Building competitive advantage
The global energy markets are transforming, as both developed and developing markets adapt and evolve to support the move to a more sustainable planet. Those countries with the resources and infrastructure to transform their energy supply systems are developing renewable energy sources.

In developing countries across the world, where communities are still dependent on affordable and reliable coal-fired energy, new HELE coal-fired power plants are being built to address growing electricity demand while reducing environmental impact.

SUEK has a vital role to play within the evolution of this energy balance. Our high-CV coal and co-generation plants are critical to guaranteeing reliable and affordable heat and electricity supply to millions of people, many of whom live in extreme environments, and our commitment to these communities remains absolute.

Alongside this, we maintain a focus on operational excellence, which includes ensuring the highest standards of industrial safety across all of our businesses, supported by the introduction of new technologies and trainings as well as the increasing automation and digitalisation of processes.

The synergies and increased operating efficiencies we have achieved over the year have further strengthened our model to deliver a strong performance through the lows of the industry cycle and we are well-positioned for growth opportunities.
Through vertical integration and cost efficiency…

...we maintain leading positions in premium coal and resilient energy markets…

...and deliver robust EBITDA, stable margins and cash flows…

...underpinned by a culture focused on sustainability

- 106.2 Mt coal mined
- 113.7 Mt coal sold
- 14.7 GW power capacity
- 55.2 TWh electricity sold
- 53,350 railcars
- 3 ports
- 35.3 mGcal of heat sold
- 9 Mt CO₂ saved annually by our co-generation of heat and electricity
- -2% emissions CO₂, NOₓ, SO₂ in Energy segment
- $2,115 m EBITDA
- 28% EBITDA margin
- $2,059 m operating cash flow
- $26 m invested in social programmes
- $26 m invested in social programmes
Vertically integrated and cost-efficient
For more details, see Business model on pages 12–13.

Maintaining leading positions in premium coal and resilient energy market
For more details, see Market fundamentals and SUEK on pages 16–21.

Delivering robust EBITDA, stable margins and cash flows
For more details, see Financial review on pages 56–59.

Underpinned by a culture focused on sustainability
For more details, see Sustainability and Corporate governance on pages 76–121.

### Advanced coal and energy company

Integration and control of the entire cycle, from production to customer delivery:
- **32%** of coal consumed by our own power plants
- **96%** of heat produced in the co-generation cycle
- **>80%** of coal delivered by managed railcars
- **80%** of coal transhipped through our own ports

Our coal producing assets are positioned at the lower end of the global cost curve due to economies of scale, highly efficient production and a RUB denominated cost base.

Synergy between coal, energy and logistics businesses ensures stability in market cycle

Credit ratings

#### Increased share of low-volatile revenue, $m


#### One of the lowest LTIFR in Russian and global coal mining

Peer 1 1.04
Peer 2 1.35
Peer 3 0.81
Peer 4 2.04
SUEK 0.72

Peer group includes Evraz (coal), Glencore (coal), Rio Tinto, Severstal (coal).
Our worldwide reach and distribution

Our co-generation power plants ensure reliable supplies of heat and electricity to millions of consumers in Russia. Our own logistics and trading networks bring our high-CV coal to power plants around the world.

Supplying 48 countries on 5 continents
30 trade offices globally
>5m heat consumers
3 ports

ISO 19600:2014 compliance
ISO 37001:2016 anti-corruption

The International Compliance Association (ICA) confirmed that SUEK’s management systems comply with ISO compliance and anti-corruption requirements.

For more details, see page 116.

Reftinskaya GRES acquisition

In October 2019, the acquisition of the Reftinskaya GRES was completed. The acquisition of this power plant enabled SUEK to expand the supply westwards into the Urals and consolidate its position as one of the top power generators in Russia.

For more details, see page 29.

Expansion of higher-capacity railcar fleet

SUEK acquired over 16,000 additional higher-capacity railcars. SUEK is now able to meet over 80% of its railcar needs and has become one of the largest operators of higher-capacity railcars in Russia.

For more details, see page 27.

Transformation of Rubtsovsk heating system

SUEK invested around $30m in the upgrade of Rubtsovsk heating system, reducing its failure rate by 32%.

For more details, see page 33.

SUEK’s assets

Coal assets
Power and heat assets
Railcars and ports
Scientific research and design institute
International sales network
Machine building and service facilities
Building competitive advantage

Alexander Landia,
Chairman of the Board of Directors

SUEK began 2019 as a diversified company with consolidated coal, logistics and energy assets, an extensive distribution network and strong positions in energy markets. The consolidation of the energy business has ensured we are able to guarantee reliable and affordable supplies of electricity and heat to millions of people in Siberia, one of Russia’s major industrial regions.

Faced with the challenging situation in the volatile coal markets, intense competition with natural gas producers and the backdrop of the international climate agenda, in 2019 the Board of Directors evolved SUEK’s consolidated strategy to ensure SUEK remains on track to strengthen its market position in its core coal, energy and logistics segments and maximise the synergies available. Underpinning the strategy is SUEK’s focus on maintaining its strong margins and robust balance sheet through the cycle whilst operating in a wholly responsible and ever increasingly sustainable manner for all stakeholders.

Calibrating the strategy

The updated macro forecast to 2028, reviewed by the Board, indicated an opportunity in the Asia-Pacific region for exporters of high quality coal, reflecting reduced supplies from Indonesia and other traditional regions, along with growing demand for coal in the Middle East and Africa. Meanwhile, it suggested stagnation and eventual decline in European coal market, though this would remain an important market for Russian exporters of quality products in the next decade.

In view of this, the Board of Directors adopted a new consolidated 2023 Strategy, setting operational strategies and goals for the coal, energy and logistics segments. In addition, we approved key development projects, prioritising those projects with a clear payback period and high margins.

Enhancing competitive advantage

In the Coal Segment, we focused on projects for the production of high-CV coals that meet the latest environmental standards which are demanded by consumers. We will intensify the development of high-quality coal deposits, building washing and logistics capacities to service high-potential export destinations.

In line with the approved plans, in 2019 the company invested in the development of infrastructure and coal mining in the Khabarovsk region, favourably located relative to priority export markets. New washing facilities in Buryatia have also brought us closer to our goal of washing all coal exported by SUEK.

In our logistics business, the company increased its fleet of over 53,000 units, enabling us to cover almost all of SUEK’s transportation needs, better control transportation costs and delivery times. We also invested significantly in our port facilities, primarily in the east of the country. Once Russian Railways has completed expansion of the Eastern Polygon, Vanino Bulk Terminal will target a capacity of 40 Mt.

In the Energy Segment, the Board approved deals to acquire assets in strategic regions. Following the acquisition of the Reftinskaya GRES, the installed power capacity of the Group has reached almost 15 GW making it of significant social and economic importance in several industrial regions.

Consistent results

Electricity and capacity sales as well as heat became an important stabilising factor, improving our revenues while coal supplies to the Group’s power plants helped balance domestic demand. As a result, the impact of coal market volatility on SUEK’s financial performance was not as significant as for others in the sector.

In 2019, the Group’s total revenue exceeded $7.5 billion, the EBITDA margin was 28% and net profit totalled $706m. The company’s consistent financial performance and its highly efficient business model were recognised once again by international rating agencies, with Moody’s confirming SUEK’s credit rating at Ba2, and Fitch at BB, with a stable outlook.

Operating responsibly

In 2019, Russia ratified the Paris Agreement. As a responsible company, we support this step. The Russian power industry has one of the lowest emissions levels in the world. Most electricity in the country is generated from nuclear, gas and hydro sources.

At the same time, across large parts of Russia, where remoteness makes it too challenging for gas pipelines, coal generation continues to play a critical role, especially in supplying local people with heat.

In those territories we are focused on maximising the cogeneration of heat and electricity from the same amount of fuel. SUEK replaces old boiler houses with the heat from higher-efficiency CHPs. Cogeneration plants have a capacity utilisation ratio up to 85%, helping us cut about 9 Mt of CO2 emissions a year, which is almost double the impact of the renewable projects planned in Russia. We will continue our efforts in this area.

Focus on health and safety

We were deeply saddened that eight fatalities occurred at our operations during the year. We have a stringent focus on ensuring a zero-harm workplace, and health, safety and employee well-being are the cornerstone of our culture, so these occurrences were deeply distressing. Full investigations have taken place into each of these incidents, and we remain committed to maximum investment in health and safety measures and training to ensure the well-being of every employee is maintained.

We recognise that it is only by operating responsibly and in the interest of all stakeholders that we will continue to build a successful, sustainable business. First of all, this means looking after our employees by supporting their professional development and improving working and living conditions. Striking examples are the construction of a new administrative complex at Talinskaya-Zapadnaya 1 and a swimming pool in Leninsk-Kuznetsky.

As an energy and mining company, we also understand that our operations have an impact on the natural environment and can affect communities around us. In 2019, we continued to introduce the latest technologies to ensure highest industrial safety standards and minimise our impact on the environment, and we invested considerably in social programmes that address the issues that our stakeholders tell us are important to them.

COVID-19

At the time of publication of this Report, the COVID-19 outbreak continues to evolve quickly. As always, our first concern is the wellbeing of our colleagues, partners and our customers. We continue to follow all appropriate recommendations issued by the Government of Russia and the regional health authorities. We have already taken actions to protect our colleagues and continue to prioritise their safety. At this time the long-term full impact of COVID-19 is difficult to assess. Our resilient vertically integrated business model and market leading positions ensure that SUEK manages the volatility caused by this global health crisis.

Looking to the future with confidence

Improving SUEK’s competitive advantage and strengthening its business model through diversification and integration have given us the confidence to be optimistic for the long-term future, despite a challenging market environment amidst the gas market in surplus and COVID-19 crisis. The sustainability of our business is underpinned by our responsible approach and the significant role the business plays in the regions where we operate. The skills of our dedicated teams drive our performance as we unlock value from our high-quality assets. We look forward to capitalising on the growing demand for high-quality Russian coal in Asia and domestic economic activity in Russia.

$7,547 m revenue
$2,115 m EBITDA
$834 m investments in 2020-2025 to improve the environmental situation in Krasnoyarsk
Driving operational excellence for sustainable growth

In 2019, as part of SUEK’s strategy to further strengthen its competitive advantages, we continued the consolidation of our coal and energy businesses, initiated in 2018. Our objective is to ensure the combined company benefits from the inherent synergies and strongest competencies of both SUEK and SGC, through exchanging best practices between the businesses. Today, the consolidation is either complete or at the final stage across all functions. This has enabled us to reduce operating costs within the Group and optimise the debt portfolio and our investment process.

Enhancing heat and electricity supplies

Following the acquisition of the Refitinskaya GRES, a key asset strategically located in higher price Zone 1 in the Urals, the company’s installed power capacity increased by 35%, to almost 15 GW. This drove growth of 10% in SUEK’s electricity sales in 2019, which had a positive impact on revenue. In 2020, another 1.3 GW will be added to our power capacity through the acquisition of the Krasnosyrskaya GRES-2. The consolidation of SUEK’s mining and energy assets has secured reliable and affordable electricity and heat supply to industrial and residential customers in a region with projected economic growth, whilst also enhancing the vertical integration of the Group – ensuring guaranteed supplies to Asia by 4% in 2019. All of this helped us increase coal supplies to Asia by 4% in 2019.

Improving coal supplies

Within SUEK’s Coal Segment, we have solved various issues relating to equipment wear. Our investments in the development of the Nikolsky mine in Buryatia and Pravobrezhny mine in the Khabarovsk region enabled us to more than double production in these open-pit mines in 2019. A large-scale update of the equipment took place at the Kharanorsky open-pit mine in Buryatia and Pravobrezhny, in 2019. In November, port workers at SUEK’s Vanino Bulk Terminal set a new record for coal unloading: over 2 Mt a month. The ongoing expansion of access roads and the development of the port is expected to double these volumes again. The progress of our work here is directly linked to the Russian Railways investment programme to develop the Eastern Polygon. All of this helped us increase coal supplies to Asia by 4% in 2019.

Digitalisation and operational efficiency

Digitalising the mining industry from pit to port can have a significant impact on operational efficiency. SUEK is embracing the digital revolution and actively investing in innovation, digitalisation and process automation, introducing advanced technologies at all stages of production and marketing to further enhance our competitive advantage. The company’s divisions have already piloted state-of-the-art technology such as autonomous mining and driverless dump trucks and predictive analytics-repair technologies utilising big data. We also use digital platforms to improve the transparency of communications with customers and suppliers.

In 2019 we launched our Remote Industrial Safety Control platform in Kuzbass based on our centralised Control and Analysis Centre which is unparalleled globally. The system gives SUEK full control over the entire coal mining process enabling us to predict and prevent process failures and safety hazards.

In 2020, we will focus on further improving operational efficiency to maintain the sustainable long-term growth of the company, whilst strengthening our position in the high-CV coal and energy markets. Meanwhile, we continue to make timely investments in industrial safety, and environmental and social development projects to support the welfare of our employees and local residents in the regions where we operate.
Creating value throughout the cycle

Our multi-product, vertically integrated model ensures stable cash flows at all stages of the market cycle, enhanced revenues as a result of operational synergies, and the ability to control both costs and environmental and industrial safety performance throughout the chain.

Our main differentiators:
1. In-demand high-calorific coals with low sulphur and nitrogen content → able to sell premium coal
2. Co-generation of heat and electricity fuelled by local coal → high energy and cost efficiency
3. Economies of scale and operational efficiency → competitive advantage in cost and knowhow management
4. Excellent logistical infrastructure supporting assets and end markets → maximum control of route to market
5. Owned fleet of high-capacity railcars and high-tech port infrastructure → cost and environmentally efficient route to market
6. One of the largest coal sales networks with direct shipments to customers → always able to find the regional market that offers the highest net-back price
Technology enhancing our business across the value chain

The automation and digitalisation technologies we are deploying at key operations enable us to make on-time production and marketing decisions using data analytics, improve operational efficiency and industrial safety, and control and reduce costs and the environmental impact.

Development
The integration of advanced exploration systems and 3D geological modelling enables us to develop and promptly adjust cost-efficient mining plans.

Coal mining
Automatic dispatch control of the entire mining process makes it possible to quickly eliminate bottlenecks and potential emergencies.

Coal washing
Automatic dispatch control of the entire washing process provides for effective equipment use.

Electricity and heat generation
Dispatch control of CHP plants makes it possible to optimise power plant operations and promptly adjust to production plans.

Accounting
The data from our production and sales offices around the world are promptly uploaded to the ERP system for quick adjustments to production plans, improved quality and volume.

Transportation
Dispatch control of transportation and logistics.

Using automation and digitalisation to unlock value

Cost-efficient use of resources
Integrated mining and industrial data
Drilling and blasting optimisation
Equipment use optimisation
Process automation
Optimisation of key operational processes
Square paths accounting
Failure and accident forecasting
Production repairs
Remote monitoring of industrial safety

For over a decade, SUEK has been introducing the most advanced global digital technologies and the latest innovations from Russian scientists across our facilities.

Digital technology is currently enhancing all key areas of the company’s operations. Labour productivity has grown almost twofold since 2010 largely driven by digital innovation.

Vladimir Rashchevsky, CEO of SUEK

99% of the Group’s revenue is registered in the ERP
24/7 monitoring of industrial safety in mines
24/7 environmental monitoring in ports

1 Efficiency and productivity increases
2 Remote monitoring of equipment
4 Dispatch control of the entire logistics cycle enables us to optimise transportation and logistics
6 Improved heat supplies to the local population
8 Improved customer engagement
10 Optimisation of employee work
12 Improved industrial safety
14 Enhanced customer engagement
16 Improved operational processes
18 Square paths accounting
20 Enhanced industrial safety
22 Improved heat supplies to the local population
24 Improved operational processes
26 Improved customer engagement
28 Enhanced customer engagement
30 Improved heat supplies to the local population
32 Improved operational processes
34 Enhanced industrial safety
36 Enhanced customer engagement
38 Enhanced industrial safety
40 Improved heat supplies to the local population
42 Improved operational processes
44 Improved customer engagement
46 Enhanced customer engagement
48 Improved heat supplies to the local population
50 Improved operational processes
52 Improved customer engagement
Stable prospects for SUEK’s high-CV products

Demand for SUEK’s coal is driven by growing electricity consumption in Asia and the necessity to provide heat to millions of people in Russia.

**Demand**

**Mid-term**
- The commissioning of new coal-fired energy facilities in Asia, the Middle East and Africa will offset the decline in demand in Europe.
- Excess supply in the natural gas market, primarily in Europe, will restrain gas and coal prices until the balance in the gas market is restored.
- By 2022, India will overtake China as the leading coal importer. China may limit coal imports and support domestic producers.

**Energy sources by 2030, Mtoe**

<table>
<thead>
<tr>
<th>Source</th>
<th>Coal</th>
<th>Oil</th>
<th>Natural gas</th>
<th>Hydrogeneration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>210</td>
<td>66</td>
<td>172</td>
<td>32</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>210</td>
<td>66</td>
<td>172</td>
<td>32</td>
</tr>
</tbody>
</table>

**Coal imports in 2030**
- Europe, Middle East, Africa: −23 Mt
- Asia: +38 Mt

**Long-term**
- Electricity consumption rise globally +58% CAGR +2.7% by 2040 due to growing population, urbanisation and industrialisation
- Higher efficiency of power plants stimulates demand for high-CV coal.
- The share of HELE power plants will increase to almost 80% by 2040
- Global carbon regulation will be tightened in accordance with the Paris Agreement.

1. Not including co-generation (heat and electricity) plants.

**Supply**

**Mid-term**
- Decline in exports −63 Mt by 2030 from Indonesia

**Long-term**
- Deliveries −166 Mt by 2040 from Indonesia and owned ports, along with the railway infrastructure expansion towards the East, will support increased supplies to target high netback markets.

**SUEK’s response**

**Mid-term**
- Strict cost control
- Capacity development
- Business diversification

**Long-term**
+20 Mt of washing capacity
+20 Mt of transhipment to Asian markets through own ports

Global trends

The global power industry is facing serious challenges. While the global community has promised full access to electricity for all, 850 million people still live without this basic necessity. Population growth, urbanisation, industrialisation and a gradual transition from gasoline to electric vehicles will drive growth in electricity demand of 2% annually. To meet this growing demand, affordable, versatile and reliable energy sources are needed. At the same time, a heightened focus on climate change and environmental issues are forcing producers to operate responsibly and minimise their environmental footprint.

Developing economies will account for the greatest proportion of electricity demand growth (3% per year), especially in Asia, where higher industrial output and household incomes, and the development of the services sector, will demand more electricity. China will account for around one third of global increase in electricity demand. India and Southeast Asia will account for approximately another third. As a result, Asia’s electricity consumption will grow by 7 p.p. to 54% of global consumption in 2040.

In advanced economies demand growth will be only 0.7% per year, with efficiency improvements restraining the growth of electricity consumption to support ongoing digitisation and electrification. The biggest driver of the demand increase will be a transition to heating using electric heat pumps rather than gas heating.

When it comes to supply, the largest area of growth will come from solar and wind generation, the share of which will grow from 7% to 24% by 2040, according to the International Energy Association. Nevertheless, coal will remain the largest source of electricity with a share of 25%, with its consumption remaining stable.

Coal industry developments

The main trends in coal-fired generation include:

- Improving power plant efficiency consuming coal with higher specific calorific value (high-CV coal)
- Tighter restrictions on SOx and NOx emissions
- Consumption growth in India and Southeast Asia to offset lower demand in Europe, the USA, and potentially China.

In addition to the power industry, other sectors will increase their consumption of coal. By 2040, the use of coal in the metallurgical, cement and chemical industries will increase by 225 Mt.

Coal will remain the primary fuel in Asia’s energy system, where demand will grow by an average of 0.4% annually over the next 10 years.

More efficient technologies change coal demand, Mtce

<table>
<thead>
<tr>
<th>Country</th>
<th>2017</th>
<th>2020</th>
<th>2030</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>470.0</td>
<td>472.0</td>
<td>544.0</td>
</tr>
<tr>
<td>Southeast Asia</td>
<td>661.0</td>
<td>778.0</td>
<td>89.0</td>
</tr>
<tr>
<td>Japan</td>
<td>1,000</td>
<td>1,200</td>
<td>820.0</td>
</tr>
<tr>
<td>South Korea</td>
<td>233.0</td>
<td>265.0</td>
<td>544.0</td>
</tr>
<tr>
<td>China</td>
<td>1,433</td>
<td>1,206</td>
<td>820.0</td>
</tr>
<tr>
<td>Total</td>
<td>3,502</td>
<td>3,683</td>
<td>3,187</td>
</tr>
</tbody>
</table>

Currently, supply and demand tend to converge and remain in a fundamental balance. The surplus of coal capacities makes up only 3% of the global market (approximately 30 Mt). If we compare this to similar basic industries, the capacity utilisation rate in the coal industry is around 97%, while the utilisation rate in other sectors such as non-ferrous metallurgy, fertiliser or steel production does not exceed 80%.

Given excess capacity, today’s low prices could lead to eventual decline for those producers that have high production costs. Even so, global capacities that are currently planned for commissioning are likely to be positioned on the right side of the global cost curve, mainly due to greater production challenges (stripping ratios and transportation distances).

Indonesia, currently the largest coal exporter, will decrease international supplies due to rising domestic consumption.

In 2017, China introduced a regulation scheme for domestic spot prices, a “corridor mechanism”, to reduce price volatility and ensure sustainable relationships between coal and power companies. This mechanism stipulated a cap of 600 CNY/mt (equivalent to $86.5/t FOB NEWC) for domestic contractual prices, with higher prices triggering regulatory intervention. Similarly, the floor figure is 470 CNY/mt (S$61/t FOB NEWC), the breaching of which can also trigger regulatory action. Most market players believe that the scheme will remain in effect and will continue to influence the global coal market.

Another factor that is beginning to exert an increasing influence on coal prices, especially in Europe, is gas prices. Natural gas generation, which is one of the primary alternatives to coal generation in the regions with the appropriate gas infrastructure, will develop at a faster pace (CAGR 2018-2040 1.7% versus 0.1% for coal generation). Despite this, the share of gas power generation will remain at approximately the current level of 22-23% until 2040. The availability of large, inexpensive gas resources in the United States has a significant impact on the global markets.

In addition, gas generation produces lower CO2 emissions compared to other fossil fuels, making it more attractive to consumers as a basic energy source given stricter carbon regulation.

In general, over the next 20 years, coal generation will remain the main source of reliable, affordable energy for rapidly developing countries, where people urgently need uninterrupted access to safe electricity. In other parts of the world, the future of coal generation will depend on producers’ ability to adapt cost-effectively to increasingly flexible energy systems and to more stringent environmental and climate regulations.
In 2014, the Russian government launched its coal industry development programme to 2030, focused on:

- A responsible approach to developing resources both at currently operating and new deposits
- Stimulating the development of state-of-the-art technology for coal mining, processing and washing, to increase the value of products, and consequently improve business profitability and create new jobs
- Investment in personnel development and R&D to meet the best international standards (in quality and health & safety)
- Removing infrastructure restrictions on the development of the coal industry and, above all, reducing bottlenecks at railways and ports

See https://www.rosugol.ru/programme/index_1.php

Coal is one of Russia’s most important energy resources. Annual Russian consumption of thermal coal has remained stable at an average of 155 Mt for the past five years.

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- A responsible approach to developing resources both at currently operating and new deposits
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- Investment in personnel development and R&D to meet the best international standards (in quality and health & safety)
- Removing infrastructure restrictions on the development of the coal industry and, above all, reducing bottlenecks at railways and ports

Coal-fired power generation is the most efficient source of energy in Siberia as it consumes local coals and can combine electricity generation with heat generation.

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 Taimet 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.

The major driver of heat consumption is rising urbanisation. According to a state programme, the construction of new houses will increase to 130 million m² by 2025.

On the supply side, capacity development is restricted by the current tariff system based on actual costs, which makes long-term investment planning impossible. The planned transition to the ‘alternative boiler’ method will enable the government to increase tariffs above the rate of inflation to justify the costs of capacity upgrades and favour the co-generation of heat and power. Therefore, the transfer to this tariff allows long-term investment for the upgrade of heat networks. Of the cities supplied by SUEK, Rubtsovsk has been the first to trial a transfer to the ‘alternative boiler’ method.

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In 2007–2016, Russia ran a state programme to support the upgrade and construction of new power capacities under capacity delivery agreements (DPM-1). In 2019, the Russian government adopted a new state support programme (DPM-2), which will enable power producers to upgrade 40 GW of capacity by 2030.

Depending on the weather, approximately 16% of coal consumption is used to heat homes and social and industrial facilities. Coal generation accounts for 95% of heat production in Siberia.

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Major suppliers of thermal coal to the Russian market include SUEK, EN+ Group, Russian Coal, Kuzbassrazrezugol and Luchegorsky open pit. Products supplied by these five companies cover approximately 57% of the total demand for thermal coal in Russia. 15% of Russian thermal coal demand is also covered by imports, mainly from Kazakhstan.
Delivering high-quality energy

Vision
Already the largest coal producer in Russia and one of the key heat and electricity suppliers, our aim is to be one of the world’s leading energy companies. We will achieve this by expanding our existing mining, processing and power generating assets, investing in new technologies and continuing to develop our logistics and distribution systems. We also aim to reduce our environmental impact and enhance our positive contribution to the social and economic development of the regions where we operate.

SUEK’s SWOT analysis

Strengths
- Position in the lower end of the global coal cost curve due to vertical integration and large-scale investments
- Diversified coal portfolio for all key markets, including high-CV coals
- 30+ years of high-quality low-sulphur coal reserves, efficient mining and washing capacities
- One of the largest global coal sales networks
- Efficient co-generation heat and power generating facilities fuelled by local coal
- Access to funding and prudent financial policy ensuring financial stability
- Effective and transparent ESG programmes

Weaknesses
- 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
- Energy CAPEX dependence on state regulations

Opportunities
- Stable demand for high-CV coals
- New coal applications
- Development of railways to Eastern ports
- New housing and energy-intensive industrial facilities in the regions where we operate
- Transfer to the ‘alternative boiler’ tariff
- New financing opportunities (project and equipment supplier (export) finance)

Threats
- International coal price volatility
- Decrease in output or suspension of energy-intensive industries due to macroeconomic factors
- More stringent CO2 regulations for power stations
- More stringent ESG requirements from the financial community
- Russian railway infrastructure restrictions

2023 targets
70% of total production to be hard coal
>65% of hard coal to be washed
100% heat from co-generating power plants

Focusing on efficient growth

2023 targets
Net debt / EBITDA ratio at an average of 2.5x throughout the market cycle

Improving operational efficiency and productivity

2023 targets
80% coverage of own transportation needs
80% transhipment of own coal exports through SUEK’s ports

Maintaining a robust balance sheet

2023 targets
Zero industrial accidents
Zero fatalities
Progressive decline in LTIFR aiming to reach zero

Achieving high safety standards

2023 targets
0% of water outflow to be untreated

Committed to sustainable development

2023 targets
Positioned in the lower end of the global coal cost curve due to vertical integration and large-scale investments
Diversified coal portfolio for all key markets, including high-CV coals
30+ years of high-quality low-sulphur coal reserves, efficient mining and washing capacities
One of the largest global coal sales networks
Efficient co-generation heat and power generating facilities fuelled by local coal
Access to funding and prudent financial policy ensuring financial stability
Effective and transparent ESG programmes

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
Energy CAPEX dependence on state regulations

International coal price volatility
Decrease in output or suspension of energy-intensive industries due to macroeconomic factors
More stringent CO2 regulations for power stations
More stringent ESG requirements from the financial community
Russian railway infrastructure restrictions

Vision
Already the largest coal producer in Russia and one of the key heat and electricity suppliers, our aim is to be one of the world’s leading energy companies. We will achieve this by expanding our existing mining, processing and power generating assets, investing in new technologies and continuing to develop our logistics and distribution systems. We also aim to reduce our environmental impact and enhance our positive contribution to the social and economic development of the regions where we operate.

SUEK’s SWOT analysis

Strengths
- Position in the lower end of the global coal cost curve due to vertical integration and large-scale investments
- Diversified coal portfolio for all key markets, including high-CV coals
- 30+ years of high-quality low-sulphur coal reserves, efficient mining and washing capacities
- One of the largest global coal sales networks
- Efficient co-generation heat and power generating facilities fuelled by local coal
- Access to funding and prudent financial policy ensuring financial stability
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Weaknesses
- Sensitivity of earnings to global coal prices and RUB exchange rate
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Opportunities
- Stable demand for high-CV coals
- New coal applications
- Development of railways to Eastern ports
- New housing and energy-intensive industrial facilities in the regions where we operate
- Transfer to the ‘alternative boiler’ tariff
- New financing opportunities (project and equipment supplier (export) finance)

Threats
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2023 targets
70% of total production to be hard coal
>65% of hard coal to be washed
100% heat from co-generating power plants

Focusing on efficient growth

2023 targets
Net debt / EBITDA ratio at an average of 2.5x throughout the market cycle

Improving operational efficiency and productivity

2023 targets
80% coverage of own transportation needs
80% transhipment of own coal exports through SUEK’s ports

Maintaining a robust balance sheet

2023 targets
Zero industrial accidents
Zero fatalities
Progressive decline in LTIFR aiming to reach zero

Achieving high safety standards

2023 targets
0% of water outflow to be untreated

Committed to sustainable development

2023 targets
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Increasing production of high-quality and high-demand coal products

<table>
<thead>
<tr>
<th>Year</th>
<th>Coal production, Mt</th>
<th>Share of washed hard coal and high-calorific coals in exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>68.7</td>
<td>62%</td>
</tr>
<tr>
<td>2018</td>
<td>70.1</td>
<td>68%</td>
</tr>
<tr>
<td>2017</td>
<td>72.2</td>
<td>77%</td>
</tr>
</tbody>
</table>

We continued to develop our assets in Khakassia (Chernogorsky), Buryatia (Tugnuisky and Nikolsky), Khabarovsky region (Pravoberezhny), which led to a 5% year-on-year increase in production at these open-pit mines. Meanwhile, we used the market downturn to upgrade underground mining equipment, which led to a decrease in underground production, leading to a total 7% hard coal production decrease year-on-year. SUEK launched a second washing plant at Tugnuisky, bringing the share of washed hard coal to 62%.

Strategizing our presence in premium coal markets

<table>
<thead>
<tr>
<th>Year</th>
<th>Total international sales, Mt</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>55.1</td>
</tr>
<tr>
<td>2018</td>
<td>57.2</td>
</tr>
<tr>
<td>2017</td>
<td>59.4</td>
</tr>
</tbody>
</table>

Sales Southeast Asia increased by 4%, driven mainly by growing exports to Vietnam and Hong Kong. SUEK stepped up sales to other premium markets, including 1.2 Mt supplied to Mexico. In the Atlantic, despite a general market decline, shipments to the countries of the Mediterranean basin increased by 1% to 6.5 Mt, mainly due to an increase in shipments to Morocco.

Consolidating our position in the Russian thermal coal market

<table>
<thead>
<tr>
<th>Year</th>
<th>Coal sales to Russian market, Mt</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>38.9</td>
</tr>
<tr>
<td>2018</td>
<td>36.2</td>
</tr>
<tr>
<td>2017</td>
<td>26.2</td>
</tr>
</tbody>
</table>

Increasing hard coal to 70% of total production

Increasing hard coal to >90 Mt by developing Pravoberezhny, Chernogorsky, Nikolsky, improving mine efficiency in Kuzbass

Raising the share of washed hard coal to >65%

Supplying more coal to Japan and South Korea through the promotion of products with a low ash content and higher calorific value.

Increasing deliveries to core markets (Taiwan, Malaysia, Hong Kong, Mexico).

Switching to the ‘alternative boiler’ tariff in and other cities.

Increasing hard coal to >90 Mt

Increasing Russian sales to >65 Mt

Raising the share of washed hard coal to >65%

Supplying more coal to Japan and South Korea through the promotion of products with a low ash content and higher calorific value.

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Maximising the share of SUEK's coal supply to our plants

Consolidating our position in the Russian heat and electricity markets

<table>
<thead>
<tr>
<th>Year</th>
<th>Heat generation, million Gcal</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>43.5</td>
</tr>
<tr>
<td>2018</td>
<td>46.2</td>
</tr>
<tr>
<td>2017</td>
<td>48.2</td>
</tr>
</tbody>
</table>

Consolidating our share in the Siberian heat and electricity market through capacity upgrade and potential M&As.

SUEK acquired Reftinskaya GRES and agreed on the purchase of the Krasnoyarskaya GRES-2. This will boost SUEK's total power generating capacity by 46% to 16 GW, which makes us No. 5 electricity producer in Russia. The transition of Barnaul to the ‘alternative boiler’ tariff was implemented.

In 2019 we started the trial operation of a second Tugnuisky WP. New wastewater treatment plants are being built for the mine and the washing plant.

Increasing output of high-CV products at Tugnuisky

At the Tugnuisky and Nikolsky open-pit mines, we mine coal with a low nitrogen and sulphur content, which makes it especially attractive for Japanese buyers, given the growing demand for high-CV coal in this premium market.

In 2019 we started the trial operation of a second Tugnuisky WP. New wastewater treatment plants are being built for the mine and the washing plant.

Increasing hard coal to >90 Mt

Increasing Russian sales to >65 Mt

Raising the share of washed hard coal to >65%

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Maximising the share of SUEK's coal supply to our plants

Consolidating our position in the Russian heat and electricity markets

<table>
<thead>
<tr>
<th>Year</th>
<th>Electricity generation, TWh</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>54.5</td>
</tr>
<tr>
<td>2018</td>
<td>48.2</td>
</tr>
<tr>
<td>2017</td>
<td>40.0</td>
</tr>
</tbody>
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In 2019 we started the trial operation of a second Tugnuisky WP. New wastewater treatment plants are being built for the mine and the washing plant.
Improving operational efficiency and productivity

We always strive to improve operational efficiency and productivity in order to remain competitive in any macroeconomic environment.

### Improving the operational efficiency of our coal assets

- Continuing to introduce advanced underground mine layouts, increasing the length of longwalls to 350-400 metres.
- Optimising the combined operation of excavators and dump trucks to ensure growth in production volumes and investment cost savings.

### Improving the operational efficiency of our energy assets

- We reduced the per 1 m³ energy consumption by 4%.
- We launched a second longwall 400 metres long.
- One will be launched in 2020. At the Yalevsky mine, we commissioned a 350 metres longwall, while another was launched to improve efficiency in future. At the Kirov mine, with lower production, but we upgraded equipment with lower production.

### Developing our railcar fleet

- Maintaining the share of railcars under management to cover our needs by 80% or more.
- Cooperating with Russian Railways to accelerate the turnover of cars on SUEK routes and increase investment in priority coal transportation areas.

### Expanding our transhipment capacities

- Further developing Variano Terminal.
- Developing Murmansk Commercial Seaport to meet our coal transhipment target of 15.5 Mt and attract third-party cargo, including for the development of the Arctic.

#### Productivity of mining personnel

<table>
<thead>
<tr>
<th>Year</th>
<th>t per man-month</th>
</tr>
</thead>
<tbody>
<tr>
<td>'17</td>
<td>636</td>
</tr>
<tr>
<td>'18</td>
<td>490</td>
</tr>
<tr>
<td>'19</td>
<td>538</td>
</tr>
</tbody>
</table>

#### Energy consumption per coal production

<table>
<thead>
<tr>
<th>Year</th>
<th>kWh/m² of rock mass</th>
</tr>
</thead>
<tbody>
<tr>
<td>'18</td>
<td>18</td>
</tr>
<tr>
<td>'17</td>
<td>17</td>
</tr>
<tr>
<td>'19</td>
<td>16</td>
</tr>
</tbody>
</table>

#### Specific fuel consumption, per unit of energy

<table>
<thead>
<tr>
<th>Year</th>
<th>kg of equivalent fuel / Mt</th>
</tr>
</thead>
<tbody>
<tr>
<td>'18</td>
<td>162</td>
</tr>
<tr>
<td>'19</td>
<td>161</td>
</tr>
<tr>
<td>'17</td>
<td>163</td>
</tr>
</tbody>
</table>

#### Share of heat output in co-generation cycle of the total heat output

<table>
<thead>
<tr>
<th>Year</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>'18</td>
<td>90%</td>
</tr>
<tr>
<td>'17</td>
<td>95%</td>
</tr>
</tbody>
</table>

#### Railcar fleet under management, units, and coverage of transportation needs

<table>
<thead>
<tr>
<th>Year</th>
<th>Railcar fleet</th>
<th>Transportation needs coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>'18</td>
<td>24,300</td>
<td>72%</td>
</tr>
<tr>
<td>'17</td>
<td>24,930</td>
<td>73%</td>
</tr>
</tbody>
</table>

#### Transhipment through dedicated ports, Mt and share of volume

<table>
<thead>
<tr>
<th>Year</th>
<th>Transhipment volume</th>
<th>Share of total volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>'17</td>
<td>37,0</td>
<td>77%</td>
</tr>
<tr>
<td>'18</td>
<td>38,6</td>
<td>66%</td>
</tr>
<tr>
<td>'19</td>
<td>46,0</td>
<td>63%</td>
</tr>
</tbody>
</table>

### Developing SUEK’s railcar fleet

In April 2019, SUEK acquired 16,025 higher-capacity railcars.

- 5 years older or younger
- 32-year service life and a capacity of up to 77 t
- Lower environmental impact per tonne compared to conventional railcars

This increased SUEK’s fleet under management to 53,350 units. Higher-capacity railcars make up 65% of our managed railcar fleet.

As a result, SUEK has ensured that more than 80% of its railcar needs are covered by its own fleet. The company can minimise its use of third-party railcars and improve the reliability of on-time deliveries to key Asian markets, as well as optimising transportation costs.

### Strategic report

- Lower environmental impact per tonne
- Higher capacity railcars make up 65% of the company’s railcar fleet
- Reduced environmental impact per tonne compared to conventional railcars
- Increased share of high-capacity railcars in the fleet
- Improved operational efficiency and productivity in the mining and energy sectors
- Increased coal transhipment through SUEK’s own ports
- Improved reliability of on-time deliveries to key Asian markets
- Optimised transportation costs

### Key performance indicators (KPIs)

- **Productivity of mining personnel**: 14.6 t per man-month in ‘19.
- **Energy consumption per coal production**: 9.2 kWh/m² of rock mass in ‘19.
- **Specific fuel consumption**: 16.1 kg of equivalent fuel / Mt in ‘19.
- **Share of heat output in co-generation cycle**: 90% in ‘19.
- **Railcar fleet under management**: 24,930 units in ‘17.
- **Transhipment volume through dedicated ports**: 37.0 Mt in ‘17.

