigating the risks we face.

SUEK also has an Internal Control and Audit Service, which provides independent assessment and prepares recommendations for improving a number of systems, including the risk management system. The Internal Control and Audit Service applies a risk-based approach to planning its work, whilst taking into account the external environment and the company’s performance, focus areas of the management and Board of Directors and risk assessment results.

We monitor changes in risk levels through our established risk map, which is reviewed annually. To achieve independence and compliance with the company’s approved strategy, we carry out a thorough risk assessment once a year by assigning a risk category based on the possible damage if the adverse situation occurs, and the risk probability category. This approach allows us to analyse identified risks and determine which are the most significant in each area of the company’s operations. The responsibility for managing specific risks is delegated to the employees of relevant departments.

The Risk Management Committee holds meetings at least once a quarter, in which it considers any changes within the area of controlled risks. Where appropriate, adjustments are made to the risk management action plan and the risk management system. The Risk Management Committee also ensures cross-functional interaction between senior managers and internal operational experts. Employees responsible for managing certain types of risks devise appropriate responses to emerging issues, and inform the Risk Management Committee of all measures taken to mitigate the risks in question.

In order to ensure we are prepared to respond quickly to any adverse developments, we continuously monitor and analyse trends in key markets and related industries. We also monitor the macroeconomic environment, both in Russia and in countries that import SUEK’s products. Based upon this analysis, we can further adjust the company’s production, sales and financial policies.

In early 2018, the Risk Management Committee analysed the risk map for 2017. Following this, it submitted a report on the risk management structure and process to the Audit Committee of the Board of Directors, which commended the Risk Management Committee for its efficient work. The Committee also reviewed and approved a new risk map for 2018.

Q. What were the priorities of the risk management system in 2018?
A. During 2018, the Risk Committee considered matters related to increased restrictions around the use of coal as a result of international and national regulatory decisions and PR campaigns.

The Committee also focused on issues relating to IT, insufficient railway infrastructure and the integration of the energy business.

Q. What changes do you plan to make to the risk management system following the consolidation of SGC?
A. We have already made a number of updates to the Group’s risk management system. We have created a consolidated methodology and identified and assessed key risks related to the heat and power industry. The consolidation of the energy business has led SUEK’s Risk Committee to increase its risk management activity and responsibilities.

The company’s management team prepared and assessed a list of risks relating to the energy business and has started to develop measures required to minimise them. In 2019, these risks will be consolidated into a common risk map.

VALERY DMITRIEV,
DIRECTOR FOR TAXES, RISK MANAGEMENT AND INSURANCE
Review of key risks

Below we set out a list of the major potential risks to SUEK’s operational and financial performance. Whilst this report highlights the key risks, there are other less major inherent risks, not listed below, that may have an adverse impact on SUEK’s performance.

1. This report was compiled using SUEK’s risk map for 2018, which was approved at the end of 2017 and did not contain risks related to the energy business; energy risks are included in the risk map for 2019.
## EXTERNAL RISKS

<table>
<thead>
<tr>
<th>Description of risk and its potential impact</th>
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<th>Actions to mitigate the risk</th>
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</thead>
<tbody>
<tr>
<td><strong>1. Risk of changes in current legislation</strong></td>
<td></td>
<td>We constantly monitor proposed projects to amend legislation, as well as Russian legislation and other regulatory requirements. We also review and summarise law enforcement practices, taking into consideration the company’s operation. This enables us to quickly adapt our business processes and organisational structure to any changes in the legislative environment, and to operate in full compliance with the current regulatory and legal framework.</td>
</tr>
<tr>
<td>The company follows Russian statutory regulations and other regulatory acts in the jurisdictions where it produces and sells its products. We also abide by the regulations of the countries and regions from which the Group imports goods and services. In Russia, changes in legislation can relate to tax, customs and foreign exchange regulations, securities market law, anti-monopoly and corporate law, licensing and mineral resources law, power industry law and judicial practices. Changes can also arise through the tightening of environmental protection requirements. SUEK’s business can be significantly affected by decisions made by Russian governmental agencies to impose tariffs, quotas, trade restrictions, restrictions on the ownership rights of non-residents, subsidies, licensing and anti-monopoly policies, and refinancing rates. SUEK’s companies can also be affected by unfavourable regulatory acts implemented by foreign authorities. Such changes can involve additional controls on exporting coal and its subsequent sale in certain countries and regions. Changes can also result in special conditions for importing goods and services to Russia. International sanctions against Russian individuals and legal entities, as well as industry (sectoral) sanctions, can also restrict certain sectors of the Russian economy. Currently, the sanctions in place do not directly target Russia’s coal and energy industry, the Group’s companies or their operation. However, a number of economic limitations do currently affect our business and necessitate special control in the selection of counterparties (while closing financial deals, for example). They also affect the availability of financial resources across the Russian market in general, and make it difficult for companies operating in Russia to import certain types of equipment.</td>
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<tr>
<td><strong>2. Regulatory risk</strong></td>
<td></td>
<td>We make every effort to comply with current legislation and minimise the risk of operations at our production units being suspended. We rigorously monitor any changes in the legislative environment. SUEK’s companies have implemented procedures to ensure compliance with licence requirements for timely renewal or new applications. If any discrepancies with licence requirements are detected, we strive to complete the instructions from the regulator as quickly as possible. We also seek to adjust our product quality in line with the regulations of the countries where our customers operate.</td>
</tr>
<tr>
<td>Our production operations are governed by numerous laws and regulations, covering natural resource management, mineral exploration and mining, healthcare, industrial safety and the power industry. Coal-mining licences obtained by production companies can be suspended, terminated ahead of schedule or left unrenewed upon expiry. These risks are mostly dependent on the decisions made by regulating and supervisory agencies (Rosnedra, Rosprirodnadzor) holding scheduled and ad hoc inspections at the Group’s companies. Changes in national environmental and labour regulations may also influence the thermal coal market.</td>
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<tr>
<td>Description of risk and its potential impact</td>
<td>Change over the year</td>
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<tr>
<td><strong>3. Risk of emergency situations</strong></td>
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<tr>
<td>Coal mining is inherently dangerous because of geological, seismic and other natural factors. The risk of accidents and emergency situations at our production facilities is therefore constant and requires due diligence, robust management and mitigation. Preventing fatal accidents and decreasing the number of injuries we experience, both due to emergencies and on an ongoing basis, is one of the company’s most important tasks. Damage to, or destruction of, property because of explosions, fire or failures in equipment operation can result in direct losses. The costs of emergency response and recovery, as well as forced downtime at individual production units, can also negatively impact the Group’s financial results.</td>
<td></td>
<td>We continuously monitor hazards at all operational stages, paying close attention to safe production processes, procedures and geological conditions at all mining sites. All accidents and incidents are thoroughly investigated by experts from special panels. Based on the results of their work, we prepare packages of measures to prevent similar accidents from happening in the future.</td>
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<tr>
<td><strong>4. Risk of reduction in coal prices</strong></td>
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<tr>
<td>The company’s business may be affected by a decline in demand for coal and a reduction in coal prices due to oversupply or a rise in demand for other types of fuel. A reduction in global prices for coal and natural gas (the main types of fuel in the power industry) is a key factor which could change the situation for the worse.</td>
<td></td>
<td>We continuously monitor and forecast the price behaviour of commodities in general and coal in particular. We also monitor trade policies relating to long-term contracts. We constantly analyse the correlation between demand trends, coal mine closure, opening and expansion and the postponement of development projects.</td>
</tr>
<tr>
<td><strong>5. Anti-monopoly risk</strong></td>
<td></td>
<td>SUEK has implemented procedures ensuring full compliance with the applicable anti-monopoly regulations.</td>
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</table>

**Company ability to influence the risk:**

- **No influence**
- **Partial influence**
- **Significant influence**
## Description of risk and its potential impact

<table>
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<tr>
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<th>Change over the year</th>
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</tr>
</thead>
</table>
| **6. Risk of reduction in coal demand**     |                      | We wash our coal to improve its quality, enabling us to meet demand for higher-value products from international markets.  
We constantly monitor the production, sales and market environment within the industry, and prepare coal-demand forecasts based on studies and reports by investment analysts.  
We diversify our sales to stable and growing markets to make up for declining sales in slowing markets. We also expand our presence in emerging markets and participate in projects to develop new technologies for coal-fired power generation. |

- Reduced use of coal by power generating companies and the emergence of alternative fuels may result in lower demand for coal. This trend could adversely impact the Group's performance.  
Tighter international environmental standards on coal quality and production conditions coupled with lower consumption by generating companies could also result in reduced demand for the coal we produce.  
SUEK’s focus on increasing the shipments of high-CV products and the redistribution of sales to stable (South Korea, Japan) and emerging markets (Vietnam, the Mediterranean) allowed us to push up sales. |

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<tr>
<th>STRATEGIC PRIORITIES</th>
<th>MATERIAL MATTERS</th>
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</thead>
<tbody>
<tr>
<td>S1</td>
<td>M1</td>
</tr>
<tr>
<td>S3</td>
<td>M2</td>
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<tr>
<td>FOR MORE DETAILS, SEE MARKET FUNDAMENTALS ON PAGES 16-22.</td>
<td>M6</td>
</tr>
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## 7. Cyber risk

Today, protection against cyber risks, including cyber-attacks, employee errors and data leakage, is very important. Effective management of these risks helps us minimise and avoid the leakage of confidential information, network security breaches, problem notification costs, system recovery costs, cyber extortions, and protection costs associated with regulatory requirements.

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<tr>
<td><strong>7. Cyber risk</strong></td>
<td></td>
<td>We carefully monitor our compliance with IT security standards. SUEK is developing a system designed to limit access to IT systems, whilst upgrading its IT infrastructure, bringing it into compliance with corporate standards and best practice.</td>
</tr>
</tbody>
</table>

- We took comprehensive actions to improve the security level of the office and process infrastructure (installation of additional mail traffic protection, higher security of the corporate Wi-Fi network, introducing the concept of 'Hybrid and Cloud Infrastructure').  
We constantly monitor our compliance with IT security standards. SUEK is developing a system designed to limit access to IT systems, whilst upgrading its IT infrastructure, bringing it into compliance with corporate standards and best practice. |

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<td>S2</td>
<td>M5</td>
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## 8. Foreign exchange and interest rate risks

Changes in market indicators, such as currency exchange and interest rates, can have an adverse effect on the Group’s financial performance. They can also impact our debt burden and the value of the financial instruments on the company’s balance sheet. Currency and interest rate risks need to be managed to mitigate unfavourable fluctuations in these areas.

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<tr>
<td><strong>8. Foreign exchange and interest rate risks</strong></td>
<td></td>
<td>SUEK analyses the risks relating to changes in currency exchange and interest rates on a regular basis. We strive to keep these risks within acceptable limits, and to achieve optimal profitability where possible. We also make use of ‘natural hedging’ as a significant part of the company’s revenue, and the majority of our loans are denominated in US Dollars.</td>
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<td>S3</td>
<td>FOR MORE DETAILS, SEE FINANCIAL REVIEW ON PAGES 78-83 AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS ON PAGE 147.</td>
</tr>
</tbody>
</table>
### 9. Inflation risk

Rising inflation rates in the countries where SUEK conducts its operations and individual business transactions can result in higher production costs.

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<td>In order to ensure the appropriate level of protection, we hedge inflation risks by using derivatives and investing available cash assets in a stable foreign currency. Most export contracts for coal are concluded in US Dollars, which largely compensates for the effect of inflation in Russia on the Group’s EBITDA.</td>
</tr>
</tbody>
</table>

**STRATEGIC PRIORITIES**
- **S1**
- **S3**

**MATERIAL MATTERS**
- **M1**

### 10. Credit risk

Increase in overdue receivables under domestic coal supply contracts, and the transition of overdue receivables to problematic or collectible accounts, can result in direct losses for the company and restricted access to debt capital markets.

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<td>We focus on liaising with the financial departments of regional governments where we supply coal. The aim here is to improve or establish a mechanism which ensures timely payments by housing and public utility companies, as well as upfront payment clauses in supply contracts. The company may suspend coal deliveries to customers who carry debt, and if necessary re-direct supplies to more financially reliable customers – for example, retail and small-scale wholesale buyers using our own storage network.</td>
</tr>
</tbody>
</table>

**STRATEGIC PRIORITIES**
- **S1**
- **S3**

**MATERIAL MATTERS**
- **M1**

**FOR MORE DETAILS, SEE FINANCIAL REVIEW ON PAGE 79.**

### 11. Liquidity risk

Liquidity risk is directly related to cash turnover. It arises if the company cannot fulfil its payment obligations. It is often linked to the effects of inflation, foreign exchange and interest rate risk. The effective management of liquidity risk requires maintaining an adequate level of cash and cash equivalents while ensuring the prompt raising of funds using available lines of credit. Liquidity risk also arises from decreases in coal sales volumes or price, which can result in insufficient revenue being generated to serve the Group’s external debt.

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<td>We continuously monitor loan covenants and use a comprehensive forecasting system to ensure we comply with them. At present, the amount of credit lines provided to SUEK fully cover its financing needs.</td>
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</table>

**STRATEGIC PRIORITIES**
- **S1**
- **S3**

**MATERIAL MATTERS**
- **M1**

**FOR MORE DETAILS, SEE FINANCIAL REVIEW ON PAGE 79.**
### OPERATIONAL RISKS

#### Description of risk and its potential impact

<table>
<thead>
<tr>
<th>Risk Description</th>
<th>Change over the year</th>
<th>Actions to mitigate the risk</th>
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</thead>
<tbody>
<tr>
<td><strong>12. Production risk</strong></td>
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<tr>
<td>In our operations, we face various production risks linked to different factors. These can be either internal (downtime, adverse geology, low coal quality) or external (higher fuel, electricity and equipment requirements, service prices, and the failure of suppliers and contractors to fulfill their obligations). Such factors can affect production targets, which sometimes requires additional expenses, resulting in an increase in our overall production costs.</td>
<td>![Icon]</td>
<td>At all of our production units, we use Life of Mine (LoM) deposit development models. Based on geological data and created using XPAC-XERAS software, the LoM models enable each production unit to check its annual budgeted and actual expenses on a regular basis. As part of this process, we pay special attention to operational efficiency projects that reduce the duration of longwall face moves. We also monitor projects designed, among other aims, to improve work rates and increase the availability and deployment of open-pit mining equipment. In addition, we employ a monthly reporting procedure based on KPIs, and Enterprise Resource Planning (ERP) systems, allowing management to promptly assess the performance of SUEK and its subsidiaries.</td>
</tr>
<tr>
<td><strong>13. Risk of restricted infrastructure availability</strong></td>
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<tr>
<td>The risks consist of reduced access to railway and port infrastructure, electricity networks and water facilities. Limited access to infrastructure can result in reduced profit due to higher operational costs, and losses due to downtime at our production units. A number of SUEK’s facilities operate in regions where harsh environments can influence power supply and transportation, increasing this potential risk. Availability of infrastructure is also dependent, to a significant degree, on whether our service providers meet their obligations. Refusal to provide services can result in forced suspension of production, which in turn can negatively impact our operational and financial performance. Certain infrastructure is operated by state-owned monopolies. Operation of such facilities is subject to tariff regulation, which can affect the availability and quality of the services in question.</td>
<td>![Icon]</td>
<td>SUEK’s production and logistics units actively create long-term relations with infrastructure providers. When executing contracts, we pay special attention to the technical conditions and servicing of railway tracks at connecting stations, railway and port-loading facilities, electrical substations, and networks. We also invest heavily in developing the infrastructure that is critical to our business, such as Vanino Bulk Terminal, Murmansk Commercial Seaport and others.</td>
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<tr>
<td><strong>14. Health and safety risk</strong></td>
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<tr>
<td>Coal mining is associated with an elevated risk of accidents and emergencies, which can occur due to geological factors, technical conditions and the action or inaction of individuals. Major emergencies can negatively impact SUEK, leading to a possible increase in reputational risk, the discontinuation of business partnerships or claims from the company’s lenders for early loan repayments.</td>
<td>![Icon]</td>
<td>Every meeting of the Board of Directors and the Nomination and Compensation Committee of the Board starts with a review of health and safety issues. Our Industrial Safety Committee of the Management Board analyses every injury sustained at our sites and proposes actions to prevent similar accidents in the future. As owners of dangerous industrial equipment, all the Group’s facilities maintain general liability insurance against possible damage to life, health and the property of third parties. In addition, we insure our employees against permanent or temporary disability. We also provide constant training for the company’s personnel and regularly monitor the knowledge of our employees in industrial safety and protection.</td>
</tr>
</tbody>
</table>
### 15. Environmental risk

The environmental risks related to coal mining, washing and processing include air emissions of pollutants, ash and coal dust, contamination of soil and water, and land disturbance by mining activities. These negative impacts can result in claims from regulatory authorities and the suspension of operations, which in turn affect the company's operational and financial performance.

We seek to minimise environmental risks by developing and implementing projects for land rehabilitation, mine methane disposal, and health protection where our production operations are located in the immediate vicinity of inhabited areas. The company takes measures to reduce environmental and ecosystem impacts and pollutant emissions, and to ensure the efficient disposal and recycling of waste. The frequency of these measures is determined by current legislation, as well as by the company’s Environmental Policy and environmental protection programme. We have also increased the scope of our coal washing activities, which allow us to reduce the environmental impact of our products during their transportation and use.

### 16. Human resource risk

Experienced and highly qualified personnel, in particular mining engineers and mine workers, are the company’s most important assets. Failure to recruit and retain qualified personnel can result in missed production targets and increased costs. The socio-demographic situation in Russia increases the risk of a qualitative and quantitative human-resource deficit. Factors complicating recruitment include a decline in birth rates and underdeveloped housing infrastructure in the regions where we operate, plus a shortage of vocational training institutions and low levels of professional skills among graduates.

SUEK develops a system of employee training and professional development. We also work to improve motivation initiatives and enhance remuneration. In terms of recruitment, we actively seek out and support talented vocational college and university students, providing them with employment opportunities at SUEK’s facilities. In addition, we implement projects aimed at delivering social development, including improving housing conditions in the regions where we operate.

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<thead>
<tr>
<th>Company ability to influence the risk:</th>
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<tr>
<td>No influence</td>
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**STRATEGIC PRIORITIES**

S2 S5

FOR MORE DETAILS, SEE ENVIRONMENTAL SECTION ON PAGES 94-99.

**MATERIAL MATTERS**

M1 M4
An expanded asset base

SUEK’s operations in Russia extend from West to East across 11 regions. Our efficient coal mines and washing plants, with access to our own railcars and ports in the West and East of Russia, ensure we deliver quality products on time to our customers in the Russian, Asia-Pacific and Atlantic markets. Meanwhile, our efficient energy assets, fuelled by local coals, enable SUEK to be a leading heat and power producer in Siberia.

In the Kemerovo region, SUEK mines high-quality low-sulphur hard coal from underground and open-pit mines located in the Kuznetsk basin (Kuzbass).

To decrease ash content, we treat the mined coal at four washing plants. Products with calorific values of 5,800-6,100 kcal/kg are predominantly supplied to energy companies in Europe and Asia. High-quality washed coal from the Kirov mine and plant is supplied to metallurgical coal markets in Asia and Russia. Meanwhile, coal with a calorific value of 5,000-5,700 kcal/kg is mainly required by Russian power-generation companies and used at our own generating facilities.
In the Kemerovo region, SUEK generates heat and electricity at three CHPPs, three GRESs and one GCHPP with a total installed electric capacity of 4,155 MW and heating capacity of 5,051 Gcal/h, supplying heat to over 1.2 million people.

Development projects
Our main coal development projects relate to increasing the production efficiency at our existing mines and developing new high-quality coal sites, including:

– construction of the November 7th New mine with a capacity of 3.4 Mt per year, to be launched in 2020
– increasing the capacity at the Ruban mine to 5 Mt per year
– increasing the length of longwalls at the Kirov and Polysaevskaya mines to 350 metres and beyond

In the Kemerovo region, where 1.3 GW of new generating capacities were introduced as part of the DPM programmes, our current energy asset development projects are focused on equipment upgrades and environmental measures:

– further upgrading of equipment at Tom-Usinskaya GRES, significantly upgraded in the framework of the DPM
– reconstruction of ash dumps at the Kuznetskaya CHPP and Kemerovskaya GRES
– upgrade of the electric precipitators of the boiler unit at Kemerovskaya GRES
– completion of the modernisation of the Novo-Kemerovo CHPP in connection with the transfer to combustion of D grade coal, which resulted in a reduction in nitrogen oxide (NOx) emissions by 1.5 times
In the Altai region, SUEK operates energy facilities including three CHPPs and one thermal station with a total installed electric capacity of 720 MW and heating capacity of 2,864 Gcal/h, supplying heat and electricity to the cities of Barnaul, Rubtsovsk and Biysk, which have a total population of about 1 million people.

Development projects
The main investment projects in the region include the modernisation of the Barnaulskaya CHPP-3 and the Southern Thermal Station in Rubtsovsk, the reconstruction of an electro-precipitator at the Biyskaya CHPP and reconstruction of the heating mains.

Generating facilities
- Barnaulskaya CHPP-2
- Barnaulskaya CHPP-3
- Biyskaya CHPP
- Southern Thermal Station (Rubtsovsk)

Heat distribution
- 3 heat distribution companies
In the Krasnoyarsk region SUEK extracts brown coal from three open-pit mines in the Kansk-Achinsk basin. This coal is principally supplied to our own power generating plants, other heat and power stations and public utilities within the region.

We achieve here the lowest stripping ratio among all of SUEK’s production units. High operational efficiency is due to loading coal directly into railcars or onto conveyor belts by the excavators.

Our generating assets in the region include five CHPPs and one GRES with a total installed electric capacity of 2,581 MW and heating capacity of 5,189 Gcal/h, delivering heat and electricity to the cities of Krasnoyarsk, Kansk, Nazarovo and Minusinsk with a total population of over 1.2 million people.

**Development projects**

In the coal business, our development projects are focused on increasing capacity and measures to improve environmental performance:

- increase the capacity of Borodinsky to 26 Mt per year by 2020 through the refurbishment and modernisation of equipment as well as the development of adjacent railway facilities
- construction of a plant at the Berezovsky open-pit to produce briquettes from coke breeze with reduced iron content for ferroalloys and silicon industries
- construction of water treatment facilities at Berezovsky by 2021

In the energy business, our development projects relate to the upgrading of Krasnoyarskaya CHPP-3 and the upgrade of boiler plants.

<table>
<thead>
<tr>
<th>Coal mines</th>
</tr>
</thead>
<tbody>
<tr>
<td>Berezovsky open-pit mine</td>
</tr>
<tr>
<td>Borodinsky open-pit mine</td>
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<tr>
<td>Nazarovsky open-pit mine</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Processing facilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 coal-sizing facilities</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Transport facilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borodinsky production and transport department</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Generating facilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kanskaya CHPP</td>
</tr>
<tr>
<td>Krasnoyarskaya CHPP-1</td>
</tr>
<tr>
<td>Krasnoyarskaya CHPP-2</td>
</tr>
<tr>
<td>Krasnoyarskaya CHPP-3</td>
</tr>
<tr>
<td>Minusinskaya CHPP</td>
</tr>
<tr>
<td>Nazarovskaya GRES</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Heat distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>4 heat distribution companies</td>
</tr>
</tbody>
</table>
In the Novosibirsk region, SUEK operates five CHPPs with a total installed electric capacity of 2,523 MW and heating capacity of 11,605 Gcal/h, providing the cities of Novosibirsk and Kuibyshev (total population of over 1.6 million people) with heat and electricity.

Development projects
At the generation facilities, the key investment projects are focused on upgrading equipment at most stations, the reconstruction of heating networks and increasing the efficiency of automatic control, including:

- Upgrade frequency-dividing automation at Novosibirskaya CHPP-4
- Creation of an automated process control and accounting system at the control points of the heating system
- Replacement of inefficient boiler plants

Generating facilities
Barabinskaya CHPP
Novosibirskaya CHPP-2
Novosibirskaya CHPP-3
Novosibirskaya CHPP-4
Novosibirskaya CHPP-5

Heat distribution
2 heat distribution companies
Development projects
In the coal facilities, our development projects aim to increase the production of high-quality coals:

– increasing mining capacity at Vostochno-Beisky to 5 Mt and installing a new washing plant by 2021

– increasing mining capacity at the Abakansky mine to 1 Mt from 2019

In the energy sector, where the Abakanskaya CHPP is being modernised as part of the DPM programmes, current development projects include the modernisation of the main heating network and fire extinguishing systems.

Our open-pit mines in the Minusinsk basin in Khakassia produce premium hard thermal coal with a high calorific value. We export more than half of the coal from this region (including deliveries of premium sized thermal coal) to Europe and Asia.

An integral part of the company’s strategy is to increase sales of washed, sized coal with a calorific value of 5,500–5,700 kcal/kg from Khakassia to the Atlantic market, where it is sold at a premium compared to un-sized thermal coal. Our largest Russian customers are power plants and coal-distribution companies supplying households and public utilities and we also use this coal at our own generating facilities.

In Khakassia, SUEK also runs a co-generation power plant with a total installed electric capacity of 406 MW and heating capacity of 700 Gcal/h, which is the main supplier of heat and electricity for more than 250,000 people.
In Tyva SUEK operates one CHPP with an installed electric capacity of 17 MW and heating capacity of 653 Gcal/h, supplying heat and electricity to the towns of Kyzyl and Kaa-Khem with a population of over 100,000 people, in addition to social infrastructure facilities, educational and healthcare facilities, industrial enterprises and other consumers.

**Development projects**
The key investment project at the Kyzylskaya CHP is the technical re-equipment of the heating plant by 2019.

**Generating facilities**
Kyzylskaya CHPP

**Heat distribution**
1 heat distribution company

- **TYVA**

  - 0.038 TWh
  - ELECTRICITY GENERATION IN 2018

  - 0.7 M Gcal
  - HEAT GENERATION IN 2018

- **BURYATIA**

  - 14.3 Mt
  - COAL PRODUCTION IN 2018
We extract high-quality low-sulphur and low-nitrogen hard coal at the Tugnuyisky and Nikolsky open-pit mines, located in Buryatia and Zabaikalye. Coal from the mines is washed at the Tugnuyisky washing plant to reduce ash content from 24%-28% to 14% and increase calorific value from 4,600 kcal/kg to 5,650-5,850 kcal/kg.

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

**Development projects**

Our key investment projects in the region are:
- increase in the total capacity of the Tugnuyisky and Nikolsky mines up to 15 Mt per year
- construction of a new module with a capacity of 1,000 tonnes / hour, which will expand washed coal output in Buryatia to 10 Mt per year enabling a 50% increase in deliveries from the region to premium Asian markets by 2021

**Coal mines**
- Nikolsky open-pit mine
- Tugnuyisky open-pit mine

**Processing facilities**
- Tugnuyisky WP
  - 1 coal-sizing facility

**Transport facilities**
- Tugnuyisky Production and Transport Department
In Zabaikalye, the Kharanorsky and Vostochny open-pit mines produce brown coal, which is supplied predominantly to local Russian power stations. Apsatsky coking coal deposit, located 40 km from the Baikal-Amur Mainline railway, extracts high-quality, mid-volatile hard coal which is in high demand in Asian markets and in Russian metallurgical markets.

Development projects
Our main project in Zabaikalye region relates to increasing the capacity of the Kharanorsky mine to 4 Mt by 2019.

- **Coal mines**
  - Apsatsky open-pit mine
  - Kharanorsky open-pit mine
  - Vostochny open-pit mine

- **Processing facilities**
  - 2 coal-sizing facilities

- **Coal production in 2018**
  - Brown coal: 5.4 Mt
  - Hard coal: 0.6 Mt

- **Transshipment through Vanino Bulk Terminal in 2018**: 20 Mt
The company’s key mining operations in Khabarovsk region are located at the Urgal deposit in the Bureinsky basin. The proximity of Khabarovsk’s assets to our Vanino Bulk Terminal represents a significant strategic advantage.

One underground mine and two open-pit mines produce low-sulphur and low-nitrogen hard coal. This coal is washed at the Chegdomyn washing plant and a processing facility, which increases its calorific value from 4,300 kcal/kg to 5,850 kcal/kg. Coal from this region is mainly transported to our nearby Vanino Bulk Terminal and shipped to the Asia-Pacific market, as well as to Russian power-generation customers in the Khabarovsk and Primorye regions. Due to its strategic location, and the high calorific value of its hard coal, the company invests significantly in the mining, washing and transshipment capacity of the region. It also invests in its environmental safety.

Development projects

Due to its strategic location, and the high calorific value of its hard coal, the company invests significantly in the mining, washing and transshipment capacity of the region. It also invests in its environmental safety.

Our main development projects:

- increasing the capacity of the Pravoberezhny mine to 3 Mt by 2020
- increasing the capacity of the Vanino Bulk Terminal to 40 Mt by 2024, including continued environmental initiatives
SUEK’s principal mines are located in the Pavlovsky brown-coal basin and the Lipovetsky hard-coal deposit near Russia’s eastern coast, which generates significant savings on transportation costs when supplying coal to Asia-Pacific markets.

In Primorye, SUEK ships coal through Maly Port, where the Group is a major shareholder (with a 49.9% share).

In 2018, we shipped 2.5 Mt through Maly Port to Asia-Pacific customers, mainly in Japan, the Philippines, South Korea and Taiwan.

Development projects
Our main development project relates to increasing the Maly Port capacity to 4 Mt by 2020, including through berth reconstruction and dredging.
In North-Western Russia, SUEK ships coal through its own Murmansk Commercial Seaport. The port provides access to the ports of Western Europe, the Mediterranean and the East coast of the US.

**Development projects**
SUEK is running a large-scale environmental programme at the port, which includes the construction of dust screens to minimise the negative impact of coal dust.
Railway transport is crucial to the coal production and distribution chain. SUEK operates one of the largest private railcar fleets in Russia.

We also run about 190 locomotives and have 16 dedicated loading stations. Our rail system provides efficient connections between the national rail network and the company’s mines and port facilities, and provides one of the best performances in the country.

In 2018, SUEK’s coal constituted 23.3% \(^1\) of the total coal cargo conveyed on Russian railways, which are operated by the state monopoly Russian Railways.

In 2018, the company increased its fleet of higher-capacity railcars under management by 40%. Direct investments in the expansion of the car fleet amounted to about $34m in 2018.

Coal sales network in Russia
In the Russian market, SUEK sells coal to large industrial companies, key energy providers and smaller customers through our commercial network of local offices across different regions.

Heat sales network in Russia
Our coal-fired thermal power plants are among the most efficient producers on both the electric and thermal energy markets. The company’s sales network supplies heat and electricity to over five million people in five regions and hundreds of thousands of Russian companies, being the only heat supply organisation in 87% of the regions where we operate.

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1. Russian Railways statistics.
SUEK’s international operations mainly include financial, sales, trading and distribution activities.

SUEK is active in the international debt capital markets and coordinates its financing activities through SUEK Ltd (Cyprus).

International sales and distribution network

- China
- Indonesia
- Japan
- Lithuania
- Poland
- South Korea
- Spain
- Switzerland
- Taiwan
- USA
- Vietnam

International coal trading and sales are conducted by SUEK AG (based in Switzerland), whose main role is to maximise the efficiency of coal sales and secure the company’s position in the international market. We achieve sales goals through our own network of branch and representation offices and subsidiaries registered in jurisdictions of strategic importance, such as Poland, China, Japan, Taiwan, South Korea, Indonesia, Lithuania, Spain and the US.

In 2018 we continued to expand our presence in Poland through the development and improvement of existing local distributor networks. Thus we consolidated Barter Coal, which enabled us to increase transparency of warehouse operations through introduction of the Group’s standards and policies there, as well as an SAP ERP system.

Our marketing structure allows SUEK AG to conduct its sales and resource procurement in local currency, arrange delivery directly to end users’ sites, and provide corresponding services to customers. SUEK AG continually analyses the international coal market and gathers information that influences the balance of supply and demand. In particular, it looks at information related to the deployment of new power-generating capacities, changes in coal production and export, and the dynamics of logistics capacity.
International coal market

In 2018, global seaborne thermal coal trade exceeded 970 Mt, which represents an increment of over 50 Mt vs. the previous year, the biggest increment since 2013. Increased demand from Asian countries compensated for reduced European appetite. Meanwhile, strong demand from premium markets in Asia supported the FOB Australian price for 6,000 kcal/kg material which widened the spread against lower-coal grades during most of the year.

ASIA-PACIFIC MARKET

In 2018, demand from the Asia-Pacific market for thermal coal imports rose 8% year-on-year to 803 Mt. A number of factors contributed to this growth. Total demand from Japan, South Korea and Taiwan increased by 2% to 293 Mt in 2018. This growth was led by South Korea, which was ramping up coal units commissioned in 2017. Although growth in total demand from this region was modest, Russian coal imports by these three countries grew 17% year-on-year, to 43 Mt. This reflects a few positive factors: in Japan, buyers started to diversify their coal sourcing portfolio due to the liberalisation of the power market; in South Korea, new limitations on coal sulphur content led to increasing demand for coal from Russia; in Taiwan, overall coal consumption has been boosted by a political stance against nuclear generation.

In mainland China, coal imports during the first months of the year were boosted by a colder than average 2017/2018 winter combined with low stocks at coastal power plants and insufficient gas supplies, while domestic coal production remained flat, with growth restrained by government-driven safety checks. Government restrictions aimed at containing imports triggered increased seaborne demand from buyers struggling to meet the elevated electricity demand due to earlier than usual hot weather.

In the second half of the year, improving Chinese production and a milder start to the winter season resulted in weaker end of year imports and slackening lower-CV prices. Nevertheless, at the year-end total seaborne and inland imports had increased by a significant 11% to 207 Mt compared to 2017.

With the Chinese government completing its supply reform (focused on volumes) during 2019, their next step will be to focus on coal quality, not only on the production side, but potentially also concerning imports. The regulatory environment will continue to weigh heavily on market expectations.

In India, imports increased by 10% to 156 Mt during 2018 after a two-year decline. Electricity demand increased by 4% in 2018 to 1,243 TWh driven by a government push for electrification and improved industrial performance, up by 7% in 2018. Meanwhile a 6% increase in domestic thermal coal production to 596 Mt in 2018 was not sufficient to satisfy growth in demand. Challenging transport logistics impacted domestic supply, despite an increase in railcar supply during the year, and stocks at monitored utilities ran at critical levels during most of the year. Imports began to rise after the government approved power tariff revisions for coastal power plants operated by Adani and Tata. Around 50-55 GWs of installed capacity remain under financial stress and we have the potential to increase utilisation significantly if similar measures are approved for them.

Thermal coal price indices ($ per tonne)

Sources: Argus McCloskey Index, globalCOAL.
In the Indian sub-continent, Pakistan continued to demonstrate stable import growth in 2018, increasing by 32% to 14.1 Mt. The main driver was the commissioning of a 1.3 GW coal-fired power plant during 2017, which ramped up to full utilisation during 2018, as well as significant growth of the domestic cement industry during 2018. Another coal-fired power plant of 1.3 GW capacity is expected to be commissioned during 2019.

Southeast Asian demand accelerated significantly, increasing by 20% to 96.5 Mt. The bulk of this growth was driven by Vietnam, followed by the Philippines and Malaysia. In Vietnam, power production increased by 10% to 209.3 TWh supported by new coal-fired power plants. The state-owned power generator anticipates further growth in 2019 and 2020. In the Philippines, coal burn also increased, reflecting a number of new additions to the coal fleet during the year.

On the supply side, Indonesian exports increased by 8% to 402 Mt, with most of this growth attributed to low-CV, mainly 4,200 Kcal/kg GAR (3,800 Kcal/kg NAR), products. Due to a relative lack of infrastructure constraints and flexibility in contract mining arrangements, Indonesian producers are able to react more quickly to changes in market conditions, and these swings are mostly a function of Chinese demand.

Australian thermal coal exports grew 4% year-on-year to 209 Mt in 2018. China, and to some extent Southeast Asia, has been the key driver of Australian export strength, suggesting the majority of these additional volumes has been off-specification material (5,500 kcal/kg NAR, high ash) as most of the spare washing capacity in the key Hunter Valley mines was unavailable during the year. In the near term, the pipeline of new thermal coal projects coming on line in Australia is rather small.

Russian seaborne thermal exports to the Asia-Pacific market increased by a healthy 13% to 67.5 Mt during 2018, including 3 Mt shipped from western ports. As mentioned before, the majority of this growth reflects demand from South Korea, Japan and Taiwan. The geographic proximity of Russian ports enables North-East Asian buyers to manage their stocks more flexibly, while Russian high-CV low-sulphur and low-nitrogen coal meets the strict environmental requirements of HELE power plants. Russian export capacity is expected to increase in 2019, however, it remains to be seen whether railcar and railway infrastructure will be able to support this potential growth.

Colombian coal continued to flow into Asia during 2018 as it significantly increased supplies to the region by 37% to 8.4 Mt. The main recipient was South Korea, which accounted for over 60% of these volumes, followed by Japan, which took 13%. Colombian coal was also exported to other Asian countries such as China, Malaysia, Taiwan and India. US exports to the Pacific market increased by 38% to 27.1 Mt. Attractive international prices incentivised US mining companies to divert production to exports. India, Japan and South Korea represented more than 65% of US coal exports to the Pacific in 2018. Indian customers primarily demand high-sulphur coal shipped from East Coast terminals, whilst South Korea predominantly buys coal from the Powder River Basin. Japan sources low-sulphur bituminous coal from Utah/Colorado, with both countries shipping mainly from western ports.
ATLANTIC MARKET

In 2018, demand for imported thermal coal in the Atlantic market decreased by 3% year-on-year to 168 Mt.

In Europe, the decline in coal demand continued in 2018, due to mild weather at the start and end of the year, national policies on emissions targets and a phasing-out of coal gaining momentum, as well as a strong contribution from renewables in Q2. Nevertheless, prices for high-CV coal (6,000nar kcal/kg) increased year-on-year supported by the NEWC index due to arbitrage opportunities, with the gap between specification and off-specification (5,500 kcal/kg) material widening to historical highs. In the second half of the year a lack of rainfall impacted the flow of barges from North European ports to German utilities. Under these circumstances, in addition to the usual supplies (from Colombia, Russia and the US), significant volumes of South African coal (due to lower demand from India and Pakistan), and even Australian 5,500nar coal found its way into the Atlantic market. This was also at a time when stocks in Amsterdam, Rotterdam and Antwerp were reaching historical highs and these ports had to reject cargoes due to lack of capacity. As a result, destinations such as Spain, Italy and Turkey received substantial volumes during that time.

Meanwhile, demand in the Mediterranean market increased by 9% to reach 46 Mt during 2018; most of this growth was driven by Egypt, supported by its cement industry.

On the supply side, Colombian exports to the Atlantic market decreased by 9% to 71.1 Mt. This was partially attributable to supply disruptions, as an intense wet season restricted output in April and July. Russian seaborne exports to the Atlantic basin remained flat at 61 Mt due to railway constraints, maintenance at the Ust-Luga port during the second half of the year and challenges related to shipments of coal to Amsterdam, Rotterdam and Antwerp at the end of the year. South African coal supply to the Atlantic market was flat year-on-year. US coal exports to the Atlantic market increased by 21% to 20.7 Mt, with 1 Mt of this growth attributable to Europe and most of the remaining volumes absorbed by Egypt and Morocco.

