

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 the company'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.

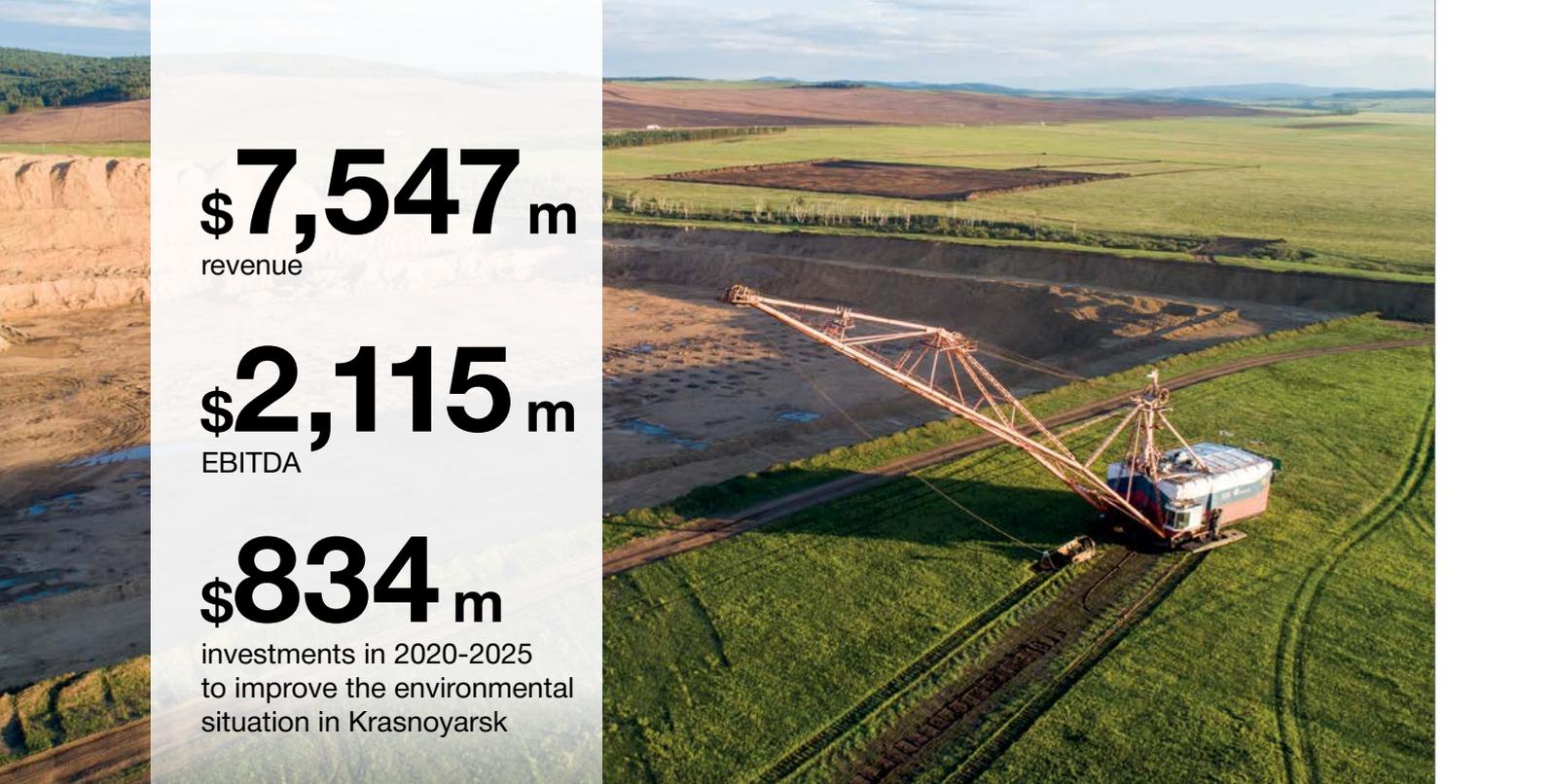
In our logistics business, the company increased its fleet of gondola cars to over 53,000 units, enabling us to cover almost all of SUEK's transportation needs, better control transportation costs and delivery times. We also invested significantly in our port facilities, primarily in the east of the 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



\$7,547 m
revenue

\$2,115 m
EBITDA

\$834 m
investments in 2020-2025
to improve the environmental
situation in Krasnoyarsk

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 to lay 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 CHPPs. 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 Taldinskaya-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.