SUEK increased coal transhipment through its own ports to 82%, thereby minimising the use of third-party ports. Coal shipment through the Vanino Bulk Terminal reached a record 20.5 Mt, benefiting from the completed upgrade of the port. Murmansk Commercial Seaport transshipped 16.3 Mt of coal and 1.3 Mt of non-coal products.

In Murmansk, SUEK increased coal transhipment capacity to 4 Mt of coal a year, we completed dredging of the operational waters and approach canal and restored railways.
## Maintaining a robust balance sheet

SUEK’s goal is to maintain profitability by controlling costs, diversifying cash flows and focusing on premium markets.

### Project financing development

In June 2019, SUEK signed an agreement with the Japan Bank for International Cooperation (JBIC) to open an export credit line for the purchase of Japanese mining equipment. A loan of up to $50m has been financed by JBIC and commercial banks. The Japanese state export credit agency, NEXI, provides credit insurance to the extent financed by commercial banks. Project financing enables SUEK to diversify borrowed capital sources and cut rates across the Group’s loan portfolio.

### Reftinskaya GRES consolidation

In October 2019, SUEK acquired from ENEL one of the largest power plants in Russia, Reftinskaya GRES, located in the Sverdlovsk Region (Urals).

- **Installed capacity of 3.8 GW**
- **40% of the total electricity supply to the Sverdlovsk region**
- Equipped with modern filters that capture 99.9% of ash emissions and an online emissions monitoring system
- **330-metre chimney No. 4 is one of the tallest stacks in the world**

### Sustaining profits despite the cyclical nature of the business

Maintaining profitability through cost control and a focus on premium markets.

### Maintaining a conservative financial policy

Keeping an optimal Net debt / bank EBITDA ratio within the approved KPI.

### Optimising borrowing costs

Developing a portfolio of financial instruments.

<table>
<thead>
<tr>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue, $m</strong></td>
<td><strong>EBITDA, $m</strong></td>
<td><strong>Net debt / EBITDA, ratio</strong></td>
</tr>
<tr>
<td>Coal</td>
<td>Energy</td>
<td>Logistics</td>
</tr>
<tr>
<td>5,142</td>
<td>8,145</td>
<td>1,285</td>
</tr>
<tr>
<td>4,347</td>
<td>7,206</td>
<td>1,285</td>
</tr>
<tr>
<td>17</td>
<td>1.9</td>
<td>1.4</td>
</tr>
<tr>
<td>17</td>
<td>1.9</td>
<td>1.4</td>
</tr>
</tbody>
</table>

### 2019 plans

- **Maintaining profitability through cost control and a focus on premium markets.**
- **Keeping an optimal Net debt / bank EBITDA ratio within the approved KPI.**
- **Developing a portfolio of financial instruments.**

### 2023 plans

- **Ensuring a stable positive cash flow.**
- **Maintaining Net debt / EBITDA ratio at an average of 2.5x throughout the cycle.**
- **Optimal finance costs.**

### Credit ratings

We continued to diversify our loan portfolio, in particular involving a large number of international banks in our syndicated loan, enabling us to optimise the rate on this instrument.

- **Moody’s**: Ba2
- **Fitch Ratings**: BB
- **IRAEX**: ruAA-

In light of the favourable domestic market environment, SUEK placed rouble-denominated bonds and reduced the average funding rate of our overall portfolio.

We also expanded our project financing, and in particular entered into transactions with Japanese state export agencies to finance the acquisition of Japanese mining equipment.

Our credit ratings were confirmed with a stable outlook.

---

### KPIs

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<tr>
<th></th>
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<th>EBITDA, $m</th>
<th>Net debt / EBITDA, ratio</th>
<th>Operational cash flow / cash CAPEX, ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2019</strong></td>
<td><strong>2018</strong></td>
<td><strong>2017</strong></td>
<td><strong>2019</strong></td>
<td><strong>2018</strong></td>
</tr>
<tr>
<td>Coal</td>
<td>Energy</td>
<td>Logistics</td>
<td>Coal</td>
<td>Energy</td>
</tr>
<tr>
<td>7,547</td>
<td>6,939</td>
<td>5,145</td>
<td>3.1x</td>
<td>1.6x</td>
</tr>
<tr>
<td>5,140</td>
<td>6,031</td>
<td>2,090</td>
<td>3.1x</td>
<td>1.6x</td>
</tr>
<tr>
<td>8,296</td>
<td>2,189</td>
<td>1,695</td>
<td>3.1x</td>
<td>1.6x</td>
</tr>
<tr>
<td>6,939</td>
<td>2,130</td>
<td>1,34</td>
<td></td>
<td></td>
</tr>
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### 2019 results

Thanks to the contribution from the energy business, SUEK was able to partially offset the impact of a significant decrease in global coal prices on the Group’s revenue.

Cost control and the synergistic effect following the consolidation of the coal and energy businesses helped the company maintain EBITDA at over $2 billion and EBITDA margin at 28%.

A year-on-year decrease in EBITDA and a temporary increase in debt as a result of major strategic acquisitions in the non-coal mining sectors (rail cars, power stations) pushed the Net debt / EBITDA ratio up to 3.1x.

The investments planned for 2019 were limited to key projects and the maintenance of our capabilities. SUEK’s operating cash flow grew by 7% thanks to our focus on working capital management, which enabled us to maintain our operating cash flow to CAPEX ratio at 2.1x.

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Our credit ratings were confirmed with a stable outlook.
Achieving high safety standards

All of SUEK’s facilities comply with advanced international health and industrial safety standards. Our main goals are to reduce injuries and prevent fatalities.

**Preventing accidents and fatalities**

- Promoting a culture of health and safety, including zero tolerance for accidents at all of SUEK’s assets.
- Investing in the development of monitoring and warning systems.

There were no collective fatalities in 2019. However, despite our efforts, eight individual fatalities occurred in the company.

Based on a detailed analysis of each case, we identified the root causes of these accidents related to the organisation of work processes, the adequacy of the protective equipment and tools.

The company developed comprehensive measures aimed at preventing similar cases in the future.

A complex of operational remote monitoring and control of the safety of production processes was launched, in which information from all subsystems is consolidated and analyzed using special mathematical algorithms in real time.

**Reducing occupational injuries**

- Progressive development of monitoring and safety systems at particularly hazardous facilities.
- Implementing training programmes for personnel to reduce occupational injuries.

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We continued the development of monitoring and warning systems at our facilities, in particular, designed a remote control system for ensuring industrial safety at open-pit mines and washing plants for subsequent integration with systems in use at our underground mines.

We began the transition of our coal, logistics and energy assets to the new international ISO 45000 Occupational Health and Safety standard.

The Industrial Safety Committee under SUEK’s Management Board, as part of the upgrade of the company’s training base, approved:

- The upgrade of our training centre at Urgal
- Further development of the Virtual Mine, with computer simulation of the mining process and equipment

Digital technology enhances industrial safety

In the reporting year, SUEK carried out pilot tests of a number of digital safety control solutions at its mining, energy and logistics facilities.

- Equipping a worker’s helmet with digital tools to analyse the location of equipment and people relative to each other, prevent collisions through warning signals, and to urgently call the dispatcher.

- With similar functions also monitors human health status and vital signs.

At our power plants we have launched video control systems for employees working with high voltage, which allow both remote monitoring of employees’ actions and advice from a supervisor. This allows to reduces the possibility of emergency situations.

- Helps determine the location and control of employees in mines. In 2019, this system was especially outdated, our investment in the upgrade of heat networks rose by 2.1 times.

Committed to sustainable development

Our goal is to contribute to global energy security through the safe production of coal, heat and electricity, for the benefit of all stakeholders.

Better supplies of heat to the regions where we operate

Reducing accidents and minimising interruptions in case of emergencies on heat networks, connecting new facilities to the company’s heat supply system.

**KPIs**

**2019 results**

- **0** collective fatalities
- **0** industrial accidents
- **0** fatalities

**2019 plans**

- Promoting a culture of health and safety, including zero tolerance for accidents at all of SUEK’s assets.
- Investing in the development of monitoring and warning systems.

**2019 results**

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- Investing in the development of monitoring and warning systems.
Committed to sustainable development (continued)

Reducing adverse environmental impacts

<table>
<thead>
<tr>
<th>Implementing environmental programmes, including projects to reduce air and water pollution and enhance waste recycling.</th>
<th>Replacing inefficient boiler facilities with CHPPs. Dust reduction in ports. Increasing the share of washed coal to minimise emissions during transportation, transhipment and use of coal.</th>
</tr>
</thead>
</table>

Ensuring the sustainability of communities in the regions where we operate

Guaranteeing the development and well-being of our employees. Delivering a long-term programme for social infrastructure development and support for local communities. Cooperating with regional and municipal authorities on projects to develop social infrastructure and support educational institutions.

Improving corporate procedures

Introducing best practices in the corporate culture.

Transformation of Rubtsovsk heating system

Following the transition of the town of Rubtsovsk to the ‘alternative boiler’ method, SUEK invested about $30m in upgrading local heating system.

2019 plans

- Implementing environmental programmes, including projects to reduce air and water pollution and enhance waste recycling.
- Constructing taller stacks and installing filters to reduce emissions at power plants.
- Guaranteeing the development and well-being of our employees.
- Delivering a long-term programme for social infrastructure development and support for local communities.
- Cooperating with regional and municipal authorities on projects to develop social infrastructure and support educational institutions.
- Introducing best practices in the corporate culture.

KPIs

- Air emissions from power facilities (CO, NOx, SO2), kg/kWh
- Suspended and dissolved solids in wastewater, kg per tonne of coal
- Used and recycled waste of total generated waste
- Growth points
- Employee turnover
- International certificates

2019 results

- A new 275-metre-tall stack construction was completed at Krasnoyarskaya CHPP-1. In 2020, we plan to reconnect boilers to it and demolish another chimney, which will improve the environmental situation in Krasnoyarsk.
- Our CHPPs replaced 3 inefficient old boiler houses. In the Coal Segment we used less overburden for backfilling in 2019 due to smaller worked out areas for reclamation. Our Novosibirskaya CHPP-1 passed all necessary examinations to use ash and slag materials for the restoration of disturbed land. We expect positive outcome for similar requests from Novosibirsk CHPP-2 and CHPP-3, as well as Biyskaya CHPP in 2020.
- We continue to process organic waste, rubber products, polymers, rubbers, oil sludge, bitumen, roofing materials, electronic equipment, used oils, medical, wood and other carbon-containing waste.
- At the Murmansk Commercial Seaport, SUEK completed the introduction of a state-of-the-art stationary spraying system and installed Phase 2 dust shields. Besides, the port launched an environmental dispatcher’s office.
- The company implemented over 250 social and charitable programmes, with investment amounting to $26m.

1. 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 centres, music workshop, mini-cinema etc.).

ISO 37001:2016 Anti-Corruption Management

Vladimir Hlavinka and Michael Baumgartner joined the Board of Directors, after which the share of independent directors reached 50%.

2023 plans

- 100% share of co-generation in heat production
- 24/7 monitoring of CHPP emissions
- 0% untreated water outflow

Qualitative growth of the social component, taking into account the created growth points in regions where we operate.

Providing sufficient qualified personnel to implement strategic goals.

Further introduction of best practices to SUEK’s corporate system.
**Proactive risk management**

Effective risk management is essential to achieving our strategic goals and sustainable development. We are committed to continually improving our risk management system in order to identify external and internal risks and develop effective mitigation processes.

**How does integrated risk management help SUEK to achieve cost-efficiency?**

**A:**
As part of our risk management process, we review the cost-efficiency of our business decisions and investment opportunities, while taking into account the regulatory environment, the availability of necessary resources and the liquidity of assets. This approach ensures the sustainability of our growth, increases the efficiency of resource use and prevents or minimises the risks of financial losses.

**What changes to risks in 2019 will have the most impact on the company’s strategy?**

**A:**
In 2019, we saw a significant change in the coal market environment and rising pressure from the gas market. In connection with Europe’s planned transition to renewable energy sources and a decrease in coal demand in the Atlantic region, we focused on mitigating market risks. To minimise the impact of declining coal demand in Europe and relative higher price pressure, SUEK’s management updated the consolidated strategic model taking into account new macro parameters by summarising the target parameters of the strategies for divisions, business segments and supporting functions. In particular, we reviewed and adjusted the strategic goals for the next five years in sales and logistics.

Valery Dmitriev,
Director for taxes, risk management and insurance

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**Risk management organisational structure**

- **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 Audit

- **Nomination and Compensation Committee**
  - Health and safety
  - Environmental performance
  - Effectiveness of the company’s social policy

- **Strategy Committee**
  - Analysing relevant risks when developing and implementing the company’s overall strategy, strategic plans, operational and investment goals

- **Internal Audit Service**
  - Assessing the risk management system
  - Assessing the risks impacting strategic and operational goals
  - Evaluating the corporate governance system
  - Assessing compliance with external and internal regulatory requirements
  - Assessing the reliability of the company’s external and internal reporting

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

- **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

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

- **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

KPIs:
- Health and safety
- Environmental performance
- Effectiveness of the company’s social policy
Our approach

SUEK has a corporate risk management system, which is continually enhanced through the development of new measures to minimise risks across the company. Risk management issues and processes are closely related to strategic planning and influence operational decisions. The company’s management is fully informed on all significant risks and approves all key parameters for the risk management system.

Management and control

Our Management Board, including the Risk Management Committee, controls and monitors the company’s risk management system, working closely with the Board of Directors’ Audit Committee. SUEK also has an Internal Audit Service, which provides independent assessment and prepares recommendations for improving the risk management system.

Risk management relies on a common architecture that combines all aspects of SUEK’s businesses. Risk monitoring is exercised as part of the daily work routine of the company’s risk owners and monitoring units that are owners and/or co-owners of risks. The Directorate for Taxes, Risk Management and Insurance coordinates the activities of various divisions in terms of risk management and shapes a risk management reporting system, which is reviewed by the Risk Management Committee of the Management Board. 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.

Methodology

The process of risk management is carried out in accordance with the procedure developed and approved by SUEK’s Risk Management Committee. It factors in both the specifics of the Group and recommendations of Russian and international risk management standards and best practice. This procedure includes the main objectives and principles of risk management, and methods for identifying, assessing and mitigating the risks we face.

Risk management process

Identification

A comprehensive risk identification process is run once a year. Responsible division employees identify the sources of risks and the potential measures to minimise them. Based on expert assessment, a risk register for the future period is compiled.

Assessment

In order to achieve independence and functionality with SUEK’s approved strategy, a comprehensive risk assessment takes place once a year by assigning categories to risks. For each risk identified, the probability of its materialising and potential impact is rated. The adequacy of action plans to address any remaining control gaps is then assessed.

The existing approach to maintaining a risk register allows us to analyse identified risks and determine the most significant risks in each area of the company’s operations.

Response

Responsibility for managing specific risks, including for taking actions to mitigate them, is delegated to the employees of relevant departments. The Directorate for Taxes, Risk Management and Insurance supports and updates the plans of these actions with their current status.

Monitoring and control

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.

Also, during the year, heads of business segments nominated as risk owners, when identifying new risks, report them to the Directorate for Taxes, Risk Management and Insurance. After that, the Directorate considers the initiated risk for inclusion in the year’s risk register in compliance with the overall risk identification procedure.

Results

At the beginning of 2019, the Risk Management Committee analysed the 2018 risk matrix and submitted a report on the risk management structure and process, for consideration by the Audit Committee of the Board of Directors. The Audit Committee took note of the report on the Risk Management Committee’s work in 2018 and approved crucial activities for 2019.

The key area of work during the reporting year was the introduction of risk management in a wider range of risk-based decisions to support SUEK’s activities. Special care was given to integrating the risk management process and culture into the energy business. One of the main outputs has been the updated risk map including risks of our acquired energy business.
Review of key risks

Below we set out a list of the major potential risks to SUEK’s operational and financial performance and activities. 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.

Risk map in 2019

The following changes have been made to the risk map posted in the current Annual Report:

- Excluding anti-monopoly risk, since SUEK has built a strong system of compliance procedures, which reduces the probability of this risk to the minimum
- Combining coal demand and price risks because they have interrelated reasons and similar dynamics
- Combining production and emergency risks because they have interrelated reasons

REGULATORY AND LEGAL RISKS

1. Risk of changes in current legislation

The company follows statutory regulations 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, heat and 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.

In foreign jurisdictions, changes can involve additional controls on selling and using coal. 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 sanctions, can also restrict certain sectors of the Russian economy.

The sanctions currently in place do not directly target Russia’s coal and energy industry or SUEK. However, a number of economic limitations do currently affect our business and necessitate special control in the selection of counterparties. 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.

Actions to mitigate the risk

We constantly monitor proposed projects to amend legislation in Russia and other countries of operation, and review law enforcement practices, taking into consideration the company’s activities. 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.

SUEK’s senior managers and experts are actively involved in governmental policy panels for the coal, power and other related industries. SUEK’s compliance system allows us to quickly detect and mitigate any compliance risks in the field of corporate ethics, environmental management, anti-monopoly regulation and licensing.

We monitor the situation related to international sanctions in force and make sure our counterparties are not under sanctions.

Actions to mitigate the risk

We rigorously monitor any changes in the legislative environment.

SUEK’s companies have procedures in place 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.

2. Regulatory risk

Our 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 can be suspended, terminated ahead of schedule or left unrenewed upon expiry. These risks are mostly dependant on the decisions made by regulating and supervisory agencies (Rosnedra, Rospromnadzor) holding scheduled and ad hoc inspections at the Group’s sites.

Changes in national environmental and labour regulations may also influence coal-fired power generation.

Actions to mitigate the risk

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 senior managers and experts are actively involved in governmental policy panels for the coal, power and other related industries.

3. Risk of changes in electricity tariffs for residential customers and heat tariffs

The company’s operations may be affected by heat and power tariffs set below our production costs and by non-fulfilment of obligations to raise heat tariffs as part of the ‘alternative boiler’ model.

Actions to mitigate the risk

We monitor the situation and cooperate with regulators regarding changes in tariff setting methods, with switching to long-term tariffs as top priority.
MARKET RISKS

4. Risk of reduction in coal demand and prices

The company’s business may be affected by a decline in demand for coal and a reduction in coal prices in the export market due to oversupply or a rise in demand for other types of fuel. Tighter international environmental standards on coal quality and production conditions could also result in reduced demand for the coal we produce.

For more details, see Market review on pages 50–55.

5. Risk of reduction in power plant load and electricity prices in the wholesale electricity market

SUEK’s operations may be affected by a decrease in the load of thermal power plants and a drop in electricity prices in the wholesale market due to market (power demand, excess supply), natural (high water level, average annual temperature) and regulatory factors.

For more details, see Market review on pages 50–55.

6. Risk of reduction in demand and prices in the capacity market

SUEK’s activities may be affected by lower than expected growth rates in capacity demand due to the failed commissioning of large industrial facilities in Siberia, alongside regulatory changes.

For more details, see Market review on pages 50–55.

FINANCIAL RISKS

7. Foreign exchange and interest rate risks

Changes in market indicators, such as currency exchange and interest rates, can have an adverse effect on the SUEK’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 effects in these areas caused by currency fluctuations and rising interest rates.

For more details, see Financial review on pages 50–55, and note 2 to the Consolidated financial statements on pages 120–121.

8. Inflation risk

In Russia, growing inflation leads to higher costs related to procurement and payment to partners, which can impact negatively EBITDA, as the company’s revenue is nominated in US dollars.

Actions to mitigate the risk

We mitigate inflation risks by developing a balanced procurement strategy, using derivatives and investing available cash 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.

9. Credit risk

Increase in overdue receivables under domestic coal, heat and power 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 capital markets.

Actions to mitigate the risk

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.

In each company’s branch, there is a department that monitors heat payment arrears and provides information support to heat buyers. SUEK’s priority is pre-judicial recovery, the company always negotiates with its customers, enquires about the reasons for debt, offers options for milestone or instalment payments if some consumers are going through hard times.

10. Liquidity risk

Liquidity risk is directly related to cash turnover. It arises if the company cannot fulfil its payment obligations on time. 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.

Actions to mitigate the risk

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 covers its financing needs.

The adoption by European banks of coal policies reduces the amount of available borrowing in the pre-export lending market. At the same time, SUEK diversifies its funding sources. In particular, the company increased the share of financing from Asia-Pacific region banks and in 2019 implemented a large-scale borrowing program in the Russian bond market, thereby offsetting the indicated trend.
OPERATIONAL RISKS

11. Production risk (mining)
Various internal (diverse geology, low coal quality) or external factors (higher prices of materials and services, the failure of suppliers and contractors to fulfil their obligations, natural and other factors) can affect our activities. They can hinder the achievement of our production targets, which may require additional expenses, resulting in an increase in production costs, and cause accidents and emergencies at our production facilities.

12. Production risk (energy generation)
The main factors affecting the generation and sales of electricity and heat are the physical wear and obsolescence of equipment, including heat networks, its downtime, underestimation of the impact of possible failures, the absence of the required amount of primary materials, non-fulfilment by suppliers and contractors of their obligations, etc.

13. Risk of restricted infrastructure availability
Reduced access to railway and port infrastructure, electricity networks and water facilities can result in higher operational costs, and losses because of downtime at our production units. Certain infrastructure is operated by state-owned monopolies and is subject to tariff regulation, which can affect the availability and quality of their services. A number of SUEx's facilities operate in regions where extreme weather can influence power supply and transportation. 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 demand suspension of production and negatively impact our financial performance.

14. Cyber risk
Effective management of risks related to cyber-attacks and employee errors helps us minimize and avoid the leakage of confidential information, network security breaches, problem notification costs, system recovery costs, cyber essentials, and protection costs associated with regulatory requirements.

SUSTAINABILITY RISKS

15. Health and safety risk
SUEx's operations are 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.

16. Environmental risk
The environmental risks related to coal mining, washing, processing and coal-fired power generation suppose environmental damage including, contamination of soil and water, land disturbance by mining activities.

17. Human resource risk
Failure to recruit and retain qualified personnel can result in mixed production targets and increased costs. 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, complicate recruitment.

For more details, see pages 80–85.

For more details, see pages 95–99.

For more details, see pages 88–94.

For more details, see pages 95–98.

For more details, see Our people and corporate culture section on pages 95–98.
Focusing on the issues that matter

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.

By continuously monitoring our operational, financial and social activities, and working to identify any interrelated and significant material matters, we are able to better understand the impact that our business has on the world around us, and of how our future value creation may be impacted by our stakeholders.

To define materiality in 2019, we:

1. Surveyed our top managers to understand which of the matters defined in 2018 they considered a priority for the year 2019, and which other matters they considered should be added.

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 these internal and external surveys.

4. Prioritised material matters.

We define ‘material matters’ as those which could have a significant impact on the company’s value creation potential, and those which are important to our key stakeholders.

In preparing our 2019 Annual Report and our Sustainable Development Report for 2018-2019, we conducted a thorough analysis of the external and internal environment and identified relevant matters which we believe are important for the growth, success and sustainability of our business, such as reputation, financial performance, and the delivery of our strategy in the reporting period.

The updated Materiality Matrix was used to set the company’s long-term goals and strategic priorities, as well as for the development of this Report.
Material issue | Context 2019 | Potential impact on our value creation | How we responded
--- | --- | --- | ---
**M1 Financial stability and development prospects**
In 2019, the global coal market saw a significant decrease in key coal price indices under the pressure of lower gas prices, still Asian high-CV coal market demand remained steady due to limited supply of quality coal.
Continued restrictions on the financing of coal projects, imposed by a number of banks following the Paris Climate Change Agreement.
A significant reduction in coal prices and limited financing available for core activities could adversely affect the company’s financial stability and operations.
Limited diversification of our international debt portfolio and the necessity to attract higher-cost financing from Russian banks instead of coal-exiting European banks could impact SUEK’s financial results.
Consolidation of the energy business in 2018 diversified SUEK’s cash flow, decreasing EBITDA dependence on volatile global coal prices, and ensured predictable and stable financial results amidst falling market prices, which led to improving our Group’s credit rating.
In the coal segment, operational efficiency and flexibility of our investment programme helped keep costs down and maintain profitability.
In 2019, in addition to traditional financing instruments such as pre-export syndicated loans and loans related to the purchase of imported mining equipment backed by export agencies, SUEK took advantage of the local bond market, which became available due to a significant reduction in the Russian Central Bank key rate, and placed two offers of Russian bonds totalling RUB 41.8bn ($633m).

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Material issue | Context 2019 | Potential impact on our value creation | How we responded
--- | --- | --- | ---
**M2 Industrial safety and emergency preparedness**
Coal mining is associated with high production risks related to natural and man-made 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 the environment.
Despite all our efforts, in 2019 there were eight total accidents at the company’s coal and energy facilities.
Industrial accidents and emergencies could 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 could encourage partners to discontinue business relationships or lenders to demand early loan repayments.
We thoroughly investigated all accidents and incidents, took actions to prevent their re-occurrence in the future, and reactivated our commitment to zero tolerance for accidents and breaches of safety requirements.
In early 2019, we started the transition to the new ISO 45001:2018 Standard across the Group.
LTIFR dropped to 0.72 for coal and to 0.24 for our energy facilities. Those figures are among the lowest for the coal and energy industries in Russia and abroad.

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Material issue | Context 2019 | Potential impact on our value creation | How we responded
--- | --- | --- | ---
**M3 Product quality and high-value products**
In 2019, despite international coal price volatility, 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 reflecting tighter environmental standards.
In Russia, the issue of heat energy supply quality is becoming increasingly important to consumers. The progressive deterioration of local heat networks is increasing the risk of supply disruptions.
Stricter requirements from new coal-fired power stations and tighter domestic and international environmental coal quality standards could lead to lower demand for lower-grade coal. This trend could influence the company’s financial and operational performance.
Incidents on heat networks and restrictions to heat supplies reduce customer satisfaction with the quality of services.
We invest in the development of high-grade coal deposits and continuously expand our washing capacities.
In 2019, SUEK increased its share of washed hard coal to 62%.
In June 2019, a second washing plant was piloted at Tugnusky. Additional equipment was also installed at the first plant to boost the efficiency of coal processing.
In the Energy Segment SUEK has developed, and proposed to local authorities, investment projects to modernise the heat supply systems in the cities where SUEK operates, which would significantly improve the quality of heat supply.

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Material issue | Context 2019 | Potential impact on our value creation | How we responded
--- | --- | --- | ---
**M4 Operational efficiency**
In the coal segment, with prices falling to a level close to the margin of profitability in a number of key markets, operational efficiency was critical to optimising costs and maintaining profitability and competitiveness.
Consolidation of the energy business in 2018 diversified SUEK’s cash flow, decreasing EBITDA dependence on volatile global coal prices, and ensured predictable and stable financial results amidst falling market prices, which led to improving our Group’s credit rating.
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Material issue | Context 2019 | Potential impact on our value creation | How we responded
--- | --- | --- | ---
**M5 Environmental impact of the company’s operations**
Environmental and climate issues are becoming increasingly important to SUEK’s product consumers, financial institutions and residents of local communities.
Ratification of the Paris Agreement by Russia in 2019 drew increased public attention to carbon regulation and the responsibility of business to protect the environment.
In the event of environmental damage or degradation, there could be claims from supervisory bodies, financial institutions or potential investors.
These claims could, in turn, influence the company’s production and financial performance, negatively affecting our ability to raise funds through the debt market.
We are updating our energy strategy to take into account our long-term sustainable development goals and the needs of society. Thus, we are implementing a Comprehensive Emission Reduction Plan in the cities of Krasnoyarsk and Novokuznetsk, including the construction of taller chimneys and the installation of new filters and substitution of inefficient standalone boilers with co-generation power plant heat.
We also utilise mine methane, waste oil and other carbon-containing waste for heat generation and use solar panels for local power generation at coal production sites and social facilities.
In 2019, SUEK received approval from the authorities for its projects on utilisation of ash and sludge waste from power generation as materials for land reclamation and construction.
Active engagement

Key policies governing our stakeholder relationships
- Code of Corporate Ethics
- Compliance Policy
- Coal Quality Policy
- Corporate Social Policy
- Information Policy
- Environmental Policy
- Heat Consumer Relations Policy
- Energy Policy
- Occupational and Industrial Safety Policy

For more details, see our website http://www.suek.com

Our stakeholder relationships are built on open dialogue and mutual trust. This enables us to accommodate their needs when making strategic and operational decisions. 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 we are committed to transparency of information, consideration for the interests of all stakeholders, receiving feedback, active cooperation with them and observing ethical business conduct.

We have a comprehensive communications system in place for sharing information with our stakeholders. This helps ensure the completeness, timeliness, reliability and consistency of information and its availability to all. In addition, we involve stakeholders in the process of improving the business processes such as improving working conditions for our employees, expanding the territory of our operations and developing the regions where we operate.

In 2019, SUEK expanded its hotline for internal and external stakeholders, enabling individual employees and external partners to raise issues or propose ideas, regarding the following areas:
- Personnel management and observance of the Code of Corporate Ethics
- Industrial Health and Safety
- Potential breaches of anti-corruption and anti-fraud policies

Main communication and feedback channels
- Corporate website, mass media and social networks
- Conferences and exhibitions
- General Meeting of Shareholders
- Corporate reporting
- Meetings with banks and potential investors
- Meetings with employees, customers, suppliers and contractors
- Stakeholders opinion surveys
- Customer claims resolution and accounting systems
- Personal account on the company’s website and mobile application for heating customers
- Centres for heating customers
- Hotline for heat supply issues
- Agreements with trade unions and collective arrangements
- Hotline for compliance issues
- Participation in Russian and international professional unions and organisations
- Participation in committees, working groups, round tables and public hearings
- Site visits for local community representatives to the company’s mining, washing and generating facilities

Engaging employees in the improvement of work and leisure conditions
In 2019, SUEK ran an employee satisfaction survey of 4,000 employees in seven regions. The objective was to gain direct, anonymous feedback on employee conditions. The results showed that SUEK is recognised by the vast majority of its employees as a prestigious and responsible employer. Approximately 80% of employees said they were satisfied with the level of occupational safety and social benefits, with the majority of respondents noting that over the past two years, working conditions have improved. The respondents voiced some concerns about the lack of proper social infrastructure in some cities and towns, including clean and tidy streets and courtyards, and limited playground areas for children.

The results were reported to the Nomination and Compensation Committee of the Board of Directors.

Involving consumers in improving the quality of heat supply services
Based on over 2500 respondents the results showed high satisfaction with the quality of heat supply services as well as the heat business’ environmental performance.

The results were reported to the Management Board.

Additional social investment projects were included in the 2020 budget. New plans were approved for the development of squares and parks in the cities where SUEK’s operations are located.

Management have now decided to create a Unified Consumer Portal for launch in 2020 – a system of digital communication services between the company and its customers, including online contract management and renewal, online utilities.
Volatile international markets and stable domestic demand

Rising demand for coal in the Pacific region offset the decline in demand in Europe. Meanwhile, Russian power market remained stable.

Asia Pacific Market

In 2019, demand from the Asia Pacific market for thermal coal imports rose 5% year-on-year, to 836 Mt.

China increased thermal (and lignite) coal imports by 5%, or 11 Mt, to 218 Mt, despite the impact of the US - China trade war on the Chinese economy. 2018 import backlogs led to weak imports at the beginning of the year. However, stricter domestic mining safety controls in Q2 tightened supply and boosted the import market. At the same time, reforms to the supply-side, which have driven the market since 2016, ended, and domestic output started to increase rapidly by the middle of the year. With market data signalling the coal import ceiling was set to breach, importers increased their intake during Q3, anticipating a potential import ban from the government. This ban ‘ unofficially’ materialised at the end of the year. It should be noted that Chinese import control measures targeting Australian coal as a result of geopolitical issues boosted demand for Indonesian coal.

Indian imports increased by 12 Mt to 169 Mt during the year, reflecting subdued domestic production, with the uplift occurring largely in the first half of the year. Coal imports started the year strong as electricity generation grew by 5.5% during H1. However, the market dynamics changed during the second half of the year as electricity demand dropped by 3% year on year. On top of this, the prolonged Indian monsoon during Q3 increased hydro generation, which, coupled with slowing power demand, meant that coal-based electricity generation declined in the second half of the year. Electricity generation from thermal coal, which increased by 4% in H1, had declined by 7% by the end of H2. Market commentators believe that in the absence of structural reforms India will continue to underperform its economic potential and struggle to achieve GDP growth of 6% in the year ending March 2020, a drop from last year’s 6.8%. If correct, this will impact Indian industry and power demand. However, in the mid-term, if reforms are achieved, the potential of the Indian market is significant.

Vietnam almost doubled its thermal coal imports to 31 Mt. A combination of factors drove this increase, including the commissioning of two new coal-fired power plants and a double-digit drop in hydro generation, also uncompetitive domestic coal production was constrained, all at a time of increased industrial demand.

Imports from North-East Asia (Japan, South Korea and Taiwan) reduced by 4% (or 11 Mt) to 282 Mt, with the biggest drop coming from South Korea (down by 7 Mt) which has started a campaign against fine dust pollution. About a quarter of South Korea’s oldest coal capacity is earmarked for closure during winter while all other coal-fired plants will be capped at 80% utilisation, which follows restrictions enforced during spring and the April 2019 tax reforms, which raised the import duty on coal by 27% and reduced it on LNG by 74%. If blackouts are avoided at peak demand, seasonal coal curtailments may become a permanent feature. Meanwhile, by 2024 South Korea plans to add a net total of 4.7 GW to its coal-fired power capacity.

On the supply side, despite the drop in US exports to the Pacific by 30% from 27 to 19 Mt, another 14 Mt was diverted from western ports towards Asia (9 Mt from Colombia and 5 Mt from Russia) that follows the increased exports from Far East Russian ports, Australia, Indonesia and South Africa.
Atlantic Market

In 2019, demand for imported coal in the Atlantic market dropped by 30 Mt (down 18% year on year) to 137 Mt. However, all of this reduction reflected lower European imports, with demand from North African and American countries remaining roughly stable.

European coal demand declined by 32% to 66 Mt. The long-awaited LNG supply excess became a reality and the Asian LNG demand, historically present, was not there to absorb supply. European LNG demand slowed due to a combination of weather, the economy and increasing supplies of other energy sources including nuclear, which was already coping with record-high volumes of gas piped from Russia and Norway. In addition, carbon emissions pricing trended upwards during the first half of the year, stabilising at around €25/t during the second half of the year.

All in all, very low gas prices and high emissions prices created the perfect storm for aggressive coal-to-gas switching. Prolonged mild and windy winters, which play well to renewable power generation, could see a prolonged and accelerated shift away from thermal power generation, Spain, Portugal and Germany have made aggressive moves to advance their switch from coal to gas power. Furthermore, UK coal imports continue to decrease, with current demand restricted purely to industrial use.

On the supply side, Colombia and the USA reduced exports to the Atlantic market by 8 and 7 Mt respectively. South African supply to the Atlantic contracted by 7.5 Mt, and its exports to Europe are now minimal.

The US has reduced thermal coal exports by 15 Mt and, given current trends, the decline should continue during 2020. US coal producers operate with very challenging market dynamics. The domestic market is witnessing significant coal displacement due to an abundance of low-cost gas and a depressed international gas market.

Production

In 2019, Russian thermal coal production remained stable at 342.5 Mt. The share of hard thermal coal amounted to 27% (290.3 Mt) of total production volumes. A large proportion of high-quality Russian coal is supplied to the international market.

For example, with a 1% increase, production reached 282 Mt in 2019, which was 20 Mt higher than in 2018.

Brown coal production increased by 1% compared to 2018, to 82 Mt. Brown coal is mainly supplied to the Russian market, in particular to power plants and public utilities.

Export supplies

In 2019, Russian companies ramped up thermal coal exports by 2% to 190 Mt. An increase in shipments to the East by 8 Mt to 91 Mt offset the drop in shipments to the West by 4 Mt.

The key driver behind the decline in thermal coal exports to the West was weaker Polish demand for coal due to warm weather; therefore, shipments through rail border crossings fell by 5 Mt to 20 Mt. At the same time, deliveries to Western seaports grew by 1 Mt, reaching 79 Mt. In 2019, the main destinations for Russian seaborne thermal coal exports to the Atlantic market were the Netherlands, Turkey, Germany, Morocco and Italy. In addition, coal shipments from Western ports to Asian markets, to India, South Korea, Malaysia and Vietnam, almost doubled.

Eastbound deliveries in 2019 were again hindered by railway infrastructure constraints and intensive development of the Eastern Polygon. Nevertheless, shipments of thermal coal to ports in the East of the country increased by 7 Mt to 82 Mt, which boosted seaborne exports of Russian coal to China, Vietnam, India and Japan. Supplies of thermal coal to China through rail border crossings increased significantly, by 1 Mt to 9.4 Mt.

Russian coal market

In 2019, domestic deliveries of Russian thermal coal decreased, while high-quality Russian coal remained competitive and exports to key markets increased.

Thermal coal seaborne exports, Mt

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<td>North-Western Europe</td>
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<td>China</td>
<td>178</td>
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<td>178</td>
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<tr>
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Sources: Statistical data from Russian government agencies, SUEK estimates. 

Thermal coal seaborne imports, Mt

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<td>Japan, South Korea, Taiwan</td>
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<tr>
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<tr>
<td>North-Western Europe</td>
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</table>

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

Thermal coal price indices, $ per tonne

<table>
<thead>
<tr>
<th>Month</th>
<th>Sep</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
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<th>Feb</th>
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<td>32</td>
<td>26</td>
<td>22</td>
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<tr>
<td>API 8 – China, CF port</td>
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<td>89</td>
<td>84</td>
<td>75</td>
<td>72</td>
<td>68</td>
</tr>
<tr>
<td>CIF south ports</td>
<td>94</td>
<td>81</td>
<td>77</td>
<td>68</td>
<td>62</td>
<td>58</td>
</tr>
</tbody>
</table>

Sources: SUEK estimates.
Russian energy market

Electricity market

According to the System Operator of Russia’s Unified Energy System, in 2019 electricity generation in Russia increased by 0.9% year-on-year to 1,080 TWh. This was due to higher electricity consumption in some months, with lower temperatures compared to 2018, and increased export of electricity from Russia.