### Thermal coal seaborne exports (Mt)

<table>
<thead>
<tr>
<th>Year</th>
<th>Indonesia</th>
<th>Australia</th>
<th>Russia</th>
<th>Colombia</th>
<th>South Africa</th>
<th>USA</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>129</td>
<td>107</td>
<td>103</td>
<td>98</td>
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<td>20.7</td>
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<tr>
<td>2016</td>
<td>107</td>
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<td></td>
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<td>905</td>
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<tr>
<td>2015</td>
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<td>2014</td>
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<td>98</td>
<td></td>
<td></td>
<td>920</td>
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<td>920</td>
</tr>
</tbody>
</table>

### Thermal coal seaborne imports (Mt)

<table>
<thead>
<tr>
<th>Year</th>
<th>Japan, South Korea, Taiwan</th>
<th>China</th>
<th>India</th>
<th>Other Pacific countries</th>
<th>North-Western Europe</th>
<th>Mediterranean countries</th>
<th>Other Atlantic countries</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>295</td>
<td></td>
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<td>964</td>
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<tr>
<td>2017</td>
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<td>916</td>
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<tr>
<td>2016</td>
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<td>916</td>
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</tbody>
</table>
In 2018, the Russian coal industry set an all-time record in coal production due to favourable export market conditions and stable domestic coal consumption. High-quality Russian coal is increasingly in demand in European and Asian markets.

In 2018, Russian thermal coal production rose by 5% year-on-year to 340.5 Mt. Total sales of Russian thermal coal grew by 6% year-on-year to 320 Mt, including a 8% increase in international deliveries, to 186 Mt.

Higher coal consumption was explained by stronger demand for electricity due to lower than average monthly temperatures in February-March and November-December 2018 compared to 2017. Russian imports of thermal coal in 2018 remained at the level of 2017, and totalled 24 Mt. Kazakhstan remained the largest supplier of thermal coal to Russia.

**Export supplies**

At the year-end, Russian thermal coal exports rose by 8% year-on-year to 186 Mt.

Shipments both to the West and to the East grew by 8% and reached 103 Mt and 83 Mt\(^2\), respectively.

In the Atlantic region, there was a notable rise in seaborne shipments of Russian coal to Poland and in volume of shipments to the UK, Ireland and Scandinavian countries. While deliveries through border crossings increased, the volume of coal supplied via seaports to the European part of Russia and the Baltic states remained largely flat.

As for the East, Russia increased shipments of coal to South Korea, Japan, Taiwan and China. Exports to the Asia-Pacific region in 2018 were again hampered by the modernisation programme of the Baikal-Amur and Trans-Siberian railways. Nevertheless, shipments of thermal coal towards ports in the east of Russia rose by 6% to 75 Mt\(^2\). In addition, coal sales to China through border crossings increased significantly, by 30% to 8 Mt.

Overall, the largest foreign markets for Russian thermal coal in 2018 were South Korea, China, Poland, the Netherlands, Japan, Taiwan and Germany.

### Russian market supplies

In 2018, thermal coal supplies to the domestic market grew by 3% to 133 Mt. Power generating companies received 86.1 Mt of coal, including 53.3 Mt of brown coal and 32.8 Mt of hard coal. Thermal coal supplies to public utilities increased by 12% year-on-year to 22.6 Mt.

**RUSSIAN EXPORTS TO THE PACIFIC AND ATLANTIC MARKETS**

<table>
<thead>
<tr>
<th>Year</th>
<th>Atlantic region</th>
<th>Asia-Pacific region</th>
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<tbody>
<tr>
<td>2018</td>
<td>84</td>
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Sources: Statistical data from Russian government agencies, SUEK estimates.

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1. Statistical data from Russian government agencies, SUEK estimates.
2. Including PCI coal.

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**Russian coal market**

Hard coal production in 2018 increased by 5% to 260 Mt. In addition to power generation, hard coal is used in the production of cement and metals and many other industries. A large share of Russia’s high-quality hard coal is supplied to the international market. Total sales of hard coal in 2018 increased by 6% year-on-year to 239 Mt, including a 7% growth in exports (to 176 Mt), due to robust demand for Russian coal and a favourable pricing environment.

Russian brown coal shipments grew by 5% year-on-year to 80 Mt. Brown coal is mainly supplied to the Russian market, to power plants and public utilities. Domestic supplies of brown coal in 2018 increased by 3% to 70 Mt. Brown coal exports have been showing positive dynamics recently and in 2018 reached 10 Mt, an increase of 17% year-on-year. This was largely driven by Sakhalin mining companies.

Nevertheless, railway infrastructure and port facilities faced the same restrictions as before. In 2018 there was a significant shortage of gondola cars on the railway network. This led to higher car rental rates and an inability to fulfil coal shipment plans for both export and domestic deliveries.

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1. Statistical data from Russian government agencies, SUEK estimates.
2. Including PCI coal.
Russian power market

ELECTRICITY AND HEAT MARKET

According to the System Operator of the Unified Energy System of Russia, electricity generation in Russia in 2018 increased by 2% year-on-year to 1,071 TWh. The growth in electricity and heat energy consumption and generation was related to the change in temperature: in February-March and November-December 2018, the average monthly temperature dropped significantly compared to 2017. The main part of heat generation in Siberia in 2018 came from coal-fired plants.

Electricity consumption by Siberia’s Consolidated Energy System (CES) rose by 2% year-on-year to 210 TWh. The main growth drivers were a decrease in the average annual air temperature by 1.8°C and higher consumption by Russian Railways.

Due to the strong spring floods and heavy precipitation throughout 2018, the water reserves in the reservoirs of the Angara-Yenisei HPP chain were restored to average multi-year levels. Electricity generation at hydro power plants in Siberia and the East exceeded the level of 2017 by 7%. This increase in hydrogeneration operations led to a slight decrease in the performance of thermal power plants in Siberia.

The electricity price in the competitive sector (day-ahead market, DAM) in Price Zone 2 (Siberia) increased by 3% year-on-year because the energy deficit within Siberia was offset by the inflow of electricity from Price Zone 1 (European part of Russia) at a higher price (+1.5% or 15.4 RUB/MWh).

Share in Siberia’s electricity generation by plant and fuel types

Sources: Statistical data from Russian government agencies, SUEK estimates.
POWER CAPACITY MARKET

Power capacity sales in Siberia (Price Zone 2) in 2018 amounted to 42.7 GW, flat year-on-year.

The competitive price for capacity sales in Price Zone 2 in 2018 was 200,279 roubles/MW/month, which is 5.5% higher than in 2017. This was driven by:

1. Higher demand for capacity in 2018 year-on-year during the competitive capacity take-off (CCT), which changed the price corridor
2. Factoring in the consumer price index for an additional year when indexing the price based on CCT outcome

In 2018, market players helped develop a concept to select projects to modernise thermal power plants for the period up to 2031. This activity resulted in the adoption of a number of by-laws, including the Selection Regulations, which entered into force simultaneously with the date of approval of the relevant Government decree in February 2019.

<table>
<thead>
<tr>
<th>Power plants</th>
<th>Installed capacity, MW</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thermal</td>
<td>26,596.59</td>
</tr>
<tr>
<td>Hydro</td>
<td>25,286.40</td>
</tr>
<tr>
<td>Nuclear</td>
<td>0</td>
</tr>
<tr>
<td>Renewables</td>
<td>55.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>51,911.19</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>European part 2018</th>
<th>European part 2017</th>
<th>Siberia 2018</th>
<th>Siberia 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,400</td>
<td>1,300</td>
<td>1,200</td>
<td>1,100</td>
</tr>
<tr>
<td>1,300</td>
<td>1,200</td>
<td>1,100</td>
<td>1,000</td>
</tr>
<tr>
<td>1,200</td>
<td>1,100</td>
<td>1,000</td>
<td>900</td>
</tr>
<tr>
<td>1,100</td>
<td>1,000</td>
<td>900</td>
<td>800</td>
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<td>1,000</td>
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<td>600</td>
</tr>
<tr>
<td>800</td>
<td>700</td>
<td>600</td>
<td>500</td>
</tr>
</tbody>
</table>

Sources: Statistical data from Russian government agencies, SUEK estimates.
In 2018, the merger of SUEK’s Coal and Energy Segments enhanced an already strong operational performance by the Group. Optimisation of mining and logistic capacity utilisation has increased the reliability of electricity and heat supply to millions of consumers.

**SYNERGIES: IMMEDIATE RESULTS**

- **SUEK**
  - Russia’s largest coal producer

- **SGC**
  - Russia’s largest coal-fired generator

One of the first steps was to increase SUEK coal supplies to SGC plants during summer months, which led to improved efficiency across the whole operating cycle.

**IMPROVED EFFICIENCIES**

- **Coal**
  - Increased and optimised coal production at Krasnoyarsk mines that used to be underutilised during the summer

- **Power**
  - Improved reliability of the power system through earlier fuel warehouse fill-up

- **Logistics**
  - Optimised railway, railcar and loading station utilisation by reallocating intragroup deliveries from busy cold months.
  - Reduced empty railcar mileage by including the Krasnoyarsk-Novosibirsk-Kuzbass section in the Kuzbass-Vanino-Kuzbass ring
The company has produced over 100 Mt of coal for the third consecutive year thanks to the ongoing introduction of high-performance equipment. By increasing our washed coal volumes and expanding our sales and distribution network, we have increased our average calorific value, enabling us to supply more products to premium markets.

Our consolidation of the energy business has made it possible to increase coal mining at open pits, where the cheapest and safest extraction takes place, for further deliveries to our power plants. Additionally, the company launched and continued several large-scale investment projects to develop mining, processing and logistic capacities. These projects are aimed at increasing the supply of products with a high-calorific value, and thereby support the long-term sustainability of our business.

Sales

Our total sales increased by 5% year-on-year to 115.6 Mt. Low global availability of high-calorific coal boosted Asian demand for Russian coal and we delivered significant volumes to our own power plants. International sales volumes grew by 1% to 57.2 Mt (including 1.8 Mt petroleum coke sales). The main markets we sold to globally included Japan, South Korea, China, the Netherlands, Germany, Morocco, Poland, Turkey, Italy and other countries.

SUEK’s sales to Asia accounted for 58% of SUEK’s international sales, growing to 33.1 Mt due to increased exports to the traditional premium markets of South Korea and Japan, and also to Vietnam. Coal shipments to the Atlantic market reached 24.1 Mt. This growth predominantly reflected sales to our main consumers Netherlands, Germany and Poland.

Sales of sized coal, including sales through our own distribution networks in Turkey and China, declined by 13% to 4.5 Mt due to redirection of sales into higher priced thermal coal markets. Sales of metallurgical coal remained at the level of 2017, i.e. 3.4 Mt.

Sales of petroleum coke and other non-coal products in 2018 fell by 18% to 1.8 Mt due to overall decline of Russian petcoke exports in favour of the better priced domestic market.

Operational highlights

<table>
<thead>
<tr>
<th>Mt</th>
<th>2018</th>
<th>2017</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mining</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Production</td>
<td>110.4</td>
<td>107.8</td>
<td>2%</td>
</tr>
<tr>
<td>hard coal</td>
<td>72.1</td>
<td>72.2</td>
<td>0%</td>
</tr>
<tr>
<td>brown coal</td>
<td>38.3</td>
<td>35.6</td>
<td>8%</td>
</tr>
<tr>
<td>open-pit</td>
<td>77.9</td>
<td>73.3</td>
<td>6%</td>
</tr>
<tr>
<td>underground</td>
<td>32.5</td>
<td>34.5</td>
<td>(6)%</td>
</tr>
<tr>
<td>Washing</td>
<td>42.2</td>
<td>41.9</td>
<td>1%</td>
</tr>
<tr>
<td>Coal washed</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>115.6</td>
<td>109.7</td>
<td>5%</td>
</tr>
<tr>
<td>International sales</td>
<td>57.2</td>
<td>56.4</td>
<td>1%</td>
</tr>
<tr>
<td>Asia-Pacific market</td>
<td>33.1</td>
<td>32.7</td>
<td>1%</td>
</tr>
<tr>
<td>Atlantic market</td>
<td>24.1</td>
<td>23.7</td>
<td>2%</td>
</tr>
<tr>
<td>Including:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Third-party coal</td>
<td>11.5</td>
<td>8.8</td>
<td>31%</td>
</tr>
<tr>
<td>Petroleum coke and other sales</td>
<td>1.8</td>
<td>2.2</td>
<td>(18%)</td>
</tr>
<tr>
<td>Domestic sales</td>
<td>58.4</td>
<td>53.3</td>
<td>10%</td>
</tr>
<tr>
<td>to own generating facilities</td>
<td>30.2</td>
<td>24.7</td>
<td>22%</td>
</tr>
<tr>
<td>to other consumers</td>
<td>28.2</td>
<td>28.6</td>
<td>(1)%</td>
</tr>
</tbody>
</table>

1. Including petroleum coke and other sales.
Mining highlights
We produced 110.4 Mt of coal, an overall increase of 2% year-on-year, due to robust demand and expanded production capacity.

Extraction of high-quality hard coal remained stable, accounting for 65% of total volumes. We focused primarily on the expansion of open-pit mining, with production increasing at Nekkovo, Pravoberezhny, Nikolaev, Vostochno-Beisky, Izykhsy, Abakansky, Zarechny and Kamyshtansky. This growth and higher mining volumes at Ruban (Magistralny site), Komsomolets, Polysaevoskaya and Taldinskaya-Zapadnaya-2 underground mines compensated for the decrease at several other underground mines, caused by longwall face moves and repairs.

Mine development in 2018 was lagging behind budget due to difficult geological conditions and the reallocation of tunnelling crews to more urgent works for repair and installation of conveyor lines and other equipment, but improvements started in early 2019.

Brown coal production, mainly mined at our open-pit mines in the Krasnoyarsk region, rose by 8% year-on-year driven by growing demand for coal from our own generating companies.

Higher-capacity equipment and staff development programmes increased our production works productivity to 540 tonnes per man-month.

Washing and product quality
As a responsible supplier, SUEK strives to meet customers’ needs for product quality and to strictly fulfil its contractual obligations. This is made possible by the commitment and hard work of employees throughout the business – from exploration, mining and washing to transportation and end-use by our customers.

SUEK has a Quality Policy and runs a quality management system that complies with the ISO 9001:2008 International Standards, as well as the ISO 55001:2014 Asset Management Standard. SUEK products have been certified for compliance with the requirements of international quality and safety standards by SGS Vostok Limited and INCOLAB SERVICES RUSSIA. To achieve high performance, we continuously:

- Increase the technical expertise of staff
- Carry out equipment upgrades
- Introduce state-of-the-art equipment for monitoring quality indicators
- Implement process management
- Interact with customers on product quality issues

Our primary approach to improving the quality of our products is to increase the volume of washed coal. Coal washing reduces ash content and increases its calorific value, which enables us to deliver products with high added value. We constantly improve our quality control system and introduce new methods to determine the ash content in coal, the moisture content in our extracted, produced and shipped products, and improved mechanised methods of selection and preparation of product samples.

In 2018, the volume of washed coal grew by 1% to 42.2 Mt. Washed coal, as a share of produced hard coal, reached 59%, which increased the share of high-calorific coal in total exports to 84%.

Investment projects
A favourable coal market environment allowed SUEK to continue its large-scale capacity development programme. Investments reached record levels and were primarily focused on capacity maintenance and development to increase the production of high-calorific coals, as well as the improvement of industrial and environmental safety.
SUEK is working on a project to expand the capacity of the Magistralny site at the Ruban mine to 5 Mt a year by replacing the existing mining equipment with higher-performing machinery. A new loading station at the mine was commissioned.

We resumed the construction of the November 7th New mine (overburden removal on the Sychevsky site) with a design capacity of 3.4 Mt per year and commissioning scheduled in 2021. The mine will substitute the depleted November 7th mine closed in 2017.

The company also began work to increase the length of longwall faces at the Kirov mine, from 300 to 350 metres, and at the Polysaevskaya mine, to 360 metres. SUEK was particularly focused on a new programme to replace the fleet of roadheaders with high-performance bolter miners, which will improve the efficiency of underground development operations.

An increase in capacity by 40% to 5 Mt a year is under way, with the new overburden removal equipment already delivered and construction of new washing plant started.

SUEK purchased two unmanned BELAZ mining dump trucks for the Abakansky mine in Khakassia.

We also initiated the construction of a new fine-size coal washing module at the Tugnuisky washing plant.

One of the key mining development areas for 2019 will be improving underground mine development by purchasing bolter miners to replace roadheaders and increasing the automation of minor operations.

We will continue to develop our washing capacities through constructing a fine-size coal washing module at the Tugnuisky washing plant and a new washing plant at Vostochno-Beisky.

To meet our own demand, we will extract more coal at the Borodinsky and Kharanorsky open pits.

Overall, SUEK plans to produce over 110 Mt of coal in 2019.

Finally, we will prioritise improvements to production safety, to minimise accidents, injuries and fatalities, and will continue developing our initiatives focused on reducing SUEK’s environmental impact.
In 2018, the Energy Segment’s strong performance reflected the acquisition of the new generation assets in February 2018 and the rise in heat and electricity consumption.

Sales

Our electricity sales increased by 30% to 50 TWh. Power capacity sales grew by 42% year-on-year to 9.2 GW. This growth in electricity and power capacity sales was explained by the acquisition of new power assets in Novosibirsk and Biysk in early 2018.

Heat sales increased by 65% to 37.2 million Gcal, with SUEK’s share in the Siberian market reaching 23%. In 2018, the average annual temperature in the cities where SUEK operates was 2.2° lower than in 2017. Therefore, in Siberia’s cities, the heating season was about a fortnight longer than in 2017. Moreover, in 2018, new consumers were connected to the company’s facilities in all regions after the replacement of local boiler houses with CHPPs, which also stimulated the growth in heat supply.

Generation

Electricity generation in 2018 amounted to 46.2 TWh, which is a 28% increase year-on-year. This reflected the acquisition of new generating assets in February 2018 and higher output at the Kemerovskaya CHPP, Barnaulskaya CHPP-3, Krasnoyarskaya CHPP-1 and Minusinskaya CHPP.

The company continued to focus on increasing co-generation, which allows us to reduce fuel use and emissions per unit of energy produced, with over 96% for heat and 38% for electricity produced in the combined cycle.
The coefficient of the updated network
(share of the reconstructed part of the entire network)

<table>
<thead>
<tr>
<th>Year</th>
<th>2018</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>1.4%</td>
<td>1.3%</td>
<td>1.0%</td>
</tr>
</tbody>
</table>

Accident rate
(number of accidents per 1 km of heat transmission systems)

<table>
<thead>
<tr>
<th>Year</th>
<th>2018</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>0.9%</td>
<td>0.8%</td>
<td>0.7%</td>
</tr>
</tbody>
</table>

Service quality
Renovation of the heat transmission system progressed in 2018, as the company increased maintenance works at the new Novosibirsk heat transmission facilities. This enabled us to stabilise heat losses.

Our priorities for 2019
In 2019 the company is focused on improving the efficiency of electricity and heat supply by upgrading its generating facilities, reconstructing heat pipelines to reduce heat losses during transportation and replacing inefficient boiler houses with co-generating plants. Another key priority is the development of SUEK’s environmental programmes.

Projects to replace additional boiler houses in Novosibirsk and Krasnoyarsk with co-generation heat supply have been scheduled for 2019.

The projects to re-equip boiler plant PK-38, station No. 5B, and boiler plant PK-38, station No. 6B at the Nazarovskaya GRES will increase volumes of chargeable capacity, once they have been re-certified from 135 MW to 150 MW, and will increase electricity supply to 66 million kWh/year.

There is a project to replace the TVV-200-2A turbine generator of power unit No.7 at the Tom-Usinskaya GRES with a TVF-220-2AU3 turbine because of its considerable wear. The new turbine generator will be a higher-performing model with a total capacity of 215 MW. The project should be completed by the end of 2019.

Among the largest investment projects related to the improvement of SUEK’s environmental performance is the construction of a new chimney at the Krasnoyarskaya CHPP-1. Once the existing chimneys have been replaced with a 275-metre chimney, the emissions dissipation area will increase, and the ecological situation in the city will improve. The project is expected to be completed in 2020.

Investment projects
The following landmark investment projects were implemented or launched in 2018, aiming to increase the company’s co-generation capacity and improve its environmental performance:

– Substitution of inefficient boiler houses in Novosibirsk with power from co-generation plants
– Reconstruction of two boilers of the Nazarovskaya GRES to increase available capacity
– Inclusion of the KramzEnergo boiler house contour into SGC and replacement of boiler houses No.1 and No.2 in Krasnoyarsk that were not compliant with ecological standards with heat supply from co-generation plants
– Transfer of the Novosibirskaya CHPP-5 to operation with SUEK’s coal
Murmansk Commercial Seaport

Other ports

Design and construction of the 2nd stage with Polygon by 2020 and the beginning of the

1. Including third parties’ coal. In addition, the port shipped non-coal products totalling 0.8 Mt.

2. Russian Railways statistics.

Russian Railways statistics.

Rail transportation

Rail provides a vital means of cost-efficient coal transportation and delivery. The Russian Railway network is of crucial strategic importance to SUEK. We use railways to deliver our products to Russian consumers and to ports in Russia’s Far East and the North West.

In 2018, SUEK transported 87.3 Mt of coal via Russian Railways. This constituted 23.3% of the year’s total tonnage of coal transported on the network.

Together with Russian Railways, we are running projects to increase the capacity and efficiency of the railways and railcars. Also of key importance is the Eastern Polygon development programme: the completion of the 1st stage of the Eastern Polygon by 2020 and the beginning of the design and construction of the 2nd stage with the completion by 2025. The key activities of the 2nd stage include the electrification of the Volochaevka-Komsomolsk-Vanino section, laying the second continuous track and constructing new junctions with the BAM. These programmes will increase the volume of coal that is transported towards Far Eastern ports to 185 Mt.

By eliminating infrastructural constraints along our cargo transportation routes, we will be able to increase our coal export shipments, including those that pass through Vanino Bulk Terminal, to 40 Mt.

SUEK’s own railway infrastructure includes 791.5 km of railway track, 16 internal loading stations and approximately 190 locomotives, providing access to the national railway network. Projects are underway to increase the throughput of our internal railway stations and tracks to increase the volumes of transported coal. This will support the development of production units in Kuzbass, Khakassia and Buryatia. This infrastructure also allows us to provide some of the best indicators in Russia in terms of the speed of turnover of railcars (both loading and unloading).

SUEK manages one of the five largest gondola railcar fleets in Russia, totalling 42,900 units at the end of 2018 and satisfying over 80% of our transportation needs, a 10 p.p. increase year-on-year. Our fleet includes high-capacity cars, with 75- and 77-tonne capacity and a service life of up to 32 years, which were designed to meet SUEK’s specifications.

Port transshipment

In 2018, we transshipped 47.3 Mt of coal. Our dedicated ports accounted for 80% of the total shipment volume.

Coal transshipment to Asia-Pacific customers via Vanino Bulk Terminal rose by 3% to 20 Mt benefitting from a previously completed upgrade of the port.

Investment projects

Shipment capacity expansion at Vanino Bulk Terminal

The development of Vanino Bulk Terminal involves a three-stage capacity expansion project, from 24 to 40 Mt per year. This correlates with an increase in the carrying capacity of railway facilities approaches to the port which is planned by 2024. Each stage includes a gradual increase in production capacity through modernisation and construction. In 2018, the cost of preparatory design and survey work, totalling $21m, was approved.

Capacity increase at Maly Port

At Maly Port, SUEK continued reconstructing hydraulic structures and dredging works to increase the port’s capacity to 4 Mt per year. The port will accommodate, and fully load, vessels of 25,000-30,000 metric tonnes of deadweight (DWT) with draft of up to 10.8 metres, a width of up to 30 metres and a length of up to 200 metres. In 2018, Glavgosexpertiza, the state design and engineering appraisal agency, approved the design documents and SUEK initiated the construction and installation works. The first stage of dredging was completed, and reconstruction of one of the berths is underway. The project is scheduled for completion in autumn 2019.
Our priorities for 2019
We plan to make further changes to the transportation structure, in particular through increasing the proportion of our own and leased railcars (primarily high-capacity ones). This will satisfy more than 80% of our growing transportation needs. The company will also provide third-party transportation services.

We will continue to develop our port facilities to meet increasing coal shipment demands. This will include the gradual capacity expansion of Vanino Bulk Terminal to 40 Mt. The design and research work is scheduled for 2019, as well as the selection of the supplier of the main process equipment and work on the removal of utilities from the construction area.

At Maly Port, SUEK will continue investing into the reconstruction of hydraulic structures, to expand the port’s capacity to 4 Mt per year. The project is scheduled for completion in autumn 2019.

We aim to develop long-term relationships with our suppliers and business partners based on mutual trust. We strictly adhere to all contractual obligations and the rules of business ethics.

Regulated and competitive procedures govern SUEK’s supplier selection process, ensuring that our procurement activities are transparent and efficient. At our energy facilities, suppliers are selected through electronic trading platforms and in accordance with Federal Law No. 223. We pay special attention to the quality control of our partners’ production processes, their compliance with industrial safety rules and their social responsibility principles. The requirements which we expect from all our business partners are laid out in our procurement contracts.

In 2018, we attracted 8,337 suppliers; with more than 99% from Russia. When we need to source equipment that is only available outside of Russia, we work with leading international manufacturers from Germany, Austria, the US, China and Japan.

Development of category strategies
In 2018, we assessed our project for the development and introduction of category procurement strategies. Category strategies are the core of SUEK’s procurement process and enable us to ensure the greatest economic benefit for the company, relative to other procurement activities.

To develop each category strategy, we established cross-functional panels, led by category procurement managers, who worked with production, logistics, finance employees and the Internal Control and Audit Service. The methodology was developed in accordance with the best international practices and with the assistance of reputable external consultants (BCG and E&Y).

As a result, category strategies covered 80% of SUEK’s procurement budget. As of the end of 2018, the economic benefit from this project exceeded $190m.

Our priorities for 2019
In 2019, we will continue to implement procurement category strategies. We are also aiming to replicate our innovative vending machines across our other units and expand the range of materials issued through the machines.

Automatic distribution of personal protective equipment
In 2018, SUEK launched a pilot project, introducing a vending machine which issues expendable personal protective equipment. This innovation was pioneering for the entire Russian mining industry. The project team consisted of employees from the procurement unit, the department of occupational and the industrial safety and IT service.

The project was run at the Borodinsky mechanical repair plant. Plant workers received expendable personal protective equipment (goggles, gloves, respirators) around the clock, while information about the equipment was distributed automatically to their personal records with simultaneous writing off the stock.

This project helped automate the process of issuing personal protective equipment to employees: from procurement planning based on issuance standards to recording the issue in SAP accounting and management reporting.
In 2018, SUEK's total assets increased to $14 billion and its revenue to $8.3 billion, reflecting the favourable coal market environment and the acquisition of the energy business.

The combined business model of the Coal and Energy Segments enabled SUEK to reduce the dependence of its EBITDA on volatile global coal prices.

In August 2018, SUEK Group acquired SGC1. Since this consolidation was treated as a transaction with respect to a company under common control, for the purposes of this MD&A report SUEK has provided like-for-like retrospective figures for FY 2017 which include a representative full year contribution from SGC to the Group’s financials.

Macroeconomic conditions were favourable for the company overall. Average annual coal indices in Asia and Europe rose by 21% and 9% respectively, compared to 2017. In Russia, 2018 inflation reached 4.3% and led to an increase in labour costs, rail costs and material purchase expenses in Rouble terms; it also impacted electricity and heat prices. With that, a 7% decrease in the average annual RUB/US$ exchange rate allowed us to maintain coal division expenses at the level of 2017 in US Dollar terms, compensating for the growth in Rouble expenses. The lower exchange rate also limited the growth of the average selling price of coal and energy to domestic consumers in US Dollar terms.

Revenue increased by 20% to $8,296m, driven by growth in coal sales and a positive global market situation, along with higher sales of electricity and heat due to the acquisition of new assets and lower than average annual temperatures. EBITDA rose by 23% to $2,541m reflecting the revenue growth and efficient cost control.

Net Profit grew by 33% to $1,164m as the increase in EBITDA was partially offset by higher depreciation owing to the expanded fixed asset base and by higher foreign exchange losses due to the weakening Rouble.

Administrative and other expenses increased by 11%, primarily through the increase in expenses relating to SUEK's charity work in the company's regions of operation.
Credit ratings

In 2018, Moody’s international ratings agency raised SUEK Group’s credit rating to Ba2 with a stable outlook. In May 2018, Fitch Ratings assessed the company for the first time and assigned it a BB rating with a stable outlook. Both agencies confirmed the Group’s credit rating following the integration of SGC.

According to Fitch Ratings, the acquisition of the energy business expands SUEK’s operations, improves the predictability of revenues and will help maintain or increase free cash flow. On the other hand, it may lead to a higher debt burden in the next two years compared to previous forecasts. Moody’s analysts noted the leading position of SUEK in the global coal industry, a high level of operational diversification, a good quality of coal products, competitive costs, significant control over the infrastructure and a balanced financial policy.

In addition, in 2018 SUEK received a credit rating from the Russian Expert RA agency at ruAA-.
Export revenue from coal sales grew by 21% year-on-year to $5,051m, which was primarily due to the higher average selling price (+17%) and an increase in sales volumes by 2% to 55.4 Mt. The average coal selling price differed from the average index price because of the contracting time lag and differences in the quality characteristics of the coal sold and the index quality benchmark.

### Revenue

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue from international sales</td>
<td>5,051</td>
<td>4,190</td>
<td>21%</td>
</tr>
<tr>
<td>Asia-Pacific market</td>
<td>2,894</td>
<td>2,494</td>
<td>16%</td>
</tr>
<tr>
<td>Atlantic market</td>
<td>2,157</td>
<td>1,696</td>
<td>27%</td>
</tr>
<tr>
<td>Revenue from sales in Russia</td>
<td>1,200</td>
<td>1,103</td>
<td>9%</td>
</tr>
<tr>
<td>Sales to third parties</td>
<td>655</td>
<td>654</td>
<td>0%</td>
</tr>
<tr>
<td>Intragroup coal sales</td>
<td>545</td>
<td>449</td>
<td>21%</td>
</tr>
<tr>
<td>Petroleum coke sales</td>
<td>250</td>
<td>235</td>
<td>6%</td>
</tr>
<tr>
<td>Other</td>
<td>210</td>
<td>165</td>
<td>27%</td>
</tr>
<tr>
<td>Total</td>
<td>6,711</td>
<td>5,693</td>
<td>18%</td>
</tr>
</tbody>
</table>

### Average price of coal sold on international markets, FOB basis

<table>
<thead>
<tr>
<th>Year</th>
<th>Price per tonne</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>88</td>
</tr>
<tr>
<td>2017</td>
<td>75</td>
</tr>
</tbody>
</table>

17% COMPARED TO 2017

---

1. The price is reduced to the FOB basis for Vanino, Maly Port and the eastern borders of China for shipments to Asia, and FOB Murmansk for sales to Europe. For shipments on other terms, we exclude the costs of freight, railway transit and cross-charged warehousing costs in foreign ports.
**Russian market** revenue increased by 9% to $1,200m, mainly driven by growth in sales to the Group’s own power facilities (+5.5 Mt). The price increase in Russian Roubles was offset by the Rouble weakening against the US Dollar.

**Cash cost of coal sold**
The unit cost of own coal sold in US Dollar terms did not change year-on-year due to the lower Rouble exchange rate. The cost in Roubles rose by 9% compared to 2017 following a sharp increase in the cost of fuel and lubricants and rising prices for imported spare parts.

### Average price of coal sold in Russia

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>($ per tonne)</td>
<td>21</td>
<td>21</td>
</tr>
<tr>
<td>(RUB per tonne)</td>
<td>1,289</td>
<td>1,204</td>
</tr>
</tbody>
</table>

0% compared to 2017

7% compared to 2017

### Cash cost of coal sold

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>($ per tonne)</td>
<td>14</td>
<td>14</td>
</tr>
<tr>
<td>(RUB per tonne)</td>
<td>858</td>
<td>790</td>
</tr>
</tbody>
</table>

0% compared to 2017

9% compared to 2017
Logistics

Transportation costs in US Dollar terms increased by $21m (+2%) compared to 2018, which resulted from higher transportation volumes.

The company continued transport export shipments using mainly railcars under management in order to maximise the margins of export sales. Operators, despite an increase in rates by 43%, began to provide higher capacity cars for loading. This improved the efficiency of using the operators’ fleet.

Specific coal transportation costs in Roubles rose amidst the continued growth in operator rates caused by a shortage of railcars due to the intense freight traffic during the period of high export prices, as well as a rise in railway tariffs in the domestic and international markets by 5.4% and 4%, respectively. The specific increase in expenses was partially offset by the weakening of the Russian currency.

SUEK is one of the few global coal companies that transships coal via its own ports, such as Vanino Bulk Terminal and Murmansk Commercial Seaport. In addition, SUEK also uses the Maly Port for coal transshipment. The share of coal transshipped through the Group’s ports increased to 85% of the total transshipment volumes in 2018. Total transshipment costs at the above ports in 2018 increased by 15% mainly reflecting the growth in volumes and increase in transshipment rates according to market level.

Freight costs grew by 5% from the previous year, principally due to higher transportation volumes.

### Transportation costs

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rail costs</td>
<td>1,383</td>
<td>1,362</td>
<td>2%</td>
</tr>
<tr>
<td>Freight costs</td>
<td>223</td>
<td>212</td>
<td>5%</td>
</tr>
<tr>
<td>Port costs:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Group’s port facilities</td>
<td>92</td>
<td>80</td>
<td>15%</td>
</tr>
<tr>
<td>Third-party ports</td>
<td>92</td>
<td>94</td>
<td>2%</td>
</tr>
<tr>
<td>Other</td>
<td>19</td>
<td>38</td>
<td>(50%)</td>
</tr>
<tr>
<td>Total</td>
<td>1,809</td>
<td>1,786</td>
<td>1%</td>
</tr>
</tbody>
</table>

### Rail costs (international market)

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>($ per tonne)</td>
<td>22</td>
<td>22</td>
<td>4%</td>
</tr>
<tr>
<td>(RUB per tonne)</td>
<td>1,404</td>
<td>1,330</td>
<td>6%</td>
</tr>
</tbody>
</table>

### Rail costs (Russian market)

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>($ per tonne)</td>
<td>8</td>
<td>7</td>
<td>14%</td>
</tr>
<tr>
<td>(RUB per tonne)</td>
<td>492</td>
<td>436</td>
<td>13%</td>
</tr>
</tbody>
</table>

### Ports costs (international market)

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>($ per tonne)</td>
<td>5</td>
<td>5</td>
<td>0%</td>
</tr>
</tbody>
</table>

### Freight costs (international market)

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>($ per tonne)</td>
<td>9</td>
<td>9</td>
<td>0%</td>
</tr>
</tbody>
</table>
ENERGY

Heat sales revenue amounted to $734m. The acquisition of new facilities and a longer heating season due to lower air temperatures, together with higher tariffs, made it possible to achieve a 50% increase in revenue year-on-year.

Capacity sales revenue totalled $720m, representing a 9% growth year-on-year. The main share of revenue comes from capacity supply contracts. The connection price for these is on average five times higher than the price of a standard connection. The generating facilities acquired in 2018 operate under standard supply contracts, and therefore do not have such a significant impact on revenues.

Electricity sales revenue rose by 28% to $588m. The growth in production due to the expansion of generating capacity and higher tariffs caused by a more intense electricity flow from the European part to Siberia compensated for the negative impact of the Rouble depreciation.

Cash cost of energy sold
The cash cost of energy sold in 2018 was $1,471m. The impact of cost growth in Rouble terms, due to the indexation of labour costs and an increase in fuel costs, was partially offset by the lower Rouble exchange rate.

**Revenue**

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heat sales revenue</td>
<td>734</td>
<td>490</td>
<td>50%</td>
</tr>
<tr>
<td>Capacity sales revenue</td>
<td>720</td>
<td>659</td>
<td>9%</td>
</tr>
<tr>
<td>Electricity sales revenue</td>
<td>588</td>
<td>461</td>
<td>28%</td>
</tr>
<tr>
<td>Total</td>
<td>2,042</td>
<td>1,610</td>
<td>27%</td>
</tr>
</tbody>
</table>

**Energy sales revenue (%)**

- Heat: 29%
- Capacity: 36%
- Electricity: 35%

The acquisition of new facilities and a longer heating season due to lower air temperatures, together with higher tariffs, made it possible to achieve a 50% increase in revenue year-on-year.

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Cash cost of energy sold
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A continuous focus on contributing to social and economic development...

Our sustainable development priorities are fully supported by SUEK’s business strategy. We have a continuous focus on effectively contributing to social and economic development and to reducing our environmental impact.

We recognise that our operations have an impact on society and the environment. Our objective is to ensure that this impact is overwhelmingly positive. In addition to bringing warmth and light to people’s homes, we are committed to looking after the well-being of our employees and the residents of the regions where we operate, and to ensuring they live and work in safe and healthy environments.

We are focused on consistently growing the company, but only while ensuring we maintain the safest possible production processes and continuing to reduce the environmental impact of our operations.

The Board of Directors and the management of the company pay special attention to issues of sustainable development and regularly review these issues at relevant committees of the Board of Directors.

Our corporate social policy aims to meet international principles and standards, including the United Nations Global Compact, the Social Charter of Russian Business, ISO 26000 (Guidance on Social Responsibility) and the Global Reporting Initiative (GRI) Standards.

In all of our activity, we also take into account the United Nations Sustainable Development Goals, aimed at fighting poverty, protecting the environment and improving people’s lives. Certain UN SDGs are of particular importance and relevance to SUEK’s sectoral orientation and strategy, as well as to our stakeholders.

SUEK companies are regularly audited for compliance with the following international standards:

**ECONOMIC**

- OHSAS 18001 Occupational Health and Safety Management System;
- ISO 14001 Environmental Management System
- ISO 9001 Quality Management System
- ISO 50001 Energy Management System
- ISO 55001 Asset Management System

**ENVIRONMENTAL**

**SOCIAL**
How we are achieving the goals

Stable supply of affordable and high-quality fuel
Consistent supply of heat and electricity
A product offering that complies with the requirements of new generation, environmentally friendly coal-fired power plants
Innovative products and production processes

Improving our environmental management system
Protecting air resources
Careful use and protection of water resources
Increasing energy efficiency
Land rehabilitation and biodiversity conservation
Involvement and interaction with the public and local authorities in the preparation, discussion and implementation of environmental actions

Continuous improvement of our industrial and labour safety practices
Improving air safety, preventing accidents and minimising the impact of coal dust on the health of personnel and the population of the regions where we operate
Introducing modern safety systems and control devices
Training personnel in safe work methods, improving work discipline
Providing employees with high-quality overalls and personal protective equipment
Implementing medical prevention programmes, promoting a healthy lifestyle

Assessment, development and training of personnel
Fair remuneration and social support for employees
Development of internal communications and corporate culture
Supporting the social infrastructure development of the areas where we operate
Social potential development of local communities
Cooperation with the authorities in solving social development problems
Support for socially vulnerable groups
Promoting open dialogue with all stakeholders
...and environmental responsibility

At SUEK, in all our activities and investment decisions we carefully evaluate potential environmental issues and take appropriate environmental protection initiatives.
International environmental certification
At our coal facilities in Khakassia, Krasnoyarsk and Kemerovo, we operate an environmental management system that meets the requirements of the ISO 14001:2004 international standards. This is confirmed by regular external audits.

In 2018, our environmental practices at our coal facilities were certified compliant with Bettercoal Code (for details see p. 97).

In 2018, the Murmansk Commercial Seaport and Maly Port were inspected and approved for compliance with the requirements of ISO 14001.

