CHANGING PERCEPTIONS
This Integrated Report presents the results of SUEK’s operations in 2017. Also covering SUEK’s subsidiaries, it details operational and financial performance, and provides an overview of corporate and social responsibility activities that took place during the year.

One of the key objectives of this Report is to show how SUEK adapts its strategy and management methods to changing macroeconomic conditions and stakeholder requirements. In particular, the Report examines the relationship between SUEK’s strategy and business model and its social and environmental responsibilities as the largest coal producer in Russia and one of the leading coal producers in the world (for more details, see page 34).

We discuss key strategic goals and risks, enabling stakeholders to understand the company’s plans and the challenges and opportunities we face. In addition, in this Report we aim to challenge and change perceptions, reinforcing the role of coal in ensuring global energy security and improving the lives of billions of people. We also want to showcase the development of new technologies that allow the coal industry to contribute to the world’s energy balance in the most efficient way.

We want to see as many people as possible enjoying a better quality of life. We believe coal can make a meaningful contribution to a sustainable future, and we need to shift perception and awareness of coal’s potential.

Many people are calling for green technologies and green investment. At the same time, they want to heat and light their houses, and purify and desalinate their water. Technological progress is far from universal. Even today, more people die from inhaling pollutants while cooking on open fires than from pollution caused by traffic and industries. To properly satisfy their basic needs, people need an efficient power source - one which is sustainable as well as scalable and affordable.

I am sure that coal has not yet exhausted its opportunities and that, in combination with other solutions, it will play a significant role in achieving the UN Sustainable Development Goals (SDGs). As the basic source of power, carbon reagents for steel production and heat, and ash for cement making, coal can drive industrialisation in developing regions. Co-generation of heat and power, bringing the efficiency of coal-fired power plants to 70%, is a viable option for regions in need of seasonal heating.

Electric cars with advanced batteries powered by HELE (high efficiency low emissions) coal-fired plants can make cities cleaner at a reasonable price.

WHAT’S INSIDE

Strategic report
1. About this Report
2. Changing perceptions
3. Global progress needs universal energy access
4. Electricity demand is expected to rise 60% by 2040
5. Complex solutions are needed
6. Coal is not just for burning
7. SUEK at a glance
8. While we operate
9. Year highlights
10. Chairman’s statement
11. CEO’s statement
12. Global trends and SUEK
13. Market review
14. Market review
15. Materiality
16. Stakeholder engagement
17. Business model

Financial statements
38. Strategy implementation
39. Risk management
40. Our assets
41. Operating review
42. Financial review
43. Health and safety
44. Environment
45. Our people
46. Communities
47. Corporate governance
50. Statement by the Chairman of the Board of Directors
51. Corporate governance overview
52. Board of Directors
53. Board Committees’ reports
54. Management Board and Executives
55. Independent auditor’s report
56. Consolidated statement of profit or loss and other comprehensive income
57. Consolidated statement of financial position
58. Consolidated statement of cash flows
59. Consolidated statement of changes in shareholders’ equity
60. Notes to the consolidated financial statements

Additional information
61. GRI Table 3.4
62. Information on the company
63. Glossary
64. Contacts

Sustainable and affordable energy can help achieve the following SDGs:

- 1. No poverty
- 2. Zero hunger
- 3. Good health and well-being
- 4. Quality education
- 5. Gender equality
- 6. Responsible consumption and production
- 7. Affordable and clean energy
- 8. Industry, innovation and infrastructure

As well as providing employment, coal powers industrialisation.
Electricity makes food production and storage more efficient.
Electricity helps deliver and purify water, power hospitals, and generate heat for cooking.
Stable power supply ensures light and warmth in classrooms, as well as access to computer technology and the internet.

ANDREY MELNICHENKO
SUEK’S MAIN BENEFICIARY
Annually, 4.3 million people die from household pollution.¹

Global progress depends on reliable, affordable and sustainable energy solutions.

Increased access to electricity, clean cooking fuels and technologies can save lives and improve living standards.

Read about global trends on pages 20-21.

¹ UN Secretary-General Report ‘Progress towards the Sustainable Development Goals’, July 2017.
Global electricity demand is expected to rise 60% by 2040.

We cannot replace 37% of the world’s global power supply overnight.

Which means that coal will remain a significant power source for decades.

Read about global trends on pages 20-21.
As a proportion of global electricity supply, wind and solar energy may increase from 5% to 19% by 2040.

Each new wind turbine requires at least 200 tonnes of coal for the production of steel and cement.
Is coal just for burning?

Increasingly, coal will be gasified and liquefied for use as machine fuel and even ethanol.

Coal use in industry is expected to rise 20% by 2040.

Read about coal gasification and liquefaction on page 22.
RESPONSIBLE COAL PRODUCER

A LEADING COAL PRODUCER
SUEK is one of the ten largest coal producers in the world by output and sales, with hard coal reserves set to last for over 30 years.

5.3 Billion tonnes reserves
26 Open pits and underground mines
9 Washing plants

SUEK is a vertically integrated business with extensive control of its value chain. We oversee all stages of the coal lifecycle, from extraction, processing and transportation through to worldwide sales and distribution.

We have large-scale open pits and underground mines in Siberia and Far-Eastern Russia, as well as modern washing and processing facilities that enable us to enhance the quality of our coal. We also own railways and port infrastructure, which means we can efficiently reach our customers in the Russian, Atlantic and Asia-Pacific markets.

A RELIABLE COAL SUPPLIER
Our production capacities, infrastructure and extensive sales network enable us to satisfy customer demand in Russia and abroad.

We are the largest supplier of thermal coal to the Russian market, accounting for 41% of domestic sales. Located close to major consumers, and with a large railcar fleet, we provide fuel for major power-generating companies, which in turn supply electricity and heat to Industry and households across the country.

Our aim is to enhance our position as the largest exporter of coal from Russia, focusing particularly on supplying high-quality coal. Some of our assets are located much closer to the Asia-Pacific markets than those of other Russian coal companies ~4,300 km closer, in the case of our Urgal production facilities. This means our delivery times are shorter and transportation is more reliable, giving us a distinct competitive advantage. Similarly, our ports in the west and east of Russia help us avoid shipping bottlenecks, even in the busiest seasons.

FOCUSED ON SUSTAINABILITY
Our sustainability priorities include achieving a high standard of industrial and environmental safety, improving the efficiency of our production, and looking after our employees’ health, well being and development.

Across our business we invest in the health and safety of our employees and support their professional and personal advancement. Our regular technical improvements help to make the workplace safer, more efficient and more productive.

We also harness technologies which are designed to reduce the negative environmental impact of our operations. In 2017, SUEK adopted an environmental strategy that provides for a wide range of measures to reduce emissions and waste, to ensure rational use of water resources, energy efficiency, land reclamation, reduction of dust emissions during storage and coal transfer at coal terminals. Our coal-washing facilities enhance the calorific value of mined coal by reducing ash and moisture, resulting in greater energy efficiency and enabling our customers to decrease emissions during coal combustion.
WHERE WE OPERATE

SUEK’s manufacturing and logistic assets are located in eight Russian regions, while sales and representative offices operate in key export regions around the world.

The geographic spread of our operations and access to key transport infrastructure enable us to supply coal effectively to Russian, Western and Eastern markets.

OUR OPERATIONS

We are highly competitive in the coal industry thanks to our well-developed assets. These include large, high-quality coal deposits, modern quality-assured washing plants, efficient logistics and sales networks.

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OUR GLOBAL PRESENCE
YEAR HIGHLIGHTS

SUSTAINING OUR SOLID PERFORMANCE

Our effective integrated business model allows SUEK to ensure sustainable results in all market conditions. In 2017, the improved market environment, along with our focus on increased high-quality coal production, enabled us to achieve record operational performance and significantly improve our financial results. While constantly committed to the responsible development of our business, we also continued to pay special attention to health and safety and environmental protection.

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WE ACHIEVED A STRONG FINANCIAL PERFORMANCE...

EBITDA margin (%) Net debt/EBITDA (ratio)

21% 25%

23% 25%

2% 25%

53% 0.9x

EBITDA ($ m) compared to 2016 compared to 2016

We transferred to higher-capacity longwalls

The transfer to a 400 m wide longwall in the Yalevskogo mine led to a new world production record. This successful pilot will now be transferred to other mines.

Production (million tonnes)

Coal washed (million tonnes)

Productivity of mining production workers (tonnes per man-month)

Over $100m investments committed during the Year of Ecology

In 2017, during the Year of Ecology in Russia SUEK concluded agreements with the governments of all regions where we operate, committing to invest over $100m in environmental activities over the next several years.

WE CONTRIBUTED LARGELY TO COMMUNITY DEVELOPMENT

$310m paid in taxes to local, regional and federal budget in 2017

$22m spent on social initiatives in 2017

Moody’s

Moody’s rating: Ba3 positive

On 27 September 2017, Moody’s Investors Service changed its outlook on SUEK’s credit rating from stable to positive. A Ba3 rating was confirmed.

1. The LTIFR indicator was adjusted in 2016 due to the inclusion of the logistics block entities in the perimeter of the calculation.
We believe that, together with other market participants, through openness and willingness to discuss issues of public concern, we can dispel the myths and misconceptions about the coal mining industry.

Responsible approach

In Russia, 2017 was declared the Year of Ecology. SUEK’s Board of Directors considers environmental protection to be integral to the successful implementation of the company’s overall strategy. Its importance only increases in the face of the ongoing pressure being exerted on the industry.

The environmental programmes we implement across our units meet the most stringent global standards. As one of the largest coal mining companies in the world, SUEK uses the latest technology in all areas of operations, which not only enables us to achieve high business performance, but also helps to reduce our impact on the environment. For example, over the past five years, the company has managed to increase coal washing by 80%, which means we deliver high-margin products, accompanied by a significant reduction of emissions during coal transportation and usage.

The utilisation of methane rose by 25% over five years, which provides energy savings and ensures we emit less greenhouse gas into the atmosphere. Our commitment to advanced methods of environmental protection is not only an important part of our responsibility towards society and future generations, but also reflects our care for our employees and their families.

Out of recognition and respect for the dedicated work of our employees, we will continue to adhere to the highest standards in our efforts to protect their interests, providing them with favourable working and living conditions.

The company’s activities to improve industrial safety, labour productivity, and our engagement in staff development, as well as social and charitable projects, are among the most advanced. Through our efforts and activities in these areas, we are committed to improving the quality of life of people in the regions where we operate.

As part of these commitments, our new five-year strategy is designed to support SUEK’s leadership in social and environmental responsibility. In particular, we plan to invest $173m in measures to improve environmental protection.

Improving positions

In general, the company’s strategy is aimed at ensuring stable leadership in the international coal industry by enhancing our competitiveness as a worldwide supplier, providing access to the cheapest and most affordable energy, and by seeking global growth opportunities. So we will continue to build relationships with key foreign partners, search for new assets that allow synergy with SUEK’s core business, and explore opportunities associated with advanced coal processing technologies.

SUEK’s strategy assumes a growth of our coal production around 130 million tonnes by 2022, and a potential increase in export sales. Such performance will only be possible through the coordination and dedication of all SUEK units involved in export-quality coal production and washing, loading and transportation, supply chain, and sales services.

In the years ahead, we intend to significantly increase our coal washing volumes – from 42 million tonnes in 2017 to around 58 million tonnes by 2022. Another key aspect of our production strategy is the development of our auxiliary businesses, with a view to improving their productivity and initiating production of new product types.

We have therefore developed an ambitious investment programme, with almost $3bn planned for the next five years. Approximately half of this money will be spent on improving operational efficiency and industrial safety, as well as upgrading our washing facilities. We will invest heavily in projects aimed at developing our production, washing and port assets, while also purchasing additional higher-capacity railcars and implementing our environmental strategy. In addition, we will continue to improve our production and business processes in order to reduce operating costs and capital expenditure.

Another strategic priority is to ensure effective long-term financing through stable access to debt markets. To this end, we are systematically expanding our presence in global capital markets and diverse geographical regions.

Changing perceptions

As a company, we are determined to change perceptions of the coal industry and coal power generation sector by active participation in discussion and implementation of environmental policy measures, both in Russia and abroad. We are against rash and hasty initiatives that undermine the contribution of the coal mining industry, and neglect the efficiency of the measures that SUEK and our industrial peers have adopted to reduce our environmental impact. Such initiatives, if implemented, may lead to social instability in the world’s coal mining regions and restrict access to electricity for millions of people.

Looking ahead, we will maintain our position on these issues, relying on facts, as well as credible forecasts and expert scientific studies. We believe that, together with other market participants, through openness and willingness to discuss issues of public concern, we can dispel the myths and misconceptions about the coal mining industry. We will also make every effort to minimise our impact on the environment by introducing the most advanced scientific and technological innovations.

Key drivers of change

We are aware of our impact on the environment and communities and we know our core responsibilities are to look after our colleagues and the communities in which we operate and to bring warmth and light into people’s homes.

Our strategic priorities in sustainable development:

• Improvement of our occupational health and safety system;
• Development of employees;
• Careful utilisation of natural resources and the use of technologies that minimise the negative environmental impact of production;
• Quality of life improvements for our employees, their families and community members;
• Development of the regions in which we operate.

Our management approach takes account of the Sustainable Development Goals (SDGs) that have been set by the UN to end poverty, protect the environment and ensure prosperity for all.

Our key global impact comes through the production and distribution of coal, a major source of affordable, scalable and efficient energy for the urbanising world. Coal is used by many industries and helps to drive economic growth, improve living standards and achieve energy security worldwide.

On a national scale, SUEK’s activities have a significant impact on the operation of the Russian energy sector, as well as on the development of related industries. SUEK plays an important role in the lives of over 33,500 employees, their families and community members. We do this by providing decent jobs, investing in people and developing the economic, social and educational infrastructure of the regions where we operate. We also contribute to social welfare by paying taxes at different levels.

We continue to invest in large-scale programmes that help to improve resource efficiency, reduce waste and prevent pollution. To ensure our strategies and sustainability objectives are effective and aligned, we interact with regional and state authorities, and non-governmental organisations on a regular basis. We are also involved in international initiatives, such as UNDP and Clean Coal Technology Centre projects.
GROWTH THROUGH PREMIUM PRODUCTS AND MARKETS

A year of growth and achievement

After a few difficult years, during which low coal prices forced many producers to reduce capacity and work below the profitability line, 2017 was a year of stabilisation for the coal industry. Announced in 2016, the Chinese government’s measures to regulate its domestic market continued through 2017 and contributed to a favourable situation for producers and the international market. Indeed, rising prices and stable demand in premium markets enabled SUEK to increase revenues by 42% and EBITDA by over 50%.

For the Russian coal mining industry, 2017 marked the 70th anniversary of the Miner’s Day, which SUEK honoured with new records. For the second year, we produced and sold over 100 million tonnes of coal. This achievement was made possible by the consistent implementation of our strategy, which aims to improve the efficiency of our production processes, taking into account the development of our logistics capacity, port infrastructure and washing facilities. It was also, of course, a result of the hard work and dedication of our people.

During 2017, our employees set 19 world productivity records. Labour productivity across our mining units increased by 9%, which highlighted the effectiveness of our operational efficiency improvements and the quality of our corporate qualification enhancement programmes.

In terms of exports, about a third of the company’s products were sold in high-margin markets. This was due to our increased production of washed coal with high-calorific value, which is currently in demand throughout the international markets. Other contributing factors were the development of long-term partnerships with key customers and the expansion of our own distribution network in Poland, China, Turkey and the Baltics. Overall, our export sales in 2017 grew by 9%.

We also increased sales in the domestic market. SUEK makes a significant contribution to ensuring Russia’s energy balance and security. Being the largest supplier of thermal coal in the country, today we meet about a third of the needs of domestic power plants, utilities and other key consumers.

Sustainable development and social responsibility

We are very aware of our responsibilities to the regions where we operate and their residents. We strive to minimise our impact on the environment by developing innovative and highly effective technologies. In 2017, SUEK adopted a new environmental strategy aimed at increasing the effectiveness of our activities in this field.

In addition, SUEK is the largest taxpayer and employer in a number of Russian regions, and through our regional policy we aim to improve the quality of life in mining towns and settlements and to create a comfortable social environment. Every year, SUEK rolls out about 150 social and charitable projects. In 2017, the company paid $310m to local, regional and federal budgets, and allocated additional $22m to charity projects.

Focus on premium markets and advanced technology

We are optimistic about the future, expecting a steady growth in demand for coal with high calorific value. Our conservative forecast for the next decade suggests an annual increase in the volume of global coal trading by an average of 0.8%. With an expected decrease in coal imports by China, the key growth drivers will come from countries in South and South-East Asia, such as Vietnam, the Philippines, Malaysia, Thailand, Taiwan, Pakistan and Bangladesh. There are prerequisites for resumed demand for imported coal in India, where domestic production output will not be enough to deliver new projects aimed at solving energy poverty problems. We are also carefully assessing the prospects for increased coal demand due to the rapid development of electric vehicles. The growth of this market is likely to generate additional demand for electricity which can only be met by coal generation, especially in countries such as China and India, which are important sales markets for SUEK’s products.

Furthermore, we forecast higher consumption of thermal coal in Russia. This will be facilitated by industrial, energy and infrastructure projects in Siberia and the Far East. In total, the commissioning of new energy-intensive production facilities could result in a 10-14 million tonne increase in coal demand by 2027, although these estimates are conservative.

Our optimism regarding the future is based on careful coal market assessments, although more and less positive scenarios are of course possible. However, in recent years SUEK has demonstrated an ability to cope with both unfavourable market conditions and unprecedented attacks on the coal industry.

Throughout 2017, there was clear evidence to support the theory that most crises in the energy markets eventually come to an end, and that positive and negative fluctuations are common. We are confident that coal will remain a reliable, and in some cases the only available, source of electricity generation for many years to come. Our task is to continue our work, fulfilling our obligations to employees and partners, and in no case to rest on our laurels as we continue to adhere to the highest standards in all areas of our operations.

VLADIMIR RASHEVSKY
CHIEF EXECUTIVE OFFICER

OUR ENVIRONMENTAL STRATEGY

Environmental awareness is included in all stages of our business planning and operating. We aim to minimise environmental impact from our operational activities and the use of our products. We introduce best available technologies of methane utilisation, water treatment and dust suppression. We also focus on development of high-calorific deposits and coal washing to minimise dust and GHG emissions from our products during their transportation and combustion.

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The coal industry is facing the dual challenge of a rising demand for cheap and reliable power, and the need to preserve nature for future generations. SUEK strives to meet these challenges by balancing for environmentally sustainable production processes.

Global problems, global response

In the world today, there are 1.1 billion people living without access to electricity, which deprives them of modern healthcare, education and balanced nutrition. Therefore, through the United Nations Sustainable Development Goals (UN SDGs) the global community has resolved to ensure universal access to affordable, reliable and modern energy sources by 2030.

Even today about 2.5 billion people, half of whom live in India and China, do not have access to clean cooking facilities. This leads to 4.3 million premature deaths globally each year from household air pollution. To meet its rising electricity demand, over the next 20 years China needs to add the equivalent of today’s US power system to its own national power supply. It is expected that by 2040 the electrification rate in Asia will reach 99%, helping to halve the number of premature deaths from household pollution in China and reduce the overall number by 0.5 million.

Apart from being the basis for better industrial and social development, infrastructure improvement and job creation, electrification can help various countries meet the commitments they made under the Paris Climate Change Agreement to reduce greenhouse gas emissions. The International Energy Agency (IEA) forecasts that if current electric transport development plans are implemented, by 2040 the number of electric vehicles on the road will have grown 140 times, thus helping to remove harmful substances from the air in cities. According to the UN SDGs, these growing needs should be met by secure power that is available at an affordable price and that causes minimum damage to the planet. To achieve this, support should be provided for research into how to achieve better energy efficiency and advanced fossil-fuel technologies, as well as for the development of renewable energy sources. This should ensure that CO₂ emissions from the power sector rise by just 5% by 2040, while electricity use rises by 60% and heat use increases by 10% compared to present levels.

In aiming to meet these targets, many countries have announced massive investments in renewable generation infrastructure, 2.5 times more than in new fossil-fuel powered capacities. However, IEA forecasts that the share of total electricity produced from wind, solar and biofuel can rise from its current level of 8% to just 15% by 2025, and to 23% by 2040.

While the cost of renewable generation is decreasing, the low concentration of natural energy remains its main hindrance. For example, it takes 550 tonnes of iron and steel to produce 1 MW of wind power, as opposed to 35 tonnes for coal-fired and 5 tonnes for gas-fired power stations.

Coal and gas will therefore remain the two most widely used power sources for several decades to come at least, accounting for 26% and 23% respectively. The affordability, versatility and cost effectiveness of coal, allied with its relative ease of extraction and transportation, will ensure its consumption volumes remain stable through to 2040, providing power and heat for many regions where economic or natural reasons make other sources unaffordable.

Global Trends and SUEK
**Coal industry and power generation adaptation**

The coal industry is developing in accordance with the latest technological and environmental trends. It is planned that over 75% of coal-fired power plants coming into service in the next 25 years will use high efficiency low emissions (HELE) technologies.

As well as being more efficient, these new plants support the delivery of environmental commitments. Every 1% rise in efficiency of coal-fired power plants delivers a 2%-3% reduction in CO₂ emissions. These plants are also equipped with NOx, SO₂, and mercury filters.

Furthermore, carbon capture and storage (CCS), despite being implemented to date at only two large-scale coal power plants, could cover over 200 GW of coal generation worldwide by 2040, IEA predicts. However, this is dependent on countries stepping up their efforts to make CCS technology more economically viable.

As advanced coal-fired power plants require higher calorific value coal, over 50% of international coal trading is already focused on higher-grade coal.

Another research trend is coal gasification, which combines power generation with coal chemistry products. Coal gasification allows the production of chemical products such as methanol, polyethylene, diesel, ammonia and more. While coal gasification is more expensive today than the equivalent coal chemistry products, it is expected to reduce CO₂ emissions by 2%-3% for coal-fired power plants.

The major market trend of recent years is the shift in consumption and import growth to the Pacific market, in particular to South-East Asia, India, South Korea and Japan, and to some high-growth emerging countries (Vietnam, Pakistan, Bangladesh, Malaysia, and Taiwan). These markets require more high-calorific coal for their new power generation. For example, more than half of China’s coal-fired power-generation plants are under ten years old, and the average efficiency already stands at over 42%. India overtook the US in 2015 as the second largest coal consumer.

Apart from a balance in supply and demand, the dynamics of coal pricing are balanced by 2020, and by 2025, 55 million tonnes of new capacity will be required to meet increasing demand.

The Atlantic market overall has exhausted its growth potential. Due to toughening environmental regulations and growing competition from gas and renewables, coal consumption in Northern Europe is in decline. However, this is partly compensated by the development of coal-fired power generation in North Africa, the Middle East and the Mediterranean.

Coal remains an essential component in the production of steel and cement – the basic construction materials for infrastructure facilities, including renewable energy facilities. Coal usage in the cement industry for steel and cement production, petrochemical feedstock, and coal-to-gas and coal-to-liquids transformation, is expected to rise by 20% over the next 20 years to 36% of total coal use.