In Siberia’s Consolidated Energy System (Price Zone 2), demand for electricity rose by 0.5% from the previous year, to 211.0 TWh, due to more intense electricity consumption by aluminium smelters and lower air temperatures in some months. In the European part of Russia and the Urals (Price Zone 1) energy consumption decreased by 0.5% year-on-year to 807.6 TWh due to a cool summer and warm start of winter.

Electricity generation by Siberian thermal power plants decreased by 3% year-on-year to 100.4 TWh, to average multi-year levels by mid-July. Despite the decline in power generation by hydropower plants in 1H 2019, these factors increased their load for the full year.

The market price on electricity (day-ahead market, DAM) in Siberia remained flat year-on-year. This was because a price increase in the European part of Russia and the Urals compensated for a drop in price due to higher hydrogeneration, especially during network restriction periods.

The DAM electricity price in the European part of Russia and the Urals increased by 3% year-on-year. The key factors that influenced the change included:

- An increase in electricity exports from the European part and the Urals (by more than twice, or on average by 1 GWh) in the first five months of 2019, mainly to the energy systems of the Baltic countries (Estonia, Lithuania, Latvia), Ukraine, Belarus and to Finland’s energy system because of a significant reduction in Scandinavian water resources.

Siberia’s electricity generation by plant and fuel types

- a cut in the cross-border tariff duty by the Finnish electricity transmission operator, Fingrid, and growth in CO₂ emission quota prices.
- Rising prices in suppliers’ orders in connection with a higher minimum level of wholesale gas tariffs (+3.4%) year-on-year.
- A decrease in hydrogeneration following a decline in reserves of the Volga-Kama region.

In turn, changes in the planned output of nuclear power plants in January-August 2019, which exceeded 2018 values, including due to commissioning of a new power unit at the Rostov NPP, limited further price growth.

Power capacity market

In 2019, power capacity sales in Siberia rose 0.5% year-on-year, to 42.9 GW. The competitive price for capacity sales in Siberia in the reporting period was 213,705 roubles/MW/month, which is 7% higher than in 2018. This was driven by:

- Higher demand for capacity in 2019 year-on-year during the competitive capacity take-off (CCT)
- Factoring indexing the price based on CCT outcome

In 2019, power capacity sales in the European part of Russia and the Urals amounted to 146 GW, a 1.7% increase year-on-year. The competitive price for capacity sales in the reporting year increased by 4% to 124,048 roubles/MW/month.

Russian electricity market prices 2019/2018, RUB/MWh

- Statistical data from Russian government agencies, SUEK estimates.

Siberia’s electricity generation by plant and fuel types

- 45% of electricity in Siberia is generated from coal

211 TWh electricity consumption in Siberia in 2019

Installed capacity structure by plant types in Siberia, MW

- Installed capacity structure by plant types in the European part of Russia and the Urals, MW

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

In 2019, projects were selected to modernise the generating capacities of thermal power plants in 2022-2025 (‘DPM-2’).

The programme, launched by the Russian government in February 2019 as a continuation of DPM-1 programme, guarantees a return on investment in heat and power capacity development for participating projects up until 2030.

‘DPM-2’ is part of increased investment to modernise obsolete capital equipment at power plant generating facilities, to extend the life of the upgraded power plants by 15-20 years.

About 40 GW of old heat capacities will be upgraded in the upcoming 10 years, including a number of SUEK’s generating facilities.

+7% the competitive price for power capacity sales in Siberia compared to 2018
Investing in the future and delivering consistent results

The consolidated SUEK Group has once again demonstrated its ability to generate stable cash flow, supporting our annual large-scale capacity development and health, safety and environmental programme whilst enabling us to finance strategic acquisitions and confidently service our debt.

Deeper vertical integration with our resilient energy business and the logistics chain helps us reduce fluctuations in our revenue triggered by volatility in global coal prices.

While consistently implementing our strategy, we continue to deliver our investment programme. In 2019, SUEK’s total capital expenditure reached another record level of $994m, with our main investments focused on expanding our production of high-CV coal, improving environmental and industrial safety, upgrading the efficiency and environmental performance of our energy facilities and securing self-sufficiency in logistics.

A number of strategic acquisitions in 2019 led to a temporary increase in net debt, and the net debt to bank EBITDA ratio rising to 3.1x at the year-end. However, we reaffirm our goal of maintaining this indicator at an average level of 2.5x throughout the market cycle.

The Group’s revenue decreased by 9% year-on-year due to a decline in coal export revenue, reflecting a significant drop in global coal prices and a slight decrease in sales. At the same time, this impact was partially offset by growth in revenue from electricity and capacity sales.

EBITDA in 2019 fell by 17% to $2,115m following a decrease in coal revenue, which was partially offset by lower transportation expenses.

The Group’s net profit decreased by $458m year-on-year to $706m due to reduced EBITDA by $426m.

SUEK’s total CAPEX reached a record level of $994m.

Financial highlights

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$7,547</td>
<td>$8,296</td>
<td>(9%)</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(3,481)</td>
<td>(3,483)</td>
<td>0%</td>
</tr>
<tr>
<td>Transportation costs</td>
<td>(1,719)</td>
<td>(2,205)</td>
<td>(14%)</td>
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<tr>
<td>Administrative and other expenses</td>
<td>(232)</td>
<td>(267)</td>
<td>(13%)</td>
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<tr>
<td>EBITDA</td>
<td>$2,115</td>
<td>$2,541</td>
<td>(17%)</td>
</tr>
<tr>
<td>EBITDA margin, %</td>
<td>28%</td>
<td>31%</td>
<td>(3 p.p.)</td>
</tr>
<tr>
<td>Net profit</td>
<td>$706</td>
<td>$1,164</td>
<td>(39%)</td>
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<tr>
<td>Net margin, %</td>
<td>9%</td>
<td>14%</td>
<td>(5 p.p.)</td>
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<td>Capital expenditure</td>
<td>$994</td>
<td>$902</td>
<td>10%</td>
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<td>Net debt</td>
<td>$6,562</td>
<td>$4,187</td>
<td>57%</td>
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<tr>
<td>Net debt / bank EBITDA ratio</td>
<td>3.1x</td>
<td>1.6x</td>
<td>1.5x</td>
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</table>

From EBITDA to net profit

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<tr>
<th></th>
<th>2019</th>
<th>2018</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA</td>
<td>$2,115</td>
<td>$2,541</td>
<td>(17%)</td>
</tr>
<tr>
<td>Depreciation</td>
<td>(1,053)</td>
<td>(669)</td>
<td>57%</td>
</tr>
<tr>
<td>Income tax</td>
<td>(134)</td>
<td>(314)</td>
<td>(57%)</td>
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<td>Financial expenses</td>
<td>(422)</td>
<td>(311)</td>
<td>36%</td>
</tr>
<tr>
<td>Foreign exchange profit / loss</td>
<td>$200</td>
<td>$93</td>
<td>341%</td>
</tr>
<tr>
<td>Net profit</td>
<td>$706</td>
<td>$1,164</td>
<td>(39%)</td>
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</table>

From EBITDA to operating cash flow

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<th></th>
<th>2019</th>
<th>2018</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA</td>
<td>$2,115</td>
<td>$2,541</td>
<td>(17%)</td>
</tr>
<tr>
<td>Changes in working capital</td>
<td>$111</td>
<td>$172</td>
<td>(130%)</td>
</tr>
<tr>
<td>Income tax paid</td>
<td>(178)</td>
<td>(288)</td>
<td>(38%)</td>
</tr>
<tr>
<td>Other</td>
<td>$41</td>
<td>$23</td>
<td>(44%)</td>
</tr>
<tr>
<td>Operating cash flow</td>
<td>$2,059</td>
<td>$1,901</td>
<td>8%</td>
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</table>

Mergers, acquisitions and capital expenditure

SUEK’s CAPEX reached $994m.

In addition, in April 2019, the Group acquired 16,025 higher-capacity railcars for $327m to improve the efficiency of logistics for priority routes to the east.

In October 2019, the Group purchased the Refinskaya GRES for $345m. The expansion of the Energy Segment reduces the dependence of the Group’s financial performance on volatile global coal prices.

1. Excluding the purchase of 16,025 railcars and Refinskaya GRES.
2. Calculated in accordance with SUEK loan agreements.
Net debt

As at 31 December 2019, the net debt amounted to $6.562bn.

As at 31 December 2019, most of our debt is denominated in US Dollars (71%), 26% is denominated in roubles and the remaining part in Euros.

The effective cost of borrowing, normalised to the rate in US Dollars, was 4.5%. The company’s main debt instrument remains dollar-nominated pre-export financing secured by international sales revenue. Additionally, in 2019 SUEK arranged a significant rouble bond programme raising RUB 41bn ($633m).

Credit ratings

In 2019, SUEK’s credit ratings were confirmed by rating agencies, with a ‘stable’ outlook: Moody’s confirmed its rating at Ba2, Fitch Ratings at BB and Expert RA at ruAA-.

Moody’s

Fitch

The company remains competitive thanks to economies of scale, vast coal reserves, operational diversification and low production costs, along with an integrated business model that includes thermal coal production and electricity generation businesses.

We view SUEK as a fundamentally FCF-positive business with high single-digit FCF margin through the cycle, as seen historically. The company has not paid dividends since 2011 and has demonstrated capex flexibility during coal market downturns. Hence, we expect that SUEK will continue generating positive FCF over the rating horizon, allowing it to deleverage … by 2021 and 2022 from the 2019 peak.

Moody’s

Fitch

1. 100% of RUB debt has been hedged.
Focusing on operational excellence

SUEK is constantly adopting and implementing best-in-class technologies across all of its operations. These ensure optimum operational efficiency, a high level of industrial and environmental safety and help generate strong cash flow and stable EBITDA, enabling SUEK to constantly reinvest in its business and the communities in which it operates.

Enhancing washing efficiency in Kuzbass

See more on page 67.

Robotising drilling

See more on page 65.

Mobile heat inspector

See more on page 70.

24/7 environmental control at Murmansk Commercial Seaport

See more on page 73.

Coal

Energy

Logistics

Procurement

Coal Energy Procurement Logistics ~ Business review

>80% of export is high-CV coal

+72,000 heat customers

>80% self-sufficiency in railcars and ports
With 7.6 billion tonnes of coal reserves, SUEK currently has over 30 years’ worth of high-quality raw materials for development.

Our coal is low in nitrogen and low in sulphur, and by washing it we significantly reduce the ash content and increase the calorific value and reduce the environmental impact of our products. This ensures they meet the most stringent requirements of our consumers, in particular from Japan, South Korea and Taiwan.

The close proximity of our hard coal assets in Kuzbass, Khakassia and Buryatia to the railways and also to ports in the west and east of Russia allows us to easily adjust our supply schedule depending on demand and maintain our position as Russia’s largest coal exporter.

Our hard coal assets in the Khabarovsk region and Primorye have a competitive advantage, due to their location close to ports that give them access to the Asian markets.

Our brown coal assets in the Krasnoyarsk region, Zabaikalsey and Primorye, are located close to coal-consuming energy companies, including those that are part of the SUEK Group.

We also produce metallurgical coal at the Kirov WP in Kuzbass and the Apsatsky open-pit mine in Zabaikalsey. Chernogorsky WP in Khakassia produces sized coal, used in households in Poland, Turkey and other countries.

Our largest service facilities Sib-Damel in Kuzbass, Borodinsky repair and mechanical plant in Krasnoyarsk and Chernogorsky repair and mechanical plant in Khakassia provide a full range of services for the repair and production of mechanisms for mining equipment, reducing our dependence on third-party suppliers.

Through our well-developed distribution network, we supply coal to consumers in 48 countries.

In the Russian market, the Group delivers coal to large industrial and energy companies, as well as medium-sized consumers, through its sales unit.

SUEK AG sells coal in the international markets via a network of representative offices and subsidiaries in countries of strategic importance for the Group, including Poland, China, Taiwan, South Korea, Indonesia, Lithuania, Vietnam, Japan, Switzerland, the UK and the USA. This way SUEK can take payment for its products in local currencies and offer additional services to local customers.

Strategic priority:
- Safe and efficient production
- Increased production and exports with a focus on premium markets
- Expanded presence in Asian markets

Operational highlights

<table>
<thead>
<tr>
<th>Mt</th>
<th>2019</th>
<th>2018</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mining</td>
<td>106.2</td>
<td>110.4</td>
<td>(4)%</td>
</tr>
<tr>
<td>By product type</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>hard coal</td>
<td>66.7</td>
<td>72.1</td>
<td>(7)%</td>
</tr>
<tr>
<td>brown coal</td>
<td>39.5</td>
<td>38.3</td>
<td>3%</td>
</tr>
<tr>
<td>By mining method</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>open-pit</td>
<td>81.1</td>
<td>77.9</td>
<td>4%</td>
</tr>
<tr>
<td>underground</td>
<td>25.1</td>
<td>32.5</td>
<td>(23)%</td>
</tr>
<tr>
<td>Washing</td>
<td>41.3</td>
<td>42.2</td>
<td>(2)%</td>
</tr>
<tr>
<td>Sales</td>
<td>115.1</td>
<td>115.6</td>
<td>0%</td>
</tr>
<tr>
<td>International sales</td>
<td>55.2</td>
<td>57.2</td>
<td>(3)%</td>
</tr>
<tr>
<td>Asia-Pacific market</td>
<td>34.5</td>
<td>33.1</td>
<td>4%</td>
</tr>
<tr>
<td>Atlantic market</td>
<td>20.9</td>
<td>24.1</td>
<td>(13)%</td>
</tr>
<tr>
<td>Including:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>third-party coal</td>
<td>14.5</td>
<td>11.5</td>
<td>44%</td>
</tr>
<tr>
<td>petroleum coke and other sales</td>
<td>1.4</td>
<td>1.8</td>
<td>(24)%</td>
</tr>
<tr>
<td>Domestic sales</td>
<td>59.9</td>
<td>56.4</td>
<td>3%</td>
</tr>
<tr>
<td>To own generating facilities</td>
<td>33.7</td>
<td>30.2</td>
<td>12%</td>
</tr>
<tr>
<td>To other consumers</td>
<td>26.2</td>
<td>26.2</td>
<td>(0)%</td>
</tr>
</tbody>
</table>

1. Calculated together with logistics.
Sales

In 2019 our sales volumes were 115.1 Mt, remaining almost unchanged compared to 2018.

Our international sales volumes decreased by 3% to 55.2 Mt (including 1.4 Mt of petroleum coke and other products sales) due to lower supplies to the Atlantic region, the effect of which was partially offset by an increase in shipments to Asian markets. Our main international sales destinations in 2019 were China, South Korea, Japan, the Netherlands, Germany, Vietnam, Morocco, Taiwan, Poland and India.

SUEK’s supplies to the Asia-Pacific region accounted for 60% of the company’s international sales and grew by 1.2 Mt to 34.3 Mt due to increased exports to Vietnam, China, India and Hong Kong. Deliveries to the Atlantic region decreased by 3.2 Mt to 20.9 Mt, reflecting more significant decreases in supplies to the UK, Spain and Turkey. At the same time, we increased our supplies to Germany, Morocco, Croatia and the Netherlands.

Sized coal sales, including through our own distribution networks in Russia, Poland, the Baltic states and Turkey, contracted by 13% to 4 Mt due to weather conditions, which resulted in lower coal consumption in the public utilities sector, and a difficult economic situation in Turkey. Metallurgical coal sales fell to 3 Mt, mainly reflecting a decrease in domestic deliveries due to excess supply of highly volatile semi-coking coal in the Russian market.

SUEK’s coal deliveries to our own power plants grew by 12% to 33.7 Mt as we replaced coal from third-party producers with our own coal. Sales to other Russian consumers decreased slightly, as we increased supplies to our own power plants.

Our sales of petroleum coke and other non-coal products in 2019 fell by 24%, to 1.4 Mt, amidst a general decline in the production of petroleum coke in Russia.

Export revenue from coal sales decreased by 11% to $4,295m, primarily due to a lower average selling price amidst a general decline in coal market prices in Europe and Asia, and weaker coal sales. The average annual coal price index in the Atlantic region in 2019 was 34% lower year-on-year and reached $61 per tonne. A drop in gas prices at the beginning of the year, along with a warmer winter, put significant pressure on the coal price. Prices rose slightly in the second half of the year but did not reach the level of 2018. Restrictions on the purchase of Australian coal in China

<table>
<thead>
<tr>
<th>Market</th>
<th>2018</th>
<th>2019</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Atlantic</td>
<td>20.9</td>
<td>18.7</td>
<td>-9%</td>
</tr>
<tr>
<td>Pacific</td>
<td>34.3</td>
<td>31.4</td>
<td>-9%</td>
</tr>
</tbody>
</table>

International sales structure in 2019 by markets, Mt

Coal sales revenue by market

<table>
<thead>
<tr>
<th>Market</th>
<th>2019</th>
<th>2018</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Atlantic</td>
<td>10.0</td>
<td>9.1</td>
<td>9%</td>
</tr>
<tr>
<td>Pacific</td>
<td>12.9</td>
<td>12.6</td>
<td>3%</td>
</tr>
<tr>
<td>Russian</td>
<td>11.8</td>
<td>11.6</td>
<td>2%</td>
</tr>
</tbody>
</table>

Average price of coal sold on international markets, FOB basis, $ per tonne

<table>
<thead>
<tr>
<th>Year</th>
<th>Average price</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>71</td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td>88</td>
<td>+26%</td>
</tr>
</tbody>
</table>

Average price of coal sold in Russia

<table>
<thead>
<tr>
<th>Market</th>
<th>2018</th>
<th>2019</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic</td>
<td>3.2</td>
<td>2.9</td>
<td>-9%</td>
</tr>
<tr>
<td>Other</td>
<td>7.2</td>
<td>6.9</td>
<td>-5%</td>
</tr>
</tbody>
</table>

Cash cost of coal sold

<table>
<thead>
<tr>
<th>Market</th>
<th>2018</th>
<th>2019</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic</td>
<td>8.4</td>
<td>8.1</td>
<td>-4%</td>
</tr>
<tr>
<td>Other</td>
<td>6.9</td>
<td>6.7</td>
<td>-3%</td>
</tr>
</tbody>
</table>

Revenue

<table>
<thead>
<tr>
<th>Market</th>
<th>2018</th>
<th>2019</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic</td>
<td>582</td>
<td>565</td>
<td>-3%</td>
</tr>
<tr>
<td>Inter-segment sales</td>
<td>644</td>
<td>568</td>
<td>-11%</td>
</tr>
</tbody>
</table>

Autonomous drilling rig

In 2019, we began the process of automating blast hole drilling. The first autonomous robot-assisted drilling rig was tested at the Tugnuisky open-pit mine.

It is equipped with onboard independent control equipment enabling key operations to be performed without operator assistance or via remote control:

- Moving between holes in accordance with the drilling design
- Levelling the machine platform
- Drilling boreholes in accordance with the design
- Measuring parameters of drilled wells
- Ceasing movement when encountering obstacles.

Process automation will replace human involvement in potentially hazardous areas and will improve the speed and accuracy of work. The review of the results of the pilot project and further decisions are scheduled for summer 2020.
Underground

Brown coal

SUEK Integrated Report

Mt

Production by mining method,

Production by type of coal,

Washed coal, Mt, and washed coal share

Investment projects

In 2019, due to a decrease in international coal prices, we focused our coal capacity development programme on improving competitiveness and operational efficiency, with the main emphasis on a number of expansion projects that were not critical to the company. The rest of the investment programme was aimed at maintaining environmental and safety projects.

Building a second washing plant at Tugnaysky

In mid-2019, six months ahead of schedule, SUEK put into pilot operation a new fine-size coal washing plant at Tugnaysky with a capacity of 6 Mt per year. The washed volume in 2019 exceeded 1 Mt.

Completing a flotation unit at the Kirov WP and a filter press unit at the Polysaevskaya WP

In 2019, we completed the construction of a flotation unit at the Kirov WP and a filter press unit at the Polysaevskaya WP. The flotation unit will increase the concentrate yield by 2–3% due to deeper 0–0.35 mm slimes processing, while the filter press unit at the Polysaevskaya WP will close the process water circuit, thereby reducing the environmental load after eliminating slurry discharge into external sumps.

Capacity increase at Pravoberezhny

In 2016, we began the development of the Pravoberezhny open-pit mine with a design capacity of 3 Mt by 2021. The key advantages of this asset are high-CV, low-nitrogen and low-sulphur coal, its close proximity to the Vanino Bulk Terminal (less than 1,000 km) and a relatively low overburden ratio. In 2019, a decision was made to further expand the mine capacity to 6 Mt by 2024 with a simultaneous increase in the capacity of Chegdomyn WP up to 9–10 Mt. Actual production in 2019 amounted to 2 Mt.

Enhancing work safety

In 2019, at SUEK’s Kuzbass assets acquired a multifunctional slant drilling rig PRAKLA RB-T135 able to drill wells with an initial diameter of up to 2 metres, as well as equipment to support early degassing of coal seams.

Raising mine development efficiency

In 2019, we further raised the efficiency of mine development by the introduction of bolter miner machines to replace old-style roadheaders in order to ensure the timely preparation of longwall faces at our mines.

Construction of the November 7th Novaya mine

In 2019, SUEK continued its active investment phase related to the construction of the November 7th Novaya mine at the Sychevsky site to boost underground mining from thick seams. In 2019, we purchased the Aleksievsky site reserves (the deeper seams of the Sychevsky site) with an estimated extractable volume of 190 Mt (in addition to the extractable reserves of the previously licensed upper seams exceeding 50 Mt). The acquisition of these reserves in underlying seams will prolong the life of the infrastructure currently under construction. The decision to slow down the construction of the mine was made in 2020 due to the deteriorating market conditions, the launch of the mine will be postponed until a later date, when the market conditions recover.

Our priorities for 2020

We intend to increase sales of high-CV thermal coal with a calorific value of more than 5,800 kcal/kg. Increasing coal washing at the Chegdomyn and Chernogorsky WPs and further developing our coal quality management systems at Tugnaysky and Kuzbass will help us achieve the product quality required by our demanding customers.

We aim to keep our level of domestic deliveries stable.

Improving production safety will remain our priority. We will continue our absolute focus on eliminating accidents and fatalities and reducing occupational injuries.

We will continue the deployment of the geolocation system for workers in our mines.

We plan to continue the development of our mining assets, including Pravoberezhny and the Magistralny site at Ruban mine in Kuzbass. At Tugnaysky we plan to further optimise blasting technology that will increase the efficiency of the blasting process as well as decrease its environmental impact.

Mineral Resources

SUEK produced 106.2 Mt of coal in 2019, representing a 4% decline on the previous year and leading to a decline in productivity of mining personnel. We increased our open-pit coal production by 4% to 81.1 Mt driven by Nikolsky, Pravoberezhny, Chernogorsky, Zarechny, Borodinsky, and Abakansky expand the. Our underground mining decreased by 23% to 25.1 Mt due to large-scale scheduled upgrades in Kuzbass, at the Kirov, Yalensky and Polysaevskaya mines, and partly in Urgal, at the Severnaya mine.

Hard coal production, almost half of which was mined in Kuzbass, decreased by 7% for the following reasons:

• Difficult geological conditions and preparing product samples.

• Unfavourable market environment and limited

• Limited capacity of the Krasnoyarsk and West Siberian railways

• Lower demand for coal from Kamyshansky due to unfavourable market conditions

Brown coal production, the bulk of which is mined at open-pit mines in the Krasnoyarsk region, grew by 3% to meet robust coal demand from SUEK’s own generating plants.

As a reliable supplier, we strive to meet the requirements of consumers for the quality of our products and ensure strict compliance with contractual obligations. We constantly improve our quality control system and introduce new methods to determine the ash content in our extracted, produced and shipped products, and improved mechanised methods of selecting and preparing product samples.


Coal washing and product quality

The main way to improve the quality of coal is to increase the volume and depth of its processing. In line with our strategic priority to expand the production of high-quality coal, the following projects were delivered in 2019:

• Commissioning a new washing plant at Tugnaysky for washing 0–25 mm coal, with an output of 6 Mt a year

• Completing the reconstruction of the Chernogorsky WP with an increase in its production capacity up to 9 Mt a year

In 2019, washed coal as a share of hard coal produced, rose by 3 p.p., despite the 2% decrease in the volume of coal washed to 41.3 Mt due to lower volumes of hard coal mined.

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1. Project to replace an old mine that was closed.
SUEK is one of the largest producers of electricity and heat in Siberia, with a share of 25% of the electricity market. The company supplies heat and electricity to more than 5 million people in the Altai, Krasnoyarsk, Kemerovo, Novosibirsk and Sverdlovsk regions, Khakassia and Tyva.

Sales
SGC’s total electricity sales in 2019 amounted to 55.2 TWh, representing a 10% increase on the prior year. Capacity sales totalled 10 GW, which is 9% higher than in 2018. This growth mainly reflected new sales to the Ural region. Heat sales decreased by 5% to 35.3 million Gcal because of higher outdoor temperatures in the winter and spring, the early end of the heating season in May and the late start of the heating season in September. In 2019, the company expanded its activities in Khakassia, Novosibirsk and Barnaul, where new consumers were connected after outdated and polluting boiler houses were replaced by heat produced at our combined heat and power plants from Novosibirsk and Barnaul. This partially compensated for the decrease in heat sales due to weather conditions.

The Energy Segment expanded its geographic footprint with the acquisition of the Refinskaya GRES, giving it access to the more attractive Price Zone 1 (European Russia and the Urals).

Capacity sales revenue rose by $12m following the consolidation of Refinskaya GRES.

Electricity sales revenue increased by 18% as the expansion of assets led to higher sales, the effect of which was partially offset by the weaker rouble.

Heat sales revenue fell by 4% compared to 2018, as warmer weather in the regions of operations led to lower heat sales.

Cash cost of energy sold totalled $1,462m, in line with 2018.

Generation
Electricity generation in 2019 amounted to 51.5 TWh, an 11% year-on-year increase, following the acquisition of the Refinskaya GRES in October 2019. Heat supply from all plants and boiler houses in 2019 decreased by 5% to 43.5 million Gcal.

We maintained the same level of co-generation, which enables us to optimise fuel consumption and emissions per unit of energy. Today, 96% of heat and 38% of electricity are generated in a combined cycle.

We continued to expand our operations, with 246,000 Gcal added due to new customers in Chernogorsk, Podisne, Barnaul, and through co-generation (the replacement of boiler houses in Barnaul, Novosibirsk, and Krasnoyarsk) allowing us to reduce fuel consumption and emissions per unit of energy.

Service quality
In 2019, we increased investments in the upgrade and repair of heat networks by 56% year-on-year to reduce heat losses and improve the reliability of heat supply. Investments in the upgrade and repair of heat networks rose by 2.1 times. We introduced mobile applications for heat consumers in order to remotely transmit meter readings, obtain information on verification deadlines, register consumer complaints and view bills.

In 2019, the Russian Government decided to transfer Barnaul to the ‘alternative boiler’ heat tariff starting from 2020, which enables SUEK to make long-term investments in the modernisation and development of the city’s heat supply systems.
Mobile heat inspector
In 2019, SUEK introduced electronic tablets to replace paper reports, and this has helped the company’s inspectors to make heat supply adjustments more quickly.

An eight-inch tablet with an impressive range of functions is connected to the internet and the server, which hosts all the information that inspectors enter into their devices.

After inspectors register testing results with special devices, the software automatically analyses these figures, compares them with the standards set out in the heat supply to consumers of electricity and heat in the company’s area of responsibility.

The innovation has brought the following improvements:
- Optimisation of travel routes for inspectors
- Increasing the rate of inspections
- Better control of heat consumption
- Timely adjustment of heat supply

As a result of the 2019 pilot, our ‘Mobile heat inspector’ project was awarded at the ‘New Idea’ competition organised by the Russian Ministry of Energy.

Our priorities for 2020
The Energy Segment will focus on the following targets and projects:
- Uninterrupted and high-quality power supply to consumers of electricity and heat in the company’s area of responsibility
- Decreasing pollutant emissions by upgrading the equipment, and further increasing the share of combined electricity and heat generation, as the most climate-friendly method to supply our customers with electricity and heat
- Expanding presence in heat markets: replacing outdated and polluting boiler houses in Krasnoyarsk, Novosibirsk and taking technical and organisational actions to enter the Chernogorsk and Belovo heat markets
- Coordination with authorities and implementation of large-scale modernisation programmes for heat supply in the cities of SUEK’s presence, using long-term investment mechanisms provided for by the ‘alternative boiler’ pricing method

Operational highlights

| Operational highlights | 2018 | 2018 | %
|------------------------|------|------|---
| **Generation**         |      |      |   
| Electricity, TWh       | 51.5 | 46.2 | 11%  
| Heat, million Gcal     | 43.5 | 46.0 | 6%  
| **Sales**              |      |      |   
| Electricity, TWh       | 59.2 | 50.0 | 19%  
| Competitive market     | 49.2 | 40.9 | 11%  
| Regulated market       | 10.0 | 9.1  | 10%  
| Capacity, GW           | 10.0 | 9.2  | 9%   
| Competitive market     | 5.0  | 7.5  | 3%   
| Regulated market       | 2.8  | 1.7  | 16%  
| Heat, million Gcal     | 35.3 | 37.2 | 5%   

+11% electricity generation

Electricity generation, TWh

<table>
<thead>
<tr>
<th>Year</th>
<th>TWh</th>
</tr>
</thead>
<tbody>
<tr>
<td>'19</td>
<td>51.5</td>
</tr>
<tr>
<td>'18</td>
<td>46.2</td>
</tr>
<tr>
<td>'17</td>
<td>43.5</td>
</tr>
</tbody>
</table>

Install power capacity utilisation rate

<table>
<thead>
<tr>
<th>Year</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>'19</td>
<td>46%</td>
</tr>
<tr>
<td>'18</td>
<td>49%</td>
</tr>
<tr>
<td>'17</td>
<td>50%</td>
</tr>
</tbody>
</table>

- Upgrading power unit No. 7 of the Tom-Usinskaya GRES (under the DPM-2 programme)
- Technical re-equipment of the boiler plant at the Nazarovskaya GRES
- Completing the reconstruction of the Southern Thermal Plant in Rubtsovsk to increase the installed heat capacity by 50–70 Gcal/h.

Logistics

Vanino Bulk Terminal, Maly Port, Murmansk Commercial Seaport

Strategic priorities:
- The shortest route to end users
- Fast shipments to end users

Loading and transportation units

53,350 railcars under management

$218 m external revenue

0.72 LTIFR

$69 m CAPEX

Thank you to key transport infrastructure, SUEK is able to make coal deliveries to the largest international markets, to our power plants and Russian customers, efficiently and on-time, while also utilising the logistic assets for third-party bulk commodity transport, including back-haul where possible.

SUEK is the fourth largest operator of gondola cars in Russia in terms of fleet size (53,350 units as of the end of 2019. This fleet covers over 80% of the company’s transportation needs. Given the uneven traffic and demand for railcars in specific parts of the rail network and during specific times of the year, maintaining agreements with railcar operators, and also with third-party railcar consumers, is essential. This makes it possible to optimise empty mileage and smooth out fluctuations in our ability to supply the required railcars for SUEK’s coal.

65% of our railcar fleet were designed to meet SUEK’s specifications: higher-capacity cars with 75- and 77-tonne capacity and a useful life of up to 32 years. In 2019, SUEK enhanced its fleet with the acquisition of a further 16,025 high-capacity railcars.

1. Including transshipment of third-party coals and non-coal products (7.3 Mt in 2019 and 0.8 Mt in 2018).
These high-capacity railcars decrease all else being equal the specific transport cost and also the specific diesel consumption per tonne, thus generating economic benefit and reducing environmental footprint. SUEK’s own railway infrastructure gives us one of the best loading and unloading speeds in Russia. This infrastructure includes 746 km of railway track, 16 internal loading stations and approximately 190 locomotives, providing access to the national railway network. We continue to work on increasing the throughput of our loading stations and tracks in order to support our developing mining units in Kuzbass, Khakassia and Buryatia. SUEK supplies coal to the international market through its own, modern Vanino Bulk Terminal in the east and Murmansk Commercial Seaport in the west, in addition to Maly Port, in which the company is one of the main shareholders.

**Operational highlights**

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rail shipments on public tracks</td>
<td>85.7</td>
<td>87.3</td>
<td>(2%)</td>
</tr>
<tr>
<td>Shipment by sea</td>
<td>49.1</td>
<td>40.1</td>
<td>22.5%</td>
</tr>
<tr>
<td>Vanino Bulk Terminal</td>
<td>20.5</td>
<td>20.0</td>
<td>3%</td>
</tr>
<tr>
<td>Murmansk Commercial Seaport</td>
<td>17.6</td>
<td>16.2</td>
<td>9%</td>
</tr>
<tr>
<td>Maly Port</td>
<td>2.8</td>
<td>2.5</td>
<td>12%</td>
</tr>
<tr>
<td>Other ports</td>
<td>8.2</td>
<td>9.4</td>
<td>(13%)</td>
</tr>
</tbody>
</table>

**Rail transportation**

In 2019, SUEK transported 85.7 Mt of its coal via the Russian Railways network, which represented 17.4% of total coal tonnage transported on the network during the year. As part of our programme to optimise empty mileage, SUEK also transported 21.1 Mt of third-party loads during the year. We are running joint projects with Russian Railways to increase the capacity and efficiency of the railways and railcars. Of particular importance to the company is the completion of the first stage of the Eastern Polygon by 2020 and the start of the design and construction of the second stage, which is scheduled for completion by 2025. The key activities of the second stage include electrifying 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 195 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. Specific coal transportation costs in roubles rose amidst the continued growth in operator rates, which was due to a shortage of railcars caused by operational issues in the Russian railway system and railway restrictions towards the east.

**Port transshipment**

In 2019, SUEK opened an advanced environmental dispatcher office at the Murmansk Commercial Seaport. The dispatcher room includes an integrated hardware and software complex for monitoring the environmental situation in the port’s territory and the boundaries of its sanitary protection zone. The system enables a single dispatcher to carry out comprehensive and continuous monitoring of the environmental situation, in real time, in order to manage environmental risks and improve the efficiency of environmental activities. Using the spatial structure of the information and measuring system, all data is automatically displayed on the interactive port map. The dispersion area of pollutants is broadcast online.

The system records the following parameters:
- Dust concentration
- Concentration of gaseous pollutants
- Air temperature and humidity
- Surface humidity of bulk cargo piles
- Noise level
- Wind speed and direction

Depending on the wind and dust conditions the dispatcher can activate the necessary dust suppression equipment, such as stationary and mobile fog-generating units, vacuum cleaners, road spraying and organisational and technical activities.

With the dispatcher’s office up and running, the port is now able to predict meteorological conditions three days ahead. Overall, the port is investing about $50m in a large-scale environmental programme. At the end of 2019, the Murmansk Port passed an inspection for compliance with the requirements of the international environmental standard and confirmed its compliance with international environmental certificate ISO 14001:2015. Following an audit by experts from the ‘Clean Seas’ International Environmental Foundation, the port received the Platinum Certificate of Compliance with the ‘Clean Port’ environmental standard.
Investment projects

Railway infrastructure development and capacity increase at Vanino Bulk Terminal

In August 2018, the Commission on the Fuel and Energy Sector Development Strategy and Environmental Safety, chaired by the President of Russia Vladimir Putin, approved the outline of the second project stage up until 2025 (ensuring the transportation of 195 Mt of coal a year towards Far Eastern ports, including 85 Mt a year at Vanino) and confirmed the importance of maintaining a long-term tariff system according to the ‘inflation less than 0.1%’ principle.

Following these decisions, in March 2019 the Russian government adopted the Long-Term Russian Railways Development Programme to 2025, which involves increasing the target throughput of the infrastructure at the Komsomolsk-Vanino section from 43–44 Mt in 2021 to at least 85 Mt with complete electrification of the Volochaevka-Vanino line by 2025. This creates an opportunity for SUEK to increase its long-term target of raising transhipment volumes through Vanino from 24 to 40 Mt or more.

In 2019, following the decision by its Board of Directors, SUEK began the design, preparatory work and supplier selection for capital equipment. In 2020, we plan to complete the design work, obtain a permit and begin construction, the progress of which will be linked to SUEK’s routes and a routing framework requirements. For purchases at SGC’s under 223-FZ, we developed a project that involves creating a single SUEK’s SRM trading framework requirements. This law applies to SGC, as it covers various activities in the field of electricity and heat supply.

Our priorities for 2020

The main priority for 2020 is the first stage of the capacity increase at Vanino Bulk Terminal to 40 Mt (the development of railway infrastructure, a new triple car dumper with a defrosting station for gondola cars, a conveyor system, a fifth stacker reclaimer, etc.).

At the Murmansk and Maly Ports, we will continue the construction of dust shields, which will reduce coal dusting in nearby areas.

At Maly Port the company plans to remove railway infrastructure constraints as part of the final measures to reach capacity of 4 Mt per year.

We intend to maintain a railcar fleet under management of around 50,000 units and involve high-capacity cars in the regular turnover according to a cost-efficient scheme.

One of our priorities continues to be the development of technology to accelerate the turnover of railcars along SUEK’s routes and a routing programme in all directions, together with Russian Railways.

Procurement

Inventory management

In 2019, the procurement unit accelerated inventory turnover against the backdrop of an overall increase in inventory due to higher purchase volumes and rising prices.

To achieve the acceleration of turnover, the SUEK introduced material procurement planning in ERP and SRM systems, taking into account the actual need for materials, their stock balance and emergency (reserve) stock, delivery time, transit rate and seasonality.

In 2019, the amount of materials purchased through automatic planning was 72% of the total procurement volume. We accelerated the turnover thanks to more efficient inventory management. As a result, the need for third-party purchases decreased by 13.4%.

Together with automation, we developed and introduced a unified inventory management methodology. We also created a technique for calculating reserve stock. Besides, SUEK developed and introduced an incentivisation system for key employees of the company’s units based on the inventory turnover indicator. Currently, the customer services, the financial and economic unit and supply services are responsible for meeting the company’s turnover targets.

In 2019-2020, a similar inventory management project will be implemented at SUEK’s service companies. This will help us cover all structural divisions with a single inventory optimisation methodology to further increase the cumulative economic effect.