In 2018, Nomura Research Institute, Ltd. (NRI), and Idemitsu Kosan Co., Ltd. (Idemitsu), analysed environmental protection measures and methods at our Vanino Bulk Terminal, through a benchmarking against Japanese coal terminals. As part of the audit, environmental experts assessed the condition of our port equipment and coal transshipment technologies. They concluded that the Vanino Bulk Terminal applied all the best available solutions and international practices to efficiently handle and export coal in adverse climatic conditions.

During 2018, we introduced an environmental management system at our generating facilities, Krasnoyarsk CHPP-1, CHPP-2, CHPP-3. Auditors from Det Norske Veritas and Germanischer Lloyd confirmed the compliance of the environmental management system at these CHPPs with the international ISO 14001:2015 standards.

We also provide training to enhance the environmental knowledge and qualifications of our employees. We collaborate with research bodies and expert organisations to introduce innovative and efficient coal mining and power generation technologies, which help reduce our environmental impact.
Bigger scale, higher standards

Employee safety is critical to achieving our business targets and achievements.
Our priorities
Continually improve our production management to ensure occupational and workplace safety
Address atmospheric safety issues
Guarantee safety of all CHPP equipment from fire and explosion
Ensure our production sites have the latest equipment (including PPE), safety systems and monitoring
Ensure our health and safety information system functions at a company-wide level
Introduce remote monitoring systems for industrial safety parameters
Improve the skills and capabilities of safety professionals
Reduce the negative impacts of coal production on employee health
Implement special preventative medical programmes

Our approach
Employee health and safety is SUEK's absolute priority. The LTIFR KPI, as well as the absence of group fatal accidents, are the top management's bonus modifiers.

SUEK’s system for managing health and safety across the company is regulated by our internal Occupational Health and Safety Policy and aims to reduce the risk of injuries and accidents at our production plants. The industrial safety system, which we use at our coal, energy and logistics assets, complies with advanced international standards. Our coal-mining companies in Kuzbass, Krasnoyarsk and Khakassia undergo regular external audits for compliance with the requirements of OHSAS 18001.

Our approach:

- **Continual improvement of production management:** To ensure occupational and workplace safety.
- **Addressing atmospheric safety issues:** To guarantee the safety of CHPP equipment from fire and explosion.
- **Upgrading production sites:** Ensuring they have the latest equipment, including PPE, safety systems, and monitoring.
- **Enhancing health and safety information systems:** Functioning at a company-wide level.
- **Remote monitoring systems:** For industrial safety parameters.
- **Skill development:** Professional capabilities of safety professionals.
- **Reducing negative impacts:** On employee health through preventative medical programmes.

In our efforts to ensure production safety and efficiency, we adhere to the following main PRINCIPLES:

- **Zero tolerance to injuries and accidents:** We treat any injury or accident as an emergency and as a critical error in our control systems and safety processes.

**Safety priority**

- **Every production task:** Should be considered from the point of view of its safety. If safety comes into conflict with the production task, the latter should be reviewed or abandoned.

**Professionalism and competence**

- **We do not assign any work to employees:** Who do not have the necessary knowledge and skills.

**Zero tolerance to dishonesty and concealment**

- **Concealment of any information relating to occupational health and safety:** Is unacceptable.
We continually monitor potentially hazardous situations throughout the entire business cycle. All emergencies and abnormal situations are thoroughly investigated by special commissions and industry experts. After any abnormal situation, we develop fresh strategies to prevent similar incidents from happening in the future.

SUEK adopts a comprehensive industrial safety management system to ensure it has a centralised methodology and control at all levels. The Industrial Safety Committee of SUEK’s Management Board chaired by the CEO is the major body responsible for monitoring the implementation of the Group’s health and safety policy. The Committee’s ability to successfully address safety issues relies on setting strategic objectives, goals and areas of focus, and addressing material issues in industrial safety, labour safety and the environment.

Our internal standards apply to both company personnel and contractors involved in work at SUEK’s units.

In 2018, SUEK also joined the Vision Zero (zero injury) campaign launched by the International Social Security Association.

Overview
In 2018, the company had two separate industrial safety management systems in place for the coal and energy businesses, due to the different nature of their production processes. However, we plan to harmonise the health and safety compliance policies and standards for both businesses.

Certain aspects of work in the coal industry have unavoidable risks. The nature of mining means there is always a risk of accidents at production facilities, in underground development and during extraction activities, stripping and transport in open-pit mines due to natural factors.

In 2018, the company’s overall lost time injury frequency rate (LTIFR) decreased from 0.88 to 0.75 year-on-year, while the Coal Segment’s LTIFR fell from 1.0 to 0.75, and from 0.57 to 0.29 in the Energy Segment.

Total lost time decreased by 22% to 6,343 days. The lost time injury severity rate (LTISR), the number of days of disability per 1,000,000 hours worked, dropped by 34% to 61.6, including 88.3 in the Coal Segment and 26.8 in the Energy Segment.

The company also recorded a 22% reduction in occupational injuries, from 73 injured in accidents during 2017 to 57 in 2018. Of these, 44 accidents occurred at coal production and logistics operations, whereas 13 employees were injured at our energy facilities.

In 2018, there were no group fatal accidents at SUEK’s facilities. Unfortunately, there were six single fatal accidents: two accidents during open-pit mining in Zabaikalye and the Krasnoyarsk region, one accident during auxiliary earthworks in Khakassia, the fatality of a worker from Kuzbass in a road accident, one employee of the Murmansk Commercial Seaport fatally injured by a forklift and one person died of electrocution at a CHPP in the Altai region.

The main causes of these accidents were organisational issues, such as the violation of industrial and labour safety requirements and the breach of discipline in matters of occupational safety. To avoid the repetition of any accidents we thoroughly analyse the cause of each one before developing and implementing corrective actions drawing on the best international practices.

In 2018, $81.8m was spent on occupational health and safety, $59.9m of which was committed to the Coal Segment and $21.9m to the Energy Segment.

### Overview

<table>
<thead>
<tr>
<th>LTIFR (ratio)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
</tr>
<tr>
<td>2017</td>
</tr>
<tr>
<td>2016</td>
</tr>
</tbody>
</table>

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In 2018, SUEK also joined the Vision Zero (zero injury) campaign launched by the International Social Security Association.

---

**In 2018, the company’s industrial safety was also assessed as part of its Bettercoal audit.**

Bettercoal experts commended the company for the following:

- Introduction of the GRANCH underground safety monitoring and control system
- Integrated planning of fire prevention and emergency response activities, taking into account regulatory framework requirements and including an adaptive response
- Identifying, managing and responding to the risk of spontaneous coal ignition
- Comprehensive medical care for workers through medical facilities equipped with modern equipment and technologies
- Continuous development of a mobile communication system to instantly register violations of industrial safety rules in our mines

**LTIFR (ratio)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Coal</th>
<th>Energy</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>0.57</td>
<td>0.47</td>
</tr>
<tr>
<td>2017</td>
<td>0.75</td>
<td>0.57</td>
</tr>
<tr>
<td>2018</td>
<td>0.29</td>
<td>0.75</td>
</tr>
</tbody>
</table>

In 2018, SUEK also joined the Vision Zero (zero injury) campaign launched by the International Social Security Association.
Measures to improve health and safety in coal and logistics
The main risks in coal mining are from potentially explosive concentrations of methane, and the accumulation of fine, explosive coal dust deposits in working areas. The company is therefore particularly focused on improving air quality, minimising airborne dust and diluting coal dust deposits to safe levels with inert dust.

Monitoring underground air and gas
Our mines are equipped with a multifunctional system that ensures the safety and control of our mining operations, continuous and automated remote control of harmful gas concentration, and the safe management of production processes under normal and emergency conditions.

Currently, the company’s mines operate a number of subsystems as part of the general multifunctional health and safety system, including:
- Atmospheric safety system designed to:
  - Monitor air and gas conditions
  - Monitor and control permanent main fan systems, local ventilation fans, and gas extraction units
  - Monitor and control gas-drainage units and networks
  - Systems for the monitoring and prediction of gas outbursts
  - Systems for detecting early signs of spontaneous combustion of coal and open fires
  - Systems for the monitoring and management of fire water supply and drainage systems
  - Systems enabling workforce communication, warning and tracking, including:
    - Systems tracking the location of personnel in underground mines
    - Systems locating people caught up in accidents
    - Systems delivering emergency underground communication and alerts via loudspeakers

We have also developed a range of measures designed to improve the reliability of our multifunctional health and safety system. At the SUEK head office, our control centre remotely monitors industrial safety parameters in real time. It is the control centre’s responsibility to analyse the information received and coordinate actions with regional units and production companies during emergencies.

Our centralised health and safety control and analysis centre also operates in Kuzbass. Here, the industrial safety manager automatically receives information about atmospheric conditions and gas levels and safety parameters of production processes in underground and open-pit mines of the regions. This means our miners’ safety is monitored round-the-clock.

A pilot automated remote safety monitoring system in our Komsomolets mine in Kuzbass is at the final stage of implementation – the Industrial safety remote control system. The concept is based on the principle of transition to a risk-oriented approach in ensuring industrial safety, which should ensure the detection of threats at an early stage by remote monitoring of the state of industrial safety at work. We have decided to replicate this system and equip all of the company’s mines with it during 2019-2020. This project will cost over $2.1m.

Improving gas drainage
To reduce the risk of explosive concentrations of methane forming in our mines, we carry out comprehensive gas drainage where methane content exceeds 10 m³/tonne of coal. We remove methane from such mining areas via a system of integrated gas-drainage wells. Special pipes connected to surface vacuum pump units are used to drain methane from underground workings. Since 2010, the total vertical length of our gas-drainage wells has increased to 358.6 km.

We are constantly introducing new methods, equipment and technologies to maximise the efficiency of the gas-drainage process.

At the Kirov mine, we use advanced gas drainage technology based on hydraulic fracturing of the coal seam. These methods reduced the gas content of the longwall panel in the fractured area by 30%. We also drill gas-drainage wells and ensure that surface vacuum pump units are equipped with the most advanced equipment and provide drilling rigs manufactured by international producers.

To ensure we are as energy efficient as possible, 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 (GHG) emissions.

Improving ventilation and gas control systems of coal mines
It is crucial that mines are well-ventilated, and that miners and rescue crews can be efficiently evacuated in the case of any emergency. To ensure this, new fan units were commissioned at the Ruban, Kirov, Polysaevskaya and Yalevsky mines in 2018.

At the November 7th New mine (Kuzbass), we upgraded the existing fan unit. At our Yalevsky mine, we introduced a new gas control scheme, which includes the installation of two gas-suction fans in order to decrease the amount of methane-air mixture.
Reducing coal dust

To reduce the risk of coal dust explosions, we have introduced strict rules and requirements in our mines regarding stone-dusting using inert dust.

We have improved the quality of stone-dusting by using more than 350 mechanical stone-dusting units. At our mechanical and repair plants, we produce our own mechanical stone dusters.

We also strive to reduce dust at our aboveground facilities to create more comfortable working conditions for our employees:

- Upgrading aspiration and dust removal systems, introducing vacuum collection, transportation and discharge of fine coal dust at our washing plants and processing facilities
- Equipping production areas, warehouses and territories adjacent to Vanino Bulk Terminal with fog-generation units and foam generators, using a dust suppression unit, dust suppression system in the car dumper hall, along with unique foam generators that suppress dust with foam and water
- Introducing a fog-generation dust suppression system for coal piles at Murmansk Commercial Seaport, operating mobile vacuum collectors

Measures to improve health and safety at power facilities

There are several key risks associated with producing and transmitting electric power and heat and with repairing and installing equipment at power facilities. These are the possibility of generating a potentially explosive pulverised coal mixture in coal pulverisation units of TPP boilers, depressurisation of equipment operating under significant overpressure of the heat carrier, falling from height during repairs and electric shocks.

We pay special attention to operational safety in order to eliminate the risk of injuries and the occurrence of accidents and fires. In particular, we are careful to observe the correct procedures for carrying out power installations, admission to repairs and the installation and commissioning of equipment at power facilities.

From 2016 to 2018, we ran a fire safety improvement programme at SUEK’s energy companies, which included the following:

- Installation of fire alarms and automatic fire fighting systems
- Installation of additional fire protection systems for personnel
- Application of fire-retardant coatings on electrical power cables
- Installation of flame arrestors in coal pulverisation units of TPP boilers

We will continue to improve our fire safety processes and have already developed a new programme for the next three years.

Tighter health and safety controls

SUEK has a zero-tolerance policy for violations of health and safety regulations. Preventing such violations is crucial to reducing the risk of accidents and injuries at our sites. We have developed and introduced specialised software to keep track of health and safety-related incidents at all sites across the company. This software ensures no task is issued for a shift assignment before all identified health and safety violations have been dealt with. We also introduced this software in all our service and auxiliary companies.

We continued developing two pilot projects which use adapted software in mobile devices (smartphones/tablets) to provide remote access to corporate systems. This system allows our employees working underground and in open-pit mines to record violations of industrial safety requirements and issue shift tasks. The pilot project is underway at the Tugnuisky open-pit mine and Ruban underground mine.

Personnel training and development

We work hard to ensure all employees have the necessary knowledge, skills and training to carry out their roles safely and responsibly. All equipment purchased by the company comes with a special training video demonstrating how to maintain high levels of health and safety during assembly, operation and maintenance.

Before work begins, each employee’s occupational and industrial safety knowledge is tested in a pre-shift examination via computer terminals. We regularly update the databases of these training terminals and develop new tests.

To ensure the continual training of personnel at our power facilities, we use distance training platforms based on Moodle software and knowledge checks of TPP personnel. Additionally, during 2018 3,000 test questions were piloted in the energy sector with personnel at a thermal power plant in the Altai region (301 employees in total) undergoing subsequent testing of their specialised operational knowledge. We held informational and educational events for a variety of people in order to inform them about our industrial safety culture. During the year, 196 people, including directors and chief engineers of energy facilities, participated in training programmes at various levels.
Promoting health and safety
In order to promote safe working methods and to draw employees’ attention to the mandatory safety requirements at our workplaces, the company identified the areas of work with the greatest risk of injury and used them as examples in occupational safety videos. These risks included working at height, in electrical installations, with equipment with explosion and fire potential and hot work. Video scripts include real accidents that have taken place in the company with a description of the mistakes and safety violations that led to them.

SUEK’s production sites also feature an HSE feedback system called Alarm Sheet, where employees can write down any hazards associated with a specific workplace or process. In the reporting year, the feedback system helped eliminate more than 200 shortcomings identified by company employees.

Identifying employees who are prone to excessive risk-taking
We test all candidates applying for job vacancies and engineering positions to determine whether they are prone to excessive risk-taking. Our tests examine each candidate’s risk appetite and their ability to learn and follow rules.

Provision of modern work clothes and personal protective equipment
To minimise the negative impact of occupational hazards on our staff, the company has developed standard requirements for work clothes, footwear and other personal protective equipment. All SUEK employees receive an up-to-date protective kit including special clothing and footwear, helmets, respirators and goggles. The company has also set up an automated system which accounts for personal protective equipment and enables us to systematically organise the processes of planning, purchase, storage, and timely and uninterrupted issue of personal protective equipment. In addition, our units carry out regular inspections to ensure compliance with corporate standards in this area. In 2018, SUEK’s units conducted six workshops, which focused on the practical use of personal protective equipment, major changes to health and safety legislation and preventing occupational injuries and diseases.

Healthcare
Preserving the life and health of our employees, and mitigating the risk of occupational diseases, is an absolute priority for SUEK.

As part of our company-wide health programme, we work to identify occupational diseases in their early stages, carry out systematic healthcare work and promote healthy lifestyles. All our employees are offered medical services, education about various medical conditions, consultations, diagnostic services and treatment.

$81.8m
SPENT ON OCCUPATIONAL HEALTH AND SAFETY IN 2018

-22%
OCCUPATIONAL INJURIES COMPARED TO 2017

The main task of our cross-company medical services is to ensure the necessary conditions for the preservation, protection and promotion of workers’ health, taking into account production risks and individual risks alike. The main areas of focus include:

- Providing emergency medical care
- Medical admission to work
- Preventing occupational diseases
- Treatment and rehabilitation
- Occupational health and industrial hygiene
- Promoting healthy lifestyles
- Developing practical recommendations based on scientific research
- Participating in a special assessment of working conditions and developing measures aimed at health preservation

At our units, we are introducing automated systems of pre-shift medical check-ups. From 2012 to 2018, the health statistics of SUEK’s personnel improved by more than double, as time lost through sick leave across the company fell from 8.22 to 6.6 days per employee per year, while in 2018 the share of people with recurrent and long-term periods of illness was 3.73%.
Larger footprint, increased responsibility

At SUEK, in all our activities and investment decisions we carefully evaluate potential environmental issues and take appropriate environmental protection initiatives.
Our priorities

Improving our environmental performance and environmental management system

Engaging employees in environmental risk mitigation, enhancing our environmental management system and environmental performance indicators

Pursuing a transparent environmental policy, disclosing environmental reporting, engaging communities and local governments in the preparation, discussion, adoption and implementation of environmental protection initiatives

Our approach

Our strategic environmental priorities are closely linked to the UN Sustainable Development Goals and focus on the sustainable development of the regions where we operate and improving the quality of people’s lives.

The importance of environmental safety is enshrined in SUEK’s Environmental Policy and developed in accordance with Russian and international environmental laws. Furthermore, our environmental management strategy is set out in the company’s Compliance Regulation of licensed activities and environmental management, and Compliance Policy. Any contractors we engage with are also required to comply with SUEK’s environmental standards, and this is set out in our contracts with them.

Fundamental principles of our Environmental Policy:

- Improving the environmental safety of economic activities
- Gradually reducing the negative anthropogenic impact on the environment (lower volumes of pollutants in emissions and discharges, reduction of waste)
- Enhancing the efficiency of our use of natural resources and energy sources

With the acquisition of the energy business in 2018, we were able to extend environmental safety corporate controls to all stages of our operational cycle, from mining to heat and power generation. Both production processes have their specific features, but we are planning to harmonise key policies and standards for both businesses.

In 2018, we invested $68.3m in environmental protection.

Key areas of SUEK’s environmental activities and development:

- Compliance with environmental regulations
- Development of an integrated environmental management system in accordance with the international ISO 14001 standards
- Implementation of programmes to improve environmental safety and environmental protection, including projects for:
  - Responsible use of natural resources
  - Lower atmospheric air pollution
  - Wastewater treatment and responsible water consumption
  - Utilisation of by-products, such as coal mine methane
  - More efficient recycling of waste and secondary raw materials

Our environmental safety strategy and its planning is controlled by SUEK’s Board of Directors. In 2018 we developed new environmental KPIs, which will be included in management KPIs.

Environmental management structure

Board of Directors

- Monitoring the implementation of the environmental safety and environmental protection strategy

Directorates of Industrial and Occupational Safety and Environmental Protection

- Strategic planning
- Development of corporate-wide policies and standards
- Improvement of the environmental management system
- Operational management

Regional Environmental Services

- Operational activities

SEE SUEK’S ENVIRONMENTAL POLICY ON OUR WEBSITE WWW.SUEK.COM/ABOUT-US/CORPORATE-GOVERNANCE/BY-LAWS/
Air
The company is particularly focused on reducing polluting emissions at its generating facilities. SO₂, NOₓ and solids are the most common pollutants.

To improve dissipation, we use tall chimneys (over 120 m on average) and advanced dust-collecting equipment (electrostatic precipitators, cyclone collectors), which allow us to catch up to 99.6% of fly ash. We also upgrade our equipment and introduce advanced coal burning technologies. In general, the level of emissions at SUEK’s generating facilities is significantly below the legal maximum limits.

In 2018, we modernised the flue gas scrubbing system at the Barnaulskaya CHPP-2 and achieved flue gas cleaning of 98%. At the Kemerovskaya GRES, we repaired electrostatic precipitators to improve their efficiency. Additionally, we began work to upgrade the equipment and build a new chimney at the Krasnoyarskaya CHPP-1 (275 metres high), which will reduce environmental impact in the city of Krasnoyarsk. The co-generation of heat and electricity at our plants helps markedly to reduce emissions per unit of generated energy due to the higher efficiency of the plants. SUEK also replaces ‘dirty’ stand alone boiler houses with combined heat and power plants. These produce heat and electricity and are equipped with efficient flue gas cleaning equipment. In 2018, we replaced 23 boiler houses in our regions of operation.

By the end of 2019, we plan to replace at least 35 boiler houses. This will reduce total emissions in the city of Krasnoyarsk by a minimum of 12%.

In coal mines, the biggest atmospheric pollutant is methane (91%). We remove methane from the working coal seams prior to mining and the extraction of gas from mined-out areas to ensure production is safe and then utilise it for power generation. This reduces our greenhouse gas (GHG) emissions and is a key part of our commitment to mitigating our environmental impact in support of the Paris Agreement on Climate Change. Our Kirov and Komsomolets mines are equipped with recovery systems and gas engine plants that capture gas and use it to generate heat and electricity. In 2018, the company utilised 4.2 million m³ of methane captured from mined-out areas.

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

We also work to decrease dust emissions across the whole production and transportation cycle.

Pollutant emissions per unit of electricity (CO, NOₓ, SO₂) (kg/kWh)

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>CO</td>
<td>0.008</td>
<td></td>
</tr>
<tr>
<td>NOₓ</td>
<td></td>
<td>0.008</td>
</tr>
<tr>
<td>SO₂</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Pollutant emissions per tonne of coal (CO, NOₓ, SO₂) (kg/t)

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>CO</td>
<td>0.14</td>
<td>0.12</td>
<td></td>
</tr>
<tr>
<td>NOₓ</td>
<td></td>
<td>0.12</td>
<td></td>
</tr>
<tr>
<td>SO₂</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

At our mining sites, we use special equipment to reduce the concentration of dust in atmospheric air. This includes cleaning machines in Khakassia and Buryatia, sprinkling and spraying equipment and a fog-generating unit (Zabaikalye). In 2018, at the Tugnisky open-pit mine, we launched a dust suppression system that generates fog in the area of dust creation.

We have introduced the best international and domestic state-of-the-art technologies at our ports. These technologies minimise SUEK’s environmental impact in the handling of dusty goods. They include an integrated dust control system from stationary and mobile cannons with a ‘winter package’, vacuum units, automatic irrigation of intra-port roads, and protected telescopic conveyors. These measures comprehensively ensure the effectiveness of dust reduction.

In 2018, at Vanino Bulk Terminal, we continued design and research works on construction of new dust and wind shields, in addition to the existing dust suppression system, for the stacker reclaimer. We also equipped a second stacker reclaimer with the same system. In order to improve dust suppression in winter, we purchased equipment to quickly assemble a mobile snow generator. A new dust suppression system with improved nozzles is being mounted along the perimeter of the storage areas to supplement the six existing systems.

In 2018, at our Murmansk Commercial Seaport, we created the Environmental Dispatching Office, which predicts the environmental situation in the affected area and at the production sites themselves. The company started the first stage of construction of dust and wind shields 20 metres high with a total length of 2.5 km.

At Maly Port, in 2018, we purchased a vacuum collector unit and installed a stationary dust suppression system.
Water
The company does not use water from vulnerable or state-protected sources, or from those of particular importance to local communities or to biodiversity.

Due to the nature of their production processes, SUEK’s mining units inevitably generate wastewater. The majority of the wastewater discharged by the company is natural water (with characteristics typical of local groundwater) that is pumped out of mining areas during operations. Our production sites are equipped with facilities for treating industrial (including from underground mines and open-pit mines) and household wastewater. In addition, part of the treated water is used in production.

In 2018, SUEK upgraded its wastewater treatment facilities at the Ruban mine, built mine water treatment facilities at the Yalevsky mine, reconstructed household wastewater treatment equipment at the Taldinskaya-Zapadnaya 1 mine, built settling ponds for the treatment of open-pit mine water at the Pavlovsky open-pit mine, an evaporation pond at the Chernogorsky open-pit mine, and also put into operation treatment facilities at the Vostochno-Beisky open-pit mine.

At our generating facilities, water resources are mainly used for the cooling of equipment, which does not affect the quality of the water. The company’s GRESs and CHPPs are equipped with treatment plants for industrial and storm sewage.

In 2018, we continued to reduce water consumption from both surface and underground sources, we increased the amount of water recycled and reused, created new closed water circulation cycles without discharging wastewater to water bodies and abandoned the discharge of wastewater to surface water bodies at the Kemerovskaya CHPP and Kuznetskaya CHPP.

As part of our Bettercoal Code compliance audit in 2018, an assessment of SUEK’s environmental performance was carried out. The experts noted that the company demonstrated best practices in:

- Effective water management, which reduces the need for water intake
- Efficient water purification through the use of modern modular treatment systems
- Efficient energy management, via a comprehensive energy efficiency programme aimed at reducing energy consumption
- The setting of targets for environmental and natural resource use
- Reducing the amount of waste generated by hazard Class I through the replacement of lamps containing mercury
- Plans for the re-cultivation of land disturbed by mining operations beyond what is required by law

### Water consumption

<table>
<thead>
<tr>
<th>Water consumption per unit of electricity (m³/kWh)</th>
<th>Water consumption per tonne of coal production (m³/t)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018 0.0488</td>
<td>2018 1.4</td>
</tr>
<tr>
<td>2017 0.0500</td>
<td>2017 1.3</td>
</tr>
<tr>
<td></td>
<td>2016 1.3</td>
</tr>
</tbody>
</table>

### Suspended and dissolved solids in wastewater (kg per tonne of coal)

<table>
<thead>
<tr>
<th>2018 0.18</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017 0.21</td>
</tr>
<tr>
<td>2016 0.23</td>
</tr>
</tbody>
</table>
Production waste recycling

Production operations are inextricably linked with waste generation. About 99.9% of the waste we produce is not hazardous (overburden, etc.). Most of this waste is used in production processes or for reclamation purposes (73%). The rest requires special treatment and is transferred to dedicated organisations for neutralisation.

In order to reduce waste sent for disposal, in 2018, our Zabaikalye facilities purchased specialised equipment to process organic waste, industrial rubber articles, polymers, rubbers, oil sludge, bitumen, roofing felt, electronic equipment, waste oils, medical, wood and other carbon-containing waste.

We continued operating our tyre-recycling plant in Khakassia, the aim of which is to convert worn dump-truck tyres into new products, such as tiles for injury-free sports coatings, and rubber granules for road surfacing. Adding rubber granules to asphalt coatings increases the grip and makes the road surface more resistant to temperature changes.

At our power facilities, the majority of waste produced during coal burning is ash and slag, which are not hazardous. Until recently, these wastes were taken to specially equipped disposal facilities, called ash dumps, which neutralised any negative environmental impact they might have had.

Currently, we are implementing a major project to utilise ash and slag waste in our production operations. In 2017-2018, experts confirmed the possibility of using these materials to reclaim disturbed land. There is potential to utilise 3.2 Mt of ash and slag for this purpose every year (90% of total waste).

Energy efficiency

As part of the Russian government’s nationwide initiative to improve energy-efficiency and develop the power industry, SUEK has developed and implemented an Energy Saving and Energy Efficiency Programme. In addition to its economic benefits, this programme enables us to achieve our objective of reducing our energy consumption, which helps to minimise our overall impact on the environment.

We have developed an energy efficiency management system in accordance with best international practices. The system meets the requirements of the international ISO 50001 standards ‘Energy Management System’, and the national GOST R ISO 50001-2012 standards ‘Energy Management System’. In order to be compliant with these requirements, in 2016-2017, a number of coal units certified their conformity to the Russian GOST standard. In 2018, we initiated the certification of compliance with the requirements of the international ISO 50001 standards of the entire Coal Segment.

The main areas of our energy efficiency programme include:
- Regular development and introduction of energy efficiency goals and action plans
- Control procedures at various levels
- Introducing innovations and best available technologies related to energy efficiency

As part of programme implementation in the Coal Segment, in 2018 we carried out the following activities:
- Development of existing equipment, dispatching systems and fuel consumption control
- Installation of reactive power compensation devices for electrical appliances
- Conversion of mine heating plants to coal fuel
- Introduction of modern pumping stations
- Modernisation of diesel locomotives
- Upgrade of excavators and auxiliary equipment, including an increase in the body space of dump trucks in order to boost their capacity (Zarechny mine), reduction of idle runs and hot downtime, improved maintenance and engine setting of mining equipment
- Development of professional skills of dump truck and bulldozer operators, improvement of rate setting and motivation systems

Used and recycled waste of total generated waste (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>Coal</th>
<th>Energy</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>73%</td>
<td>19%</td>
</tr>
<tr>
<td>2017</td>
<td>79%</td>
<td>11%</td>
</tr>
</tbody>
</table>

Energy consumption per coal production (kWh/m³ of rock mass)

<table>
<thead>
<tr>
<th>Year</th>
<th>Coal</th>
<th>Energy</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>2.90</td>
<td>2.96</td>
</tr>
<tr>
<td>2017</td>
<td>2.96</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>3.05</td>
<td></td>
</tr>
</tbody>
</table>
In 2018, electricity consumption per unit of coal output across the Group decreased by 2% year-on-year.

We also improved diesel fuel consumption. The consumption of diesel fuel by the largest category of user (dump trucks) decreased by 2% per tonne of coal or rock year-on-year to 0.203 kg/t.

In the Energy Segment, all plants annually develop energy saving and energy efficiency programmes. Their main purposes are:

- Improving the efficiency and reliability of equipment
- Reducing heat losses
- Reducing electricity consumption for own needs
- Saving fuel and energy resources

Most of our plants apply the principle of co-generation, which helps us save fuel.

In 2018, the energy business’s programmes resulted in fuel and energy savings of 38.3 thousand equivalent fuel tonnes (+15% year-on-year), and 12.4 million kWh (+65% year-on-year).

**Land reclamation and biodiversity**

None of SUEK’s production sites are situated in protected or natural reserve areas, including the territories protected by UNESCO and the Ramsar Convention, and no rare or endangered species of animals, plants or fungi have been identified at our operational sites.

We run extensive reclamation projects on land disturbed by SUEK’s mining projects.

Overburden resulting from coal mining is used for filling sinkholes, backfilling and reclaiming land disturbed by mining operations. This is in accordance with approved programmes for the use of mineral resources, including projects to restore the topography and soil, landscaping and gardening programmes. With the Khakassia Research Institute of Agrarian Problems, we have been implementing a unique long-term land reclamation project with the goal of preparing forest reclamation recommendations.

In order to maintain aquatic biological resources, the company also regularly releases various fish species into local water bodies. In 2018, SUEK’s environmentalists released more than 2,000 juvenile Siberian sturgeon into the Yenisei river. We also released over 5,500 juvenile carp into a local pond at Tugnuisky. These initiatives enhance the local biodiversity and also improve the condition of the area, which is an important place for employees of Tugnuisky and local residents to rest and relax. In Primorye, company employees released 9,000 carp fingerlings into the Abramovka River.

In the energy business, we completed the construction of fish protection structures at the Kemerovskaya GRES, Kemerovskaya CHPP and Kuznetskaya CHPP. In 2018, we released 300,000 muksun fry, 12,000 grass carp fry and 33,000 silver carp fry into rivers and lakes.

### Fuel consumption per unit of electricity (gram equivalent fuel/kWh)

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>336</td>
</tr>
<tr>
<td>2017</td>
<td>338</td>
</tr>
<tr>
<td>2016</td>
<td>337</td>
</tr>
</tbody>
</table>

### Fuel consumption per unit of heat, and heat output % in co-generation cycle (kg equivalent fuel/Gcal, %)

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>163</td>
<td>96%</td>
</tr>
<tr>
<td>2017</td>
<td>162</td>
<td>95%</td>
</tr>
<tr>
<td>2016</td>
<td>163</td>
<td></td>
</tr>
</tbody>
</table>

- Specific fuel consumption
- Share of heat output in co-generation cycle of the total heat output (%)
Greater scale, combined skills

Our employees are vital to the achievement of the company’s strategic goals. Ensuring the well-being of our people and creating the right conditions for their growth and development are priorities for SUEK.
Our priorities

Recruit qualified and motivated employees to meet the company’s requirements

Increase the level of industrial safety at our sites and facilities

Develop our employees, improve working conditions and living standards

Improve the efficiency of HR cost management

Improve labour productivity and headcount management

Nurture the company’s succession pool and recruit young professionals

Develop our corporate culture and internal communications

Our approach

Our HR strategies and initiatives comply with Russian labour laws and SUEK’s Code of Corporate Ethics.

SUEK does not use child labour or any form of forced labour and guarantees equal rights and the absence of discrimination based on nationality, gender, origin, age, religious or other beliefs, etc. The company recognises the lawful right of workers to form voluntary associations to protect their rights and interests, including the right to form and join trade unions.

HR management issues are regularly reviewed at meetings of the Board of Directors’ Nomination and Compensation Committee (for details, see p. 119).

Regulatory framework of our relations with employees

– Russian labour laws

– Sectoral and territorial agreements with trade unions

– Collective bargaining agreements

– Corporate Social Policy

– Code of Corporate Ethics

Our 2018 key achievements:

Headcount planning and staff expenses

– Developing labour standards for operators of the main production equipment at underground mining works

– Introducing automated accounting for labour costs

– Regulating the methodology of piecework remuneration and monthly bonuses for open-pit workers

Recruitment and retention

– Increasing internal staff mobility between the company’s facilities and regions. Programmes for workforce redistribution between production facilities enable us to retain qualified personnel within the company and focus on solving priority tasks

– Further development of a housing programme for employees of the coal business

– Implementation of a programme to attract young people to the company: school graduates in SUEK’s operating regions are offered training at higher education institutions in subjects required to work at SUEK; we have also set up a youth forum to help identify and recruit talented young people

FOR MORE INFORMATION ABOUT OUR CORPORATE SOCIAL POLICY, SEE WWW.SUEK.COM/ABOUT-US/CORPORATE-GOVERNANCE/BY-LAWS/
Following the consolidation of SGC, in 2018 SUEK expanded its geographic footprint to operate in 11 regions of Russia and 12 countries, cementing its position as one of the largest employers in the Russian coal and energy industry. Our average headcount was 63,838 people. The socio-demographic characteristics of our workforce remained consistent. The ratio of men to women was practically unchanged from 2017: the number of men is significantly greater because of the nature of our production processes.

Q. What synergy effects are you expecting in terms of the HR function?
A. While integrating the two businesses, we focus on exchanging best practices between the two teams. As previously independent companies, SUEK and SGC have developed strengths in different areas. Our aim is for the combined Group to benefit from the expertise of both. Although the two businesses have different production processes, we see value in, and have already started, an exchange of experiences between our specialists in health and safety, environment, personnel training, social technologies and internal audit. We have optimised financial accounting and IT.

Q. How will you ensure SGC employees adopt the Group’s common values?
A. Following the introduction of the compliance system into the combined company, in 2018 we analysed and compared the values of both businesses. As a result, in January 2019 we approved the Code of Corporate Ethics for SGC.

DMITRY SYROMYATNIKOV, HUMAN RESOURCES AND ADMINISTRATION DIRECTOR

1. In accordance with the Russian Government Decree No. 162 of 25 February 2000 to approve the list of arduous jobs and jobs with harmful or dangerous working conditions forbidden to women, women are not allowed to occupy a significant number of underground roles.
Performance management and remuneration

One of our main priorities is ensuring we maintain an efficient staff remuneration system that enables us to recruit and retain qualified staff. SUEK’s remuneration system creates a fair and transparent relationship between the achievement of the organisation’s goals, results, the quality of our employees’ work and their remuneration.

SUEK regularly monitors the Russian labour market, analyses the best practices in labour remuneration and staff incentives and studies trends in the provision of guarantees and benefits. We frequently take part in salary surveys for companies in the mining, coal and energy sectors, to help us further our understanding of industry trends.

By analysing this data, we can remain confident that we are offering employees competitive working conditions, and we can plan and adapt our HR management policies to reflect external economic influences.

SUEK’s financial incentives system is based on key performance indicators (KPIs), which, in addition to business indicators, include industrial safety, the observance of regulatory requirements, meeting the company’s liabilities and cooperation with stakeholders.

Depending on an individual employee’s level of responsibility and personal professional objectives, the weighting of these components in contributing towards their final bonus can vary.

Our bonus system also takes into account other conditions that affect the size of the bonus. This is primarily to incentivise employees to operate in the most correct, rational and safe way. The most common of these conditions are related to observing industrial safety rules and reducing injuries.

We have also developed a special bonus system for employees participating in projects. This includes long-term strategic projects, operational improvements and business development programmes. It incentivises employees to meet the set project and programme targets. Our incentives system also helps SUEK retain qualified employees, improves cross-functional interaction and encourages the sharing of experience between departments, including in different regions of the company’s operations. In 2018, 501 employees participated in this long-term incentive programme as part of their involvement in one or more projects.

Social support

We run social programmes aimed at improving the living standards of our employees and their families. The benefits package for SUEK’s Russian employees is developed based on applicable law, industry agreements with trade unions and collective bargaining agreements. A combination of collective bargaining agreements and bilateral territorial agreements with trade unions guarantees that we fulfil our social commitments. Approximately 91% of our employees in the coal business are covered by collective bargaining agreements.

Staff turnover rate (%)

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal</td>
<td>14.3</td>
<td>14.3</td>
<td>13.6</td>
</tr>
<tr>
<td>Energy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>19.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>11.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>16.9</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

0 p.p. COMPARED TO 2017

7.7 p.p. COMPARED TO 2017
SUEK employees are offered the following social benefits:
- Voluntary medical insurance, including rehabilitation treatment for occupational diseases which, since 2014, we have extended to all employees at our production sites and facilities. At the power business 90% of employees are covered by this programme
- Financial aid for pensioners, parental leave and premium medical treatment, or financial support for the funerals of company employees
- Compensation for children’s summer holidays and for medical treatment or rehabilitation
- Sport and cultural events
- Financial assistance and welfare payments to former employees

In addition, coal business workers are provided with the following social benefits:
- Accident insurance
- Payment for travel to holiday resorts for employees and their families
- Supply of coal to miners for domestic heating and compensation for energy expenses
- Payment upon retirement of 15% of an employee’s average salary for each year of employment in the coal industry
- Free and subsidised meals

Our employee relations are based on the principles of social partnership. The Russian Independent Trade Union of Coal Industry Workers (Rosugleprof) and the Independent Trade Union of Russian Miners (NPG), which around 64% of SUEK employees are involved with, are active at the company’s facilities. In our energy companies, employees are involved with a sectoral All-Russia Electric Trade Union.

The Russian Branch Association of Employers of the Coal Industry (RBAECI) actively participated in the development of a new Federal Industry Agreement on the coal industry, the parties to which are employees of the Russian Independent Coal Workers Union and employers - industrial companies RBAECI. Its signing in January 2019 marked the confirmation of the social partnership between trade unions, workers and employers.

Employee training and development
SUEK’s staff training system is designed to develop the company’s human capital. The system’s main objective is to create conditions that promote professional fulfilment among employees, ensure the systematic development of their professional and managerial competencies, and thereby establish SUEK’s talent and succession pool.

The key areas of staff development are:
- Professional training (including retraining, qualification enhancement, training in related occupations)
- Developing talent for key management positions
- Training young professionals (targeted education, practical training, dual training)

In 2018, we achieved the following key results in these areas:
- Approximately 32,000 employees were trained in our own training centres and workshops
- We ran programmes to identify and attract the most talented young people to the company (youth forums, professional skill contests, job fairs, engagement with specialised educational institutions, targeted education, etc.)
- We created and updated our succession pools for key positions and divisions
- We continued our work on a unified model of managerial competencies for the entire company. This model should ensure the unity of principles and approaches to assessment, training and development processes

SUEK runs a regional network of occupational training institutions for all of its employees. This includes 14 training centres and workshops with state licences. Their primary functions are training employees in new skills and adding to their qualifications. Labour and industrial safety are a key area of focus for these training programmes.