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Overall, the International Energy Agency forecasts that global coal demand and international trade will remain stable through to 2040.

On the supply side, the reduction in coal-mining capacities has exceeded previous forecasts. By the end of 2017, the total excess capacity of thermal coal had declined to about 55 million tonnes, which accounts for 6% of the total seaborne market. The global seaborne thermal coal market is forecast to be balanced by 2020, and by 2025, 55 million tonnes of new capacity will be required to meet increasing demand.

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Coal remains an essential component in the production of steel and cement – the basic construction materials for infrastructure facilities, including renewable energy facilities. Coal usage in the cement industry for steel and cement production, petrochemical feedstock, and coal-to-gas and coal-to-liquids transformation, is expected to rise by 20% over the next 20 years to 36% of total coal use.
CORPORATE GOVERNANCE

STRATEGIC REPORT

Sustainable as a business, remain profitable and logistics enable SUEK to efficiency and effective FOR SUEK

and washing processes.

SUEK INTEGRATED REPORT 2017

– 24 –

– 25 –

Sustainability initiatives.

International Integrated Reporting Initiative (GRI). We also publish the International Integrated Reporting to integrated annual reporting in line with response to more stringent demands and our robust margins enable SUEK to An effective, integrated business model

sulphur content and therefore have SUEK's coals have low nitrogen and deposits such as those at Urgal, Tugnuisky and the development of promising

Thanks to investments in coal washing and the development of promising deposits such as those at Urgal, Tugnuisky and Kemerovo, we are able to meet the growing demand for high-quality coal from Japan, South Korea, Malaysia, the Philippines, Thailand and Hong Kong. SUEK’s coals have low nitrogen and sulphur content and therefore have additional competitive advantages in Japan and other Asian countries. An effective, integrated business model and our robust margins enable SUEK to achieve the necessary level of financing on the international capital market. In response to more stringent demands for the disclosure of non-financial information, in 2016 the company moved to integrated annual reporting in line with the International Integrated Reporting Council framework (IIRC) and Global Reporting Initiative (GRI). We also publish internal corporate social responsibility reports with further details on our sustainability initiatives.

Strengths

Quality coal, efficient mining and large washing capacities

Flexibility of sales geography and own distribution

Effective and transparent CSR programmes

Looking ahead, possible changes in the legal norms related to environmental protection and climate may have a negative impact on coal sales in individual countries. Over the past three years, Germany, the United Kingdom and a number of Scandinavian countries, have announced plans to reduce or eliminate coal-fired power generation. On the other hand, the construction of new coal power plants in developing countries will provide coal exporters with new markets and compensate for lower demand in developed countries. We expect that coal demand in average-income regions will remain stable. Coal consumption in Russia will also not change significantly, and coal will remain one of the country’s main energy resources. SUEK, therefore, with its strategic focus on efficient growth, the development of washing capacities, its own logistics, sales and sustainability, is favourably positioned to maintain its leading position in the Russian and global coal industry.

Weaknesses

Sensitivity of earnings to global prices

Mono-product business

No control over final product use

INTERNATIONAL MARKET

By the end of 2017, the volume of international thermal coal trade (seaborne and landborne) amounted to 982 million tonnes, which is 40 million tonnes or 4.3% more than in 2016. The key growth drivers were elevated demand from South Korea, Taiwan, Philippines and Malaysia due to increased power consumption, and from Spain due to low level of hydrogenation.

Pacific market

In 2017, demand from the Pacific market amounted to 738 million tonnes, a 4% rise on 2016. A number of factors contributed to this strong performance. China was again the main driver of imports and prices. As in 2016, in 2017 the Chinese domestic market was widely impacted by policy regulations. The 275 working days imposed at mines in 2016, which boosted prices, was increased to 330 days in 2017, followed by a price corridor – the Chinese government promised to intervene should prices go below RMB 470/t (in order to push prices up) or above RMB 600/t (in order to push prices down). Nevertheless, domestic prices traded above the upper limit during most of 2017, as imposed safety regulations prevented coal output from increasing and no government intervention followed. Still analysts expect government action when the lower threshold is reached for spot prices. As the year ended, the Chinese government implemented anti-pollution regulation, intended to cause steel and aluminium outputs to fall during the winter period by 50% and 30% respectively. With regards to heating, the government ordered a switch from coal to gas in northern regions. However, increasing gas prices and gas shortages forced the government to allow the use of coal for heating in certain areas. This measure coincided with utilities re-stocking, which meant the year ended on a high note, with total seaborne and landborne imports for 2017 increasing by 1% and amounting to 187 million tonnes. Indian imports fell by 7% to 141 million tonnes. Domestic coal production, meanwhile, increased by 3.5%. However, further production growth in India is restricted by the fact that most economic deposits have already been developed, meaning that further gains will be more difficult and expensive to achieve. Moreover, local coals have ash content too high for modern power plants. In addition, supply chain logistics are far from swift, which is a problem for lean supply management. As a result, in 2017 power plant stocks sank to 7 million tonnes by October, an historic low. This could mean that buyers may look to include imported coal within their portfolios.

On the other hand, the Indian subcontinent has also seen a rising star in Pakistan, which witnessed a solid import increment of 57% to 11 million tonnes due to the recent commissioning of a coal-fired power plant (with a capacity of 1.3 GW) and expanding cement production. Aggregate demand from South Korea, Japan and Taiwan increased by 5% to 290 million tonnes. The increment was led by South Korea, where demand from new power plants and carry-over tonnage from plants commissioned in the previous year started to kick in. Moreover, several nuclear units were shut down during the summer as a result of seismic activity, which drove higher coal demand during that period. In Taiwan, two coal-fired power plants were commissioned in 2017, and current coal-generation capacity is being fully utilised as a result of the government’s firm anti-nuclear stance. In Japan, meanwhile, import demand was flat year-on-year during 2017. For 2018, demand will depend widely on nuclear re-starts. In South-East Asia, demand continues to increase, albeit at a slower pace than in the previous year (+3%). The region imported 80 million tonnes in 2017, with Malaysia taking the lead on import growth. In 2018, Vietnam and the Philippines should join the coal-import growth engine as new power plants are expected to be commissioned.

RISKS AND OPPORTUNITIES FOR SUEK

Economies of scale, cost efficiency and effective logistics enable SUEK to remain profitable and sustainable as a business, despite the cyclical nature of global energy prices. In addition, SUEK is actively increasing the efficiency of its mining and washing processes.

Opportunities

Rising demand for high-CV coals

Developing new areas for coal use

Improved financing opportunities on the international capital markets

Threats

Volatile global prices

More stringent CO₂ regulations for power generation

More stringent CSR requirements from banks

INTERNATIONAL MARKET

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Thermal coal price indices ($ per tonne)

Source: Argus McCloskey Index, globalCOAL
On the supply side, thermal exports from Australia have been hovering at around 200 million tonnes since 2014, making a significant export ramp-up difficult. During 2017, Australia was impacted by prolonged industrial action in the Hunter Valley mines and railways. Other impacts included unfavourable loading conditions during certain months, poor weather, heavy port maintenance requirements and Chinese import restrictions during the last quarter.

Indonesian supply similarly struggled due to rainy weather throughout the year. Its growth opportunities are restricted by increasing demand from expanding domestic power generation.

Russian seaborne and landborne exports via the Far East increased only marginally during 2017 as a lack of available capacity on railways and at ports led to lower exports than expected, particularly during the third quarter.

Colombian coal continued to flow into Asia in 2017 despite constraints due to poor weather, but at a slightly decreased pace, with 6 million tonnes in 2017 compared to 8 million tonnes in the previous year. Some Colombian coal deliveries to Asia, and particularly South Korea, are expected to continue during 2018 due to the fact that Korean buyers have contracts of affreightment until 2018. However, for buyers in Asian countries (other than South Korea) continued flow of Colombian coal will depend on the price differential and freight rates.

During the year, the US exports towards the Pacific market more than doubled to 19.6 million tonnes, targeting India for high-sulphur coal shipped from East Coast terminals, while western coal terminals focused on North-East Asian countries, particularly South Korea and Japan.

Atlantic market
In 2017, demand for imported thermal coal in the Atlantic market increased by 4% year-on-year to 244 million tonnes. In Europe, coal demand increased in Spain and Portugal as severe dry weather throughout the year limited hydro-generation capacity. In France, the capacity of the nuclear fleet was significantly diminished due to maintenance and repairs, leading to increased coal imports by 27% year-on-year to 4.6 million tonnes. Poland also saw an increase in imports due to a shortage of domestic production. These coal import increments in continental Europe were complemented by demand from Mediterranean countries, particularly Turkey and to some extent Morocco; both countries launched new coal-fired power plants or are preparing to do so in 2018. On the other hand, 2017 also saw a decrease in coal demand in countries such as Germany, where 2.4 GWs were decommissioned while another 1.4 GWs were put into reserve. High level of wind generation also hit coal demand in Germany during the year, although coal still accounted for 37% of the country’s total electricity generation. The Scandinavian region experienced a decrease in demand, particularly in Denmark, due to high levels of hydro generation. Meanwhile in the US, demand diminished slightly as natural gas continued to gain the market share, with coal accounting for 30% of electricity generation compared to 35% by gas.

On the supply side, Colombian exports to the Atlantic market decreased by 8.4% to 4 million tonnes year-on-year. This was due principally to heavy rains impacting production, plus a lack of investment in equipment affecting availability due to frequent maintenance. The US told a very different story, with an export increment of 87% to 16 million tonnes shipped to European and Mediterranean countries. Most of this tonnage was high-sulphur coal, which is blended with low-sulphur qualities. Russian coal also witnessed a growth story towards the west, with a massive increment of seaborne and landborne supplies by 20 million tonnes year-on-year, part of which was fresh tonnage transit from Kazakhstan. On the other hand, South African exports to the Atlantic market fell by 4 million tonnes year-on-year, due to the economic advantage of focusing on Asian countries (linked to the Newcastle index) rather than the Atlantic region.

Russian coal market
Russian coal companies achieved record levels of thermal coal production and supply in 2017 due to higher exports combined with stable domestic demand. High-quality Russian coal is in demand in key international markets and boasts good potential for further supply growth, so long as domestic rail and port infrastructure continue to develop.

In 2017, the production of thermal coal in Russia increased by 8% year-on-year to 324 million tonnes. Brown coal extraction totalled 75 million tonnes (an increase of 5% year-on-year). Brown coal is chiefly supplied to Russian power plants and public utilities. While brown coal export deliveries are rather low, in recent years they have been showing a steady upward trend.

Hard coal production in 2017 grew by 8% compared to 2016 and reached 249 million tonnes. Along with power generation, hard coal is used in the production of cement and metals and in many other industries. Moreover, a large share of high-quality coal mined in Russia is supplied to the international market. In 2017, total supplies of Russian thermal coal increased by 10% year-on-year to 305 million tonnes, including a 17% increase in international supplies.

Such significant export growth can be explained by the high level of prices and demand for Russian coal in the international market. Given the favourable market conditions, in 2017 Russian producers sought to redirect their supplies to higher-margin export destinations, which in turn led to lower domestic coal supply.

MARKET REVIEW / CONTINUED

RUSSIAN COAL MARKET
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Russian market supplies
Thermal coal supplies from Russian producers to the domestic market amounted to 130 million tonnes in 2017, an increase of 1% compared to 2016.

The power generating companies received 88 million tonnes of coal, including 52 million tonnes of brown and 38 million tonnes of hard coal. According to data from the United Energy System grid operator, power generation in Russia in 2017 remained virtually unchanged from the previous year at 1037.6 TWh. The structure of power generation by type did not show noticeable changes. At the same time, in the power systems of Siberia and the Far East, hydroelectric power stations reduced generation by 6% to 106.2 TWh due to low water reserves in the second half of 2017, which provided better capacity utilisation rates at coal-fired power stations and stimulated demand for coal. Coal supplies to public utilities remained stable at 20 million tonnes year-on-year. This growth was mainly due to the weather, with lower air temperature than in 2016.

Russian thermal coal imports in 2017 increased by 17% to 24 million tonnes. Kazakhstan was the main supplier of thermal coal.

Export supplies
At year-end, Russian thermal coal exports reached a record high level and surged by 17% year-on-year to 175 million tonnes. The West accounted for the largest increase in exports, while supplies to the East also rose, but less significantly due to transportation problems.

Shipments to ports and border crossings in Europe Russian increased by 26% compared to 2016, totalling 98 million tonnes. Supplies to the East grew by 8% to 77 million tonnes.

Shipments to the Far-Eastern ports of Russia were hampered by the upgrade programme of the Baikal-Amur Mainline (BAM) and Trans-Siberian Railway Network, which was very intensive in 2017. In addition, in August 2017 heavy showers and river flooding resulted in damage to the railways and highways of Primorye, leading to additional restrictions on coal transportation to Far-Eastern ports.

Another logistical problem for coal companies in 2017 was the deficit of railcars, caused by noticeable depreciation of the old rolling stock and increasing loading volumes.

Despite these limitations, Russian coal companies managed to strengthen their positions in key export markets in 2017. In the Atlantic region, deliveries increased significantly to Mediterranean countries—Spain, Italy, Turkey, Morocco, Israel and others. In the Asia-Pacific region, shipments to Japan, South Korea, Taiwan and Malaysia also showed positive dynamics.

In general, the largest international markets for Russian thermal coal in 2017 were South Korea, the Netherlands, Turkey, Japan and China.

Thermal coal supplies to the Russian market by customer (million tonnes)

Source: Statistical data from railway coal transport, SUEK estimates.

Source: Statistical data from railway coal transport, SUEK estimates.

Russian thermal coal supplies to the Russian market (million tonnes)

Source: Statistical data from railway coal transport, SUEK estimates.

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.

Continuous monitoring of our operational, financial and social activities, along with the identification of interrelated and significant material matters, gives us a better view of 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, we:

1. Surveyed key company employees regarding the importance and priority of the relevant matters defined in 2016 for the year 2017, and added other matters they considered significant.

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 internal and external surveys.

4. Prioritised material matters.

We define ‘material matters’ as those which are of significance to the company’s value creation potential, and those which are important to our key stakeholders. In preparing this Annual Report, we conducted a thorough analysis of the external and internal environment, carried out surveys among our employees, and interacted with a number of external stakeholders.

Through this process, we identified relevant matters, which we believe are important for the growth, success and sustainability of our business, such as reputation, financial performance, delivery of strategy and licence to operate.

In 2017, we updated our Materiality Matrix and used it to assess our long-term goals, strategic priorities and governance. We also used it to support the content and development of this Report.

In total, we identified 13 key issues, of which the first six were deemed the most material for the year:

- Financial stability and development prospects
- Product quality and high-value products
- Industrial safety and emergency preparedness
- Environmental impact of the company’s operations and management
- Production efficiency
- Corporate governance and risk management

Other important matters:
- Fair remuneration and social support for employees
- Human resources policy and labour relationships
- Staff training, including training for new jobs
- Development of local communities
- Clear specifications and requirements for suppliers and support for local suppliers
- Mutual adherence to business ethics
- Company’s role in the development of mono-industry towns
Material issue | Context 2017 | Impact on our value creation | How we responded
--- | --- | --- | ---
M1 | Financial stability and development prospects | In 2017, the recovery of coal prices – which began in 4Q 2016 – continued. Nevertheless, restrictions on the financing of coal projects, imposed by a number of banks following the Paris Climate Change agreement, persisted. Restrictions on the financing of Russian companies introduced by international banks also remained in force due to geopolitical issues. | Inability to finance our operating activities could adversely affect the company’s operations and business as a whole. An increase in the cost of investment and operating costs, as well as the need to attract more financing, may impact SUEK’s financial results. | SUEK demonstrated that the company has a positive cash flow, sustainable margins and comprehensive environmental programmes. This enabled us to secure a $1bn pre-export finance facility from a pool of international banks in May 2017 and $1bn in March 2018.

M2 | Product quality and high-value products | In 2017, many Pacific countries increased demand for higher-quality coal. This was due to tighter environmental regulations and the introduction of more efficient coal-fired plants requiring higher grades of coal. The 2017 International Energy Outlook forecasts that by 2040, around 400 GW of new supercritical and 236 GW of new ultra-supercritical coal-fired power generation will be built. It also predicts that the share of coal-fired subcritical plants will drop from around 60% today to less than 40% in 2040. The new plants will require high-quality coal. | Tighter domestic and international environmental standards on coal quality, and stricter requirements from new coal-fired power stations, may result in a lower demand for lower-grade coal. This trend could influence the company’s financial and operational performance. | We invest in the development of high-grade coal deposits and improve washing capacities to meet demand for higher-quality products from international markets. In 2017 SUEK increased washing capacities by 12% and approved projects to build new washing capacities. We also develop sales of sized and metallurgical coals. In 2017, we increased sales of higher calorific thermal coal and coking coal by 60% and 10% respectively.

M3 | Industrial safety and emergency preparedness | Coal mining is associated with risks related to geological factors, technical conditions within mines, emergency situations and human error. These risks are of ongoing major importance to the company, its employees and the regulatory authorities. Despite all our efforts, in 2017 there were three fatal accidents at the company’s production facilities. We deeply regret this loss of life and extend our condolences to the families and friends of the deceased. | Industrial accidents and emergencies may result in human fatalities, environmental damage, overturned business partnerships and relations, or claims from lenders for early loan repayments. | SUEK implements a comprehensive health and safety programme, including the promotion of international safety standards and zero-tolerance to accidents. We conducted thorough investigations of every accident, with the aim of preventing them in the future. We also provided employee training, modern personal protective equipment and improved the modernisation of production facilities. In 2017, these measures enabled us to maintain our LTPF at 1.0, which is one of the lowest levels in the Russian and global coal-mining industries.

M4 | Environmental impact of the company’s operations and management | The year 2017 was the Year of Ecology in Russia. In this context, Russian authorities continued their efforts to change environmental legislation and tighten environmental standards, which began in 2014. These changes encourage companies to adopt the best available technology and impose more severe sanctions for excessive environmental impacts. Environmental responsibility issues are becoming increasingly important for SUEK’s product consumers, financial institutions and potential investors. | The company has a positive cash flow, sustainable margins and comprehensive environmental programmes. This enabled us to secure a $1bn pre-export finance facility from a pool of international banks in May 2017 and $1bn in March 2018. | In the event of environmental damage or degradation, there may be claims from supervisory bodies, as well as on the part of financial institutions and potential investors. These claims could, in turn, influence the company’s production and financial performance indicators, and negatively affect our ability to raise funds through the debt market.

M5 | Production efficiency | Following the appreciation of the Russian Rouble compared to the previous year, SUEK focused on production efficiency and cost optimisation in order to maintain profitability and competitiveness in the global market. Furthermore, tighter environmental regulations following the Paris climate change agreement and an increase in the number of highly efficient coal-fired stations have increased demand for higher-quality coal. | Efficient production processes can increase costs and decrease product quality, consequently diminishing the company’s competitive advantages. | SUEK carries out modernisation programmes, substituting outdated equipment at mining and washing facilities and ports with more efficient and innovative kit. For example, in 2017, we launched a higher-capacity 400 m longwall in the Yalevskogo mine. We analysed business processes to make them more effective and efficient. Increasing the utilisation rate at existing plants enabled us to increase washing volumes by 12%. SUEK also paid particular attention to energy efficiency projects. As a result of these initiatives, in 2017 the productivity of our mining personnel increased by 9%. We also managed to keep costs in the lowest tertile of the global cost curve, and achieved record production levels of 107.8 Mt.

M6 | Corporate governance and risk management | Our key stakeholders in Russia and abroad have traditionally paid much attention to transparency, corporate governance and compliance procedures. | Lack of transparency in corporate governance, as well as non-compliance with national regulations, can lead to additional requests from state authorities, lenders and business partners; it can also impact the company’s operations as claims to the company are extended. | We strive to consistently develop our corporate governance, relying on the best Russian and global practices. For example, most of the members of SUEK’s Board of Directors are independent. In 2017, we completed the implementation of SUEK’s compliance system, which ensured compliance with internal and external regulatory requirements at all levels.
Effective stakeholder engagement is an integral part of how SUEK operates. In the process of developing relations with our stakeholders, we are committed to open dialogue and trusted partnership. This enables us to understand and respond to the interests and expectations of key stakeholders.

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, the basic principles we adhere to are defined in SUEK’s Code of Corporate Ethics. They include:

- Regulation of stakeholder relations by law in Russia and other countries where SUEK operates;
- Respect for the interests of all stakeholders, and the promotion of active cooperation based on honesty, transparency and mutual respect;
- Informational transparency;
- Compliance with ethical standards regarding business conduct. When interacting with stakeholders regarding material matters, we use a comprehensive communications system. This system helps ensure the completeness, timeliness, objectivity, reliability and consistency of information, as well as providing open access to this information. In addition to publishing information on the company’s website, SUEK’s management participates in Russian and international forums, holds interviews with the media, and conducts regular meetings with employees.

The internal communications system includes a corporate portal and a hotline. We also use special channels that are designed both to inform our stakeholders about all material matters that could affect the company’s operations, and to gather their feedback on our financial and non-financial disclosures. These channels include conferences, round tables and public hearings at which we disclose information relevant to certain stakeholder groups.

### The company’s stakeholders

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<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Shareholders</td>
<td></td>
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</tr>
<tr>
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<td></td>
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<tr>
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### Stakeholder engagement

- **Suppliers and business partners**
  - In our relations with suppliers and business partners, we try to create and develop long-term and constructive partnerships. Our principles of cooperation are based on the observance of business ethics and the complete fulfilment of contractual obligations, as well as responsible supply chain management (for details on our supply chain, see page 68). We also include health, safety, social and environmental issues in our arrangements with contractors.

- **Customers**
  - We focus on providing high-quality service, which means ensuring seamless, uninterrupted and timely delivery of coal shipments. We are constantly improving our product quality and we strive to personalise our approach with each and every one of our customers.

- **State authorities**
  - Our key objectives in cooperating with state authorities include: the development of close cooperation and partnerships to improve the competitiveness of the national and regional economies; the promotion of social development throughout the regions; and the creation of solutions to environmental problems. The company’s interaction with the state is based on strict adherence to all applicable laws and requirements, and joint development of regulatory documents. Government agencies also call upon our industry expertise to help inform strategic decision making on Russian fuel and energy issues, and purpose-oriented programmes.

- **Local communities in the regions where we operate**
  - In our interaction with local communities, we aim to jointly develop social infrastructure, create human capital, implement social activities, and deliver projects focused on environmental protection. We implement social and charity projects in healthcare, education, housing improvement and development. We also provide communal services, culture, sports and business development initiatives, as well as support to disadvantaged social groups. In addition, we actively encourage and enable local communities to get involved in solving urgent social problems, which is a prerequisite for sustainable development.