Consolidation of SUEK’s and SGC’s procurement functions

In March 2019, we developed a programme to consolidate the procurement processes at SUEK and SGC. The programme consists of a number of areas:

• SUEK and SGC jointly develop 27 categorical strategies for materials and services accounting for approximately 80% of the procurement volume

• SGC began the unification of the structure and functionality of its procurement service

• The companies created a single reference book of materials and services

• We updated regulatory documents on procurement activities in terms of bringing to the unified (SUEK’s) standards and rules governing procurement procedures

Automation of procurement processes is developing in two directions. For purchases at SGC’s units that are not subject to 223-FZ law “On Procurement of Goods, Works, Services by Certain Types of Legal Entities” dated 19 July 2011 (Law on Procurement), the processes are automated on the basis of a single SUEK’s SRM trading platform. For procurement activities at SUEK and SGC under 223-FZ, we developed a project that involves a new functionality and integration with external resources, with consideration for the regulatory framework requirements. This law applies to SGC, as it covers various activities in the field of electricity and heat supply.

In 2020, the company plans to continue all previous initiatives and reap the first economic benefits from the above innovations.

1 Today, only 34 Mt per year, reaching 43–44 Mt after finishing the construction work in the Trans-Siberian Railway – BAM project.
Focusing on sustainable development

We aim to promote the sustainable, social and economic development of the regions where we operate, and to satisfy the demand for electricity and heat in a responsible way.

- **$2.1bn** contribution to local communities in 2019 (paid in taxes, to employees and local suppliers, and invested in local communities)

- **0.50** LTIFR for SUEK Group

- **−14%** reduction in NOx and SO2 emissions in the Altai region due to the replacement of old electrostatic precipitators with new models in 2019

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Rollout of our remote safety analysis and warning programme
See more on page 84.

Advanced environmental protection in Krasnoyarsk
See more on pages 90-91.

Operating our modern Staff Training and Development Centre in Leninsk-Kuznetsk
See more on page 95.

Programme run by SUEK to promote career in engineering to children
See more on page 100.
Sustainability is our absolute priority

In 2017–18, Russia stood below 70% of the 1991 level in terms of greenhouse gas emissions, and at 50% of the 1991 level, if we take into account the absorbent function of forests.

Moody’s

By 2019 the Russian coal industry and coal-fired generation had reduced their GHG emissions by 50% compared to 1990, and we are confident the industry will continue to reduce this further.

SUEK’s Corporate Social Policy commits to international principles and standards, including:

- the United Nations Global Compact
- the Social Charter of Russian Business
- ISO 26000 (Guidance on Social Responsibility)
- GRI Standards

We also work towards the United Nations Sustainable Development Goals (SDGs), aimed at protecting the environment and improving the well-being of everyone without exception. Within the framework of the UN SDGs, a number of benchmarks are particularly important for us, since they are most relevant to the strategy and direction of the company, as well as the interests of SUEK’s stakeholders.

The Board of Directors and the company’s management pay special attention to sustainable development issues, which they regularly discuss at Board meetings.

In 2019, we updated our anti-corruption policy, following which the company received international ISO 37001 certification and SUEK’s compliance system received ISO 19600 ‘Compliance Management System’ certification.

Detailed information about the company’s contribution to the achievement of the SDGs is given in the Sustainable Development Report for 2018-2019.

SUEK are systematically audited for compliance with the following international standards:

- ISO 9001 Quality Management System
- ISO 14001 Environmental Management System
- ISO 45001 Occupational Health and Safety Management System
- ISO 55001 Asset Management System
- OHSAS 18001 Environmental Management System
- OHSAS 18001 Occupational Health and Safety Management System
- ISO 55001 Asset Management System
- ISO 55001 Environmental Management System

Detailed information in accordance with GRI Standards is presented on pages 158–168.

People are at the heart of our business. We are committed to creating excellent living and working conditions for our employees and the local residents in the regions where we operate, and also to bringing warmth and light into people’s homes. SUEK’s sustainable development strategy is continuously evolved to reflect the needs of all of the company’s stakeholders, with whom we maintain open and constructive communications.

As an energy and mining company, we acknowledge that our operations can have an impact on the environment. In particular, coal mining and coal-fired generation use water resources and release emissions into the atmosphere. Therefore, an important part of our responsible approach is carefully controlling and minimising this impact as well as running proactive conservation programmes to ensure we preserve the natural environment for present and future generations.

We also believe that global sustainability issues need to be addressed through an integrated scientific approach, supported by cross-border partnerships. The sustainable development of the planet requires solutions to support continued economic development, improve the lives of billions of people in developing countries, conserve natural environments and combat climate change. The ratification of the Paris Agreement on climate change by Russia in 2019 was another positive step in the right direction.

Our approach to sustainability / continued
Our priorities

• Continually improve equipment and production management to ensure workplace safety
• Ensure our production sites have the latest safety systems and monitoring
• Address safety issues related to air quality
• Introduce remote monitoring systems for industrial safety parameters
• Guarantee the safety of all power plants equipment from fire and explosion
• Improve the skills and capabilities of safety professionals
• Reduce the negative impacts of coal dust on employee health
• Develop a single health and safety information system
• Implement preventative medical programmes

Our regulatory framework

• Our occupational and industrial Safety policy
• OHSAS 18001 standards
• ISO 45001 standards
• Bettercoal Code
• UN Global Compact
• UN SDG’s

Our approach

At SUEK, our goal is to create a completely safe production environment and reduce injuries to zero. The company strives to promote a safety culture among all its employees. The LTIFR KPI, as well as the target of zero fatal group accidents, are bonus modifiers for top managers and other employees.

SUEK’s system for managing health and safety across the company is regulated by our Occupational Health and Safety Policy, is aligned with OHSAS 18001 and conforms to the best international standards. In 2019, SUEK began certification according to the new ISO 45001 standard. Our coal-producing and washing facilities in Kuzbass, Krasnoyarsk and Khakassia undergo regular external audits to confirm their compliance with the requirements of OHSAS 18001.

In 2018, our coal facilities were evaluated for compliance with the requirements of the Code Bettercoal. In 2019, we continued to adhere to best practices noted by Bettercoal experts on our assets, we continued to equip our assets with modern security systems and continued to implement comprehensive programs aimed at reducing injuries.

In our efforts to ensure production safety, we adhere to the following main principles:

• Zero tolerance to injuries and accidents
  We treat any injury and accident as an emergency and make sure we get to the bottom of any underlying problems.
• Safety priority
  If the production task compromises safety, it should be reviewed or cancelled.
• Professionalism and competence
  We do not ask employees to carry out any tasks for which they 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.

In 2019, there were several employee injuries relating to moving machinery. What measures have you taken to ensure similar incidents are prevented in the future?

A:

If any injuries happen at our operations, our first response is to double-check process safety and further enhance our employee training. We are constantly bringing in new technology to further reduce ‘human risk’ factors.

For example, at Murmansk Commercial Seaport we have equipped loaders with thermographic cameras to monitor any blind spots behind the loaders, in any weather or light conditions. A processor unit processes the video stream and displays the image on the screen, framing any human figure and giving a sound alert.

The unit is currently operating in test mode on Volvo and Liebherr loaders. In 2020, two more Liebherr loaders will be equipped with this recognition system.

Sergey Boyko,
Head of the Health and Safety Directorate, Logistics

Our approach

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Health and safety management, risk management and reporting system

A distinctive feature of SUEK is the rapid adoption of managerial decisions: all of our recommendations regarding additional security measures began to be implemented literally the next day. I believe that the main goal of protecting the labor rights of workers and improving the conditions in SUEK has been achieved.

Ivan Mokhначук
Chairman of the Russian independent coal industry workers union ‘Rossugleprof’

Risks associated with personnel, processes, working conditions and equipment are regularly assessed at all levels of management. This assessment is the basis for further strategic and operational steps to improve industrial and labour safety.

SUEK has a comprehensive industrial safety management system, which ensures the methodology, and control at all levels of Group management is centralised. SUEK’s Industrial Safety Committee, 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. Each meeting of SUEK’s Management Board and its Nomination and Compensation Committee begins with a discussion on production safety issues.

Workers unions are also involved in the process of assessing labour protection and industrial safety conditions; on a regular basis, trade union representatives visit SUEK assets and assess working conditions in the field of labor protection and industrial safety. The elimination of any violations discovered during these inspections is mandatory.

In 2019, SUEK’s assets in Krasnoyarsk region underwent an unscheduled audit of compliance with the rules of occupational safety and health with the participation of the regional technical inspector of labor from Rosugleprof. During the audit, experts checked the documentation and equipment and interviewed all groups of employees, from workers to management personnel. Representatives of Rosugleprof recommended the work of SUEK in creating conditions for the safe work of collectives.

In 2018, the decision was made to consolidate SUEK’s energy units into the Group’s overall health and safety management system. In 2019, SGC’s CEO became a member of the Group’s Industrial Safety Committee. An advisory body, the Production Safety Committee, was created at our energy facilities to set up an efficient production safety management system, address significant issues, and coordinate and control activities in this area.

Identifying employees who are prone to excessive risk-taking

We test all candidates applying for job vacancies and engineering positions on their risk appetite and their ability to learn and follow rules. We do not hire those who prove prone to excessive risk-taking.

$87.1m invested in occupational health and safety in 2019

Contractors health and safety assessment

SUEK’s internal industrial and labour safety standards also apply to employees of contracting organisations working at the Group’s assets. All contractors must meet our internal corporate requirements:

• Contractors are required to have permits to perform the work assigned to them;
• Contractors must be staffed with the required number of qualified and trained personnel;
• Contractors must have the necessary management structures and employees dealing with industrial safety;
• Contractor personnel must be provided with the certified personal protective equipment, work clothing and safety shoes in accordance with SUEK’s corporate requirements;
• Contractor personnel must be equipped with a sufficient number of fault-free, certified, verified/ tested tools and accessories.

In 2019, the Group’s LTIFR decreased from 0.55 to 0.50 year-on-year, while the Coal Segment’s LTIFR fell from 0.75 to 0.72, and from 0.29 to 0.24 in the Energy Segment.

Occupational injuries remained at the same level as last year. Of 57 accidents, 45 occurred at the coal production, processing, service and logistics operations, while 12 employees were injured at our energy facilities.

No collective group accidents with our employees were registered at SUEK’s facilities in 2019.

However, despite all our efforts, eight individuals suffered fatal accidents across the Group. Four of these happened at our energy facilities: in Kemerovo (two), Novosibirsk and Kyzyl. Four fatalities occurred in the Coal Segment: two in Kuzbass and one each at a Khabarovsk underground mine, and in a Primorye open-pit mine.

Dedicated panels thoroughly investigated all the accidents, which were also analysed by the Industrial Safety Committee, overseen by SUEK’s Management Board. The root causes of these accidents were found to be related to employee training and discipline, the organisation of work processes, and the adequacy of the protective equipment and interlocks. The company has since developed comprehensive measures to address these causes and prevent similar incidents in the future.

In 2019, $87.1m was spent on occupational health and safety (9% of SUEK’s total CAPEX), $60.6m of which was committed to the Coal and Logistics Segments and $26.5m to the Energy Segment.

In 2019, the company began to develop a similar centre for SUEK’s open-pit mines in Khakassia.

Our safety performance

Maintaining atmospheric safety at coal mines

The nature of the coal industry carries with it the risk of accidents and emergencies, due to natural factors and mining processes, which involve the regular movement of working and development faces in underground and open-pit mines.

The main risks in underground coal mining are from potentially explosive concentrations of methane, and the accumulation of fine, explosive coal dust deposits in working areas. Coal processing and washing, transportation and transshipment of coal in ports are also potentially dangerous and require close attention to ensure safety. The company is therefore particularly focused on management, monitoring and safe extraction of methane gas and preventing the possibility of dust explosions, by stone-dusting using inert dust.

Monitoring air and gas underground

All of our mines are equipped with a multifunctional safety system. Information flows from the mines, consolidated, monitored and analysed at all levels of company management:

• At SUEK’s head office, our Control Centre monitors industrial safety parameters remotely, in real time;
• Our centralised Control and Analysis Centre in Kuzbass receives information on the atmospheric conditions and gas levels and production process safety parameters in underground and open-pit mines.

In 2019, we commissioned a new main ventilation unit of the CFT production (Germany) was put into operation in Kuzbass. It is capable of drilling wells up to 600 metres deep and up to 0.8 metres in diameter. At the end of the year, the drill rig of the Kirov mine in 2019, work began on drilling the first well with this machine.

All mines must be well-ventilated. In 2019, we commissioned a new main ventilation and drainage fan unit produced by CFT (Germany) at the Kirov mine to make more efficient drainage at the mine.
Recognise hazardous situations

The system makes it possible to:
• Assess current and forecast future risk levels
• Take preventive measures to avoid incidents and accidents
• Assess and determine the likelihood of an incident, predicts the potential timing of an incident and sends the data to coordinators and site supervisors.

Management decisions are made on the basis of this analysis and forecasting.

The system makes it possible to:
• Recognise hazardous situations early

Ensuring air quality at above-ground operations

We also strive to reduce dust at open-pit mines, washing plants and ports to ensure favourable air conditions for our workers.

We use aspiration and dust removal systems, vacuum collection, transportation and discharge of fine coal dust.

We equip production areas, warehouses, ports and adjacent territories adjacent with fog-generation units and foam generators.

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:
• The possibility of generating a potentially explosive pulverised coal mixture in CHPP units
• Depressurising of equipment operating under significant overpressure
• Electric shocks
• Falling from height during repairs

We focused on improving fire safety at our plants:
• Upgrading fire alarms and fire fighting systems
• Installing additional fire protection systems for personnel
• Applying fire-retardant coatings on electrical power cables
• Installing flame arrestors in boiler coal pulverisation units

We are careful to ensure the correct procedures are followed when carrying out power installations and attending to repairs (installation, commissioning) of equipment at power facilities.

Health and safety training

We work hard to ensure all employees have the necessary knowledge to carry out their responsibilities safely and responsibly. The company has established personnel health and safety training from directors to workers.

At our coal mining and processing facilities before work begins, each employee’s occupational and industrial safety knowledge is tested in a pre-shift examination via computer terminals.

In 2019, we opened a new training centre at Turguisky, with classrooms that include multimedia interactive simulators of our large operating units, businesses, mining and production facilities, such as excavators, bulldozers or trucks.

At Murmansk port, Vanino Bulk Terminal, the Kuzbass transport department and energy facilities, managers received leadership training for health safety and behavioural safety auditing.

In addition to regular training, our energy facilities in 2019 ran special health and safety events:
• Regional ‘Safety First’ conferences for young professionals
• ‘Safety Culture Basics’ and ‘Analysis and Causes of Injuries’ training modules introduced into professional development courses for operating personnel at thermal power plants

Modern work clothes and personal protective equipment

The company has standard requirements for personal protective equipment that cover its protective properties, comfort, ease of use and durability. In 2019, the company’s energy assets were equipped with the Group’s ERP system for health safety and environmental protection.

Based on the results of a successful pilot for the automatic distribution of PPE, implemented in 2018, in 2019, we rolled this technology out at other facilities, making it possible to move away from paper forms and instead keep a digital record of all personal protective equipment issued. In the next two years, we plan to purchase 60 vending machines for our production units.

Healthcare

SUEK has a corporate ‘Healthcare’ programme focused on maintaining and improving production employees health, looking at overall production and specific risks. It identifies early-stage symptoms of occupational diseases, prevents disease and provides medical services.

In 2018, we implemented the following occupational health projects:
• Launched 76 automated pre-shift medical check-up units
• Set up mobile aid posts at Vostochny and Vostochno-Beisky
• Upgraded equipment at medical facilities in Kuzbass and Krasnoyarsk region and recreation facilities for our employees in Khakassia
• Re-equipped the medical check-up department in Kuzbass
• Purchased a diagnostic and treatment unit for Kharanorsky and an ambulance car for Apratskoye in Zabaiakalje
• Provided fitness equipment to corporate sports grounds
• Fitted canteens, office and amenity buildings with updated equipment to meet new recommendations from hygienists

From 2012 to 2019, SUEK’s personnel health statistics improved more than twice. In 2019, time lost through sick leave across the company fell to 7.1 days per employee per year, while the share of people suffering from recurring or long-term illnesses was 4.32%.
Advancing technology, enhancing environmental safety

A: We arrange public hearings to present new technology we plan to introduce at any of our production facilities that are subject to state environmental review. We keep our stakeholders informed about any planned projects and the possible impact they might have on the environment. Any suggestions received during public hearings are analysed and, if appropriate, the relevant project documents are adjusted accordingly.

In 2019, we held public hearings on a project for the utilisation of ash and slag, generated when processing waste from our power plants, for construction and land rehabilitation purposes. During the hearing, the local community and municipal authorities had no objections to use these types of materials in construction and land reclamation.

Konstantin Kushnir,
Deputy Technical Director for Environmental Protection, Energy

Q: How does SUEK involve stakeholders in its environmental decisions for production facilities?

A: We arrange public hearings to present new technology we plan to introduce at any of our production facilities that are subject to state environmental review. We keep our stakeholders informed about any planned projects and the possible impact they might have on the environment. Any suggestions received during public hearings are analysed and, if appropriate, the relevant project documents are adjusted accordingly.

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Konstantin Kushnir,
Deputy Technical Director for Environmental Protection, Energy

Our approach
Our strategic environmental priorities are closely linked to the UN SDGs and focus on the sustainable development of the regions where we operate.

The importance of environmental safety is enshrined in SUEK’s Environmental Policy developed in accordance with Russian and international environmental laws and the precautionary principle. Furthermore, our environmental management strategy is set out in the company’s Compliance Regulation of licensed activities and environmental management, and Compliance Policy.

Our corporate environmental safety system covers all operational cycle stages, from coal mining to shipment in ports, along with heat and electricity generation.

See SUEK’s environmental measures on our website http://www.suek.com.

SUEK’s coal mining and port facilities in the Republic of Khakassia, Krasnoyarsk and Primorye, Kemerovo and Murmansk regions run environmental management systems that meet the requirements of the ISO 14001 international standards, which is regularly confirmed by external audits. In the future, we plan to certify the company’s remaining production assets for compliance with ISO 14001.

$48.2m invested in environmental protection in 2019

All our policies can be found on the company’s website http://www.suek.com
Key areas of SUEK’s environmental activities:

- Development of an integrated environmental management system and an energy management system in accordance with the ISO 14001 and ISO 50001 standards, respectively
- Implementation of programmes to improve environmental safety, including projects for:
  - The responsible use of natural resources
  - Lower atmospheric pollution
  - Wastewater treatment and responsible water consumption
  - More efficient recycling of waste and secondary raw materials
  - Land rehabilitation

Our environmental safety strategy and initiatives are directly overseen by SUEK’s Board of Directors and Industrial Safety Committee of the Management Board. In 2019, we unified our approach to environmental issues across all of our businesses. To improve the control and quality of our environmental programme, in every segment we have a dedicated department focused on refining the environmental management system and supporting operating activities.

Management is given environmental KPIs. The implementation of environmental programmes is also included in the KPIs for the technical directors of our ports.

supplier environmental assessment

Compliance with environmental requirements is included as a prerequisite in contracts with organisations that operate at our facilities. We monitor their compliance throughout the entire period of their engagement, with non-compliance leading to contract termination. SUEK is currently developing standard regulation of contractor environmental protection standards, which will be included in all contracts.

Air protection

Minimising emissions of SO₂, NOₓ and other pollutants

In coal-fired power generation, controlling the level of SO₂, NOₓ and of solid emissions is the main priority when it comes to environmental protection.

To improve the environmental situation in the cities where we operate, we use:
- Advanced dust-collecting equipment (electrostatic precipitators, cyclone collectors), which allow us to catch up over 99% of fly ash and other solids
- CHPs equipped with the above filters, instead of old boiler houses, for supplying heat to local people
- Upgraded equipment and advanced coal burning technologies
- Tall exhaust stacks (over 120 metres on average)

Replacing boiler houses with co-generated heat enables SUEK to:
- Reduce specific fuel consumption for heat generation by 32% 
- Reduce CO₂ emissions by about 6 Mt per year compared to separate generation of heat and electricity

One of the most ambitious boiler replacement programmes is now underway in Krasnoyarsk. By 2024, we plan to replace at least 35 boiler houses. At the same time, we reconstruct heat distribution networks to reduce heat loss.

We are also taking additional measures to improve the environmental situation in the city. In 2019, we completed construction of the body for a new stack 275 metres tall at the Krasnoyarskaya CHP-1. Stack No. 2 is scheduled for demolition in 2020, after which all boilers will be connected to the new stack. Along with the modernisation of outdated equipment, the installation of new high-performance electrostatic precipitators, the reconstruction of city heat networks, the replacement of boiler houses and the use of smokeless briquettes by private households, this will reduce emissions in Krasnoyarsk by 37%.

Coal mining releases methane, which is pumped out of mines to ensure they are safe for mine workers. As part of measures to reduce our environmental impact and contribute to the Paris Agreement, we work to maximise the utilisation of mine methane, and thereby minimise our total emissions. Our Kirov and Komorenkolets mines are equipped with methane recovery systems and gas engine plants that capture gas and use it to generate heat and electricity. In 2019, the company utilised 4 million m³ of methane captured from mined-out areas.

We also plant trees and shrubs to offset CO₂ emissions. In 2019, we equipped the sanitary protection zone around our industrial sites in Chemogorsk and planted trees in its parks and public gardens, and also in the cities of Zabaykalsky and Krasnoyarsk and Kemerovo regions.

In 2018, our mining units were assessed for compliance with the Bettercoal Code. In 2019, we continued to roll out the best practices recognised by Bettercoal experts across our facilities:
- Installation of advanced modular water treatment systems
- Installation of closed water circulation systems
- Increasing of utilisation of waste in economic activities
- Land reclamation

We also continued to progress SUEK’s comprehensive energy efficiency programme aimed at reducing energy consumption.

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

<table>
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<tr>
<th>Year</th>
<th>CO</th>
<th>NOₓ</th>
<th>SO₂</th>
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<tr>
<td>2018</td>
<td>0.005</td>
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Pollutant emissions per tonne of coal (CO, NOₓ, SO₂), kg/t

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<tr>
<th>Year</th>
<th>CO</th>
<th>NOₓ</th>
<th>SO₂</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>0.17</td>
<td>0.17</td>
<td>0.17</td>
</tr>
<tr>
<td>2018</td>
<td>0.16</td>
<td>0.16</td>
<td>0.16</td>
</tr>
</tbody>
</table>

GHG emissions per revenue, kg CO₂eq/$

<table>
<thead>
<tr>
<th>Year</th>
<th>GHG emissions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>8.0</td>
</tr>
<tr>
<td>2018</td>
<td>7.5</td>
</tr>
<tr>
<td>2017</td>
<td>8.2</td>
</tr>
</tbody>
</table>

See more about SUEK’s environmental KPIs in the Strategy section on pages 32.
The phased transformation of the heat and electricity supply system in Krasnoyarsk

**Target**
Efficient and clean heat supply to >1 million people 9 months a year

**Investments**
$834m (2020–2025)

**Expected effect**
~37% emissions compared to 2018

**Solution 1**
We plan a complete replace the heat distribution network to reduce heat loss.

**Solution 2**
We will build a new unit for the Krasnoyarskaya cogeneration CHPP-3 to replace retiring facilities, close 36 old small boilers, reducing emissions and supplying the heat needed to meet growing local demand. We dismantled the Krasnoyarskaya cogeneration CHPP-1’s old exhaust stacks, and building new ones with a height of more than 200 metres. We will also introduce electrostatic precipitators that catch over 99% of ash.

**Solution 3**
We will build a new unit for the Krasnoyarskaya cogeneration CHPP-3 to replace retiring facilities, close 36 old small boilers, reducing emissions and supplying the heat needed to meet growing local demand. We dismantled the Krasnoyarskaya cogeneration CHPP-1’s old exhaust stacks, and building new ones with a height of more than 200 metres. We will also introduce electrostatic precipitators that catch over 99% of ash.

**Solution 4**
We suggest transferring private houses to the central heating system.

**Russia**
Krasnoyarsk

**THE PROGRAM**
-100 metres cloud ceiling in winter (from the Yenisei River that is ice-free due to a hydropower plant)

Vapours from the Yenisey River form a cushion above the city which accumulates emissions from:
- Old municipal standalone boilers
- Private houses
- Small factories and large businesses
- Cars

SUEK's power plants have higher than average exhaust stacks. That is why gases from our plants are released above the cloud level.

We are dismantle the Krasnoyarskaya cogeneration CHPP-1's old exhaust stacks, and building new ones with a height of more than 200 metres. We will also introduce electrostatic precipitators that catch over 99% of ash.

**Target**
Efficient and clean heat supply to >1 million people 9 months a year

**Investments**
$834m (2020–2025)

**Expected effect**
~37% emissions compared to 2018
Energy efficiency

We highly appreciated SUEK’s impressive efforts and achievements in improving energy efficiency. The results of our audit of SUEK’s energy management system, which we conducted to verify compliance with the international ISO 50001 standard, demonstrated the company’s responsible, systematic and purposeful approach to optimising energy consumption and protecting the environment.

TÜV AUSTRIA, international certification organisation

SUEK’s energy efficiency programme offers an economic benefit whilst helping us minimise our impact on the environment.

In 2019, SUEK’s Coal Segment was recertified for compliance with the requirements of the ISO 50001 international standards (updated edition of late 2018).

The main focus areas of our energy efficiency programme in SUEK’s Coal Segment include:

- The 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

In 2019, we delivered the following key projects:

- Upgrading a dragline at Tugnuisky using our own switched reluctance electric motors, which brought specific energy consumption down by 46%.
- Modernising the dragline control system at Chernogovsky by installing a modern and energy-efficient digital control system for electric drives.
- Revamping the main conveyor line at Bereozovsky to reduce specific energy consumption by 17%.
- Optimising power consumption during planned peak load hours at Zyakhovsky and Vostochny by regulating the operation of drainage pumps.

In 2019, SUEK’s electricity consumption per unit of coal output reduced by 4% across the Group year-on-year.

In the Energy Segment the major contributor to energy saving is our co-generation of electricity and heat, which helps us to save 32% fuel compared to separate generation. The power plants also have other energy saving and energy efficiency programmes. Their main areas are:

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

In order to increase the energy efficiency of our logistics assets, we have developed and are implementing the Energy Saving and Energy Efficiency Programme until 2025. The main focuses are:

- Improving energy efficiency of the merchant fleet tug, heat generation facilities, buildings and structures, special and automotive equipment, technological processes and infrastructure
- Using of energy-efficient lighting, optimization of lighting systems
- Improving train control technology
- Improving locomotive indicators and technical condition of track facilities

In 2019, we also focused on enhancing our employees’ understanding of and ability to improve the energy efficiency of their individual activities.

Energy efficiency

<table>
<thead>
<tr>
<th>Energy consumption per coal production, kWh/m³ of rock mass</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
</tr>
<tr>
<td>------</td>
</tr>
<tr>
<td>2019</td>
</tr>
<tr>
<td>2018</td>
</tr>
<tr>
<td>2017</td>
</tr>
</tbody>
</table>

Fuel consumption per unit of energy production

<table>
<thead>
<tr>
<th>Fuel consumption per unit of energy production</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
</tr>
<tr>
<td>------</td>
</tr>
<tr>
<td>2019</td>
</tr>
<tr>
<td>2018</td>
</tr>
<tr>
<td>2017</td>
</tr>
</tbody>
</table>

Water management

The company does not use water from vulnerable or state-protected sources, or from those of particular importance to local communities or for biodiversity. As the water withdrawn is used to cool the turbines and does not contact the contaminated circuit, the activities of SUEK do not affect the water balance in water bodies. We also use modern treatment facilities to ensure we do not influence water quality.

Optimising water consumption

The main use of water resources in the energy sector is related to cooling TPP equipment.

In 2019, we launched treatment pilot operation for discharge into a water body.

Water consumption per unit of electricity, m³/kWh

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>0.547</td>
</tr>
<tr>
<td>2018</td>
<td>0.498</td>
</tr>
<tr>
<td>2017</td>
<td>0.559</td>
</tr>
</tbody>
</table>

Wastewater treatment

Our production sites use various methods for treating industrial (including from underground mines and open-pit mines) and household wastewater. As part of SUEK’s Environmental policy, the company builds and renovates modern wastewater treatment facilities for cleaning mine/quarry water to meet stringent regulatory requirements for discharge into a water body.

In 2019, SUEK:

- Launched treatment pilot operation of facilities for mine waters of Vostochno-Beisky
- Commissioned new local treatment of household wastewater facilities to replace the old ones at Kharanorskoy
- Commissioned treatment facilities at the Talinskaya Zarjadnaya 1, Ruban and Kirov mines.

Our power plants are equipped with treatment facilities for industrial and storm discharges.

Water consumption per unit of electricity, m³/kWh

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>0.18</td>
</tr>
<tr>
<td>2018</td>
<td>0.18</td>
</tr>
<tr>
<td>2017</td>
<td>0.21</td>
</tr>
</tbody>
</table>

-80% reduction in specific discharge of pollutants into the river in recent 8 years due to the reconstruction of treatment facilities.
Production waste recycling

Production operations inevitably generate waste. At our power facilities, the majority of waste produced during coal burning is ash and slag, which are not hazardous. In 2019, SUEK actively developed projects to utilise waste for production purposes. Ash and slag from our plants in Krasnoyarsk, Novosibirsk, Kuzbass are used for the rehabilitation of disturbed lands and the construction of roads in Khakassia and Novosibirsk.

In 2019, all of the ash and slag materials produced from the waste from the Krasnoyarskaya CHPP-1 were used for the rehabilitation of a worked-out open-pit mine in the Berezovsky district. SUEK is planning three further large-scale land reclamation projects with ash and slag materials in Krasnoyarsk, Nazarovo and Kemerovo.

Around 99% of the waste we produce in coal mining is not hazardous (overburden, etc.). This waste is used in production processes or for reclamation purposes. In 2019, the amount of overburden used for reclamation decreased as less worked-out areas. The remaining 1% waste requires special treatment and is transferred to dedicated organisations for neutralisation.

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

In Khakassia, we operate a tyre-recycling plant. Worn dump-truck tyres are converted 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.

Ash dump safety

The technology used by SUEK for storing ash and slag waste in ash dumps is completely safe. The sites are far removed from people’s homes and do not pose any threat to human life.

An ash dump is a hydraulic structure operated in strict compliance with Russian legal requirements. We regularly monitor the safety of these facilities, including the water level in ash dump beds and piezometric wells, through regular depth measurements and other checks. At least once every five years, we engage specialised independent organisations to analyse the safety of SUEK’s hydraulic structures. In addition, Rostekhnadzor monitors the state of our ash dumps and ensures their compliance with operational safety requirements during scheduled and unscheduled inspections. Inspection-based corrective actions have top priority.

For each facility, financial and material reserves have been created to eliminate possible accidents, with civil liability insurance contracts covering our hydraulic structures. The personnel involved in operating ash dumps have all of the necessary qualifications and certifications.

Used and recycled waste of total generated waste

<table>
<thead>
<tr>
<th>Used and recycled waste of total generated waste</th>
<th>Coal</th>
<th>Energy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>37%</td>
<td>67%</td>
</tr>
<tr>
<td>15</td>
<td>18%</td>
<td>82%</td>
</tr>
<tr>
<td>18</td>
<td>18%</td>
<td>82%</td>
</tr>
<tr>
<td>17</td>
<td>81%</td>
<td>19%</td>
</tr>
</tbody>
</table>

Land rehabilitation and biodiversity

None of SUEK’s production sites are located in protected or nature reserve areas, including 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. In partnership with the Khakassia Research Institute of Agrarian Problems, we have been running a unique long-term land reclamation project with the goal of preparing recommendations on forest reclamation.

In total for 2019, 552 ha of disturbed lands were reclaimed and rehabilitated to a condition suitable for further use in production processes.

We also take part in projects to assess the state of water resources and minimise the human impact on biodiversity. In order to maintain aquatic biological resources, the company also regularly releases various fish species into local water bodies. In 2019, SUEK released around 800,000 juvenile common carp, peled, Siberian sturgeon, grass carp and silver carp in the Primorye, Zabalkal’ye, Krasnoyarsk and Kemerovo regions. The Kemerovskaya GRES, Kemerovskaya CHPP and Kuznetskaya CHPP also constructed fish protection facilities.

Attracting talent and empowering progress

SUEK operates an advanced Staff Training and Development Centre in Leninsk-Kuznetsk. There we use interactive video courses and VR technologies such as a Virtual Mine training simulator, an interactive electronic simulator for roof mounted monorail mine suspension locomotives, etc. With software modeling we are able to simulate certain process conditions and potential hazards that can occur underground, in order to develop a behavioural algorithm. This helps with developing our employees’ professional skills and reducing the number of incidents.

In Buryatia and Zabalkal’ye we use simulators for training drivers of dump trucks, truck cranes, hydraulic excavators, bulldozers, increasing employee qualifications and ensuring mine equipment is operated reliably, efficiently and safely.

In 2020, we plan to purchase a BeAZ simulator, install a multifunctional training complex for auxiliary mine rescue teams and develop an automated computer-based training system called ‘Roadheader’ for the Centre in Leninsk-Kuznetsk.

Dmitry Syromyatnikov, Human Resources and Administration Director
Our approach

A workforce of talented and committed employees who believe in SUEK’s mission, share our values, and prioritise safe, professional and honest work, is the solid foundation for achieving our strategic goals.

Our HR strategies are outlined in the company’s Social Policy and aimed at further developing our corporate culture and a safe, all-inclusive work environment. Ensuring that we have a highly skilled and engaged workforce is crucial to the success of our business, therefore we deploy a wide range of tools to identify and recruit the best candidates and support their ongoing development. We encourage creative and innovative thinking to support continuous improvements in the business.

We act in strict compliance with the labour laws of the countries where we operate and our Code of Corporate Ethics, whilst maintaining international best practices.

SUEK is fully committed to fair treatment and working conditions for all employees and categorically does not use or condone child labour, or any form of forced labour or modern slavery. We are an equal opportunity employer and guarantee the absence of discrimination based on nationality, gender, origin, age, educational or socio-economic background, religious, political or other beliefs, etc.

The company recognises the lawful right of workers to form voluntary associations to protect their rights and interests and is fully supportive of our employees’ freedom of association.

Our hr strategy is strongly aligned to the SDG’s to uphold the UN’s global efforts to ensure healthy lives and promote well-being for all at all ages, ensure inclusive and equitable quality education and promote lifelong learning opportunities for all, achieve gender equality and full and productive employment and decent work for all.

SUEK’s Nomination and Compensation Committee of the Board of Directors oversees the implementation of the company’s HR strategy and controls incentives and Management Board appointments.

For our stance on human rights, see http://www.suek.com

For our Social Policy and Code of Corporate Ethics, please visit our websites http://www.suek.com

HR management structure

- Monitoring the implementation of the HR strategy
- Control of nominations, motivation, social policy, occupational health and safety
- Implementation and efficiency assessment of SUEK’s HR policy
- HR management methodology
- Strategic planning and control: corporate regulations, incentivisation management, labour relations and headcount
- Coordination and operational management:
  - Planning payroll and social payments
  - Implementation of HR and social policy taking into account regional specifics

Overview

SUEK is one of the largest employers in the Russian coal and energy sectors. In 2019, our average headcount was 66,345 people. Despite the headwinds such as challenging local labour market dynamics and the current demographic composition of Russia, we maintained a stable staff turnover rate in the coal business segment. We also reduced turnover at our energy segment year-on-year with the completion of the restructuring process. The sufficiency of qualified personnel in 2019 was 99% in the Coal Segment and 96% in the Energy Segment.

Promoting diversity

The socio-demographic characteristics of our workforce remained consistent. Whilst we remain focused on increasing female representation within our company, the number of men continues to significantly exceed the number of women in our workforce. This is largely due to the nature of our production processes and Russian legislation which deters and sometimes limits women’s opportunities to work in hazardous working conditions.

Despite the challenges, we are working hard to encourage women to join our company. Our efforts are directed at (and not limited to): ensuring suitable facilities in the workplace, creating a safe and all-inclusive work environment, professional development programmes.

One of our main priorities is ensuring we maintain an effective staff remuneration system that enables us to recruit and retain qualified staff.

SUEK regularly monitors trends in the Russian labour market, analyses best practices in staff remuneration and incentives, as well as the provision of guarantees and other benefits. We frequently take part in salary surveys for companies in the mining, coal, energy and logistics sectors to help us further understand industry trends. Regular analysis of market data enables us to remain confident that we are offering employees competitive working conditions, to plan and adapt our HR management policy accordingly to reflect external economic influences.

SUEK’s financial incentive system includes a constant part and a conditionally variable part fixed in collective agreements. The fixed part is paid for the performance of professional duties at the required level. The variable part is an incentive to improve work efficiency, as well as economic and production targets as well as ESG-linked KPIs, such as the company’s environmental, social and carbon footprint.

With our continued focus on increasing employee engagement and retaining qualified employees, we have also developed a special bonus system for those employees participating in long-term strategic projects and operational improvement programmes. This incentives employees to meet the set targets, and improves cross-functional interaction and expertise exchange. In 2019, over 500 employees participated in this incentive programme.
Social support
Our relationships with employees are largely governed by the principles of social partnership. SUEK’s employee benefits package is developed based on applicable law and overseen by industry agreements with trade unions and collective bargaining agreements. Approximately 92% of our employees are covered by collective bargaining agreements.

SUEK employees are offered the following social benefits:

- Voluntary medical insurance, including rehabilitation treatment for occupational illness, which covers all employees at our coal facilities and 80% in the energy business
- Combined insurance for industrial accidents
- Financial aid for pensioners, parental leave and premium medical treatment, or financial support for the funerals of company employees
- Financial compensation during children’s summer holidays and for medical treatment
- Financial assistance and welfare payments to former employees

Cooperation with trade unions
At SUEK, we fully recognise our workers’ freedom of association and therefore we regard trade unions as key partners in our business. The Russian Independent Trade Union of Coal Industry Workers (Rosugleprof) and the Independent Trade Union of Russian Miners (NPZ), in which around 64% of SUEK’s employees are involved, are active at the company’s facilities. In the Energy Segment, employees are involved with a sectoral All-Russia Electric Trade Union.

At a local level, trade unions are consulted during the negotiation of collective bargaining agreements as well as on matters such as issuing regulatory acts relating to social and labour relations, labour protection and remuneration. Union representatives also have regular interaction with managers at our operations. Following consultation with trade union representatives, SUEK develops work schedules and terms of employment, and approves vacation schedules and employee incentive systems.