SUEK’s Corporate University provides the core basis for the company’s personnel training and development system. It ensures that key groups of employees are consistently improving their skills, and provides an analytical, methodological and advisory centre for knowledge management and human resources development.

In 2018, the company introduced a new tool for staff training and development: an electronic library of business books. This service is available to all employees around the clock and is free of charge, in both mobile and audio formats.

We have also devised a step-by-step training system to develop the company’s succession pool: from site engineers and mine foremen to the heads of regional production companies. This provides career opportunities within the company and enables us to develop a pool of qualified candidates to fill managerial positions as they become vacant.
SUEK runs a continuous recruitment process of young professionals. Targeted education for students, especially those from the regions where the company operates, improves our selection process and accelerates the integration of new recruits. The selection process starts at school. We offer occupational guidance to pupils and school graduates in the key regions where the company operates. In the cities of Abakan, Minusinsk and Nazarovo we run educational energy classes for high school students. We cooperate actively with Russia’s leading and vocation-oriented mining universities. Over 50 students currently participate in SUEK’s targeted education programmes.

**Corporate culture and internal communications**

SUEK’s internal communications system is aligned to the company’s general approaches to internal and external communications. Its main objective is to ensure the most open and effective dialogue with our employees.

Our primary internal communications channels include:
- Meetings of employees and managers
- Corporate intranet portal, both at our production facilities and head office
- Corporate media system
- Employee surveys and their analysis
- Hotline
- ‘Alarm Sheet’ feedback system
- Bulletin boards, plasma panels, brochures in corporate transport, information stands and electronic newsletters
- Sustainable development reports

Our corporate culture is based on the company’s mission and longstanding work, and respects professional traditions.

As part of our programme to develop our corporate culture and internal communications system in 2018, we continued to implement our Code of Corporate Ethics across the company through a dedicated information campaign and thematic competitions dedicated to corporate values.

We ran a number of internal awareness campaigns in support of corporate initiatives: these included producing brochures about SUEK’s facilities and the communities where we operate and recruiting employees from other regions. We developed the methodology for the work of our Ethics Coordinators, which includes manuals for handling staff communications, ethics fundamentals, general algorithms for dealing with common ethical situations and ethics case studies from other companies.

As part of the consolidation of SGC, and in connection with our new compliance system for the enlarged company, in 2018, we analysed and compared the existing corporate values in both Segments. We subsequently decided to approve a common Code of Corporate Ethics, and this shared document was approved in January 2019.
Bigger scale, increased engagement

The primary goal of our social policy is to take a comprehensive approach to improving living standards for employees, their families and local residents in the regions where we operate. We work carefully to ensure our community investments are highly effective.
Our priorities
Create a favourable and stable social environment in the regions where we operate

Improve housing conditions and promote the development of education, sport and healthcare and culture, in partnership with regional governments

Increase awareness amongst young people about career opportunities within the coal mining and power industries

Bolster Russia’s economic and social development through supporting the next generation’s development in the regions where we operate

Improve the efficiency of the company’s community investments by introducing new technologies into social projects and coordinating activities with regional administrations and NGOs

Our approach
We aim to promote regional development through increasing opportunities for local communities. By developing infrastructure and fostering education, we enable communities to solve their own problems and attract the resources they need. Our programmes help to stimulate economic development and improve the living standards of the regional population by involving the local communities in our projects and ensuring they benefit directly from them.

We develop and implement social programmes in close cooperation with stakeholders: regional and city administrations, non-governmental organisations and local residents. These partnerships are based on a shared desire to encourage regional social development and achieve SUEK’s strategic goals.

Most of our social projects are focused on solving various sustainable development problems. These long-term projects are trialled in one region before being replicated across all of the territories where we operate.

Our Corporate Social Policy is based on international standards including the UN Global Compact, the Social Charter of Russian Business, the ISO 26000 Social Responsibility Standard and the recommendations of the Global Reporting Initiative (GRI).

SUEK’s strategic priorities are linked to the Sustainable Development Goals (SDGs) adopted by the United Nations in 2015. Within the framework of the UN SDGs, protecting the interests of our stakeholders is a critical focus both for SUEK and the wider industry. By supporting the sustainable social and economic development of the territories where SUEK operates, we are contributing to Russia’s sustainable development and the delivery of the SDGs.

The integration of our energy business in 2018 scaled up our business and expanded our operations to new regions such as the Novosibirsk and Altai regions, and the Republic of Tyva, to include new stakeholders within the company’s increased regions of activity (now 11 regions of Russia).

SUEK is one of the largest employers and taxpayers in the regions where it operates. In 2018, SUEK paid $633m in taxes in Russia.

To ensure we remain social responsibility and corporate charity leaders we continually monitor and implement the best global practices in our engagement with communities.

Overview
Areas of SUEK’s social and charitable activities:

– Development of urban areas and infrastructure in the regions where we operate
– Education and science
– Supporting local residents in developing their social and business skills
– Sports and promoting a healthy lifestyle
– Medical care
– Leisure, culture and fulfilment of creative potential
– Care for veterans, children, ethical and patriotic education for young people
– Environment
– Charity and support for vulnerable social groups

SUEK implements social and charitable development programmes at all its key facilities. In 2018 we implemented over 220 projects in 11 regions of Russia, with a total financial investment of $38m.
Planning and assessment of social programmes

We implement and fund our social policy through ‘SUEK to the Regions’ and ‘SGC – Warming Hearts’. The funds’ activities cover all areas of SUEK’s operations.

We monitor the social environment to help shape our community programmes. Our ongoing progress and outcomes are assessed by independent and corporate experts. Regional and local community development is monitored using integrated social research, cluster polls and feedback on activity outcomes.

We assess the efficiency of our social investments through continuous monitoring of our projects, the evaluation of individual activities and final appraisals of programme results. This analysis allows us to ensure the results of our social investments are in line with our strategic and tactical goals. Continual analysis also means we can quickly respond to changes and identify areas where we can improve.

Assessment tools include:
- Task meetings of project expert panels
- Focus groups with representatives of local and regional administrations, public associations and non-governmental organisations
- Expert surveys
- Analysis of participant surveys
- Discussion of programme results at public events with stakeholders

Quantitative parameters:
- Events held, participants
- Beneficiaries¹
- Funds raised for the company’s community development programmes
- Partners involved
- Growth points² created as a result of the company’s community involvement
- Media coverage

Qualitative parameters:
- Increased efficiency of public-private partnerships, closer interaction between commercial and non-profit sector companies in solving social problems
- Sustainability of previously implemented social projects
- Favourable conditions for interaction with state authorities and the public
- Enhancement of SUEK’s reputation as a socially responsible and sustainable company

Assessment of community investment efficiency

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of beneficiaries³ of our community programmes</td>
<td>1,000+</td>
<td>1,300+</td>
<td>1,350+</td>
</tr>
<tr>
<td>Total number of beneficiaries</td>
<td>45,000</td>
<td>52,700</td>
<td>54,000</td>
</tr>
<tr>
<td>Growth points created</td>
<td>66</td>
<td>78</td>
<td>80</td>
</tr>
</tbody>
</table>

Growth points and beneficiaries (units)

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of beneficiaries</th>
<th>Growth points created</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>54,000</td>
<td>80</td>
</tr>
<tr>
<td>2017</td>
<td>52,700</td>
<td>78</td>
</tr>
<tr>
<td>2016</td>
<td>45,000</td>
<td>66</td>
</tr>
</tbody>
</table>

¹ Beneficiaries are residents of the territories that benefit from the results of our community, entrepreneurial and social-entrepreneurial projects.
² Growth points are organisations set up as a result of social projects aimed at enhancing living standards in a particular district or town (maternity support centre, music workshop, mini-cinema etc.).
³ Direct participants in activities (workshops, training courses, work placement) offered by ‘SUEK to the Regions’ and ‘SGC – Warming Hearts’ charitable foundations, along with the recipients of grants and donations.

SUEK supported a master plan in the town of Chegdomyn.

The town residents benefitted from significant projects, such as the renovation of the heat supply system, repairs to the main road, the installation of new street lights, reconstruction of the central square, overhauling and landscaping of courtyards, the constructing and commissioning of a swimming pool, and improvements to various surrounding grounds. We were heavily involved in these projects initiated by non-governmental organisations and the territorial-public government. In 2018, we invested a total of $8.7m in the town.

The contribution of the ‘SUEK to the Regions’ fund was highly appreciated by the local residents.
Developing urban areas and infrastructure

SUEK works carefully with local administrations to ensure industrial mono-towns in its regions of operation are sympathetically developed. Together, we create plans which focus on the modernisation of infrastructure, the creation of new jobs, and the provision of additional services and goods to local residents. These strategies stimulate funding for the development of the towns at a federal level, which enables the towns to solve various development issues more efficiently and on a larger scale.

SUEK supports similar programmes in Chegdomyn, Chernogorsk, Borodino, Kemerovo and Barnaul. All of these are aimed at modernising urban and social infrastructure, developing cultural facilities and stimulating environmental development.

Education

In 2018, we developed a system of projects that promotes entrepreneurial and innovative thinking, fostering children's curiosity in learning with a view to nurturing future leaders.

Our priority projects in 2018 were:

- Inter regional Interactive Physics and Mathematics Competition with the participation of more than 1,800 pupils
- ‘Children’s Science Parks by SUEK. Digital World’: a study of digital technologies as the basis for the development of industries and economy
- Summer School of Science: study of the fundamentals of scientific work, conducting research
- ‘Scientists of the Future’ in Krasnoyarsk: research work in equipped laboratories and workshops under the guidance of professors and graduate students of leading Siberian universities
- ‘Energy Classes’: an opportunity for 10th and 11th grade pupils to deepen their knowledge based on a special programme including a dedicated course called ‘Power Energy Basics’

In addition, the company provides ongoing support to schools and specialised educational institutions; in 2018, the company provided financial support to three universities, seven colleges and 27 schools.

Sports and healthy lifestyle

We pay special attention to the development of sports and the promotion of healthy lifestyles among our employees and residents of the regions where we operate.

In 2018, we focused on the following projects:

- ‘Chess to Mining Regions’: new chess classes were opened in 16 educational institutions, and the total number of chess programme participants reached 3,500 pupils
- Master classes by professional CSKA coaches for promising young footballers, the ‘Spring Drops’ volleyball tournament and the ‘Eyes on the Prize!’ children’s sports festival
- Support for boxing championships and tournaments in the Krasnoyarsk region

Additionally, SUEK participates in the construction and reconstruction of sports facilities and children’s sports grounds.

Medical care

Caring for the health of our employees, their families and the populations in the regions where we operate is an integral part of our social policy.

Our main medical care projects in 2018 included:

- A joint project with the Department for Presidential Affairs of the Russian Federation: more than 160 children were offered treatment and rehabilitation, alongside 45 coal industry veterans
- Medical staff training: doctors from the cities where the company operates were trained in outpatient work
- Innovation in the rehabilitation of children with cerebral palsy: a joint project with the ‘Dream Ski’ programme and ‘Gift to the Angel’ foundation, rehabilitating over 80 children through special sports activities
- A joint project with the Russian charitable foundations Rusfond and Gift of Life: dozens of children received the recommended advanced treatments
- The World Children’s Winners Games: sports activities for children who have fought cancer

In addition, the company participated in the reconstruction of the outpatient clinic in the village of Sagan-Nur and in the purchase of ophthalmic equipment for a kindergarten in the city of Belovo. We held a festival ‘From Heart to Heart’ involving around 400 children and providing them with opportunities for recreation and social adaptation.
Leisure, culture and fulfilling creative potential

The company develops the cultural and creative potential of the regions where it operates.

In 2018, SUEK supported the following projects:

- Tours for Moscow’s leading theatre groups to the Krasnoyarsk, Kemerovo and Murmansk regions, attended by over 2,500 people
- ‘Live Sound’ performance and master classes by actors Pavel Levkin and Sergey Garmash
- ‘Little Stars of SUEK’ interregional competition with the participation of over 10,000 young talents
- ‘Cultural Seasons’ in Barnaul: open lectures in art, master classes and meetings with artists
- Sponsoring exemplary brass band ‘RHYTHM BAND’ to attend a music competition in France
- Support for the Kuzbass Musical Theatre choir and dance group

Development of local communities

In 2018, SUEK executed the following projects:

- ‘School of Social Entrepreneurship’: more than 250 people were employed by the newly established organisations, over 50,000 residents in the regions where SUEK operates benefited from these projects and were able to use the services provided by the School’s graduates
- Work Teams: over 3,000 adolescents were offered summer employment: they were engaged in landscaping and helping veterans and disabled people
- SGC’s heat projects: various initiatives by Kemerovo residents to improve the urban environment
- IT platform for adapting territorial development programmes: we developed a programme to collect prompt feedback from all stakeholders
- Community initiatives: social technology training for local groups from the regions where we operate

Environment

We have a consistent focus on environmental education and projects.

In the reporting year, the company implemented a number of important social environmental projects:

- The ‘Zubochistka’ environmental marathon: over a hundred participants participated in a 34 km hike along various routes to pick up rubbish left by tourists
- Landscaping the Miners’ Glory Alley: volunteers planted more than 200 young trees and shrubs in the city of Nazarovo
- Support for the ‘Water of Russia’ Federal Environmental Campaign: teams of employees cleared river banks and beds in the Krasnoyarsk region from debris and tree branches

Charity and support for vulnerable social groups, child protection

Since 2013, SUEK has been working to support the treatment and rehabilitation of children with serious diseases. The company cooperates with the Russian charitable foundations Rusfond, Gift of Life, the Union of Charitable Organisations of Russia, the Vera Hospice Assistance Fund, Shield and Happy Childhood charitable funds, among others.

The company also supported the 15 Inva-KVN games and delivered the project ‘Accompanied educational and training accommodation for young people with mental disabilities, autism spectrum disorder’.

In addition, the company implemented the following projects for children:

- ‘Support a Child’, ‘Gifted Children of Altai’, ‘No to Childhood Tuberculosis’!
- ‘Gift of Santa Claus’ in the Altai region
- ‘Sledge hockey’ for disabled children in partnership with the ‘Open Hearts’ non-governmental organisation

The company also repaired and equipped a sports hall for orphans and children left without parental care in the Kansk orphanage, created a photography school for special needs children in Kemerovo and delivered other projects aimed at improving the lives of children.

SUEK also runs a number of programmes to support veterans and the disabled, sponsors cultural institutions, participates in the construction and reconstruction of ethnic cultural and religious buildings and supports regional culture preservation initiatives.
Strategic evolution to deliver sustainable value

The Board of SUEK is committed to overseeing the creation of sustainable value for all of SUEK’s stakeholders, including employees, customers and the communities in our regions.

2018 was a transformational year for SUEK. We took advantage of the favourable market environment to evolve and develop our business whilst continuing to scrutinise the company’s capital allocation to ensure its long-term resilience.

We advanced two main strategic routes that would drive efficiencies to boost our margins and also diversify our revenue streams. The first is a focus on supplying high-CV coal products for premium markets and the second is downstream integration into power generation, delivering synergies to ensure we remain one of the lowest cost producers globally.

We paid special attention to a thorough review and update of our business processes and corporate governance procedures to support the integration of the power generating assets acquired during the year. A key element which we are continuing to develop is a consistent environmental and safety culture throughout the enlarged business, including transparent reporting at every level. This is critical to ensuring we continue to improve our environmental, health and safety performance.

Although SUEK is not publicly listed, we are committed to providing public-level disclosure, for the benefit of all of the company’s stakeholders. The Board of Directors also takes responsibility for ensuring that the company observes international best practices in terms of corporate governance.

In 2018, we welcomed Tom Cairns to the Board as a new Non-Executive Director and member of the Audit Committee. His experience in finance and investment and his knowledge of the energy sector adds to the Board’s competences. Former Executive and Non-Executive Directors Kuzma Marchuk and Olga Vysotskaya left the company in September. We thank them for their contribution to the work of the Audit Committee and the Board in general, and wish them success in their further endeavours.

The new composition of the Board of Directors reflects the profile and scale of our operations. With the strategic acquisition of SGC, we conducted a thorough induction for the Board into the Russian power sector and SUEK’s new power assets. The Board remains excited about the prospects for the combined, and strengthened, SUEK.

Our primary focus for 2019 will be to oversee the successful integration of SUEK’s Energy Segment and the achievement of synergies with our very strong coal business, as well as SUEK’s progress in further consolidating its position in the high-CV coal market.

ALEXANDER LANDIA, CHAIRMAN OF THE BOARD OF DIRECTORS
General Meeting of Shareholders
- Decisions made on the most important issues relating to our business, including the increase or decrease of authorised capital, the distribution of profit, the selection of members of the Board of Directors and our external auditors

Board of Directors
- Strategic planning of the company’s and management’s activities, general supervision and efficiency improvement
- Ensuring the successful performance of the company in the long term with respect for the interests of all stakeholders
- Ensuring the effectiveness of the corporate governance system and regular reporting on its functioning

Strategy Committee
- Analysis of management initiatives, risk assessment and preparation of recommendations to the Board of Directors in priority areas
- Analysis and review of strategies and strategic plans
- Task setting related to investments and the company’s sales strategy

Nomination and Compensation Committee
- Preparation of recommendations to the Board of Directors on HR strategy, appointments and remuneration, corporate governance and social policy
- Issues related to compliance with industrial and environmental safety standards

CEO
- Management of the company
- Implementation of the company’s strategy and policy

Management Board
- Ensuring the development of production, commercial and other operational plans
- Optimisation programmes and their supervision
- Coordinating the implementation of decisions made by the company’s management bodies

Executive Management
- Management of production, operational and commercial activities
- Performance of tasks assigned by top management, preparation of reports within their authority

Internal Control and Audit Service
- Internal checks and audits
- Preparation of reports for the Audit Committee

Audit Committee
- Supervising the preparation of financial statements and management reports
- Monitoring the implementation of budget policy and planning
- Evaluation of independent audit, internal control and risk management systems

Executive Management
- Industrial Safety Committee
- Risk Management Committee
- Investment Committee
- Procurement Committee
- Information Technology Committee
- Budget Committee
- Project Committee
- Sales Policy Committee
SUEK’s corporate governance system is designed to ensure we run an effective and responsible business that creates value for all stakeholders. Our corporate governance system is underpinned by the following principles:

- Treating all shareholders equally, recognising and protecting their rights
- Ensuring the efficiency of our strategic and operational management and internal control and audit mechanisms
- Ensuring the company’s informational and financial transparency by providing stakeholders with accurate information in convenient formats
- Adhering to rigorous ethical business standards
- Providing decent, safe and healthy working environments for our employees

The key internal documents relating to corporate governance at SUEK are our Charter, Regulation on the Board of Directors, Regulation on the Management Board, Corporate Governance Code and SUEK’s Code of Corporate Ethics. The procedure for preparing, convening and holding the General Meeting of Shareholders is also governed by relevant regulations.

In developing our corporate governance system, we are guided by the provisions of the Corporate Governance Code recommended by the Bank of Russia, as well as by the best international practices. The company has adopted a set of recognised international approaches:

- The positions of Board Chairman and CEO are separate
- The Board includes the Strategy Committee, the Audit Committee and the Nomination and Compensation Committee, all of which include Independent and Non-Executive Directors with relevant experience
- When making decisions, Board members avoid potential conflicts of interest
- The status of Independent Director and the number of independent directors is monitored and confirmed by the Board of Directors
- The Board’s work is assessed on an annual basis

In compliance with best international practices, SUEK undertakes active succession management of the composition of the Board of Directors. A partial change in the composition of the Board brings new experience to the company, and guarantees the stability of our business and the continuity of management. In September 2018, Kuzma Marchuk and Olga Vysotskaya left the company. At the same time, a Non-Executive Director, Tom Cairns, who is experienced in finance and investment, joined the Board.

Starting from 10 September 2018, our Board of Directors consists of eight people. Three Directors are Independent: Klaus-Dieter Beck, Natalia Izosimova and Iain Macdonald (their independence has been confirmed by the Board). Four Board members are Non-Executive Directors: Tom Cairns, Stefan Judisch, Alexander Landia and Andrey Melnichenko. The Board also includes SUEK’s CEO, Vladimir Rashnevsky. Alexander Landia serves as the Chairman of the Board.

Selection and nomination policy

The Nomination and Compensation Committee oversees the selection and nomination of new Board members and ensures the Board remains well balanced with Directors whose competences complement the company’s strategic objectives. Candidates for the Board are directors with knowledge of the mining sector or the energy industries; they should also be highly proficient in finance, investment and risk management.

The criteria that Independent Directors must satisfy are defined in SUEK’s Corporate Governance Code and comply with the Corporate Governance Code recommended by the Bank of Russia. Board members are elected for the period up until the next Annual General Meeting, with the possibility of re-election. The Nomination and Compensation Committee evaluates the compliance of prospective Board members with the independence criteria.

Governing bodies

SUEK’s governing bodies are the General Meeting of Shareholders, the Board of Directors, the Management Board and the CEO.

Key activities in 2018

General Meeting of Shareholders

In 2018, the General Meeting of Shareholders approved new versions of internal documents, regulating the activities of our governing bodies’ activities. It also authorised major transactions and elected the members of the Board of Directors. At the Annual General Meeting of Shareholders, the 2017 Annual Report and financial statements were approved, and KPMG was re-appointed as SUEK’s external auditor for 2018.

Board of Directors

The Board of Directors is a key element of our corporate governance system. The Board’s authority to ensure the efficient management of the company is confirmed by legislation of the Russian Federation and internal company documents. The Board of Directors runs three Committees:

- Strategy Committee
- Audit Committee
- Nomination and Compensation Committee

The activities of all Committees are aimed at improving the efficiency and quality of decisions made by the Board of Directors.

Composition of the Board of Directors

To ensure the Board of Directors is efficient, its highly qualified members take individual responsibility and overall accountability for all decisions made by the Board. The composition of the Board of Directors is balanced and complies with all applicable shareholder requirements. The Directors have significant experience in mining, energy and finance, equipping them to offer valuable strategic leadership and support the company in solving any issues.

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Board of Directors

SUEK has an experienced Board of Directors which oversees the company’s creation of long-term value for all of its stakeholders.

ALEXANDER LANDIA, 56
Chairman
Non-Executive Director

Education and qualifications

Alexander graduated from Tbilisi State University with honours and has a Candidate’s degree (PhD) in Mathematics from the Institute of Mathematics of the National Academy of Sciences of Belarus (Minsk, Belarus).

Career

Alexander has extensive management experience, leading and advising various organisations, Between 1993 and 2001 he worked at Dresdner Bank in Frankfurt as First Vice President, Oil & Gas Global Debit. Until 2004, he was General Director of Accenture Russia and was subsequently appointed Global Gas Lead Partner. In 2006, Alexander joined SUEK’s Board of Directors, which he chaired between 2006 and 2010. In October 2016, he was reappointed Chairman of the Board.

From 2013 to 2015, Alexander was a Board member of JSC EuroChem. Since April 2015, he has been Chairman of the Board and a member of the Strategy Committee of EuroChem Group AG. Up until September 2018, he was Chairman of the Board of Directors of Siberian Generating Company (Siberia). Alexander is a member of the Board of Lambert Energy Advisory Ltd (UK). He is a co-founder of Beromat & Cie (Germany), and is Chairman of The Mobility House AG (Switzerland).

Appointment to the Board

Alexander Landia was appointed to the Board of SUEK in December 2006.

ANDREY MELNICHENKO, 47
Non-Executive Director

Education and qualifications

Andrey studied Physics at the Lomonosov Moscow State University and graduated from the Plekhanov Russian Academy of Economics, with a degree in Finance.

Career

Andrey Melnichenko is a self-made Russian industrialist. Over the past 20 years, he has co-founded a number of multi-billion-dollar businesses including fertiliser producer EuroChem, coal producer SUEK, and power generator SGC (now directly owned by SUEK) – which are among the largest companies globally within their industries. In the early 1990s, Andrey co-founded MDM Bank, which under his leadership became one of Russia’s most successful and largest private banks. In the 2000s, he exited MDM Bank, while investing in already privatised industries – fertilisers, coal and steel pipes (which he exited in 2006 through an IPO).

Andrey is the main beneficiary and a member of the Board of Directors of EuroChem Group AG and SUEK, and chairs their Strategy Committees. He sits on the Board of the Russian Union of Industrialists and Entrepreneurs, where he chairs its Mining Commission.

Appointment to the Board

Andrey Melnichenko was appointed to the Board of SUEK in March 2004.

VLADIMIR RASHEVSKY, 45
Chief Executive Officer

Education and qualifications

Vladimir graduated from the Finance Academy under the Government of the Russian Federation, majoring in Global Economics. He holds a Candidate’s degree in Economic Science.

Career

Vladimir began his career in 1992, holding various positions in banking, including Vice-Chairman of the Management Board of Avtobank. In 2000, he joined MDM Bank, where he was appointed Deputy Chairman of the Management Board and then, in December 2001, Chairman of the Management Board.

In 2004, Vladimir became President of SUEK, and was appointed CEO of the company at the end of that year. Vladimir is a member of the Board of Directors of Interregional Distribution Grid Company of Siberia.

Appointment to the Board

Vladimir Rashevsky was appointed to the Board of SUEK in June 2011.

KLAUS-DIETER BECK, 64
Independent Non-Executive Director

Education and qualifications

Klaus-Dieter holds a PhD and an MSc in Mining Engineering from Rheinisch-Westfälische Technische Hochschule in Aachen, Germany.

Career

Klaus-Dieter joined RAG (Germany) in 1981 and worked in a variety of technical and operational roles. He became Chief Engineer of the company’s subsidiary RAG Niederrhein in Germany, and between 1996 and 1998 was General Manager of Friedrich/ Rheinland mine. He then joined RAG’s Riverton Coal subsidiary in the US, and between 2004 and 2007 served as Senior Vice President, Planning, Engineering & General Equipment Management, at Foundation Coal Holdings (formerly RAG’s American coal business).

Klaus-Dieter was Chairman and CEO of the Czech coal producer OKD between 2011 and 2014, during which period he was also an Executive Director of NWR NV. He was a Non-Executive Director of NWR, until March 2013, and has served as a member of the Supervisory Board of TVEU Nord/Hannover in Germany since 2008.

Appointment to the Board

Klaus-Dieter Beck was appointed to the Board of SUEK in June 2012.

NATALIA IZOSIMOVA, 61
Independent Non-Executive Director

Education and qualifications

Natalia graduated from Moscow State Pedagogical University, and holds a Master’s degree in English and German. Natalia also holds an Advanced Diploma from the Oxford School for Coaching and Mentoring and is a member of the European Mentoring and Coaching Council.

Career

Natalia joined McKinsey in 1994, where her roles included Head of Professional Development in Eastern Europe. In 2005, she joined System Capital Management in Ukraine as Head of HR, becoming Director for Corporate Restructuring later that year. Between 2007 and 2013, she served as Managing Director of the Foundation for Effective Governance in Ukraine. Natalia launched her own consultancy business in January 2014, working with companies to implement and develop corporate governance systems and improve their managerial processes, HR and communications strategies.

Between 2007 and 2013, Natalia was an Independent Director of DTEK and Metinvest, where she chaired the Remuneration Committee. She was also Head of the Remuneration Committee at FESCO between 2014 and 2016.

Appointment to the Board

Natalia Izosimova was appointed to the Board of SUEK in April 2016.
Key to Committee membership

S  Strategy Committee
N  Nomination and Compensation Committee
A  Audit Committee

Committee’s Chairman

Board experience

Length of service as Board members (%)

- 115 -
Induction and familiarisation procedure

In compliance with the applicable laws, recognised corporate governance practices and internal documents, the company has developed an induction programme for newly elected Board members, aimed at familiarising Non-Executive Directors with the company’s business, the specifics of its subsidiaries’ operations, the rules and practices adopted by the management bodies and the Board of Directors.

Upon election, Directors are granted full access to all previous meeting materials and minutes of the Board of Directors and Committees.

The induction process is managed by the Corporate Secretary.

Board meetings

The Board’s schedule and work plan are approved for the following year, with adjustments every six months. The Corporate Secretary supports the work of the Directors and Board Committees. The Corporate Secretary and CEO make every effort to provide Board members with the materials for meetings in advance. Board members regularly communicate with the company’s management team. Between meetings, Non-Executive Directors receive monthly management reports, notifications about significant events and updates on the coal-mining industry. Members of the Board also regularly consult industry experts and visit the company’s production sites. During these visits, Directors can personally evaluate the state of our assets, communicate with regional managers and assess our corporate culture and safety systems at first hand. Such trips help the Board gain a better understanding of regulatory issues and new insights into specific characteristics of the Russian coal and energy industry.

Members of the Board have access to information on the activities of all Board Committees and may attend any Committee meeting.

The Board of Directors held 16 meetings in 2018 (six in-person meetings and ten in-absentia meetings). Most in-person meetings were fully attended.

In 2018, the Board’s work included the review of several strategic initiatives, the approval of major transactions and the analysis of the short- and long-term financing of the business. It also considered standard issues, such as the revision of strategy, budget and investment planning, setting objectives for top managers and assessing their performance. Board members also considered other matters that require Board approval in accordance with regulation.

During the year, the Board focused on the following issues:

- Maintaining business stability. The measures supported by the Board included further improvement of coal operational efficiency, the development of the company’s coal processing and logistics facilities and sales networks, expansion of the resource base

- The strategic development of SUEK and its individual business segments. The Board supported the initiative to invest in energy assets which resulted in acquisition of SGC. In this regard, the power and coal strategies of the company were updated and coordinated. Work was done on the refinement of the five-year consolidated sales strategy, adjustment of the goals of our segment strategies, approval of key investment development projects, setting the objectives of SUEK’s international strategy

- Industrial safety, including the assessment of management actions aimed at preventing accidents and improving industrial safety

<table>
<thead>
<tr>
<th>Issues considered at Board meetings in 2018</th>
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<tbody>
<tr>
<td>22</td>
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<tr>
<td>Strategy</td>
</tr>
</tbody>
</table>

Directors’ participation in Board meetings in 2018

<table>
<thead>
<tr>
<th>Director</th>
<th>Board meetings</th>
<th>Audit Committee</th>
<th>Nomination and Compensation Committee</th>
<th>Strategy Committee</th>
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<tbody>
<tr>
<td>Klaus-Dieter Beck</td>
<td>16</td>
<td>11</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Tom Cairns</td>
<td>16</td>
<td>–</td>
<td>3</td>
<td>–</td>
</tr>
<tr>
<td>Natalia Izosimova</td>
<td>15</td>
<td>–</td>
<td>4</td>
<td>–</td>
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<tr>
<td>Stefan Judisch</td>
<td>16</td>
<td>4</td>
<td>5</td>
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<tr>
<td>Alexander Landia</td>
<td>16</td>
<td>–</td>
<td>5</td>
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<tr>
<td>Iain Macdonald</td>
<td>16</td>
<td>11</td>
<td>–</td>
<td>–</td>
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<tr>
<td>Kuzma Marchuk</td>
<td>11</td>
<td>8</td>
<td>5</td>
<td>–</td>
</tr>
<tr>
<td>Andrey Melnichenko</td>
<td>15</td>
<td>–</td>
<td>5</td>
<td>–</td>
</tr>
<tr>
<td>Vladimir Rashevsky</td>
<td>16</td>
<td>–</td>
<td>–</td>
<td>5</td>
</tr>
<tr>
<td>Olga Vysotskaya</td>
<td>11</td>
<td>7</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

1. Including six in-person meetings, ten in-absentia meetings.
2. Tom Cairns joined the Board on 10.09.2018.
3. Natalia Izosimova did not attend the Board meeting on 13.02.2018.
4. Natalia Izosimova did not attend the Nomination and Compensation Committee meeting on 12.02.2018.
5. Stefan Judisch joined the Audit Committee on 06.06.2018.
7. Andrey Melnichenko did not attend the Board meeting on 05.04.2018.
9. Olga Vysotskaya did not attend the Audit Committee meeting on 11.05.2018.
- Equipment upgrade of our thermal power plants. In particular, the main prerequisites and technical aspects of the potential DPM-2 programme were considered, with evaluation of its key advantages and approaches to the identification of priority modernisation projects.

- Personnel matters, including assessments of the company’s human resources function and issues affecting the continuity of senior management. In particular, the Board assessed the progress of senior managers towards personal goals set in 2017 and further improved the incentive system for SUEK’s senior management, revised and developed new incentive instruments.

- The effectiveness of the communication process. Approving further activities for the development of communications in 2019-2020 with communication programmes for each region of operations.

During 2018, SGC was consolidated as part of the ongoing restructuring of the group in the SUEK perimeter. In connection with the integration of coal and energy assets, the Board of Directors considers issues related to the strategic development of the Group and ensuring effective control over financial and economic activities also in the companies of the Energy Segment of the Group.

The Board of Directors’ main strategic focus for 2019 is the principles and guidelines for further integration of the company’s energy assets.

**Board effectiveness and evaluation**

The Board’s effectiveness is assessed on a regular basis. In 2018, the annual assessment was overseen by the Nomination and Compensation Committee. This took the form of a questionnaire, tailored to meet changing business priorities and Board objectives. For the first time, the Chairman also underwent a personal assessment. Each of the Directors reviewed various aspects of the Board’s activities and the Chairman’s contribution.

While the Directors expressed their general approval of the Board’s effectiveness, they also recommended specific improvements.

**Board remuneration**

Board remuneration is linked to the performance of their general duties as well as to their specific role. They are also reimbursed for any reasonable expenses they incur in relation to their work as Directors.

**Liability insurance for Board members**

Since 2006, the company has maintained liability insurance for members of the Board of Directors and key executives (D&O). For the period from April 2018 to April 2019, AIG was selected as the insurance service provider.

Cover for all Board members, in accordance with the Insurance Policy (liability limit), is $25m.

The additional insurance cover for Non-Executive Independent Directors is $1m for each and $8m for all.

**Board of Directors’ introduction to the specifics of the power industry**

- industry and SGC reports
- site visits
- calling external experts

Board of Directors and the company’s management visited SUEK’s energy assets in Novosibirsk, consolidated in 2018. At the meeting, held with local executives, Board members and top managers discussed the main parameters and objectives of the asset development strategy in Novosibirsk, in conjunction with the development strategy for the company’s coal assets in order to meet the needs of domestic customers – power industry and utility companies. They also touched on the issues of environmental and HR policy, and industrial safety.
Board Committees reports

STRATEGY COMMITTEE

Members of the Committee

ANDREY MELNICHENKO
(CHAIRMAN)

KLAUS-DIETER BECK

STEFAN JUDISCH

ALEXANDER LANDIA

VLADIMIR RASHEVSKY

Areas of responsibility:
The Strategy Committee is responsible for reviewing the management’s proposals, assessing associated risks and developing recommendations to support the Board’s decision-making in the following key areas:

- Developing the company’s overall strategy, strategic plans for business segments and strategies by functional area
- Defining the company’s operating priorities and evaluating the operational efficiency of management
- Carrying out investment planning, project management and capital management
- Improving key business processes

As Chairman of the Strategy Committee, I focus the Committee’s work on the most important, relevant and significant matters for the company’s development. In 2018, we discussed the medium and long-term possibilities for the company’s coal business, along with our diversification into the energy business.

In 2018, the Committee focused on monitoring trends and opportunities in both the global coal market and the domestic electricity and heat market, and on analysing other external factors significant for SUEK. As a part of the consolidated strategy, we analysed the feasibility of investing in energy assets in the domestic market and prepared recommendations for the acquisition of SGC.

We supervised the updating of macroeconomic forecasts and operating performance targets for strategic and budget planning, to take into consideration market conditions, banking sector and industry analyst forecasts, and the consolidation of SGC into the SUEK Group.

We revised the company’s consolidated coal sales strategy, setting objectives and targets for the next five years. At the same time, we assessed strategic management initiatives to expand our resource base, taking into account long-term market development forecasts. We also updated key strategic priorities for the production and logistics assets (Tugnuisky and Apsatsky mines) and approved asset development projects in Kuzbass and Vanino Bulk Terminal. We supported a long-term management plan for further research into the most promising areas of coal processing, and the development of alternative strategies for monetising coal in the domestic market.

As part of a focus on improving efficiency at our production assets, in 2018 the Committee approved the second stage of SUEK’s energy efficiency programme, along with a development strategy for the processing facilities and the capital construction development programme.

In our analysis of the Energy Segment’s strategy, we looked at the key characteristics of the DPM-2 programme and evaluated the key advantages of the strategy and its approach to identifying priority modernisation projects. We adjusted the strategy’s objectives for the company’s coal assets targeted at domestic consumption.

During the year, the Committee monitored the processes of budgeting, accounting and reporting, and investment. It analysed the outcomes of several successful investment projects.

In accordance with the programme for developing our management system and improving the company’s business processes, the Committee set tasks aimed at further optimising business processes within the coal production division and the company’s legal support function.

With due consideration for the importance of environmental issues, the Committee analysed the key elements of the company’s updated ecology and environmental protection strategy and supported areas of priority for reducing SUEK’s environmental impact.

ANDREY MELNICHENKO,
CHAIRMAN OF THE STRATEGY COMMITTEE
As Chairman of the Nomination and Compensation Committee, my colleagues and I do everything possible to ensure that the Board of Directors and our executives have the necessary skills, knowledge, experience and independence to enable us to achieve our strategic goals and create more value for all stakeholders. In 2018, the Committee paid particular attention to improving the motivation systems and integrating the energy segment into the common incentive system. Due to the higher number of fatalities, we gave much attention to industrial safety issues, especially drawing on the significant experience of Klaus-Dieter Beck.

The Committee continued to develop new motivational tools for the top management. We proposed and approved a new corporate KPI and initiated the process of aligning the motivation system of the Energy Segment with the Group’s existing system. At the end of the year, we also assessed management performance in 2018 and agreed on the goals for 2019.

We reviewed employee motivation programmes in relation to important activity and projects. This involved refining a methodology for calculating the parameters of the incentive systems and assessing the payment schemes linked to current motivation programmes.

Our team assessed the current capacity of the company’s human resources function. We also developed measures to support management continuity at various levels, including the position of CEO, and scheduled the development of a unified model of managerial competencies within the Group.

In connection with the consolidation of energy assets, we adjusted our work plan to include energy HR policy issues. SUEK’s budget for 2019 was reviewed in terms of personnel costs, including the headcount increases after the energy business acquisition. Tasks were set to improve management of HR business processes.

Throughout the year, the Committee monitored actions to improve industrial safety and the labour safety system, including across SUEK’s power assets. We approved management’s accident prevention activities, and supported the initiative of sharing industrial and environmental safety experiences between the Coal and Energy Segments. Roman Milyaev, a former member of SGC’s Nomination and Compensation Committee, participated in our work as a safety consultant. A Committee member, Klaus-Dieter Beck, visited the Kuzbass assets to evaluate the industrial safety standards, the technical condition of the mines and to analyse the production process at the mining units, paying particular attention to roadway development operations.

As part of our communications strategy, we continued to review the opinions of target audiences in the regions where SUEK operates with a view to assessing the effectiveness of the company’s communications processes. The first results were evaluated following the introduction of new communications channels and the Committee approved further activities to develop the company’s communications for 2019–2020.

Our team supervised the annual assessment of the Board’s performance and identified areas that require further attention. We also reviewed opportunities for the professional development of Directors, confirmed the status of the company’s Independent Directors and selected and reviewed candidates for the Board of Directors.
As Chairman of the Audit Committee, I am here to ensure that the Committee works efficiently and conducts its activities diligently. The Committee’s focus in 2018 was on both the consideration of regular matters and, to a large extent, issues related to the acquisition of the energy business.