- **Expert organisations and NGOs**
  - Engagement with expert and public organisations allows us to receive feedback on how to deliver better business, social and environmental outcomes. We engage specialist organisations and Non-Governmental Organisations (NGOs) in the study, evaluation and implementation of social projects and programmes in the field of environmental management. Our relations with such organisations rely on open dialogue, transparency and parity.

### Channels and formats of engagement

- **Cooperation agreements**
- **Meetings and conferences**
- **Publications in the media**
- **Employment of local populations**
- **Social, charity and environmental projects**
- **Public hearings and round tables**
- **Seminars and conferences**
- **Corporate reporting**
- **Our corporate media system**
- **Publications in the media**

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**STAKEHOLDER ENGAGEMENT**

**COMMITTED TO DIALOGUE**

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- **Publications in the media**
- **Employment of local populations**
- **Social, charity and environmental projects**
- **Public hearings and round tables**
- **Seminars and conferences**
- **Corporate reporting**
- **Our corporate media system**
- **Publications in the media**
OUR BUSINESS MODEL

HOW WE CREATE VALUE

OUR RESOURCES

Natural
• 5.3 Bt of coal reserves with >30 years of lifespan
• 8 mines and 18 open pits
• Water, air and soil

Financial
• Optimal net debt/EBITDA structure

Human
• 33,583 employees
• Skills and experience

Operational
• 9 washing and processing facilities
• 15,664 higher-capacity railcars under management
• 3 ports
• Extensive international trade and distribution network
• Research and development (R&D) institute

Relationships
• 1,900 customers in 42 countries
• Contracts with suppliers from 15 countries
• Collective agreements covering 91% of employees
• Partnership agreements with federal and regional authorities and NGOs

OUR VALUE CHAIN

DEVELOP

REHABILITATE

MINE

WASH AND PROCESS

MARKET

DELIVER

VALUE CREATED

Production
107.8 Mt of coal produced

Including 3.4 Mt metallurgical coal and 5.2 Mt sized coal

We also produce
Smokeless briquettes
Cenosphere

Sales
$5,693m
Revenue
International sales 74%
Russian sales 19%
Petroleum coke and other sales 4%
Other 3%
% of the revenue, $%

Markets
42

.value

FACTORS DEFINING OUR ABILITY TO DEMONSTRATE LONG-TERM GROWTH

Commitment to health, safety and environment
Our priority is to minimise safety and environmental risks at each stage of the operational cycle. See more on p. 76-79.

Product development
Our R&D team looks at ways to increase the quality of our coal, while also developing coal-based products for a wide range of industries. See more on p. 69.

Personal development
By investing in our employees, we not only increase their skills and job satisfaction, but also improve the company’s operational efficiency. See more on p. 86-89.

Risk management
Proactive management of internal and external risks helps us meet strategic targets and secure long-term growth. See more on p. 48-59.

Focus on efficiency
Our investments in modern mining equipment and operational improvements deliver cost efficiency and increased productivity. See more on p. 70.

Corporate culture
Our corporate culture encourages employees to achieve results without compromising safety, the environment or ethical relations. See more on p. 88-89.

Corporate governance
We are committed to high standards of corporate governance in line with international good practices. See more on p. 98-100.

Stakeholder inclusiveness
We engage actively with our stakeholders, ensuring that we create value for them at all times. See more on p. 32-33.

VALUE SHARED WITH STAKEHOLDERS

Customers and society at large
Coal is the major source of affordable, scalable and efficient energy for the urbanising world. It is used by many industries and helps to drive economic growth and improve living standards.

OUR RESOURCES VALUE SHARED WITH
STAKEHOLDERS

OUR VALUE CHAIN

VALUE CREATED

PRODUCTION

107.8 Mt of coal produced

Including 3.4 Mt metallurgical coal and 5.2 Mt sized coal

We also produce
Smokeless briquettes
Cenosphere

SALES

$5,693m
Revenue
International sales 74%
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DELIVERING SUSTAINABLE GROWTH THROUGH OUR VALUE CHAIN

Our business model is based on integrated operations, which enable operational and cost controls over the whole business cycle. Such an integrated model results in the following main differentiators.

**OUR MAIN DIFFERENTIATORS**

**QUALITY COAL**
Our vast coal reserves, with over 30 years of lifespan, enable us to produce wide varieties of coal, including coals with less than average content of sulphur and nitrogen, demanded in international markets.

**PRESENCE IN ALL KEY MARKETS**
Our developed logistics and offices in all key markets enable us to service our customers in the most effective way.

**COMPETITIVE CASH COST POSITION**
Operational and cost efficiency ensures SUEK’s profitability and position in the lower tercile of the global cost curve.

**OUR BUSINESS MODEL / CONTINUED**

**DEVELOP**
We research new mining and processing technologies as well as new products to deliver maximum value from our operations.

**MINE**
Our cost-efficient mining activities deliver a sustainable supply of high-quality thermal coal. Regular upgrades of production units enable us to maintain a leading position within our sector.

**WASH**
Washing and processing improves our coal’s market value. Washing reduces ash and increases heat content, which also reduces the environmental footprint of our products.

**DELIVER**
Developed transport infrastructure enables us to reliably and cost-efficiently supply the major markets of Russia, Europe and Asia-Pacific.

**MARKET**
SUEK’s extensive sales network ensures reliable coal supplies to customers in 42 countries.

**REHABILITATE**
We seek to preserve natural habitat for future generations on lands affected by our operations.

**What sets us apart**
Our own R&D institute enables us to improve coal production technologies.

**What sets us apart**
Our deep expertise in mining ensures efficient work in various geological and natural conditions.

**What sets us apart**
Our coal is also crushed and screened so that it can precisely meet customers’ size specifications.

**What sets us apart**
Our higher-capacity railcars deliver coal to our ports where we can make timely and lower-cost shipments.

**What sets us apart**
Our offices help mitigate business risks and sell products in local currency. More than 80% of our international sales are direct to end users.

**What sets us apart**
We seek to utilise and recycle as much waste and emissions as possible.
Securing our leading position in the industry is an important goal for SUEK. We continually look for opportunities to reinforce competitive advantage, expand our market share and develop a socially responsible business. To meet these objectives, we have identified five strategy pillars.

**S1: Focusing on Efficient Growth**
- Achieving balanced management of the reserves portfolio.
- Increasing production of high-quality and in-demand coal products.
- Strengthening our position in the Asia-Pacific region and retaining our presence in the Atlantic market.
- Ensuring the efficient management of port facilities and expanding our ship-loading capacity to maximise exports from Russia.
- Increasing sales in metallurgical and sized coal in premium markets.

**S2: Improving Operational Efficiency and Productivity**
- Improving the efficiency of production facilities and processes.
- Developing washing capacities to improve coal quality.
- Developing the company’s rail infrastructure and fleet.
- Ensuring the efficient management of port facilities and expanding our ship-loading capacity to maximise exports from Russia.
- Increasing sales in metallurgical and sized coal in premium markets.

**S3: Maintaining a Robust Balance Sheet**
- Sustaining profit against the cyclical nature of business.
- Developing a conservative financial policy.
- Avoidance of accidents and fatal accidents.
- Developing social infrastructure in the regions where we operate.
- Reducing adverse environmental impacts.

**S4: Achieving High Safety Standards**
- Staying accident-free and maintaining high safety, continuous improvement and value standards.
- Sustaining profit against the cyclical nature of business.
- Developing a conservative financial policy.
- Avoidance of accidents and fatal accidents.
- Developing social infrastructure in the regions where we operate.
- Reducing adverse environmental impacts.

**S5: Committed to Sustainable Development**
- Ensuring the safety, health and environment of our employees.
- Improving the efficiency of production facilities and processes.
- Developing washing capacities to improve coal quality.
- Developing the company’s rail infrastructure and fleet.
- Ensuring the efficient management of port facilities and expanding our ship-loading capacity to maximise exports from Russia.
- Increasing sales in metallurgical and sized coal in premium markets.

**VALUES**

**Safety and efficiency**
- We are a results-oriented company. As such, we are always looking to improve efficiencies and maximise opportunities.
- But our returns must never compromise safety. Coal mining has inherent high production risks, and we apply every effort to mitigate them.
- Safety is embedded in all our processes and is a non-negotiable part of everyday practice and is a non-negotiable part of everyday processes and is a non-negotiable part of everyday.

**Professionalism and cooperation**
- Professionalism for us means making an active contribution to the company and supporting colleagues. Cooperation is the ability to listen, understand and respect each other.
- As part of our commitment to corporate responsibility and professionalism, we comply with all applicable laws and regulations, build respect into all our interactions with stakeholders, and constantly evolve in order to maintain our high level of performance.

**Stability and development**
- The stability of our company is underpinned not only by our financial and operational strength, but by the skills and commitment of our employees. SUEK puts the welfare and development of its people above all else. We aim to offer fair remuneration, good benefits and decent working conditions, thereby ensuring that our employees can operate to the very best of their abilities.
- Continual development is also crucial to our success. We progress by implementing new technologies, improving working conditions, delivering high-quality products and ensuring the safety, health and productivity of our employees.

**Social responsibility**
- We seek to have a positive impact on the world around us. We take seriously our commitments to society and the environment, and to the communities and regions in which we operate, and follow best practice in social and environmental responsibility. Company interaction with local authorities and public and business associations is focused on the long term, and on mutually beneficial interests and objectives.

**Stakeholders**
- Shareholders
- Financial stakeholders and potential investors
- Employees
- Customers
- Local authorities
- NGOs
- Financial stakeholders and potential investors

**Mission**
- Our mission is to fuel the world by producing coal safely and sustainably, helping to ensure global energy security while delivering value to all our stakeholders.

**Vision**
- Already the top coal producer in Russia, we want to be one of the leading coal companies in the world. We will achieve this by expanding our existing mining and processing assets, investing in new production facilities and further developing our transportation and logistics systems. We also aim to increase output from deposits located closer to our target markets, while continuing to drive innovation and change across the business.

**Delivering on our strategy**
- We believe that our focus on efficiency, safety, continuous improvement and value growth will help us fulfil our mission and achieve our targets.
Our objective is to increase our supply and strengthen our presence in high-margin markets, particularly in the Asia-Pacific region. To this end, we are growing the share of washed coal within our product portfolio, developing sales of premium sized coal and increasing our trade in semi-soft and hard coking coal with international and Russian metallurgical customers.

Our investments in the development of new coal deposits are targeted at the most efficient projects. We also expect to maintain synergies through our association with the Russian power industry by signing long-term contracts with energy producers.

**FOCUSING ON EFFICIENT GROWTH**

Our investments in the development of new coal deposits are targeted at the most efficient projects. We also expect to maintain synergies through our association with the Russian power industry by signing long-term contracts with energy producers.

**2017 RESULTS**

The company maintains a sustainable, high-quality reserves portfolio of thermal and coking coal.

**2017 RESULTS**

SUEK’s total production exceeded 100 Mt for the second time in the company’s history. Hard coal mining increased by 1% to 72.0 Mt. In 2017, we developed new hard coal sites to replace depleting capacities. These included the Magistralny area in Kuzbass, Pravoberezhny open pit in Khabarovsk and Neklov open pit in Primorya.

**2017 RESULTS**

In 2017, SUEK’s deliveries to Asia increased by 2% year-on-year to total 32.7 Mt. Coal sales to the premium markets of Japan and South Korea increased by 9%. Our 2017 sales to the Atlantic market totalled 23.7 Mt, which is a 20% increase compared to 2016. We also achieved higher coal sales through our own and partner distribution networks in Poland, China, Turkey and the Baltic states. We continued the development and efficiency enhancement of distribution networks in these countries.

**2017 RESULTS**

We remained the leading thermal coal supplier in Russia, with a market share of 41%.

**2017 RESULTS**

International sales of metallurgical coal grew to 2.9 Mt in 2017, while sales in the Russian market exceeded the level of the previous year by more than 25% to total 0.5 Mt. Our sized coal sales to the international market in 2017 totalled 4 Mt, a 41% increase year-on-year that was due to the development of our distribution system in Poland.

**2018+ PLANS**

Our goal is to maintain a sustainable portfolio of high-quality thermal and coking coal in order to satisfy market demand and customer requirements. We will continue to explore and monitor attractive coal deposits.

**2018+ PLANS**

We plan to further increase the output of high-quality products through key investment projects, with a focus on production and washing. Projects include:

- Developing the mining facilities in the Khabarovsk region: the Severnyaya mine, Buninsky open pit and Pravoberezhny open pit (bringing the capacity of the latter up to 1 Mt in 2018 with further expansion to 3 Mt);
- Bringing the capacity of the Magistralny area up to 3.8 Mt;
- Bringing the output of the Yalvoskogo mine to more than 10 Mt;
- Increasing production at the Nikitsky open pit (Buryatia) by 50% to 3 Mt;
- Bringing the Neklov open pit capacity to 0.5 Mt;
- Expanding mining operations at the Voskodno-Belinsk open pit (Khabassia) and preparing to bring its production capacity to 5 Mt per year;
- Production optimisation at the Aptsatsky open pit.

**2018+ PLANS**

We plan to enhance our presence in Japan, South Korea, Taiwan and premium markets in South-East Asia. We plan to increase direct sales by further developing our distribution networks in China, South Korea, Poland and the Baltic states.

**2018+ PLANS**

We plan to maintain our leadership in the Russian market and to seek new opportunities to increase sales to Russian customers. We intend to continue selling coal to the major Russian energy producers – SGK, Uniper, Gazprom Energoholding, TGD-14, DSG and others.

**2018+ PLANS**

We plan to develop our presence in the metallurgical coal export market through the sale of Kirevo mine concentrate and Aspatysky open pit coal, and by increasing sales to customers in this sector in Asia. We also aim to increase sales of sized coal to international markets, mainly to Poland, China and Turkey.
We maintain efficient, low-cost coal production by refining our operational processes and modernising our equipment and production units. We will continue to improve internal management processes with the express intention of boosting the overall profitability of the business.

We continued the development and introduction of new-generation railcars, designed according to SUEK’s specifications. The company also continued to collaborate with Russian Railways in the following areas:
• Improving railcar turnover along SUEK’s routes;
• Eliminating constraints on infrastructure and increasing the capacity of connecting stations and their approaches in Kuzbass, Khakassia and Murmansk, and at Nakhodka-Vostochno-Beisky and Toki stations in the Far East. This will enable us to supply coal to customers in line with our strategy up to 2021 and beyond.

We aim to increase the railcar fleet under management to 47,000, including expanding the fleet of higher-capacity railcars to 27,700 in 2018-2019. We will continue to improve railcar turnover along SUEK’s routes.

SUEK also improved the quality of coal cleaning and coal-cleaning services were provided, supplemented by the supply of fresh water to ship crews.

For Key Risks, see Pages 48-49
Nikolai Pilipenko, Chief Financial Officer, said: “Our company is a guarantee of trust for investors. In my opinion, the transparency in providing accurate and reliable information to our current and potential shareholders is crucial. Moreover, despite the fact that SUEK is a coal company, we follow the best environmental practices. We are committed to minimising our impact on the environment, not only the operational but also the social sustainability. We believe that the most socially responsible companies should go unnoticed. However, SUEK is one of these companies.”

SUEK pursues a conservative financial policy. A flexible investment plan allows us to make decisions on project delivery depending on market conditions. In 2016, when prices reached rock bottom at the beginning of the year, we focused exclusively on the most economically efficient investment projects. Thanks to 2017’s favourable market environment, we were able to expand our investment programme by almost 40% over 2016. However, we continue to keep a conservative approach and target stable qualitative growth. This enables us to keep the net debt to EBITDA ratio within the target KPI.

2017 RESULTS
The 6% increase in sales volumes, together with growing prices, enabled SUEK to boost revenue by 42% to $5.69bn. A favourable pricing environment and cost control contributed to EBITDA growth by more than 50%, with the EBITDA margin increasing to 27%. Despite 2017’s significant rise in investments, our growing EBITDA meant that the Net debt/EBITDA ratio fell to 2.0x. This is in full compliance with the requirements of SUEK’s credit facilities.

KPIs

- Revenue ($m)
- EBITDA ($m)
- EBITDA Margin (%)
- Net debt/EBITDA (ratio)
- Operational cash flow/cash CAPEX (ratio)

2018+ PLANS
In 2018, the company plans to sustain its profitablility by maintaining cost controls and focusing on high-margin markets. In 2018, we plan to maintain the optimal ratio of Net debt/EBITDA within the target KPI.

Q: Which KPIs for employees and managers are related to industrial safety?
A: SUEK’s incentive system stipulates that full payment of remuneration to line managers and senior managers is made only if the set industrial safety requirements are met. A universal criterion for assessing performance in this area is the integrated Lost Time Injury Frequency Rate (LTIFR) index. We study and follow the best global practices for monitoring and reducing this indicator. If the result is not within the established limits, managers do not receive annual payments in full. At the same time, those managers who are directly responsible for monitoring and implementing safety standards can see a reduction of up to 50%.

Health and safety KPIs are also incorporated within our project-motivation system, which covers programmes aimed at enhancing business process efficiencies, the delivery of large-scale investment projects and productivity improvements. For all such projects, safe operation is a must. If safety standards might be jeopardised by suggested improvements, projects are revised and payments to the managers responsible are reduced or withheld.

Dmitry Syromyatnikov, Director of HR and Administration, commented: “We will continue to promote our occupational safety culture, including zero tolerance to accidents, across all SUEK’s units. We plan to deliver additional personnel training programmes to help reduce the number of accidents at our sites. SUEK will continue investing in the development of monitoring and safety alert systems.”

Q: In the light of banks’ increasingly stringent environmental responsibility policies, is it becoming more difficult for SUEK to attract the necessary financing?
A: Of course, the surge in negative attitudes towards the coal industry did not go unnoticed. However, SUEK is one of the most socially responsible companies in Russia. Every year, we invest in a variety of projects aiming to minimise not only the environmental impact of our operations but also that of our product. Moreover, despite the fact that SUEK is a non-public company, we follow the best global practices in the field of disclosure, providing accurate and reliable information to our current and potential investors. In my opinion, the transparency of our company is a guarantee of trust for our financing partners.

Nikolai Pilipenko
Chief Financial Officer
DEVELOPING SOCIAL INFRASTRUCTURE IN THE REGIONS WHERE WE OPERATE

2017 RESULTS

During the year SUEK provided 33,583 jobs and paid $110m taxes to local, regional and federal budgets. We continued to collaborate with regional and municipal governments to develop social and educational infrastructure in the communities where we work. SUEK delivered 150 social and charitable projects in the regions where we operate, and community investment totalled $22m.

SUEK delivered a number of new social, business and combined social and business projects. The number of new organisations contributing to community development (‘growth points’) increased by 8% year-on-year to 71. The number of people benefitting from these projects grew to 48,000. This 7% increase was achieved thanks to the active involvement of local populations in social entrepreneurship programmes.

KPIs

<table>
<thead>
<tr>
<th>KPI</th>
<th>2016</th>
<th>2017</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment in public and social projects ($m)</td>
<td>15</td>
<td>16</td>
<td>6.6</td>
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</table>

Growth points

<table>
<thead>
<tr>
<th>2016</th>
<th>2017</th>
<th>% Change</th>
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2018+ PLANS

We will continue our long-term commitments to developing social infrastructures and supporting local communities in the regions where we operate.

We will also continue to invest in key public and social projects.

REDUCING ADVERSE ENVIRONMENTAL IMPACTS

2017 RESULTS

In 2017, we adopted a new environmental policy based on the environmental legislation of the Russian Federation.

Key environmental projects included the design and construction of water treatment facilities, measures to reduce greenhouse gas emissions and land rehabilitation:

• The construction and reconstruction of water treatment facilities in Kuzbass (Yakinskogo, Talninskaya-Zapadnaya 1 and Rubina mines), at Urgal and in Krasnoyarsk (Berezovskoy open pit);

• Commissioning of fog-generation equipment at the Apsatky open pit;

KPIs

<table>
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<tr>
<th>KPI</th>
<th>2016</th>
<th>2017</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment in environmental activities ($m)</td>
<td>15</td>
<td>16</td>
<td>6.6</td>
</tr>
</tbody>
</table>

Suspended and dissolved solids in wastewater (kg per tonne of production) | 0.20 | 0.21 | 5.0 |

Land rehabilitated (ha) | 150 | 150 | 0.0 |

2018+ PLANS

SUEK aims to minimise its environmental impact by implementing appropriate programmes, including projects to reduce methane emissions and constructing treatment facilities.

We will continue to implement energy saving schemes by introducing automated energy management systems. This will enable us to monitor and control energy consumption linked to mining equipment, and ultimately to decrease consumption and emissions.

We will also proceed with the development of our coal washing facilities to enhance the calorific value of our products, which reduces emissions during coal transport and usage.

Q: In 2017, SUEK adopted a new environmental strategy. What is the new approach?

A: The new environmental strategy goes beyond the traditional measures aimed at minimising the emissions linked to our operations as we seek to reuse and recycle as much emissions and waste as possible at all stages of production. For example, in pursuing our aim to decrease greenhouse gas emissions, we capture mine methane, and we reuse it in our power stations to provide electricity for our production facilities.

We also do not limit ourselves to the minimum specified protective measures. As such, we participate in integrated biodiversity monitoring with a view to further developing promising programmes for identifying and preserving rare and endangered plants and animals, ensuring their security and favourable conditions for survival and reproduction.

VLADIMIR ARTEMIEV, CHIEF OPERATIONS OFFICER
Effective risk management is essential to the achievement of SUEK’s strategic goals. We are committed to the continuous improvement of our risk management system, which enables us to identify external and internal risks, analyse them, and develop efficient mitigation measures.

Q: What is the main focus of SUEK’s risk management system?
A: Given the nature of the coal-mining industry, we pay close attention to the risks related to industrial and environmental safety. In addition, we are aware that every year, as our operational, commercial and financial activities grow, the need to manage a wider range of risks in order to ensure the sustainability of our business also increases.

SUEK has implemented a corporate risk management system, which we continue to improve by developing new effective measures to minimize risks across the company. The company’s management is fully informed of all significant risks and approves all key parameters for the risk management system. Risk management issues and processes are closely related to strategic planning and influence operational decisions.

Our Management Board controls and monitors the company’s risk management system, working closely with the Audit Committee of the Board of Directors. The risk management process is carried out in accordance with the risk management procedure developed and approved by SUEK’s Risk Management Committee. This procedure includes the main objectives and principles of risk management, and methods for identifying, assessing and mitigating the risks we face.

Q: How does SUEK mitigate risks connected with initiatives in the field of environmental protection and climate change?
A: We monitor restrictions on coal use as a result of international and national regulatory decisions and PR campaigns. We then make changes to our strategy based on careful risk analysis. In particular, we invest money in activities aimed at increasing the calorific value of our products, which helps reduce their impact on the environment during transportation and use. We also improve the quality of information disclosure in the area of environmental protection in order to maintain access to international capital markets.