Employee training and development
SUEK’s staff training system is designed to create conditions that promote the professional fulfilment of employees and ensure the systematic development of their professional and managerial competencies, thereby establishing SUEK’s talent and succession pool.

The key areas of staff development are:

- Professional training including retraining, qualification advancement, advanced and cross-functional training
- Developing a talent pool for key management positions
- Training young professionals (targeted education, practical training, internships, mentorship programmes)

Professional training
SUEK’s Corporate University is an analytical, methodological and advisory centre committed to knowledge management and the development of human resources. The University’s programmes are modular in nature and focused on teaching the principles of lean manufacturing and calculating cost-effectiveness. In 2019, more than 450 employees completed training at the University.

SUEK also runs a national region of occupational training facilities for our employees. This includes 14 training centres and workshops, which have been licensed by Russian state education authorities. Their primary functions comprise empowering employees with new sets of skills as well as further developing their existing qualifications. In the reporting year, more than 30,000 people were trained at our own educational institutions. As our priority is to create a workplace free of occupational hazards, we gave special attention to labour and industrial safety training programmes.

In 2020, the company will participate in the ‘Older generation’ federal project in the Kemerovo region, which is dedicated to training employees close to retirement age. The main focus of the project will be developing participants’ mentoring skills and lean technologies skills.

Succession pool
We use a step-by-step training system to develop the company’s succession pool: from site engineers and mine supervisors to the CEO’s deputies. This not only provides in-house career opportunities but also enables us to develop a pool of highly qualified candidates to fill managerial vacancies.

In 2019, we:

- Formalised the requirements for various positions, and correspondingly updated our talent pool composition and developed candidates for succession
- Created a uniform model of assessing and developing employees’ managerial competencies
- Completed the recruitment and training of the mobile managerial succession pool of the procurement unit

Training and development of young professionals
To attract young, talented professionals into our business, SUEK participates in youth forums, holds professional skills contests, job fairs, and provides vocational guidance for pupils and applicants. We run educational classes on the energy industry for high school students in the cities of Abakan, Minusinsk, Nazarovo and on the coal industry in Borodino, Nazarovo and Sharypovo. We cooperate actively with Russia’s leading and vocation-oriented mining universities. Over 50 students currently participate in SUEK’s targeted education programmes. We also attract students to internships at our facilities every year.

To develop the potential of young employees, the company runs a mentoring system. We have created a new, interactive induction course and we have adopted tailored induction regulations at key units. In addition, experienced coaches are allocated as mentors for young employees with high potential.

For more information about additional social benefits offered to our employees, see our Sustainable Development Report for 2018-2019.

Corporate culture and internal communications
SUEK’s corporate culture is based on long-standing labour traditions and the Code of Corporate Ethics. Internal communications are key to promoting the values of our corporate culture. We use various communications channels:

- Meetings between employees and managers
- Corporate media system, including intranet portal
- Information stands, plasma panels, brochures in corporate transport, and electronic newsletters
- Employee surveys
- Hotline
- ‘Alarm Sheet’ feedback system
- Sustainable Development reports

For our corporate values, see Stakeholder Engagement on page 48.

Ethics and integrity are built into our corporate culture. The company has an effective system in place to enforce compliance with the Code of Corporate Ethics. Its highest collegial body is the Ethics Commission, which addresses the complex employee ethical issues. In 2019, over 150 requests were submitted and reviewed through various feedback channels included in SUEK’s Code Compliance System.

The majority of issues are resolved at the level of ethics coordinators appointed at each unit, while the rest are referred to the Ethics Commission. Most of the issues discussed at the Ethics Commission meetings in 2019 were related to social conditions and employees’ personal issues.

As part of the programme to enhance SUEK’s corporate culture and internal communications system, in 2018, we continued work on the following areas:

- Upgrade of the company’s intranet portal
- Promoting the Code of Corporate Ethics through creative competitions
- Developing a feedback system to maintain an open dialogue with employees and ensure two-way communications, including updating the hotline
- Training sessions for ethics coordinators on best practices and communications skills, as well as skills for influencing change

It is important that we receive regular feedback from our employees and continually identify areas for improvement. In 2019, we carried out an employee survey to measure perceptions of SUEK in seven regions where we operate. The survey included questions around SUEK as an employer, criteria for choosing a place of work and reasons for changing the previous place of work, involvement in the company’s work, perceptions of the staff turnover issue, satisfaction with their quality of life, etc. The vast majority of SUEK employees said they were satisfied with their working conditions and consider it prestigious to work at SUEK.


A key focus in 2020 will be the development of our face-to-face communication system. We will also integrate the Rethinkskaia GRES and Krasnoyarskaya GRES-2 into SUEK’s structure, introducing our corporate rules and standards, while maintaining and continuously improving the best practices that are currently in place at the plant.

Strategic Report

Image 1

Image 2

Image 3

Image 4

Image 5

Image 6

Image 7

Image 8

Image 9

Image 10

Image 11

Image 12

Image 13

Image 14

Image 15

Image 16

Image 17

Image 18

Image 19

Image 20

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Image 22

Image 23

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Image 89

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Image 91

Image 92

Image 93

Image 94

Image 95

Image 96

Image 97

Image 98

Image 99

Image 100
Developing local communities and human capital

How does SUEK promote careers in engineering to children?

A. Four scientific creativity centres for children have been opened in the Kemerovo region with support from SUEK. In 2019, the recently launched UnikUm centre benefitted from new, modern laboratories and workshops for intelligent electrical engineering, robotics and distance learning.

The aim of the centre is to develop intellectual and practical professional skills, and foster creative potential in pupils in grade five to eleven who show an interest in natural sciences. This unique educational platform gives children the opportunity to participate in scientific projects and have a go at solving issues that affect their region, the whole country and the entire planet. In 2019, SUEK invested $0.55m in this important initiative.

Sergey Grigoriev,
Public Relations and Communications Director, President of the ‘Suek to the Regions’ fund

Our approach

Our social activities are aimed at improving the living standards and well-being of our employees, their families and the communities in which we operate. Through our work in the regions and a proactive approach both inside and outside the company, we focus on making positive, long-lasting contributions to the economic, as well as the social prosperity of local residents.

We supply heat to more than 5 million people living in regions where the temperature remains below 0 °C for more than 6 months of the year. We are also one of largest electricity suppliers, employers and taxpayers in our regions of presence.

Meanwhile, SUEK’s social strategy aims to promote regional development through creating opportunities for local residents. Our social programmes help stimulate economic development and improve living standards for local people by involving them in our projects and ensuring they benefit directly from them. By developing infrastructure and fostering education, we enable communities to solve their own problems and attract the resources they need.

Our investment approach to supporting local communities is underpinned by our Corporate Social Policy, which was developed in line with best-in-class global standards, the UN Global Compact, the UN SDGs, the Social Charter of Russian Business and the ISO 26000 Social Responsibility Standard. Furthermore, SUEK’s relations with local communities are governed by the Code of Corporate Ethics, which outlines the corporate values and culture.

We develop and run social programmes in close cooperation with stakeholders: regional and city administrations and NGOs, social projects and coordinating partnerships are based on a shared desire to encourage regional social development and are aligned with SUEK’s strategic goals.

Our priorities

In our ongoing commitment to being a good corporate citizen and a supportive and reliable partner for local communities, we have the following priorities:

• Improve housing conditions and promote the development of education, sport, healthcare and culture
• Bolster sustainable economic growth and the development of diverse and thriving communities by providing support to the next generations
• Improve the efficiency of our community investments by introducing innovation into social projects and coordinating activities with regional administrations and NGOs
• Raise awareness amongst young people about the career prospects offered by the energy sector

Our regulatory framework

• ISO 26000 Social Responsibility standard
• Our Corporate Social Policy
• Our Code of Corporate Ethics
• Social Charter of Russian Business
• UN Global Compact
• UN SDG’s

Our proactively participate in global sustainability initiatives, such as supporting the UN SDGs through the work we conduct to resolve social challenges that local communities face. Most of our social projects are focused on solving various sustainable development problems, such as improving immunisation, providing electricity, computers and other equipment for schools, and supporting young mothers in developing their careers. These long-term projects are trialled in one region before being replicated across all of the territories where we operate.

SUEK does not operate in the areas of residence of indigenous peoples. In the framework of the current legislation of the Russian Federation, the boundaries of license areas cannot include territories inhabited by them.

Please visit SUEK’s website for our Corporate Social Policy and Code of Corporate Ethics: http://www.suek.com

Corporate Social Policy management structure

• Board of Directors
• Monitoring the effectiveness of the Corporate Social Policy
• Approving strategic social programmes
• Management Board
• General management of SUEK’s social policy
• Communications Department
• Strategic planning and oversight of community activities
• Regional Public Relations Units
• Delivery of social and charitable projects
Overview

We implement ongoing social and charitable programmes in all our regions of presence. In 2019, we successfully ran over 250 projects in 11 regions of Russia, with a total financial investment of $26m. SUEK seeks to address urgent community issues in the regions where we operate. We contribute to the creation of a favourable social climate, the improvement of housing conditions for residents of mining towns and villages, and the development of education, sports, health care and culture. The ultimate goal is to increase the attractiveness of the territories of SUEK's presence for young people, attract young people to the mining and energy industry, and ensure the stable development of these territories for years to come.

Planning and assessment of social programmes

We run and finance our social policy through the ‘SUEK to the Regions’ and ‘SGC – Warming Hearts’ funds. We carefully monitor the social environment in our communities to help better shape our community programmes. Both independent and in-house experts regularly assess our ongoing progress and outcomes. We measure the efficiency of our social investments through continuous monitoring of our projects using integrated social research, evaluating individual initiatives and the final results of our programmes. This analysis enables us to ensure the impact of our social investments is closely in line with our strategic and tactical goals. Moreover, by carrying out continuous analysis we can quickly respond to changes and identify areas for potential improvement.

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

In 2019, in order to improve the efficiency of gathering feedback from residents, SUEK introduced an IT platform. This improves strategic planning and makes it easier to adjust local development programmes involving local communities, regional authorities and our units in the Kemerovo, Krasnoyarsk and Khakassia regions, in Buryatia and Khakassia.

Qualitative parameters:
- Events held, number of participants
- Beneficiaries
- Funds raised for the company’s community development programmes
- Partners involved
- Growth points created as a result of the company’s community involvement
- Media coverage results

Quantitative parameters:
- The 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

SUEK’s key activities

Urban areas and infrastructure development

Goal
Joint projects with local administrations to create a comfortable urban environment

Key projects:
- Joint preparation and delivery of master plans in Khogdomyr, Chernogorsk, Borodino, Kemerovo and Barnaul for modernising urban and social infrastructure, developing cultural facilities and stimulating environmental development
- Improving public areas, nurseries and playgrounds

Education

Goal
Developing a culture of creativity and inclusiveness

Key projects:
- Public lectures on art, workshops and meetings with artists in Barnaul
- ‘Street Art Week’ festival in Novokuznetsk and a street sports festival in Kemerovo
- ‘Believe in Yourself’ musical TV Project in Altai
- Support for the VIIth Zabaikalye International Film Festival

Sports and healthy lifestyle

Goal
Promoting a healthy lifestyle among employees and local communities

Key projects:
- ‘Chess to Mining Regions’
- Constructing sports facilities and holding competitions
- ‘Street Art Week’

Medical care

Goal
Providing cutting-edge medical care to employees, their families and local communities

Key projects:
- ‘Treating and rehabilitating children and coal industry veterans

Environment

Goal
Promoting a culture of environmental awareness in the territories where we operate

Key projects:
- ‘Water of Russia’: attracting public attention to the need to conserve water bodies, engaging young people in environmental protection, and improving popular recreational areas in mining regions
- ‘The Zubochistka’ environmental marathon: picking up rubbish left by tourists
- ‘SUEK’s Green Squad’: tree planting, litter picking, and waste paper and waste battery collection for recycling, environmental awareness campaigns

Local community development

Goal
Developing business and leadership skills, personal guidance and improving competencies

Key projects:
- ‘School of Social Entrepreneurship’ for the advancement of education, music, sports, culture, leisure, consumer services in the mining regions
- ‘Success Training’ for adolescents, including from social welfare facilities
- Summer employment for high school students in landscaping, assistance to veterans and the disabled

Charity

Goal
Helping disadvantaged groups and protecting children

Key projects:
- Cooperation with Rusfond and the Gift of Life charitable foundation in providing children with Hi-Tech treatment
- Purchasing rehabilitation and medical equipment for the automatic administration of insulin for disabled children with severe diabetes
- ‘Road to a Fairy Tale’ theatre project for children with disabilities and students from low-income families
- ‘Gift of Santa Claus’ for pupils from low-income families
- Arranging a training apartment in Krasnoyarsk, where children with mental development disorders learn self-care skills
- Support for children with cancer

Growth points and beneficiaries

$26m invested in local communities in 2019

$541m paid in taxes in Russia in 2019

Growth points2 and beneficiaries

Assessment of the effectiveness of our community investment

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of beneficiaries3 of our social programmes</th>
<th>Total number of beneficiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>1,300+</td>
<td>52,700</td>
</tr>
<tr>
<td>2018</td>
<td>1,350+</td>
<td>54,000</td>
</tr>
<tr>
<td>2019</td>
<td>1,500+</td>
<td>70,100</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 (malnutrition 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’ funds, along with the recipients of grants and donations.

For more information about our projects in 2019, see SUEK’s Sustainability Development Report 2019.
In light of the challenging macro conditions, in 2019 we concentrated on improving operational efficiency and enhancing the performance of our business segments to offset the impact of volatility in the global energy markets, and ensure the sustainable development of the company.

Alexander Landia,
Chairman of the Board of Directors

Addressing the challenges, enhancing sustainability

The Board reviewed the latest macroeconomic forecasts until 2028 and approved SUEK’s consolidated strategy to 2023. Accordingly, we adjusted the targets for our main functional strategies in sales, logistics and the regional strategies for our coal and energy units, and approved key investment projects.

In the Coal Segment, we focused particularly on projects aimed at boosting the company’s production of higher margin and competitive products that meet the demands of our customers. In the Energy Segment, we approved deals to expand our presence in strategically important regions.

In logistics, the Board approved a major transaction for the purchase of railcars to increase our self-sufficiency in this area, which will give us more control over costs and delivery times.

We continued to closely control the consolidation of the energy business. In 2018 we had determined that by exchanging best practices between the two segments we would ensure the combined company would benefit from the strongest competencies of both. Therefore, in 2019 we carefully monitored the progress of this approach. Today, the consolidation process is either completed or is at its final stage across all functions. The remaining work will be completed in the first quarter of 2020 in accordance with the plan approved by the Board of Directors.

In order to ensure smooth strategy implementation, at our Board of Directors meetings we regularly reviewed the motivation system for top and line management. Thus, we continued to improve the incentive system for senior management, with a focus on the needs of stakeholders. The 2020 targets we set for top management include sustainable development KPIs.

Given the focus on sustainability and growing scale of our operations, we required transparent and detailed reporting at all levels for issues such as such as corporate culture, labour safety, environmental protection and stakeholder engagement. In particular, Klaus-Dieter Beck, a member of the Board of Directors and the Nomination and Compensation Committee, visited the Kuzbass mines several times during the year to assess the status of industrial safety, as well as production and mine development efficiency. The remaining Board members were able to discuss issues of industrial and environmental safety, incentivisation of production personnel, development of youth and the region in general during a visit to the Kuzbass region in September. We also reviewed the results of an employee satisfaction survey SUEK ran in 7 regions of presence and approved certain initiatives proposed by the management to further enhance the company’s social engagement.

Although SUEK is not a publicly listed company, we are guided by the best principles of public disclosure for the benefit of all of our stakeholders. The Board of Directors ensures that the company adheres to the best international corporate governance practices. We are proud that in 2019, SUEK received international certificates for compliance and anti-corruption management.

In 2019, two new independent Directors, Vladimir Hlavinka, who has diverse experience in the power industry including nuclear, and the transformation and development of energy businesses, and Michael Baumgartner, who has significant experience in finance and asset management, joined the Board of Directors as members of the Nomination and Compensation Committee and the Audit Committee.

Natalia Izosimova and Tom Cairns left the Board of Directors in August. We thank them for their contribution to the Board’s work and wish them success in their future endeavours.

The updated composition of the Board of Directors is consistent with the profile and growing scale of the company.

In 2020, we will focus on ensuring that the company’s management successfully implements the chosen strategy and has all necessary resources and motivation instruments to benefit all stakeholders.
Corporate governance structure

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
- 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

Board of Directors
- 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
- 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
- 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

Chief Executive Officer (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

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

Strategy Committee
- Preparation of reports for the Audit Committee

Nomination and Compensation Committee
- Reviews the performance of the Board’s members
- Evaluates the compliance of re-election. The Nomination and Compensation Committee

Auditor Committee
- Ensuring the effectiveness of the corporate governance system and regular reporting on its functioning

General Meeting of Shareholders

The procedure for preparing, convening and holding the General Meeting of Shareholders is also governed by relevant regulations.

The Board of Directors

The Board of Directors is a key element of SUEK’s corporate governance system. The legislation of the Russian Federation internal documents of the company vest the Board with the authority to ensure the efficient management of the company.

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 requirements from the shareholders and best international practices. The directors’ experience in mining, energy and finance contributes to quality strategic management and helps address the challenges faced by the company.

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

SUEK regularly rotates its Board of Directors. In August 2019, Tom Cairns and Natalia Tizimova left the company. At the same time, Vladimir Hlavinka, a power industry expert, and Michael Baumgärtner, experienced in finance, joined the Board.

Four Directors are Independent: Michael Baumgärtner, Klaus-Dieter Beck, Vladimir Hlavinka and Iain Macdonald (their independence is confirmed by the Board’s decision). Seven Board members are Non-Executive Directors: Michael Baumgärtner, Klaus-Dieter Beck, Vladimir Hlavinka, Stefan Judisch, Alexander Landia, Iain Macdonald and Andrej Melnichenko. The Board also includes SUEK’s CEO, Vladimir Rashevsky. Alexander Landia serves as the Chairman of the Board.

Corporate documents can be found on the company’s website www.suek.com

Selection and nomination policy
The Nomination and Compensation Committee oversees the selection and nomination of new Board members and ensures that it is well balanced and that the competences of Directors will support the achievement of the company’s strategic objectives.

Candidates for the Board are Directors who have knowledge of the coal-mining sector, the electric power and the heat generation 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.

Induction and familiarisation procedure
The company has developed an induction programme for newly elected Board members, which aims to familiarise Non-Executive Directors with the business, the activities of its subsidiaries and the rules and practices adopted by the management bodies.

Upon election, Directors are granted full access to materials and minutes from all previous Board of Director and Committee meetings.

Control over the induction procedure is exercised by the Corporate Secretary.
**ALEXANDER LANDIA, 57**  
**Education and qualifications**  
Graduated from Tomsk State University with honours and has a Candidate’s Degree in Mathematics from the National Academy of Sciences of the Russian Federation (Moscow, Russia).  
**Career**  
Has extensive management experience, leading and advising various organisations. Between 1992 and 2001, he worked as Director Bank in Frankfurt as First Vice President, CEE & Gas Global Debt. Until 2004, he was General Director of Accontis Russia and was subsequently appointed Global Gas Sales Partner. In 2006, Alexander joined SUEK’s Board of Directors, which he chaired until 2018. In 2018, he was reappointed Chairman of the Board.  
From 2013 to 2015, Alexander was a Member of the Executive Board of Ecoc-Eurochem AG. From April 2019 to December 2019, he was Chairman of the Board and a Member of the Strategy Committee of Ecoc-Eurochem Group AG. Until September 2019, he was Chairman of the Board of Directors of Davos Generating Company (Russia).  
**Committee memberships**  
Chairman of the Board of Directors of Ecoc-Eurochem AG and SUEK.  
**Chairman** of the Board of Directors of Ecoc-Eurochem AG and SUEK.  
He chairs Ecoc-Eurochem’s Nomination and Remuneration Committee and Supervisory Board’s Strategy Committee. He is also on the Board of the Russian Union of Industrialists and Entrepreneurs, where he chairs its Mining Commission.  
**Appointment to the Board**  
March 2004  

**ANDREY MELNICHENKO, 48**  
**Education and qualifications**  
Graduated from the Lomonosov Moscow State University and graduated from the Ph.D. program at the University Academy of Economics, with a degree in Finance.  
**Career**  
Andrey Melnichenko is a self-made billionaire. Over the past 20 years, he has founded a number of multi-billion-dollar enterprises, 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 – ferrous, coal and steel assets (which he exited in 2006 through an IPO).  
Andrey holds management positions in EuroChem Group AG and SUEK. He is the member of the Board of Directors of EuroChem Group AG and SUEK.  
**Appointment to the Board**  
March 2004  

**VLADIMIR RASHEVSKY, 46**  
**Education and qualifications**  
Graduated from the Finance Academy under the Government of the Russian Federation, majoring in 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 Russia Credit Bank and, in 2000, he joined MDM Bank, where he was appointed Deputy Chairman of the Management Board by SUEK (now directly owned by SUEK).  
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 International Grid Company of Siberia.  
**Appointment to the Board**  
June 2011  

**MICHAEL BAUMGÄRTNER, 55**  
**Education and qualifications**  
B.S. in Management from University of Pennsylvania, Wharton School, and then moved to EnBW Energie Baden-Württemberg in 2004 as Head of Asset Management. From 2009 to 2012, he was on the Board of Management in EnBW Kraftwerke and is a member of its Management Board since 2013.  
**Career**  
Michael joined EnBW’s Management Board in 2014 as Executive Director for Power Generation and Trading. In 2018, he was named Chief Executive Officer of EnBW. Since 2018, he has been a member of the Board of Directors of U1 Trading (Switzerland). Since 2018, he has been a member of the Board of Directors of Uranium One Inc (Canada).  
**Appointment to the Board**  
August 2019  

**IAN MACDONALD, 62**  
**Education and qualifications**  
BSc in Mining Engineering from Technical University of Mining and Metallurgy in Sofia, Bulgaria.  
**Career**  
Michael joined BP in 1979 as a chemical engineer. Over a 30-year career there, he progressed through a variety of technical, operational, marketing and business management roles before moving into finance management during his last ten years with the company. He was Head of Planning for the Group, then Group Controller, finally becoming Group Chief Financial Officer in charge of the integrated Finance function. He then moved to Iron Mountain in 2005 as CEO of Iron Mountain UK and Ireland, before retiring on 30 June 2010.  
**Appointment to the Board**  
April 2015  

**JOHANNES BÖHME, 69**  
**Education and qualifications**  
BSc in Engineering Economics and Business Administration.  
**Career**  
Since 1990, he has been at RWE Generation Holding AG in different capacities, finally becoming CEO in 2007. Following his retirement as CEO, he was appointed Chair of the Supervisory Board of NWR.  
**Appointment to the Board**  
August 2019  

**VLADIMIR HLEAVNIK, 53**  
**Education and qualifications**  
Vladimir holds a Master’s degree in Mechanical engineering, thermal and nuclear power plant design from Technical University in Brno and Master’s degree in Law from Masaryk University in Brno.  
**Career**  
Vladimir has diverse experience in the power industry including nuclear industry, including the transformation and development of the energy business. He began his career in 1989 as a research fellow at the Research Institute of the Nuclear Power Plant Trasnice, and then worked for nine years at the Nuclear Power Plant Dukovany.  
**Appointment to the Board**  
March 2004  

**STEFAN JUDICH, 61**  
**Education and qualifications**  
Graduated in business administration from Aachen University of Technology.  
**Career**  
Throughout his professional life, Stefan has been involved in commodity trading and development of the energy business. He began his career in 1989 as a research fellow at the Research Institute of the Nuclear Power Plant Trasnice, and then worked for nine years at the Nuclear Power Plant Dukovany.  
**Appointment to the Board**  
August 2019  

**KLAUS-DIETER BECK, 65**  
**Education and qualifications**  
Klaus-Dieter holds a PhD and an MSc in Business Administration from the Westfälische Technische Hochschule at Dortmund, Germany.  
**Career**  
Klaus-Dieter joined RAG (Germany) in 1987 and followed a variety of technical and operational roles. He became Chief Engineer of the company’s subsidiary RAG Nordsee in Germany, and between 1998 and 1999 was General Manager of RAG’s Russian subsidiary. In 1999, he joined RAG’s American 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 OGD between 2007 and 2010, during which period he was also on the Executive Board of RWE AG until March 2013, and has served as a member of the Supervisory Board of TÜV NORD/Unipool in Germany since 2014.  
**Appointment to the Board**  
June 2012  

**IAIN RITCHIE, 68**  
**Education and qualifications**  
A BSc in Management Studies from the University of Strathclyde, Glasgow.  
**Career**  
Iain joined BP in 1979 as a chemical engineer. Over a 30-year career there, he progressed through a variety of technical, operational, marketing and business management roles before moving into finance management during his last ten years with the company. He was Head of Planning for the Group, then Group Controller, finally becoming Group Chief Financial Officer in charge of the integrated Finance function. He then moved to Iron Mountain in 2005 as CEO of Iron Mountain UK and Ireland, before retiring on 30 June 2010.  
Iain retired from BP in 2010 and took up a position as Chief Financial Officer of Fairfield Energy Ltd, an independent power company. He remained in charge of finance at Fairfield until early 2014.  
Iain is currently a Non-Executive Director of Stobart Group Plc, where he is the Audit and Risk Committee Chairman, and a Non-Executive Director and Chair of the Finance Committee of the Workington Development Trust Ltd.  
**Appointment to the Board**  
April 2015  

**CHRISTIAN PETER, 56**  
**Education and qualifications**  
Dipl-Ing in Mechanical Engineering from the Westfälische Technische Hochschule in Dortmund, Germany.  
**Career**  
Christian has been a member of the Supervisory Board of TÜV NORD/Hannover in Germany since 2012.  
**Appointment to the Board**  
June 2012  

**JOHN TAYLOR, 61**  
**Education and qualifications**  
BSc in Chemical Engineering from Imperial College London.  
**Career**  
John is currently a Non-Executive Director of Iain Ritchie, where he is the Audit and Risk Committee Chairman, and a Non-Executive Director and Chair of the Finance Committee of the Workington Development Trust Ltd.  
**Appointment to the Board**  
April 2015  

**NON-EXECUTIVE DIRECTOR»**  
**Chairman** of the Executive Board, and a Non-Executive Director of the Board.  
**Appointment to the Board**  
August 2019  

**INDEPENDENT NON-EXECUTIVE DIRECTOR**  
**Chairman** of the Executive Board, and a Non-Executive Director of the Board.  
**Appointment to the Board**  
August 2019  

**INDEPENDENT NON-EXECUTIVE DIRECTOR**  
**Chairman** of the Executive Board, and a Non-Executive Director of the Board.  
**Appointment to the Board**  
August 2019  

**INDEPENDENT NON-EXECUTIVE DIRECTOR**  
**Chairman** of the Executive Board, and a Non-Executive Director of the Board.  
**Appointment to the Board**  
August 2019  

**INDEPENDENT NON-EXECUTIVE DIRECTOR**  
**Chairman** of the Executive Board, and a Non-Executive Director of the Board.  
** Appointment to the Board**  
August 2019  

**INDEPENDENT NON-EXECUTIVE DIRECTOR**  
**Chairman** of the Executive Board, and a Non-Executive Director of the Board.  
**Appointment to the Board**  
July 2019  

**INDEPENDENT NON-EXECUTIVE DIRECTOR**  
**Chairman** of the Executive Board, and a Non-Executive Director of the Board.  
**Appointment to the Board**  
July 2019  

**INDEPENDENT NON-EXECUTIVE DIRECTOR**  
**Chairman** of the Executive Board, and a Non-Executive Director of the Board.  
**Appointment to the Board**  
July 2019
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.

Directors’ participation in Board meetings in 2019

<table>
<thead>
<tr>
<th>Director</th>
<th>Number of Board meetings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thomas Cairns</td>
<td>13</td>
</tr>
<tr>
<td>Alexander Landia</td>
<td>17</td>
</tr>
<tr>
<td>Natalia Izyominova</td>
<td>17</td>
</tr>
<tr>
<td>Tom Cairns</td>
<td>17</td>
</tr>
<tr>
<td>Vladimir Hlavinka</td>
<td>17</td>
</tr>
<tr>
<td>Vladimir Rashevsky</td>
<td>17</td>
</tr>
<tr>
<td>Andrey Mikhalevich</td>
<td>17</td>
</tr>
<tr>
<td>Natalia Izosimova</td>
<td>17</td>
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<tr>
<td>Michael Baumgartner</td>
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<td>定向者</td>
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<tr>
<td>Success</td>
<td>18</td>
</tr>
<tr>
<td>Strategy</td>
<td>18</td>
</tr>
<tr>
<td>Nomination Committee</td>
<td>18</td>
</tr>
<tr>
<td>Audit Committee</td>
<td>18</td>
</tr>
<tr>
<td>Compensation Committee</td>
<td>18</td>
</tr>
<tr>
<td>Total</td>
<td>108</td>
</tr>
</tbody>
</table>

In addition to regular issues such as the revision of strategy, budget and investment planning, setting objectives for top managers and assessing their performance, at its meetings in 2019, the Board reviewed a number of strategic initiatives, approved major transactions and analysed the short- and long-term financing of the business, along with other issues requiring Board’s approval according to the Regulation.

Board investigates into industrial safety and operational efficiency

A member of the Board, Klaus-Dieter Beck, visited the Kuzbass mines several times during the year to assess the applicable industrial safety standards. He also analysed the production process as to develop solutions aimed at improving operational efficiency, with particular attention to roadway development operations. Directly at coal mines, Klaus-Dieter Beck drew attention to the state of our assets, communicate with regional managers and assess our corporate culture and safety systems at first hand.

Members of the Board have access to information on the activities of all Board Committees and may attend any Committee meeting.

The Board held 17 meetings in 2019 (six scheduled in-person meetings, ten in-absentia meetings and one unscheduled conference call meeting). Most in-person meetings were fully attended.

During the year, the Board focused on the following issues:

- Maintaining business stability. The measures supported by the Board included further operational efficiency improvements, in both the Coal and Energy Segments (including increasing the efficiency of heat supply), the further development of the company’s logistics facilities and sales networks and expansion of the resource base.
- The strategic development of SUEK and its individual business segments. Updating SUEK’s consolidated strategic model. Evaluating and adjusting the targets of our main strategies. Approving a number of key investment development projects.
- SGC’s integration into SUEK. The Board considered issues related to the strategic development of the consolidated company and ensuring efficient control over financial and economic activities of the Energy Segment.
- Industrial safety. The Board approved initiatives to improve the labour and industrial safety system at SGC units, some of which were then included in the HR strategy. The Board developed the principles and format for the Board and Committees’ work relating to industrial safety issues in 2020.
- Equipment upgrades at our power plants. The Board approved submitting our projects for DPM-2 programme.
- Personnel matters, including an assessment of the company’s human resources function and issues relating to the continuity of senior management. In particular, the Board evaluated the progress of senior managers towards personal goals set in 2018, set goals for 2020.
- Improving the incentive system for SUEK’s senior management and supervised the annual assessment of the Board’s performance.
- In the context of the consolidation of SGC, the Board approved a strategy for the management of the SGC workforce. This focuses on the key areas of headcount and cost management, productivity growth, staff development and improvement of safety systems.
- Approving internal documents of the company. In line with changing statutory requirements, we updated a number of internal documents, including the Compliance Policy and the Anti-Corruption Policy. The company also outlined the principles of internal audit, corresponding to the target model of the internal control system.

Issues considered at Board meetings in 2019

- Monitoring the consolidation of the SGC workforce. This focuses on the key areas of headcount and cost management, productivity growth, staff development and improvement of safety systems.
- Approving internal documents of the company. In line with changing statutory requirements, we updated a number of internal documents, including the Compliance Policy and the Anti-Corruption Policy. The company also outlined the principles of internal audit, corresponding to the target model of the internal control system.

Board remuneration

The remuneration paid to Board members is based on how they perform their general duties and their membership and chairmanship of the Board Committees. They also receive reimbursement of all reasonable expenses they incur in relation to their work as Directors.

Liability insurance for Board members

Since 2006, the company has been adhering to the policy of liability insurance for members of the Board of Directors and key executives (D&O). For the period from April 2019 to April 2020, JSC SOGAZ was selected as the insurance service provider.

The amount of 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 effectiveness and evaluation

The Board’s effectiveness is assessed on a regular basis. As usual, in 2019 the annual assessment was overseen by the Nomination and Compensation Committee based on a questionnaire, refined to meet the changing business priorities and objectives of the Board. Each Director assessed various aspects of the Board’s activities and Chairman’s work.

While the Directors expressed their general approval of the Board’s effectiveness, they also recommended specific improvements.
Board Committees

Strategy Committee

In 2019, the Strategy Committee’s work was focused on the development prospects of the segments and the Group as a whole.

Looking at the trends of the global coal market, the domestic electricity market and analysis of the external environment factors that are significant for SUEK, we updated the company’s strategic model by summarising the strategic targets for the divisions, business segments and supporting functions. In particular, we reviewed and adjusted the strategic goals for the next five years in sales and logistics.

Recognising our responsibility as a business to look after the natural environment and communities in which we operate, we carefully assessed any potential social or environmental impact of our strategic decisions.

We evaluated our management’s strategic initiatives to develop resource base with consideration for long-term market growth forecasts, and analysed the sustainability of SUEK’s mining assets in the context of changes in external parameters. The Committee reviewed the updated key strategic priorities for the coal, energy and logistics assets in Kuzbass, Krasnoyarsk, Barnaul and other Siberian towns.

Committee members reviewed management reports relating to prospective energy-intensive consumption projects in the domestic market.

As part of improving operational efficiency, the Committee evaluated the intermediate results of programmes to increase the efficiency of open-pit mining and advance our drilling and blasting operations, and supported a plan to increase the operational efficiency of SGC’s processes.

In the Energy Segment, we reviewed the results of DPM-1 projects and approved key approaches to identifying priority modernisation projects under the DPM-2 programme.

During the year, the Committee traditionally monitored the processes of budgeting, accounting and reporting, and the delivery of investment projects. In view of the market conditions and forecasts from the banking sector and industry analysts, the Committee supervised the refinement of macroeconomic parameters and operating performance targets for strategic and budget planning.

Andrey Melnichenko,
Chairman of the Strategy Committee

Areas of responsibility:

• Defining the operating priorities of the company
• Developing the company’s overall strategy, strategic plans for business segments and strategies by functional area
• Developing the company’s strategies and goals in target markets
• Implementing major investment projects
• 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

Audit Committee

As Chairman of the Audit Committee, I worked closely with my colleagues to ensure the efficient work of the Committee.

In 2019, we focused on planned matters as well as issues related to the consolidation of the Energy Segment.

In 2019, we monitored various areas of SGC’s integration into SUEK: information and documentation, IT strategy, compliance system, and the Internal Audit Service.

During the year, the Committee regularly monitored the functioning of the company’s compliance system, paying particular attention to our policy of compliance with applicable sanctions. In general, we believe that the compliance culture and compliance control in the company are at a high level. The Committee supervised a project to extend the common standards of the compliance system to SGC units, as part of the integration process.

An important achievement of the compliance system in 2019 was the certification of SUEK’s unified compliance management system with ISO 19600:2014 and the anti-corruption management system with ISO 37001:2016 standards of the International Compliance Association (ICA). We reviewed and closely evaluated the changes made to the company’s Anti-Corruption and Compliance Policies. The new versions of these policies reflect changes in a number of legislative acts of the Russian Federation and provisions of international standards.

The Committee reviewed reports of the Internal Audit Service on a quarterly basis. It approved internal audit plans and the Internal Audit Service budget and held regular meetings with the head of IAS without management being present. Under the supervision of the Committee, as part of SGC consolidation, a unified consolidated Internal Audit Service was established based on common methodology. We prepared and issued recommendations on the content and structure of the Regulation on the Internal Audit Service and SUEK’s Internal Audit Policy.

In addition to considering the regular issue of preparing the company’s Annual Report, the Committee monitored the preparation status of the Sustainable Development Report for 2018–2019, which is focused on environmental protection and ecology, environmental performance, efficiency, and industrial and labour safety.

The Committee reviewed planned reporting matters (IFRS) and considered regular issues relating to the evaluation of the external auditor’s effectiveness, remuneration and independence.

Iain Macdonald,
Chairman of the Audit Committee
Nomination and Compensation Committee

As Chairman of the Nomination and Compensation Committee, I focused on the Committee’s activities on the improvement of labour, industrial and environmental safety. One of the key issues for us was the revision of the Group’s HR strategy to support the new Group strategy implementation.

The Committee set the task for top managers to further improve the business process of personnel management while integrating HR functions. We gave recommendations regarding the expanded list of key positions in respect of which the Board of Directors approves recruitment, dismissal and remuneration. We also assessed the current state of the talent pool and took actions aimed at supporting the succession of senior managers. On the Committee’s initiative, the company began the development of a single model of managerial competencies across the Group.

We also developed and approved an updated reporting format for operating indicators and analytical reports, based on our guidelines.

We improved the top management incentivisation system, including a review of the approach to its long-term component. New incentive tools are now under development. During the year, we proposed and approved a remuneration programme for achieving mine development targets, which is currently one of SUEK’s key tasks. Work continues on testing and adjusting the business’ main indicator of economic efficiency, which is used for incentivisation purposes, along with a methodology for calculating the parameters of incentivisation systems for individual functions, and we preliminarily reviewed the top managers’ progress towards their personal goals for 2019 and set target KPIs for 2020. We also focused on monitoring the labour and industrial safety system at our mining and generating units. At our Committee meetings we carefully analysed the circumstances surrounding any fatal or severe occupational accidents.

We worked on recruiting for the Board of Directors. In 2019, two highly qualified professionals, Michael Baumgartner and Vladimir Hlavinka, joined the Board of Directors. Vladimir Hlavinka also joined the Nomination and Compensation Committee.

The Committee approved the company’s updated Communications Strategy and defined areas for coordination between SUEK’s and SGC’s PR services, taking into consideration the specifics of each segment. As part of our activities, the Committee oversees a regular opinion survey of representatives of target stakeholders in the regions where the company operates. We reviewed an employee satisfaction survey and offered recommendations to the management on the inclusion of additional social projects in the 2020 plan.

