

Driving operational excellence

for sustainable growth



Vladimir Rashevsky,
Chief Executive Officer



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 Reftinskaya 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 Krasnoyarskaya 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 demand and supply of SUEK's products between our divisions.

The consolidation of energy assets has also made it easier to raise finances to upgrade energy facilities and, accordingly, improve the environmental impact. Investment in the new stage of the DPM programme and the transition to long-term tariff setting in the heat market

will also open up opportunities for the Group to grow in a more predictable regulatory environment.

The Krasnoyarskaya CHPP 1, 2 and 3 modernisation projects have been selected for inclusion in the competitive capacity take-off programme under DPM-2, allowing us to launch a comprehensive modernisation of the Krasnoyarsk power and heat systems. The substitution of inefficient units with modern ones, the installation of new treatment facilities and the transfer from environmentally damaging boilers to the heat supplied by co-generation power plants will make a significant contribution to improving the environmental situation in the city. Power-related emissions in Krasnoyarsk will drop by 37% compared to 2018.

In 2020, the city of Barnaul will switch to the 'alternative boiler' tariff. This allows us to invest substantial funds in a comprehensive upgrade of the city's heat supply system. For consumers, the tariff will remain broadly the same, but the service quality will be improved significantly. Our activity will also create new jobs and opportunities in the region, as we will work with local

contractors, equipment suppliers and builders. I should emphasise that our modernisation projects are subject to environmental review by experts and the local communities.

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 Pravoberezhny 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 Zabaikalye region, which celebrates its 50th anniversary in 2020.

As well as large-scale investment for improving the efficiency of open-pit mining, we invested significantly in equipment for our underground mines which also contributes to industrial and environmental safety. This included the upgrade of roadway development machines and the development of a promising site in the Ruban mine, which will enable us to increase our high-CV

+35%

power capacity

\$994 m

CAPEX

\$161 m

investments in environment,
industrial safety and social
development



coal production, the construction of new water treatment facilities for the Kirov mine.

Our logistics facilities play a key role in ensuring the stability of SUEK's supplies. After acquiring more than 16,000 high-capacity gondola cars and bringing our railcar fleet to over 53,000 units, we are now almost completely self-sufficient in terms of railway transportation.

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.

Responsible approach

Our unremitting focus on industrial safety led to an improved LTIFR of 0.72 in the Coal Segment in 2019, and 0.24 in the Energy Segment, which is one of the best performances in the world.

However, we were deeply saddened by eight fatal accidents that occurred in the company during the year. We have thoroughly investigated each accident and identified the human factor as having been the cause for the majority of these, and are reviewing personnel information and our control system to ensure these kinds of accidents are prevented in the future.

We also realise that crucial to the successful long-term

development of the company is an effective social policy that aims to improve living conditions in the regions where SUEK operates and establish a stable labour market. Our priority is sustainable development projects that aim to enhance and develop local infrastructure, education, sports, healthcare and the environment.

In 2019 the Group invested \$161m in ecology, industrial safety and social development.

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.