In 2017, the company approved activities relating to changes in the Russian legal framework and regulation regarding environmental protection, including the development of a new Environmental Strategy.
EXTERNAL RISKS

Description of risk and its potential impact Change over the year Actions to mitigate the risk

1. Risk of changes in current legislation

The company follows Russian statutory regulations and other regulatory acts 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 and judicial practices. They 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 refining rates. In the international market, we operate via our subsidiary SUEK AG, which has representative offices and subsidiaries in Poland, China, Japan, South Korea, Lithuania, Indonesia, Spain, the US, Vietnam and Taiwan. The Group’s companies operate in full compliance with the statutory and regulatory requirements of all of these countries and regions.

SUEK’s companies can also be affected by unfavorable regulatory acts implemented by foreign authorities. Such changes can involve additional controls on export coal and its subsequent sale in certain countries and regions, or the setting of special conditions for importing goods and services to Russia. International sanctions against Russian individuals and legal entities, as well as industry (sectoral) sanctions, can also impose the limitations on certain sectors of the Russian economy. At the moment, existing sanctions do not directly target Russia’s coal-mining industry, the Group’s companies or their operation. However, a number of economic limitations do currently affect our business and necessitate special control in the selection of counterparties (while closing financial deals, for example). 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.

We constantly monitor proposed projects to amend legislation, as well as Russian legislative and other regulatory requirements. We also review and summarise law enforcement practices, taking into consideration the company’s operation. 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-mining industry, coal markets, transportation, technical supervision, social and labour relations, and financial markets. SUEK constantly monitors (either independently or through external consultants) relevant changes in legislation and law enforcement in other countries where our transactions may fall under local jurisdiction. The company’s management also monitors international sanctions and informs SUEK’s companies and employees about relevant limitations and what they mean for their activities.

2. Regulatory risk

Our production operations are governed by numerous laws and regulations covering natural resource management, mineral exploration and mining, healthcare, and industrial safety. Coal-mining licences obtained by production companies can be suspended, terminated ahead of schedule or left unrevived upon expiry. These risks are mostly dependent on the decisions made by regulating and supervisory agencies (Rosnedra, Rosatomdor and Roszakaz) and ad hoc inspections at the Group’s companies. Changes in national environmental and labour regulations may also influence the thermal coal market.

We make every effort to comply with current legislation, thereby minimising the risk of suspension of operations at our production units. We rigorously monitor any changes in the legislative environment. SUEK’s companies have implemented procedures in order 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. We also seek to adjust our product quality in line with the regulations of the countries where our customers operate.
3. Risk of reduction in coal demand

Reduced use of coal by power-generation companies and the emergence of alternative fuels may result in lower demand for coal. This trend could adversely impact the Group’s performance.

Higher international environmental standards on coal quality and production conditions could also result in reduced demand for the coal we produce.

We wash our coal to improve its quality, enabling us to meet demand for higher-value products from international markets. We constantly monitor the production, sales and market environment within the industry, and prepare coal-demand forecasts based on studies and reports by investment analysts. We diversify our sales to stable and growing markets to make up for declining sales in slowing markets. We also expand our presence in emerging markets and participate in projects to develop new technologies for coal-fired power generation.

7. Anti-monopoly risk

SUEK’s companies occupy leading positions in the production and sale of thermal coal in a number of Russian regions. Consequently, our operations are subject to the anti-monopoly requirements set out in Russian legislation, including obligations and limitations introduced to protect competition within the thermal coal market.

SUEK has implemented procedures ensuring full compliance with the applicable anti-monopoly regulations.

8. Inflation risk

Inflation risk relates to rising inflation rates in the countries where SUEK’s companies conduct their main operations, as well as to individual business transactions. Rising inflation can result in higher production costs.

In order to ensure the appropriate level of protection, we hedge inflation risk by using derivatives and investing available cash assets 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

In 2017, Moody’s confirmed SUEK’s Ba3 rating and improved its outlook to positive.

In 2017, Moody’s confirmed SUEK’s Ba3 rating and improved its outlook to positive.

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 these departments.

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 cover its financing needs.

10. Liquidity risk

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

Liquidity risk also arises from decreases in coal sales volumes or price, which can result in insufficient revenue being generated to service the Group’s external debt.

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 cover its financing needs.

11. Foreign exchange and interest rate risks

Changes in market indicators such as currency exchange and interest rates can have an adverse effect on the Group’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 unhealthy fluctuations in these areas.

Global interest rates increased in 2017 due to the Libor rate increase of 0.5-0.75%; another rate increase is forecast for 2018.

SUEK analyses the risks relating to changes in currency exchange and interest rates on a regular basis. We strive to keep these risks within acceptable limits, and to achieve optimal profitability where possible. We also make use of ‘natural hedging’ as a significant part of the company’s revenue, and the majority of our loans are denominated in US Dollars.

We continuously monitor our compliance with IT security standards, SUEK is developing a system designed to limit access to IT systems while upgrading its IT infrastructure, bringing it into compliance with corporate standards and best practice.

New

We painfully bear the consequences of declining demand for thermal coal, which increases the cost of capacity utilisation and decreases the number of injuries we experience is one of the company’s most important tasks. Damage to or destruction of property due to explosions, fires or failures in equipment operation can result in direct losses. The costs of emergency response and recovery, as well as forced downtime at individual production units, can also negatively impact the Group’s financial results.

5. Risk of emergency situations

Coal mining is inherently dangerous. The risk of accidents and emergency situations at our production facilities is therefore constant and requires due diligence, robust management and mitigation. Preventing fatal accidents and decreasing the number of injuries we experience is one of the company’s most important tasks. Damage to or destruction of property due to explosions, fires or failures in equipment operation can result in direct losses. The costs of emergency response and recovery, as well as forced downtime at individual production units, can also negatively impact the Group’s financial results.

We continuously monitor hazards at all stages of operation, paying close attention to safe production processes and procedures. All accidents and incidents are thoroughly investigated by experts who serve as members of special panels. Based on the results of their work, we prepare packages of measures to prevent similar accidents from happening in the future.

We continuously monitor the price behaviour of commodities in general and coal in particular. We also monitor trade policies relating to the pricing and production regulation introduced by Chinese authorities. Its impact may continue into 2018.

In 2017, global coal prices increased significantly compared to 2016, mainly due to the pricing and production regulation introduced by Chinese authorities. Its impact may continue into 2018.

6. Risk of reduction in coal prices

The company’s business may be affected by a decline in demand for coal and a reduction in coal prices due to oversupply and growth in demand for alternative fuels. A reduction in global prices for coal and natural gas (the main types of fuel in the power industry) is a key factor which could change the situation for the worse.
12. Risk of restricted infrastructure availability

The risks consist of reduced access to railway and port infrastructure, electricity networks and water facilities. Limited access to infrastructure can result in reduced profit due to higher operational costs, and losses due to downtime at our production units. For SUEK, this risk can increase as a number of our facilities operate in regions where harsh environments 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 forced suspension of production, which in turn can negatively impact our operational and financial performance. Certain infrastructure is operated by state-owned monopolies. Operation of such facilities is subject to tariff regulation, which can affect the availability and quality of the services in question.

13. Production risk

In our operations, we face various production risks linked to different factors. These can be either internal (downtime, adverse geology, low coal quality) or external (higher fuel, electricity and equipment requirements and service prices, and the failure of suppliers and contractors to fulfil their obligations). Such factors can affect production targets, which sometimes requires additional expenses, resulting in an increase in our overall production costs.

14. Health and safety risk

Coal mining is 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. Major emergencies can negatively impact SUEK, leading to a possible increase in reputational risk, the discontinuation of business partnerships or claims from the company’s lenders for early loan repayments.

15. Environmental risk

The environmental risks related to coal mining and washing include air emissions of pollutants and coal dust, contamination of soil and water, and land disturbance by mining activities. These negative impacts can result in claims from regulatory authorities and the suspension of operations, which in turn affect the company’s operational and financial performance.

In 2017, numerous meetings were held in Russia, promoting consensus among business and government representatives regarding the approach to creating regulatory acts in the field of environmental legislation. These meetings also addressed the adoption of best available technologies. This balanced approach should ensure that both environmental protection and Russian commercial interests can be pursued equally in the years ahead.

Given the high degree of uncertainty in the development of environmental legislation in Russia, SUEK prefers a proactive approach and in 2017 adopted a new Environmental strategy to ensure that new environmental protection requirements can be met by 2023, minimising risks in this area.

16. Human resource risk

Experienced and highly qualified personnel, in particular mining engineers and mine workers, are the company’s most important assets. Failure to recruit and retain qualified personnel can result in missed production targets and increased costs. The socio-demographic situation in Russia increases the risk of a qualitative and quantitative human-resource deficit. Factors complicating recruitment include 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.

SUEK develops a system of employee training and professional development. We also work to improve motivation initiatives and enhance remuneration. In terms of recruitment, we actively search out and support talented vocational college and university students, providing them with employment opportunities at SUEK’s facilities. In addition, we implement projects aimed at delivering social development, including improving housing conditions in the regions where we operate.
OUR ASSETS

A SOLID ASSET BASE

SUEK’s operations in Russia extend from West to East across eight regions and seven time zones. Our efficient production assets, port facilities and rail infrastructure are widely spread across the country, enabling strong connections with our customers in all key markets. As one of the largest companies and employers in Russia, we are also deeply committed to sustainable business development, providing social, environmental and economic support to the regions where we operate.

In the Kemerovo region, SUEK mines high-quality hard coal from underground mines and open pits located in the Kuznetsk basin (Kuzbass). To refine the mined coal and achieve the quality required by our customers, we treat it at four washing plants.

Products with calorific values of 5,800-6,100 kcal/kg are principally supplied to energy companies in Europe and Asia. Meanwhile, coal with a calorific value of 5,000-5,700 kcal/kg is mainly required by Russian power-generation companies. High-quality concentrate from the Kirova mine is supplied to metallurgical coal markets in Asia and Russia.

Finished products are transported by the United Production and Transport Department of Kuzbass to four connecting stations: Terentyevskaya, Leninsk-Kuznetsky 1 and 2, and Bakhaim.

Production in 2017: 38.2 Mt

Hard coal

As one of the major employers and taxpayers in the region, SUEK also makes a significant contribution to social development in Kemerovo region. Each year, we fund and support various education, healthcare and infrastructure development projects.

Key to the assets

- Hard coal
- Brown coal
- Underground mine
- Open-pit mine
- Washing facilities
- Port
- Russian sales market
- International sales market

In 2017, we rolled out capacity development projects aimed at increasing the efficiency of export-quality coal production. These included:

- Launching new and highly productive mining equipment at the Yalevskogo and Taldinskaya-Zapadnaya 2 mines;
- Commissioning a new site – Magistralny – at the Rubana mine;
- Improving loading capacities of the Taldinskaya-Zapadnaya 1 mine and plant, Taldinskaya-Zapadnaya 2 mine and Zarechny open pit;
- Continued upgrading of Kirova and Polysaevskaya plants;
- The increase in the capacity of the Zarechny open pit section up to 6 million tonnes per year, and the purchase of seven heavy-duty dump trucks with a payload capacity of 220 tonnes, which allowed us to increase the efficiency of freight transportation and to terminate contracts with third-party suppliers.

In 2017, investments in the capacity development of SUEK Kuzbass assets totalled $314m.

As one of the major employers and taxpayers in the region, SUEK also makes a significant contribution to social development in Kemerovo region. Each year, we fund and support various education, healthcare and infrastructure development projects.

Production units

- Kirova mine
- Polysaevskaya mine
- Komsomol’sk mine
- Rubana mine
- Yalevskogo mine
- Taldinskaya-Zapadnaya 1 mine
- Taldinskaya-Zapadnaya 2 mine
- Zarechny open pit
- Kamyshansky open pit

Processing facilities

- Kirova WP (modules No.1 and No.2)
- Komsomol’sk WP
- Polysaevskaya WP
- Taldinskaya-Zapadnaya 1 WP
- Taldinskaya-Zapadnaya 2 WP

In addition, the company operates four coal-sizing facilities in the region.

Transport facilities

- United Production and Transport Department of Kuzbass

New opportunities at Rubana mine

In December 2017, we commissioned a new surface site and underground area – Magistralny – at the Rubana mine. The commercial reserves of the developed seam are 19.3 million tonnes. The mining equipment includes TAGOR 24/50 power support sections on a 300 metres long face, an Eickhoff SL-500 shaver and a DFB SH-PP 4/1132 face conveyor.
Our production units in the Krasnoyarsk region extract brown coal from three open pits in the Kansk-Achinsk basin. This coal is supplied mostly to the Russian market, principally to heat and power stations and public utilities within the region. High efficiency mining is provided by one of the lowest overburden thickness ratios among all SUEK production facilities. This means the units here have the lowest stripping ratio among SUEK’s production units. Operational efficiency is also boosted by the fact that coal loading is performed directly into railcars or onto conveyor belts.

In 2017, we carried out major development projects aimed at ensuring production safety:

- Upgrading the electrical centralisation at Ugolnaya station at the Borodsinsky open pit;
- Upgrading electric excavating equipment;
- Equipping excavators, tractors and bulldozers with automatic fire extinguishing systems.

Total investment in capacity development in Krasnoyarsk region in 2017 amounted to $18m.

Due to our extensive presence in the region, we have a large responsibility to develop the region and support its inhabitants. One of our key social investments during the year was our Chess for Children project, which was opened by the world chess champion Anatoly Karpov. We try to make ‘chess art’ accessible to all children, even in the most remote regions of Russia.

During the year, in total we invested $57m in the development of the region’s capacities. SUEK is fully committed to the social development of the region, and provides funds for various education, healthcare and infrastructure initiatives. As part of our work with the Global Environment Facility and United Nations Development Programme (UNDP), we have been running a project called ‘Mainstreaming Biodiversity Conservation into Russia’s Energy Sector Policies and Operations’.

Production units¹
- Chernogorsky open pit
- Vostochno-Beisky open pit
- Izykhsky open pit

Processing facilities
- Chernogorsky WP
- Vostochno-Beisky WP
- Izykhsky WP

In addition, the company operates three coal-sizing facilities in the region.

Transport facilities
- Promtrans

During the year, we focused on increasing our share of export-quality coal and developing environmental initiatives. Key projects included:
- Developing the Chernogorsky open pit and washing plant;
- Constructing water treatment facilities at the Vostochno-Beisky open pit (stage 1);
- Upgrading the Chernogorsky Repair and Engineering Works for the development of new types of services.

1. The Khakasskaya mine was closed in 2017 because of the depletion of commercial efficient resources.

Production in 2017:
- 13.0 Mt Hard coal

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Production in 2017:
- 27.6 Mt Brown coal
We extract high-quality hard coal at the Tugnuisky open pit and the Nikolsky open pit, located in Buryatia and Zabaikalye. At these pits we use modern equipment and employ sophisticated planning, operational and management systems. Coal from the open pits is washed at the Tugnuisky washing plant, which has an annual capacity of 10.31 million tonnes. Washing reduces ash content from 28% to 14% and increases calorific value from 4,600 kcal/kg to 5,650 kcal/kg. Most of this coal is exported to the Asia-Pacific market. The low-nitrogen hard coal extracted at Tugnuisky and Nikolsky open pits meets the requirements of Japanese power utilities. Some coal is delivered directly to China by rail across the Russian-Chinese border. Washed products are transported to the connecting station Chelutay by the Tugnuisky Production and Transport Department. The remaining coal is sold to Russian power plants and utilities.

In 2017, key capacity-development projects included:

- Commissioning the upgraded ESh 20/90 dragline with innovative and energy-efficient control systems;
- Beginning construction of a new washing module at the Tugnuisky washing plant. Total investment in capacity development in Buryatia in 2017 amounted to $78m.

On the social development side, SUEK encourages social entrepreneurship in the region. We have set up a resource centre in Buryatia to support small businesses and NGOs by providing targeted education for their future leaders. Buryatia also participates in a company programme aimed at promoting social entrepreneurship among young people called ‘Future of the region – future of SUEK’.

Production in 2017:

- 13.6 Mt Hard coal
- 4.5 Mt Brown coal

Production units
- Tugnuisky open pit
- Nikolsky open pit

Processing facilities
- Tugnuisky WP

Transport facilities
- Tugnuisky Production and Transport Department

In Zabaikalye, Kharanorsky and Vostochny open pits produce brown coal, which is supplied predominantly to local Russian power stations. Apsatsky coking coal deposit, located 40 km from the Baikal-Amur Mainline railway, extracts high-quality, mid-volatile coking coal, which is in high demand in Asian coking coal markets and in Russian metallurgical markets.

In 2017, our main project objectives in Zabaikalye were to increase the efficiency of mining equipment. We switched to higher capacity excavators and dump trucks, and optimised machinery maintenance and repair processes in order to increase productivity. Investment in capacity development in Zabaikalye in 2017 totalled $11m.

SUEK also continued to focus on improving the living conditions in the Apsatsky open-pit camp, where employees work on a rotational basis.

- Commissioning the upgraded ESh 20/90 dragline with innovative and energy-efficient control systems;
- Beginning construction of a new washing module at the Tugnuisky washing plant.

Total investment in capacity development in Buryatia in 2017 amounted to $78m.

On the social development side, SUEK continues to focus on improving the living conditions in the Apsatsky open-pit camp, where employees work on a rotational basis.

Production units
- Apsatsky open pit
- Kharanorsky open pit
- Vostochny open pit

Processing facilities
- The company operates two coal-sizing facilities in the region.

Production in 2017:

- 0.7 Mt Coking coal
- 4.5 Mt Brown coal
The company’s key mining operations in Khabarovsk are located at the Urgal deposit in the Bureinsky basin. The proximity of Khabarovsk’s assets to our Vanino Bulk Terminal represents a significant strategic advantage. The Bureinsky open pit and the Severnaya underground mine both produce hard coal. This coal is washed at the Chegdomyn washing plant and a second processing facility at the Bureinsky open pit, which increases its calorific value from 4,300 kcal/kg to 5,850 kcal/kg. Coal from this region is mainly transported to our nearby Vanino Bulk Terminal and the Asia-Pacific market, and to Russian power generation customers located in the Khabarovsk and Primorye regions. Due to its strategic location, and the high calorific value of its hard coal, the company invests significantly in the mining, washing and transshipment capacity of the region. It also invests in its environmental safety.

During the year we paid particular attention to environmental issues at the Urgal deposit and began construction on a number of new water treatment facilities.

The Vanino Bulk Terminal is a crucial export gateway from Russia to the Asia-Pacific market. It provides the shortest route from our production facilities (with direct access to the Trans-Siberian Railway and Baikal-Amur Mainline) to customers in China, South Korea, Japan and Taiwan. In 2017, SUEK shipped 19.5 million tonnes through this terminal.

Total investment in capacity development in the Khabarovsk region in 2017 amounted to $95m.

In November 2017, we started production at a new open pit at the Urgal deposit called Pravoberezhny, which has a design capacity of 3 million tonnes of coal per year. Coal from the new open pit is also washed at the Chegdomyn washing plant.

Production units
Severnaya mine
Bureinsky open pit
Processing facilities
Chegdomyn WP
Processing facility at Bureinsky open pit
Transport facilities
Vanino Bulk Terminal

Production in 2017:

6.6 Mt
Hard coal

Expanding mining capacity at Urgal

In 2017, SUEK completed the development of the external railway infrastructure at the Vanino Bulk Terminal, which has increased annual transshipment capacity to 24 million tonnes. We also completed the first stage of cleaning and sorting equipment upgrades to improve the quality of coal cleaning and sizing. In addition, to enhance environmental safety at the terminal we procured and installed new equipment, including an automatic air monitoring system, an additional pile spraying system, and a dust suppression system in the car dumper hall. We also procured dust suppression equipment for the stacker-reclaimer.

Enhancing capacity and quality at Vanino Bulk Terminal

In 2017, SUEK completed the development of the external railway infrastructure at the Vanino Bulk Terminal, which has increased annual transshipment capacity to 24 million tonnes. We also completed the first stage of cleaning and sorting equipment upgrades to improve the quality of coal cleaning and sizing. In addition, to enhance environmental safety at the terminal we procured and installed new equipment, including an automatic air monitoring system, an additional pile spraying system, and a dust suppression system in the car dumper hall. We also procured dust suppression equipment for the stacker-reclaimer.

Our assets in the Primorye region are located in the Pavlovsky brown-coal basin and the Lipovetsky hard-coal deposit. SUEK’s Primorye mines are situated near Russia’s eastern coast, which generates significant savings on transportation costs when supplying coal to Asia-Pacific markets.

In 2017, the company began the development of the Nekkovy open pit, which will produce hard coal with a calorific value of 4100 kcal/kg. In December 2017 we started production and produced 21 thousand tonnes by the end of the year. This coal will be processed at a dry washing facility.

In Primorye, SUEK ships coal through Maly Port, where the Group is a major shareholder, with a 49.9% share. In 2017, we shipped 2.9 million tonnes through Maly Port to Asia-Pacific customers, mainly in Japan, South Korea, China, Taiwan and Vietnam. Since 2014, we have been implementing a port development programme with a view to increasing its capacity to 4 million tonnes by 2019. This programme includes purchasing key equipment for unditching, loading and coal sorting, and expanding the warehouse area. In 2017, our design documentation for the reconstruction of berths and port dredging passed the necessary environmental impact assessments and were approved by the relevant state authorities. As part of our environmental activities at the port, we installed protective covers on telescopic conveyors, purchased mobile dust suppression units and used protective canopies for transshipment operations.

During the year, SUEK continued to support social and environmental projects in the region, including the ‘Land of the Leopard’ national park, which we have sponsored since 2015. Total investment in capacity development in Primorye in 2017 amounted to $22m.

Production units

Novoshakhtinskoye, comprising Pavlovsky open pit and Severnaya Depressia open pit
Nekkovy open pit

Processing facilities
Dry washing facility at the Nekkovy open pit

In addition, the company operates one coal-sizing facility in the region.

Transport facilities
Maly Port

Production in 2017:

0.07 Mt
Hard coal

3.5 Mt
Brown coal

¹ The Vostochnoe mine was closed in 2017 because of resource depletion, and the adjacent plant was also closed.
1. As at 31 December 2017 SUEK’s share in Murmansk Commercial Seaport was 84.2%, in January 2018 SUEK increased its holding to 97.1% of the voting shares.
PROGRESS AND ACHIEVEMENT

In 2017, we delivered an excellent operational performance through the implementation of our strategic programme, with a core focus on expansion of capacity of mining and washing and the development of our sales network in growing markets.

The introduction of high-performance equipment ensured coal production above 100 million tonnes for the second year. A significant increase in coal washing and in the average calorific value of our products, as well as the development of our own distribution network, allowed us to supply even more products to premium markets.

Throughout the year, we invested in the upgrade of mining assets, and the expansion of washing and logistic capacities in order to ensure sustainable development of the business in the long term.

Sales highlights

In 2017, our sales volumes increased by 6% year-on-year, reaching 109.7 million tonnes. We sold 48% to Russian customers and 52% to export markets.

International coal sales volumes grew by 6% to 54.2 million tonnes. The main markets we sold to globally included China, South Korea, Japan, the Netherlands, Taiwan, Germany, Morocco, Poland, Israel and Turkey.