The Committee supervised the annual assessment of the Board’s performance, identifying areas that require further attention, reviewed opportunities for the professional development of Directors. It confirmed the status of the company’s Independent Directors.

5 in-person meetings in 2019

Corporate Governance

Chairman of the Nomination and Compensation Committee

Vladimir Hlavinka

Nomination and Compensation Committee

Areas of responsibility:

• Analysing the causes and consequences of accidents and developing recommendations on their future prevention

• Providing management, developing the expertise and developing the expertise of the company’s internal control function, taking into consideration the consolidation of SUEK’s and SGC’s internal audit services, in particular, risk assessment processes and procedures for planning and conducting audits in the Coal and Energy Segments

• Creating a single platform for scheduling, accounting for resources used and managing internal audit projects

The Service implemented its own development software, for the automation of the following elements:

• Scheduling of and accounting for actual hours worked in terms of employees and projects
• Monitoring the deadlines and planned labour intensity of projects by stages
• Approval procedures for initiating, modifying, completing and assessing the quality of conducted audits
• Support for the employee competency model and the Service as a whole

Further work continues on the automation of the internal audit function. In particular, based on the results of analytical work carried out in 2019, a project was initiated to automate audit procedures for a ‘continuous audit’ of business processes based on the automated continuous analysis of accounting systems data.

The key focus areas for 2020

• Evaluating the compliance of the internal control system for business processes with the classic ‘Three Defence Lines’ model
• Project management risk assessment, including when delivering projects of the DPM-2 programme and purchasing new assets
• Automation of business processes
• Wage pool budgeting
• Implementing the development strategy for maintenance and repair processes

In 2019, particular focus was given to the following issues:

• Industrial and labour safety
• Environmental protection
• Automation of business processes
• Production planning
• Asset management, equipment maintenance and repairs
• Implementing key investment projects

Based on the recommendations of the Service, managers develop and take corrective actions aimed at improving the efficiency of the internal control system, business processes and operations. The Service monitors and analyses the efficiency of such actions.

During the year, the Service implemented the internal audit function’s development strategy for 2018–2020, including the following areas:

• Assessing the principles of building the internal control system in the context of the ‘Three Defence Lines’ concept according to the Board’s recommendations on the compliance of the company’s internal control system with best practices
• Increasing the automation of internal audit processes
• Unifying the audit methodology and developing the expertise function

The independence of the Service 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, holds regular meetings with the head of the Service to discuss current issues.

When planning its work, the Service 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, risk assessment results.
Compliance management system

In connection with the consolidation of the energy business, compliance procedures are being introduced in phases at SGC. Key roadmap activities were completed by mid-2019, and the synergistic effect of synchronising compliance across SUEK’s Coal and Energy Segments’ management systems is already visible. Our own experience gained in consistently implementing compliance systems means we are able to move towards achieving compliance goals ahead of standard deadlines.

In 2019, SUEK’s compliance management system successfully passed an independent audit and gained recognition at a global level. Experts from the International Compliance Association visited SUEK’s office in Moscow and production assets in the Krasnoyarsk region. Our certification audit at all levels, from the Board of Directors to production sites, included 55 interviews and resulted in more than 230 documentary proofs of how the company actually achieves compliance with applicable standards.

The continuous improvement to our compliance system is intended to provide reasonable assurance that the company’s efficiency, the achievement of its targets, preservation of assets, reliability and timeliness of reporting are achieved in compliance with applicable standards.

Digitisation of compliance management

In 2019, a pilot project was launched to optimise the process of analysing violations, identifying systemic and repeated violations. The following modules were developed on the basis of the existing IT system:

- Module 1 – systematisation of data on cases of administrative offences in relation to enterprises and officials
- Module 2 – the development and implementation of action plans (‘road maps’) to eliminate inconsistencies associated with the preparation of permits for construction.

Digitalisation reduces dependence on the ‘human factor’, expands the potential for analytics and forecasting and significantly reduces the complexity of standard processes, which allows the company to best prioritize and provide the necessary resources to the most relevant areas.

SUEK has introduced a compliance system and approved a Compliance Policy designed to ensure the company’s activities remain in compliance with the requirements of applicable law, internal norms and rules, compliance principles and standards.

Within the framework of the compliance management system, applicable standards are monitored, explained and communicated to performers; compliance with mandatory requirements is monitored across all units; non-compliance issues are prevented, identified and corrected.

Therefore, SUEK’s management systems have now been confirmed for compliance with international standards across all ten areas (risk areas) of the company’s compliance programme:

- Code of Corporate Ethics
- Anti-corruption compliance
- Anti-monopoly compliance
- Sanction compliance
- Compliance in licensed activities and natural resource management
- Compliance in covenants/limits
- Tax compliance of our business partners
- Compliance in land and property matters
- Counterparties’ compliance
- Health and safety compliance

By ingraining values of compliance in SUEK’s corporate culture and affecting a gradual change in the mind-sets of our employees, we can achieve greater business sustainability, confident of avoiding the negative consequences associated with potential compliance breaches.

Dmitry Kanterov,
Chief Compliance Officer

SUEK’s management includes long-serving professionals with wide experience in mining, energy and their respective areas.

Management Board

as at 31 December 2019

SUEK’s management includes long-serving professionals with wide experience in mining, energy and their respective areas.

VLADIMIR RASHEVSKY, 46

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 1982, holding various positions in banking, including Vice-Chairman of the Management Board of Minfond. In 2000, he joined MDM Bank, where he was appointed Deputy Chief Executive Officer and then, in December 2001, Chairman of the Management Board.

In 2004, Vladimir became President of SUEK, and was Chief Executive Officer of the company at the end of that year. Vladimir is a Board Director of Interregional Distribution Grid Company of Siberia.

VLADIMIR ARTEMIEV, 54

Education and qualifications

- Vladimir graduated from Novosibirsk Polytechnical Institute as an Electrical Engineer and has a PhD in Engineering Science.

Career

- Vladimir worked for Gukovugol for over 15 years, beginning his career as an Overman at the Zakasetskaya underground mine. In 1998, he was appointed General Director of Gukovugol, a position which he held for four years. He was appointed 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, Technologies and Nuclear Supervision (Rosnedra) in 2004.

In 2006, Vladimir became Chief Operations Officer of SUEK. In January 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 2010, Vladimir was awarded the Order of Friendship state award.

IGOR GRIBANOVSKY, 47

Education and qualifications

- Igor graduated from the Moscow Institute of Steel and Aluminium, where he studied Metal Processing, he head 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 with ABB Group in Russia, Spain and Switzerland.
- From 2001 to 2005, he headed the export divisions of Vostochnoyugol, Rosuglesbyt and SUEK.
- From 2005 to 2010, he headed the export divisions of Vostochnoyugol, Rosuglesbyt and SUEK.
- In 2010–2015, Igor was a member of the Board of Directors of SUEK AG, and was head of the international division.
- In 2015–2019, he was a member of the Board of Directors of Interregional Distribution Grid Company of Siberia.
- In November 2019, Igor was appointed to the company’s Management Board.

In 2000, he was appointed to the company’s Management Board.

NIKOLAY PILIPENKO, 54

Education and qualifications

- Nikolay graduated from Moscow State University in 1989, where he studied Political Economy. He also holds a PhD in Economics.

Career

- From 2003 to 2008, Nikolay was Chief Financial Officer of JSC EuroChem.
- Between 2009 and 2011, he was a member of the Board of Directors, Audit Committee and Nomination and Remuneration Committee of JSC EuroChem.
- From 2010 to 2016, he was a member of the Board of Directors, Audit Committee, Nomination and Remuneration Committee of EuroChem Group AG.
- Before joining EuroChem, he held several management positions at ABB Group in Russia, Spain and Switzerland.

In 2012–2015, 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.

ANDREI VANYUSHIN, 42

Education and qualifications

- Andrei graduated with honours from the Finance Academy affiliated to the Government of the Russian Federation, majoring in Banking and Credit. In 2004, he received a PhD in Economics from the Finance Academy.
- Andrei was appointed from 2004 to 2010, he headed the audit division of SUEK’s Financial Service, holding positions from the Department Head to the Deputy Chief Financial Officer.
- From March 2010 to 2019, Andrei was Chief Information Officer at SUEK.

In 2008, Andrei was appointed Chief Financial Officer of SUEK. In 2019, Andrei was appointed Chief Information Officer at SUEK.

In 2020, Andrei was appointed Chief Information Officer at SUEK.

In 2020, Andrei was appointed Chief Information Officer at SUEK.
ALEXANDER DOLGOPOLOV, 40
Education and qualifications
Alexander is a graduate of the Moscow State Institute of International Relations (MSIS), 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, 63
Education and qualification
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 the International Chamber of Commerce. Between 1986 and 2001, he worked in the International 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 advisor to the Chairman of the All-Russian State Television and Broadcasting Company and, in 2001, Chief of Staff of the Department of Presidential Affairs of the Russian Federation.
Between 2004 and 2006, Sergei was Vice President of the National Reserve Bank. He was then appointed Deputy Governor of the Russian Central Bank. In 2007, he joined SUEK as General Counsel in January 2008.
He has been appointed Chief Executive Officer since January 2018.

DENIS ILATOVSKY, 48
Education and qualifications
Denis is a graduate of the Moscow State Institute of Steel and Alloys. In 1993, 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 at the MAI-Rus Industrial Group and in 1996 he was appointed Export Director. In 2000, he worked as General Director of Saratov Steel. In 2001, he joined the MAIR Industrial Group and in 1996, was appointed as General Director of the MAIR Industrial Group. In 2006, Denis was appointed as General Director of the MAIR Industrial Group. In 2007, Denis joined SUEK as Director of Corporate Governance and, in 2008, was appointed Chief Governance Officer.

ANDREY MIRONOV, 54
Education and qualifications
Andrey is a graduate of the Lomonosov Moscow Higher Military Commanders’ Training School, the Academy of Federal Security Service, and the Academy of the National Economy.
Career
He joined SUEK in 2011 as General Affairs Director and was promoted to General Affairs Director in July 2012.

ALEXANDER REDKIN, 58
Education and qualifications
Career
Between 1986 and 2001, Alexander worked in the Public Prosecution Department. He subsequently joined SIDANCO - TMK-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 2003, 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, 47
Education and qualifications
Stepan graduated from the Massachusetts Institute of Technology and Harvard University. He specialized in regulatory and environmental aspects of the power industry.
Career
Since 2004, he worked at the Russian office of McKee and was in charge of the electric power industry and held supply in Russia and the CIS. Stepan supervised projects in the field of power generation, network development and operation, sales activities.
He joined SUEK Group in October 2018, and has been Chief Executive Officer of SUEK since November 2018.

STEFAN TVERDOKHLEB, 46
Education and qualifications
Stefan graduated from the History Faculty of Perm State University and the Finance and Credit Department of the Finance Academy under the Government of Russia.
Career
From 1985 to 2004, he worked in the analytical and economic divisions of the following commercial banks: SBS-Argi, Arkbonds and GOM Bank. In 2004, he began his tenure with OJSC SUEK as an advisor to the CEO. In 2009, Stefan was appointed Director of the Corporate Policy and Special Projects Department at SUEK. Since 2013, he has been Director of Strategy and Corporate Policy.
In 2017, he was thanked by the Ministry of Energy of the Russian Federation for his many years of dedicated work in the coal industry.

IRINA ZAYTSEVA, 43
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 Unikat, a potash mining company, where she held a number of senior positions including Director of Inventory and Logistics.
She 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 many years of dedicated work in the coal industry.

118
119
Management Board report

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 Rashnevsky 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. The primary responsibilities of the Management Board are the development and implementation of the company’s production, commercial and other operational plans and improvement programmes. It is also responsible for the timely and effective coordination of the resolutions of the company’s executive bodies.

In order to achieve its targets, under the Regulation on the Management Board, SUEK established Management Board committees and panels that enable key managers and experts from different functions to interact on the main issues affecting the company’s operations, including consultations on economic, environmental and social matters.

Composition of the Management Board

As of 31 December 2019, the Management Board was comprised of the following four members:

- Vladimir Rashnevsky, Chief Executive Officer
- Vladimir Artemiev, Chief Operations Officer
- Igor Grishanovsky, 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 in-person.

Meetings of the Management Board

There were 18 meetings of SUEK’s Management Board in 2019: 12 in-person and six in-absentia. Four meetings were held in an expanded format with the participation of heads of regional coal production units. The main areas of the Management Board’s activities in 2019 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 consolidation
- The implementation of SUEK’s joint and segmented strategies and functional strategies (including coal asset strategy for Kuzbass and Khakassia, consolidated sales strategy, heat supply strategy, development programme for drilling and blasting operations, IT strategy, strategy for power companies in the Altai region)
- Ensuring the effective implementation of major investment projects and improving the quality of how they are monitored
- The implementation and efficiency assessment of the company’s HR policies (including the provision of Kuzbass and Urgal mines with key staff), Information Policy (including a survey in the regions of operations in partnership with the Public Opinion Foundation Institute, a social research into customer’s attitude to SGC), Social Policy (translation of the Code of Corporate Ethics to employees), Environmental Policy (analysis of environmental protection measures at SUEK’s port coal terminals)
- The monthly monitoring of our performance in meeting approved budgets and production targets in volatile market conditions
- Systematic monitoring of actions aimed at managing key risks in 2019, including the risk of coal use restrictions following the decisions of international and national regulators
- Ensuring safe working conditions, minimising the risks associated with coal mining and electricity generation, and developing a strong safety culture
- Optimising production and business processes as part of developing SUEK’s management system, with a focus on labour productivity improvement
- Further improving our compliance system, including obtaining certificates for SUEK’s compliance management system according to international standards

Some items relating to operational management were reviewed at meetings of specialist committees established in line with the company’s Charter and functioning according to the approved work plans:

- Industrial Safety Committee
- Risk Committee
- Investment Committee
- Procurement Committee
- Budget Committee
- Project Committee
- Sales Policy Committee

In 2019, seven special-purpose committees under the Management Board held 91 meetings.

As part of the energy business consolidation, the Board approved a new version of the Regulation on the Industrial Safety Committee, which covers the company’s Energy Segment. Considering the increasing focus given to environmental issues by state bodies, their social dimension and importance for SUEK’s business reputation, aspects of ensuring the environmental safety at Group’s units were added to the Regulation.

Management Board remuneration

SUEK’s remuneration system ensures there is a direct relationship between payments to the CEO, members of the Management Board and senior executives and the achievement of KPIs and goals for the reporting period.

The indicators used for annual assessment and calculation of remuneration include both the economic performance of the company and indicators of achieving the company’s sustainable development activity (ensuring the required level of industrial and environmental safety, social security of employees, contribution to the development of the regions where SUEK operates). In particular, ensuring the proper level of industrial safety is one of the fundamentals of the incentive system for the CEO, members of the Management Board and top managers of SUEK. LTIFR is a crucial indicator affecting remuneration. In addition to the general indicator (both for the company as a whole and by regions), managers may also be subject to additional restrictive conditions for accidents/industrial injuries, depending on the area of responsibility. If these conditions are not met, the annual variable payments are significantly reduced: by 50% or more, down to zero.

Environmental indicators are included in the KPI map for managers, whose area of responsibility includes the implementation of programmes adopted in the field of environmental protection.

The weight of general corporate indicators varies from 20 to 50% of the bonus map, depending on the functional area. Individual indicators for evaluating the performance of managers account for, respectively, 50–80% of the weight of the bonus map.

2020 priorities

In accordance with decisions taken by the Board of Directors, in 2020 the Management Board’s activities will be aimed at strengthening the competitive advantages of the company. The main emphasis is expected to be given to the following areas:

- Further development and implementation of the development strategy for the Reftinskaya GRES and increasing its operational efficiency
- Developing the updated Environmental Strategy of SGC
- Reorganising the internal control system for business processes according to the ‘Three Defence Lines’ model
- Enhanced monitoring of industrial and labour safety issues

\[1\] In 2019, SUEK made remuneration for top management for several large-scale projects, the outcomes of which significantly exceeded expectations.
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 2019, 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 financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), and comply with the Russian Federation’s requirements in the Russian Federation and with the International Federation of Accountants’ Code of Ethics for Professional Accountants (IESSBA 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 when 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 judgment 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.

• 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
29 January 2020

Audited entity: JSC SUEK

Independent auditor: JSC ‘KPMG’, a company incorporated under the Laws of the Russian Federation, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (KPMG International), a Swiss entity.

Registration No. in the Unified State Register of Legal Entities 1027700151380.

Moscow, Russia

Registration No. in the Unified State Register of Legal Entities 1027700125628.

Member of the Self-regulated organization of auditors ‘Russian Union of Auditors’ (Association). The Principal Registration Number of the Entry in the Register of Auditors and Audit Organizations: No. 11600593203.
Consolidated statement of profit or loss for the year ended 31 December 2019

<table>
<thead>
<tr>
<th>Notes</th>
<th>2019</th>
<th>2018</th>
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</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>6,754</td>
<td>8,296</td>
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<tr>
<td>Cost of sales</td>
<td>(4,275)</td>
<td>(4,110)</td>
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<td>Distribution costs</td>
<td>(1,978)</td>
<td>(2,047)</td>
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<tr>
<td>General and administrative expenses</td>
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<td>(239)</td>
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<tr>
<td>Other expenses, net</td>
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<td>(3)</td>
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<tr>
<td>Operating profit</td>
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<tr>
<td>Finance costs, net</td>
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<td>(311)</td>
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<tr>
<td>Foreign exchange gain/(loss)</td>
<td>200</td>
<td>(83)</td>
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<tr>
<td>Profit before tax</td>
<td>840</td>
<td>1,478</td>
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<tr>
<td>Income tax expense</td>
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<td>(314)</td>
</tr>
<tr>
<td>Net profit for the year</td>
<td>706</td>
<td>1,164</td>
</tr>
<tr>
<td>Net profit attributable to:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ordinary shareholders of the parent</td>
<td>699</td>
<td>1,144</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>7</td>
<td>20</td>
</tr>
<tr>
<td>Basic and diluted earnings per share (in US Dollars)</td>
<td>2.96</td>
<td>4.88</td>
</tr>
</tbody>
</table>

The accompanying notes on pages 129 to 157 are an integral part of these consolidated financial statements.

Vladimir Rashevsky
Chief Executive Officer

Nikolay Pilipenko
Chief Financial Officer

29 January 2020

Consolidated statement of comprehensive income for the year ended 31 December 2019

<table>
<thead>
<tr>
<th>Notes</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>6,754</td>
<td>8,296</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(4,275)</td>
<td>(4,110)</td>
</tr>
<tr>
<td>Distribution costs</td>
<td>(1,978)</td>
<td>(2,047)</td>
</tr>
<tr>
<td>General and administrative expenses</td>
<td>(229)</td>
<td>(239)</td>
</tr>
<tr>
<td>Other expenses, net</td>
<td>(3)</td>
<td>(3)</td>
</tr>
<tr>
<td>Operating profit</td>
<td>1,062</td>
<td>1,872</td>
</tr>
<tr>
<td>Finance costs, net</td>
<td>(422)</td>
<td>(311)</td>
</tr>
<tr>
<td>Foreign exchange gain/(loss)</td>
<td>200</td>
<td>(83)</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>840</td>
<td>1,478</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>(134)</td>
<td>(314)</td>
</tr>
<tr>
<td>Net profit for the year</td>
<td>706</td>
<td>1,164</td>
</tr>
<tr>
<td>Items which may be reclassified to profit or loss in the future:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Translation difference</td>
<td>141</td>
<td>(460)</td>
</tr>
<tr>
<td>Revaluation of intra-group debt denominated in foreign currency</td>
<td>3.2</td>
<td>(1)</td>
</tr>
<tr>
<td>Transfer of changes in fair value of cash flow hedges to profit or loss, net of deferred tax</td>
<td>16</td>
<td>(325)</td>
</tr>
<tr>
<td>Effective portion of changes in fair value of cash flow hedges, net of deferred tax</td>
<td>16</td>
<td>311</td>
</tr>
<tr>
<td>Total items which may be reclassified to profit or loss in the future</td>
<td>231</td>
<td>(373)</td>
</tr>
<tr>
<td>Items which may not be reclassified to profit or loss in the future:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revaluation (deficit)/surplus</td>
<td>4</td>
<td>815</td>
</tr>
<tr>
<td>Tax effect of revaluation</td>
<td>4</td>
<td>166</td>
</tr>
<tr>
<td>Actuarial (losses)/gains</td>
<td>(7)</td>
<td>10</td>
</tr>
<tr>
<td>Total items which may not be reclassified to profit or loss in the future</td>
<td>(655)</td>
<td>1,068</td>
</tr>
<tr>
<td>Total items which may be reclassified to profit or loss in the future and items which may not be reclassified to profit or loss in the future</td>
<td>(424)</td>
<td>695</td>
</tr>
<tr>
<td>Total other comprehensive income attributable to:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ordinary shareholders of the parent</td>
<td>282</td>
<td>1,858</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Total comprehensive income for the year</td>
<td>282</td>
<td>1,859</td>
</tr>
</tbody>
</table>

The accompanying notes on pages 129 to 157 are an integral part of these consolidated financial statements.
### Consolidated statement of financial position as at 31 December 2019

<table>
<thead>
<tr>
<th>Notes</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASSETS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-current assets</td>
<td>14,165</td>
<td>12,044</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>11,228</td>
<td>11,724</td>
</tr>
<tr>
<td>Right-of-use assets</td>
<td>1,631</td>
<td>—</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>132</td>
<td>136</td>
</tr>
<tr>
<td>Goodwill</td>
<td>78</td>
<td>78</td>
</tr>
<tr>
<td>Other assets</td>
<td>98</td>
<td>106</td>
</tr>
<tr>
<td>Current assets</td>
<td>2,306</td>
<td>1,995</td>
</tr>
<tr>
<td>Trade accounts and other receivables</td>
<td>957</td>
<td>882</td>
</tr>
<tr>
<td>Inventories</td>
<td>766</td>
<td>735</td>
</tr>
<tr>
<td>Prepaid and recoverable taxes</td>
<td>265</td>
<td>175</td>
</tr>
<tr>
<td>Derivative financial assets</td>
<td>142</td>
<td>37</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>176</td>
<td>166</td>
</tr>
<tr>
<td>Total assets</td>
<td>16,471</td>
<td>14,039</td>
</tr>
<tr>
<td>EQUITY AND LIABILITIES</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity</td>
<td>5,501</td>
<td>5,235</td>
</tr>
<tr>
<td>Share capital</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Share premium</td>
<td>104</td>
<td>104</td>
</tr>
<tr>
<td>Revaluation reserve</td>
<td>4,866</td>
<td>5,665</td>
</tr>
<tr>
<td>Hedging reserve</td>
<td>117</td>
<td>26</td>
</tr>
<tr>
<td>Translation reserve</td>
<td>(1,664)</td>
<td>(1,812)</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>1,932</td>
<td>1,063</td>
</tr>
<tr>
<td>Attributable to ordinary shareholders of the parent</td>
<td>5,326</td>
<td>5,046</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>175</td>
<td>189</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td>7,770</td>
<td>7,083</td>
</tr>
<tr>
<td>Long-term borrowings</td>
<td>6,939</td>
<td>3,217</td>
</tr>
<tr>
<td>Long-term lease liabilities</td>
<td>984</td>
<td>—</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>1,476</td>
<td>1,683</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>371</td>
<td>2,148</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>5,200</td>
<td>1,721</td>
</tr>
<tr>
<td>Short-term borrowings</td>
<td>1,799</td>
<td>1,081</td>
</tr>
<tr>
<td>Short-term lease liabilities</td>
<td>225</td>
<td>—</td>
</tr>
<tr>
<td>Trade accounts and other payables</td>
<td>998</td>
<td>506</td>
</tr>
<tr>
<td>Derivative financial liabilities</td>
<td>12</td>
<td>4</td>
</tr>
<tr>
<td>Taxes payable</td>
<td>166</td>
<td>130</td>
</tr>
<tr>
<td>Total shareholders’ equity and liabilities</td>
<td>16,471</td>
<td>14,039</td>
</tr>
</tbody>
</table>

The accompanying notes on pages 129 to 157 are an integral part of these consolidated financial statements.

### Consolidated statement of cash flows for the year ended 31 December 2019

<table>
<thead>
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<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
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</tr>
<tr>
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<td>78</td>
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<td>106</td>
</tr>
<tr>
<td>Current assets</td>
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<td>1,995</td>
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<td>882</td>
</tr>
<tr>
<td>Inventories</td>
<td>766</td>
<td>735</td>
</tr>
<tr>
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<td>265</td>
<td>175</td>
</tr>
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<td>142</td>
<td>37</td>
</tr>
<tr>
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<td>176</td>
<td>166</td>
</tr>
<tr>
<td>Total assets</td>
<td>16,471</td>
<td>14,039</td>
</tr>
<tr>
<td>EQUITY AND LIABILITIES</td>
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<td></td>
</tr>
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<td>5,235</td>
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<td>—</td>
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<td>Non-controlling interests</td>
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<td>3,217</td>
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<td>Long-term lease liabilities</td>
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<td>—</td>
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<td>Trade accounts and other payables</td>
<td>998</td>
<td>506</td>
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<tr>
<td>Derivative financial liabilities</td>
<td>12</td>
<td>4</td>
</tr>
<tr>
<td>Taxes payable</td>
<td>166</td>
<td>130</td>
</tr>
<tr>
<td>Total shareholders’ equity and liabilities</td>
<td>16,471</td>
<td>14,039</td>
</tr>
</tbody>
</table>

The accompanying notes on pages 129 to 157 are an integral part of these consolidated financial statements.
Consolidated statement of changes in shareholders’ equity for the year ended 31 December 2019

Millions of US Dollars

<table>
<thead>
<tr>
<th>Share capital</th>
<th>Share premium</th>
<th>Revs-luation 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 2018</td>
<td>—</td>
<td>—</td>
<td>4,774</td>
<td>(82)</td>
<td>(1,402)</td>
<td>1,704</td>
<td>5,014</td>
<td>201</td>
</tr>
<tr>
<td>Net profit for the year</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>1,144</td>
<td>1,144</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td>—</td>
<td>—</td>
<td>1,030</td>
<td>86</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>(138)</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>135</td>
<td>(4)</td>
</tr>
<tr>
<td>Total comprehensive income for the year</td>
<td>—</td>
<td>—</td>
<td>891</td>
<td>86</td>
<td>(410)</td>
<td>1,289</td>
<td>1,858</td>
<td>1</td>
</tr>
</tbody>
</table>

Transactions with owners:

| Issue of shares | 104 | — | — | — | — | 104 | — | — | 104 |
| Acquisition of SGC group | — | — | — | — | — | (1,916) | (1,916) | — | (1,916) |
| Business combination | — | — | — | — | — | — | 145 | 145 | |
| Acquisition of non-controlling interests | — | — | — | — | — | (14) | (14) | (150) | (164) |
| Dividends to non-controlling interests | — | — | — | — | — | — | (8) | (8) | |
| Total transactions with owners | 104 | — | — | — | — | (1,930) | (1,826) | (13) | (1,839) |

Balance at 31 December 2018 | 104 | 5,665 | 26 | (1,812) | 1,063 | 5,046 | 189 | 5,235 |

Balance at 1 January 2019 | 104 | 5,665 | 26 | (1,812) | 1,063 | 5,046 | 189 | 5,235 |
| Net profit for the year | — | — | — | — | — | — | 1,030 | 999 | 7 | 100 |
| Other comprehensive loss | — | — | (626) | 91 | 128 | (7) | (414) | (10) | (424) |
| Transfer to retained earnings | — | — | (173) | — | — | — | 168 | (5) | 5 |
| Total comprehensive income for the year | — | — | (799) | 91 | 128 | 860 | 280 | 2 | 282 |
| Business combination | — | — | — | — | — | — | — | — | — |
| Acquisition of non-controlling interests | — | — | — | — | — | — | (17) | (17) | |
| Dividends to non-controlling interests | — | — | — | — | — | — | (12) | (12) | |
| Total transactions with owners | — | — | — | — | — | — | (16) | (16) | |

Balance at 31 December 2019 | 104 | 4,866 | 117 | (1,684) | 1,203 | 5,328 | 175 | 5,501 |

The accompanying notes on pages 129 to 157 are an integral part of these consolidated financial statements.
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 2018, except for the adoption of IFRS 16 ‘Leases’ described above.
3.3. Property, plant and equipment

Basis of carrying value of property, plant and equipment.

Mining assets.
Mining assets include mineral rights with capitalised mine development costs and certain types of operating equipment, such as equipment which represents an integral part of a particular mine or a particular open-pit, or such items of mining equipment whose use on an alternative mine or open-pit is improbable or not economically feasible. The remaining part of tangible fixed assets besides listed above is defined as operating tangible fixed assets.

Mining assets are carried at fair value since the date of the creation of this new class of property, plant and equipment. Mineral rights were classified as property, plant and equipment and carried at fair value starting from 1 January 2013.

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 carried at historical value until detailed technical and financial plans for the assets are finalised.

Property, plant and equipment, other than mining assets.
Property, plant and equipment, other than mining assets, is stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads, and the corresponding capitalised borrowing costs. Where an item of property, plant and equipment, other than mining assets, comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

Starting from 2019 railcars wheel pairs are also accounted for as separate items of property, plant and equipment.

Expenditure incurred to replace a component of an item of property, plant and equipment, other than mining assets, that is accounted for separately, is capitalised to the carrying amount of the component that has been replaced being written off. Subsequent expenditure is capitalised if future economic benefits arise from the expenditure. All other expenditure, including repairs and maintenance, is recognised in profit or loss as an expense as incurred.

Generating assets and railcars.
In 2019, the Group has changed its accounting policy and established two new categories of property, plant and equipment – Generating assets and Railcars. Generating assets include buildings, machinery, equipment and utilities which are used in generation of energy. Management believes that the new accounting policy presents more fairly the consolidated financial position of the Group by recognising the whole value of the energy resource base, which is the Energy segment’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.

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-exploitation 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 estimated useful lives of property, plant and equipment, including mining assets, are as follows:

- mining assets average of 64 years
- generating assets 4 – 53 years
- machinery, equipment, transport and other 2 – 37 years
- buildings, structures and utilities 6 – 60 years
- railcars 7 – 32 years
The Group recognises a financial asset or a financial liability in its statement of financial position when it becomes party to the contractual provisions of the instrument. At initial recognition, the Group measures 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.

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 on the principal amount outstanding.

The financial assets are measured at amortised cost using the effective interest method, less any impairment losses. Interest income from 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. 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 on the hedging item, and the exchange gain/loss depending on a hedged item 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, 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.

3.11. Income tax
Income tax expense comprises current and deferred taxation.

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, energy 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.

Energy sales are carried out on both regulated and unregulated energy markets. Regulated market revenue is based on the application of authorised tariffs as approved by the Federal Antimonopoly Service and Regional Energy Commission of 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.
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 reviews 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 licenses of the Group, the Group has a legal right to apply for the extension of the licenses for its existing mining resources and therefore management is confident that the licenses will be extended provided that it is the same coal resource within the original mining license 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 should 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 2019 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;
- in 2019 the Group performed appraisal of proven and probable reserves as at 1 January 2019. The appraisal was performed by external professional consultants;
- export coal sales volumes were estimated to grow at an average of 2% for the foreseeable forecasted period 2020-2030;
- export coal prices for Asian markets are estimated to fall by 7% in 2020 in comparison to 2019 and to grow at an average of 3% for 2021-2023. Export coal prices for European markets are estimated to stay in 2020 at the level of 2019 and to grow at an average of 6% for 2021-2023. Forecast for 2020-2023 is based on the forward rates and consensus forecast of investment banks, forecast after 2023 is estimated to be in line with long-term USD inflation;
- domestic coal sales volumes were estimated to grow at an average of 1% for the foreseeable period 2020-2030;
- domestic coal prices were estimated to grow at an average of 5% in 2020 and to grow in line with RUB inflation thereafter;
- regulated railroad tariffs for 2020 were estimated to grow at an average of 3.5% and to grow in line with RUB inflation less than 0.1% thereafter;
- the RUB/USD exchange rate was estimated in 2020 at the level of 65.5 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 of 12.5% in RUB for brown coal mining units and at the nominal weighted average cost of capital of 9.5% in USD for hard coal mining units.

At 31 December 2019 the total effect of the revaluation of the mining assets was a decrease of 810 million USD (31 December 2018 – an increase of 1,322 million USD); the after-tax effect on equity was a decrease of 648 million USD (31 December 2018 – an increase of 1,058 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:

<table>
<thead>
<tr>
<th>(Decrease)/increase</th>
<th>Increase in weighted average cost of capital by 1 percentage point (954)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in export coal prices of 1% (402)</td>
<td></td>
</tr>
<tr>
<td>Increase in RUB/USD exchange rate of 1% (255)</td>
<td></td>
</tr>
<tr>
<td>Increase in export coal sales volumes of 1% (157)</td>
<td></td>
</tr>
<tr>
<td>Increase in regulated railroad tariffs growth of 1% (186)</td>
<td></td>
</tr>
<tr>
<td>Increase in domestic coal prices of 1% (134)</td>
<td></td>
</tr>
<tr>
<td>Increase in domestic coal sales volumes of 1% (62)</td>
<td></td>
</tr>
</tbody>
</table>

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 2019 was determined either based on market prices for similar items of machinery and equipment recently acquired by the Group or, if no such purchases occurred, 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.

Starting from 1 January 2019 operating segments identified by management are coal, logistics, energy and corporate segments. The coal segment includes coal extraction, coal washing, sales and distribution in the Russian Federation and abroad; the logistics segment includes railroad transportation and transshipment in ports; the energy segment includes generation and sales of electricity, heat and capacity and the corporate segment includes operations of holding companies.

Management believes that the new disclosure structure presents more fairly the operating segment information. Changes were caused by evolutionary approach resulting from acquisition and development of business other than coal. The comparative information for the year ended and as at 31 December 2018 has been restated for the effect of these changes.
Operating segment information for the Group at 31 December 2019 and for the year then ended is as follows:

<table>
<thead>
<tr>
<th>Segment revenue and profitability</th>
<th>Coal</th>
<th>Logistics</th>
<th>Energy</th>
<th>Corporate</th>
<th>Inter-segment elimination</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Segment external revenues</td>
<td>5,140</td>
<td>218</td>
<td>2,189</td>
<td>—</td>
<td>—</td>
<td>7,547</td>
</tr>
<tr>
<td>Russian Federation</td>
<td>614</td>
<td>218</td>
<td>2,189</td>
<td>—</td>
<td>—</td>
<td>3,021</td>
</tr>
<tr>
<td>Pacific region</td>
<td>2,712</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>2,712</td>
</tr>
<tr>
<td>Atlantic region</td>
<td>1,814</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>1,814</td>
</tr>
<tr>
<td>Inter-segment revenues</td>
<td>664</td>
<td>1,903</td>
<td>6</td>
<td>53</td>
<td>(2,628)</td>
<td>—</td>
</tr>
<tr>
<td>Segment expenses</td>
<td>(5,650)</td>
<td>(1,632)</td>
<td>(1,720)</td>
<td>(111)</td>
<td>2,628</td>
<td>(6,485)</td>
</tr>
<tr>
<td>Operating profit/(loss)</td>
<td>154</td>
<td>489</td>
<td>477</td>
<td>(98)</td>
<td>—</td>
<td>1,062</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>(597)</td>
<td>(265)</td>
<td>(184)</td>
<td>(7)</td>
<td>—</td>
<td>(1,053)</td>
</tr>
<tr>
<td>Interest expense and interest on lease</td>
<td>(157)</td>
<td>(84)</td>
<td>(171)</td>
<td>(239)</td>
<td>206</td>
<td>(400)</td>
</tr>
<tr>
<td>Interest income</td>
<td>5</td>
<td>7</td>
<td>210</td>
<td>(206)</td>
<td>20</td>
<td>—</td>
</tr>
<tr>
<td>Loss/(profit before tax</td>
<td>(86)</td>
<td>444</td>
<td>357</td>
<td>127</td>
<td>—</td>
<td>840</td>
</tr>
<tr>
<td>Income tax benefit/(expense)</td>
<td>51</td>
<td>(98)</td>
<td>(71)</td>
<td>(25)</td>
<td>—</td>
<td>(134)</td>
</tr>
<tr>
<td>Net/(loss)/profit for the year</td>
<td>(37)</td>
<td>350</td>
<td>286</td>
<td>162</td>
<td>—</td>
<td>706</td>
</tr>
</tbody>
</table>

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</th>
<th>Logistics</th>
<th>Energy</th>
<th>Corporate</th>
<th>Inter-segment elimination</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Segment external revenues</td>
<td>6,031</td>
<td>135</td>
<td>2,130</td>
<td>—</td>
<td>—</td>
<td>8,296</td>
</tr>
<tr>
<td>Russian Federation</td>
<td>679</td>
<td>135</td>
<td>2,130</td>
<td>—</td>
<td>—</td>
<td>3,942</td>
</tr>
<tr>
<td>Pacific region</td>
<td>3,054</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>3,054</td>
</tr>
<tr>
<td>Atlantic region</td>
<td>2,298</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>2,298</td>
</tr>
<tr>
<td>Inter-segment revenues</td>
<td>568</td>
<td>1,875</td>
<td>7</td>
<td>54</td>
<td>(2,504)</td>
<td>—</td>
</tr>
<tr>
<td>Segment expenses</td>
<td>(6,406)</td>
<td>(1,887)</td>
<td>(1,749)</td>
<td>(186)</td>
<td>2,504</td>
<td>(6,428)</td>
</tr>
<tr>
<td>Operating profit/(loss)</td>
<td>1,193</td>
<td>323</td>
<td>391</td>
<td>(35)</td>
<td>—</td>
<td>1,872</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>(438)</td>
<td>(55)</td>
<td>(177)</td>
<td>(4)</td>
<td>—</td>
<td>(660)</td>
</tr>
<tr>
<td>Interest expense and interest on lease</td>
<td>(141)</td>
<td>(14)</td>
<td>(135)</td>
<td>(186)</td>
<td>178</td>
<td>(292)</td>
</tr>
<tr>
<td>Interest income</td>
<td>7</td>
<td>16</td>
<td>7</td>
<td>171</td>
<td>(718)</td>
<td>23</td>
</tr>
<tr>
<td>Profit/(loss) before tax</td>
<td>1,032</td>
<td>234</td>
<td>259</td>
<td>(107)</td>
<td>—</td>
<td>1,478</td>
</tr>
<tr>
<td>Income tax [expenses]benefit</td>
<td>(224)</td>
<td>514</td>
<td>52</td>
<td>21</td>
<td>—</td>
<td>(314)</td>
</tr>
<tr>
<td>Net profit/(loss) for the year</td>
<td>808</td>
<td>225</td>
<td>207</td>
<td>(98)</td>
<td>—</td>
<td>1,164</td>
</tr>
<tr>
<td>Capital expenditures incurred during the year</td>
<td>832</td>
<td>60</td>
<td>101</td>
<td>7</td>
<td>—</td>
<td>949</td>
</tr>
</tbody>
</table>

7. Cost of sales

<table>
<thead>
<tr>
<th>Coal and petroleum coke purchased from third parties</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labour</td>
<td>1,090</td>
<td>1,155</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>794</td>
<td>627</td>
</tr>
<tr>
<td>Consumables and spares</td>
<td>454</td>
<td>373</td>
</tr>
<tr>
<td>Purchased fuel</td>
<td>279</td>
<td>256</td>
</tr>
<tr>
<td>Purchased energy</td>
<td>167</td>
<td>223</td>
</tr>
<tr>
<td>Repairs and maintenance services</td>
<td>103</td>
<td>137</td>
</tr>
<tr>
<td>Transportation services</td>
<td>58</td>
<td>51</td>
</tr>
<tr>
<td>Property and other taxes</td>
<td>54</td>
<td>72</td>
</tr>
<tr>
<td>Drilling and blasting services</td>
<td>22</td>
<td>44</td>
</tr>
<tr>
<td>Tax on mining</td>
<td>41</td>
<td>40</td>
</tr>
<tr>
<td>Personnel transportation services</td>
<td>37</td>
<td>33</td>
</tr>
<tr>
<td>Fire and rescue brigade expenses</td>
<td>36</td>
<td>30</td>
</tr>
<tr>
<td>Transfer of heat</td>
<td>28</td>
<td>27</td>
</tr>
<tr>
<td>Special equipment services</td>
<td>15</td>
<td>16</td>
</tr>
<tr>
<td>Land rent</td>
<td>6</td>
<td>17</td>
</tr>
<tr>
<td>Other</td>
<td>154</td>
<td>223</td>
</tr>
<tr>
<td>Total</td>
<td>4,275</td>
<td>4,119</td>
</tr>
</tbody>
</table>

Proceeds from the sale of electricity and purchased energy are presented after deduction of cost of electricity generated by the Group and consumed for own process needs in the amount of 96 million USD for the year ended 31 December 2019 (for the year ended 31 December 2018 – 87 million USD).