In the reporting period, we reviewed planned reporting matters. Special attention was paid to quality control of the company’s IFRS financial statements and the transition to consolidated reporting after SGC joined the Group in 2018. We also identified the main finance and internal control and audit and IT considerations for the integration of SGC into the SUEK Group.

Our team ensured that activities planned for 2018 to automate business processes as part of the IT strategy were implemented. We also considered the opportunities for the development of the Group’s IT strategy in view of the SGC integration process.

During the year, the Committee monitored the functioning of the company’s compliance system and ensured compliance with sanctions. In the reporting period, we supervised regular monitoring of risks of violation of compliance standards and developed road maps to minimise these risks. We held regular reviews of fraud and corruption investigation cases.

The Committee reviewed reports from the Internal Control and Audit Service (ICAS) on a quarterly basis. It approved internal audit plans and the ICAS budget and held regular meetings with the head of ICAS without management present.

We also approved the updated structure of SUEK’s Annual Report in particular regard to the consolidation of the energy business.

We considered the usual issues relating to the evaluation of the external auditor’s effectiveness, remuneration and independence.

IAIN MACDONALD,
CHAIRMAN OF THE AUDIT COMMITTEE
INTERNAL CONTROL AND AUDIT SERVICE

SUEK’s Internal Control and Audit Service (ICAS) provides for the provision of independent and objective assessments and advice in the field of the following:

- Internal control system
- Risk management system
- Corporate governance system

The independence of the ICAS is ensured by its functional subordination to the Audit Committee. The Committee reviews the Service’s reports on a quarterly basis, approves internal audit plans and the Service’s budget and holds regular meetings with the head of the Service to discuss current issues.

When planning its work, the ICAS applies a risk-based approach, taking into account the external environment and performance of the company, focus areas of the Board of Directors and executives and risk assessment results.

In 2018, SUEK focused on:

- Production (efficient use of fixed assets)
- Sales
- IT strategy implementation
- Compliance
- Investments and capital construction
- Financing of SUEK’s activities

Based on the recommendations of the Service, managers develop and take corrective actions aimed at overcoming shortcomings and improving the efficiency of business processes and operations. The Service monitors and analyses the efficiency of such actions.

During the year, the ICAS implemented the Development Strategy of the internal audit function for 2018-2020 in the following areas:

- Increasing the level of automation of internal control processes
- Further development of the methodology and expertise
- HR development of the Service
- Development of cooperation with the Internal Audit services of other companies, sharing of experiences and competencies

The key focus areas of the Service for 2019 are, in particular:

- Industrial and labour safety
- Environmental protection (including the delivery of environmental projects)
- Integration of SGC in SUEK’s ICAS system
- Automation of business processes
- Working capital management
- Implementation of key projects and other issues

ALEXANDER DOLGOPOLOV, CHIEF AUDIT EXECUTIVE
INTERNAL CONTROL AND COMPLIANCE SYSTEM / CONTINUED

**Compliance system**

**COMPLIANCE SYSTEM**

By developing the compliance programme, we also contribute to the sustainable development of SUEK.

**DMITRY KANTEROV,**
**CHIEF COMPLIANCE OFFICER**

The compliance management system developed by SUEK includes:

- The Compliance Officer function integrated into the Legal Service
- Monitoring the external and internal regulatory environment
- Regulation of mandatory compliance procedures for employees
- Continuous employee training
- Work with compliance risks and provision of reporting information regarding compliance
- Compliance communications, including receiving hotline feedback
- Conducting inspections and compliance investigations

These procedures help prevent, find and eliminate the risks of non-compliance within the requirements of external and internal regulatory documents.

Key compliance activities in 2018:
- SUEK’s Code of Corporate Ethics
- Anti-corruption compliance
- Compliance in the field of covenants/limits
- Anti-monopoly compliance
- Tax compliance
- Compliance in the field of licensed activities and natural resource management
- Compliance in the field of land and property matters
- Sanction compliance
- Health and safety compliance
- Counterparties’ compliance

The risk assessment, regarding violations of compliance standards, is the responsibility of SUEK’s Compliance Officer function, which uses methodology based on the ISO 19600:2014 international standard for compliance management. In relation to the identified and assessed compliance risks, step-by-step action plans have been developed for the elimination of regulatory violations risks from SUEK’s operational practices.

On a daily basis, the compliance unit ensures:
- Continuous monitoring of the regulatory environment
- Timely development of local regulations required for the company
- Maintaining a sufficient level of awareness of staff to protect the company from compliance risks
- Confirmation of employee protection guaranteed when addressing compliance issues through the hotline
- Introduction of compliance tools in our business processes with an emphasis on automation and clear instructions to reduce any human factor risks

Actions taken in 2018 enabled the timely identification and reduction of specific compliance risks relating to corporate ethics, environmental management, antitrust compliance and licensing.

In 2018, the compliance programme additionally factored in the regulatory risk under the General Data Protection Regulation 2016/679, which entered into force in the EU in May 2018. The company created a GDPR working group, developed the necessary internal regulations, concluded agreements on inter-group transfer of personal data, amended the company’s website, and established the position of Data Protection Officer, combining the functions of IT support, information security and personal data protection manager.

In 2018, an association of leading European energy companies, Bettercoal non-profit organisation, audited SUEK for compliance with the Bettercoal code standards. The main areas of audit coincided with the priority areas of SUEK’s compliance programme: ethical business conduct, environmental management, labour and industrial safety, respect for the rights of employees. The introduction of a compliance system and the development of a compliance programme, both at the level of SUEK’s headquarters and regional companies, was appreciated by the international auditors as examples of best practice that should to be extended to SUEK’s business partners.

Baker Botts, a leading international law firm, separately audited SUEK’s sanctions compliance. This area was recognised as compliant with best practices that can sufficiently prevent risks of violation of applicable requirements.

In connection with the consolidation of the energy business, compliance procedures are being introduced at SGC, with a compliance management function being established based on sharing experiences with SUEK. Eight priority areas for the compliance system were initially identified. Introductory compliance workshops for top managers were held at the head office and key regional companies. A roadmap for the introduction of a full-fledged compliance system has been developed and is being implemented, with events planned for 2019.
Management Board

SUEK’s management includes long-serving professionals with wide experience in mining, energy and their respective areas.

VLADIMIR RASHEVSKY, 45
CHIEF EXECUTIVE OFFICER
CHAIRMAN OF THE MANAGEMENT BOARD

VLADIMIR ARTEMIEV, 53
CHIEF OPERATIONS OFFICER
MEMBER OF THE MANAGEMENT BOARD

IGOR GRIBANOVSKY, 46
CHIEF COMMERCIAL OFFICER
MEMBER OF THE MANAGEMENT BOARD

NIKOLAY PILIPENKO, 53
CHIEF FINANCIAL OFFICER
MEMBER OF THE MANAGEMENT BOARD

Education and qualifications
Vladimir graduated from Novocherkassk Polytechnic Institute as a Mining Engineer and has a PhD in Engineering Science.

Career
Vladimir worked for Gukovugol Industrial Association for over 15 years, beginning his career as an Overman at the Zapadnaya underground mine. In 1998, he was appointed General Director of Gukovugol, a position which he held for four years. He was selected as Head of the Coal Industry Department at the Russian Ministry of Energy in 2002, and Head of the Mines Inspectorate for the Federal Administration of Environmental, Technological and Nuclear Supervision (Rostekhnadzor) in 2004.

In 2006, Vladimir became Chief Operations Officer of SUEK and in 2007 he was appointed to the company’s Management Board. He has been awarded the Order of Courage for a mine rescue operation and holds all three degrees of the Miner’s Glory medal.

In 2016, Vladimir was awarded the Order of Friendship state award.

IGOR GRIBANOVSKY, 46
CHIEF COMMERCIAL OFFICER
MEMBER OF THE MANAGEMENT BOARD

Education and qualifications
Igor graduated from the Moscow State Institute of Steel and Alloys, where he studied Metal Forming. He did his postgraduate studies at the Faculty of Economics of Lomonosov Moscow State University, where he majored in Public Sector Economics.

Career
Between 1996 and 2001, Igor worked at the Moscow office of the Japanese Nichimen Corporation in its Department of Coal and Metals. From 2001 to 2005, he headed the export divisions of Vostsibugol, Rossuglesbyt and SUEK.

In 2005, Igor was appointed Managing Director of SUEK AG, and has been SUEK’s Chief Commercial Officer since 2007.

In 2012, he was awarded the Labour Glory state third degree award in recognition of his great personal contribution to the development of the national fuel and energy sector.

In 2018, Igor was appointed Chief Financial Officer of SUEK in October 2018.

Nikolay graduated from Moscow State University in 1989, where he studied Political Economy.

Career
From 2006 to 2008, Nikolay was Chief Financial Officer of EuroChem. Before joining EuroChem, he held several management positions at ABB Group in Russia, Spain and Switzerland.

Between 2009 and 2015, Nikolay was a member of the Board of Directors, Audit Committee and Nomination and Remuneration Committee of JSC EuroChem. From 2015 to 2016, he was a member of the Board of Directors, Audit Committee and Nomination and Remuneration Committee of EuroChem Group AG.

In 2012-2018, Nikolay was a member of the Board of Directors of Siberian Generating Company, where he chaired the Audit Committee.

He was appointed Chief Financial Officer of SUEK in October 2016.
Executives

ALEXANDER
DOLGOPOLOV, 39
CHIEF AUDIT
EXECUTIVE

Education and qualifications
Alexander is a graduate of the Moscow State Institute of International Relations (MGIMO), where he studied International Economic Relations. He is also a member of the Institute of Internal Auditors (IIA, US).

Career
From 2000 to 2005, Alexander worked as Assistant Manager in the Energy and Mining Department at PwC. In 2005, he joined SUEK as Head of Audit Unit and was subsequently appointed Head of Internal Control and Audit Service in May 2011.

SERGEI
GRIGORIEV, 62
PUBLIC RELATIONS
AND COMMUNICATIONS
DIRECTOR

Education and qualifications
Sergei is a graduate of the Institute of Asian and African Countries at Lomonosov Moscow State University. He holds a Master of Public Administration degree from Harvard's John F. Kennedy School of Government.

Career
Sergei’s early career was spent with the Soviet Union Association of Friendship Societies. From 1984 to 1990, he worked for the Foreign Department of the Central Committee of the Communist Party, subsequently joining the USSR President’s Press Office. He was later a political consultant and commentator. His roles also included, adviser to the Chairman of the All-Russian State Television and Broadcasting Company and, in 2001, Chief of Staff of the Department of President Affairs of the Russian Federation.

Between 2004 and 2006, Sergei was Vice President of the National Reserve Bank. He was then appointed Deputy General Director of the National Reserve Corporation. Sergei was appointed Public Relations and Communications Director at SUEK in February 2007.

In 2014, he was elected to the Civic Chamber of the Russian Federation. He was also appointed Chairman of the Commission on Development of the Real Sector of the Economy of the Civic Chamber of the Russian Federation.

In 2017, he received a state award from the Ministry of Energy of the Russian Federation for his great personal contribution to the development of the national fuel and energy sector.

DENIS
ILATOVSKY, 47
DIRECTOR OF LOGISTICS

Education and qualifications
Denis graduated from the Moscow State Institute of Steel and Alloys in 1994. He also obtained an Executive MBA from Antwerp Management School, Belgium, and from the Institute of Business Studies in 2011.

Career
In 1994, Denis began working for the MAIR Industrial Group and in 1996 was appointed Export Director. In 2000, he worked as General Director of Saratov Metalware factory and in 2002, he was appointed Vice President of the Group, where he was responsible for investments, IT and logistics. From 2008, he worked for United Metallurgical Company (OMK), where he was simultaneously Director of Logistics and General Director of the Baltic Metallurgical Terminal (Ust-Luga). In 2012, Denis joined SUEK as Director of Logistics.

In 2017, he was thanked by the Ministry of Energy of the Russian Federation for his great personal contribution to the development of the national fuel and energy sector.

ANDREY
MIRONOV, 53
GENERAL AFFAIRS
DIRECTOR

Education and qualifications
Andrey is a graduate of the Leningrad Higher Military Commanders’ Training School, the Academy of Federal Security Service and the Academy of National Economy.

Career
Andrey spent the early part of his career in the Federal Security Service. In 2007, he began working in the oil industry as a Security Director.

He joined SUEK in 2011 as General Affairs Deputy Director and was promoted to General Affairs Director in July 2012.

ALEXANDER
REDKIN, 57
GENERAL COUNSEL

Education and qualifications

Career
Between 1986 and 2001, Alexander worked in the Public Prosecution Department. He subsequently joined SIDANCO – TNK-BP Management, where he held several positions including General Counsel of SIDANCO’s branch in Saratov and Head of Legal Department.

Alexander joined SUEK in 2005, initially as Deputy General Counsel, and was then appointed General Counsel in January 2008.

In 2017, he received a state award from the Ministry of Energy of the Russian Federation for his great personal contribution to the development of the national fuel and energy sector.
STEPAN SOLZHENITSYN, 46
CHIEF EXECUTIVE OFFICER, SGC
Education and qualifications
Stepan graduated from the Massachusetts Institute of Technology and Harvard University. He specialised in regulatory and environmental aspects of the power industry.
Career
From 2004, he worked at the Russian office of McKinsey and was in charge of the electric power industry and heat supply in Russia and the CIS. Stepan supervised projects in the field of power generation, network development and operation, and sales activities.
Stepan joined SUEK Group in October 2018 and in November 2018 he became Chief Executive Officer of SGC.

DMITRY SYROMYATNIKOV, 52
DIRECTOR OF HR AND ADMINISTRATION
Education and qualifications
Dmitry is a graduate of Saint Petersburg State Paediatric Medical University. In 2005, he attended a Human Resources Management course at the Management Centre Europe (MCE) in Belgium.
Career
In his early career, Dmitry spent more than six years working as a doctor. Between 1997 and 2004, he worked for Bristol-Myers Squibb, a US pharmaceutical company, where he started as a Medical Representative and then held the positions of Regional Manager, Training Manager and Sales Efficiency Manager.
In 2004, Dmitry joined the Russian Aluminium and Magnesium Institute as HR Director. In 2005, he transferred to the RUSAL Management Company, where he worked in a number of roles including Head of Recruitment and Director ofCompensations.
From 2007 to 2008 and 2012 to 2014, he was HR and PR Director at Kirovsky Zavod. From April 2008 to February 2012, Dmitry was Director of HR and Administration at SUEK, a role he returned to in September 2014.
In 2017, he was awarded the Labour Glory state third degree award by the Ministry of Energy of the Russian Federation. The award is in recognition of his great personal contribution to the development of the national fuel and energy sector.

VLADIMIR TUZOV, 42
CHAIR STRATEGY OFFICER
Education and qualifications
Vladimir graduated from Bauman Moscow State Technical University, majoring in Biomedical Engineering. He holds a Master’s degree in Industrial Management from Ecole Centrale Paris and an MBA from Wharton Business School (University of Pennsylvania).
Career
Vladimir began his career in 2001 as a Production Planning Engineer for Pechiney, an aluminium company in France. Over the following five years, he held various managerial roles in production, marketing and supply chain management for non-ferrous and ferrous metallurgical companies in France, Russia, Guinea and Ukraine.
Between 2007 and 2013, Vladimir worked for The Boston Consulting Group (BCG) in Russia and the US. At BCG, he provided consultancy services to financial institutions, heavy industry, mining, automotive and processing companies. From 2013 until 2015, Vladimir worked at pulp and paper company Ilim Group as Deputy CEO for Strategy and Product Management and served on the Board of Directors of Ilim Gofra.
Vladimir has been SUEK’s Chief Strategy Officer since August 2015.

IRINA ZAYTSEVA, 42
PROCUREMENT DIRECTOR
Education and qualifications
Irina graduated from Perm State University, Faculty of Law, in 1998, and from the National Research University Higher School of Economics, Moscow, in 2001.
Career
Between 2002 and 2011, Irina worked at Uralkali, a potash mining company, where she held a number of senior positions including Director of Inventory and Logistics.
Irina was appointed Procurement Director at SUEK in May 2011. In 2017, Irina was thanked by the Ministry of Energy of the Russian Federation for her great personal contribution to the development of the national fuel and energy sector.
SUEK’s activities are managed by executive bodies – the Chief Executive Officer and the Management Board. The CEO is elected for an indefinite period. Vladimir Rashevsky has been the CEO of SUEK since 2004 and Chairman of the Management Board since 2005. The Management Board reports to the Board of Directors and the General Meeting of Shareholders. In order to achieve its targets, and under the Regulation on the Management Board, SUEK creates committees and panels that enable key managers and different sector experts to interact on the main issues affecting the company’s operations. The primary responsibilities of the CEO and the Management Board are to ensure the development and implementation of the company’s production, commercial and other operational plans and improvement programmes. They are also responsible for the timely and effective coordination of the resolutions of the company’s executive bodies.

Composition of the Management Board
As of 31 December 2018, the Management Board was comprised of the following four members:
- Vladimir Rashevsky – Chief Executive Officer
- Vladimir Artemiev – Chief Operations Officer
- Igor Gribanovsky – Chief Commercial Officer
- Nikolay Pilipenko – Chief Financial Officer

During the year, 11 senior managers who are not members of the Management Board regularly attended Management Board meetings.

Meetings of the Management Board
In 2018, there were 20 meetings of SUEK’s Management Board: 12 in-person and eight in-absentia. The main areas of the Management Board’s activities in 2018 were:
- The timely and effective implementation of resolutions taken at the General Meeting of Shareholders and by the company’s Board of Directors
- Preparation of consolidated financial statements, the Group’s budget including the Energy Segment, along with other issues related to the resolution of the Board of Directors on SGC integration
- The implementation of SUEK’s joint and segmented strategies, as well as functional strategies (development strategies of auxiliary service companies, coal asset strategies)
- The implementation and efficiency assessment of the company’s HR policies (including the provision of Kuzbass and Urgal units with key employees), information policy (including the SUEK brand awareness research), social policy (including master plans for the development of mono-industry towns where SUEK operates), environmental policy (successful audit by Bettercoal)
- The monthly monitoring of our performance in meeting approved budget and production targets in volatile market conditions
- Systematic monitoring of actions aimed at managing key risks in 2018
- Ensuring safe working conditions, minimising the risks associated with coal mining and developing a strong safety culture
- Improving labour productivity in all areas through the integrated optimisation of all production and business processes used by the company, its subsidiaries and associates
- Further improving our systems of compliance
- Ensuring the effective implementation of major investment projects and improving the quality of how they are monitored

Items relating to operational management and current activities were reviewed at meetings of specialist committees, which were established in line with the company’s Charter and function according to the approved work plans:
- Industrial Safety Committee
- Risk Management Committee
- Investment Committee
- Procurement Committee
- Information Technology Committee
- Budget Committee
- Project Committee
- Sales Policy Committee

In 2018, the eight committees held 96 meetings.

Management Board remuneration
The remuneration of members of the Management Board and the CEO of SUEK consists of a fixed basic salary and bonus elements, as well as long-term incentives for the completion of specific strategic projects.

The fixed element is based on the official duties of the relevant individual. The variable part provides an incentive to accomplish SUEK’s strategic objectives and helps attract and retain key managers. The amount of annual bonus paid is based on the achievement of KPIs, which are set annually on an individual basis for each member of the Management Board and the CEO. The KPIs are based on a detailed analysis of SUEK’s strategic objectives.

In 2018, the total remuneration paid out to the members of the Management Board and the CEO of SUEK, based on their performance during the year, was $7.5m.

Plans and priority tasks for 2019
The main task in 2019 is to follow up on the Board’s resolution regarding the consolidation of coal and power assets with a view to strengthen SUEK’s position as one of the largest coal and energy companies in the world, to further scale up and diversify SUEK’s business.
Independent Auditors’ Report

to the Shareholders of JSC SUEK

Opinion
We have audited the consolidated financial statements of JSC SUEK (the “Company”) and its subsidiaries (the “Group”), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statements of profit or loss, comprehensive income, changes in shareholders’ equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the independence requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation and with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the requirements in the Russian Federation and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group’s financial reporting process.

Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement if it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

– Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control

– Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management

– Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors’ report. However, future events or conditions may cause the Group to cease to continue as a going concern

FINANCIAL STATEMENTS

SUEK INTEGRATED REPORT 2018 - 127 -
– Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation

– Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The engagement partner on the audit resulting in this independent auditors’ report is Andrey A. Kim.

JSC ‘KPMG’
MOSCOW, RUSSIA
30 JANUARY 2019
Consolidated statement of profit or loss
for the year ended 31 December 2018

Millions of US Dollars

<table>
<thead>
<tr>
<th></th>
<th>Notes</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>6</td>
<td>8,296</td>
<td>6,939</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>7</td>
<td>(4,110)</td>
<td>(3,207)</td>
</tr>
<tr>
<td>Distribution costs</td>
<td>8</td>
<td>(2,047)</td>
<td>(1,998)</td>
</tr>
<tr>
<td>General and administrative expenses</td>
<td>9</td>
<td>(239)</td>
<td>(204)</td>
</tr>
<tr>
<td>Other expenses, net</td>
<td></td>
<td>(28)</td>
<td>(36)</td>
</tr>
<tr>
<td><strong>Operating profit</strong></td>
<td></td>
<td>1,872</td>
<td>1,494</td>
</tr>
<tr>
<td>Finance costs, net</td>
<td>10</td>
<td>(311)</td>
<td>(338)</td>
</tr>
<tr>
<td>Foreign exchange loss</td>
<td></td>
<td>(83)</td>
<td>(13)</td>
</tr>
<tr>
<td><strong>Profit before tax</strong></td>
<td></td>
<td>1,478</td>
<td>1,143</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>24</td>
<td>(314)</td>
<td>(270)</td>
</tr>
<tr>
<td><strong>Net profit for the year</strong></td>
<td></td>
<td>1,164</td>
<td>873</td>
</tr>
<tr>
<td><strong>Net profit attributable to:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ordinary shareholders of the parent</td>
<td></td>
<td>1,144</td>
<td>843</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td></td>
<td>20</td>
<td>30</td>
</tr>
<tr>
<td><strong>Net profit for the year</strong></td>
<td></td>
<td>1,164</td>
<td>873</td>
</tr>
<tr>
<td>Basic and diluted earnings per share (in US Dollars)</td>
<td>18</td>
<td>4.88</td>
<td>3.63</td>
</tr>
</tbody>
</table>

The comparative consolidated statement of profit or loss for the year ended 31 December 2017 has been restated for the effect of the acquisition of SGC group described in note 30.

The accompanying notes on pages 134 to 158 are an integral part of these consolidated financial statements.
Consolidated statement of comprehensive income
for the year ended 31 December 2018

Millions of US Dollars

<table>
<thead>
<tr>
<th>Net profit for the year</th>
<th>Notes</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other comprehensive income</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Items which may be reclassified to profit or loss in the future:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Translation difference</td>
<td>(460)</td>
<td>77</td>
<td></td>
</tr>
<tr>
<td>Revaluation of intra-group debt denominated in foreign currency</td>
<td>3.2</td>
<td>(1)</td>
<td>18</td>
</tr>
<tr>
<td>Transfer of changes in fair value of cash flow hedges to profit or loss, net of deferred tax</td>
<td>104</td>
<td>232</td>
<td></td>
</tr>
<tr>
<td>Effective portion of changes in fair value of cash flow hedges, net of deferred tax</td>
<td>(16)</td>
<td>(182)</td>
<td></td>
</tr>
<tr>
<td><strong>Total items which may be reclassified to profit or loss in the future</strong></td>
<td>(373)</td>
<td>145</td>
<td></td>
</tr>
<tr>
<td>Items which may not be reclassified to profit or loss in the future:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revaluation surplus</td>
<td>4</td>
<td>1,322</td>
<td>1,321</td>
</tr>
<tr>
<td>Tax effect of revaluation surplus</td>
<td>4</td>
<td>(264)</td>
<td>(264)</td>
</tr>
<tr>
<td>Actuarial gains</td>
<td>10</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td><strong>Total items which may not be reclassified to profit or loss in the future</strong></td>
<td>1,068</td>
<td>1,060</td>
<td></td>
</tr>
<tr>
<td><strong>Total other comprehensive income for the year</strong></td>
<td>695</td>
<td>1,205</td>
<td></td>
</tr>
</tbody>
</table>

The comparative consolidated statement of comprehensive income for the year ended 31 December 2017 has been restated for the effect of the acquisition of SGC group described in note 30.

The accompanying notes on pages 134 to 158 are an integral part of these consolidated financial statements.
# Consolidated statement of financial position

as at 31 December 2018

<table>
<thead>
<tr>
<th></th>
<th>Notes</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-current assets</td>
<td></td>
<td>12,044</td>
<td>10,552</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>11</td>
<td>11,724</td>
<td>10,142</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>24</td>
<td>136</td>
<td>189</td>
</tr>
<tr>
<td>Goodwill</td>
<td>78</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other assets</td>
<td>12</td>
<td>106</td>
<td>143</td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td>1,995</td>
<td>2,105</td>
</tr>
<tr>
<td>Trade accounts and other receivables</td>
<td>13</td>
<td>882</td>
<td>878</td>
</tr>
<tr>
<td>Inventories</td>
<td>14</td>
<td>735</td>
<td>566</td>
</tr>
<tr>
<td>Prepaid and recoverable taxes</td>
<td>15</td>
<td>175</td>
<td>140</td>
</tr>
<tr>
<td>Derivative financial assets</td>
<td>37</td>
<td></td>
<td>45</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>16</td>
<td>166</td>
<td>476</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td></td>
<td>14,039</td>
<td>12,657</td>
</tr>
<tr>
<td><strong>EQUITY AND LIABILITIES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity</td>
<td></td>
<td>5,235</td>
<td>5,226</td>
</tr>
<tr>
<td>Share capital</td>
<td>17</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Share premium</td>
<td>17</td>
<td>104</td>
<td>–</td>
</tr>
<tr>
<td>Revaluation reserve</td>
<td></td>
<td>5,665</td>
<td>4,774</td>
</tr>
<tr>
<td>Hedging reserve</td>
<td></td>
<td>26</td>
<td>(62)</td>
</tr>
<tr>
<td>Translation reserve</td>
<td></td>
<td>(1,812)</td>
<td>(1,402)</td>
</tr>
<tr>
<td>Retained earnings</td>
<td></td>
<td>1,063</td>
<td>1,715</td>
</tr>
<tr>
<td><strong>Attributable to ordinary shareholders of the parent</strong></td>
<td></td>
<td>5,046</td>
<td>5,025</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td></td>
<td>189</td>
<td>201</td>
</tr>
<tr>
<td><strong>Non-current liabilities</strong></td>
<td></td>
<td>7,083</td>
<td>4,883</td>
</tr>
<tr>
<td>Long-term borrowings</td>
<td>19</td>
<td>3,272</td>
<td>3,377</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>24</td>
<td>1,663</td>
<td>1,324</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>21</td>
<td>2,148</td>
<td>182</td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
<td>1,721</td>
<td>2,548</td>
</tr>
<tr>
<td>Short-term borrowings</td>
<td>19</td>
<td>1,081</td>
<td>1,450</td>
</tr>
<tr>
<td>Trade accounts and other payables</td>
<td>22</td>
<td>506</td>
<td>828</td>
</tr>
<tr>
<td>Derivative financial liabilities</td>
<td>4</td>
<td></td>
<td>137</td>
</tr>
<tr>
<td>Taxes payable</td>
<td>23</td>
<td>130</td>
<td>133</td>
</tr>
<tr>
<td><strong>Total shareholders’ equity and liabilities</strong></td>
<td></td>
<td>14,039</td>
<td>12,657</td>
</tr>
</tbody>
</table>

The comparative consolidated statement of financial position as at 31 December 2017 has been restated for the effect of the acquisition of SGC group described in note 30.

The accompanying notes on pages 134 to 158 are an integral part of these consolidated financial statements.
Consolidated statement of cash flows
for the year ended 31 December 2018

Millions of US Dollars

<table>
<thead>
<tr>
<th>Notes</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit before tax</td>
<td>1,478</td>
<td>1,143</td>
</tr>
<tr>
<td>Adjustments to profit before tax:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>7</td>
<td>669</td>
</tr>
<tr>
<td>Finance costs, net</td>
<td>10</td>
<td>311</td>
</tr>
<tr>
<td>Bad debt expense</td>
<td>30</td>
<td>34</td>
</tr>
<tr>
<td>Foreign exchange loss</td>
<td>83</td>
<td>13</td>
</tr>
<tr>
<td>Other, net</td>
<td>(9)</td>
<td>1</td>
</tr>
<tr>
<td>Changes in working capital items:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase in trade accounts and other receivables</td>
<td>(61)</td>
<td>(52)</td>
</tr>
<tr>
<td>Increase in inventories</td>
<td>(144)</td>
<td>(91)</td>
</tr>
<tr>
<td>Increase in prepaid and recoverable taxes (other than income tax)</td>
<td>(25)</td>
<td>(6)</td>
</tr>
<tr>
<td>(Decrease)/increase in trade accounts and other payables</td>
<td>(156)</td>
<td>20</td>
</tr>
<tr>
<td>Increase in taxes payable (other than income tax)</td>
<td>13</td>
<td>11</td>
</tr>
<tr>
<td>Net cash inflow from operations</td>
<td>2,189</td>
<td>1,886</td>
</tr>
<tr>
<td>Income tax paid</td>
<td>(288)</td>
<td>(248)</td>
</tr>
<tr>
<td>Net cash inflow from operating activities</td>
<td>1,901</td>
<td>1,738</td>
</tr>
<tr>
<td>Investing activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase of property, plant and equipment</td>
<td>(903)</td>
<td>(763)</td>
</tr>
<tr>
<td>Business combination</td>
<td>30</td>
<td>(496)</td>
</tr>
<tr>
<td>Repayments of loans issued</td>
<td>37</td>
<td>–</td>
</tr>
<tr>
<td>Interest received</td>
<td>28</td>
<td>21</td>
</tr>
<tr>
<td>Other non-current investments, net</td>
<td>3</td>
<td>(26)</td>
</tr>
<tr>
<td>Acquisition of other subsidiaries</td>
<td>–</td>
<td>(120)</td>
</tr>
<tr>
<td>Net cash outflow used in investing activities</td>
<td>(1,331)</td>
<td>(888)</td>
</tr>
<tr>
<td>Financing activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from long-term borrowings</td>
<td>2,402</td>
<td>1,301</td>
</tr>
<tr>
<td>Repayments of long-term borrowings</td>
<td>(2,641)</td>
<td>(1,340)</td>
</tr>
<tr>
<td>Repayments of short-term borrowings, net</td>
<td>(134)</td>
<td>(119)</td>
</tr>
<tr>
<td>Interest and commissions paid</td>
<td>(313)</td>
<td>(362)</td>
</tr>
<tr>
<td>Acquisition of non-controlling interests</td>
<td>30</td>
<td>(164)</td>
</tr>
<tr>
<td>Settlement of cross-currency interest rate swap</td>
<td>(30)</td>
<td>–</td>
</tr>
<tr>
<td>Dividends paid to non-controlling interests</td>
<td>(8)</td>
<td>(16)</td>
</tr>
<tr>
<td>Net cash outflow used in financing activities</td>
<td>(888)</td>
<td>(720)</td>
</tr>
<tr>
<td>Foreign exchange effect on cash and cash equivalents</td>
<td>8</td>
<td>(11)</td>
</tr>
<tr>
<td>Net (decrease)/increase in cash and cash equivalents</td>
<td>(310)</td>
<td>119</td>
</tr>
<tr>
<td>Cash and cash equivalents at the beginning of the year</td>
<td>16</td>
<td>476</td>
</tr>
<tr>
<td>Cash and cash equivalents at the end of the year</td>
<td>16</td>
<td>476</td>
</tr>
</tbody>
</table>

The comparative consolidated statement of cash flows for the year ended 31 December 2017 has been restated for the effect of the acquisition of SGC group described in note 30.

The accompanying notes on pages 134 to 158 are an integral part of these consolidated financial statements.
Consolidated statement of changes in shareholders’ equity
for the year ended 31 December 2018

Millions of US Dollars

<table>
<thead>
<tr>
<th>Share capital</th>
<th>Share premium</th>
<th>Revaluation reserve</th>
<th>Hedging reserve</th>
<th>Translation reserve</th>
<th>Retained earnings</th>
<th>Attributable to ordinary shareholders of the parent</th>
<th>Non-controlling interests</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at 1 January 2017 (as previously reported)</td>
<td>–</td>
<td>–</td>
<td>3,880 (112)</td>
<td>(1,494)</td>
<td>–</td>
<td>392</td>
<td>2,666</td>
<td>167</td>
</tr>
<tr>
<td>Acquisition of SGC group (see note 30)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>490</td>
<td>490</td>
<td>1</td>
</tr>
<tr>
<td>Balance at 1 January 2017 (as adjusted)</td>
<td>–</td>
<td>–</td>
<td>3,880 (112)</td>
<td>(1,494)</td>
<td>–</td>
<td>882</td>
<td>3,156</td>
<td>168</td>
</tr>
<tr>
<td>Net profit for the year</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>843</td>
<td>843</td>
<td>30</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td>–</td>
<td>–</td>
<td>1,019</td>
<td>50</td>
<td>92</td>
<td>3</td>
<td>1,164</td>
<td>41</td>
</tr>
<tr>
<td>Transfer to retained earnings</td>
<td>–</td>
<td>–</td>
<td>(125)</td>
<td>–</td>
<td>–</td>
<td>123</td>
<td>(2)</td>
<td>2</td>
</tr>
<tr>
<td>Total comprehensive income for the year</td>
<td>–</td>
<td>–</td>
<td>894</td>
<td>50</td>
<td>92</td>
<td>969</td>
<td>2,005</td>
<td>73</td>
</tr>
<tr>
<td>Transactions with owners:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquisition of a non-controlling interests</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Acquisition of a subsidiary under common control</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Dividends to non-controlling interests</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Total transactions with owners</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Balance at 31 December 2017</td>
<td>–</td>
<td>–</td>
<td>4,774 (62)</td>
<td>(1,402)</td>
<td>1,715</td>
<td>5,025</td>
<td>201</td>
<td>5,226</td>
</tr>
<tr>
<td>Adjustment of expected credit losses under IFRS 9 (see note 2)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>11</td>
<td>–</td>
</tr>
<tr>
<td>Balance at 1 January 2018 (as adjusted)</td>
<td>–</td>
<td>–</td>
<td>4,774 (62)</td>
<td>(1,402)</td>
<td>1,715</td>
<td>5,014</td>
<td>201</td>
<td>5,215</td>
</tr>
<tr>
<td>Net profit for the year</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>1,144</td>
<td>1,144</td>
<td>20</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td>–</td>
<td>–</td>
<td>1,030</td>
<td>88</td>
<td>(410)</td>
<td>10</td>
<td>718</td>
<td>(23)</td>
</tr>
<tr>
<td>Transfer to retained earnings</td>
<td>–</td>
<td>–</td>
<td>(139)</td>
<td>–</td>
<td>–</td>
<td>135</td>
<td>(4)</td>
<td>4</td>
</tr>
<tr>
<td>Total comprehensive income for the year</td>
<td>–</td>
<td>–</td>
<td>891</td>
<td>88</td>
<td>(410)</td>
<td>1,289</td>
<td>1,858</td>
<td>1</td>
</tr>
<tr>
<td>Transactions with owners:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issue of shares (see note 17)</td>
<td>–</td>
<td>104</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>104</td>
<td>–</td>
</tr>
<tr>
<td>Acquisition of SGC group (see note 30)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(1,916)</td>
<td>(1,916)</td>
<td>–</td>
</tr>
<tr>
<td>Business combination (see note 30)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>145</td>
</tr>
<tr>
<td>Acquisition of a non-controlling interests (see note 30)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(14)</td>
<td>(14)</td>
<td>(150)</td>
</tr>
<tr>
<td>Dividends to non-controlling interests</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(8)</td>
</tr>
<tr>
<td>Total transactions with owners</td>
<td>–</td>
<td>104</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(1,930)</td>
<td>(1,826)</td>
<td>(13)</td>
</tr>
<tr>
<td>Balance at 31 December 2018</td>
<td>–</td>
<td>104</td>
<td>5,665</td>
<td>26</td>
<td>(1,812)</td>
<td>1,063</td>
<td>5,046</td>
<td>189</td>
</tr>
</tbody>
</table>

The comparative consolidated statement of changes in shareholders’ equity for the year ended 31 December 2017 has been restated for the effect of the acquisition of SGC group described in note 30.

The accompanying notes on pages 134 to 158 are an integral part of these consolidated financial statements.
Notes to the consolidated financial statements for the year ended 31 December 2018

Millions of US Dollars, unless otherwise stated

1. General information
Organisation and principal activities. Joint Stock Company (JSC) ‘Siberian Coal Energy Company’ (‘SUEK’ or the ‘Company’) was founded on 1 December 1999. The Company and its subsidiaries are collectively referred to as the Group. The address of the registered office is Dubininskaya st. 53, bl. 7, Moscow, Russian Federation. The principal activities of the Group are the extraction and sale of coal and generation and sales of electricity, heat and capacity.

In 2018, as the result of reorganisation, AIM Capital SE, registered in the Republic of Cyprus, became the immediate parent company of SUEK with 92.2% interest in the Company’s share capital.

A company that holds business interests beneficially for Mr. Andrey Melnichenko indirectly owns 100% of AIM Capital SE.

In August 2018, the Group acquired from a parent company 99.9% of Siberian Generating Company (‘SGC’) group. Since the acquisition of the SGC group represents a transaction under common control the consolidated financial statements of the Group were retrospectively restated to reflect the effect of the acquisition as if it had occurred on 1 January 2017, at the beginning of the earliest comparative period (see note 30).

2. Basis of presentation
These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The consolidated financial statements of the Group have been prepared on the historical cost basis, except for:
- mining assets carried at fair value; and
- derivative financial instruments which are stated at fair value.

Functional currency. The functional currency of subsidiaries of the Group is the currency of the primary economic environment where these entities operate. The functional currency of foreign trading subsidiaries and predominantly export-oriented Russian subsidiaries is the US Dollar (‘USD’). The functional currency of the Company and Russian subsidiaries that are not predominantly export-oriented is the Russian Rouble (‘RUB’).

Presentation currency. The presentation currency is the USD. The translation of the consolidated financial statements into the presentation currency was performed in accordance with the requirements of IAS 21 ‘The Effects of Changes in Foreign Exchange Rates’.