In accordance with our strategic priorities, we increased the supply to premium markets by 4% to 34.5 million tonnes due to the cessation of production at the November 7th, Vostochnoe and Khakasskaya underground mines as a result of commercial resource depletion.

High-quality hard coal production increased by 1% and accounted for 67% of our total production, more than half of which was produced at the mines and open pits of the Kemerovo region.

Brown coal production, mainly mined at our open pits in the Krasnoyarsk region, rose by 4% year-on-year as a result of more robust demand for coal from Russian power-generating companies.

The productivity of production workers at our mining units increased by 9% due to improved operational efficiency and staff development programmes.

SUEK’s total sales grew by 2% to 32.7 million tonnes due to increased exports to the traditional premium markets of South Korea, Taiwan and Hong Kong, and larger supplies to China, including through our own distribution network.

Coal shipments to the Atlantic market grew by 20% to 23.7 million tonnes. This growth was mainly associated with sales to the Mediterranean region – Spain, Italy, Israel and Morocco, as well as with the development of our own distribution network in Poland.

Traditionally, the company paid special attention to sales of premium products – sized and metallurgical coal. Total sales of sized coal, including sales through our own distribution networks in Poland, China and the Baltics, as well as in the Russian market, grew by 60% to 5.2 million tonnes. Sales of metallurgical coal increased by 10% to 3.4 million tonnes.

SUEK’s supplies to the Russian market grew by 4% to 53.3 million tonnes of coal, 4.1 million tonnes of which were sold to electric power plants. The increase in sales is explained by the low water levels of Siberian rivers and contraction in the hydropower sector.

Mineral resources

SUEK’s Russian sales structure (million tonnes)

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<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>% change</th>
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<tr>
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<td>211.1</td>
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<tr>
<td>Asia-Pacific</td>
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<td>79.9</td>
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<td>Japan</td>
<td>12.1</td>
<td>12.7</td>
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<td>8.8</td>
<td>10.3</td>
<td>12.2</td>
<td>16.1</td>
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<tr>
<td>Germany</td>
<td>5.8</td>
<td>5.0</td>
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<td>15.6</td>
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Sales structure by markets

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Operational highlights

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<td>-4%</td>
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<tr>
<td>• open-pit</td>
<td>73.3</td>
<td>69.6</td>
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<tr>
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<td>34.5</td>
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<tr>
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<td>82.5</td>
<td>87.9</td>
<td>6%</td>
</tr>
<tr>
<td>Shipments</td>
<td>47.8</td>
<td>46.5</td>
<td>3%</td>
</tr>
<tr>
<td>Vanino Bulk</td>
<td>19.5</td>
<td>19.6</td>
<td>0%</td>
</tr>
<tr>
<td>Murmansk</td>
<td>14.6</td>
<td>14.2</td>
<td>3%</td>
</tr>
<tr>
<td>Malys Port</td>
<td>2.9</td>
<td>2.8</td>
<td>4%</td>
</tr>
<tr>
<td>Other ports</td>
<td>19.8</td>
<td>19.0</td>
<td>8%</td>
</tr>
<tr>
<td>Sales</td>
<td>109.7</td>
<td>103.1</td>
<td>-6%</td>
</tr>
<tr>
<td>International</td>
<td>56.4</td>
<td>51.9</td>
<td>9%</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>32.7</td>
<td>32.1</td>
<td>2%</td>
</tr>
<tr>
<td>Atlantic</td>
<td>23.7</td>
<td>19.8</td>
<td>20%</td>
</tr>
<tr>
<td>Included</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• third-party</td>
<td>8.8</td>
<td>8.2</td>
<td>7%</td>
</tr>
<tr>
<td>• Petroleum</td>
<td>2.2</td>
<td>0.8</td>
<td>175%</td>
</tr>
<tr>
<td>• Domestic</td>
<td>53.3</td>
<td>51.2</td>
<td>4%</td>
</tr>
<tr>
<td>• Brown coal</td>
<td>33.6</td>
<td>32.8</td>
<td>2%</td>
</tr>
<tr>
<td>• Hard coal</td>
<td>19.7</td>
<td>18.4</td>
<td>7%</td>
</tr>
</tbody>
</table>

Production by mining method (million tonnes)

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Open-pit</td>
<td>105.4</td>
<td>107.8</td>
<td>2%</td>
</tr>
<tr>
<td>Underground</td>
<td>97.3</td>
<td>105.3</td>
<td>8%</td>
</tr>
<tr>
<td>Brown coal</td>
<td>64.6</td>
<td>69.7</td>
<td>8%</td>
</tr>
<tr>
<td>Hard coal</td>
<td>38.9</td>
<td>38.2</td>
<td>-2%</td>
</tr>
</tbody>
</table>

For market review, see pages 15-27.
Washing highlights

In line with the strategic priority of increasing our output of high-quality products, the total volume of washed coal grew by 12% to 41.9 million tonnes year-on-year. This was achieved through capacity upgrades and increased volumes at our existing washing plants. Washed coal, as a share of produced hard coal, was 58% in 2017 compared to 52% in 2016.

<table>
<thead>
<tr>
<th>Coal washed (million tonnes)</th>
<th>33.0</th>
<th>29.4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Washed coal share of hard coal production (%)</td>
<td>12% compared to 2016</td>
<td>6p.p. compared to 2016</td>
</tr>
</tbody>
</table>

Industrial safety

Ensuring safe working conditions for employees, and minimising the risks associated with coal mining and processing, are among our top priorities. From 2015 to 2017, our main indicator of industrial safety – the Lost Time Injury Frequency Rate (LTIFR) – fell from 1.2 to 1.0 at our production units. We registered 56 industrial accidents at our sites in 2017. Regrettably, there were three fatal accidents at the company’s production facilities in 2017. Two of them occurred during underground mining operations in Kuzbass and one at our service facility in the Krasnoyarsk region. To avoid such accidents in the future, we are carefully analysing their causes and continue to promote best health and safety practice across the company. We rolled out training sessions for our safety managers and professionals to increase levels of awareness, competence and skill. In addition, we included questions based on the results of the investigation in express safety-knowledge testing among our production workers. In 2017, we spent $55m on programmes aimed at improving industrial safety and labour protection.

| Lost time injury frequency rate¹ (LTIFR) | 1.2 compared to 2016 | 0% compared to 2016 |

Supply chain

Our interaction with suppliers and business partners is aimed at the development of reliable long-term relationships based on the strict fulfilment of contractual obligations and compliance with business ethics. We pay special attention to our suppliers’ compliance with the principles of social responsibility, particularly in the field of industrial safety and labour protection. Adherence to standards in this area is one of our contractual requirements for suppliers. We also closely monitor quality within suppliers’ production processes. SUEK’s supplier selection process is based on regulative and competitive procedures. This provides the necessary level of transparency and efficiency for all procurement activities.

In 2017, the number of SUEK’s suppliers totalled 6,082. Of these, over 95% are located in Russia. When equipment is needed that is unobtainable in Russia, we look to leading international manufacturers from Germany, Austria, USA, China, Japan and others.

SUEK’s procurement maturity

According to procurement maturity research by A.T.Kearney consulting company, in 2017 the maturity of SUEK’s procurement processes was assessed at 2.55 out of 3.0 maximum points, which is twice higher than in 2014 and almost three times higher than in 2010. High maturity level was reflected in the key efficiency indicator by A.T.Kearney – return on supply management assets (ROSMA). For the leading companies from the first quartile this indicator amounted to $13 per $1 of procurement costs. Meanwhile, SUEK’s ROSMA reached $25. Therefore, SUEK was in the first quartile both by maturity and ROSMA in 2017.

<table>
<thead>
<tr>
<th>Progress of SUEK’s procurement maturity</th>
<th>3.00</th>
<th>2.75</th>
<th>2.50</th>
<th>2.25</th>
<th>2.00</th>
<th>1.75</th>
<th>1.50</th>
<th>1.25</th>
<th>1.00</th>
<th>0.75</th>
<th>0.50</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st quarter</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2nd quarter</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3rd quarter</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4th quarter</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


Transportation highlights

Rail transportation

Rail provides a vital means of cost-efficient coal transportation and delivery. The Russian Railway network is of crucial strategic importance to SUEK, and in 2017 we transported 82.5 million tonnes of coal via Russian Railways. This constituted 216¹ of the total tonnage of coal transported at our production units in the year. We use railways to deliver our products to Russian consumers and reach ports in the Far East and the North West of Russia. Together with Russian Railways, we are carrying out projects to increase the capacity of the railways and to make more efficient use of railcars. Also of key importance is the Eastern Polygon development programme, which involves the expansion by year-end 2018 of tracks and major junctions across the Trans-Siberian Railway and the Baikal-Amur Mainline. By eliminating infrastructural constraints along the routes we use for cargo transportation, we will be able to increase our export shipments of coal, including those that pass through Vanino Bulk Terminal. SUEK’s own railway infrastructure includes 746 km of railway track, 16 internal loading stations and about 190 locomotives, providing access to the national railway network. Projects underway are expected to increase the throughput of our internal railway stations and tracks to increase the volumes of transported coal. This will benefit our developing production units in Kuzbass, Khakassia and Buryatia. SUEK currently manages one of the largest railcar fleets in Russia. It includes 15,664 new railcars with 75- and 77-tonne capacity and a service life of up to 32 years. In 2017, the company increased its fleet of these high-capacity cars by over 30%. This helped us to reduce the number of railcars we use monthly for coal transportation by 300 units to 48,200 railcars.

<table>
<thead>
<tr>
<th>Rail transportation (million tonnes)</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal shipment</td>
<td>10.8</td>
<td>10.8</td>
<td>14.6</td>
</tr>
<tr>
<td>Other ports</td>
<td>18.3</td>
<td>18.3</td>
<td>20.8</td>
</tr>
<tr>
<td>Murmansk Commercial Seaport</td>
<td>52.0</td>
<td>52.0</td>
<td>52.0</td>
</tr>
<tr>
<td>Vanino Bulk Terminal</td>
<td>41.6</td>
<td>41.6</td>
<td>41.6</td>
</tr>
</tbody>
</table>

1. The LTIFR indicator was adjusted in 2016 due to the introduction of logistics block entities in the perimeter of the calculation.

1. In January 2018 SUEK increased its holding in Murmansk Commercial Seaport to 97.1% of the voting shares.

Coal shipment (million tonnes)

In January 2018 SUEK increased its share of Murmansk Commercial Seaport to 84.9%. We shipped 14.6 million tonnes of coal to the Atlantic market through the port in 2017, which constitutes a 3% year-on-year increase.

We also shipped 2.9 million tonnes through Maly Port, located in the Russian Far East, a 1.5% increase year-on-year, and 10.8 million tonnes through other ports.
In 2017, amidst a favourable market environment we put an emphasis on development projects, in addition to the traditional investment in maintaining our current capacities. Special attention was paid to industrial and environmental safety projects. The total capital expenditure amounted to $725m.

During the year, the company implemented a range of key investment projects, including:

• Developing the Pravdoberzhey open pit in Ugurl, with a prospective annual capacity up to 3 million tonnes. The project is being implemented ahead of schedule. Mining began in November 2017, and the planned output for 2018 exceeds the original target by 0.5 million tonnes;

• Developing the Magistralny site at the Rubana mine in Kuzbass, with a prospective annual capacity of up to 3.5 million tonnes. In December 2017, in accordance with the approved schedule, we started mining from the first longwall panel;

• Increasing the mining capacity in Buryatya to 15.5 million tonnes following the development of the Nikolsky open pit and washing capacity of Tuguyinsk washing plant to 14 million tonnes’ following the construction of a new module for washing small-sized coal. The project was launched in 2017 and aims to increase deliveries of washed coal with a high calorific value to premium Asian markets;

• Increasing production of thermal, export-quality coal in the Kuzbass, including the development of a 400-metre wide longwall, a unique undertaking in Russia and, in line with the best international practices. In April 2017, the first 400-metre longwall was launched at the Yalevskogo mine; in May 2017, production totalled 1.407 million tonnes – a new record for Russian companies, and in June the record was raised to 1.567 million tonnes. Due to this success, in 2017 we initiated equipment upgrades in order to increase the length of two more longwalls to 400 metres (at the Yalevskogo and Taldinskaya-Zapadnaya 2 mines). These are planned to be commissioned in late 2018 and early 2019;

• Expanding our railcar fleet by 2,563 units. Also during the year we implemented a number of smaller projects, such as expanding the capacity of the Bureinsky open pit by 20% to 3 million tonnes per year, purchasing new 220 tonne BelAZ trucks in order to improve our transportation efficiency in Kuzbass, and abandoning outsourcing. In addition, we worked on expanding the capacity of the Zarechny open pit from 4 to 6 million tonnes per year.

In 2017, SUEK continued to invest heavily in environmental projects, primarily in the construction of treatment facilities for a number of units using advanced wastewater treatment technology. We also invested in activities aimed at suppressing dust at SUEK’s ports and other projects.

Investment projects

Our priorities for 2018

Our priorities for 2018 are to achieve long-term competitive advantages by improving the operational efficiency on the entire value chain, developing our railway and port logistics, expanding our coal washing capacities and investing in assets that maximise our export margins. In 2018, we plan to produce more than 110 million tonnes of coal. As part of our development strategy, we are going to develop new assets such as the Magistralny site at the Rubana mine in Kuzbass, Pravdoberzhey open pit in Ugurl, and Nikko open pit in Primorye. Our investment programme will mainly focus on further implementation of key development projects and environmental, safety and capacity maintenance projects.

In addition to these activities, in 2018 SUEK plans to start the expansion of the capacity of the Vostochno-Belisky open pit in Khakasia by 43% to 5 million tonnes per year, while simultaneously building a washing plant with a capacity of 4 million tonnes per year. Also, we will optimise the resource development scheme at the Severnaya mine in Ugurl, namely the transition from using two 250-metre longwalls to a single high-performance 400-metre longwall. We also plan to increase the sales of high-calorific thermal coal and sized coal, as well as thermal coal with a calorific value of 5,600-5,800 kcal/kg.

In terms of logistics, we will continue to change our transportation structure, in particular by significantly increasing the share of owned and leased railcars we manage (prioritising high-capacity railcars), in order to guarantee over 70% of the railcar capacity we require. Furthermore, our development programme is aimed at improving the efficiency of rail transportation in general.

We believe that shipment volumes to the Asia-Pacific market via Vanino Bulk Terminal may exceed 21.5 million tonnes in 2018, once the main stage of infrastructure development has been completed. SUEK also plans to transship 3.1 million tonnes of coal through Malaya Port to Asia in 2018, and more than 14.5 million tonnes to the Atlantic market through Murmansk Commercial Seaport. Safety improvements remain our top priority, and in 2018 we aim to avoid accidents including fatal accidents and to further decrease our injury rate.

Overview

In 2017, after several difficult years, the global market was characterised by a more stable and favourable price level for coal producers. A significant rise in the indices was due to the regulatory actions of the Chinese government, as well as a lower supply of coal (for more details, see Market Review on page 25).

During the year, SUEK actively exploited the favourable situation on the global market. Our international sales of coal increased by 6% year-on-year to 54.2 million tonnes, which meant the company maintained its place among the five largest coal suppliers in the world. The main obstacles to further increasing our shipments was the railway transportation market in Russia, which was impacted by a severe shortage of railcars, and a sharp increase in both the cost of operator services and railcar lease rates.

In 2017, amidst higher coal prices in the global market and stable demand in key regions, SUEK made good progress in financial performance compared to the previous year.

The growth of global coal prices in the second half of the year and more robust demand in the domestic market enabled the company to boost its revenue. An increase in the output of products with a high calorific value, combined with the development of our sales networks, contributed to better sales, including those in premium Asian markets, which had a positive impact on our financial performance.

We also continued to implement projects aimed at increasing the number of railcars under management and expanding our shipment capacity. High investment in high-performance equipment, washing and logistics assets enhances our competitiveness in the market and secures a stable financial position in the long term.
Revenue
SUEK’s export revenue from coal sales increased by 44% to $4,190m. This was the result of several factors, including a higher average sales price (up 38%) and an increase in sales by 6%.

The growth in revenue in the Russian market in US Dollar terms by 20% to $1,097m is mainly explained by the strengthening of the Ruble and a 4% year-on-year sales volume growth.

Revenue by market ($m)

<table>
<thead>
<tr>
<th>Market</th>
<th>2017</th>
<th>2016</th>
<th>Change, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>International</td>
<td>1,349</td>
<td>971</td>
<td>39%</td>
</tr>
<tr>
<td>Domestic</td>
<td>560</td>
<td>419</td>
<td>35%</td>
</tr>
</tbody>
</table>

SUEK’s Russian sales structure ($m)

<table>
<thead>
<tr>
<th>Structure</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Russian coal sales</td>
<td>60%</td>
</tr>
<tr>
<td>2. International coal sales</td>
<td>24%</td>
</tr>
<tr>
<td>3. Other sales</td>
<td>16%</td>
</tr>
</tbody>
</table>

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

- 36% compared to 2016

Average price of coal sold in Russia ($ per tonne)

- 17% compared to 2016

Transportation costs
Rail transportation costs in US Dollar terms increased by 39% ($378m) compared to 2016, mainly due to the effect of Ruble appreciation, higher average weighted transportation cost in Roubles, and the increase in rail transportation volumes. The higher rates for domestic and export traffic seen during the year can be mainly explained by the increase in tariffs for operators’ services. This increase was caused by the shortage of railcars following the growth of cargo turnover amidst high export prices and railcar production lags.

In order to minimise the impact of these factors on the company’s performance, SUEK continued to focus on changing the structure of its railcar fleet, increasing the share of railcars under management from 63% to 71%. By replacing an expensive operator fleet with our own and leased railcars, we increased export coal shipments and partially offset the higher cost of rail transportation. The year-on-year growth of rail transportation cost across export destinations amounted to 3%, and to 22% on the domestic market in Ruble terms. The domestic rail transportation cost per tonne of SUEK’s coal was more affected by an increase in operators’ tariffs. This was because the company loaded railcars under SUEK’S management mainly with export products in order to maximise the margins of export sales in the favourable price environment.

SUEK is one of the few coal companies in the world that uses mainly its dedicated ports for coal shipment: Vanino Bulk Terminal, Murmansk Commercial Seaport and Maly Port. In 2017, transshipment costs at our ports increased by 19% compared to the previous year. This increase was due to the growth in shipment volumes by 3%, and an increase in transshipment costs by 16% linked to inflation and the strengthening of the Ruble against the US Dollar. Shipment costs at third-party ports rose by 13% due to greater coal volumes being shipped to premium Asian markets.

Total freight costs of seaborne coal shipments increased by 9% year-on-year following the growth in contract sales that included a freight component, while escalated freight fees in the international market also had an impact.

Cash cost of coal sold
In 2017, the cash cost of coal sold per tonne in US Dollar terms increased compared to 2016 due to the appreciation of the Ruble. At the same time, the cost of production in Rubles per tonne grew by 9% due to inflation, decommissioning of three facilities (November 7th, Vostochnoe and Khakasskaya mines), and the development of new assets (Magistralny site, Nikolsky, Pravoberezhny and Nekovsky open pit).

Rail costs (international market) ($ per tonne)

- 21% compared to 2016

Rail costs (Russian market) ($ per tonne)

- 40% compared to 2016

Ports costs (international market) ($ per tonne)

- 67% compared to 2016

Freight costs (international market) ($ per tonne)

- 13% compared to 2016

Average cash cost of coal sold ($ per tonne)

- 27% compared to 2016

(RUB per tonne)

- 9% compared to 2016
Selling, general and administrative expenses

Selling, general and administrative expenses increased by 28% mainly due to the growth in company wages and an uplift in costs linked to charitable activities.

EBITDA

Rising prices, increased sales in premium markets, and the availability of our own efficient transport infrastructure ensured EBITDA at $1,514m, which is a 53% growth year-on-year. Our EBITDA margin increased by 2 percentage points to 27%.

Net profit

SUEK’s net profit increased by $343m compared to 2016.

Capital expenditure

In 2017, the following key investment projects were carried out:

- Expanding our own railcar fleet by 2,563 units.
- Increasing production of thermal, fine-sized coal with the aim of increasing our washed coal shipments to premium Asian markets.
- Constructing a new module at the Tugnuisky washing plant to clean fine-sized coal with the aim of increasing our washed coal shipments to premium Asian markets;
- Increasing production of thermal, export-quality coal in the Kuzbass mines, including the development of a 400-metre wide longwall;
- Expanding our own railcar fleet by 2,563 units.
- Commissioning the Magistralny site at the Rubana mine in Kuzbass;
- Constructing a new module at the Pravoberezhny open pit in Urgal;
- Developing the Pravoberezhny open pit in Kuzbass;

In 2017, SUEK increased maintenance investments by 30% due to the implementation of a new strategy aimed at efficiency increase, substitution of obsolete equipment and growing investment in health, safety and environmental activities.

Operating cash flow and net debt

The company’s cash flow from operating activities increased by $403m (+ 59%) compared to 2016 and totalled $1,082m due to a substantial increase in EBITDA of $525m (+ 53%). As of 31 December 2017, SUEK’s net debt rose by 5% year-on-year to $3,197m. Our Net debt/EBITDA ratio fell to 2.0x.

As of 31 December 2017, most of the Group’s bank loans were nominated in US Dollars, with an effective interest rate of 4.98%. In addition, 4% of the debt was nominated in Euros with an effective interest rate of 2.86%, whereas the remaining part of the debt was nominated in Roubles with an effective rate of 6.83%. We chose US Dollars as the main borrowing currency due to the possibility of natural hedging (the debt can be serviced because we have a positive cash flow in US Dollars generated by sales in the international market).

Our main borrowing instrument is pre-export finance, secured by international revenues. At the end of 2017, its share, together with financing obtained from export credit agencies, accounted for 83.4% of the Group’s loan portfolio.

Moody’s

Ba3, Positive outlook

On 27 September 2017, Moody’s Investors Service confirmed SUEK’s Ba3 rating and changed its outlook from stable to positive. Moody’s noted a number of positive factors contributing to the rating, such as our conservative financial policy, our ability to control costs by improving the efficiency of production processes, our large coal reserves and the favourable geological characteristics of the fields being developed by the Group. Other factors include our control of a major portion of logistics processes, mainly due to our own port capacity, our well-developed base of Russian and international buyers, robust margins and stable liquidity.
Providing a safe working environment for our people and minimising the risks related to coal production are key targets within SUEK’s operational agenda.

Our approach

The system we have in place for managing health and safety across the company is regulated by our internal Occupational Health and Safety Policy and complies with the most up-to-date international standards, it is designed to minimise injuries and accidents at our production sites. Our corporate health and safety standards cover company staff and contractors providing services at our sites and facilities. Our production facilities in Kuzbass, Krasnoyarsk and Khakasia undergo regular audits and recertification for compliance with the OHSAS 18001 occupational health and safety management standard.

To minimise industrial risks, every year the company updates and implements a comprehensive range of health and safety measures. In 2017, SUEK allocated $56m to health and safety programmes.

