

# Strong growth prospects underpinned by enhanced financial profile

LL

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

77



## 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.

The first was to focus on developing a sustainable and marginal niche in the international coal market, where SUEK can build and maintain a strong competitive position. The second was the acquisition of SGC, Siberia's primary coal-based power and heat supplier.

## 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 de-risked SUEK's financial profile through the diversification of the Group's revenue streams. It also provides synergies between the coal, heat, power and logistics businesses to further improve the Group's cost profile. Importantly, it has enabled us to take more control over managing the environmental impact of our business throughout the supply chain.**



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