The following RUB/USD exchange rates were applied at 31 December and during the years then ended:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year end</td>
<td>69.47</td>
<td>57.60</td>
</tr>
<tr>
<td>Average rate</td>
<td>62.71</td>
<td>58.35</td>
</tr>
</tbody>
</table>

Adoption of new and revised standards and interpretations
The following standards and amendments to standards became effective for the Group from 1 January 2018:
- IFRS 9 ‘Financial Instruments’ supersedes IAS 39 ‘Financial Instruments: Recognition and Measurement’ and introduces new classification and measurement requirements, a single, forward-looking ‘expected loss’ impairment model and a substantially-reformed approach to hedge accounting. The Group has elected to apply the limited exemption in IFRS 9 relating to transition and accordingly has not restated comparative periods in the year of initial application. The standard did not have a significant impact on the classification of the financial instruments and their disclosures in the consolidated financial statements.
- IFRS 15 ‘Revenue from Contracts with Customers’ outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The Group assessed the impact of the new standard on the Group’s performance and financial position by identifying and analysing classes of transactions where revenue recognition under previously applied IAS 18 might be different from IFRS 15 requirements. As a result, the Group identified certain areas of focus which mainly related to revenue recognition of services provided to customers. The Group identified that under contract conditions related to a significant portion of coal sales the Group promises to provide shipping and other freight services after the date when control of the goods passes to the customer at the loading port. Under IAS 18, the Group recognised revenue for such services and associated costs in full immediately after loading. Under IFRS 15 such revenue is a separate performance obligation and shall be recognised over time rather than at a point in time, however, due to the short lead time to deliver such services and absence of individually material transactions, the potential impact on the Group’s performance and financial position was estimated immaterial. The Group has also assessed the impact of the new standard on revenue disclosures which shall reflect how the information is used by the entity to evaluate financial performance and make operating decisions. The Group concluded that existing disclosures are consistent with the new requirements. The Group did not identify any other areas where the new standard might have a material effect upon adoption. The Group will continue monitoring the impact of treating freight related services as a separate performance obligation and will adjust its accounting policies as appropriate in the future if and when such impact becomes material.
3. Significant accounting policies

The accounting policies and judgements applied by the Group are consistent with those disclosed in the audited consolidated financial statements for the year ended 31 December 2017, except for the adoption of IFRS 15 ‘Revenue from Contracts with Customers’, IFRS 9 ‘Financial Instruments’ from 1 January 2018 and change in the mining assets disclosure, which did not have a material effect on the Group’s financial statements (see note 2 and note 3.3, respectively).

3.1. Basis of consolidation

Subsidiaries. Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. The acquisition of subsidiaries from third parties is accounted for using the purchase method of accounting. The identifiable assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values as at the date of acquisition. Non-controlling (minority) interest is measured at its proportionate interest in the identifiable assets and liabilities of the acquiree. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Changes in ownership interests by the Group in a subsidiary, while maintaining control, are recognised as an equity transaction.

Upon a loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

Business combination under common control. Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the predecessor’s consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity except that any share capital of the acquired entities is recognised as part of additional paid-in capital. Difference between the purchase consideration and carrying value of net assets acquired is recognised directly in equity.

3.2. Foreign currency transactions

Transactions in foreign currencies are recorded at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are converted to the respective functional currency at the exchange rate ruling at the balance sheet date. Exchange differences arising from changes in exchange rates are recognised in profit or loss, except that exchange differences arising from the revaluation of the intra-group debt accounted for as a part of net investments in foreign entities are recognised in other comprehensive income in the consolidated financial statements.
The translation of the financial statements from functional currency into presentation currency is performed in accordance with the requirements of IAS 21 'The Effects of Changes in Foreign Exchange Rates' as follows:

- all assets and liabilities, both monetary and non-monetary, are translated at closing exchange rates at the dates of each consolidated statement of financial position presented;
- all income and expenses in the consolidated statement of profit or loss are translated at the average exchange rates for the years presented;
- resulting exchange differences are included in equity and presented separately; and
- in the consolidated statement of cash flows, cash balances at the beginning and end of each year presented are translated at exchange rates at the respective dates. All cash flows are translated at the annual average exchange rates for the years presented. Resulting exchange differences are presented as foreign exchange effect on cash and cash equivalents.

3.3. Property, plant and equipment

Basis of carrying value of property, plant and equipment.

Mineral rights were classified as property, plant and equipment and carried at fair value starting from 1 January 2013.

Management believes that the new accounting policy presents more fairly the consolidated financial position of the Group by recognising the whole value of the mineral resource base, which is the Group’s core asset in its consolidated statement of financial position.

The fair value is determined by discounting future cash flows which can be obtained from operations of the mines based on the life-of-mine plans and deducting the fair value of the operating tangible fixed assets.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the mining assets and the net amount is restated to the revalued amount of the asset.

Revaluations are performed on an annual basis.

A revaluation increase is recognised in other comprehensive income and accumulated in equity except to the extent it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease is recognised in profit or loss except to the extent that it reverses a revaluation increase recognised directly in equity, in which case it is recognised directly in equity.

At the year end a portion of the revaluation reserve, which is equal to the difference between depreciation based on the revalued carrying amount of the mining assets and depreciation based on the asset’s historical cost, is transferred from the revaluation reserve to retained earnings.

The mineral rights of new greenfields are combined with the Company’s core asset in its consolidated financial position. Management believes that the new accounting policy presents more fairly the consolidated financial position of the Group by recognising the whole value of the mineral resource base, which is the Group’s core asset in its consolidated statement of financial position.

Depreciation. Mining assets are depreciated using the unit-of-production method, based on the estimated proven and probable coal reserves to which they relate, or are written off if the mine is abandoned or where there is an impairment in value. The impairment loss is recognised in profit or loss for the year to the extent it exceeds the previous revaluation surplus in equity. Estimated proven and probable coal reserves determined in accordance with internationally recognised standards for reporting coal reserves reflect the economically recoverable coal reserves which can be legally recovered in the future from coal deposits.

Tangible assets, other than mining assets, are depreciated using the straight-line method based on estimated useful lives. For each item the estimated useful life has due regard to both its own physical life limitations and, if applicable, the present assessment of the economically recoverable reserves of the mine property at which the item is located, and to possible future variations in those assessments. Estimates of remaining useful lives are made on a regular basis for all tangible assets, with annual reassessments for major items.

The estimated useful lives of property, plant and equipment, including mining assets, are as follows:

- mining assets
  - average of 59 years
- buildings, structures and utilities
  - 5 – 50 years
- machinery, equipment and transport
  - 3 – 37 years
### 3.4. Capital construction-in-progress

Capital construction-in-progress comprises costs directly related to mine development, construction of buildings, infrastructure, processing plant, machinery and equipment. Amortisation or depreciation of these assets commences when the assets are put in the location and condition necessary for them to be capable of operating in the manner intended by management. Capital construction-in-progress is reviewed regularly to determine whether its carrying value is recoverable.

### 3.5. Impairment

The Group reviews the carrying amounts of its tangible and intangible assets regularly to determine whether there are indicators of impairment. If any such indicators exist, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs.

A recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or CGU is estimated to be less than the carrying amount, the carrying amount is reduced to the recoverable amount and the impairment losses are recognised in profit or loss for the year. Impairment losses are allocated first to reduce the carrying amount of any goodwill allocated to CGU, and then to reduce the carrying amounts of the other assets in CGU on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### 3.6. Research and exploration expenditure

Pre-exploration costs are recognised in profit or loss as incurred. Exploration and evaluation costs (including geophysical, topographical, geological and similar types of expenditure) are capitalised as exploration and evaluation assets on a project-by-project basis pending determination of the technical feasibility and commercial viability of the project. The technical feasibility and commercial viability of extracting coal is considered to be determinable when proven coal reserves are determined to exist. Expenditure deemed to be unsuccessful is recognised immediately in profit or loss.

### 3.7. Inventories

Coal. Coal is measured at the lower of production cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses. Production costs include on-mine and processing costs, as well as transportation costs to the point of sale.

**Consumable stores and materials.** The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

### 3.8. Financial instruments

**Non-derivative financial instruments.** Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

The Group recognises a financial asset or a financial liability at its fair value plus or minus, in the case of a financial asset or a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or the financial liability.

From 1 January 2018, the financial assets are classified in the following measurement categories based on the Group’s business model for managing the asset and the asset’s contractual cash flow characteristics: financial assets at amortised cost, financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss.

**Financial assets at amortised cost.** Financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss (FVTPL):

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest.

The financial assets are measured at amortised cost using the effective interest method, less any impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

**Financial assets at fair value through other comprehensive income (FVOCI).** Financial assets are classified and measured at fair value through other comprehensive income if they meet both of the following conditions and are not designated as at FVTPL:

- they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- their contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

Financial assets at fair value through profit or loss. Any financial assets that are not held in one of the two business models mentioned above are measured at fair value through profit or loss. This includes all derivative financial assets. These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

If the Group changes its business model for managing financial assets it must reclassify all affected financial assets. The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset, or it retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement.

Cash and cash equivalents. Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group’s cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Financial liabilities. All financial liabilities are measured at amortised cost, except for financial liabilities at fair value through profit or loss. Such liabilities include derivatives (other than derivatives that are financial guarantee contracts or are designated and effective hedging instruments), other liabilities held for trading, and liabilities that the Group designates to be measured at fair value through profit or loss. After initial recognition, the Group cannot reclassify any financial liability.

The Group derecognises a financial liability (or a part of a financial liability) when the obligation specified in the contract is discharged or cancelled or expires.

Impairment of financial assets. The Group assesses on a forward-looking basis the expected credit losses (‘ECL’) associated with its financial assets carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. This will require considerable judgement over how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The impairment model applies to the financial instruments that are not measured at FVTPL.

Loss allowance is recognised at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

The Group measures loss allowances at an amount equal to lifetime ECLs, except in the following cases, for which the amount recognised will be 12-month ECLs:

– debt securities that are determined to have low credit risk at the reporting date;
– other financial instruments (other than lease receivables) for which credit risk has not increased significantly since initial recognition.

For loans, the Group measures ECL on an individual basis, or on a collective basis for portfolios that share similar economic risk characteristics.

An impairment loss in respect of the financial assets is calculated as present value of the difference between the contractual cash flows that are due to the Group under the contract, and the cash flows that the Group expects to receive.

For trade receivables, the Group applies a simplified approach permitted by the standard, which requires expected lifetime losses to be recognised from initial recognition of the receivables. To measure the expected credit losses, trade receivables and contract assets are grouped based on shared credit risk characteristics and the days past due. In assessing the impairment, the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group’s historical experience and informed credit assessment and including forward-looking information.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is recognised in other comprehensive income, instead of reducing the carrying amount of the asset. Impairment losses on financial assets are presented under ‘other expenses’ in the operating profit or loss, similar to the presentation under IAS 39, and not presented separately in the statement of profit or loss and other comprehensive income due to materiality considerations.

Derivative financial instruments. The Group may enter into a variety of derivative financial instruments to manage its exposure to commodity price risk, foreign currency risk, interest rate risk and risk of changes in the price of freight.

Derivatives are initially recognised at fair value; any directly attributable transaction costs are recognised in profit or loss as they are incurred. The subsequent changes are recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.
The Group designates certain derivatives as hedges of a highly probable forecast transaction (cash flow hedge). When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The amount accumulated in equity is retained in other comprehensive income and reclassified to profit or loss in the same period in which the hedged item affects profit or loss.

When a hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, or the designation is revoked, then hedge accounting is discontinued prospectively. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in equity is reclassified to profit or loss.

Provisions are recognised when the Group has legal or constructive obligations, as a result of a past event, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3.10. Employee benefit obligations
Remuneration to employees in respect of services rendered during a reporting year is recognised as an expense in that reporting year.

Defined contribution plan. The Group contributes to the Pension Fund of the Russian Federation, a defined contribution pension plan. The only obligation of the Group is to make the specified contributions in the year in which they arise and these contributions are expensed as incurred.

Defined benefit plans. In accordance with current legislation and internal documentation the Group operates defined benefit plans whereby field workers of its coal-producing subsidiaries are entitled to a lump sum payment. The amount of benefits depends on age, years of service, compensation and other factors.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date. Actuarial gains and losses are recognised directly in other comprehensive income.

The defined benefit obligation is calculated annually by the Group. The Projected Unit Credit Method is used to determine the present value of defined benefit obligations and the related current service cost. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability.

3.11. Income tax
Income tax expense comprises current and deferred taxation.

Current tax is the tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and includes any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. In addition, deferred tax is not recognised for temporary differences arising on the initial recognition of goodwill and temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the timing of the reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies. In addition, the tax base is determined separately for each of the Group’s main activities and, therefore, tax losses and taxable profits related to different activities cannot be offset.

3.12. Revenue recognition
Revenue comprises the sales value of coal, power and other goods and services supplied to customers during the period, excluding value-added tax. The sales of goods are recognised when control of the products has transferred to the customer. Revenue from providing services is recognised in the accounting period in which the services are rendered.

Power sales are carried out on both regulated and unregulated power markets. Regulated market revenue is based on the application of authorised tariffs as approved by the Federal Antimonopoly Service and Regional Energy Commission.
of the Russian Federation. Revenue is recognised on a monthly basis upon the delivery of the electricity and heat.

The amounts of revenue and expenses of self-produced and consumed electricity volume are shown net for presentation purposes based on selling prices on a day-ahead market. Management believes that such presentation provides more relevant and meaningful information about the operation of the Group.

3.13. Operating lease payments
Leases of assets under which all the risks and benefits of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are recognised in profit or loss in the year in which they are due in accordance with lease terms.

3.14. Dividends declared
Dividends and related taxation thereon are recognised as a liability in the year in which they have been declared and become legally payable.

Retained earnings legally distributable by the Group are based on the amounts available for distribution in accordance with the applicable legislation and as reflected in the statutory financial statements of the individual Group entities. These amounts may differ significantly from the amounts recognised in the Group’s consolidated IFRS financial statements.

3.15. Development expenditure
Development costs are capitalised when shaft sinking is done to prepare a certain part of a deposit for mining and used throughout the life of a mine. Development costs are expensed when longwalls are prepared for extraction.

3.16. Overburden removal expenditure
In open-pit coal mining operations, it is necessary to remove the overburden and other waste in order to access the economically recoverable coal.

Stripping costs incurred during the pre-production phase of the open-pit mine are capitalised as the cost of the development of the mining property and amortised over the life of the mine.

Due to the specifics of the geology of the Group’s mining assets, the period required to gain access to a coal seam is short, and the stripping ratio (volume of overburden removed over the volume of coal extracted) is relatively constant over the periods. Therefore, stripping costs incurred during the production phase of the open-pit mine are recognised in the profit or loss as incurred.

3.17. Environmental obligation
Environmental obligation includes provision for decommissioning and site restoration costs.

Environmental provision is recognised when the Group has a present legal or constructive obligation as a result of past events that existed at the balance sheet date:
- to dismantle and remove its items of property, plant and equipment (decommissioning); and
- to restore site damage after the commencement of coal production to bring the land into a condition suitable for its further use (site restoration).

Estimated future costs are provided for at the present value of estimated future expenditures expected to be incurred to settle the obligation, using estimated cash flows, based on current prices adjusted for the inflation.

The increase in the provision through unwinding of the obligation, due to the passage of time, is recognised as a finance cost in profit or loss.

Changes in the obligation, reassessed regularly, related to new circumstances or changes in law or technology, or in the estimated amount of the obligation, or in the pre-tax discount rates, are recognised as an increase or decrease of the cost of the relevant asset to the extent of the carrying amount of the asset; the excess is recognised immediately in profit or loss.

Gains from the expected disposal of mining assets at the end of the life of the mine are not taken into account when determining the provision.

3.18. Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognised in profit or loss for the year in which they are incurred.

3.19. Goodwill
Goodwill arises on acquisitions and is recognised as an asset initially measured at cost, being the excess of the cost of the business combination over the Group’s share of the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities recognised at the date of acquisition. If the Group’s share of the net fair value of the acquiree’s identifiable assets, liabilities and contingent liabilities, after reassessment, exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

Goodwill is measured at cost less accumulated impairment losses. In respect of equity-accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment. Transaction costs incurred in a business combination are expensed.

The Group elected not to restate past business combinations at the date of adoption of IFRS.
4. Critical accounting judgements and estimates

In the process of applying the Group’s accounting policies management has made the following principal judgements and estimates that have a significant effect on the amounts recognised in the consolidated financial statements. Actual results may differ from these estimates.

Coal reserve estimates. Coal reserve estimates are used as the basis for future cash flows, which enter into the valuation of mining rights, the determination of provision for environmental obligations, calculations of amortisation and depreciation of mining assets, the unwinding of discount on environmental obligations and the related deferred taxes. The coal reserve estimates represent the quantity of coal expected to be mined, processed and sold at prices at least sufficient to recover the estimated total costs, the carrying value of the investment and anticipated additional expenditures ('proven and probable coal reserves' in international mining terminology). The estimates are based on several assumptions about the physical existence of coal reserves, future mining and recovery factors, production costs and coal prices and have been calculated using the assessment of available exploration and other data. The Group undertakes revisions of the coal reserve estimates, which are confirmed by independent consulting mining engineers, as appropriate.

Although management’s long-term mine plans exceed the remaining useful life of some of the mining licences of the Group, the Group has a legal right to apply for the extension of the licences for its existing mining resources and therefore management is confident that the licences will be extended provided that it is the same coal resource within the original mining licences and that certain other conditions are met. Extensions to new seams or adjacent areas are often subject to open auctions. Delay or failure in securing relevant government approvals or licences, as well as any adverse change in government policies, may cause a significant adjustment to development and acquisition plans, which may have a material adverse effect on the Group’s financial position and performance.

Valuation of mining assets. Mining assets for coal extraction are stated at their fair value based on reports prepared by internal specialists of the Group at each year end.

Since there is no active market for mining assets, the fair value is determined by discounting future cash flows, which can be obtained from the operations of the mines based on the life-of-mine plans, and deducting the fair value of the operating tangible fixed assets. The Group did not identify any material intangible assets which could be deducted in arriving at the fair value of the mining assets.

Since the operating tangible fixed assets are carried at historical cost, for the purposes of regular revaluation of mining assets their fair value is determined either based on market prices for similar items of tangible fixed assets recently acquired or constructed by the Group or, in absence of such items, by applying a price index for the relevant year of acquisition of mining equipment to the residual value of items.

At 31 December 2018 the fair value of mining assets was determined based on the following key assumptions:

- the cash flows were projected based on actual operating results and life-of-mine models constructed for each cash-generating mining unit and based on an assessment of proven and probable reserves using projected volumes of coal and the available capacity of the transport infrastructure in the foreseeable period and thereafter.

Management opts to involve professional appraisers to perform estimation of reserves as appropriate;

- export coal sales volumes were estimated to grow at an average rate of 2% for the foreseeable period 2019-2030;

- import coal prices for Asian markets estimated to fall an average 10% and European markets 7% in 2019 and to fall at an average of 6% and 3% correspondingly in 2020-2022 based on the forward rates and a consensus forecast of investment banks and thereafter in line with expected long-term USD inflation;

- domestic coal sales volumes were estimated to grow at an average rate of 1% for the foreseeable period 2019-2030;

- domestic coal prices estimated to grow at an average rate of 5% in 2019 and to grow in line with RUB inflation thereafter;

- regulated railroad tariffs for 2019 were estimated to grow at an average rate of 6% for domestic and 9% for export shipments and to grow in line with RUB inflation thereafter;

- the RUB/USD exchange rate was estimated in 2019 at the level of 68 RUB/USD. For 2020-2021 the estimate was based on the RUB/USD forward rate and a consensus forecast of investment banks and was indexed by the ratio between the expected RUB inflation of the corresponding year and the long-term USD inflation thereafter;

- cash flow forecasts were discounted to their present value at the nominal weighted average cost of capital.

At 31 December 2018 the total effect of the revaluation of the mining assets was an increase of 1,322 million USD (31 December 2017 – an increase of 1,321 million USD); the after-tax effect on equity was an increase of 1,058 million USD (31 December 2017 – an increase of 1,057 million USD).

Example changes in key assumptions applied to the first forecasted year would have the following effect on the fair value of the mining assets:

\[
\begin{array}{l|c|c}
\text{Increase/Decrease} & \text{of the fair value} \\
\hline
\text{Increase in weighted average cost of capital of 1 percentage point} & (796) \\
\text{Increase in export coal prices of 1%} & (338) \\
\text{Increase in RUB/USD exchange rate of 1%} & 203 \\
\text{Increase in export coal sales volumes of 1%} & 220 \\
\text{Increase in regulated railroad tariffs growth of 1%} & (131) \\
\text{Increase in domestic coal prices of 1%} & 93 \\
\text{Increase in domestic coal sales volumes of 1%} & 97 \\
\end{array}
\]
Determination of recoverable amount of property, plant and equipment of the Coal Segment (other than mining assets). The recoverable amount of the property, plant and equipment of the Coal Segment (other than mining assets) as at 31 December 2018 was determined either based on market prices for similar items of machinery and equipment recently acquired by the Group or, if no such purchases were made, by applying a price index for the relevant year of acquisition for mining equipment to the residual value of items. As a result of the testing no impairment loss was recognised.

5. Segmental information
The Group evaluates performance and makes investment and strategic decisions based on a review of the profitability of the Group as a whole, and based on operating segments. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses and whose operating results are regularly reviewed by management.

Operating segments identified by management are coal mining, ports and logistics, power and corporate segments in the Russian Federation along with sales and distribution segments in the Russian Federation and abroad. The coal mining segment represents the operations of the coal mining companies including extraction and washing; the ports and logistics segment includes railroad transportation assets and ports; the sales and distribution segment represents sales and distribution companies; the power segment represents operations of power generating companies including generation and sales of power; and the corporate segment includes holding companies.
Operating segment information for the Group at 31 December 2018 and for the year then ended is as follows:

<table>
<thead>
<tr>
<th>Segment revenue and profitability</th>
<th>Coal mining</th>
<th>Ports and logistics</th>
<th>Sales and distribution</th>
<th>Power</th>
<th>Corporate</th>
<th>Inter-segment elimination</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Segment external revenues</td>
<td>662</td>
<td>135</td>
<td>5,369</td>
<td>2,130</td>
<td></td>
<td></td>
<td>8,296</td>
</tr>
<tr>
<td>Inter-segment revenues</td>
<td>5,297</td>
<td>1,875</td>
<td></td>
<td>7</td>
<td>54</td>
<td>(7,233)</td>
<td>6,424</td>
</tr>
<tr>
<td>Segment expenses</td>
<td>(4,949)</td>
<td>(1,687)</td>
<td>(5,186)</td>
<td>(1,746)</td>
<td>(89)</td>
<td></td>
<td>7,233</td>
</tr>
<tr>
<td>Operating profit/(loss)</td>
<td>1,010</td>
<td>323</td>
<td>183</td>
<td>391</td>
<td>(35)</td>
<td></td>
<td>1,872</td>
</tr>
</tbody>
</table>

Depreciation and amortisation
Inter-segment revenues
Interest expense
Interest income
Profit/(loss) before tax
Income tax (expense)/benefit
Net profit/(loss) for the year
Capital expenditures incurred during the year
Segment assets and liabilities
Total segment assets
Total segment liabilities

Operating segment information for the Group at 31 December 2017 and for the year then ended is as follows:

<table>
<thead>
<tr>
<th>Segment revenue and profitability</th>
<th>Coal mining</th>
<th>Ports and logistics</th>
<th>Sales and distribution</th>
<th>Power</th>
<th>Corporate</th>
<th>Inter-segment elimination</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Segment external revenues</td>
<td>656</td>
<td>99</td>
<td>4,489</td>
<td>1,695</td>
<td></td>
<td></td>
<td>6,939</td>
</tr>
<tr>
<td>Inter-segment revenues</td>
<td>3,838</td>
<td>1,701</td>
<td></td>
<td>7</td>
<td>58</td>
<td>(5,604)</td>
<td>5,445</td>
</tr>
<tr>
<td>Segment expenses</td>
<td>(3,497)</td>
<td>(1,577)</td>
<td>(4,582)</td>
<td>(1,284)</td>
<td>(109)</td>
<td></td>
<td>5,604</td>
</tr>
<tr>
<td>Operating profit/(loss)</td>
<td>997</td>
<td>223</td>
<td>(93)</td>
<td>418</td>
<td>(51)</td>
<td></td>
<td>1,494</td>
</tr>
</tbody>
</table>

Depreciation and amortisation
Interest expense
Interest income
Profit/(loss) before tax
Income tax (expense)/benefit
Net profit/(loss) for the year
Capital expenditures incurred during the year
Segment assets and liabilities
Total segment assets
Total segment liabilities

6. Revenue

<table>
<thead>
<tr>
<th>Coal sales</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pacific region</td>
<td>2,894</td>
<td>2,494</td>
</tr>
<tr>
<td>Atlantic region</td>
<td>2,157</td>
<td>1,696</td>
</tr>
<tr>
<td>Russian Federation</td>
<td>655</td>
<td>654</td>
</tr>
<tr>
<td>Power sales in the Russian Federation</td>
<td>2,042</td>
<td>1,610</td>
</tr>
<tr>
<td>Heat</td>
<td>734</td>
<td>490</td>
</tr>
<tr>
<td>Capacity</td>
<td>720</td>
<td>659</td>
</tr>
<tr>
<td>Electricity</td>
<td>588</td>
<td>461</td>
</tr>
<tr>
<td>Petroleum coke sales</td>
<td>250</td>
<td>235</td>
</tr>
<tr>
<td>Other</td>
<td>298</td>
<td>250</td>
</tr>
<tr>
<td>Total</td>
<td>8,296</td>
<td>6,939</td>
</tr>
</tbody>
</table>
7. Cost of sales

<table>
<thead>
<tr>
<th>Description</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal and petroleum coke purchased from third parties</td>
<td>1,155</td>
<td>751</td>
</tr>
<tr>
<td>Labour</td>
<td>784</td>
<td>674</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>827</td>
<td>537</td>
</tr>
<tr>
<td>Consumables and spares</td>
<td>373</td>
<td>309</td>
</tr>
<tr>
<td>Purchased fuel</td>
<td>256</td>
<td>172</td>
</tr>
<tr>
<td>Purchased power</td>
<td>223</td>
<td>170</td>
</tr>
<tr>
<td>Repairs and maintenance services</td>
<td>137</td>
<td>138</td>
</tr>
<tr>
<td>Property and other taxes</td>
<td>72</td>
<td>45</td>
</tr>
<tr>
<td>Transportation services</td>
<td>51</td>
<td>64</td>
</tr>
<tr>
<td>Drilling and blasting services</td>
<td>44</td>
<td>45</td>
</tr>
<tr>
<td>Tax on mining</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td>Personnel transportation services</td>
<td>33</td>
<td>32</td>
</tr>
<tr>
<td>Fire and rescue brigade expenses</td>
<td>32</td>
<td>29</td>
</tr>
<tr>
<td>Transfer of heat</td>
<td>27</td>
<td>23</td>
</tr>
<tr>
<td>Land rent</td>
<td>17</td>
<td>23</td>
</tr>
<tr>
<td>Special equipment services</td>
<td>16</td>
<td>13</td>
</tr>
<tr>
<td>Water supply services</td>
<td>12</td>
<td>10</td>
</tr>
<tr>
<td>Other</td>
<td>211</td>
<td>132</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4,110</strong></td>
<td><strong>3,207</strong></td>
</tr>
</tbody>
</table>

Proceeds from the sale of electricity and purchased power are presented after deduction of cost of electricity generated by the Group and consumed for own process needs in the amount of 87 million USD for the year ended 31 December 2018 (for the year ended 31 December 2017 – 54 million USD).

8. Distribution costs

<table>
<thead>
<tr>
<th>Description</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Railway services</td>
<td>1,234</td>
<td>1,268</td>
</tr>
<tr>
<td>Freight</td>
<td>282</td>
<td>267</td>
</tr>
<tr>
<td>Rent of rail cars</td>
<td>193</td>
<td>121</td>
</tr>
<tr>
<td>Stevedoring from third parties</td>
<td>139</td>
<td>150</td>
</tr>
<tr>
<td>Repair and maintenance services</td>
<td>50</td>
<td>36</td>
</tr>
<tr>
<td>Labour</td>
<td>47</td>
<td>43</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>42</td>
<td>38</td>
</tr>
<tr>
<td>Consumables and spares</td>
<td>20</td>
<td>18</td>
</tr>
<tr>
<td>Customs expenses and export duties</td>
<td>18</td>
<td>26</td>
</tr>
<tr>
<td>Property and other taxes</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Other</td>
<td>19</td>
<td>28</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,047</strong></td>
<td><strong>1,998</strong></td>
</tr>
</tbody>
</table>

9. General and administrative expenses

<table>
<thead>
<tr>
<th>Description</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>131</td>
<td>121</td>
</tr>
<tr>
<td>Consulting, legal, audit and other professional services</td>
<td>38</td>
<td>32</td>
</tr>
<tr>
<td>Charitable donations</td>
<td>38</td>
<td>22</td>
</tr>
<tr>
<td>Office rent</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Other</td>
<td>24</td>
<td>23</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>239</strong></td>
<td><strong>204</strong></td>
</tr>
</tbody>
</table>

10. Finance costs, NET

<table>
<thead>
<tr>
<th>Description</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest expense</td>
<td>292</td>
<td>321</td>
</tr>
<tr>
<td>Bank commissions and charges</td>
<td>32</td>
<td>28</td>
</tr>
<tr>
<td>Unwinding of discount on provisions</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Interest income</td>
<td>(23)</td>
<td>(21)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>311</strong></td>
<td><strong>338</strong></td>
</tr>
</tbody>
</table>
### 11. Property, plant and equipment

<table>
<thead>
<tr>
<th>Cost</th>
<th>Mining assets</th>
<th>Buildings, structures and utilities</th>
<th>Machinery, equipment, transport and other</th>
<th>Construction-in-progress</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at 1 January 2017</td>
<td>5,216</td>
<td>2,383</td>
<td>3,392</td>
<td>246</td>
<td>11,237</td>
</tr>
<tr>
<td>Revaluation of mining assets</td>
<td>1,321</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>1,321</td>
</tr>
<tr>
<td>Additions</td>
<td>14</td>
<td>30</td>
<td>–</td>
<td>739</td>
<td>783</td>
</tr>
<tr>
<td>Transfers</td>
<td>–</td>
<td>177</td>
<td>467</td>
<td>(644)</td>
<td>–</td>
</tr>
<tr>
<td>Disposals</td>
<td>–</td>
<td>(6)</td>
<td>(52)</td>
<td>(1)</td>
<td>(59)</td>
</tr>
<tr>
<td>Other additions</td>
<td>–</td>
<td>12</td>
<td>–</td>
<td>–</td>
<td>12</td>
</tr>
<tr>
<td>Translation difference</td>
<td>85</td>
<td>83</td>
<td>92</td>
<td>9</td>
<td>269</td>
</tr>
<tr>
<td><strong>Balance at 31 December 2017</strong></td>
<td>6,636</td>
<td>2,679</td>
<td>3,899</td>
<td>349</td>
<td>13,563</td>
</tr>
<tr>
<td>Revaluation of mining assets</td>
<td>1,322</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>1,322</td>
</tr>
<tr>
<td>Business combination (see note 30)</td>
<td>–</td>
<td>738</td>
<td>73</td>
<td>33</td>
<td>844</td>
</tr>
<tr>
<td>Additions</td>
<td>40</td>
<td>15</td>
<td>24</td>
<td>911</td>
<td>990</td>
</tr>
<tr>
<td>Transfers</td>
<td>351</td>
<td>(236)</td>
<td>494</td>
<td>(639)</td>
<td>–</td>
</tr>
<tr>
<td>Disposals</td>
<td>–</td>
<td>(8)</td>
<td>(60)</td>
<td>(9)</td>
<td>(77)</td>
</tr>
<tr>
<td>Translation difference</td>
<td>(358)</td>
<td>(400)</td>
<td>(387)</td>
<td>(38)</td>
<td>(1,183)</td>
</tr>
<tr>
<td><strong>Balance at 31 December 2018</strong></td>
<td>7,991</td>
<td>2,818</td>
<td>4,043</td>
<td>607</td>
<td>15,459</td>
</tr>
</tbody>
</table>

**Accumulated depreciation and amortisation**

| Balance at 1 January 2017 | 541 | 772 | 1,495 | – | 2,808 |
| Depreciation and amortisation | 170 | 130 | 292 | – | 592 |
| Disposals | – | (5) | (45) | – | (50) |
| Translation difference | 11 | 28 | 32 | – | 71 |
| **Balance at 31 December 2017** | 722 | 925 | 1,774 | – | 3,421 |
| Depreciation and amortisation (including transfers) | 368 | 2 | 308 | – | 678 |
| Disposals | – | (6) | (58) | – | (64) |
| Translation difference | (65) | (98) | (137) | – | (300) |
| **Balance at 31 December 2018** | 1,025 | 823 | 1,887 | – | 3,735 |

**Net book value at 31 December 2017**

| Mining assets | 5,914 | 1,754 | 2,125 | 349 | 10,142 |
| **Net book value at 31 December 2018** | 6,966 | 1,995 | 2,156 | 607 | 11,724 |

Group assets include advances issued for capital expenditures of 100 million USD (31 December 2017 – 64 million USD).

If mining assets had been carried at the historical cost, the net book value of property, plant and equipment at 31 December 2018 would have been 5,372 million USD (31 December 2017 – 4,718 million USD).

### 12. Other assets

<table>
<thead>
<tr>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract assets under concession agreements</td>
<td>24</td>
</tr>
<tr>
<td>Advances issued</td>
<td>–</td>
</tr>
<tr>
<td>Other assets</td>
<td>82</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>106</td>
</tr>
</tbody>
</table>

### 13. Trade accounts and other receivables

<table>
<thead>
<tr>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade accounts receivable</td>
<td>859</td>
</tr>
<tr>
<td>Advances issued</td>
<td>127</td>
</tr>
<tr>
<td>Other receivables</td>
<td>67</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>1,053</td>
</tr>
<tr>
<td>Less: Allowance for doubtful debts</td>
<td>171</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>882</td>
</tr>
</tbody>
</table>
14. Inventories

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal stock</td>
<td>416</td>
<td>324</td>
</tr>
<tr>
<td>Consumable stores and materials</td>
<td>350</td>
<td>267</td>
</tr>
<tr>
<td>Less: Allowance for obsolescence</td>
<td>31</td>
<td>25</td>
</tr>
<tr>
<td>Net consumable stores and materials</td>
<td>319</td>
<td>242</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>735</td>
<td>566</td>
</tr>
</tbody>
</table>

15. Prepaid and recoverable taxes

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value-added tax recoverable</td>
<td>122</td>
<td>107</td>
</tr>
<tr>
<td>Income tax receivable</td>
<td>51</td>
<td>26</td>
</tr>
<tr>
<td>Prepaid other taxes</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>175</td>
<td>140</td>
</tr>
</tbody>
</table>

16. Cash and cash equivalents

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current accounts – RUB</td>
<td>62</td>
<td>127</td>
</tr>
<tr>
<td>– foreign currency</td>
<td>61</td>
<td>74</td>
</tr>
<tr>
<td>Deposits – RUB</td>
<td>19</td>
<td>165</td>
</tr>
<tr>
<td>– foreign currency</td>
<td>9</td>
<td>93</td>
</tr>
<tr>
<td>Other cash equivalents</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>– foreign currency</td>
<td></td>
<td></td>
</tr>
<tr>
<td>– RUB</td>
<td></td>
<td>7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>166</td>
<td>476</td>
</tr>
</tbody>
</table>

17. Share capital and reserves

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Authorised share capital</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ordinary shares</td>
<td>236,060</td>
<td>232,060</td>
</tr>
<tr>
<td>Issued share capital</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ordinary shares</td>
<td>236,060</td>
<td>232,060</td>
</tr>
</tbody>
</table>

Ordinary shares of the Company have a par value of 0.005 RUB. All issued shares were fully paid.

In June 2018, the Company issued 4,000 thousand ordinary shares with par value of 0.005 RUB each for a total consideration of 104 million USD. The transaction resulted in a recognition of share premium in the amount of 104 million USD. In 2018 the shareholders’ liability for the shares was offset against payables of the Company for shares of SUEK LTD existent as at 31 December 2017 (see note 22).

18. Earnings per share

Basic earnings per share are calculated based on the weighted average number of ordinary shares outstanding during the year. Basic and diluted earnings per share are the same, as there is no dilution effect.

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit for the year attributable to ordinary shareholders of the parent</td>
<td>1,144</td>
<td>843</td>
</tr>
<tr>
<td>Weighted average number of ordinary shares in issue (in thousands)</td>
<td>234,393</td>
<td>232,060</td>
</tr>
<tr>
<td><strong>Basic and diluted earnings per share (in USD)</strong></td>
<td>4.88</td>
<td>3.63</td>
</tr>
</tbody>
</table>
19. Borrowings

<table>
<thead>
<tr>
<th></th>
<th>Effective interest rate</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term borrowings</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Variable rate borrowings</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unsecured USD-denominated borrowings</td>
<td>6M LIBOR + 1.46% to 1M LIBOR + 3%</td>
<td>2,692</td>
<td>2,890</td>
</tr>
<tr>
<td>Unsecured RUB-denominated borrowings</td>
<td>Central Bank Rate + 0.3% to Central Bank Rate + 1%</td>
<td>217</td>
<td>131</td>
</tr>
<tr>
<td>Unsecured EUR-denominated borrowings</td>
<td>6M EURIBOR + 0.5% to 6M EURIBOR + 2.25%</td>
<td>141</td>
<td>125</td>
</tr>
<tr>
<td>Fixed rate borrowings</td>
<td></td>
<td>1,241</td>
<td>1,504</td>
</tr>
<tr>
<td>Unsecured RUB-denominated borrowings</td>
<td>0.05% to 8.03%</td>
<td>970</td>
<td>180</td>
</tr>
<tr>
<td>Unsecured RUB-denominated bonds</td>
<td>8.25% to 10.5%</td>
<td>271</td>
<td>183</td>
</tr>
<tr>
<td>Secured RUB-denominated borrowings</td>
<td>8.05%</td>
<td>–</td>
<td>949</td>
</tr>
<tr>
<td>Unsecured USD-denominated borrowings</td>
<td>3%</td>
<td>–</td>
<td>192</td>
</tr>
<tr>
<td>Subtotal</td>
<td></td>
<td>4,291</td>
<td>4,650</td>
</tr>
<tr>
<td>Less: Current portion of long-term borrowings</td>
<td></td>
<td>1,019</td>
<td>1,273</td>
</tr>
<tr>
<td>Total long-term borrowings</td>
<td></td>
<td>3,272</td>
<td>3,377</td>
</tr>
<tr>
<td>Short-term borrowings</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed rate borrowings</td>
<td></td>
<td>62</td>
<td>177</td>
</tr>
<tr>
<td>Other borrowings</td>
<td></td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Subtotal</td>
<td></td>
<td>62</td>
<td>177</td>
</tr>
<tr>
<td>Current portion of long-term borrowings</td>
<td></td>
<td>1,019</td>
<td>1,273</td>
</tr>
<tr>
<td>Total short-term borrowings</td>
<td></td>
<td>1,081</td>
<td>1,450</td>
</tr>
</tbody>
</table>

As at 31 December 2017 49.98% of shares of JSC ‘Yenisei Territorial Generating Company (TGC-13)’ and 49.99% of shares of JSC ‘Kuzbassenergo’ were pledged as security for loans. In the first half of 2018 these loans were fully repaid.

The Group’s long-term borrowings have restrictive covenants including, but not limited to, the requirement to maintain minimum ratios associated with:

- consolidated net indebtedness to earnings before interest, tax, depreciation and amortisation (‘EBITDA’); and
- EBITDA to consolidated interest expense.

The covenants are calculated based on the IFRS financial statements of the Group on a semi-annual basis. As at 31 December 2018 the Group was in compliance with all such covenants.

