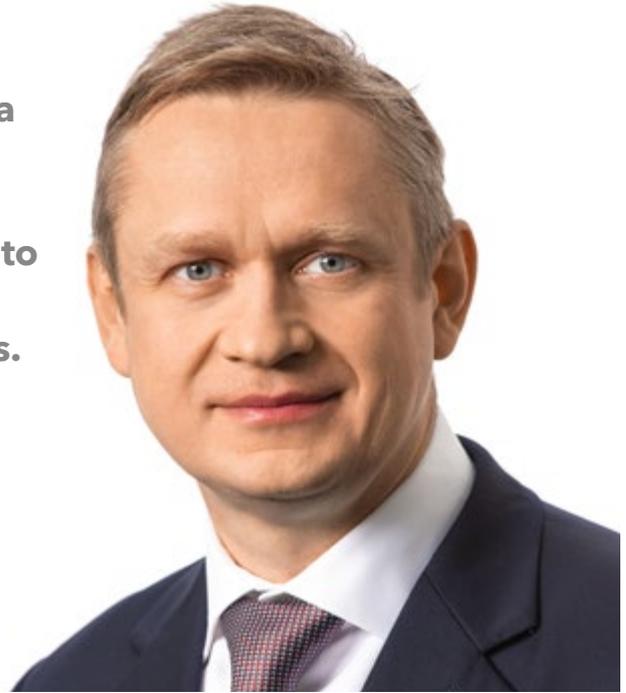


Record results driven by focus on operational excellence

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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.

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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.

INTEGRATION OF OUR POWER BUSINESS

The enlarged group will derive synergies from combining the best practices developed by SUEK and SGC.

The primary areas for integration are:

- Strategic planning and development
- Accounting, treasury, risk management and investor relations
- IT
- Legal support
- Internal audit

We expect the integration to deliver:

- Improvement in the quality of business processes due to their integration under one management
- Increased utilisation efficiency at coal, energy, and logistics
- Potential reduction of costs due to optimisation of general and administrative expenses for integrated functions
- Savings on monitoring and evaluation, service and investment items for overlapping categories, on warehouse costs and similar
- Total savings effect on the costs of raising debt and unified financing



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