Overview

In 2017, the lost time injury frequency rate (LTIFR) across SUEK’s sites stabilised at 1.0. Total lost time amounted to 6,593 days, which is a 15% decrease year-on-year. Our sites recorded 56 industrial injuries, almost the same number as in 2016, consisting of 46 accidents at production sites and ten workers injured at logistic facilities.

Regrettably, there were three fatal accidents at the company’s production facilities in 2017. Two of these accidents occurred during underground mining operations in Kuzbass and one at our service facility in the Krasnoyarsk region. We deeply regret this loss of life and extend our heartfelt condolences to the families and friends of the deceased. The main causes of these fatalities were organisational failures relating to the violation of health and safety requirements, as well as a lack of discipline and skill in key health and safety areas. To avoid such accidents in the future, we have carefully analysed them and will implement best practice in the field of occupational health and safety. We also fully understand the need to educate those who take unnecessary risks in the workplace, and we are urging each and every one of our employees to be more responsible for their own safety and that of their colleagues.

In 2017, we rolled out training sessions for our safety managers and professionals to increase levels of awareness, competence and skill and continued to organise safety-knowledge testing among our production workers.

Our efforts to improve health and safety systems and emergency response procedures are coordinated by the Industrial Safety Committee of SUEK’s Management Board. In 2017, the Committee held two in-person meetings, during which eight agenda items were considered. These included:

- Analysis of the circumstances and causes of industrial injuries with severe or fatal outcomes;
- Status of actions taken and planned to prevent similar accidents in the future;
- Programme of organisational and technical measures to improve the level of industrial and occupational safety at our sites;
- Programme to equip mine machinery with automatic fire-fighting systems;
- Results of the implementation of a pilot project enabling industrial safety to be controlled remotely.

The Nomination and Compensation Committee of the Board of Directors also regularly reviews health and safety issues.

Measures to improve health and safety

The main risks in coal mining are potentially explosive concentrations of methane, and accumulation of deposits of fine, explosive coal dust in working areas. The company therefore pays particular attention to measures for improving air quality, minimising airborne dust and diluting coal dust deposits to safe levels with inert powder.
Monitoring underground air and gas
Our mines are equipped with a multifunctional system that ensures the safety and control of our mining operations, and the safe management of production processes under normal and emergency conditions. Currently, the company's mines operate a number of subsystems as part of the general multifunctional health and safety system, including:

- Atmospheric safety system designed to:
  - Introducing vacuum collection, transportation and discharge of fine coal dust at our washing plants and processing facilities;
  - Equipping Vanino Bulka Terminal with fog-generation units and foam generators, and using stationary and mobile dust suppression systems; in 2017, we upgraded the dust suppression system in the Terminal's ralcar tipper hall;
  - Developing shields that will suppress over 80% of the dust generated at Murmansk Commercial Seaport.

In the past six years, from 6,100 to 5,600 man-days per year.

- Systems delivering emergency communication, warning and tracking, for example by:
  - Improving gas drainage based on hydraulic fracturing of the coal seam. These methods significantly reduced the gas content of the longwall panel in the fracced area, helping us to minimise downtime linked to gas emissions during mining.
  - Tighter health and safety controls SUEK has a zero-tolerance policy for violations of health and safety regulations. Preventing such violations plays a vital role in reducing the risk of accidents and injuries at our sites. To this end, we have developed and introduced specialised software to keep track of health and safety-related incidents at all sites across the company. This software prevents tasks from being issued for a shift assigned to a workplace with identified health and safety violations have been dealt with. Currently, we are introducing this software in all our service and auxiliary companies. Personnel training and development We work hard to ensure all employees have the knowledge, skills and training they need to carry out their roles safely and responsibly. All equipment purchased by the company comes with a special training video showing how to maintain high levels of health and safety during assembly, operation and maintenance. In 2017, we continued to improve computer terminals to enable complex pre-shift examination of workers. SUEK experts developed additional tests for workers of coal mining and processing facilities, as well as for those employed at auxiliary and service units within the company. Before starting a shift, each miner takes a test to check their health and safety knowledge. In June 2017, under the supervision of SUEK’s Chief Operations Officer, Vladimir Artemiev, Khabarovsk hosted our annual conference for mining and atmospheric coal dust emissions, for example by:
  - Allocating funding for health and safety in 2017 (%)

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Engineering and maintenance</td>
<td>48%</td>
</tr>
<tr>
<td>Procurement of facilities, equipment and raw materials</td>
<td>26%</td>
</tr>
<tr>
<td>Procurement of personal protective equipment (PPE)</td>
<td>8%</td>
</tr>
<tr>
<td>Procurement of equipment and instruments, insurance</td>
<td>8%</td>
</tr>
</tbody>
</table>

Lost time injury frequency rate (LTIFR)

<table>
<thead>
<tr>
<th>Year</th>
<th>LTIFR</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>4.00</td>
</tr>
<tr>
<td>2017</td>
<td>2.00</td>
</tr>
</tbody>
</table>

We are also constantly looking to enhance the efficiency of the measures we deploy to maximise the efficiency of the gas-drainage process. In 2017, at the Kirova mine, we tested advanced gas drainage technology based on hydraulic fracturing of the coal seam. These methods significantly reduced the gas content of the longwall panel in the fracced area, helping us to minimise downtime linked to gas emissions during mining.

In 2017, we continued to plot an automated remote safety monitoring system in our Komsomol’skoe mine in Kuzbass. The system enables information support and control and the management of technological processes in normal and emergency conditions. It also helps to identify critical changes in operating parameters and predicts pre-emergency situations. In 2017, new subsystems were added to atmospheric safety items previously implemented in the remote-control system:

- System for the monitoring of gas outbursts and rock burst phenomena;
- System for the monitoring of auxiliary ventilation fans;
- System for the monitoring of fire water supply;
- System for the monitoring of drainage and pumping systems;
- System for the monitoring of mine electric supply.

In 2018, we plan to integrate all subsystems introduced in our Komsomol’skoe mine into an automated remote system for monitoring the safety of mining operations. Improving gas drainage To reduce the risk of explosive concentrations of methane forming in our mines, we carry out comprehensive gas drainage. The content of methane from such mining areas via a system of integrated gas-drainage wells. Since 2010, the total depth of our gas-drainage wells has increased by 52% to 345 km, including 287 km of gas-drainage wells drilled from underground workings and a total of 58 km of vertical wells drilled from the surface to the seams. We are constantly introducing new methods, equipment and technology to maximise the efficiency of the gas-drainage process. In 2017, at the Kirova mine, we tested advanced gas drainage technology based on hydraulic fracturing of the coal seam. These methods significantly reduced the gas content of the longwall panel in the fracced area, helping us to minimise downtime linked to gas emissions during mining.

To ensure we are more energy efficient, we use some of the methane removed from the working area to generate heat and electricity at the mines. This also allows us to reduce our greenhouse gas (GHG) emissions.

Reducing coal dust
To reduce the risk of coal dust explosions, we have implemented strict rules and requirements in our mines regarding stone-dusting using inert dust. Activities in this area include:

- Improving the quality of stone-dusting through the use of more than 300 mechanical stone-dusting units;
- Delivering a threefold increase in stone-dusting in our Kuzbass mines in the past six years, from 6,100 to 17,680 tonnes per year.

For more information on methane drainage and utilisation, see the “Environment” section on page 62.

1. Technical measures 30%
2. Ore rescue teams and other emergency response units 17%
3. Procurement of personal protective equipment 16%
4. Improvements in the hygiene and technical conditions of sites and facilities 15%
5. Occupational measures 8%
6. Health and safety research and design work, procurement of equipment and instruments, insurance 8%
MINIMISING OUR IMPACT AND BEYOND

Environmental considerations and commitments underpin all our managerial and production decisions. We are aware of the environmental impact of our operations and the environmental risks inherent in coal mining, washing and shipment. We are also aware of our responsibility to help protect and preserve the environment for present and future generations.

Our approach
Leadership in the field of environmental protection, the mitigation of environmental risks associated with production operations, and the delivery of conservation projects are an integral part of SUEK’s sustainable development strategy. Our environmental protection programmes include measures to reduce emissions, protect water resources, process and dispose of waste, reclaim land and achieve energy efficiency. These initiatives contribute to the sustainable development of the regions where we operate, improve the quality of people’s lives, help us reduce operational risks and enhance our overall performance. In addition, we participate in international and Russian projects aimed at the prevention of climate change and biodiversity conservation. Among other initiatives, these include the Clean Coal Association, the Russian National Carbon Agreement, the Bureau of Best Available Technologies technical working group, and the Mainstreaming Biodiversity Conservation within Russia’s Energy Sector Policies and Operations project.

Our approach to environmental safety is enshrined in SUEK’s Environmental Policy. This document defines our principles, commitments and mechanisms for implementation in the field of environmental protection. It provides the foundation for the development and delivery of all our environmental programmes and initiatives. The company also adheres to its Compliance Policy, Russian and international law and the precautionary principle as an approach to environmental risk reduction.

In order to assess and predict the company’s environmental risks and develop measures to manage them, we cooperate with research organisations, and specialised working groups and panels. In 2017, SUEK adopted a new environmental strategy which will help to ensure our continued full compliance with environmental legislation. The key principle of the new policy is to minimise our impact on the environment by reducing emissions of harmful substances and maximising the recycling of waste across all production cycles. For more details, see ‘Strategy in Action’ on page 47.

At our facilities in Khakasia, Krasnoyarsk and Kemerovo, we have an environmental management system in place that meets the requirements of the ISO 14001:2004 international standard. Our sites regularly undergo independent external audits to assess their management systems against these standards. In 2017, SUEK’s facilities in Krasnoyarsk were certified, while the facilities in Khakasia and Kemerovo were recertified for compliance with these standards.

We also provide training so our employees can enhance their environmental knowledge and qualifications. We collaborate with research bodies and expert organisations to introduce innovative and efficient environmental safety technologies. In addition, we regularly publish information relating to the results of our sustainable development projects. In 2017, SUEK invested $28m in environmental activities.

SEE SUEK’S POSITION ON CLIMATE CHANGE ON OUR WEBSITE WWW.SUEK.COM/SUSTAINABILITY ENVIRONMENT/CLIMATE.

FOR MORE INFORMATION ABOUT ENVIRONMENTAL STRATEGIC PRIORITIES AND KPI, SEE PAGE 46-47. FOR ENVIRONMENTAL RISK MANAGEMENT, SEE PAGE 55.

RELATED ITEMS
- For the centurion LN1012 state-of-the-art mobile vacuum loader supplied to Murmansk Commercial Seaport in 2017.
- Reclaimed land at Berezovsky open pit, Krasnoyarsk.

OUR PRIORITIES

Ensure careful utilisation of natural resources and the use of technologies that minimise the negative environmental impact of production.

Create conditions that facilitate employee involvement in environmental risk mitigation activities, and improve our environmental management system and performance indicators.

Allocate relevant financial, engineering, human and other resources for these purposes and ensure their efficient use.

Disclose environmental reports, ensuring transparency of environmental information, and engage public and local authorities in preparing, discussing, making and implementing environmental decisions.

FINANCIAL STATEMENTS
ADDITIONAL INFORMATION
CORPORATE GOVERNANCE
FINANCIAL STATEMENTS
ADDITIONAL INFORMATION
CORPORATE GOVERNANCE

- For the centurion LN1012 state-of-the-art mobile vacuum loader supplied to Murmansk Commercial Seaport in 2017.
- Reclaimed land at Berezovsky open pit, Krasnoyarsk.

SEUk INTEGRATED REPORT 2017 – 80 –

SEUk INTEGRATED REPORT 2017 – 81 –
In order to improve mine safety, we regularly conduct mine gas drainage. This process results in methane (natural gas) emissions, which account for over 85% of SUEK’s total air emissions. In all our mining areas, wherever methane content exceeds 10 m³/tonne of coal, we carry out comprehensive gas drainage. This includes the removal of gas from working coal seams prior to mining, and the extraction of gas from mined-out areas. It is achieved via holes drilled from the surface and holes drilled from the mine openings.

In 2017, as part of our commitment to reducing our environmental impact in support of the Paris Agreement on Climate Change, we continued to utilise captured methane for power generation and boiler combustion, thereby reducing greenhouse gas (GHG) emissions into the air. Our Kirova and Komsomolets mines are equipped with recovery systems and engine plants that capture gas and use it to generate heat and electricity. In 2017, we utilised 7.49 million m³ of methane captured from mined-out areas.

The rest of our air emissions relate to CO₂, NOₓ and SO₂, which are below the limits prescribed by Russian legislation.

Additionally, we work to decrease dust emissions across the whole production and transportation cycle from mine to port. We use state-of-the-art technology for the vacuum collection, transportation and discharge of fine coal dust at our washing plants in Khakasia, Buryatia and Vanino.

Bulk Terminal. In 2017, at Vanino Bulk Terminal, we equipped coal storage areas with a dust suppression system that can be controlled remotely. We also upgraded the terminal’s dust suppression system in the railcar car tipper station, and procured a dust suppression system for the stacker-reclaimer when operating at low temperatures. Meanwhile, at our Murmansk Commercial Seaport, we introduced new dust suppression technology for the conveyors, and began work on environmental dispatching control, including the establishment of a network of control stations for monitoring air and noise levels at the border of the buffer zone, port and load platforms. We also purchased two high-tech vacuum loaders and opened new treatment facilities.

Most of the wastewater used by the company during the production cycle is natural water (with characteristics typical of local groundwater) that is pumped out of mining areas during operations. The company does not withdraw water from vulnerable or state-protected sources, or from sources that are especially valuable for local communities or for biodiversity.

SUEK production sites are equipped with facilities for treating industrial wastewater and sewage. Through our continuous pollution-control and resource conservation efforts, in 2017 the levels of suspended and dissolved solids in our wastewater decreased.

In 2017, we continued to design and construct advanced treatment facilities for mine, open-pit and household wastewater, and we overhauled existing water supply and sewage systems. These efforts should further reduce the concentration of wastewater solids at a number of our facilities. In 2017, SUEK commissioned treatment facilities at the Talnokskaya Zapaadnya 1 mine. In 2016-2017, we built wastewater treatment plants for discharges from the Apashsky open pit.

Production waste recycling

Production operations are inevitably linked with waste generation, although about 98-99% of the waste we produce is barely hazardous (overburden, etc.). Most of this waste is used in production processes or for reclamation purposes. The small remaining part of waste requires special treatment and is transferred to dedicated organisations for neutralisation (mercury lamps, batteries), utilisation (spent oils, scrap and other materials), and for disposal at landfill sites (municipal waste). In late 2016, we launched a tyre-recycling project in Khakasia, the aim of which is to convert worn dump-truck tyres into new products, such as tiles for injury-free sports coatings, and rubber granules for road surfacing.

As part of the Russian government’s nationwide energy-efficiency initiative, SUEK has developed and implemented an Energy Saving and Energy Efficiency Programme. In addition to its economic benefits, this programme enables us to achieve the important environmental objective of reducing our energy consumption, which helps to minimise our overall impact on the environment.

The need to manage the company’s energy efficiency objectives, such as rising electricity costs and meeting state requirements in the field of energy efficiency and environmental safety, stimulates us to do everything we can to improve our energy management.
Adhering to the best development practices, and as part of the nationwide strategy, SUEK successfully works on energy saving and energy efficiency enhancement. Our goal is to reduce the energy intensity of production operations while strictly observing the company’s operating principles: safety and efficiency, stability and development, professionalism and cooperation, and social responsibility.

In order to solve these problems and maintain our organisational and technological leadership in the industry, we have developed an energy efficiency management system in accordance with best international practices. The system meets the requirements of the international ISO 50001 standards ‘Energy Management System’, and the national GOST R ISO 50001-2012 standards ‘Energy Management System’.

In 2017, the company established an Energy Efficiency Monitoring Office, the main purpose of which is to create and maintain our organisational and cooperation, and social responsibility.

As part of our Energy Efficiency Programme, in 2017 we carried out the following activities:

- Modernised our fleet of excavators: 14 new energy-efficient models were put into operation;
- Upgraded excavator control and power supply systems at Nazarovsky and Borodinsky open pits;
- Equipped coal dump trucks with higher-capacity dump bodies produced by our own Chernovskoy Central Power Machine Workshops;
- Held a scheduled energy audit in Kuebass;
- Launched a pilot project for use of liquefied natural gas as fuel for dump trucks;
- Introduced an energy management system in Khabarovsk;
- Equipped our main process equipment with advanced dispatching systems;
- Ensured optimal roadway conditions;
- Finetuned truck engines, increased the load capacity utilisation rate of trucks, reduced their idle runs and hot downtime, and ensured optimal tire pressure;
- Improved the professional skills of dump truck and bulldozer operators;
- Optimised production processes at all sites to boost the operating efficiency of energy-consuming equipment through reduced idle time and route optimisation.

In 2017, electricity consumption per unit of output across the Group decreased by 3% year-on-year, from 3.05 to 2.96 kWh/m³, which illustrates more efficient energy consumption.

We also improved diesel fuel consumption. The consumption of diesel fuel by the largest category of user (dump trucks) decreased by 2% per tonne of coal or rock year-on-year, from 0.218 to 0.213 kg/t.

Specific energy consumption (kWh/m³)

### Land reclamation and biodiversity

None of SUEK’s production sites are situated in protected or natural reserve areas, and no rare or endangered species of animals, plants or fungi have been identified at our operational sites. Most of the waste generated from coal mining consists of non-hazardous overburden, which is stored in internal and external dumps. This is used for filling sinkholes, backfilling and reclaiming land disturbed by mining operations, in accordance with approved programmes for the use of mineral resources.

We run extensive reclamation projects on land disturbed by SUEK’s mining projects, including rock-dump levelling, soil remediation, tree planting and landscaping. In 2017 we rehabilitated 384 ha of land.

We also plant trees not only on disturbed lands, but also in order to maintain the natural landscape. In 2017, the company’s employees planted trees in the city park of Chernogorsky, near Murmansk Commercial Seaport and Vanino Bulk Terminal.

A key focus area is marine flora and fauna. In the year 2017 we coordinated with the Federal Service for the Supervision of Natural Resources and the governments of the Ministry of Natural Resources and Ecology of the Russian Federation, the Federal Service for the Supervision of Natural Resources, and the governments of all the regions of Russia where we operate.

In the year of Ecology, SUEK signed cooperation agreements with the Ministry of Natural Resources and Ecology of the Russian Federation, the Federal Service for the Supervision of Natural Resources, and the governments of all the regions of Russia where we operate.

The agreements provide for the implementation of a number of integrated environmental protection activities, including the environmentally oriented upgrade of production equipment, the overhaul of treatment plants for household and open pit wastewater, the financing of nature reserves, targeted research to assess the state of water resources and other important activities. Total investment under these agreements will amount to $103m.

Q: The Year of Ecology in Russia is over. How would you sum up its results?

A: During the Year of Ecology, SUEK launched a number of long-term programmes to minimise its negative impact on the environment. Through these programmes, we aim to focus on those areas where the company has the greatest impact – wastewater treatment and reduction of methane and dust emissions during production and shipment operations. We also initiated recycling projects to reduce our volumes of waste material: worn tires are now recycled into rubber granules for road surfacing, while used engine oil is used as fuel to heat our facilities.

We are also exploring new methods of land rehabilitation and new technologies for achieving smokeless fuel production from coal.

In addition, we will continue our energy efficiency programmes and introduce automated energy management systems. This will enable us to monitor and control energy consumption linked to mining equipment, and ultimately to decrease emissions.

We also participate in integrated biodiversity monitoring with a view to further developing cooperation programmes for identifying and preserving rare and endangered plants and animals, ensuring favourable conditions for their survival and reproduction.

VLADIMIR ARTEMIEV, CHIEF OPERATIONS OFFICER
DEVELOPING POTENTIAL

Our people are vital to the achievement of our strategic goals. Ensuring the well being of our employees, and creating the right conditions for their growth and development, are key company priorities.

2017 achievements:
Headcount planning and staff expenses
• Developing labour standard for main production equipment operators;
• Implementing automated accounting for labour costs;
• Regulating methodology of piecework remuneration and monthly bonuses for open pit workers;
Recruitment and retention
• Further work on increasing internal staff mobility between the company’s facilities and regions. Programmes for workforce redistribution between production facilities make it possible to retain qualified personnel within the company and sharpen our focus on solving priority tasks;
• Further implementation of a housing programme for employees;
• Implementation of a programme aimed at attracting young people into the company: school graduates in the regions where the company operates are offered training in higher education institutions in the occupations required by SUEK; we have also set up a youth forum of students and university graduates to help identify and recruit talented young people.

Overview
SUEK operates in eight regions of Russia and 12 countries around the world. It is one of the largest employers in the Russian coal industry. Our average headcount is 33,683 employees. The socio-demographic characteristics of our workforce are consistent, and in 2017 the ratio of men to women remained practically unchanged from 2016, with men making up 75% and women 25% of our workforce.1

Our human resources management is regularly reviewed by the Nomination and Compensation Committee of the Board of Directors (for details see page 105).

Performance management and remuneration
SUEK’s remuneration system facilitates the effective management of human capital assets. Its objectives are to ensure a competitive and fair wage level; to establish a clear and transparent relationship between the achievement of strategic goals and the level of compensation; and to stimulate employees to do their jobs in the safest and most rational way.

SUEK regularly monitors the labour market and analyses the latest trends in employee benefits, both in the industry and the economy as a whole. The analysis of this information helps the company to create an attractive working environment, which in turn enables the hiring and retention of personnel with the requisite skills and qualifications.

SUEK’s incentive system is based on compliance with objectives and key performance indicators (KPIs), which, along with business indicators, include industrial safety, observing regulatory requirements, meeting the company’s obligations, and cooperation with stakeholders.

1. In accordance with the Russian Government Decree No. 162 of 25 February 2000 to approve the list of arduous jobs and jobs with harmful or dangerous working conditions forbidden to women, women are not allowed to occupy a significant part of the underground jobs.
One of our key performance indicators for senior and middle managers is the level of industrial safety. This parameter is based on the analysis of the Lost Time Injury Frequency Rate (LTIFR). In case of non-compliance with the established limits, annual payments to managers responsible for monitoring and implementing occupational safety standards are reduced by up to 50%.

Our remuneration system for production workers includes fixed and variable parts. The fixed part is paid for the performance of professional duties at the required level. The variable part is an incentive to improve working efficiency. The ratio of the fixed to variable elements is set at 70/30.

We have also developed a special bonus system for employees participating in projects. The system includes long-term strategic projects, operational improvements and business development programmes. As of the end of 2017, 474 employees participated in this long-term motivation programme as part of their involvement in one or more projects.

Social support
SUEK provides employees with safe and comfortable working conditions, fair and competitive remuneration, and decent benefits packages. Collective bargaining agreements with trade union organizations and bilateral agreements with trade unions, and SUEK’s Code of Corporate Ethics guarantee SUEK’s fulfillment of social commitments. About 91% of our employees (production and logistic facilities) are covered by collective bargaining agreements, while the benefits provided for by collective bargaining agreements apply to all company employees.