20. Changes in liabilities arising from financial activities

The table below provides information on changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes:

<table>
<thead>
<tr>
<th></th>
<th>Long-term borrowings</th>
<th>Short-term borrowings</th>
<th>Acquisition of NCI</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance as at 1 January 2017</td>
<td>4,609</td>
<td>296</td>
<td>144</td>
<td>–</td>
<td>5,049</td>
</tr>
<tr>
<td>Cash flows</td>
<td>(390)</td>
<td>(130)</td>
<td>(184)</td>
<td>(16)</td>
<td>(720)</td>
</tr>
<tr>
<td>Interest expenses</td>
<td>309</td>
<td>12</td>
<td>–</td>
<td>–</td>
<td>321</td>
</tr>
<tr>
<td>Foreign exchange loss/(gain)</td>
<td>94</td>
<td>(1)</td>
<td>–</td>
<td>–</td>
<td>93</td>
</tr>
<tr>
<td>Bank commissions</td>
<td>28</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>28</td>
</tr>
<tr>
<td>Other payables</td>
<td>–</td>
<td>–</td>
<td>40</td>
<td>16</td>
<td>56</td>
</tr>
<tr>
<td>Balance as at 31 December 2017</td>
<td>4,650</td>
<td>177</td>
<td>–</td>
<td>–</td>
<td>4,827</td>
</tr>
<tr>
<td>Balance as at 1 January 2018</td>
<td>4,650</td>
<td>177</td>
<td>–</td>
<td>–</td>
<td>4,827</td>
</tr>
<tr>
<td>Cash flows</td>
<td>(550)</td>
<td>(136)</td>
<td>(164)</td>
<td>(38)</td>
<td>(888)</td>
</tr>
<tr>
<td>Foreign exchange (gain)/loss</td>
<td>(297)</td>
<td>(28)</td>
<td>–</td>
<td>1</td>
<td>(324)</td>
</tr>
<tr>
<td>Interest expenses</td>
<td>289</td>
<td>3</td>
<td>–</td>
<td>–</td>
<td>292</td>
</tr>
<tr>
<td>Business combination (see note 30)</td>
<td>167</td>
<td>46</td>
<td>–</td>
<td>–</td>
<td>213</td>
</tr>
<tr>
<td>Bank commissions</td>
<td>32</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>32</td>
</tr>
<tr>
<td>Other payables</td>
<td>–</td>
<td>–</td>
<td>164</td>
<td>37</td>
<td>201</td>
</tr>
<tr>
<td>Balance as at 31 December 2018</td>
<td>4,291</td>
<td>62</td>
<td>–</td>
<td>–</td>
<td>4,353</td>
</tr>
</tbody>
</table>
21. Other long-term liabilities

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payables for the acquisition of SGC group (see note 30)</td>
<td>1,916</td>
<td>–</td>
</tr>
<tr>
<td>Provision for environmental obligation</td>
<td>79</td>
<td>68</td>
</tr>
<tr>
<td>Provision for defined benefit obligation</td>
<td>49</td>
<td>58</td>
</tr>
<tr>
<td>Other long-term liabilities</td>
<td>104</td>
<td>56</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,146</strong></td>
<td><strong>182</strong></td>
</tr>
</tbody>
</table>

**Provision for environmental obligation.** The extent and cost of future site restoration programmes are inherently difficult to estimate and depend on the estimated lives of the assets, the scale of any possible disturbance and contamination as well as the timing and extent of corrective actions. The following is a summary of the key assumptions on which the discounted carrying amounts of the obligations are based:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>9%</td>
<td>8%</td>
</tr>
<tr>
<td>Inflation rate</td>
<td>5%</td>
<td>4%</td>
</tr>
</tbody>
</table>

**Provision for defined benefit obligation.** Actuarial assumptions used for the calculation of the defined benefit obligation were as follows:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>9%</td>
<td>8%</td>
</tr>
<tr>
<td>Inflation rate</td>
<td>5%</td>
<td>4%</td>
</tr>
<tr>
<td>Future increases in salaries</td>
<td>5%</td>
<td>4%</td>
</tr>
</tbody>
</table>

22. Trade accounts and other payables

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade accounts payable and accruals</td>
<td>302</td>
<td>335</td>
</tr>
<tr>
<td>Advances from customers</td>
<td>57</td>
<td>227</td>
</tr>
<tr>
<td>Wages and salaries</td>
<td>57</td>
<td>58</td>
</tr>
<tr>
<td>Accrual for vacation payments</td>
<td>56</td>
<td>58</td>
</tr>
<tr>
<td>Other creditors</td>
<td>34</td>
<td>50</td>
</tr>
<tr>
<td>Payables for shares of SUEK LTD (see note 17)</td>
<td>–</td>
<td>100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>506</strong></td>
<td><strong>828</strong></td>
</tr>
</tbody>
</table>

23. Taxes payable

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value-added tax</td>
<td>80</td>
<td>79</td>
</tr>
<tr>
<td>Social security contributions</td>
<td>18</td>
<td>16</td>
</tr>
<tr>
<td>Income tax</td>
<td>9</td>
<td>18</td>
</tr>
<tr>
<td>Other</td>
<td>23</td>
<td>20</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>130</strong></td>
<td><strong>133</strong></td>
</tr>
</tbody>
</table>

24. Taxation

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current income tax expense</td>
<td>243</td>
<td>289</td>
</tr>
<tr>
<td>Deferred income tax expense/(benefit)</td>
<td>71</td>
<td>(19)</td>
</tr>
<tr>
<td><strong>Income tax expense</strong></td>
<td><strong>314</strong></td>
<td><strong>270</strong></td>
</tr>
</tbody>
</table>

The reconciliation of theoretical income tax, calculated at the rate effective in the Russian Federation, where the Company is domiciled, to the amount of actual income tax expense recorded in the consolidated statement of profit or loss and other comprehensive income is as follows:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit before tax</td>
<td>1,478</td>
<td>1,143</td>
</tr>
<tr>
<td>Theoretical income tax expense at 20%</td>
<td>296</td>
<td>229</td>
</tr>
<tr>
<td>Impact of specific tax rates in the Russian Federation</td>
<td>(3)</td>
<td>(1)</td>
</tr>
<tr>
<td>Impact of specific tax rates in Switzerland</td>
<td>(20)</td>
<td>16</td>
</tr>
<tr>
<td>Tax effect of non-deductible expenses</td>
<td>41</td>
<td>26</td>
</tr>
<tr>
<td><strong>Total income tax expense</strong></td>
<td><strong>314</strong></td>
<td><strong>270</strong></td>
</tr>
</tbody>
</table>
The tax effects of temporary differences that give rise to deferred taxation are presented below:

<table>
<thead>
<tr>
<th></th>
<th>Opening balance</th>
<th>Recognised in equity</th>
<th>Recognised in profit or loss</th>
<th>Effect of translation to presentation currency</th>
<th>Closing balance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2018</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax losses carried forward</td>
<td>242</td>
<td>–</td>
<td>(18)</td>
<td>(31)</td>
<td>193</td>
</tr>
<tr>
<td>Environmental and other provisions</td>
<td>17</td>
<td>2</td>
<td>2</td>
<td>(2)</td>
<td>19</td>
</tr>
<tr>
<td>Employee benefit obligations</td>
<td>15</td>
<td>1</td>
<td>(1)</td>
<td>(1)</td>
<td>14</td>
</tr>
<tr>
<td>Prepaid expenses and accruals</td>
<td>10</td>
<td>1</td>
<td>4</td>
<td>(2)</td>
<td>13</td>
</tr>
<tr>
<td>Trade accounts and other receivables</td>
<td>13</td>
<td>1</td>
<td>(4)</td>
<td>(2)</td>
<td>8</td>
</tr>
<tr>
<td>Derivative financial liabilities</td>
<td>5</td>
<td>(5)</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>Deferred tax liabilities</strong></td>
<td>(1,437)</td>
<td>(395)</td>
<td>(54)</td>
<td>112</td>
<td>(1,774)</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>(1,424)</td>
<td>(392)</td>
<td>(53)</td>
<td>112</td>
<td>(1,757)</td>
</tr>
<tr>
<td>Inventory</td>
<td>(4)</td>
<td>–</td>
<td>(1)</td>
<td>(2)</td>
<td>(7)</td>
</tr>
<tr>
<td>Derivative financial assets</td>
<td>–</td>
<td>(3)</td>
<td>–</td>
<td>–</td>
<td>(3)</td>
</tr>
<tr>
<td>Other</td>
<td>(9)</td>
<td>–</td>
<td>–</td>
<td>2</td>
<td>(7)</td>
</tr>
<tr>
<td><strong>Net deferred tax liabilities</strong></td>
<td>(1,135)</td>
<td>(395)</td>
<td>(71)</td>
<td>74</td>
<td>(1,527)</td>
</tr>
</tbody>
</table>

Net effect of business combination recognised in equity amounted to 121 million USD (see note 30).

<table>
<thead>
<tr>
<th></th>
<th>Opening balance</th>
<th>Recognised in equity</th>
<th>Recognised in profit or loss</th>
<th>Effect of translation to presentation currency</th>
<th>Closing balance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2017</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax losses carried forward</td>
<td>224</td>
<td>(5)</td>
<td>14</td>
<td>9</td>
<td>242</td>
</tr>
<tr>
<td>Environmental and other provisions</td>
<td>10</td>
<td>–</td>
<td>7</td>
<td>–</td>
<td>17</td>
</tr>
<tr>
<td>Employee benefit obligations</td>
<td>13</td>
<td>–</td>
<td>2</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Prepaid expenses and accruals</td>
<td>6</td>
<td>–</td>
<td>4</td>
<td>–</td>
<td>10</td>
</tr>
<tr>
<td>Trade accounts and other receivables</td>
<td>9</td>
<td>–</td>
<td>5</td>
<td>(1)</td>
<td>13</td>
</tr>
<tr>
<td>Derivative financial liabilities</td>
<td>9</td>
<td>(5)</td>
<td>1</td>
<td>–</td>
<td>5</td>
</tr>
<tr>
<td><strong>Deferred tax liabilities</strong></td>
<td>(1,141)</td>
<td>(264)</td>
<td>(14)</td>
<td>(18)</td>
<td>(1,437)</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>(1,129)</td>
<td>(264)</td>
<td>(13)</td>
<td>(18)</td>
<td>(1,424)</td>
</tr>
<tr>
<td>Inventory</td>
<td>(7)</td>
<td>–</td>
<td>2</td>
<td>1</td>
<td>(4)</td>
</tr>
<tr>
<td>Other</td>
<td>(5)</td>
<td>–</td>
<td>(3)</td>
<td>(1)</td>
<td>(9)</td>
</tr>
<tr>
<td><strong>Net deferred tax liabilities</strong></td>
<td>(670)</td>
<td>(274)</td>
<td>19</td>
<td>(10)</td>
<td>(1,135)</td>
</tr>
</tbody>
</table>

Unrecognised temporary differences, related to investments in subsidiaries where the Group is able to control the timing of the reversal and distribution of dividends on a tax-free basis when certain conditions are met and it is probable that the temporary difference will not reverse in the foreseeable future, amounted to 4,032 million USD (31 December 2017 – 3,646 million USD).

Management believes that sufficient taxable profits will be available, against which the unused tax losses can be utilised by the Group in the future.

For disclosure purposes certain deferred tax assets and liabilities are offset in accordance with the accounting policy.

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred tax assets</td>
<td>136</td>
<td>189</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>(1,663)</td>
<td>(1,324)</td>
</tr>
<tr>
<td><strong>Net deferred tax liabilities</strong></td>
<td>(1,527)</td>
<td>(1,135)</td>
</tr>
</tbody>
</table>
25. Related party transactions

Related parties are considered to include the ultimate beneficiary, affiliates and entities under common ownership and control of the same principal ultimate beneficiary. The Company and its subsidiaries, in the ordinary course of their business, enter into various sales, purchases and service transactions with related parties.

Transactions with related parties not dealt with elsewhere in the consolidated financial statements are as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal sales to DEC group, an associate of a company with the same principal ultimate beneficiary</td>
<td>136</td>
<td>132</td>
</tr>
<tr>
<td>Other power sales</td>
<td>58</td>
<td>66</td>
</tr>
<tr>
<td>Other coal sales</td>
<td>36</td>
<td>42</td>
</tr>
<tr>
<td>Other revenue from EuroChem group</td>
<td>7</td>
<td>2</td>
</tr>
<tr>
<td>Other expenses</td>
<td>64</td>
<td>37</td>
</tr>
<tr>
<td>Interest expense</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Remuneration of the Board of Directors and the Management Board members</td>
<td>18</td>
<td>18</td>
</tr>
</tbody>
</table>

The outstanding balances with related parties are as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payables for the acquisition of SGC group to a related company (see note 30)</td>
<td>1,916</td>
<td>–</td>
</tr>
<tr>
<td>Trade accounts and other receivables from DEC group</td>
<td>14</td>
<td>7</td>
</tr>
<tr>
<td>Other receivables</td>
<td>30</td>
<td>32</td>
</tr>
<tr>
<td>Payables for shares of SUEK LTD to a company with the same principal ultimate beneficiary</td>
<td>–</td>
<td>100</td>
</tr>
</tbody>
</table>

26. Commitments

Capital commitments. The following capital expenditures were approved:

<table>
<thead>
<tr>
<th>Description</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contracted</td>
<td>559</td>
<td>421</td>
</tr>
<tr>
<td>Not yet contracted</td>
<td>117</td>
<td>141</td>
</tr>
<tr>
<td>Total</td>
<td>676</td>
<td>562</td>
</tr>
</tbody>
</table>

Social commitments. The Group contributes to mandatory and voluntary social programmes and maintains social sphere assets in the locations where it has its main operating facilities. The Group’s social sphere assets, as well as local social programmes, benefit the community at large and are not normally restricted to the Group’s employees. Contributions are expensed in the year during which they are incurred.

Operating lease commitments. The Group has a number of non-cancellable lease commitments. Future minimum lease payments due under non-cancellable operating leases are as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Due in one year</td>
<td>113</td>
<td>28</td>
</tr>
<tr>
<td>Due from two to five years</td>
<td>276</td>
<td>64</td>
</tr>
<tr>
<td>Due thereafter</td>
<td>39</td>
<td>69</td>
</tr>
<tr>
<td>Total</td>
<td>428</td>
<td>161</td>
</tr>
</tbody>
</table>

Lease of railcars. The Group has long-term operating lease contracts which expire through to 2025.

Land and premises leases. The Group has long-term operating lease contracts for land and office premises. The land in the Russian Federation on which the Group’s production facilities are located is largely owned by the State. The Group leases land through operating lease agreements with the State. Payments by the Group are based on the total area and location of the land occupied. Operating lease agreements expire in various years through to 2067 for land lease and to 2029 for office premises lease.

Lease of vessels. The Group has long-term operating lease contracts for two ice-class vessels. The operating lease agreements expire in 2020 and 2021.
27. Contingencies

Insurance. The insurance industry in the Russian Federation is in the process of development, and some forms of insurance protection common in developed markets are not yet generally available at commercially acceptable terms. The Group has limited coverage for its mining, processing, transportation and power generating facilities for business interruption or for third-party liabilities in respect of property or environmental damage arising from accidents on the Group’s property or relating to the Group’s operations. Management understands that until the Group obtains adequate insurance coverage there is a risk that the loss or destruction of certain operating assets could have a material adverse effect on the Group’s operations and financial position.

Litigation. The Group has a number of small claims and litigation relating to regular business activities and small fiscal claims. Management believes that none of these claims, individually or in aggregate, will have a material adverse impact on the Group.

Taxation contingencies in the Russian Federation. Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management’s interpretation of such legislation as applied to the transactions and activities of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. It is therefore possible that significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on management’s best estimate of the probable outflow of resources embodying economic benefits which will be required to settle such liabilities.

Management believes that it has provided adequately for all tax liabilities based on its interpretation of the tax legislation. However, the relevant authorities may have differing interpretations, and the effect could be significant.

Environmental matters. The Group is subject to extensive federal, state and local environmental controls and regulations in the regions in which it operates. The Group’s operations involve disturbance of land, discharge of materials and contaminants into the environment and other environmental concerns.

The Group’s management believes that it is in compliance with all current existing health, safety and environmental laws and regulations in the regions in which it operates. However, changes in environmental regulations are currently under consideration in the Russian Federation. The Group is continually evaluating its obligations relating to new and changing legislation. The Group is unable to predict the timing or extent to which environmental laws and regulations may change. Such change, if it occurs, may require the Group to modernise technology and incur future additional material costs to meet more stringent standards.

Russian Federation risk. The Group’s operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation.

Starting in 2014, the United States of America, the European Union and some other countries have imposed and expanded economic sanctions against a number of Russian individuals and legal entities. The imposition of the sanctions has led to increased economic uncertainty, including more volatile equity markets, a depreciation of the Russian rouble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. This change in the environment did not have a significant effect on the Group’s operations, however, the longer-term effects of the imposed and possible additional sanctions are difficult to determine. The Group implemented relevant compliance policy continuously monitors economic sanctions and analyses their effect on the Group’s financial position and operation results.

The consolidated financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.
28. Fair value measurement
The fair value of assets and liabilities is determined with reference to various market information and other valuation methods as considered appropriate. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in valuation techniques, as follows:

– Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
– Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
– Level 3: Inputs for the asset or liability that are not based on observable market data.

Financial instruments carried at amortised cost. At 31 December 2018, the fair values of financial instruments carried at amortised cost, which are mainly loans and receivables, did not materially differ from the carrying values.

Financial instruments carried at fair value. Fair values of derivative financial assets and liabilities were determined using inputs from observable market data, which correspond to Level 2 of the hierarchy of fair values.

Mining assets carried at fair value. The fair value of mining assets was determined using discounted cash flow method corresponding to Level 3 of the hierarchy of fair values (see note 4).

29. Financial risk management
In the normal course of its operations, the Group is exposed to market (including foreign currency and interest rate), credit and liquidity risks. The Group’s overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group’s financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out through regular meetings of a risk management committee of operational management and by the central treasury department. The Board of Directors approves principles for overall risk management. In addition, operational management have developed policies covering specific areas, such as foreign currency risk, interest rate risk and the use of derivative and non-derivative financial instruments.

29.1. Market risk
Market risk is the risk that changes in market prices, such as coal prices, foreign exchange rates and interest rates, will negatively impact the Group’s results or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. Market risk management includes the analysis of foreign currency and interest rate risks.

Interest rate risk
Interest rate risk is the risk that changes in interest rates will adversely impact the financial results of the Group. The total net unhedged liability which exposes the Group to interest rate risk amounts to 3,050 million USD (31 December 2017 – 3,146 million USD).

The Group’s interest rate risk arises primarily from long-term borrowings. The Group’s borrowings at variable interest rates are primarily denominated in USD. Borrowings at variable interest rates expose the Group to a cash flow interest rate risk. The Group monitors the risk and, if necessary, manages its exposure by entering into variable-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from variable interest rates to fixed interest rates.

An increase or decrease in the floating interest rate by 1 percentage point, provided that the amount of outstanding balance remained constant for the whole year, would have decreased or increased profit for the year by 31 million USD (2017 – 31 million USD).

Foreign currency risk
Foreign currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed.

A significant portion of the Group’s revenues are denominated in USD, whereas the majority of the Group’s expenditures are denominated in RUB. Accordingly, operating profits may be adversely impacted by the appreciation of the RUB against the USD. The risk of negative fluctuations in the USD/RUB exchange rate for future revenue streams is naturally hedged by the USD borrowings.
The Group had the following monetary assets and liabilities denominated in currencies other than the functional currency of the respective Group entity:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th></th>
<th></th>
<th>2017</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RUB</td>
<td>USD</td>
<td>EUR</td>
<td>Total</td>
<td>RUB</td>
<td>USD</td>
<td>EUR</td>
<td>Total</td>
</tr>
<tr>
<td>Balances with third and related parties</td>
<td>(108)</td>
<td>(1,918)</td>
<td>(225)</td>
<td>(2,251)</td>
<td>(52)</td>
<td>(99)</td>
<td>(165)</td>
<td>(336)</td>
</tr>
<tr>
<td>Prepaid and recoverable taxes</td>
<td>93</td>
<td>–</td>
<td>–</td>
<td>93</td>
<td>78</td>
<td>–</td>
<td>–</td>
<td>78</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>30</td>
<td>1</td>
<td>–</td>
<td>31</td>
<td>95</td>
<td>32</td>
<td>3</td>
<td>130</td>
</tr>
<tr>
<td>Trade accounts receivable</td>
<td>38</td>
<td>–</td>
<td>1</td>
<td>39</td>
<td>40</td>
<td>–</td>
<td>1</td>
<td>41</td>
</tr>
<tr>
<td>Other receivables</td>
<td>3</td>
<td>–</td>
<td>–</td>
<td>3</td>
<td>8</td>
<td>–</td>
<td>–</td>
<td>8</td>
</tr>
<tr>
<td>Payables for acquisition of SGC</td>
<td>–</td>
<td>(1,916)</td>
<td>–</td>
<td>(1,916)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Trade accounts payable and accruals</td>
<td>(114)</td>
<td>(3)</td>
<td>(49)</td>
<td>(166)</td>
<td>(69)</td>
<td>(2)</td>
<td>(55)</td>
<td>(126)</td>
</tr>
<tr>
<td>Borrowings</td>
<td>–</td>
<td>(141)</td>
<td>(141)</td>
<td>(282)</td>
<td>–</td>
<td>(125)</td>
<td>(160)</td>
<td>–</td>
</tr>
<tr>
<td>Other long-term liabilities</td>
<td>(97)</td>
<td>–</td>
<td>(14)</td>
<td>(111)</td>
<td>(103)</td>
<td>–</td>
<td>(7)</td>
<td>(110)</td>
</tr>
<tr>
<td>Accrual for vacation payments</td>
<td>(19)</td>
<td>–</td>
<td>–</td>
<td>(19)</td>
<td>(20)</td>
<td>–</td>
<td>–</td>
<td>(20)</td>
</tr>
<tr>
<td>Wages and salaries</td>
<td>(18)</td>
<td>–</td>
<td>–</td>
<td>(18)</td>
<td>(20)</td>
<td>–</td>
<td>–</td>
<td>(20)</td>
</tr>
<tr>
<td>Other creditors</td>
<td>(7)</td>
<td>–</td>
<td>(22)</td>
<td>(29)</td>
<td>(4)</td>
<td>–</td>
<td>(2)</td>
<td>(6)</td>
</tr>
<tr>
<td>Taxes payable</td>
<td>(17)</td>
<td>–</td>
<td>–</td>
<td>(17)</td>
<td>(22)</td>
<td>–</td>
<td>–</td>
<td>(22)</td>
</tr>
<tr>
<td>Payables for shares of SUEK LTD</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(100)</td>
<td>–</td>
<td>(100)</td>
<td>–</td>
</tr>
<tr>
<td>Derivative financial liabilities</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(29)</td>
<td>–</td>
<td>(29)</td>
<td>–</td>
</tr>
<tr>
<td><strong>Intra-group balances</strong></td>
<td>(467)</td>
<td>(164)</td>
<td>1</td>
<td>(630)</td>
<td>(403)</td>
<td>(338)</td>
<td>(98)</td>
<td>(839)</td>
</tr>
<tr>
<td>Intra-group receivables</td>
<td>204</td>
<td>38</td>
<td>146</td>
<td>388</td>
<td>315</td>
<td>33</td>
<td>6</td>
<td>354</td>
</tr>
<tr>
<td>Intra-group borrowings</td>
<td>(344)</td>
<td>(202)</td>
<td>(144)</td>
<td>(690)</td>
<td>(413)</td>
<td>(371)</td>
<td>(102)</td>
<td>(886)</td>
</tr>
<tr>
<td>Intra-group payables</td>
<td>(327)</td>
<td>–</td>
<td>(1)</td>
<td>(328)</td>
<td>(305)</td>
<td>–</td>
<td>(2)</td>
<td>(307)</td>
</tr>
<tr>
<td><strong>Total net liabilities</strong></td>
<td>(675)</td>
<td>(2,082)</td>
<td>(224)</td>
<td>(2,881)</td>
<td>(455)</td>
<td>(437)</td>
<td>(283)</td>
<td>(1,175)</td>
</tr>
</tbody>
</table>

A 10% devaluation of functional currencies against foreign currencies at the reporting date would have the following effect on the equity and profit or loss for the year:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th></th>
<th></th>
<th>2017</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RUB</td>
<td>USD</td>
<td>Other</td>
<td>Total</td>
<td>RUB</td>
<td>USD</td>
<td>Other</td>
<td>Total</td>
</tr>
<tr>
<td>(Increase)/decrease in equity</td>
<td>(23)</td>
<td>151</td>
<td>18</td>
<td>146</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Increase)/decrease in profit or loss for the year</td>
<td>(48)</td>
<td>139</td>
<td>7</td>
<td>98</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

29.2. Credit risk

Credit risk is the risk that a counterparty may default or not meet its obligations to the Group on a timely basis, leading to a financial loss to the Group. The Group minimises its exposure to this risk by ensuring that credit risk is spread across a number of counterparties. Trade receivables comprise international companies and large Russian companies, and credit is only extended to these customers after rigid credit approval procedures. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

At 31 December 2018 3% of total trade receivables were due from the Group’s largest customer and 26% of the total trade receivables were due from the Group’s next 19 largest customers (31 December 2017 – 4% and 26%, respectively).

The table below analyses the Group’s trade receivables into relevant groupings based on ageing.

<table>
<thead>
<tr>
<th></th>
<th>2018 Gross</th>
<th>Allowance for doubtful debts</th>
<th>2017 Gross</th>
<th>Allowance for doubtful debts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not past due</td>
<td>625</td>
<td>–</td>
<td>622</td>
<td>–</td>
</tr>
<tr>
<td>Past due for less than 12 months</td>
<td>107</td>
<td>41</td>
<td>106</td>
<td>31</td>
</tr>
<tr>
<td>Past due for more than one year</td>
<td>127</td>
<td>127</td>
<td>123</td>
<td>120</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>859</td>
<td>168</td>
<td>851</td>
<td>151</td>
</tr>
</tbody>
</table>
The movement in the allowance for doubtful debts in respect of trade receivables during the year was as follows:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening balance</td>
<td>151</td>
<td>118</td>
</tr>
<tr>
<td>Adjustment of expected credit losses under IFRS 9 (see note 2)</td>
<td>13</td>
<td>–</td>
</tr>
<tr>
<td>Additional doubtful debts</td>
<td>94</td>
<td>95</td>
</tr>
<tr>
<td>Bad debt written-off (impairment loss recognised)</td>
<td>(11)</td>
<td>(7)</td>
</tr>
<tr>
<td>Bad debt recovered</td>
<td>(70)</td>
<td>(61)</td>
</tr>
<tr>
<td>Effect of translation to presentation currency</td>
<td>(9)</td>
<td>6</td>
</tr>
<tr>
<td><strong>Closing balance</strong></td>
<td><strong>168</strong></td>
<td><strong>151</strong></td>
</tr>
</tbody>
</table>

Analysis of credit quality of cash and cash equivalents, including bank deposits, based on credit ratings of independent agencies ‘Standard & Poor’s’ and ‘Fitch Ratings’ is listed in the table below:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>From A- to AAA</td>
<td>36</td>
<td>78</td>
</tr>
<tr>
<td>From BBB- to BBB+</td>
<td>42</td>
<td>101</td>
</tr>
<tr>
<td>From BB- to BB+</td>
<td>60</td>
<td>244</td>
</tr>
<tr>
<td>Other</td>
<td>28</td>
<td>53</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>166</strong></td>
<td><strong>476</strong></td>
</tr>
</tbody>
</table>

29.3. Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall due.

Recently global and Russian capital markets have experienced significant volatility, including a lack of available sources of financing and significant fluctuation of the Russian Rouble against the USD and the Euro. Despite stabilisation measures undertaken by various governments, markets remain volatile.

Prudent liquidity risk management includes maintaining sufficient cash, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. The Group expects that cash generated from operations will be the major source of the Group’s liquidity in 2018 and will be sufficient to cover the capital expenditures programme of the Group. In addition, management believes that the Company will be able to attract additional sources of financing in order to refinance existing short-term facilities.

The central treasury department of the Group maintains flexibility in funding by ensuring the availability of credit line facilities. The unused portion of these lines at 31 December 2018 totalled 3,474 million USD (31 December 2017 – 3,427 million USD).

The table below analyses the Group’s financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the contractual undiscounted cash flows to maturity, including interest payments.

<table>
<thead>
<tr>
<th></th>
<th>Carrying amount</th>
<th>Contractual cash flows</th>
<th>Due in the first year</th>
<th>Due in the second year</th>
<th>Due thereafter</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance at 31 December 2018</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term borrowings</td>
<td>3,272</td>
<td>3,820</td>
<td>246</td>
<td>1,409</td>
<td>2,165</td>
</tr>
<tr>
<td>Short-term borrowings</td>
<td>1,081</td>
<td>1,081</td>
<td>1,081</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Payables for the acquisition of SGC group (see note 30)</td>
<td>1,916</td>
<td>1,997</td>
<td>–</td>
<td>1,997</td>
<td>–</td>
</tr>
<tr>
<td>Trade accounts payable and accruals</td>
<td>302</td>
<td>302</td>
<td>302</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Net-settled derivative liabilities</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Other creditors</td>
<td>34</td>
<td>34</td>
<td>34</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6,609</strong></td>
<td><strong>7,238</strong></td>
<td><strong>1,667</strong></td>
<td><strong>3,406</strong></td>
<td><strong>2,165</strong></td>
</tr>
<tr>
<td><strong>Balance at 31 December 2017</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term borrowings</td>
<td>3,377</td>
<td>3,930</td>
<td>225</td>
<td>1,365</td>
<td>2,340</td>
</tr>
<tr>
<td>Short-term borrowings</td>
<td>1,450</td>
<td>1,450</td>
<td>1,450</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Trade accounts payable and accruals</td>
<td>335</td>
<td>335</td>
<td>335</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Net-settled derivative liabilities</td>
<td>137</td>
<td>137</td>
<td>137</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Payables for shares of SUEK LTD</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Other creditors</td>
<td>50</td>
<td>50</td>
<td>50</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>5,449</strong></td>
<td><strong>6,002</strong></td>
<td><strong>2,297</strong></td>
<td><strong>1,365</strong></td>
<td><strong>2,340</strong></td>
</tr>
</tbody>
</table>
### 29.4. Capital risk management

The Group’s objectives when managing capital are to safeguard the Group’s ability to continue as a going concern in order to provide returns to equity holders and benefits for other stakeholders.

The Group defines capital as shareholders’ equity. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to equity holders, return capital to equity holders or issue new shares. This strategy remains unchanged from prior years.

### 30. Investments in significant subsidiaries

<table>
<thead>
<tr>
<th>Subsidiaries by country of incorporation</th>
<th>Principal activity</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Russian Federation</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Murmansk</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>JSC ‘Murmanskiy Morskoi Torgovyi Port’</td>
<td>Port facilities</td>
<td>100%</td>
<td>84.9%</td>
</tr>
<tr>
<td>Kemerovo</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>JSC ‘SUEK-Kuzbass’</td>
<td>Hard coal extraction</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>JSC ‘Kuzbassenergo’</td>
<td>Power generation</td>
<td>99.9%</td>
<td>–</td>
</tr>
<tr>
<td>JSC ‘Kemerovo Generation’</td>
<td>Power generation</td>
<td>100%</td>
<td>–</td>
</tr>
<tr>
<td>JSC ‘Novo-Kemerovskaya CHPP’</td>
<td>Power generation</td>
<td>100%</td>
<td>–</td>
</tr>
<tr>
<td>JSC ‘Kuznetskaya CHPP’</td>
<td>Power generation</td>
<td>100%</td>
<td>–</td>
</tr>
<tr>
<td><strong>Krasnoyarsk</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>JSC ‘SUEK-Krasnoyarsk’</td>
<td>Brown coal extraction</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>JSC ‘Razrez Berezovskiy’</td>
<td>Brown coal extraction</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>JSC ‘Razrez Nazarovskiy’</td>
<td>Brown coal extraction</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>JSC ‘Yenisei Territorial Generating Company (TGC-13)’</td>
<td>Power generation</td>
<td>99.9%</td>
<td>–</td>
</tr>
<tr>
<td>JSC ‘Nazarovo GRES’</td>
<td>Power generation</td>
<td>100%</td>
<td>–</td>
</tr>
<tr>
<td>JSC ‘Krasnoyarsk CHPP-1’</td>
<td>Power generation</td>
<td>100%</td>
<td>–</td>
</tr>
<tr>
<td>JSC ‘Krasnoyarsk Heat Transportation Company’</td>
<td>Transfer of heat</td>
<td>100%</td>
<td>–</td>
</tr>
<tr>
<td><strong>Khakassia</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LLC ‘SUEK-Khakassia’</td>
<td>Hard coal extraction</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>LLC ‘Vostochno-Beyskiy razrez’</td>
<td>Hard coal extraction</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>JSC ‘Razrez Izykhskiy’</td>
<td>Hard coal extraction</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td><strong>Buryatia</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>JSC ‘Razrez Tugnuiisky’</td>
<td>Hard coal extraction</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td><strong>Zabaikalye</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>JSC ‘Razrez Kharanorskiy’</td>
<td>Brown coal extraction</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>LLC ‘Chitaugol’</td>
<td>Brown coal extraction</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>LLC ‘Arcticheskie razrabotki’</td>
<td>Coking coal extraction</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td><strong>Altai</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>JSC ‘Barnaul CHPP-3’</td>
<td>Power generation</td>
<td>100%</td>
<td>–</td>
</tr>
<tr>
<td>JSC ‘Barnaul Generation’</td>
<td>Power generation</td>
<td>100%</td>
<td>–</td>
</tr>
<tr>
<td>JSC ‘Byiskenergo’</td>
<td>Power generation</td>
<td>97.1%</td>
<td>–</td>
</tr>
<tr>
<td>JSC ‘Rubtsovsky thermal power complex’</td>
<td>Power generation</td>
<td>100%</td>
<td>–</td>
</tr>
<tr>
<td>JSC ‘Barnaul Heat Network Company’</td>
<td>Transfer of heat</td>
<td>100%</td>
<td>–</td>
</tr>
<tr>
<td><strong>Novosibirsk</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>JSC ‘SIBECO’</td>
<td>Power generation</td>
<td>97.1%</td>
<td>–</td>
</tr>
<tr>
<td><strong>Khabarovsk</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>JSC ‘Urgalugol’</td>
<td>Hard coal extraction</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>JSC ‘Daltransugol’</td>
<td>Port facilities</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td><strong>Primorye</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>JSC ‘Primorskugol’</td>
<td>Brown coal extraction</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td><strong>Switzerland</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SUEK AG</td>
<td>Export sales of coal</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td><strong>Republic of Cyprus</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SUEK LTD</td>
<td>Debt holding company</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>
Acquisition of SGC group. In August 2018 the Group acquired from a parent company 99.9% of LLC ‘SGC’ for 1,916 million USD. The consideration is payable within 18 months from the date of acquisition. Payment to a parent company was transmitted to a related company by virtue of reorganisation of a parent company. The principal activity of LLC ‘SGC’ and its subsidiaries (SGC group) is generation and sales of electricity, heat and capacity.

Since the acquisition of the SGC group represents a transaction under common control the consolidated financial statements of the Group were retrospectively restated to reflect the effect of the acquisition as if it had occurred on 1 January 2017, at the beginning of the earliest comparative period presented. The assets and liabilities of SGC group were accounted for at the carrying amounts in the SGC consolidated IFRS financial statements using predecessor accounting. The difference between the transaction price and the net assets of SGC group was recorded in retained earnings.

The carrying amount of assets and liabilities of the SGC group at the date of acquisition and as at 31 December 2017 is presented below:

<table>
<thead>
<tr>
<th></th>
<th>As at acquisition date</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>2,312</td>
<td>1,963</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>43</td>
<td>47</td>
</tr>
<tr>
<td>Other assets</td>
<td>75</td>
<td>69</td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade accounts and other receivables</td>
<td>233</td>
<td>245</td>
</tr>
<tr>
<td>Inventories</td>
<td>147</td>
<td>56</td>
</tr>
<tr>
<td>Prepaid and recoverable taxes</td>
<td>43</td>
<td>21</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>18</td>
<td>152</td>
</tr>
<tr>
<td><strong>Non-current liabilities</strong></td>
<td>(1,353)</td>
<td>(1,069)</td>
</tr>
<tr>
<td>Long-term borrowings</td>
<td>(1,054)</td>
<td>(866)</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>(256)</td>
<td>(177)</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>(43)</td>
<td>(26)</td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td>(783)</td>
<td>(743)</td>
</tr>
<tr>
<td>Short-term borrowings</td>
<td>(541)</td>
<td>(441)</td>
</tr>
<tr>
<td>Trade accounts and other payables</td>
<td>(190)</td>
<td>(235)</td>
</tr>
<tr>
<td>Taxes payable</td>
<td>(52)</td>
<td>(67)</td>
</tr>
<tr>
<td><strong>Total net assets acquired</strong></td>
<td>735</td>
<td>741</td>
</tr>
</tbody>
</table>

The statements of profit or loss for the year ended 31 December 2018 and 2017 and net assets as at 31 December 2018 and 2017 are disclosed in the segmental information (note 5).

Business combination. In the first quarter of 2018 JSC ‘Kuzbassenergo’ acquired 77.6% of interest in power generation from third parties for 504 million USD. The principal activity of the acquired business is generation and sales of electricity, heat and capacity.
The fair value of assets and liabilities as of the acquisition date is presented below:

<table>
<thead>
<tr>
<th></th>
<th>As at acquisition date</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>844</td>
</tr>
<tr>
<td>Other assets</td>
<td>14</td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
</tr>
<tr>
<td>Trade accounts and other receivables</td>
<td>164</td>
</tr>
<tr>
<td>Inventories</td>
<td>50</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>8</td>
</tr>
<tr>
<td><strong>Non-current liabilities</strong></td>
<td></td>
</tr>
<tr>
<td>Borrowings</td>
<td>167</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>121</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>22</td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
</tr>
<tr>
<td>Borrowings</td>
<td>46</td>
</tr>
<tr>
<td>Trade accounts and other payables</td>
<td>56</td>
</tr>
<tr>
<td>Taxes payable</td>
<td>19</td>
</tr>
<tr>
<td><strong>Fair value of net assets acquired</strong></td>
<td>649</td>
</tr>
<tr>
<td>Non-controlling interest</td>
<td>(145)</td>
</tr>
<tr>
<td>Cost of investment</td>
<td>504</td>
</tr>
</tbody>
</table>

Non-controlling interest was determined proportionally to the share of minority shareholders in the net assets of the acquired group of companies.

Trade accounts and other receivables were presented at fair value. The estimation of cash flows at the acquisition date which, according to expectations, will not be collected, is 22 million USD.

**Transactions with non-controlling interest.** In the first half of 2018 the Group acquired 15.15% of the Group subsidiary JSC ‘Murmanskiy Morskiy Torgovyi Port’ (‘MMTP’) for 63 million USD from third parties which resulted in a decrease in non-controlling interests by 43 million USD and a decrease in retained earnings by 20 million USD. The acquisition increased the Group’s interest in the subsidiary to 100%.