8. Distribution costs

<table>
<thead>
<tr>
<th>Railway services</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Freight</td>
<td>1,172</td>
<td>1,234</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>259</td>
<td>42</td>
</tr>
<tr>
<td>Shoveling from third parties</td>
<td>138</td>
<td>139</td>
</tr>
<tr>
<td>Repair and maintenance services</td>
<td>44</td>
<td>50</td>
</tr>
<tr>
<td>Labour</td>
<td>44</td>
<td>47</td>
</tr>
<tr>
<td>Consumables and spares</td>
<td>9</td>
<td>20</td>
</tr>
<tr>
<td>Customs expenses and export duties</td>
<td>8</td>
<td>18</td>
</tr>
<tr>
<td>Property and other taxes</td>
<td>2</td>
<td>9</td>
</tr>
<tr>
<td>Rent of rail cars</td>
<td>193</td>
<td>—</td>
</tr>
<tr>
<td>Other</td>
<td>13</td>
<td>19</td>
</tr>
<tr>
<td>Total</td>
<td>1,078</td>
<td>2,047</td>
</tr>
</tbody>
</table>

9. General and administrative expenses

<table>
<thead>
<tr>
<th>General and administrative expenses</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>140</td>
<td>131</td>
</tr>
<tr>
<td>Consulting, legal, audit and other professional services</td>
<td>38</td>
<td>38</td>
</tr>
<tr>
<td>Charitable donations</td>
<td>26</td>
<td>36</td>
</tr>
<tr>
<td>Office rent</td>
<td>24</td>
<td>—</td>
</tr>
<tr>
<td>Other</td>
<td>25</td>
<td>24</td>
</tr>
<tr>
<td>Total</td>
<td>229</td>
<td>239</td>
</tr>
</tbody>
</table>

6. Revenue

<table>
<thead>
<tr>
<th>Coal</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>4,877</td>
<td>5,706</td>
<td></td>
</tr>
<tr>
<td>Capacity</td>
<td>732</td>
<td>720</td>
</tr>
<tr>
<td>Heat</td>
<td>707</td>
<td>734</td>
</tr>
<tr>
<td>Electricity</td>
<td>693</td>
<td>588</td>
</tr>
<tr>
<td>Petroleum coke</td>
<td>163</td>
<td>250</td>
</tr>
<tr>
<td>Other</td>
<td>385</td>
<td>298</td>
</tr>
<tr>
<td>Total</td>
<td>7,547</td>
<td>8,296</td>
</tr>
</tbody>
</table>
10. Finance Costs, NET

<table>
<thead>
<tr>
<th>Description</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest expense</td>
<td>317</td>
<td>292</td>
</tr>
<tr>
<td>Interest on lease</td>
<td>88</td>
<td>—</td>
</tr>
<tr>
<td>Bank commissions and charges</td>
<td>24</td>
<td>32</td>
</tr>
<tr>
<td>Unwinding of discount on provisions</td>
<td>13</td>
<td>10</td>
</tr>
<tr>
<td>Interest income</td>
<td>(50)</td>
<td>(23)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>422</td>
<td>311</td>
</tr>
</tbody>
</table>

11. Property, plant and equipment

<table>
<thead>
<tr>
<th>Description</th>
<th>Mining assets</th>
<th>Generating assets</th>
<th>Machinery, equipment, transport and other</th>
<th>Buildings, structures and utilities</th>
<th>Railcars</th>
<th>Construction-in-progress</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td>Balance at 1 January 2018</td>
<td>6,036</td>
<td>2,182</td>
<td>2,422</td>
<td>1,880</td>
<td>314</td>
<td>349</td>
</tr>
<tr>
<td>Revaluation of mining assets</td>
<td>1,322</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>1,322</td>
</tr>
<tr>
<td>Business combination</td>
<td>—</td>
<td>644</td>
<td>6</td>
<td>161</td>
<td>—</td>
<td>33</td>
<td>844</td>
</tr>
<tr>
<td>Additions</td>
<td>40</td>
<td>19</td>
<td>6</td>
<td>15</td>
<td>—</td>
<td>911</td>
<td>990</td>
</tr>
<tr>
<td>Transfers</td>
<td>351</td>
<td>20</td>
<td>443</td>
<td>209</td>
<td>34</td>
<td>(639)</td>
<td>—</td>
</tr>
<tr>
<td>Disposals</td>
<td>—</td>
<td>(4)</td>
<td>(60)</td>
<td>(4)</td>
<td>—</td>
<td>(9)</td>
<td>(77)</td>
</tr>
<tr>
<td>Translation difference</td>
<td>(554)</td>
<td>(485)</td>
<td>(140)</td>
<td>(130)</td>
<td>(50)</td>
<td>(36)</td>
<td>(1,189)</td>
</tr>
<tr>
<td><strong>Balance at 31 December 2018</strong></td>
<td>7,991</td>
<td>2,356</td>
<td>2,676</td>
<td>1,513</td>
<td>318</td>
<td>607</td>
<td>15,459</td>
</tr>
<tr>
<td>Revaluation of mining assets</td>
<td>(810)</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>(810)</td>
</tr>
<tr>
<td>Business combination (see note 33)</td>
<td>28</td>
<td>314</td>
<td>15</td>
<td>36</td>
<td>—</td>
<td>40</td>
<td>433</td>
</tr>
<tr>
<td>Additions</td>
<td>55</td>
<td>—</td>
<td>4</td>
<td>55</td>
<td>—</td>
<td>1,117</td>
<td>1,231</td>
</tr>
<tr>
<td>Transfers</td>
<td>108</td>
<td>52</td>
<td>590</td>
<td>138</td>
<td>41</td>
<td>(938)</td>
<td>—</td>
</tr>
<tr>
<td>Disposals</td>
<td>(0)</td>
<td>(8)</td>
<td>(74)</td>
<td>(15)</td>
<td>—</td>
<td>(9)</td>
<td>(115)</td>
</tr>
<tr>
<td>Translation difference</td>
<td>207</td>
<td>305</td>
<td>108</td>
<td>76</td>
<td>23</td>
<td>29</td>
<td>748</td>
</tr>
<tr>
<td><strong>Balance at 31 December 2019</strong></td>
<td>7,574</td>
<td>3,019</td>
<td>3,328</td>
<td>1,803</td>
<td>380</td>
<td>842</td>
<td>16,946</td>
</tr>
<tr>
<td>Accumulated depreciation and amortisation</td>
<td>Balance at 1 January 2018</td>
<td>722</td>
<td>623</td>
<td>1,399</td>
<td>858</td>
<td>19</td>
<td>—</td>
</tr>
<tr>
<td>Depreciation and amortisation (including transfers)</td>
<td>368</td>
<td>125</td>
<td>238</td>
<td>(87)</td>
<td>14</td>
<td>—</td>
<td>678</td>
</tr>
<tr>
<td>Disposals</td>
<td>—</td>
<td>(5)</td>
<td>(58)</td>
<td>(3)</td>
<td>—</td>
<td>—</td>
<td>(84)</td>
</tr>
<tr>
<td>Translation difference</td>
<td>(65)</td>
<td>(118)</td>
<td>(66)</td>
<td>(46)</td>
<td>5</td>
<td>—</td>
<td>(303)</td>
</tr>
<tr>
<td><strong>Balance at 31 December 2018</strong></td>
<td>1,025</td>
<td>627</td>
<td>1,513</td>
<td>542</td>
<td>28</td>
<td>—</td>
<td>3,735</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>305</td>
<td>114</td>
<td>295</td>
<td>82</td>
<td>38</td>
<td>—</td>
<td>834</td>
</tr>
<tr>
<td>Disposals</td>
<td>(0)</td>
<td>—</td>
<td>(45)</td>
<td>(2)</td>
<td>—</td>
<td>—</td>
<td>(52)</td>
</tr>
<tr>
<td>Translation difference</td>
<td>44</td>
<td>81</td>
<td>54</td>
<td>22</td>
<td>2</td>
<td>—</td>
<td>203</td>
</tr>
<tr>
<td><strong>Balance at 31 December 2019</strong></td>
<td>1,369</td>
<td>822</td>
<td>1,817</td>
<td>644</td>
<td>68</td>
<td>—</td>
<td>4,720</td>
</tr>
<tr>
<td>Net book value at 31 December 2018</td>
<td>6,966</td>
<td>1,729</td>
<td>1,163</td>
<td>971</td>
<td>288</td>
<td>607</td>
<td>11,724</td>
</tr>
<tr>
<td>Net book value at 31 December 2019</td>
<td>6,205</td>
<td>2,197</td>
<td>1,511</td>
<td>1,359</td>
<td>312</td>
<td>842</td>
<td>12,226</td>
</tr>
</tbody>
</table>

If mining assets had been carried at the historical cost, the net book value of property, plant and equipment at 31 December 2019 would have been 6,776 million USD (31 December 2018 – 5,732 million USD).

12. Right-of-use assets

<table>
<thead>
<tr>
<th>Description</th>
<th>Generating assets</th>
<th>Buildings, structures and utilities</th>
<th>Machinery, equipment, transport and other</th>
<th>Railcars</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td>Balance at 1 January 2019</td>
<td>79</td>
<td>85</td>
<td>28</td>
<td>591</td>
</tr>
<tr>
<td>Additions</td>
<td>4</td>
<td>11</td>
<td>2</td>
<td>932</td>
<td>949</td>
</tr>
<tr>
<td>Modifications</td>
<td>(5)</td>
<td>13</td>
<td>(1)</td>
<td>(1)</td>
<td>(5)</td>
</tr>
<tr>
<td>Disposals</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>(38)</td>
<td>(38)</td>
</tr>
<tr>
<td>Translation difference</td>
<td>10</td>
<td>13</td>
<td>1</td>
<td>111</td>
<td>135</td>
</tr>
<tr>
<td><strong>Balance at 31 December 2019</strong></td>
<td>88</td>
<td>122</td>
<td>30</td>
<td>1,595</td>
<td>1,835</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>Balance at 1 January 2019</td>
<td>—</td>
<td>—</td>
<td>4</td>
<td>—</td>
</tr>
<tr>
<td>Depreciation</td>
<td>10</td>
<td>10</td>
<td>8</td>
<td>192</td>
<td>220</td>
</tr>
<tr>
<td>Modifications</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>(4)</td>
<td>(4)</td>
</tr>
<tr>
<td>Disposals</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>(25)</td>
<td>(25)</td>
</tr>
<tr>
<td>Translation difference</td>
<td>1</td>
<td>—</td>
<td>8</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td><strong>Balance at 31 December 2019</strong></td>
<td>11</td>
<td>10</td>
<td>12</td>
<td>171</td>
<td>204</td>
</tr>
<tr>
<td>Net book value at 1 January 2019</td>
<td>79</td>
<td>85</td>
<td>24</td>
<td>591</td>
<td>779</td>
</tr>
<tr>
<td>Net book value at 31 December 2019</td>
<td>77</td>
<td>112</td>
<td>18</td>
<td>1,424</td>
<td>1,637</td>
</tr>
</tbody>
</table>

In the first half of 2019, the Group acquired a company which owned railcars in lease for a consideration of 435 million USD from a third party. The Group treated this transaction as an acquisition of assets and recognised railcars in the form of a right-of-use of 632 million USD. Lease liabilities related to these railcars are disclosed in note 22. The consideration paid is included in the Property, plant and equipment line in the consolidated statement of cash flows in accordance with its substance.

13. Other assets

<table>
<thead>
<tr>
<th>Description</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract assets under concession agreements</td>
<td>49</td>
<td>24</td>
</tr>
<tr>
<td>Other assets</td>
<td>49</td>
<td>82</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>98</td>
<td>106</td>
</tr>
</tbody>
</table>

14. Trade accounts and other receivables

<table>
<thead>
<tr>
<th>Description</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade accounts receivable</td>
<td>985</td>
<td>859</td>
</tr>
<tr>
<td>Advances issued</td>
<td>115</td>
<td>127</td>
</tr>
<tr>
<td>Other receivables</td>
<td>55</td>
<td>47</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>1,155</td>
<td>1,033</td>
</tr>
<tr>
<td>Less: Allowance for doubtful debts</td>
<td>198</td>
<td>171</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>957</td>
<td>862</td>
</tr>
</tbody>
</table>

Group assets include advances issued for capital expenditures of 64 million USD (31 December 2018 – 100 million USD).
15. Inventories

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal stock</td>
<td>356</td>
<td>416</td>
</tr>
<tr>
<td>Consumable stores and materials</td>
<td>406</td>
<td>390</td>
</tr>
<tr>
<td>Less: Allowance for obsolescence</td>
<td>45</td>
<td>31</td>
</tr>
<tr>
<td>Net consumable stores and materials</td>
<td>410</td>
<td>319</td>
</tr>
<tr>
<td>Total</td>
<td>766</td>
<td>735</td>
</tr>
</tbody>
</table>

16. Derivative financial instruments

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cross-currency swaps – cash flow hedges</td>
<td>142</td>
<td>12</td>
</tr>
<tr>
<td>Coal contracts – cash flow hedges</td>
<td>37</td>
<td>7</td>
</tr>
<tr>
<td>Other derivatives</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>180</td>
<td>20</td>
</tr>
</tbody>
</table>

Derivative financial instruments were valued using observable inputs, which correspond to Level 2 of the hierarchy of the fair value measurements (see note 31). Details of the effective portion of changes in fair value of cash flow hedges were as follows:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal contracts – cash flow hedges</td>
<td>177</td>
<td>17</td>
</tr>
<tr>
<td>3 – 6 months</td>
<td>676</td>
<td>62</td>
</tr>
<tr>
<td>6 – 9 months</td>
<td>396</td>
<td>35</td>
</tr>
<tr>
<td>Total</td>
<td>1,246</td>
<td>104</td>
</tr>
</tbody>
</table>

Cross-currency swaps. In the second half of 2019 the Group entered into cross-currency swap contracts to manage exposure of fluctuations in foreign currency exchange rates.

At 31 December 2019 the average coal sales price under the hedge coal forward contracts was 70 USD per ton (31 December 2018 – 92 USD per ton) and the average coal purchase price under the coal forward contracts was 69 USD per ton (31 December 2018 – 94 USD per ton).

17. Prepaid and recoverable taxes

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value-added tax recoverable</td>
<td>195</td>
<td>122</td>
</tr>
<tr>
<td>Income tax receivable</td>
<td>65</td>
<td>51</td>
</tr>
<tr>
<td>Prepaid other taxes</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>265</td>
<td>175</td>
</tr>
</tbody>
</table>

18. Cash and cash equivalents

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current accounts</td>
<td>83</td>
<td>62</td>
</tr>
<tr>
<td>Deposits</td>
<td>24</td>
<td>19</td>
</tr>
<tr>
<td>Other cash equivalents</td>
<td>35</td>
<td>15</td>
</tr>
<tr>
<td>Total</td>
<td>175</td>
<td>166</td>
</tr>
</tbody>
</table>

19. Share capital and reserves

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</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>236,060</td>
</tr>
<tr>
<td>Issued share capital</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ordinary shares</td>
<td>236,060</td>
<td>236,060</td>
</tr>
</tbody>
</table>

Ordinary shares of the Company have a par value of 0.005 RUB. All issued shares were fully paid.
20. 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>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit for the year attributable to ordinary shareholders of the parent</td>
<td>699</td>
<td>1,144</td>
</tr>
<tr>
<td>Weighted average number of ordinary shares in issue (in thousands)</td>
<td>236,060</td>
<td>234,383</td>
</tr>
<tr>
<td>Basic and diluted earnings per share (in USD)</td>
<td>2.96</td>
<td>4.88</td>
</tr>
</tbody>
</table>

21. Borrowings

<table>
<thead>
<tr>
<th></th>
<th>Effective interest rate</th>
<th>2019</th>
<th>2018</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>2,952</td>
<td>3,050</td>
</tr>
<tr>
<td>Unsecured USD-denominated borrowings</td>
<td>6M LIBOR + 0.9% to 1M LIBOR + 3%</td>
<td>2,780</td>
<td>2,650</td>
</tr>
<tr>
<td>Unsecured EUR-denominated borrowings</td>
<td>6M EURIBOR + 0.38% to 6M EURIBOR + 2.25%</td>
<td>172</td>
<td>141</td>
</tr>
<tr>
<td>Fixed rate borrowings</td>
<td></td>
<td>3,031</td>
<td>1,241</td>
</tr>
<tr>
<td>Unsecured USD-denominated borrowings</td>
<td>2.25% to 5.1%</td>
<td>1,814</td>
<td>—</td>
</tr>
<tr>
<td>Unsecured RUB-denominated borrowings</td>
<td>0.05% to 8.03%</td>
<td>977</td>
<td>970</td>
</tr>
<tr>
<td>Unsecured RUB-denominated bonds</td>
<td>7.4% to 8.3%</td>
<td>840</td>
<td>277</td>
</tr>
<tr>
<td>Subtotal</td>
<td></td>
<td>6,583</td>
<td>4,291</td>
</tr>
<tr>
<td>Less: Current portion of long-term borrowings</td>
<td></td>
<td>1,644</td>
<td>1,019</td>
</tr>
<tr>
<td>Total long-term borrowings</td>
<td></td>
<td>4,939</td>
<td>3,272</td>
</tr>
<tr>
<td>Short-term borrowings</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed rate borrowings</td>
<td></td>
<td>155</td>
<td>62</td>
</tr>
<tr>
<td>Unsecured USD-denominated borrowings</td>
<td>2.25% to 2.3%</td>
<td>150</td>
<td>—</td>
</tr>
<tr>
<td>Unsecured RUB-denominated borrowings</td>
<td>7.6% to 7.75%</td>
<td>—</td>
<td>60</td>
</tr>
<tr>
<td>Other borrowings</td>
<td></td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Subtotal</td>
<td></td>
<td>155</td>
<td>62</td>
</tr>
<tr>
<td>Current portion of long-term borrowings</td>
<td></td>
<td>1,644</td>
<td>1,019</td>
</tr>
<tr>
<td>Total short-term borrowings</td>
<td></td>
<td>1,799</td>
<td>1,081</td>
</tr>
</tbody>
</table>

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 2019 the Group was in compliance with all such covenants.

22. Lease liabilities

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recognition at the beginning of the period</td>
<td>799</td>
<td>—</td>
</tr>
<tr>
<td>Additions</td>
<td>521</td>
<td>—</td>
</tr>
<tr>
<td>Modifications</td>
<td>11</td>
<td>—</td>
</tr>
<tr>
<td>Interest on lease</td>
<td>88</td>
<td>—</td>
</tr>
<tr>
<td>Payments of lease liabilities</td>
<td>(311)</td>
<td>—</td>
</tr>
<tr>
<td>Discounts</td>
<td>106</td>
<td>—</td>
</tr>
<tr>
<td>Translation difference</td>
<td>117</td>
<td>—</td>
</tr>
<tr>
<td>Closing balance</td>
<td>1,209</td>
<td>—</td>
</tr>
</tbody>
</table>

Closing balance of a lease liability of 399 million USD relates to railcars in lease disclosed in Note 12.

23. Changes in liabilities arising from financial activities

The table below provides information of 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>Lease liabilities</th>
<th>Acquisition of NCI</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance as at 1 January 2018</td>
<td>4,610</td>
<td>177</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>4,827</td>
</tr>
<tr>
<td>Cash flows</td>
<td>(556)</td>
<td>(136)</td>
<td>—</td>
<td>(164)</td>
<td>(58)</td>
<td>(888)</td>
</tr>
<tr>
<td>Foreign exchange gain/loss</td>
<td>(297)</td>
<td>(21)</td>
<td>—</td>
<td>—</td>
<td>1</td>
<td>(324)</td>
</tr>
<tr>
<td>Interest expenses</td>
<td>288</td>
<td>3</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>292</td>
</tr>
<tr>
<td>Business combination</td>
<td>167</td>
<td>46</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>213</td>
</tr>
<tr>
<td>Bank commissions</td>
<td>32</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>32</td>
</tr>
<tr>
<td>Other payables</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Balance as at 31 December 2018</td>
<td>4,201</td>
<td>62</td>
<td>799</td>
<td>—</td>
<td>—</td>
<td>5,152</td>
</tr>
<tr>
<td>Cash flows</td>
<td>1,828</td>
<td>5</td>
<td>(111)</td>
<td>(17)</td>
<td>(12)</td>
<td>1,493</td>
</tr>
<tr>
<td>Foreign exchange loss</td>
<td>144</td>
<td>67</td>
<td>117</td>
<td>—</td>
<td>—</td>
<td>328</td>
</tr>
<tr>
<td>Interest expenses and interest on lease</td>
<td>296</td>
<td>21</td>
<td>88</td>
<td>—</td>
<td>—</td>
<td>405</td>
</tr>
<tr>
<td>Change in lease obligations</td>
<td>—</td>
<td>—</td>
<td>516</td>
<td>—</td>
<td>—</td>
<td>516</td>
</tr>
<tr>
<td>Bank commissions</td>
<td>24</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>24</td>
</tr>
<tr>
<td>Other payables</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>17</td>
<td>12</td>
<td>29</td>
</tr>
<tr>
<td>Balance as at 31 December 2019</td>
<td>6,583</td>
<td>155</td>
<td>1,209</td>
<td>—</td>
<td>—</td>
<td>7,947</td>
</tr>
</tbody>
</table>

24. Other long-term liabilities

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provision for environmental obligation</td>
<td>—</td>
<td>176</td>
</tr>
<tr>
<td>Provision for defined benefit obligation</td>
<td>—</td>
<td>64</td>
</tr>
<tr>
<td>Payables for the acquisition of SGC group</td>
<td>—</td>
<td>1,916</td>
</tr>
<tr>
<td>Other long-term liabilities</td>
<td>152</td>
<td>104</td>
</tr>
<tr>
<td>Total</td>
<td>371</td>
<td>2,148</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>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>7%</td>
<td>9%</td>
</tr>
<tr>
<td>Inflation rate</td>
<td>4%</td>
<td>5%</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>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>7%</td>
<td>9%</td>
</tr>
<tr>
<td>Inflation rate</td>
<td>4%</td>
<td>5%</td>
</tr>
<tr>
<td>Future increases in salaries</td>
<td>4%</td>
<td>5%</td>
</tr>
</tbody>
</table>
### 25. Trade accounts and other payables

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade accounts payable and accruals</td>
<td>518</td>
<td>302</td>
</tr>
<tr>
<td>Advances from customers</td>
<td>198</td>
<td>57</td>
</tr>
<tr>
<td>Accrual for vacation payments</td>
<td>72</td>
<td>56</td>
</tr>
<tr>
<td>Wages and salaries</td>
<td>66</td>
<td>57</td>
</tr>
<tr>
<td>Payables for the acquisition of Raffinskiy GRES (see note 33)</td>
<td>65</td>
<td>—</td>
</tr>
<tr>
<td>Other creditors</td>
<td>79</td>
<td>34</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>998</strong></td>
<td><strong>506</strong></td>
</tr>
</tbody>
</table>

### 26. Taxes payable

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value-added tax</td>
<td>72</td>
<td>80</td>
</tr>
<tr>
<td>Income tax</td>
<td>46</td>
<td>9</td>
</tr>
<tr>
<td>Social security contributions</td>
<td>28</td>
<td>18</td>
</tr>
<tr>
<td>Other</td>
<td>23</td>
<td>23</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>168</strong></td>
<td><strong>130</strong></td>
</tr>
</tbody>
</table>

### 27. Taxation

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current income tax expense</td>
<td>209</td>
<td>243</td>
</tr>
<tr>
<td>Deferred income tax (benefit)/expense</td>
<td>(27)</td>
<td>71</td>
</tr>
<tr>
<td><strong>Income tax expense</strong></td>
<td><strong>134</strong></td>
<td><strong>314</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>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit before tax</td>
<td>840</td>
<td>1,478</td>
</tr>
<tr>
<td>Theoretical income tax expense at 20%</td>
<td>168</td>
<td>296</td>
</tr>
<tr>
<td>Impact of specific tax rates in Switzerland</td>
<td>(38)</td>
<td>(20)</td>
</tr>
<tr>
<td>Impact of rate change in Switzerland</td>
<td>(22)</td>
<td>—</td>
</tr>
<tr>
<td>Impact of specific tax rates in Russian Federation</td>
<td>(9)</td>
<td>(9)</td>
</tr>
<tr>
<td><strong>Tax effect of non-deductible expenses</strong></td>
<td><strong>23</strong></td>
<td><strong>41</strong></td>
</tr>
<tr>
<td><strong>Total income tax expense</strong></td>
<td><strong>134</strong></td>
<td><strong>314</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>Effect of IFRS 16</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>2019</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>247</td>
<td>156</td>
<td>9</td>
<td>80</td>
<td>35</td>
</tr>
<tr>
<td>Lease liabilities</td>
<td>—</td>
<td>156</td>
<td>—</td>
<td>62</td>
<td>10</td>
</tr>
<tr>
<td>Tax losses carried forward</td>
<td>159</td>
<td>—</td>
<td>6</td>
<td>(24)</td>
<td>16</td>
</tr>
<tr>
<td>Prepaid expenses and accruals</td>
<td>13</td>
<td>—</td>
<td>2</td>
<td>(1)</td>
<td>(14)</td>
</tr>
<tr>
<td>Environmental and other provisions</td>
<td>19</td>
<td>—</td>
<td>1</td>
<td>17</td>
<td>2</td>
</tr>
<tr>
<td>Employee benefit obligations</td>
<td>14</td>
<td>—</td>
<td>—</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Trade accounts and other receivables</td>
<td>8</td>
<td>—</td>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Inventory</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Other</td>
<td>—</td>
<td>—</td>
<td>21</td>
<td>1</td>
<td>22</td>
</tr>
<tr>
<td><strong>Deferred tax liabilities</strong></td>
<td>(1,774)</td>
<td>(156)</td>
<td>149</td>
<td>(5)</td>
<td>(85)</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>(1,154)</td>
<td>—</td>
<td>161</td>
<td>39</td>
<td>(653)</td>
</tr>
<tr>
<td>Right-of-use</td>
<td>—</td>
<td>(156)</td>
<td>(62)</td>
<td>(10)</td>
<td>(226)</td>
</tr>
<tr>
<td>Derivative financial assets</td>
<td>[3]</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>(15)</td>
</tr>
<tr>
<td>Inventory</td>
<td>(7)</td>
<td>—</td>
<td>—</td>
<td>10</td>
<td>(3)</td>
</tr>
<tr>
<td>Other</td>
<td>(3)</td>
<td>—</td>
<td>6</td>
<td>(9)</td>
<td>(9)</td>
</tr>
<tr>
<td><strong>Net deferred tax liabilities</strong></td>
<td>(1,527)</td>
<td>—</td>
<td>158</td>
<td>75</td>
<td>(1,344)</td>
</tr>
</tbody>
</table>

<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>302</td>
<td>—</td>
<td>(17)</td>
<td>(38)</td>
<td>247</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>—</td>
<td>—</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>(1,242)</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>(3)</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>(3)</td>
</tr>
<tr>
<td>Other</td>
<td>(8)</td>
<td>—</td>
<td>2</td>
<td>(7)</td>
<td>(7)</td>
</tr>
<tr>
<td><strong>Net deferred tax liabilities</strong></td>
<td>(1,130)</td>
<td>(395)</td>
<td>(71)</td>
<td>74</td>
<td>(1,527)</td>
</tr>
</tbody>
</table>

In 2018 net effect of business combination, included in recognised in equity column above, amounted to 121 million USD.

Unrecognised temporary differences, related to investments in subsidiaries where the Group is able to control the timing of the reversal and distribution of dividends, including distribution on a tax-free basis when certain conditions are met, and it is probable that the temporary difference will not be reversed in the foreseeable future, amounted to 3,329 million USD (31 December 2018 – 4,032 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 unlimited future period.
For disclosure purposes certain deferred tax assets and liabilities are offset in accordance with the accounting policy.

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred tax assets</td>
<td>138</td>
<td>136</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>(1,476)</td>
<td>(1,863)</td>
</tr>
<tr>
<td>Net deferred tax liabilities</td>
<td>(1,338)</td>
<td>(1,527)</td>
</tr>
</tbody>
</table>

28. 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></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal sales to DEC group, an associate of a company with the same principal ultimate beneficiary</td>
<td>134</td>
<td>136</td>
</tr>
<tr>
<td>Other energy sales</td>
<td>61</td>
<td>58</td>
</tr>
<tr>
<td>Other revenue from EuroChem group</td>
<td>25</td>
<td>7</td>
</tr>
<tr>
<td>Other coal sales</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Other expenses</td>
<td>34</td>
<td>64</td>
</tr>
<tr>
<td>Interest expense</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Remuneration of the Board of Directors and the Management members</td>
<td>16</td>
<td>18</td>
</tr>
</tbody>
</table>

The outstanding balances with related parties are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade accounts and other receivables from DEC group</td>
<td>14</td>
<td>14</td>
</tr>
<tr>
<td>Payables for the acquisition of SGC group to a related company</td>
<td>—</td>
<td>1,916</td>
</tr>
<tr>
<td>Other receivables</td>
<td>—</td>
<td>30</td>
</tr>
</tbody>
</table>

29. Commitments

Capital commitments.
The following key capital expenditures were approved:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contracted</td>
<td>1,025</td>
<td>559</td>
</tr>
<tr>
<td>Net yet contracted</td>
<td>284</td>
<td>117</td>
</tr>
<tr>
<td>Total</td>
<td>1,309</td>
<td>676</td>
</tr>
</tbody>
</table>

30. 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 energy 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 litigations 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.
31. 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 2019, 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).

32. 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.

32.1. 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 2,952 million USD (31 December 2018 – 3,050 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 30 million USD (2018 – 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.
The table below analyses the Group’s trade receivables into relevant groupings based on ageing.

<table>
<thead>
<tr>
<th></th>
<th>2019 Gross</th>
<th>Allowance for doubtful debts</th>
<th>2018 Gross</th>
<th>Allowance for doubtful debts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not past due</td>
<td>708</td>
<td>—</td>
<td>625</td>
<td>—</td>
</tr>
<tr>
<td>Past due for less than 12 months</td>
<td>153</td>
<td>61</td>
<td>107</td>
<td>41</td>
</tr>
<tr>
<td>Past due for more than one year</td>
<td>124</td>
<td>124</td>
<td>127</td>
<td>127</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>985</strong></td>
<td><strong>185</strong></td>
<td><strong>859</strong></td>
<td><strong>168</strong></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>2019 Opening balance</th>
<th>2018 Opening balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning balance</td>
<td>168</td>
<td>151</td>
</tr>
<tr>
<td>Additional doubtful debts</td>
<td>99</td>
<td>94</td>
</tr>
<tr>
<td>Bad debt recovered (impairment loss recognised)</td>
<td>(95)</td>
<td>(70)</td>
</tr>
<tr>
<td>Bad debt written-off</td>
<td>(2)</td>
<td>(1)</td>
</tr>
<tr>
<td>Effect of translation to presentation currency</td>
<td>20</td>
<td>(9)</td>
</tr>
<tr>
<td>Adjustment of expected credit losses under IFRS 9</td>
<td>—</td>
<td>13</td>
</tr>
<tr>
<td><strong>Closing balance</strong></td>
<td><strong>185</strong></td>
<td><strong>168</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’, ‘Fitch Ratings’ and others is listed in the table below:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>From A- to AAA</td>
<td>48</td>
<td>36</td>
</tr>
<tr>
<td>From BBB+ to BBB+</td>
<td>85</td>
<td>42</td>
</tr>
<tr>
<td>From BB- to BB+</td>
<td>30</td>
<td>60</td>
</tr>
<tr>
<td>Other</td>
<td>13</td>
<td>28</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>176</strong></td>
<td><strong>190</strong></td>
</tr>
</tbody>
</table>

32.3. 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 2020 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 2019 totalled 2,889 million USD (31 December 2018 – 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>Balance at 31 December 2019</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term borrowings</td>
<td>4,939</td>
<td>5,303</td>
<td>259</td>
<td>2,087</td>
<td>2,957</td>
</tr>
<tr>
<td>Short-term borrowings</td>
<td>1,799</td>
<td>1,799</td>
<td>1,799</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Lease liabilities</td>
<td>1,209</td>
<td>1,793</td>
<td>282</td>
<td>273</td>
<td>1,238</td>
</tr>
<tr>
<td>Trade accounts payable and accruals</td>
<td>518</td>
<td>518</td>
<td>518</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Payables for the acquisition of Raffinskaia GRES (see note 33)</td>
<td>65</td>
<td>65</td>
<td>65</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Net-settled derivative liabilities</td>
<td>12</td>
<td>12</td>
<td>12</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Other creditors</td>
<td>79</td>
<td>79</td>
<td>79</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>8,621</strong></td>
<td><strong>9,569</strong></td>
<td><strong>3,014</strong></td>
<td><strong>2,360</strong></td>
<td><strong>4,195</strong></td>
</tr>
<tr>
<td>Balance at 31 December 2018</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</td>
<td>1,916</td>
<td>1,997</td>
<td>— 1,997</td>
<td>—</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>
</tbody>
</table>

32.4. 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.
33. Investments in significant subsidiaries

<table>
<thead>
<tr>
<th>Subsidiaries by country of incorporation</th>
<th>Principal activity</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Russian Federation</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Murmansk</td>
<td>Port facilities</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Kemerovo</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>JSC ‘STUK-Kuznetsky’</td>
<td>Hard coal extraction</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>JSC ‘Kuzbassenergo’</td>
<td>Energy generation</td>
<td>99.9%</td>
<td>99.9%</td>
</tr>
<tr>
<td>JSC ‘Kemerovo Generation’</td>
<td>Energy generation</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>JSC ‘Novo-Kemerovskaya ChPP’</td>
<td>Energy generation</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>JSC ‘Ruzhetinskaya ChPP’</td>
<td>Energy generation</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td><strong>Krasnoyarsk</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>JSC ‘STUK-Krasnoyarsky’</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 Nazarovsky’</td>
<td>Brown coal extraction</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>JSC ‘Nenets Autonomous District Power’</td>
<td>Energy generation</td>
<td>99.9%</td>
<td>99.9%</td>
</tr>
<tr>
<td>JSC ‘Nizhnevartovsk GRES’</td>
<td>Energy generation</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>JSC ‘Krasnoyarsk ChPP-1’</td>
<td>Energy generation</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>JSC ‘Krasnoyarsk Heat Transportation Company’</td>
<td>Transfer of heat</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td><strong>Khakassia</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LLC ‘STUK-Khakassia’</td>
<td>Hard coal extraction</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>LLC ‘Vostochno-Baykalsky razrez’</td>
<td>Hard coal extraction</td>
<td>100%</td>
<td>100%</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 Tugnuiskiy’</td>
<td>Hard coal extraction</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td><strong>Zabaykalsky</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>JSC ‘Razrez Khrabrovskiy’</td>
<td>Brown coal extraction</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>LLC ‘Baitau’</td>
<td>Brown coal extraction</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Altai</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>JSC ‘Barnaul CHPP-3’</td>
<td>Energy generation</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>JSC ‘Barnaul Generation’</td>
<td>Energy generation</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>JSC ‘Baikevskiy’</td>
<td>Energy generation</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>JSC ‘Barnaul Heat Network Company’</td>
<td>Transfer of heat</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td><strong>Novosibirsk</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>JSC ‘SBECO’</td>
<td>Energy generation</td>
<td>100%</td>
<td>97.1%</td>
</tr>
<tr>
<td>Khakassia</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>JSC ‘Ugaleu’</td>
<td>Hard coal extraction</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>JSC ‘Dashatsugol’</td>
<td>Port facilities</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Primorye</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LLC ‘Primorye’</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>

Business combination.

