

Increased scale, greater efficiencies

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 Mt¹ 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.

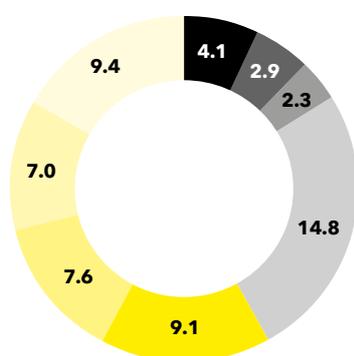
Coal sales to our own power plants increased by 22%, to 30.2 Mt, thanks to the robust demand from our new energy facilities and due to a cold winter, while sales to other Russian customers remained stable.

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

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

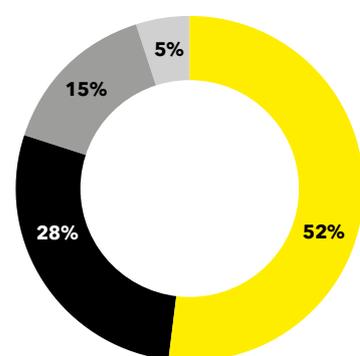
International sales structure¹ (Mt)



PACIFIC 58%
 ● South Korea
 ● China
 ● Japan
 ● Other

ATLANTIC 42%
 ● Netherlands
 ● Germany
 ● Poland
 ● Other

Domestic sales structure (%)



● Own generation
 ● Other power plants
 ● Communal utilities
 ● Other

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 Nekkovy, Pravoberezhny, Nikolsky, Vostochno-Beisky, Izykhsky, Abakansky, Zarechny and Kamyshansky. This growth and higher mining volumes at Ruban (Magistralny site), Komsomolets, Polysaevskaya 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%.

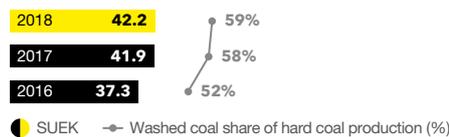
Investment projects

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.

Production by mining method (Mt)



Coal washed (Mt)



\$719 m
COAL CAPEX IN 2018

Workforce productivity (tonnes per man-month)



High-CV coal share in export (%)





Expand the capacity of the Magistralny site at the Ruban mine

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.

Resumed the construction of the November 7th New mine

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.

Increase the length of longwall faces

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.



The development of the Vostochno-Beisky open-pit mine

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.

Purchase of two unmanned BELAZ mining dump trucks

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

Initiated the construction of a new fine-size coal washing module

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

Our priorities for 2019

The priorities of SUEK's Coal Segment for 2019 are growing export and domestic shipments, enhancing long-term competitive advantages through greater operating efficiency across the entire business chain, and developing assets to maximise margins in both the short and medium term.

We plan to sell more products with a calorific value of over 5,800 kcal/kg by increasing our production of high-calorific coal and further developing our distribution network.

In 2019 SUEK will actively invest in the construction of the November 7th New underground mine, the development of the Severnaya mine and plans to repeat the success of previous longwall extensions to 350-400 metres at the Kirov and Polysaevskaya mines. We will also invest in high-performance equipment for the Ruban mine and increase production at the Zarechny, Bureinsky and Abakansky mines.

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.

+22%
WASHING CAPACITY
BY 2022



In 2018, the Energy Segment’s strong performance reflected the aquisition 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.

Operational highlights

	2018	2017	%
Generation			
Electricity (TWh)	46.2	36	28%
Heat (million Gcal)	46	26.5	74%
Sales			
Electricity (TWh)	50.0	38.5	30%
Competitive market	40.9	33.4	22%
Regulated market	9.1	5.1	78%
Capacity (GW)	9.2	6.5	42%
Competitive market	7.5	5.6	34%
Regulated market	1.7	1.0	70%
Heat energy (million Gcal)	37.2	22.5	65%

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.

Heat generation by plants and boiler houses in 2018 rose by 74% to 46 million Gcal. This significant increase also

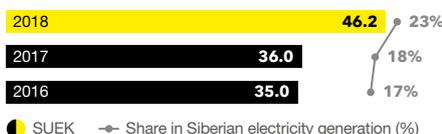
reflected the acquisition by SGC of new assets, as well as higher output across all of our plants due to low temperatures in the winter and spring months and the expansion of our customer base.

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.

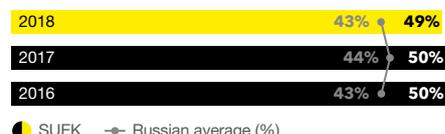
Heat generation (million Gcal)



Electricity generation (TWh)



Installed power capacity utilisation rate (%)



+74%
HEAT GENERATION

+28%
ELECTRICITY GENERATION

\$98m
ENERGY CAPEX IN 2018

The coefficient of the updated network (share of the reconstructed part of the entire network)



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



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

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.

- Inclusion of the KramzEnerg 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



Operational highlights

Mt	2018	2017	%
Transportation			
Rail shipments on public tracks	87.3	82.5	6%
Shipment by sea	47.3	47.8	(1%)
Vanino Bulk Terminal	20.0	19.5	3%
Murmansk Commercial Seaport ¹	15.4	14.6	5%
Maly Port	2.5	2.9	(14%)
Other ports	9.4	10.8	(13%)

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%² 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.

We shipped 2.5 Mt through Maly Port, located in the Russian Far East, primarily to Japan and South Korea.

In 2018, SUEK consolidated 100% of the shares of Murmansk Commercial Seaport. We shipped 15.4 Mt of coal to the Atlantic market through the port, which constitutes a 5% year-on-year increase. The company also shipped 9.4 Mt of coal through third-party ports.

Investment projects

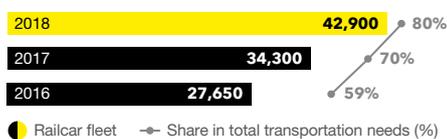
Shipment capacity expansion at Vanino Bulk Terminal

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.

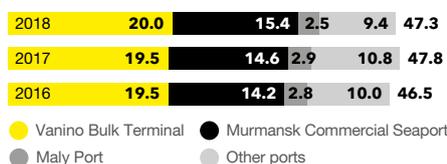
Capacity increase at Maly Port

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.

Railcar fleet under management (units)



Transshipment (Mt)




\$86m
 LOGISTICS CAPEX IN 2018

1. Including third parties' coal. In addition, the port shipped non-coal products totalling 0.8 Mt.
 2. Russian Railways statistics.

PROCUREMENT

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% 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.



+67%

CAPACITY AT VANINO BULK TERMINAL BY 2025

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.