In the fourth quarter of 2018 the Group acquired 19.49% of the Group subsidiary for 101 million USD from third parties which resulted in a decrease in non-controlling interests by 107 million USD and an increase in retained earnings by 6 million USD. The acquisition increased the Group’s interest in the subsidiary to 97.09%.
Non-controlling interests. Information on LLC ‘Vostochno-Beyskiy razrez’ that has significant non-controlling interests is as follows:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-current assets</td>
<td>311</td>
<td>295</td>
</tr>
<tr>
<td>Current assets</td>
<td>56</td>
<td>43</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td>(60)</td>
<td>(71)</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>(14)</td>
<td>(9)</td>
</tr>
<tr>
<td>Net assets</td>
<td>293</td>
<td>258</td>
</tr>
<tr>
<td>Accumulated non-controlling interests</td>
<td>147</td>
<td>129</td>
</tr>
<tr>
<td>Revenue</td>
<td>155</td>
<td>129</td>
</tr>
<tr>
<td>Net profit for the year</td>
<td>33</td>
<td>17</td>
</tr>
<tr>
<td>Profit allocated to non-controlling interests</td>
<td>17</td>
<td>9</td>
</tr>
<tr>
<td>Revaluation of mining assets</td>
<td>28</td>
<td>38</td>
</tr>
<tr>
<td>Cash flows from operating activities</td>
<td>26</td>
<td>26</td>
</tr>
<tr>
<td>Cash flows used in investment activities</td>
<td>(20)</td>
<td>(5)</td>
</tr>
<tr>
<td>Cash flows used in financing activities</td>
<td>(8)</td>
<td>(21)</td>
</tr>
<tr>
<td>Dividends to non-controlling interests</td>
<td>4</td>
<td>10</td>
</tr>
</tbody>
</table>
### GRI Standards Indicator and General standard disclosures

#### SUEK’s response

<table>
<thead>
<tr>
<th>GRI Standards Indicator</th>
<th>General standard disclosures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Organisational profile</strong></td>
<td></td>
</tr>
<tr>
<td>102-1 Name of the organisation</td>
<td>JSC SUEK (JSC Siberian Coal Energy Company)</td>
</tr>
</tbody>
</table>
| 102-2 Activities, brands, products, and services | Our investment case, pp.2-3  
Year highlights, pp.4-5  
Business model, pp.10-11  
Our assets, pp.50-63  
Market review, pp.64-69  
Operating review, pp.70-77 |
| 102-3 Location of headquarters | Contacts, p.172 |
| 102-4 Location of operations | Where we operate, pp.6-7  
Our assets, pp.50-63  
None of SUEK’s production sites are situated in protected or natural reserves areas, including the territories protected by UNESCO and Ramsar Convention. |
| 102-5 Ownership and legal form | Corporate governance, pp.111-126  
Information on the company, p.172 |
| 102-6 Markets served | Where we operate, pp.6-7  
Operating review, pp.70-77 |
| 102-7 Scale of the organisation | Our investment case, pp.2-3  
Where we operate, pp.6-7  
Operating review, pp.70-77  
Financial review, pp.78-83  
Financial statements, pp.127-158 |
| 102-8 Information on employees and other workers | Business model, pp.10-11  
Our people, pp.100-105 |
| 102-9 Supply Chain | Operating review, pp.70-77 |
| 102-10 Significant changes to the organisation and its supply chain | Materiality, pp.34-37  
Strategy, pp.23-33  
About this report, cover page  
Operating review, pp.70-77  
Corporate governance, pp.111-126  
Financial Statements, pp.127-158  
Information on the company, p.172 |
| 102-11 Precautionary Principle or approach | SUEK subscribes to the precautionary approach particularly as regards our control of occupational health and safety, and our impact on the environment. This is implemented through our risk management process.  
Materiality, pp.34-37  
Risk management, pp.41-49  
Our approach to sustainability, pp.84-85  
Health & safety, pp.86-91  
Environment, pp.92-99  
Additional information on our Policies is available on our corporate website: www.suek.com/about-us/corporate-governance/by-laws/ |
### Organisational profile

102-12 External initiatives


- Our Investment Case, pp.2-3
- Our approach to sustainability, pp.84-85
- Environment, pp.92-99
- Communities, pp.106-110

SUEK’s position on climate change is available on our corporate website: www.suek.com/en/sustainability/environment/

102-13 Membership of associations

SUEK’s key memberships include:
- Russian Union of Industrialists and Entrepreneurs
- RAND corporation
- Clean Coal Association
- All-Russia Industrial Association of Employers of the Coal Industry
- The Russian Managers Association
- German-Russia Chamber of Commerce
- Bettercoal
- Vision Zero

### Strategy

102-14 Statement from senior decision-maker

Chairman’s statement, pp.12-13
CEO’s statement, pp.14-15

102-15 Key impacts, risks and opportunities

What impacts SUEK’s ability to create value, its sustainability and its stakeholders, is presented in the following sections:

- Chairman’s and CEO’s statements, pp.12-15
- Market fundamentals and SUEK, pp.16-22
- Strategy, pp.23-33
- Materiality, pp.34-37
- Risk management, pp.41-49

### Ethics and integrity

102-16 Values, principles, standards, and norms of behaviour

Strategy, pp.23-33
Our people, pp.100-105
Our Code of Ethics is available on our corporate website: www.suek.com/about-us/corporate-governance/by-laws/

102-17 Mechanisms for advice and concerns about ethics

Stakeholder engagement, pp.38-40
Corporate governance, pp.100-101
<table>
<thead>
<tr>
<th>GRI Standards Indicator and General standard disclosures</th>
<th>SUEK’s response</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Governance</strong></td>
<td></td>
</tr>
<tr>
<td>102-18 Governance structure</td>
<td>Corporate governance, p.112</td>
</tr>
<tr>
<td>102-19 Delegating authority</td>
<td>Corporate governance, pp.111-126 For more information, see section 15 and 16 of the Charter of JSC SUEK on our corporate website: <a href="http://www.suek.com/about-us/corporate-governance/by-laws/">www.suek.com/about-us/corporate-governance/by-laws/</a></td>
</tr>
<tr>
<td>102-20 Executive-level responsibility for economic, environmental and social topics</td>
<td>Sustainability is an executive responsibility of the Chief Operations Officer, with direct reporting to the CEO and the Board. Corporate governance, pp.111-126</td>
</tr>
<tr>
<td>102-21 Consulting stakeholders on economic, environmental, and social topics</td>
<td>Materiality, pp.34-37 Stakeholder engagement, pp.38-40</td>
</tr>
<tr>
<td>102-22 Composition of the highest corporate body and its Committees</td>
<td>Board of Directors report, pp.114-120 More information is available on our corporate website: <a href="http://www.suek.com/about-us/board-of-directors/">www.suek.com/about-us/board-of-directors/</a></td>
</tr>
<tr>
<td>102-23 Chair of the highest governance body</td>
<td>The Chairman of the Board of Directors, the highest governance body, is not an executive officer. Board of Directors report, pp.114-120</td>
</tr>
<tr>
<td>102-24 Nomination and selection processes for the highest governance body and senior executives</td>
<td>Board of Directors report, pp.114-120</td>
</tr>
<tr>
<td>102-25 Conflicts of interests</td>
<td>Corporate governance, pp.111-126 All related-party transactions are reported in Financial statements, pp.127-158</td>
</tr>
<tr>
<td>102-26 The role of the highest governance body and senior executives in setting purpose, values and strategy</td>
<td>The Board has final approval of SUEK’s strategy and goals for environmental and social development. Board of Directors pp.114-120 Management Board report, pp.123-126 Chairman’s statement, pp.12-13 CEO’s statement, pp.14-15</td>
</tr>
<tr>
<td>102-27 Highest governance body’s collective knowledge</td>
<td>Board of Directors report, pp.114-120</td>
</tr>
<tr>
<td>102-28 Evaluation of the activities of the highest body of governance</td>
<td>Board of Directors report, pp.114-120</td>
</tr>
<tr>
<td>102-30 Risk management</td>
<td>Risk management, pp.41-49</td>
</tr>
<tr>
<td>102-31 Review of economic, environmental and social topics</td>
<td>Risk management, pp.41-49 Corporate governance, pp.111-126</td>
</tr>
<tr>
<td>102-32 Highest governance body’s role in sustainability report</td>
<td>The Report is approved by the Audit Committee of the Board of Directors. About this Report, cover page Board of Directors, p.120</td>
</tr>
<tr>
<td>102-33 Communicating critical concerns</td>
<td>Materiality, pp.34-37 Risk management, pp.41-49 Corporate governance, pp.111-126</td>
</tr>
<tr>
<td>102-34 The nature and the total number of critical concerns</td>
<td>Materiality, pp.34-37 Risk management, pp.41-49 Corporate governance, pp.111-126</td>
</tr>
<tr>
<td>102-37 Stakeholders’ involvement in remuneration</td>
<td>Board of Directors, pp.114-120 Management Board report, pp.123-126 Our people, pp.100-105</td>
</tr>
<tr>
<td>102-38 Annual total compensation ratio</td>
<td>Management Board report, pp.123-126</td>
</tr>
<tr>
<td>102-39 Percentage increase in annual total compensation ratio</td>
<td>1%</td>
</tr>
</tbody>
</table>
### GRI Standards Indicator and General standard disclosures

<table>
<thead>
<tr>
<th>GRI Standards Indicator and General standard disclosures</th>
<th>SUEK's response</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Stakeholder engagement</strong></td>
<td></td>
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<tr>
<td>102-40 List of stakeholder group(s)</td>
<td>Stakeholder engagement, pp.38-40</td>
</tr>
<tr>
<td>102-41 Collective bargaining agreements</td>
<td>Stakeholder engagement, pp.38-40</td>
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<tr>
<td>102-42 Identifying and selecting stakeholders</td>
<td>Stakeholder engagement, pp.38-40</td>
</tr>
<tr>
<td>102-43 Approach to stakeholder engagement</td>
<td>Stakeholder engagement, pp.38-40</td>
</tr>
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</table>
| 102-44 Key topics and concerns raised                  | Chairman's statement, pp.12-13  
CEOs statement, pp.14-15  
Materiality, pp.34-37  
Stakeholder engagement, pp.38-40 |
| **Reporting practice (report profile)**                |                 |
| 102-45 Entities included in the consolidated financial statements | Notes to the consolidated financial statements, p.155 |
| 102-46 Defining report content and topic Boundaries    | About this Report, cover page  
Materiality, pp.34-37 |
| 102-47 List of material topics                         | About this Report, cover page  
Materiality, pp.34-37 |
| 102-48 Restatements of information                     | In August 2018, the Group acquired from a parent company 99.9% of Siberian Generating Company (SGC) group. Since the acquisition of the SGC group represents a transaction under common control the consolidated financial statements of the Group were retrospectively restated to reflect the effect of the acquisition as if it had occurred on 1 January 2017, at the beginning of the earliest comparative period described in note 30 (last page for Acquisition of a subsidiary). |
| **Changes in reporting**                               |                 |
| 102-49 Financial Statements, pp.127-158                |                 |
| 102-50 Reporting period                                | Financial year from 1 January 2018 to 31 December 2018 |
| 102-51 Date of most recent report                      | 2018 |
| 102-52 Reporting cycle                                | Annual |
| 102-53 Contact point for questions regarding the report | Olga Ilina, Head of Investor Relations E-mail: ir@suek.ru |
| 102-54 Claims of reporting in accordance with the GRI Standards | This report has been prepared in accordance with the GRI Standards: Core option |
| **Reporting practice (GRI content index)**             |                 |
| 102-55 GRI Standards: Core                            | About this Report, cover page |
| **Reporting practice (assurance)**                     |                 |
| 102-56 External assurance                              | The Report was prepared under the supervision of SUEK’s Chief Financial Officer, with the Audit Committee of the Board of Directors also collectively contributing to its preparation and ensuring its overall integrity. The consolidated financial statements included in this Report were audited by JSC ‘KPMG’. For more information please visit our corporate website: www.suek.com |
| **103 Management approach**                           |                 |
| 103-1 Explanation of the material topic and its Boundary | Materiality, pp.34-37  
Chairman’s statement, pp.12-13  
CEO’s statement, pp.14-15  
Corporate governance, p.111 |
| 103-3 Evaluation of the management approach            | Materiality, pp.34-37  
Chairman’s statement, pp.12-13  
CEOs statement, pp.14-15  
Corporate governance, p.111 |
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<tr>
<td><strong>Specific</strong></td>
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<tr>
<td><strong>Economic</strong></td>
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</tr>
<tr>
<td><strong>201 Economic performance</strong></td>
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<tr>
<td>103 Management Approach</td>
<td>Chairman’s statement, pp.12-13</td>
</tr>
<tr>
<td></td>
<td>Financial review, pp.78-83</td>
</tr>
<tr>
<td>201-1 Direct economic value generated and distributed</td>
<td>Business model, pp.10-11</td>
</tr>
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<td>Financial review, pp.78-83</td>
</tr>
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<td></td>
<td>Financial Statements, pp.127-158</td>
</tr>
<tr>
<td>201-2 Financial implications and other risks and opportunities due to climate change</td>
<td>Market fundamentals and SUEK, pp.16-22</td>
</tr>
<tr>
<td></td>
<td>Risk management, pp.41-49</td>
</tr>
<tr>
<td></td>
<td>SUEK’s position on climate change is available on our corporate website: <a href="http://www.suek.com/en/sustainability/environment/">www.suek.com/en/sustainability/environment/</a></td>
</tr>
<tr>
<td>201-3 Defined benefit plan obligations and other retirement</td>
<td>Our people, pp.100-105</td>
</tr>
<tr>
<td></td>
<td>Financial Statements, pp.127-158</td>
</tr>
<tr>
<td>201-4 Financial assistance received from government</td>
<td>During the reporting period the company did not receive any subsidies from the government. However, some infrastructural and social projects implemented by the company can be subsidised by the government.</td>
</tr>
<tr>
<td></td>
<td>Strategy, pp.23-33</td>
</tr>
<tr>
<td><strong>203 Indirect economic impacts</strong></td>
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<tr>
<td>103 Management Approach</td>
<td>Chairman’s statement, pp.12-13</td>
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<td></td>
<td>Stakeholder engagement, pp.38-40</td>
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<td>203-1 Infrastructure investments and services supported</td>
<td>Business model, pp.10-11</td>
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<td></td>
<td>Communities, pp.106-110</td>
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<tr>
<td>203-2 Significant indirect economic impacts</td>
<td>Business model, pp.10-11</td>
</tr>
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<td></td>
<td>Operating review, pp.70-77</td>
</tr>
<tr>
<td></td>
<td>Communities, pp.106-110</td>
</tr>
<tr>
<td><strong>204 Procurement practices</strong></td>
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<tr>
<td>103 Management Approach</td>
<td>Operating review, pp.70-77</td>
</tr>
<tr>
<td>204-1 Proportion of spending on local suppliers</td>
<td>Business model, pp.10-11</td>
</tr>
<tr>
<td></td>
<td>Operating review, pp.70-77</td>
</tr>
<tr>
<td><strong>205 Anti-corruption</strong></td>
<td></td>
</tr>
<tr>
<td>103 Management Approach</td>
<td>Risk management, pp.41-49</td>
</tr>
<tr>
<td></td>
<td>Internal control and compliance system, pp.121-122</td>
</tr>
<tr>
<td></td>
<td>See Corporate social report 2016-2017</td>
</tr>
<tr>
<td></td>
<td><a href="http://www.suek.com/investors/reporting/#year_17">www.suek.com/investors/reporting/#year_17</a></td>
</tr>
<tr>
<td>205-1 Operations assessed for risks related to corruption</td>
<td>SUEK has a corporate risk management system that covers all divisions and businesses of the company. Risk assessment is carried out on a regular basis.</td>
</tr>
<tr>
<td></td>
<td>Internal control and compliance system, pp.121-122</td>
</tr>
<tr>
<td></td>
<td>Risk management, pp.41-49</td>
</tr>
<tr>
<td>205-2 Communication and training about anti-corruption policies and procedures</td>
<td>SUEK implemented a comprehensive compliance system.</td>
</tr>
<tr>
<td></td>
<td>Internal control and compliance system, pp.121-122</td>
</tr>
<tr>
<td>205-3 Confirmed incidents of corruption and actions taken</td>
<td>During the reporting period, no cases of corruption were detected.</td>
</tr>
<tr>
<td><strong>206 Anti-competitive behaviour</strong></td>
<td></td>
</tr>
<tr>
<td>103 Management Approach</td>
<td>See Corporate social report 2016-2017</td>
</tr>
<tr>
<td></td>
<td><a href="http://www.suek.com/investors/reporting/#year_17">www.suek.com/investors/reporting/#year_17</a></td>
</tr>
<tr>
<td></td>
<td>Internal control and compliance system, pp.121-122</td>
</tr>
<tr>
<td>206-1 Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices</td>
<td>In 2016-2018, the antimonopoly authorities did not apply any legal actions in connection with the violation of the antimonopoly legislation by JSC SUEK.</td>
</tr>
</tbody>
</table>
### GRI Standards Indicator and General standard disclosures

#### 301 Materials
- **103 Management Approach**
  - Our approach to sustainability, pp. 84-85
  - Environment, p. 95
- **301-3 Reclaimed products and their packaging materials**
  - Strategy, pp. 23-33
  - Environment, pp. 94-99

#### 302 Energy
- **103 Management Approach**
  - Our approach to sustainability, pp. 84-85
  - Environment, p. 95
- **302-1 Energy consumption within the organisation**
  - Strategy, pp. 27-28
  - Environment, pp. 98-99
- **302-2 Energy consumption outside of the organisation**
  - Accounting is not conducted due to the lack of legislative requirements.
- **302-3 Energy intensity**
  - Environment, pp. 98-99
- **302-4 Reduction of energy consumption**
  - Strategy, pp. 27-28
  - Environment, pp. 98-99
- **302-5 Reductions in energy requirements of products and services**
  - Not applicable to the company’s products

#### 303 Water
- **103 Management Approach**
  - Our approach to sustainability, pp. 84-85
  - Environment, p. 95
- **303-1 Water withdrawal by source**
  - Strategy, p. 32
  - Environment, p. 97

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<thead>
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<tbody>
<tr>
<td><strong>Coal</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total volume of water withdrawn from sources, including underground reservoirs, surface reservoirs and wastewater from other companies, million m³</td>
<td>154.8</td>
<td>135.8</td>
<td>137.2</td>
<td>120.1</td>
<td>120.1</td>
</tr>
<tr>
<td>Transferred to other consumers (without usage), million m³</td>
<td>138.3</td>
<td>122.6</td>
<td>121.9</td>
<td>106.6</td>
<td>105.2</td>
</tr>
<tr>
<td><strong>Energy</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total volume of water withdrawn from sources, including underground reservoirs, surface reservoirs and wastewater from other companies, million m³</td>
<td>2,231.4</td>
<td>2,460.4</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Transferred to other consumers (without usage), million m³</td>
<td>202.4</td>
<td>227.8</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>303-2 Water sources significantly affected by withdrawal of water</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A small amount of water is used in some of our production processes. Therefore, the company’s water intake has no significant impact on water sources. The company does not take water from sources believed either to be vulnerable and protected by the state, or especially valuable for local communities and biodiversity.</td>
<td>Environment, pp. 80-85</td>
<td></td>
<td></td>
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</tbody>
</table>

#### 303-3 Water recycled and reused

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</thead>
<tbody>
<tr>
<td><strong>Coal</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water disposal, million m³ including:</td>
<td>145.6</td>
<td>121.3</td>
<td>123.0</td>
<td>106.2</td>
<td>103.3</td>
</tr>
<tr>
<td>Without treatment</td>
<td>29.2</td>
<td>34.2</td>
<td>43.5</td>
<td>42.5</td>
<td>62.6</td>
</tr>
<tr>
<td>Partially purified</td>
<td>70.4</td>
<td>70.8</td>
<td>63.2</td>
<td>50.2</td>
<td>20.1</td>
</tr>
<tr>
<td>Regulatory clean</td>
<td>5.9</td>
<td>3.8</td>
<td>3.9</td>
<td>3.8</td>
<td>3.9</td>
</tr>
<tr>
<td>Regulatory purified</td>
<td>26.1</td>
<td>3.3</td>
<td>2.8</td>
<td>0.7</td>
<td>8.6</td>
</tr>
<tr>
<td>Transferred to other consumers (after usage)</td>
<td>1.1</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.0</td>
</tr>
<tr>
<td><strong>Energy</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water disposal, million m³ including:</td>
<td>1,850.5</td>
<td>2,083.2</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Without treatment</td>
<td>2.5</td>
<td>11.7</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Partially purified</td>
<td>27.9</td>
<td>53.1</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Regulatory clean</td>
<td>1,805.5</td>
<td>1,826.2</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Regulatory purified</td>
<td>10.7</td>
<td>186.9</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Transferred to other consumers (after usage)</td>
<td>3.9</td>
<td>5.3</td>
<td>–</td>
<td>–</td>
<td>–</td>
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</table>
### GRI Standards Indicator and General standard disclosures

**304 Biodiversity**

<table>
<thead>
<tr>
<th>103 Management Approach</th>
<th>Our approach to sustainability, pp.84-85 Environment, pp.99</th>
</tr>
</thead>
<tbody>
<tr>
<td>304-1 Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas</td>
<td>The company has no production sites in protected natural areas, in reserves of the federal and regional levels or territories adjacent to them, including those protected by UNESCO and the Ramsar Convention. Rare, endangered species of animals, plants and fungi have not been identified.</td>
</tr>
<tr>
<td>304-2 Significant impacts of activities, products, and services on biodiversity</td>
<td></td>
</tr>
<tr>
<td>304-3 Habitats protected or restored</td>
<td>Environment, p.99</td>
</tr>
<tr>
<td>304-4 IUCN Red List species and national conservation list species with habitats in areas affected by operations</td>
<td>At SUEK’s production assets, as well as adjacent areas, rare, endangered species of animals, plants and fungi have not been identified. Environment, p.99</td>
</tr>
</tbody>
</table>

#### Coal

<table>
<thead>
<tr>
<th>Lands disturbed, ha</th>
</tr>
</thead>
<tbody>
<tr>
<td>at the beginning of year</td>
</tr>
<tr>
<td>at the end of year</td>
</tr>
<tr>
<td>Disturbed during the year</td>
</tr>
<tr>
<td>Recultivated during the year</td>
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</tbody>
</table>

#### Energy

<table>
<thead>
<tr>
<th>Lands disturbed, ha</th>
</tr>
</thead>
<tbody>
<tr>
<td>at the beginning of year</td>
</tr>
<tr>
<td>at the end of year</td>
</tr>
<tr>
<td>Disturbed during the year</td>
</tr>
<tr>
<td>Recultivated during the year</td>
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</tbody>
</table>

### 305 Emissions

<table>
<thead>
<tr>
<th>103 Management Approach</th>
<th>Environment, p.96</th>
</tr>
</thead>
<tbody>
<tr>
<td>305-1 Direct (Scope 1) GHG emissions</td>
<td></td>
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</table>

#### Coal

<table>
<thead>
<tr>
<th>Gross emissions, thousand tonnes</th>
</tr>
</thead>
<tbody>
<tr>
<td>-----------------</td>
</tr>
<tr>
<td>291.4</td>
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#### Energy

<table>
<thead>
<tr>
<th>Gross emissions, thousand tonnes</th>
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<td>356.2</td>
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<table>
<thead>
<tr>
<th>305-5 Reduction of GHG emissions</th>
<th>Environment, p.96</th>
</tr>
</thead>
<tbody>
<tr>
<td>305-6 Emissions of ozone-depleting substances (ODS)</td>
<td>Environment, p.96</td>
</tr>
<tr>
<td>305-7 Nitrogen oxides (NOx), sulfur oxides (SOx), and other significant air emissions</td>
<td></td>
</tr>
</tbody>
</table>

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Note: The table above provides a summary of the company's approach to sustainability regarding biodiversity, emissions, and its operational sites. The reported data includes the number of disturbed lands, recultivated areas, and GHG emissions for both coal and energy sectors. The company emphasizes that it has no production sites in protected areas and that rare, endangered species have not been identified. The table also highlights the reduction of GHG emissions and the avoidance of ozone-depleting substances.
### GRI Standards Indicator and General standard disclosures

#### SUEK’s response

#### 305 Emissions

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<td><strong>Coal</strong></td>
<td></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>Emissions, thousand tonnes including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>solid substance</td>
<td>8.1</td>
<td>5.9</td>
<td>8.5</td>
<td>7.7</td>
<td>12.6</td>
</tr>
<tr>
<td>SO₂</td>
<td>1.9</td>
<td>1.7</td>
<td>1.6</td>
<td>1.6</td>
<td>1.8</td>
</tr>
<tr>
<td>CO</td>
<td>9</td>
<td>7.5</td>
<td>7.5</td>
<td>7.6</td>
<td>8.1</td>
</tr>
<tr>
<td>NOₓ</td>
<td>5.1</td>
<td>3.8</td>
<td>4.0</td>
<td>4.6</td>
<td>4.7</td>
</tr>
<tr>
<td>Methane</td>
<td>264.9</td>
<td>231.8</td>
<td>180.6</td>
<td>174.7</td>
<td>168.5</td>
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<td>Volatile organic compounds</td>
<td>2.1</td>
<td>1.9</td>
<td>1.4</td>
<td>1.4</td>
<td>1.5</td>
</tr>
<tr>
<td>Others</td>
<td>0.04</td>
<td>0.05</td>
<td>0.2</td>
<td>0.3</td>
<td>0.5</td>
</tr>
<tr>
<td><strong>Energy</strong></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Emissions, thousand tonnes including:</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>solid substance</td>
<td>82.1</td>
<td>84.5</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>SO₂</td>
<td>150.7</td>
<td>158.4</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>CO</td>
<td>15.5</td>
<td>17.9</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>NOₓ</td>
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<td>0.03</td>
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<tr>
<td>Volatile organic compounds</td>
<td>0.18</td>
<td>0.19</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Others</td>
<td>0.1</td>
<td>0.1</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

#### 306 Effluents and waste

**103 Management Approach**

- **Environment**, pp.92-99

**306-1 Water discharge by quality and destination**

See Corporate social report 2016-2017

www.suek.com/investors/reporting/#year_17

**306-2 Waste by type and disposal method**

SUEK does not transport, import, export or process waste that is hazardous in accordance with Annexes I, II, III and VIII to the Basel Convention.

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</thead>
<tbody>
<tr>
<td><strong>Coal</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Waste generation, thousand tonnes including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I class hazard</td>
<td>0.005</td>
<td>0.006</td>
<td>0.005</td>
<td>0.005</td>
<td>0.005</td>
</tr>
<tr>
<td>II class hazard</td>
<td>0.039</td>
<td>0.023</td>
<td>0.024</td>
<td>0.038</td>
<td>0.036</td>
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<td>III class hazard</td>
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<td>1.7</td>
<td>1.3</td>
<td>1.8</td>
<td>1.8</td>
</tr>
<tr>
<td>IV class hazard</td>
<td>7.1</td>
<td>7.6</td>
<td>7.9</td>
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<tr>
<td>Use of waste, thousand tonnes</td>
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### GRI Standards Indicator and General standard disclosures

#### SUEK’s response

#### 306 Effluents and waste

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<td><strong>Energy</strong></td>
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<td><strong>Available waste at the year-end, thousand tonnes</strong></td>
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<td>–</td>
<td>–</td>
</tr>
<tr>
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<td>1,295,256.74</td>
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</table>

**306-4 Transport of hazardous waste**  
The company does not transport, import, export or process waste that is hazardous under Annexes I, II, III and VIII to the Basel Convention.

**306-5 Water bodies affected by water discharges and/or runoff**  
SUEK do not significantly affect water bodies and related habitats.

### 307 Environmental compliance

**103 Management Approach**  
Environment, pp.92-99

**307-1 Non-compliance with environmental laws and regulations**

<table>
<thead>
<tr>
<th></th>
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<tr>
<td><strong>Coal</strong></td>
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<td>Charges for violation of environmental legislation, including the elimination of damages, $ thousand</td>
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<td>36.3</td>
<td>32.5</td>
<td>26.9</td>
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<td><strong>Energy</strong></td>
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<tr>
<td>Charges for violation of environmental legislation, including the elimination of damages, $ thousand</td>
<td>2.0</td>
<td>17.4</td>
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### Social

**401 Employment**

**103 Management Approach**  
Our approach to sustainability, pp.84-85

Our people, pp.100-105

**401-1 New employee turnover**  
Our people, pp.100-105

**401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees**  
Our people, pp.100-105
<table>
<thead>
<tr>
<th>GRI Standards Indicator and General standard disclosures</th>
<th>SUEK's response</th>
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</thead>
<tbody>
<tr>
<td><strong>402 Labour/Management relations</strong></td>
<td></td>
</tr>
<tr>
<td>103 Management Approach</td>
<td>Our people, pp.100-105</td>
</tr>
<tr>
<td><strong>402-1 Minimum notice periods regarding operational changes</strong></td>
<td>The company follows the Labour Code of the Russian Federation, which defines the minimum notice period regarding significant changes in the activities of the company (no later than two months before the start of the relevant activities, and in the case of a decision to reduce the number of workers or staff, that may lead to mass layoffs – no later than three months before the start of the relevant activities).</td>
</tr>
<tr>
<td><strong>403 Occupational Health and Safety</strong></td>
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</table>
| 103 Management Approach                                | Chairman's statement, pp.12-13  
Ceo's statement, pp.14-15  
Our approach to sustainability, pp.84-85  
Health & safety, pp.86-91  
Our people, pp.100-105  
Corporate governance, p.111 |
| **403-1 Workers representation in formal joint management-worker health and safety committees** | Health & safety, pp.86-91 |
| **403-2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities** | Health & safety, pp.86-91 |
| **403-3 Workers with high incidence of high risk of diseases related to their occupation** | Due to the specifics of the industry, the company has employees engaged in professional activities that carry a high risk of injury or high incidence of certain diseases |
| **403-4 Health and safety topics covered in formal agreements with trade unions** | Stakeholder engagement, pp.38-40  
Our people, pp.100-105 |
| **404 Training and education**                         |                 |
| 103 Management Approach                                | Communities, pp.106-110 |
| **404-1 Average hours of training per year per employee** | See Corporate social report 2016-2017  
www.suek.com/investors/reporting/#year_17 |
| **404-2 Programmes of upgrading employee skills and transition assistance programmes** | Our people, pp.100-105  
Communities, pp.106-110 |
<p>| <strong>404-3 Percentage of employees receiving regular performance and career development reviews</strong> | Performance evaluations are carried out for a number of categories of management positions of the corporate centre of JSC SUEK and mining enterprises. (In 2017, 550 people passed the assessment.) The evaluation of career development is carried out by employees participating in the company’s personnel reserve programme. |
| <strong>405 Diversity and equal opportunity</strong>                |                 |
| 103 Management Approach                                | Our people, pp.100-105 |
| <strong>405-1 Diversity of governance bodies and employees</strong> | Corporate governance, pp.111-126 |
| <strong>405-2 Ratio of basic salary and remuneration of women to men</strong> | SUEK has set the same base salary for men and women. |
| <strong>406 Non-discrimination</strong>                             |                 |
| 103 Management Approach                                | Our people, p.100 |
| <strong>406-1 Incidents of discrimination and corrective actions taken</strong> | Incidents of discrimination have not been identified during the reporting year. |
| <strong>407 Freedom of association and collective bargaining</strong> |                 |
| 103 Management Approach                                | Our people, pp.100 |
| <strong>407-1 Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk</strong> | During the reporting period it was not revealed. |
| <strong>408 Child labour</strong>                                   |                 |
| 103 Management Approach                                | Our people, pp.100-105 |
| <strong>408-1 Operations and suppliers identified as having significant risk for incidents of child labour</strong> | SUEK is against the practice of child labour, and no such incidents were identified during the reporting year. |</p>
<table>
<thead>
<tr>
<th>GRI Standards Indicator and General standard disclosures</th>
<th>SUEK’s response</th>
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<tbody>
<tr>
<td>410-1 Security personnel trained in human rights policies or procedures</td>
<td>Internal control and compliance system, pp.121-122</td>
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<tr>
<td>411-1 Incidents of violations involving rights of indigenous peoples</td>
<td>Incidents of violations involving rights of indigenous peoples have not been identified.</td>
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<tr>
<td>413 Local communities</td>
<td>Communities, pp.106-110</td>
</tr>
<tr>
<td>413-1 Operations with local community engagement, impact assessment, and development programmes</td>
<td>Programmes on interacting with local communities are implemented at all SUEK’s key facilities. Stakeholder engagement, pp.38-40 Communities, pp.106-110</td>
</tr>
<tr>
<td>413-2 Operations with significant actual and potential negative impacts on local communities</td>
<td>Environment, pp.92-99</td>
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<tr>
<td>414 Supplier social assessment</td>
<td>See Corporate social report 2016-2017 <a href="http://www.suek.com/investors/reporting/#year_17">www.suek.com/investors/reporting/#year_17</a></td>
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<tr>
<td>414-1 New suppliers that were screened using social criteria</td>
<td>See Corporate social report 2016-2017 <a href="http://www.suek.com/investors/reporting/#year_17">www.suek.com/investors/reporting/#year_17</a></td>
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</table>
API 2 Index  The CIF (cost, insurance and freight) price of coal at the ports of ARA (Amsterdam, Rotterdam and Antwerp) with coal calorific value of 6,000 kcal/kg.

API 8 Index  The CFR (cost and freight) price of coal delivered to south China with coal calorific value of 5,500 kcal/kg.

Calorific value  Is the amount of potential energy in coal that can be converted into actual heating ability.

Coking coal  Coal suitable for carbonisation in coke ovens. It must have good coking properties to produce strong coke for steel making, with low sulphur and phosphorus content.

DPM-1  The energy market regulators initiated a programme of capacity supply contracts, which was designed to create the conditions for attracting investment in the construction of new power generating capacity. The investor committed to build a certain generation capacity within the specified period. In return, he received a guarantee of the return of invested funds through an increased cost of sold capacity during the next 10 years. Failure to fulfill their obligations provides for strict sanctions. The programme was valid from 2010 until the end of 2018.

DPM-2  Programme entered into force in February 2019 and guarantees a return on investment in heat and power capacity development for participating projects until 2031.

ESG  Environmental, social and governance criteria are a set of standards for a company’s operations that socially conscious investors use to screen potential investments. Environmental criteria look at how a company performs as a steward of nature. Social criteria examine how a company manages relationships with its employees, suppliers, customers and the communities where it operates. Governance deals with a company’s leadership, executive pay, audits, internal controls and shareholder rights.

FOB  ‘Free On Board’ means that the seller delivers the goods on board the vessel nominated by the buyer at the named port of shipment or procures the goods already so delivered. The risk of loss of or damage to the goods passes when the goods are on board the vessel, and the buyer bears all costs from that moment onwards.

globalCOAL  NEWC Index based on the Free On Board (FOB) delivery of thermal coal at the Port of Newcastle in Australia with coal calorific value of 6,000 kcal/kg NAR.

HELE  High efficiency low emissions coal-fired power plants with supercritical and ultra-supercritical steam cycles.

High-CV  Coals are coals with a calorific value of 5,600+ kcal per kg. Calorific value is the most important parameter that determines the economics of the power plant operation. It indicates the amount of heat that is released when the coal is burned.

LoM  Life-of-mine model is specifically designed for each coal production unit based on well-developed 3D geology, using special mining software, and covering the production process for both brownfield and greenfield operations for the total duration of mining.

Metallurgical coal  Generic term referring to coking coal and its different qualities as well as Pulverised coal injection coal (PCI).

Mid-volatile  Coal containing 69-78% fixed carbon and 20-31% volatile matter on a dry basis.

Sized coal  Coal with low coke strength reactivity, usually between 10-35% and a free swelling index (FSI) around 3 to 5. It is blended with hard coking coal to reduce the cost of coke making in the steel-making process.

SGC  Siberian Generating Company, a leading Siberian energy company involved in the production and sales of electricity, heat and capacity. Affiliated company SUEK.

SRK  SRK Consulting is an independent, international consulting practice that provides advice and solutions mainly in the earth and water resource industries.

UN SDGs  United Nations Sustainable Development Goals are a set of goals to end poverty, protect the planet and ensure prosperity for all as part of a new sustainable development agenda adopted by the United Nations members on 25 September 2015. Each goal has specific targets to be achieved over the next 15 years.

XPAC-XERAS  Is a uniquely versatile budgeting tool, capable of handling short-to-medium-budgeting needs, as well as complete life-of-project planning.
<table>
<thead>
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<th>Abbreviation</th>
<th>Description</th>
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<td>Answer</td>
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<tr>
<td>bn</td>
<td>Billion</td>
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<tr>
<td>Bt</td>
<td>Billion tonnes</td>
</tr>
<tr>
<td>CAGR</td>
<td>Compound annual growth rate</td>
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<tr>
<td>CCUS</td>
<td>Carbon capture, utilisation and storage</td>
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<tr>
<td>CH₄</td>
<td>Methane</td>
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<tr>
<td>CHPP</td>
<td>Cogeneration or combined heat and power plant</td>
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<tr>
<td>CO</td>
<td>Carbon monoxide</td>
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<td>CO₂</td>
<td>Carbon dioxide</td>
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<td>EBITDA</td>
<td>Earnings before interest, tax, depreciation and amortisation</td>
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<td>ECA</td>
<td>Export credit agencies</td>
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<td>ERP</td>
<td>Enterprise Resource Planning</td>
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<td>Gcal</td>
<td>Gigacalorie</td>
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<td>GCHPP</td>
<td>Gas turbine plant</td>
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<td>GHG</td>
<td>Greenhouse gas</td>
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<td>GRES</td>
<td>State District Power Plant</td>
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<td>GRI</td>
<td>Global Reporting Initiative</td>
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<tr>
<td>GW</td>
<td>Gigawatt (one billion watts)</td>
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<td>ha</td>
<td>Hectare</td>
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<td>Human resources</td>
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<td>Health, Safety and Environment</td>
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<td>International Energy Agency</td>
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<td>International Financial Reporting Standards</td>
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<td>Integrated Gasification Combined Cycle</td>
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<td>International Organisation for Standardization</td>
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<td>kcal</td>
<td>Kilocalorie</td>
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<td>kcal/kg</td>
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<td>KPI</td>
<td>Key performance indicator</td>
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<td>Kilowatt</td>
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<td>kWh</td>
<td>Kilowatt hour (1000 watt-hours/ 3.6 megajoules)</td>
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<td>Nitrogen oxide</td>
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<td>Occupational Health &amp; Safety Assessment Series</td>
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<td>Public Relations</td>
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<td>Q</td>
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<tr>
<td>RMB</td>
<td>Chinese Yuan</td>
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<tr>
<td>RUB</td>
<td>Russian Rouble</td>
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<td>SO₂</td>
<td>Sulphur oxide</td>
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<td>t</td>
<td>Tonne</td>
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<td>TWh</td>
<td>Terawatt hours</td>
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<td>WP</td>
<td>Washing plant</td>
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<tr>
<td>$</td>
<td>US Dollar</td>
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<tr>
<td>Sm</td>
<td>Million US Dollars</td>
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INFORMATION ON THE COMPANY

The key assets of JSC SUEK are coal-mining and generating assets, processing facilities, port, transport and service facilities in 11 regions of Russia, as well as the international trader SUEK AG and its trading network. SUEK LTD is responsible for the Group’s fundraising. The share capital of JSC SUEK amounts to RUB 1,180,300 (one million, one hundred and eighty thousand, three hundred Russian Roubles) divided into 236,060,000 (two hundred and thirty-six million and sixty thousand) ordinary registered shares with a face value of RUB 0.005 (zero point double zero five Russian Roubles) each. The main beneficiary of SUEK is Andrey Melnichenko.

FORWARD-LOOKING INFORMATION AND STATEMENTS ON COMPETITIVE POSITION

This Annual Report contains certain forward-looking statements. All statements, other than those of historical fact, are forward-looking statements that involve risks and uncertainties. There can be no assurances that such statements will prove accurate, and actual results and future events could differ materially from those anticipated. The information contained herein represents management’s best judgement as at the date of the Report, based on information currently available. SUEK does not assume the obligation to update any forward-looking statements. Any statements referring to the Group’s competitive position are based on our understanding of the prevailing market environment. This derives from a range of sources including investment analysts’ reports, independent market studies and SUEK’s own assessments of market share, based on the publicly available information regarding the financial results and performance of market participants.
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