SUEK employees are provided with the following social benefits:

- Voluntary medical insurance;
- Accident insurance;
- Payment for travel to holiday resorts for employees and their families;
- Payment upon retirement of 15% of an employee’s average salary for each year of employment in the coal industry;
- Financial aid for pensioners, parental leave and high-priced medical treatment, or for the funerals of company employees;
- Provision of coal to miners for domestic heating and compensation for energy expenses;
- Compensation for children’s summer holidays and for treatment and rehabilitation.

One of the most important aspects of our social support for employees is our health promotion programme. Since 2014, we have extended voluntary medical insurance to all employees at our production sites and facilities.

Training and staff development
SUEK’s staff training system is designed to ensure the development of the company’s human capital assets, which we consider the most important factor in effectively addressing our strategic challenges. The main aim of the system is to create conditions that promote professional fulfilment among employees, ensure the systematic development of their professional and managerial competencies, and thereby establish SUEK’s talent and succession pool.

The key areas of staff development are:

- Professional training;
- Retraining;
- Qualification enhancement;
- Training in new occupations;
- Development of talent for key management positions.

SUEK runs its own regional network of occupational training institutions for all staff. It includes 17 training centres and shops with state licences. Their main functions are training in new occupations, training in additional occupations, and qualification enhancement. A core focus is on staff training in the field of labour and industrial safety. In addition, SUEK’s regional educational network is designed to train over 20,000 people a year.

SUEK Corporate University is the key element of the company’s system of personnel training and development, ensuring consistent improvement of skills of key groups of employees, an analytical, methodological and advisory centre in the field of knowledge management and the training system.

In 2017, we introduced two new Corporate University programmes: ‘Power Engineer’ and ‘Engineering Technician’, aimed at developing lean production skills and enhancing employees’ economic knowledge. The duration of each programme is two years.

We have also devised a step-by-step training system designed to develop the company’s succession pool: from site mechanics and mine foremen to the heads of regional production companies. Such a training chain provides career opportunities within the company and enables us to create the necessary pool of qualified candidates for vacant managerial positions.

SUEK is committed to the ongoing recruitment of young professionals. Targeted education for students, especially those from the regions where the company operates, improves our selection process and accelerates the integration of new recruits.

In order to attract young people into the company, we actively cooperate with Russia’s leading and vocation-oriented mining universities, and offer occupational guidance to pupils and school graduates in the key regions of the company’s operations. Over 400 students currently participate in SUEK’s targeted education programmes.

To help share knowledge, ideas and experiences within the company, we have developed various tools and mechanisms, including our professional skills competitions. In 2017, the coal industry celebrated the 70th anniversary of the professional holiday Miner’s Day. To commemorate this important date, the ‘Olympics-2017’ professional skills competitions were held at production facilities in Kuzbas, Khakasia and the Krasnoyarsk region. Young workers and experienced professionals from all SUEK units competed in 43 categories, demonstrating their level of professional training and their proficiency in advanced working methods and innovative technologies.

In September 2017, ten SUEK managers started their education under the MBA programme in Strategic Management in Mining Companies. This programme has been jointly developed by the Centre for Strategic Management and Commodity Market Environment of the Mining Institute (National University of Science and Technology ‘MISiS’) and the Moscow State Institute of International Relations.

Corporate culture and internal communications
The development of the internal communications system is conducted in accordance with the general approaches to internal and external communications adopted by the company. The main objective of the internal communications system is to ensure the most open and effective dialogue with our employees.

Our main internal communications channels include:

- Meetings of employees and managers;
- Corporate intranet portal;
- Corporate media system;
- Employee surveys and their analysis;
- Hot Line;
- Feedback system ‘Alarm Sheet’;
- Bulletin boards, plasma panels, brochures in corporate transport, information stands, electronic newsletters, corporate intranet portals at our production facilities and head office.

Our corporate culture is based on the company’s mission and longstanding work and professional traditions. Its main platform is the Code of Corporate Ethics and its execution system.

As part of the programme aimed at developing our corporate culture and internal communications system in 2017, we supported further implementation of our Code of Corporate Ethics by relevant information campaigns; thematic competitions dedicated to corporate values and others.

In 2017 we:

- Performed a survey aimed at monitoring changes in the company’s corporate culture after implementation of our new Code of Corporate Ethics, which included the participation of 2,500 employees. The analysis of the results showed positive dynamics in terms of increasing the level of employees’ trust in the company, as well as improving SUEK’s corporate culture and internal environment.
- Held a number of internal awareness campaigns in support of corporate initiatives: these included producing brochures about SUEK’s facilities and communities where the company operates and recruit employees from other regions.
- We initiated the development of the methodology for the work of our Ethics Coordinators, which includes manuals for processing staff messages, ethics fundamentals, and general algorithms for dealing with common ethical situations. The introduction of these manuals is scheduled for 2018.

Q1: How does SUEK attract bright and talented young people into the mining industry?
A1: First of all, we offer young people from mining cities stable employment and a clear career path. Our system of targeted employee engagement, which we call ‘School – University – Company’, starts with occupational guidance for pupils. Within this system, we have established vocation-oriented classes for high school students preparing to enrol on mining courses at technical schools and universities. Through our collaboration with these institutions, we help to provide the highest quality training to ensure that our future engineering and technical workers develop the knowledge and skills they require.

Q2: How does the company retain young employees in a seemingly conservative industry?
A2: We give all our employees opportunities to develop and innovate – to grow professionally and personally and to push themselves in all areas. All our production facilities have youth councils, and today the total number of participants in SUEK’s youth movement exceeds 800. Youth council members work on projects aimed at increasing production efficiency. They also discuss work-related and career development issues, share ideas, and take part in training and conferences.

Since 2012, we have been involved in the Applied Science Youth Forum ‘Mining School’. Over the past six years, 464 SUEK employees have taken part in Forum activities. Each year, Forum winners participate in the Presidential Programme for the Training of Engineers. The programme covers the most up-to-date principles of production and financial management, including lean manufacturing basics through internships at Nokian Tyres and Hyundai, and practical training at mining engineering companies in Germany.
COMMUNITIES

THINKING ABOUT THE FUTURE

The core focus of our social policy is to make all-round improvements in living standards for company employees, members of their families, residents of mining towns and villages. We take a systematic approach to community investments to ensure they are highly effective.

Our approach
Our strategy of promoting regional development is primarily aimed at building the capacity of local communities. Through the development of infrastructure and knowledge, we enable communities to solve actual problems and attract the resources they need. The involvement of local residents in creating positive change helps to develop the economy and improve the living standards of the regional population.

We develop and implement social programmes in cooperation with stakeholders: regional and city administrations, non-governmental organisations and local residents. Partnerships under these agreements are determined by the objectives of our territorial social development and by the strategic goals of our Corporate Social Policy.

Our Corporate Social Policy is based on international standards including the UN Global Compact, the Social Charter of Russian Business, the ISO 26000 Social Responsibility Standard and the recommendations of the Global Reporting Initiative (GRI).

Overview
SUEK’s social and charitable programmes can be divided into the following categories:
• Education;
• Sports and healthy lifestyle;
• Medical care;
• Urban land and infrastructure development;
• Leisure, culture and fulfilment of creative potential;
• Development of local community members’ social and business skills;
• Affordable housing and public utilities;
• Improving local self-governance;
• Environment;
• Charity and assistance to vulnerable social groups.

SUEK implements community development programmes at all its key facilities. Overall, in 2017 SUEK implemented 150 social and charitable projects. The amount spent on community investment totalled $22m.

Planning and assessment of social programmes
The main tool for implementing our social policy in the regions is a non-profit organisation called ‘SUEK to the Regions’, established in 2007. The fund’s activities cover all areas of SUEK’s operations.

The planning of our community programmes is based on social environment monitoring. Progress and outcomes are assessed by independent and corporate experts. Regional and local community development is monitored using integrated social research, cluster polls and feedback on activity outcomes.

Most of the fund’s social projects are interrelated, aimed at solving various sustainable development problems. These projects are long-term and networked, meaning they are replicated after testing in one of the regions and delivered to other territories where the company operates.

OUR PRIORITIES

Create a favourable and stable social environment in the regions where we operate

Improve the quality of life of people residing in mining towns and villages

Together with regional governments, improve housing conditions and promote the development of education, sport, healthcare and culture

Increase awareness among young people of coal mining as a career opportunity

Improve the efficiency of the company’s community investments by implementing modern technologies in the social sphere and coordinating activities with regional administrations, non-governmental organisations and business representatives.
Assessment of community investment efficiency

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of programmes assessed for efficiency</th>
<th>Average number of beneficiaries</th>
<th>Growth points compared to 2016</th>
</tr>
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<tbody>
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<td>2014</td>
<td></td>
<td>41,000</td>
<td>29</td>
</tr>
<tr>
<td>2015</td>
<td></td>
<td>30,000</td>
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<tr>
<td>2016</td>
<td></td>
<td>21,000</td>
<td>36</td>
</tr>
<tr>
<td>2017</td>
<td></td>
<td>13,000</td>
<td>36</td>
</tr>
</tbody>
</table>

In 2017, we continued to roll out our ‘School of Social Entrepreneurship’ programme. During the year, graduates of the School created more than 50 new businesses in their regions. Graduates also benefited from our training programme, ‘Workshop of Successful Practices: Online Space for Exchanging Experiences’. Participants developed mechanisms for replicating their own projects and implementing advanced projects created by colleagues in their territories.

In order to develop the entrepreneurial skills of high school students, we have also launched a number of additional programmes:

- **Younger Generation: Path of Success** is aimed at solving two urgent problems in mining regions: developing small and medium-sized businesses to drive business diversification in single-industry cities, and enabling professional fulfilment for young people, which will reduce the outflow of talent from the territory.

In total, in 2017 we developed and tested about 20 school business projects. We also continued to implement the ‘Future of the Community – Future of SUEK’ and ‘SUEK’s Work Teams’ programmes.

### Education

In 2017, we further developed a system of programmes that promotes entrepreneurial and innovative thinking. These programmes focus on developing initiative in children, with a view to nurturing future local leaders, from childhood on, at each stage of their education. They involve the participation of various stakeholders, such as family members and teachers.

During the year, as part of our ‘New Educational Technologies: from Kindergarten to School’ programme, we trained new teams of teachers and organised entrepreneurial marathons among pupils, pre-schoolers and their families. The marathons attracted 2,000 children from 17 general education and pre-school institutions. We also ran our ‘Success Territory’ economic camp for pupils. The project involves intensive training for young people in entrepreneurial knowledge and skills to promote the future development of small and medium-sized businesses in mono-industry regions.

Our interregional competition for students’ projects, ‘Golden Talent Pool’, allows SUEK to identify and support creative young people who are able to work in an innovative economic environment. The participants are students of SUEK’s target universities: Siberian Federal University, Kuzbass State Technical University, Khakasia State University, Buryatia State University, Far Eastern Federal University and Pacific State University. In 2017, prize winners in each category received diplomas and scholarships.

### Sports, medical care and healthy lifestyle

In 2017 we further developed ‘Chess to Mining Regions’, a children’s chess programme initiated in 2016 to promote chess in mining towns. New chess classes were opened in ten schools. The second corporate tournament brought together players from the eight regions in which SUEK operates.

Since 2015, SUEK has been supporting the ‘Dream Ski Rollers’, a chess programme aimed at rehabilitation and socialisation through mountain skiing for people with cerebral palsy, Autism, Down’s syndrome, visual and hearing impairments. During the reporting period, we expanded the programme to include Krasnoyarsk region, while trainers from Kuzbass and the Krasnoyarsk region also attended ‘Dream Ski Rollers’, which allows continued rehabilitation in the summer. Such activities will help to consolidate and enhance the positive effects achieved in winter.

The company continued general treatment and rehabilitation programmes for children from the regions where SUEK operates. Children from Kuzbass were sent to Greek resorts, and veteran miners were also offered treatment. The Department for Presidential Affairs of the Russian Federation has been an official programme partner for many years.

Q: Environmental protection is also included in the list of SUEK’s social policy priorities. Why?
A: We consider environmental protection to be fundamental to social wellbeing.

For this reason, we carry out a number of activities aimed at reducing the negative impact on the environment caused by our production operations.

We also pay great attention to building and improving environmental awareness.

For example, in 2017 SUEK hosted an exhibition of unique photographs entitled ‘Pristine Russia’. It comprised around 150 pieces showing the incredible beauty and uniqueness of Russian nature, and was presented in all Russian regions where SUEK operates. So far, over 140,000 people have visited the exhibition.

Also during this year, as part of the 70th Miner’s Day anniversary and the Year of Ecology in Russia, we planted alleys of pine, cedar and lime trees in many mining towns.

SERGEY GRIGORIEV, SUEK’S PUBLIC RELATIONS AND COMMUNICATIONS DIRECTOR, PRESIDENT OF THE ‘SUEK TO THE REGIONS’ FUND

In 2017, we celebrated the 70th anniversary of the Miner’s Day in all Russian regions where we operate. Events included honouring industry veterans and star workers, distributing government awards, and city-wide celebrations, with concerts featuring Russian pop stars.

Environment

During the reporting period, the company implemented many community environmental projects dedicated to the Year of Ecology in Russia.

Initiatives were aimed at disseminating knowledge about Russian nature and native territory, promoting active citizenship around environmental preservation and improvement, and supporting and encouraging initiatives for young people.

The All-Russian nature festival, ‘Pristine Russia’, is a festival of works by the best Russian photographers which showcases Russian nature in all its diversity. The organisers are the Federation Council of the Russian Federation, the Russian Geographical Society and the Ministry of Culture of the Russian Federation. In 2017, SUEK participated in all regions where the company operates. In total, the exhibition was attended by more than 40,000 people in mining regions, and became part of the cultural agenda of the Krasnoyarsk and Eastern Economic Forums. Over 100 events took place during the exhibition, including special tours for pupils and children from orphans, veterans, disabled and people with disabilities.

In honour of the 70th anniversary of the Miner’s Day and the Year of Ecology in Russia, SUEK employees, their families and coal industry veterans planted over 400 pine, cedar and lime trees in many mining towns where SUEK operates. The project was implemented jointly with the International Public Movement ERAECO, Rospromindor, the Council of Botanical Gardens of Russia and the UNITED Nations Environment Programme (UNEP) Office.

In July 2017, in celebration of the Year of Ecology and the 100th anniversary of the Russian nature conservation system, SUEK’s volunteers initiated an environmental marathon ‘Zubochistka’ (‘Toothpick’). The aim of the event was to clean garbage along the main tourist routes in the Kuznetsk Alatau State Nature...
Reserve. Over 160 volunteers, including SUEK’s Work Teams, employees of large companies and students from Kuzbass, travel company representatives and regional media employees, cleared more than 60 km of hiking trails.

An environmental protection project contest, ‘Native Land’, was held among teenagers from all regions where SUEK operates. The winners were offered an environmental expedition to Lake Baikal. The trip featured guided tours, a geological and botanical history of the forest, laboratory research in ichthyology, basic mapping tuition, and lectures on the fauna and flora of Baikal.

We need baseload power sources such as coal and gas to ensure uninterrupted energy supply. SUEK supplies coal to many distant regions where it is the only secure power source.

At SUEK, we recognise the importance of corporate governance to ensure effective and sustainable business performance.

In 2017, due to the positive coal market environment, the Board reviewed a number of strategic initiatives in order to enhance the company’s competitive advantage and ensure its long-term sustainability. SUEK’s management and the Strategy Committee reviewed the middle-term and long-term forecast and updated the company’s ten-year consolidated strategy. The following principles remain at the core of our updated strategy and investment policy: developing a high-quality coal portfolio and optimal distribution to meet growing demand from our key markets; enhancing our productivity and the environmental safety of our production and transportation activities; maintaining a robust balance sheet and conservative financial policy.

In addition, in response to the growing focus of the international community to environmental issues and changes in Russian legislation, the Board approved a new environmental strategy, determining the key priority areas for reducing SUEK’s environmental impact.

Although the pricing environment remained favourable during 2017, we continued to strictly control expenses, maintaining operational efficiency and developing our own logistics capacity and sales network. We also continued work to improve our corporate governance system. In accordance with decisions taken by the Board of Directors in 2016, in mid-2017 we completed the development of a new compliance management system. This system is intended to help us identify, locate and solve problems within the business to comply with best practice and legislation in all countries where we operate.

In 2017, the composition of our Board of Directors did not change. The Board still consists primarily of independent directors and is well balanced and experienced. I would like to thank all our Board members for their professionalism and valuable contribution to the company’s progress in 2017, and I look forward to a productive year ahead.

ALEXANDER LANDIA,
CHAIRMAN OF THE BOARD OF DIRECTORS

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Overview
SUEK’s system of corporate governance is designed to ensure we deliver effective, efficient, ethical, and value creation for all stakeholders. Our corporate governance system is underpinned by the following principles:
- Treating all shareholders equally, recognising and protecting their rights;
- Ensuring the efficiency of our strategic and operational management and internal control and audit mechanisms;
- Ensuring the company’s informational and financial transparency by providing stakeholders with accurate information in convenient formats;
- Adhering to rigorous ethical standards in business;
- Providing a decent, safe and healthy working environment for our employees.

The internal documents relating to corporate governance at SUEK are our Charter, Regulation on the General Meeting of Shareholders, Regulation on the Management Board, Corporate Governance Code, SUEK’s Code of Corporate Ethics and our Information Policy. The procedure for preparing, considering and holding the General Meeting of Shareholders is also governed by relevant regulations. These documents are available on the company’s website.

In developing our system of corporate governance, we are guided by the provisions of the Corporate Governance Code recommended by the Bank of Russia, as well as by the best international practices. The company has adopted a set of recognised international approaches:
- The positions of Board Chairman and CEO are separate;
- The company’s Board of Directors consists mainly of Independent Non-Executive Directors;
- The status of Independent Director is confirmed by the Board of Directors;
- The Board includes the Strategy Committee, the Audit Committee and the Nominations and Compensation Committee, all of which include Independent and Non-Executive Directors with relevant experience;
- When making decisions, Board members avoid potential conflicts of interest;
- The Board’s work is assessed on an annual basis.

General Meeting of Shareholders
The General Meeting of Shareholders is SUEK’s highest governing body. It makes decisions on the most important issues relating to our business. These include amendments to the Charter; any reorganisation of the company; the increase or decrease of authorised capital; the distribution of profit and the selection of members of the Board of Directors and our external auditors.

Throughout 2017, the company’s sole shareholder took decisions relating to the competence of the General Meeting. In the reporting period, the General Meeting of Shareholders approved new versions of the Charter and internal documents regulating the activities of our governing bodies’ activities. It also authorised major transactions. At the Annual General Meeting of Shareholders, the 2016 Annual Report and financial statements were approved, the members of the Board of Directors and Internal Auditing Commission were elected and JSC KPMG was re-appointed as SUEK’s external auditor for 2017.

Board of Directors
The Board of Directors is a key element of SUEK’s corporate-governance system. The legislation of the Russian Federation and internal documents of the company vest the Board with the authority to ensure the efficient management of the company. The key objectives of the Board include increasing the value of the company’s assets over the long term, protecting shareholders’ rights and legitimate interests, and ensuring the completeness, reliability and objectivity of public information about the company. The Board of Directors is entitled to make decisions on priority issues for the company’s development.

SUEK seeks to maximise the efficiency of the Board of Directors’ activities. This is ensured by the high proficiency of its members, the personal responsibility of each Board member and the collective responsibility of the Board as a whole for its decisions.

The Board of Directors consists of competent professionals with extensive experience in various fields. Most members are Independent Directors, whose experience in the mining, power-generation and financial sectors promotes a high-quality strategic view and helps solve all relevant problems.

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
SUEK’s Board of Directors consists of nine members. Five of these are Independent Directors: Klaus-Dieter Beck, Natalia Iosismova, Stefan Judisch, Iain Macdonald and Olga Vysotskaya. Three are Non-Executive Directors: Alexander Landia, Andrey Melnichenko and Kuzma Marchuk. The Board also includes SUEK’s CEO, Vladimir Rashevsky. Alexander Landia serves as the Chairman of the Board.

The Nomination and Compensation Committee oversees the selection and nomination of new Board members and ensures that it is well balanced and that the competence of Directors is in line with 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 and business administration.

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. The Nomination and Compensation Committee evaluates the compliance of prospective Board members with the independence criteria.

Board meetings
The Board’s schedule and work plan are approved for the following year, with adjustments every six months. The Board of Directors held 11 meetings in 2017 (six in-person meetings, and five in-absentia meetings), at which decisions were taken on issues affecting different areas of the company’s operations. Most in-person meetings were fully attended.

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. Board members regularly communicate with the company’s management teams. Between meetings, Non-Executive Directors receive monthly management reports, notifications about significant events and overviews of the coal-mining industry. Members of the Board also regularly consult industry experts and visit the company’s production sites. During these visits, Directors can personally evaluate 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. Directors often exercise this right, meaning that the majority of Board members regularly attend reviews of complex issues alongside relevant members of the management team.
The Board's near-term focus was on issues related to legal and organisational changes. While the Directors expressed their general approval of the Board's effectiveness, they also recommended specific improvements. The Board's near-term focus was on issues related to legal and organisational changes, as well as on ensuring the continuity of key management positions and second-tier managers. Board report

In 2017, the Board's work included the review of a number of strategic initiatives, the approval of major transactions and the analysis of the short- and long-term financing of the business to ensure the company's overall debt portfolio remains manageable. It also included regular reviews, such as the revision of strategy, company's overall debt portfolio remains the analysis of the short- and long-term review of a number of strategic initiatives, Board report and second-tier managers.

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

• Maintaining business stability to enable rapid reaction to changes in the economic environment. The measures supported by the Board included further improvement of operational efficiency, cost reductions, the development of the company's own logistics and sales networks;

• Industrial safety, including the assessment of management actions aimed at preventing accidents and improving industrial safety;

• The strategic development of SUEK and its individual business segments. This includes updating the company’s ten-year consolidated strategy, refining target vectors within segment strategies, adjusting key investment projects due to changes in market conditions; developing the procedure for creating a coordinated set of macro-parameters for strategic and budgetary planning, and outlining key sales targets, taking into account the current market situation;

• Environmental issues: the Board approved a new strategy in the field of ecology and environmental protection. It also determined the key priority areas for reducing SUEK’s impact on the environment and supported environmental programmes in the regions where the company operates;

• Developing SUEK’s IT strategy and regularly monitoring its step-by-step implementation;

• Personnel matters, including assessments of the company’s human resources function and issues affecting the continuity of senior management. In particular, the Board updated the HR strategy, assessed the progress of senior managers towards personal goals set in 2016 and further improved the incentive system for SUEK’s senior management. 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 Committee. They also receive reimbursement of all reasonable expenses they incur in relation to their work as Directors.

Management Board

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 Rashevsky 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. In order to achieve its targets, under the Regulation on the Management Board SUEK creates committees and panels that enable key managers and experts from different functions to interact on the main issues affecting the company’s operations. The primary responsibilities of the CEO and the Management Board are to ensure the development and implementation of the company’s production, commercial and other operational plans and improvement programmes. They are also responsible for the timely and effective coordination of the resolutions of the company’s executive bodies.