In October 2019 the Group acquired generating and other assets of Refinskaya GRES for 345 million USD, including a contingent consideration described below, from a third party. The core activity of the acquired business is generation and sales of energy. Along with the acquired assets the Group obtained control over all processes of generation and sales, acquired rights and obligations under key contracts were transferred to the Group. The Group recognizes the acquisition of the assets of Refinskaya GRES as a business combination since assets represent a unified complex for generation of electricity and the Group also acquired all key processes, altogether representing the attributes of the business. Before the Group completes the process of obtaining permits and licenses required to operate Refinskaya GRES, the acquired assets are leased back to the seller. Under the terms of the lease, the Group has control over business processes and financial results, thus, at the time of the transitional period, the Group consolidates Refinskaya GRES. At 31 December 2019 the Group did not finalise purchase price allocation for this business combination, therefore, the carrying amounts of the acquired assets and assumed liabilities at the date of acquisition were estimated on a provisional basis at 353 million USD and 8 million USD, respectively.

By 31 December 2019 the Group paid 259 million USD for the acquisition. The Group also recognised a contingent consideration at fair value of 24 million USD and allocated it to the generating assets. The effect of the consolidation of the acquired assets on the consolidated statement of profit or loss for the year ended 31 December 2019 is 22 million USD.

**Acquisition of Krasnoyarskaya GRES-2.**

In December 2019 the Group signed an agreement with a third party for the acquisition of generating and other assets of Krasnoyarskaya GRES-2 for 157 million USD. The transfer of ownership and payments will take place in the first half of 2020.

**Acquisition of SGC group.**

In August 2018 the Group acquired from a parent company 99.9% of LLC ‘SGC’ for 1,916 million USD. In 2019 the consideration of 1,916 million USD and interest accrued for deferred payment of 25 million USD were fully paid.

Non-controlling interests.

Information of LLC ‘Vostochno-Bayskoye razrez’ that has significant non-controlling interests is as follows:

<table>
<thead>
<tr>
<th>2018</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-current assets</td>
<td>285</td>
</tr>
<tr>
<td>Current assets</td>
<td>55</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td>100</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>15</td>
</tr>
<tr>
<td>Net assets</td>
<td>270</td>
</tr>
<tr>
<td>Accumulated non-controlling interests</td>
<td>135</td>
</tr>
<tr>
<td>Revenue</td>
<td>139</td>
</tr>
<tr>
<td>Net (loss)/profit for the year</td>
<td>(1)</td>
</tr>
<tr>
<td>(Loss)/profit allocated to non-controlling interests</td>
<td>(1)</td>
</tr>
<tr>
<td>Revaluation of mining assets</td>
<td>(2)</td>
</tr>
<tr>
<td>Cash flows from operating activities</td>
<td>26</td>
</tr>
<tr>
<td>Cash flows used in investment activities</td>
<td>(11)</td>
</tr>
<tr>
<td>Cash flows used in financing activities</td>
<td>(13)</td>
</tr>
<tr>
<td>Dividends to non-controlling interests</td>
<td>6</td>
</tr>
</tbody>
</table>

34. Events subsequent to the balance sheet date

In January 2020 the Group issued 10-years rouble-denominated bonds with the nominal value of 477 million USD and a coupon rate of 6.9% p.a.

In January 2020 the Group paid 81 million USD net of VAT to a third party for the acquisition of generating and other assets of Krasnoyarskaya GRES-2.
GRI Standards Indicator and General standard disclosures

SUEK's response in 2019

ORGANISATIONAL PROFILE

102-1 Name of the organisation
JSC SUEK (JSC Siberian Coal Energy Company)

102-2 Activities, brands, products, and services
Year highlights, pages 2–3
SUEx at a glance, pages 4–5
Where we operate, pages 6–7
Business model, pages 12–13
Information on the company, page 173

102-3 Location of headquarters
Contacts, page 173

102-4 Location of operations
None of SUEK's production sites are situated in protected or natural reserve areas including the protected territories.
Where we operate, pages 6–7

102-5 Ownership and legal form
Information on the company, page 173

102-6 Markets served
Where we operate, pages 6–7
Business review, pages 60–75

102-7 Scale of the organisation
SUEx at a glance, pages 4–5
Where we operate, pages 6–7
Business review, pages 60–75
Group financial review, pages 56–59
Financial statements, page 156

102-8 Information on employees and other workers
Business model, pages 12–13
Our people and corporate culture, pages 95–99

102-9 Supply chain
Business model, pages 12–13
Business review, page 75
See also our Sustainability Development Report for 2018–2019 on the website: http://www.suek.com/company/reporting/year/19

102-10 Significant changes to the organisation and its supply chain
Where we operate, pages 6–7
CEO's statement, pages 10–11
Strategy, page 29
Financial statements, pages 156–157

102-11 Precautionary principle or approach
SUEx 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.
Risk management, pages 34–43
Health & safety, pages 80–85
Environment, pages 86–94
Additional information on our Policies is available on our corporate website: www.suek.com/about-us/corporate-governance/by-laws/

102-12 External initiatives
SUEx at a glance, pages 4–5
Our approach to sustainability, pages 76–79
Health & safety, page 81
Environment, page 87
Our people and corporate culture, page 96
Communities, page 101
See also our Sustainability Development Report for 2018–2019 on the website: http://www.suek.com/investors/reporting/year/19

102-13 Membership of associations
SUEx's key memberships include:
• Russian Union of Industrialists and Entrepreneurs
• RAND corporation
• Clean Coal Association
• All-Russian Industrial Association of Employers of the Coal Industry
• The Russian Managers Association
• German–Russia Chamber of Commerce
• World Coal Association
• Buttercups
• Vision Zero
• World energy council
• Anti-corruption Charter of Russian Business
• AD HOC COUNCIL (the European Government Business Relations Council)

102-14 Statement from senior decision-maker
SUEx's main beneficiaries' statement, title page
Chairman's statement, pages 8–9
CEO's statement, pages 10–11

102-15 Key impacts, risks and opportunities
What impacts SUEx's ability to create value, its sustainability and its stakeholders, is presented in the following sections:
Chairman's and CEO's statements, pages 8–11
Market fundamentals and SUEx, pages 16–21
Strategy, pages 22–33
Risk management, pages 34–43
Materiality, pages 44–47

ETHICS AND INTEGRITY

102-16 Values, principles, standards, and norms of behavior
Strategy, pages 22–33
Our approach to sustainability, pages 76–79
Our people and corporate culture, pages 95–99
Corporate governance, pages 104–121
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
Our people and corporate culture, page 99
Compliance management system, page 116

GOVERNANCE

102-18 Governance structure
Corporate governance, page 106

102-19 Delegating authority
Corporate governance, pages 104–121
For more information, see section 15 and 16 of the Charter of JSC SUEx on our corporate website: www.suek.com/about-us/corporate-governance/by-laws/

102-20 Executive-level responsibility for economic, environmental and social topics
Corporate governance, pages 104–121

102-21 Consulting stakeholders on economic, environmental, and social topics
Materiality, pages 44–45
Stakeholder engagement, pages 48–49
Environment, page 86
Communities, page 102

102-22 Composition of the highest corporate body and its Committees
Board of Directors' report, pages 108–111

102-23 Chair of the highest governance body
The Chairman of the Board of Directors, the highest governance body, is not an executive officer.
Board of Directors' report, pages 108–111

102-24 Nomination and selection processes for the highest governance body
Board of Directors' report, pages 108–111

102-25 Conflicts of interests
Corporate governance, pages 104–121
The related-party transactions are reported in Financial statements, page 150

102-26 The role of the highest governance body and senior executives in setting purpose, values and strategy
The Board has final approval of SUEx's strategy and goals for environmental and social development.
Corporate governance, pages 104–121

102-27 Highest governance body's collective knowledge
Corporate governance, pages 104–121

102-28 Evaluation of the activities of the highest body of governance
Corporate governance, pages 104–121

102-29 Identification and management of economic, environmental and social impacts
Corporate governance, pages 104–121

102-30 Risk management
Risk management, pages 34–43

102-31 Review of economic, environmental and social topics
Corporate governance, pages 104–121
Risk management, pages 34–43
Materiality, pages 44–47
Environment, page 86

102-32 Highest governance body's role in sustainability report
The Report is approved by the Audit Committee of the Board of Directors.
About this Report, page 173
SUEK Integrated Report

Additional Information

102-33 Communicating critical concerns
Risk management, pages 34-43
Maturity, pages 44-47
Stakeholder engagement, page 49
Corporate governance, pages 104-121

102-34 The nature and the total number of critical concerns
Risk management, pages 34-43
Maturity, pages 44-47
Stakeholder engagement, page 49
Our people and corporate culture, page 99
Corporate governance, pages 104-121

102-35 Remuneration policies
Board of Directors’ report, pages 108-111
Management Board report, pages 120-121

102-36 Process for determining remuneration
Board of Directors’ report, pages 108-111
Management Board report, pages 120-121

102-37 Stakeholders’ involvement in remuneration
Stakeholder engagement, page 49

STAKEHOLDER ENGAGEMENT

102-40 List of stakeholder group(s)
Stakeholder engagement, pages 48-49

102-41 Collective bargaining agreements
Our people and corporate culture, page 98

102-42 Identifying and selecting stakeholders
Stakeholder engagement, pages 48-49

102-43 Approach to stakeholder engagement
Stakeholder engagement, pages 48-49

102-44 Key topics and concerns raised
Chairman's statement, pages 8-9
CEO’s statement, pages 10-11
Maturity, pages 44-47
Stakeholder engagement, pages 48-49
Chairman’s introduction, pages 104-105
Board of Directors’ report, pages 110-111

REPORTING PRACTICE (REPORT PROFILE)

102-45 Entities included in the consolidated financial statements
Consolidated financial statements, page 156

102-46 Defining report content and topic boundaries
Maturity, pages 44-47
About this Report, page 173

102-47 List of material topics
Maturity, pages 44-47

102-48 Restatements of information
There were no restatements of information in this Report.

102-49 Changes in reporting
Maturity, pages 44-47

102-50 Reporting period
Financial year from 1 January 2019 to 31 December 2019

102-51 Date of most recent report
March 2019

102-52 Reporting cycle
Annual

102-53 Contact point for questions regarding the report
Olga Illina, 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.

102-55 GRI content index
158

102-56 External assurance
The Report was prepared under the supervision of SUEK's Chief Financial Office, with the Audit Committees 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 and the text of the report was reviewed by JSC "KPMG".

SPECIFIC DISCLOSURE

ECONOMIC

201 ECONOMIC PERFORMANCE

103-1 Explanation of the material topic and its boundary
Maturity, pages 44-47

103-2 The management approach and its components
Chairman's statement, pages 8-9
Strategy, pages 22-33
Group financial review, pages 56-59
Business model, pages 12-13

201-1 Direct economic value generated and distributed
Year highlights, pages 2-3
Business model, pages 12-13
Group financial review, pages 56-59
Financial Statements, pages 122-157

201-2 Financial implications and other risks and opportunities due to climate change
Risk management, pages 34-43
Environment, pages 87-89
SUEK's position on climate change is available on our corporate website: www.suek.com/en/sustainability/environment/

201-3 Defined benefit plan obligations and other retiree
Our people and corporate culture, pages 95-99
Financial Statements, pages 122-157

201-4 Financial assistance received from government
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.

202 INDIRECT ECONOMIC IMPACTS

103-1 Explanation of the material topic and its boundary
Maturity, pages 44-47

103-2 The management approach and its components
Communities, pages 100-103

103-3 Evaluation of the management approach
Communities, pages 100-103

103-4 Infrastructure investments and services supported
Business model, pages 12-13
Communities, pages 100-103

103-5 Significant indirect economic impacts
Business model, pages 12-13
Communities, pages 100-103

204 PROCUREMENT PRACTICES

103-1 Explanation of the material topic and its boundary
Maturity, pages 44-47

103-2 The management approach and its components
Business review, page 75

103-3 Evaluation of the management approach
Business review, page 75

204-1 Proportion of spending on local suppliers
In 2019, the Company attracted more than 10 thousand suppliers: 6,816 in the coal segment, 3,235 in the energy segment. 99% of organisations are located in the Russian Federation. See also our Sustainable Development Report for 2018-2019 on the website: http://www.suek.com/investors/reporting/4year_19

206 ANTI-CORRUPTION

103-1 Explanation of the material topic and its boundary
Maturity, pages 44-47

103-2 The management approach and its components
Compliance management system, page 116

103-3 Evaluation of the management approach
Compliance management system, page 116

206-1 Operations assessed for risks related to corruption
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.

206-2 Communication and training about anti-corruption policies and procedures
Compliance management system, page 116

206-3 Confirmed incidents of corruption and actions taken
During the reporting period, no cases of corruption were detected.

206-4 Anti-competitive behavior, anti-trust, and monopoly practices
In 2019 the antimonopoly authorities did not apply any legal actions against SUEK regarding violation of the antimonopoly legislation.
SUEK's response in 2019

TAX

207-1 Approach to tax
SUEK has internal compliance tax policy.

207-2 Tax governance, control, and risk management
Risk management, pages 34–43

ENVIRONMENTAL

301 MATERIALS

301-1 Materials used by weight or volume
Environmental, pages 92–94

301-2 Recycled input materials used
Environmental, pages 92–94

301-3 Reclaimed products and their packaging materials
Environmental, pages 92–94

302 ENERGY

302-1 Energy consumption within the organisation
Environmental, pages 26, 92

302-2 Energy consumption outside of the organisation
Environmental, pages 26, 92

302-4 Reduction of energy consumption
Environmental, pages 26, 92

302-5 Reductions in energy requirements of products and services
Not applicable to company’s products.

303 WATER AND EFFLUENTS

303-1 Interactions with water as a shared resource
Environmental, pages 93

303-2 Management of water discharge-related impacts
Environmental, page 93

303-3 Water withdrawal
The company does not use water from vulnerable or state protected sources, or from those of particular importance to local communities or for biodiversity. As the water withdrawn is used to cool the turbines and does not contact the contaminated circuit, the activities of SUEK do not affect the water balance in water bodies. We also use modern treatment facilities to ensure we do not influence water quality.

Energy

Wastewater discharged, million m³

<table>
<thead>
<tr>
<th>Year</th>
<th>Coal</th>
<th>Energy</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>106.2</td>
<td>–</td>
</tr>
<tr>
<td>2016</td>
<td>123.0</td>
<td>–</td>
</tr>
<tr>
<td>2017</td>
<td>121.3</td>
<td>–</td>
</tr>
<tr>
<td>2018</td>
<td>145.6</td>
<td>–</td>
</tr>
<tr>
<td>2019</td>
<td>135.8</td>
<td>–</td>
</tr>
</tbody>
</table>

Including contaminated without cleaning

<table>
<thead>
<tr>
<th>Year</th>
<th>Coal</th>
<th>Energy</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>42.5</td>
<td>–</td>
</tr>
<tr>
<td>2016</td>
<td>43.5</td>
<td>–</td>
</tr>
<tr>
<td>2017</td>
<td>34.2</td>
<td>–</td>
</tr>
<tr>
<td>2018</td>
<td>29.2</td>
<td>–</td>
</tr>
<tr>
<td>2019</td>
<td>25.9</td>
<td>–</td>
</tr>
</tbody>
</table>

Insufficiently cleaned

<table>
<thead>
<tr>
<th>Year</th>
<th>Coal</th>
<th>Energy</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>50.2</td>
<td>63.2</td>
</tr>
<tr>
<td>2016</td>
<td>70.8</td>
<td>70.4</td>
</tr>
<tr>
<td>2017</td>
<td>50.2</td>
<td>70.4</td>
</tr>
<tr>
<td>2018</td>
<td>50.2</td>
<td>70.4</td>
</tr>
<tr>
<td>2019</td>
<td>50.2</td>
<td>70.4</td>
</tr>
</tbody>
</table>

Cleaned

<table>
<thead>
<tr>
<th>Year</th>
<th>Coal</th>
<th>Energy</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>0.7</td>
<td>2.8</td>
</tr>
<tr>
<td>2016</td>
<td>2.8</td>
<td>3.3</td>
</tr>
<tr>
<td>2017</td>
<td>3.3</td>
<td>26.1</td>
</tr>
<tr>
<td>2018</td>
<td>26.1</td>
<td>40.9</td>
</tr>
<tr>
<td>2019</td>
<td>26.1</td>
<td>40.9</td>
</tr>
</tbody>
</table>

Transferred to consumers (after use)

<table>
<thead>
<tr>
<th>Year</th>
<th>Coal</th>
<th>Energy</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>1.2</td>
<td>0</td>
</tr>
<tr>
<td>2016</td>
<td>1.2</td>
<td>0</td>
</tr>
<tr>
<td>2017</td>
<td>1.2</td>
<td>0</td>
</tr>
<tr>
<td>2018</td>
<td>1.2</td>
<td>0</td>
</tr>
<tr>
<td>2019</td>
<td>1.2</td>
<td>0</td>
</tr>
</tbody>
</table>

Additional Information
Recultivated during the year, ha 215.0 397 385 212 552
Disturbed during the year, ha 805.0 907 938 2,813 1,742

Lands disturbed, ha

Energy

Gross emissions, thousand tonnes of СО2-equivalent 3,669 3,793 4,868 5,563 5,149

Coal

2015 2016 2017 2018 2019

Use of waste, thousand tonnes 341,747.2 391,712.6 387,477.6 431,310.0 437,407.8

Available waste at the year-end, thousand tonnes 999,365.75 1,169,865.4 1,107,011.7 1 258 264,0 1 130 840,4

Neutralisation, thousand tonnes 0.8 1.0 0.7 10.2 0.7

Including I class hazard 0.005 0.005 0.006 0.005 0.005
II class hazard 0.023 0.013 0.011 0.041 0.005
III class hazard 1.4 0.9 0.9 1.4 2.0
IV class hazard 2.0 1.4 2.7 2.5 4.9
V class hazard 337,894.1 391,710.4 387,474.1 431,310.0 437,407.8

SUEK Integrated Report

Additional information

Recultivated during the year, ha

Disturbed during the year, ha

Environmental impacts

Use of water, thousand tonnes 341,747.2 391,712.6 387,477.6 431,310.0 437,407.8

Neutralisation, thousand tonnes

V class hazard 0.010 0.0064 0.003 0.005 0.009

II class hazard 0.011 0.0192 0.003 0.0 0

CO2 17.9 15.5 15.7

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.

Emissions, thousand tonnes:

There are no mandatory legislative requirements for the regular preparation of these indicators and transfer to the authorized state bodies of information on it.

SUEK Integrated Report

Additional information

Use of water, thousand tonnes

Neutralisation, thousand tonnes

Emissions, thousand tonnes:

Emissions, thousand tonnes:

Volatile organic compounds

Volatile organic compounds

Coal

Collection of waste from other organisations, thousand tonnes 5,454.8 4,836.5 4,856.1 4,170.5 4,163.1

Available waste at the year-end, thousand tonnes

There are no mandatory legislative requirements for the regular preparation of these indicators and transfer to the authorized state bodies of information on it.

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.
Energy

<table>
<thead>
<tr>
<th>Waste generation, thousand tonnes</th>
<th>–</th>
<th>3,580.41</th>
<th>3,259.28</th>
<th>3,063.60</th>
</tr>
</thead>
<tbody>
<tr>
<td>Including I class hazard</td>
<td>–</td>
<td>0.02</td>
<td>0.02</td>
<td>0.07</td>
</tr>
<tr>
<td>II class hazard</td>
<td>–</td>
<td>0</td>
<td>0.01</td>
<td>0</td>
</tr>
<tr>
<td>III class hazard</td>
<td>–</td>
<td>0.54</td>
<td>0.59</td>
<td>0.65</td>
</tr>
<tr>
<td>IV class hazard</td>
<td>–</td>
<td>21.80</td>
<td>21.06</td>
<td>14.28</td>
</tr>
<tr>
<td>V class hazard</td>
<td>–</td>
<td>3,568.05</td>
<td>3,237.60</td>
<td>3,048.71</td>
</tr>
<tr>
<td>Collection of waste from other organisations, thousand tonnes</td>
<td>–</td>
<td>0.03</td>
<td>0.07</td>
<td>0</td>
</tr>
<tr>
<td>Use of waste, thousand tonnes</td>
<td>–</td>
<td>342.86</td>
<td>607.61</td>
<td>1,026.66</td>
</tr>
<tr>
<td>Including I class hazard</td>
<td>–</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>II class hazard</td>
<td>–</td>
<td>0.01</td>
<td>0.01</td>
<td>0</td>
</tr>
<tr>
<td>III class hazard</td>
<td>–</td>
<td>0.32</td>
<td>0.30</td>
<td>0.20</td>
</tr>
<tr>
<td>IV class hazard</td>
<td>–</td>
<td>1.37</td>
<td>39.72</td>
<td>0.30</td>
</tr>
<tr>
<td>V class hazard</td>
<td>–</td>
<td>340.96</td>
<td>563.13</td>
<td>1,026.44</td>
</tr>
<tr>
<td>Neutralisation, thousand tonnes</td>
<td>–</td>
<td>512.38</td>
<td>30.00</td>
<td>228.66</td>
</tr>
<tr>
<td>Including I class hazard</td>
<td>–</td>
<td>0.01</td>
<td>0.02</td>
<td>0.05</td>
</tr>
<tr>
<td>II class hazard</td>
<td>–</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>III class hazard</td>
<td>–</td>
<td>0.25</td>
<td>0.13</td>
<td>0.24</td>
</tr>
<tr>
<td>IV class hazard</td>
<td>–</td>
<td>19.68</td>
<td>20.28</td>
<td>9.59</td>
</tr>
<tr>
<td>V class hazard</td>
<td>–</td>
<td>493.03</td>
<td>69.88</td>
<td>216.91</td>
</tr>
<tr>
<td>Available waste at the year-end, thousand tonnes</td>
<td>–</td>
<td>127,502.46</td>
<td>126,461.42</td>
<td>133,555.66</td>
</tr>
<tr>
<td>Including I class hazard</td>
<td>–</td>
<td>0</td>
<td>0</td>
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</tr>
<tr>
<td>II class hazard</td>
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<td>0</td>
</tr>
<tr>
<td>III class hazard</td>
<td>–</td>
<td>0.03</td>
<td>0.14</td>
<td>0.09</td>
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<tr>
<td>IV class hazard</td>
<td>–</td>
<td>4,318.18</td>
<td>23.19</td>
<td>25.46</td>
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<tr>
<td>V class hazard</td>
<td>–</td>
<td>123,184.25</td>
<td>126,526.74</td>
<td>133,529.93</td>
</tr>
</tbody>
</table>

306-6 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.

307 ENVIRONMENTAL COMPLIANCE

103-1 Explanation of the material topic and its Boundary Materiality, pages 44–47
103-2 The management approach and its components Environment, page 88
103-3 Evaluation of the management approach Environment, pages 87–88

308 SUPPLIER ENVIRONMENTAL ASSESSMENT

103-1 Explanation of the material topic and its Boundary Materiality, pages 44–47
103-2 The management approach and its components Environment, page 88
103-3 Evaluation of the management approach Environment, pages 87–88
308-1 New suppliers that were screened using environmental criteria Environment, page 88
308-2 Negative environmental impacts in the supply chain and actions taken No negative environmental impact was identified in the SUEK supply chain.

SOCIAL

401 EMPLOYMENT

103-1 Explanation of the material topic and its Boundary Materiality, pages 44–47
103-2 The management approach and its components Strategy, page 53
103-3 Evaluation of the management approach Strategy, page 53
401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees See also our Sustainable Development Report for 2018-2019 on the website. http://www.suek.com/investors/reporting/#year_19

402 LABOUR / MANAGEMENT RELATIONS

103-1 Explanation of the material topic and its Boundary Materiality, pages 44–47
103-2 The management approach and its components Our people and corporate culture, pages 98
103-3 Evaluation of the management approach Stakeholder engagement, page 49

403 OCCUPATIONAL HEALTH AND SAFETY

103-1 Explanation of the material topic and its Boundary Materiality, pages 44–47
103-2 The management approach and its components Health & safety, pages 80–85
103-3 Evaluation of the management approach Our people and corporate culture, pages 98

403-1 Labour / management relations

403-2 Health & safety, pages 80–85
403-3 People and corporate culture, pages 98

403-1 Occupational health and safety management system

403-2 Hazard identification, risk assessment, and incident investigation Health & safety, pages 80–85
403-3 Occupational health services Health & safety, pages 81–84

403-4 Worker participation, consultation, and communication on occupational health and safety

403-5 Worker training on occupational health and safety

403-6 Health & safety, pages 80–85


403-8 Workers covered by an occupational health and safety management system

403-9 Health & safety, pages 80–85

Causes of fatal accidents and measures taken are described in the table:
Work performed | Causes | Our measures
--- | --- | ---
**Coal**
Cutter loader operator while cutting into coal loader operation in the mine • Unauthorised presence in the hazardous area near the moving parts of a mine scraper conveyor • Assessing the condition of the mine transport facilities at all mining working faces to verify the necessary protection systems and interlocks are in place and working effectively
Coal sizing operator while servicing a feeding bin belt conveyor at the surface coal sizing unit • Violating the Labour Safety Instructions: unauthorised presence in the hazardous area near to moving and rotating parts of a sizing unit • Checking compliance with industrial safety requirements and ensuring the protection systems and interlocks at surface facilities at the coal washing plants and coal-sizing facilities are working properly • Installing safety guards to prevent access to moving parts of the belt conveyor, interlocked with the equipment to prevent start-up
Underground worker while belting conveyor maintenance and repair • Malfunctioning protection, interlock and alarm systems, the absence of fences • Unauthorised presence in the hazardous area of a non-interlocked belt conveyor • A targeted inspection to check the condition of belt conveyors, as well as the availability, condition and performance of alarm systems, electrical and mechanical protection tools and interlocks at all of SUEK’s units. For the period of the targeted inspection, the operation of all belt conveyors was suspended.
Assistant section supervisor while monitoring the operation of loaders and dump trucks in the open-pit mine • Unauthorised presence in the hazardous area of a BelAZ dump truck • No audible signal on the dump truck when it started moving • Targeted inspection to ensure the availability, condition and performance of the standard sound alarm systems and additional sound alarm systems when disabling the parking brake and moving mining vehicles • Installing equipment to pilot test SUEK’s own technical solutions to ensure timely audible alerts are given to both drivers and employees present in the hazardous area, as well as using smart bands to monitor the location of employees.
**Energy**
Fuel supply operator while servicing a fuel supply belt conveyor • Violating safety requirements: being present in the hazardous area of an operating conveyor • Equipping conveyor belts with interlock and alarm systems • Installing video surveillance cameras in hazardous areas of the fuel supply line
Process pipeline fitter when installing work at height • Not wearing fall arrest personal protective equipment • Verifying the condition of all safety decks, platforms and safety systems to ensure safe work at height
Electrical fitter repairing power plant equipment while working in high-voltage electrical installations • Poor control of work safety during electrical installations Working on electrical installations without switching off the electricity supply • Checking compliance with labour safety requirements relating to electrical installations at power facilities
Equipment repairman when installing and doing repair work at a height • Violating labour safety requirements when voluntarily leaving a safe working area where there were no risks of falling from height • Verifying the practical skills of employees related to the use of safety platforms and fall arrest systems when working at a height
**Overall measures**
1. Alerting SUEK’s production personnel to the causes of the accidents and developing plans to address them in working groups; posting information sheets on HSE stands
2. Briefings for SUEK’s dedicated safety staff on specific methods of preventing different kinds of accidents
3. Labour safety training and testing employees’ understanding of how to operate safely, in specific the scenarios where the accidents have occurred
4. Updating the test questions in training terminals to reflect findings following the accidents
5. Making videos that reflect issues raised during investigations into the causes of the accidents, demonstrating safety measures should be applied in similar situations.
6. Exceptional industrial safety certification for engineers and technical workers and heads of units where the accidents have taken place
7. Updating internal documents that regulate safe working methods and techniques to ensure these include actions to eliminate the causes of the accidents
8. Considering the circumstances and causes of any accident, ensuring comprehensive measures have been taken to prevent similar occurrences and individuals are held personally accountable by SUEK’s Industrial Safety Committee overseen by the Management Board.

404 TRAINING AND EDUCATION
103-1 Explanation of the material topic and its Boundary Maturity, pages 44–47
103-2 The management approach and its components Our people and corporate culture, pages 95, 98–99
103-3 Evaluation of the management approach Our people and corporate culture, pages 98–99
404-1 Average hours of training per year per employee Our people and corporate culture, pages 98–99
103-4 Programs of upgrading employee skills and transition assistance programs Our people and corporate culture, pages 98–99

405 DIVERSITY AND EQUAL OPPORTUNITY
103-1 Explanation of the material topic and its Boundary Our people and corporate culture, pages 98–97
103-2 The management approach and its components Our people and corporate culture, pages 98–97
103-3 Evaluation of the management approach Our people and corporate culture, pages 98–97
405-1 Diversity of governance bodies and employees Our people and corporate culture, pages 97–98
405-2 Diversity of governance bodies and employees Corporate governance, pages 104–127

406 NON-DISCRIMINATION
103-1 Explanation of the material topic and its Boundary Our people and corporate culture, page 96
103-2 The management approach and its components Our people and corporate culture, page 96
103-3 Evaluation of the management approach Our people and corporate culture, pages 95–99
406-1 Incidents of discrimination and corrective actions taken Incidents of discrimination have not been identified during the reporting year.

407 FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING
103-1 Explanation of the material topic and its Boundary Maturity, page 45
103-2 The management approach and its components Our people and corporate culture, pages 96, 98
103-3 Evaluation of the management approach Our people and corporate culture, page 98
407-1 Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk During the reporting period it was not revealed.

408 CHILD LABOUR
103-1 Explanation of the material topic and its Boundary Our people and corporate culture, page 96
103-2 The management approach and its components Our people and corporate culture, page 96
103-3 Evaluation of the management approach Our approach to sustainability, page 78
408-1 Incidents of violation involving rights of indigenous peoples SUEK does not operate in the areas of residence of small and indigenous peoples. In the framework of the current legislation of the Russian Federation, the boundaries of license areas cannot include territories inhabited by them.
411 RIGHTS OF INDIGENOUS PEOPLES
103-2 The management approach and its components SUEK does not operate in the areas of residence of small and indigenous peoples. In the framework of the current legislation of the Russian Federation, the boundaries of license areas cannot include territories inhabited by them.
411-1 Incidents of violations involving rights of indigenous peoples Incidents of violations involving rights of indigenous peoples have not been identified.
413 LOCAL COMMUNITIES
103-1 Explanation of the material topic and its Boundary Maturity, pages 44–47
103-2 The management approach and its components Strategy, page 33
103-3 Evaluation of the management approach SUEK’s social programmes are assessed in numerous Russian ESG ratings and competitions. For details, see our Sustainable Development Report for 2018–2019 on the website: http://www.suek.com/investors/reporting/#year_19
413-1 Operations with local community engagement, impact assessment, and development programmes Stakeholder engagement, pages 38–40
413-2 Operations with significant actual and potential negative impacts on local communities Environment, pages 92–99
Coal Reserves Report

SUEK’s coal reserves were audited by SRK Consulting (UK) Limited as of January 1, 2019.

Although the statement on resources and reserves is dated January 1, 2019, SRK took into account the information provided by the company during the asset visits and discussions during 2019, as well as the permissions received or filed during 2019. Taking into account the release date of the Annual Report and the date of the audit, the data are presented taking into account the production of assets for 2019.

The reporting of SUEK’s Coal Resources and Reserves, SRK has used the guidelines of the 2012 Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves as published by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia (the JORC Code).

All coal reserves are indicated by rock mass (RoM) and are within the areas of existing licenses or territories where SUEK plans to obtain licenses and has provided funding for this.

### Coal Reserves Report

<table>
<thead>
<tr>
<th>Region/Site</th>
<th>Reserve, Mt</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kamenovsky Region (Kuzbass) – hard coal</td>
<td>2,135</td>
</tr>
<tr>
<td>Kamyshevskiy open-pit</td>
<td>127</td>
</tr>
<tr>
<td>Kirov underground mine</td>
<td>592</td>
</tr>
<tr>
<td>Komornokolets underground mine</td>
<td>125</td>
</tr>
<tr>
<td>Poyasovskaya underground mine</td>
<td>26</td>
</tr>
<tr>
<td>Ruban underground mine (Krasnoyarsky krai, Magistralsky 2011)</td>
<td>144</td>
</tr>
<tr>
<td>November 7th Novaya underground mine</td>
<td>249</td>
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<tr>
<td>Talnikskaya-Zapadnaya 1 underground mine</td>
<td>145</td>
</tr>
<tr>
<td>Talnikskaya-Zapadnaya 2 underground mine</td>
<td>167</td>
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<tr>
<td>Yalensky underground mine</td>
<td>437</td>
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<tr>
<td>Zarechny open-pit</td>
<td>123</td>
</tr>
<tr>
<td>Kaznysarsky region – brown coal</td>
<td>3,967</td>
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<tr>
<td>Bureysky open-pit</td>
<td>3,363</td>
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<td>Borensky open-pit</td>
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<tr>
<td>Nazarovskiy open-pit</td>
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<tr>
<td>Zabalkayskoye</td>
<td>539</td>
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<tr>
<td>Apatitysky open-pit – coking coal</td>
<td>76</td>
</tr>
<tr>
<td>Kharanorsky brown coal</td>
<td>315</td>
</tr>
<tr>
<td>Westphalian brown coal</td>
<td>154</td>
</tr>
<tr>
<td>Buryatia – hard coal</td>
<td>317</td>
</tr>
<tr>
<td>Archangelsky open-pit</td>
<td>296</td>
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<tr>
<td>Tugnaksky open-pit</td>
<td>56</td>
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<tr>
<td>Khakassia – hard coal</td>
<td>342</td>
</tr>
<tr>
<td>Abakansky open-pit</td>
<td>26</td>
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<tr>
<td>Chelyaginskoye open-pit</td>
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<tr>
<td>Uzynsky open-pit</td>
<td>38</td>
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<tr>
<td>Westphalian-Balyski open-pit</td>
<td>123</td>
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<tr>
<td>Primorsky</td>
<td>106</td>
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<tr>
<td>Naskovsky open-pit – hard coal</td>
<td>8</td>
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<tr>
<td>Panysky open-pit – brown coal</td>
<td>106</td>
</tr>
<tr>
<td>Khurevskiy region – hard coal</td>
<td>222</td>
</tr>
<tr>
<td>Burensky open-pit</td>
<td>29</td>
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<tr>
<td>Priuralsky open-pit</td>
<td>114</td>
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<tr>
<td>Severo-Uralsky underground mine</td>
<td>18</td>
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<tr>
<td>Total</td>
<td>7,621</td>
</tr>
<tr>
<td>Hard coal</td>
<td>3,006</td>
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<tr>
<td>Brown coal</td>
<td>4,545</td>
</tr>
<tr>
<td>Coking coal</td>
<td>70</td>
</tr>
</tbody>
</table>

### Glossary

**Terms and definitions**

**Ash dump** A place for collecting ash and slag generated during the combustion of solid fuel-fossil fuels at thermal power plants.

**‘Alternative boiler’ tariff** A method introduced in Russia in 2017. It is used for calculating heating prices, when only the maximum long-term level is set. It is calculated based on the cost of constructing and operating a new alternative boiler house. The final heating price is determined by agreement of the parties.

**API 2 Index** The CIF (cost, insurance and freight) price of coal at the ports of ARPA (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.

**Bettercoal** Global non-profit organization promoting continuous improvement in corporate social responsibility related to coal supply systems, including for social, environmental and ethical practices.

**Calorific value** The amount of potential energy in coal that can be converted into actual heat.

**Coking coal** Coal suitable for carbonisation in coke ovens. This must have good coking properties to produce strong coke for steel making, with low sulphur and phosphorus content.

**Day-ahead Market** (abbr. as DAM) Competitive selection of price and price-taking applications of suppliers and buyers a day before the actual supply of electricity with the determination of prices and supply volumes for each hour of the day.

**DPM (or DPM-1)** The programme of capacity supply contracts initiated by Russian energy market regulators from 2010 until the end of 2018 and was designed to stimulate investment into the construction of new power generating capacity. Under the programme, investors committed to building a certain generation capacity within the specified period. In return, they received a guarantee on the return of invested funds supported by an increase in sold capacity prices during the subsequent 10 years. Any investor that did not meet their commitments under this programme would be subject to strict penalties.

**DPM-2** The programme, launched by the Russian government in February 2019 as a continuation of DPM-1 programme, guarantees a return on investment in heat and power capacity development for participating projects up until 2030.

**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.

**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. It indicates the amount of heat that is released when the coal is burned.

**Installed capacity** The amount of energy that a power station is able to produce.

**LoM** Life-of-mine model is specifically designed for each coal production unit based on 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).

**Sized coal** Coal which has passed through a screening process and is grouped into ranges according to size of particles. It is used mainly by households for heating purposes.

**System Operator of Unified Energy System** An organisation that carries out centralised operational dispatch control in the Unified Energy System of Russia.

**SRK** SRK Consulting is an independent, international consulting practice that provides advice and solutions mainly to the metals and mining sector.
About this report

This Integrated Report presents the results of SUEK Group’s operations in 2019. We use the term ‘Coal Segment’ to describe our coal production and sale operations, while the term ‘Energy Segment’ is used to describe our activities related to the generation of electricity and heat. The term ‘Logistics Segment’ covers SUEK’s rail transportation and coal transshipment operations at ports.

One of the key objectives of this Report is to demonstrate how SUEK responds to macroeconomic and market challenges, enhances its competitiveness and improves efficiency across all stages, adapts its strategy and management methods to stakeholder requirements, including an increasing focus to environmental, industrial safety and societal issues, and also develops its coal, energy and logistics businesses.

The Report presents SUEK’s updated goals and risks for the medium term in line with its Strategy to 2023 (see pages 22–33).

For the fourth consecutive year, we have aligned our 2019 Report with the principles of integrated reporting, as set out in the International Integrated Reporting Council’s (IIRC) Framework. We also take into account Russian legislative requirements.

Information on the company

The key assets of JSC SUEK are coal-mining and generating assets, processing facilities, port, transport and service facilities in 12 regions of Russia, as well as the international trader SUEK AG and its trading network. SUEK AG and its subsidiaries. From October 2019, our operational and financial performance includes the results of acquired Reftinskaya GRES.

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.

In our disclosure of non-financial information, we adhere to GRI Standards.

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, Siberian Generating Company (SGC) and their subsidiaries. From October 2019, our operational and financial performance includes the results of acquired Reftinskaya GRES.