Composition of the Management Board

As of 31 December 2017, the Management Board was comprised of the following four members:

• Vladimir Rashevsky – Chief Executive Officer
• Vladimir Artemiev – Chief Operations Officer
• Igor Gribovsky – Chief Commercial Officer
• Nikolai Pikel’nikov – Chief Financial Officer

During the year, nine senior managers who are not members of the Management Board regularly attended Management Board meetings.

Meetings of the Management Board

In 2017, there were 17 meetings of SUEK’s Management Board: 12 in-person and five in-absentia.

The main areas of the Management Board’s activities in 2017 were:

• The timely and effective implementation of resolutions taken at the General Meeting of Shareholders and by the company’s Board of Directors;
• The implementation of SUEK’s joint segmented strategies and functional strategies (those in the field of ecology and environmental protection and our IT strategy);
• Developing and implementing policies around our compliance with international tax legislation, and our logistics and commercial activities;
• The monthly monitoring of our performance in meeting approved budget and production targets in volatile market conditions;
• Systematic monitoring of actions aimed at managing key risks;
• Ensuring safe working conditions, minimizing the risks associated with coal mining and developing a strong safety culture;
• Improving labour productivity in all areas through the integrated optimisation of all production and business processes used by the company, its subsidiaries and associates;

In September 2017, SUEK’s Board members and Management team visited the company’s facilities in the Khabarovsk region. They took the opportunity to supervise the whole operational cycle – from coal mining and washing at the Urgals deposit to its transshipment through Vanino Bulk Terminal – along the export route to growing Asian markets. During the meeting with local managers, the Board and Management discussed development plans up to 2021 for the Urgal deposit, where a new open pit was launched in 2017. They also considered opportunities for expanding the Chegdomyn washing plant. The visitors also paid special attention to issues of environmental policy, industrial safety and the company’s HR policy. Natalia Izosimova, a member of the Board and the Nomination and Compensation Committee, visited the town of Chegdomyn in advance, where 12,000 inhabitants are mainly employed by SUEK and infrastructure companies. There, she reviewed the socio-economic problems people face in this remote town, which is 16 hours by train from the regional centre of Khabarovsk. She also discussed how the company could contribute further to the town’s development. Following her visit, the region’s social challenges were discussed in detail during the Board meeting, as the company aims to attract and retain qualified personnel in this distant area. Particular attention was paid to the issue of further increasing transshipment volumes at Vanino Bulk Terminal, enabled by the improvement of rail access to the port.

Board members regularly visit the company’s production units to understand better the challenges they face and the progress being made in introducing new production methods and safety standards. Such trips help the Board assess opportunities in many areas, including the implementation of advanced international technologies, and gain a better understanding of regulatory issues and new insights into specific characteristics of the Russian coal industry.

For more details, see Board Committees’ reports on pages 104-156.
• Improving our systems of compliance;
• Ensuring the effective implementation of major investment projects and improving the quality of how they are monitored;
• Enhancing project management and HR policy.

Some items relating to operational management and current activities were reviewed at meetings of specialist committees established in line with the company’s Charter. In 2017, eight special-purpose committees under the Management Board held 67 meetings:

- Industrial Safety Committee;
- Risk Management Committee;
- Investment Committee;
- Procurement Committee;
- Information Technology Committee;
- Budget Committee;
- Project Committee;
- Sales Policy Committee.

Management Board remuneration

The remuneration of members of the Management Board and the CEO of SUEK consists of a fixed basic salary and bonus elements, as well as long-term incentives for the completion of specific strategic projects. The fixed element is based on the official duties of the relevant individual. The variable part provides an incentive to accomplish SUEK’s strategic objectives and a compliance portal hosted on the official website. The amount paid is based on the achievement of KPIs, which are reviewed at meetings of specialist committees. In 2017, SUEK’s remuneration committee held 67 meetings.

Q: In 2016, SUEK decided to establish a new compliance system. What are the main objectives of this system?
A: The main objectives of the system are to help us prevent, find and solve issues. In developing our Compliance Policy and regulations, which describe the implementation of compliance procedures, we adhered to the most up-to-date international standard, ISO 19600:2014. By mid-2017 we had developed and implemented all key processes.

Q: How do you monitor compliance?
A: Within our compliance procedures, we have singled out three lines of interaction: Legal Department, Internal Control and Audit Service. As part of the legal service, we created the role of a vertically integrated Compliance Officer. We also established a Compliance Department in the head office, and introduced compliance manager posts in two large regions. In other regions, compliance functions are assigned to directors in charge of legal issues and compliance procedures.

Q: How was the system implemented?
A: Our compliance managers received training in the International Compliance Association’s (ICA’s) basic programmes. They also received internationally recognised ICA certificates in compliance management. During the year, they conducted over 170 on-site employee workshops dedicated to the basics of compliance. Over 5,000 people – more than 90% of the total management personnel – attended the training, which took place in all regions where we operate. We also used remote interactive training, which was supplemented by compliance memos and a compliance portal hosted on SUEK’s intranet, where relevant information is now posted.

Q: How can employees report compliance violations?
A: To enable and encourage employees to report compliance issues of any kind, we have created a feedback function on our compliance portal. Using this function, any site visitor can leave a message, anonymously if they wish. SUEK’s hotline can also now receive compliance-related calls and messages. We have created a secure electronic account, compliance@suek.ru, and have put 99 compliance-stands with boxes for receiving messages at our facilities.

Q: What did you learn through the initial system implementation?
A: We conducted online tests to assess employees’ knowledge of compliance basics across all the company’s subsidiaries. Online surveys showed that the average knowledge assessment score exceeded 4.5 out of 5 points. In addition, we also made a routine assessment of compliance threats (risks of violations of compliance standards). The results will be reviewed by the Compliance Panel, which is supervised by the CEO, and presented to the members of the Audit Committee of the Board of Directors.

Q: What are your plans regarding compliance system development?
A: We will adapt and develop the compliance system in line with the results of our compliance threat assessment, paying special attention to the most relevant areas for the company. The key goal for us is to embed compliance values into our collective employee mindset and corporate culture. The success indicator in this work will be a reduced number of compliance violations.

SUEK'S CHIEF COMPLIANCE OFFICER

DMITRY KANTEROV
SUEK’S CHIEF COMPLIANCE OFFICER

Major compliance areas

1. SUEK’s Code of Corporate Ethics;
2. Anti-corruption compliance;
3. Compliance in the field of covenants/limits and international sanctions;
4. Anti-monopoly compliance;
5. Tax compliance;
6. Compliance in the field of licensed activities and natural resource management;
7. Compliance in the field of land and property matters;
8. Counterparties’ compliance;
9. Corporate management compliance;
10. Fraud-prevention compliance;
11. Health and safety compliance;

Compliance procedures

Legislation monitoring;
Adoption of local regulations related to the company’s business areas;
Adoption of local compliance regulations;
Employee training, knowledge testing, questioning;
Changes to job descriptions and employment contracts;
Compliance with applicable requirements;
Reporting system;
Conducting inspections and compliance investigations;
Regular assessment of compliance threats.
SUEK’s Board of Directors is balanced and experienced. It provides the company to the leadership and company for its long-term success.

ANDREY MELNIKCHENKO, 46  
NON-EXECUTIVE DIRECTOR

VLADIMIR BASHKOVSKY, 44  
CHIEF EXECUTIVE OFFICER

KLAUS-DIETER BECK, 63  
INDEPENDENT NON-EXECUTIVE DIRECTOR

NATALIA UDIEVSKAYA, 65  
INDEPENDENT NON-EXECUTIVE DIRECTOR

STEPAN JURIDICH, 59  
INDEPENDENT NON-EXECUTIVE DIRECTOR

IAN MACDONALD, 66  
INDEPENDENT NON-EXECUTIVE DIRECTOR

KUZMA MARCHUK, 44  
NON-EXECUTIVE DIRECTOR

OLGA YVOSTOVSKAYA, 57  
INDEPENDENT NON-EXECUTIVE DIRECTOR

Key to committee membership

S  Strategy Committee
N  Nomination and Compensation Committee
A  Audit Committee
C  Committee’s Chairman

Board composition

1. Independent Directors 56%  
2. Non-Independent Directors 44%

Board members experience

1. International operations  
2. Mining  
3. Energy  
4. Finance  
5. Manufacturing  
6. Retail  
7. Corporate Governance  
8. Technology

1. Current  
2. Past

FINANCIAL STATEMENTS

STRATEGIC REPORT

CORPORATE GOVERNANCE

- 102 -  
SUEK INTEGRATED REPORT 2017

- 103 -  
SUEK INTEGRATED REPORT 2017

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BOARD COMMITTEES

STRATEGY COMMITTEE
Members of the Committee
(as at 31 December 2017)

Areas of responsibility:
The Strategy Committee is responsible for reviewing management's proposals, assessing associated risks and developing recommendations to support the Board's decision-making in the following key areas:

- 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 projects 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.

Activities in 2017

- Given the volatility of the global coal market, the Committee reviewed SUEK’s strategy for the next ten years by business segment. It reached decisions to adjust key priorities of logistics strategies at production units in Kuzbass and Khakassia, define further tasks relating to the development strategy of our auxiliary units, review the consolidated sales strategy and call for a significant increase in exports in order to optimise product distribution across target markets.
- The Committee also analysed investment initiatives that remain attractive despite the current macroeconomic conditions. It approved development projects at our Tugnui and Legal assets.
- In order to improve the planning function, the Committee refined the macroeconomic parameters and operating performance targets for strategic and budgetary planning, supervised the budgeting, accounting, reporting and investment processes and considered the key steps necessary to reorganise the business process around strategic and investment planning. This was done in order to improve the quality of strategic initiatives and investment proposals, as well as to shorten the time involved in making investment decisions.
- Throughout the year, the Committee monitored the implementation of the Management Development Programme and measures aimed at improving business processes. It set tasks to further develop sales, logistics and procurement processes.
- Taking into account the importance of environmental issues, the Committee analysed the key elements of the company’s new strategy in the field of ecology and environmental protection and supported priority areas for reducing SUEK’s environmental impact.
- Following a benchmarking exercise to compare production efficiency at SUEK’s units with other leading coal producers, the Committee supervised a review of programmes to enhance the operational efficiency of underground and open mining operations.
- The Committee revised the company’s IT strategy, made adjustments to key areas and defined priority tasks for the near and long term.

ACTIVITIES IN 2017

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See biographical details of members of the Strategy Committee on pages 103-104.

FOR DETAILS ON ATTENDANCE OF STRATEGY COMMITTEE MEETINGS, SEE PAGE 88.

FOR DETAILS ON ATTENDANCE OF STRATEGY COMMITTEE MEETINGS, SEE PAGE 88.

NOMINATION AND COMPENSATION COMMITTEE
Members of the Committee
(as at 31 December 2017)

Areas of responsibility:

- Making recommendations to the Board of Directors regarding HR strategy, nominations and compensation, corporate governance and social policy;
- Ensuring the continuity of senior management, developing a succession pool and talent pipeline and designing and assessing programmes for developing managers;
- Ensuring compliance with industrial and environmental safety standards at our enterprises; monitoring our system of key performance indicators in this area;
- Assessing the compliance of our industrial safety system with industrial and environmental safety standards at our enterprises; monitoring our system of key performance indicators in this area;
- The Committee supervised the annual assessment of the Board’s performance, identifying areas that require further attention. It also reviewed opportunities for Directors’ professional development and confirmed the status of the company’s Independent Directors.

Activities in 2017

- The Committee analysed activities undertaken under the HR strategy for 2016-2017. It also elaborated SUEK’s new HR management strategy for 2017-2020, defined priorities relating to key performance indicators for the HR management service and set tasks to further improve the HR management process.
- It monitored measures for improving industrial safety and the occupational health and safety system and approved new management initiatives to prevent accidents at the company’s production facilities. Committee member Klaus-Dieter Beck visited the company’s units in Kuzbass in order to assess applicable industrial safety standards and evaluate the processes involved in the installation of new equipment.
- The Committee assessed the current capacity of the company’s human resource function. It also developed measures to support management continuity at various levels. Members of the Committee participated in meetings with successors under the Corporate University project.
- It reviewed employee motivation programmes in relation to important tasks and projects. It also adjusted and refined a methodology for calculating the incentive system parameters for the sales function and assessed the payment schemes that are linked to our current motivation programmes.
- As part of implementing the company’s communication strategy, the Committee studied the opinions of target audiences in the regions where SUEK operates with a view to assessing the effectiveness of the communication process. Based on the results of the first stage, the Committee developed recommendations on the action plan aimed at improving the efficiency of communications.
- It assessed the performance of managers in 2017 and approved new performance targets for 2018. It also initiated a major revision of how the company sets annual targets for SUEK’s top managers.
- The Committee supervised the annual assessment of the Board’s performance, identifying areas that require further attention. It also reviewed opportunities for Directors’ professional development and confirmed the status of the company’s Independent Directors.

See biographical details of members of the Nomination and Compensation Committee on pages 105-106.

FOR DETAILS ON ATTENDANCE OF NOMINATION AND COMPENSATION COMMITTEE MEETINGS, SEE PAGE 95.
AUDIT COMMITTEE

Members of the Committee
(as at 31 December 2017)

Areas of responsibility:
• Ensuring the completeness and accuracy of the published financial statements;
• Guiding the development of management reporting with regular reviews of performance reports;
• Overseeing the implementation of budget-planning policies and evaluating the effectiveness of budgeting systems;
• Evaluating the performance of the external auditor and the effectiveness of the external-audit process;
• Assessing the effectiveness of internal control and risk management;
• Supervising the work of the Internal Control and Audit Service (ICAS), including the quarterly analysis of audit findings and annual analysis of audit effectiveness.

Activities in 2017
• The Committee addressed the scheduled tasks of preparing reports and controlled the quality of IFRS financial statements. It assessed audit risks and the scope of information disclosure. It also considered regular issues relating to the evaluation of the external auditor’s effectiveness, remuneration and independence.
• Particular attention was paid to the valuation of the rights for subset use in order to ensure the adequacy of our management approaches to modelling the revaluation process and documenting methodology.
• During the year, the Committee monitored the functioning of the company’s compliance system. It also supervised the development of a reporting system, including plans for further compliance development.
• It reviewed the results of activities to introduce the Code of Corporate Ethics and corporate values. It analysed the changes in employee behaviour and culture following the Code’s introduction.
• It exercised control over the preparation of the Annual Report.
• As part of efforts to improve the risk management system, Committee member Olga Vysotskaya assessed the current state of SUEK’s risk-management structure and process. As a result, initiatives were developed relating to future Committee activities in this area.
• The Committee ensured that activities planned for 2017 to automate business processes as part of the IT strategy were implemented. It supported the idea of developing and subsequently integrating IT modules on platforms other than SAP. Together with the Strategy Committee, it also adjusted key areas of the IT strategy and set its priority tasks for the near and long term.
• It undertook regular analysis of our fraud and corruption investigations.
• The Committee also reviewed reports of the Internal Control and Audit Service (ICAS) on a quarterly basis. It approved internal audit plans and the ICAS budget and held regular meetings with the head of ICAS without management being present.

In 2017, six SUEK’s representatives took leading positions in the 18th “Top 1000 Russian Managers” annual ranking organised by the Russian Association of Managers and Kommersant Publishing House. SUEK’s CEO Vladimir Rashkevich took the first place in the ranking of top managers. Among those who occupied top positions in the rating were also Denis Ilatovskiy (Logistics and Supply Chain Directors), Sergei Gridiev (Directors for Government Relations), Alexander Redkin (Directors of Legal Affairs), Igor Gribanovsky (Commercial Directors), and Sergey Yerentshikh (Directors of Corporate Governance).
DENIS ILATOVSKY, 46
DIRECTOR OF LOGISTICS

Education and qualifications
Sergei graduated from the Moscow State Institute of Steel and Alloys in 1994. He also obtained an Executive MBA from Antwerp Management School, Belgium, and from the Institute of Business Studies in 2011.

Career
Sergei is a consultant and commentator. He was previously the Director of the Department of the Federal Security Service and the Head of Logistics and General Director of the National Reserve. Between 2004 and 2006, Sergei was Vice President of the Group, including General Counsel and a member of the Board of Directors. In 2000, he worked for Pechiney, an aluminium company, in France, Russia, Guinea and Ukraine. Between 2007 and 2013, Vladimir worked for The Boston Consulting Group (BCG) in Russia and the US. At BCG, he provided consultancy services to financial institutions, heavy industry, mining, automotive and processing companies. From 2013 to early 2015, Vladimir worked at pub and paper company Ilm Group as Deputy CEO for Strategy and Product Management, and served on the Board of Directors of Ilm Gdha.

Vladimir has been SUEK’s Chief Strategy Officer since August 2015.
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 2017, the consolidated statements of profit or loss and other comprehensive income, changes in 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 consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the independence requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation and with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA 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 Ilya O. Belyatskiy.

JSC "KPMG"
MOSCOW, RUSSIA
25 JANUARY 2018

Audited entity: JSC SUEK
Registration No. in the Unified State Register of Legal Entities 1027701513860.
Moscow, Russia
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 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 Organisations: No. 11603053203.
## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

### Millions of US Dollars

<table>
<thead>
<tr>
<th>Notes</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>6,593</td>
<td>4,002</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(2,468)</td>
<td>(1,831)</td>
</tr>
<tr>
<td>Distribution costs</td>
<td>(1,994)</td>
<td>(1,463)</td>
</tr>
<tr>
<td>General and administrative expenses</td>
<td>(148)</td>
<td>(114)</td>
</tr>
<tr>
<td>Other expenses, net</td>
<td>(9)</td>
<td>(6)</td>
</tr>
<tr>
<td>Operating profit</td>
<td>1,076</td>
<td>590</td>
</tr>
<tr>
<td>Finance costs, net</td>
<td>(185)</td>
<td>(148)</td>
</tr>
<tr>
<td>Foreign exchange loss</td>
<td>(13)</td>
<td>(38)</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>878</td>
<td>404</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>(221)</td>
<td>(90)</td>
</tr>
<tr>
<td>Net profit for the year</td>
<td>657</td>
<td>314</td>
</tr>
<tr>
<td>Basic and diluted earnings per share (in US Dollars)</td>
<td>2.70</td>
<td>1.08</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td>1,175</td>
<td>647</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>48</td>
<td>163</td>
</tr>
<tr>
<td>Revaluation of intra-group debt denominated in foreign currency</td>
<td>(14)</td>
<td>(128)</td>
</tr>
<tr>
<td>Transfer of changes in fair value of cash flow hedges to profit or loss, net of deferred tax</td>
<td>(232)</td>
<td>(66)</td>
</tr>
<tr>
<td>Effective portion of changes in fair value of cash flow hedges, net of deferred tax</td>
<td>(162)</td>
<td>(13)</td>
</tr>
<tr>
<td>Total items which may be reclassified to profit or loss in the future</td>
<td>116</td>
<td>212</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 surplus</td>
<td>1,321</td>
<td>547</td>
</tr>
<tr>
<td>Tax effect of revaluation surplus</td>
<td>(264)</td>
<td>(110)</td>
</tr>
<tr>
<td>Actuarial gains/(losses)</td>
<td>2</td>
<td>(2)</td>
</tr>
<tr>
<td>Total items which may not be reclassified to profit or loss in the future</td>
<td>1,059</td>
<td>435</td>
</tr>
<tr>
<td>Total other comprehensive income</td>
<td>1,175</td>
<td>647</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>1,134</td>
<td>659</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>41</td>
<td>52</td>
</tr>
<tr>
<td>Total other comprehensive income attributable to:</td>
<td>1,175</td>
<td>647</td>
</tr>
<tr>
<td>Ordinary shareholders of the parent</td>
<td>1,134</td>
<td>659</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>41</td>
<td>52</td>
</tr>
<tr>
<td>Total other comprehensive income for the year</td>
<td>1,175</td>
<td>647</td>
</tr>
</tbody>
</table>

The comparative consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016 has been restated for the effect of the acquisition under common control described in note 30. The accompanying notes on pages 116 to 138 are an integral part of these consolidated financial statements.
The comparative consolidated statement of cash flows for the year ended 31 December 2017 has been restated for the effect of the acquisition under common control described in note 30.

The accompanying notes on pages 116 to 138 are an integral part of these consolidated financial statements.

The comparative consolidated statement of changes in shareholders’ equity for the year ended 31 December 2017 has been restated for the effect of the acquisition under common control described in note 30.

The accompanying notes on pages 116 to 138 are an integral part of these consolidated financial statements.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

Millions of US Dollars, unless otherwise stated

1. General information
Organisation and principal activities. Joint Stock Company (“JSC”) “Siberian Coal Energy Company” (“SUEK” or the “Company”) was founded on 1 December 1999. The Company and its subsidiaries are collectively referred to as the Group. The address of registered office is Dubininisky st. 53, bld. 7, 117405, Russian Federation. The principal activity of the Group is the extraction and sale of coal.

SUEK became the parent company of the Group in September 2016 after the reorganisation of SUEK LTD that included the spin-off of a holding company SUEK HOLDINGS LTD owning 100% shares in SUEK and purchase of 100% shares of SUEK LTD by SUEK.

SUEK HOLDINGS LTD is the immediate parent company of SUEK.

A company that holds business interests beneficially for Mr. Andrej Melnichenko indirectly owns 100% of AIM Capital SE, registered in the Republic of Cyprus, which in its turn owns 92.2% of SUEK HOLDINGS LTD registered in the Republic of Cyprus.

2. Basis of presentation
These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The consolidated financial statements of the Group have been prepared on the historical cost basis, except for:

• mineral rights carried at fair value starting from 1 January 2013; and
• derivative financial instruments and available for sale financial assets which are stated at fair value.

Functional currency. The functional currency of subsidiaries of the Group is the currency of the primary economic environment where these entities operate. The functional currency of foreign trading subsidiaries and predominantly export-oriented Russian subsidiaries is US Dollar (“USD”). The functional currency of the Company and Russian subsidiaries that are not predominantly export-oriented is the Russian Rouble (“RUB”).

Presentation currency. The presentation currency is the USD. The translation of the consolidated financial statements into the presentation currency was performed in accordance with the requirements of IAS 21 “The Effects of Changes in Foreign Exchange Rates”.

The following RUB/USD exchange rates were applied at 31 December and during the years then ended:

<table>
<thead>
<tr>
<th>Year</th>
<th>Average rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>57.60</td>
</tr>
<tr>
<td>2016</td>
<td>60.00</td>
</tr>
<tr>
<td>2015</td>
<td>64.35</td>
</tr>
<tr>
<td>2014</td>
<td>67.03</td>
</tr>
</tbody>
</table>

Adoption of new and revised standards and interpretations
The following amendments to standards became effective for the Group from 1 January 2017:

• Amendments to IAS 12 “Income taxes” clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. This amendment does not have a significant impact on the Group’s consolidated financial statements.

• Amendments to IAS 7 “Statement of Cash Flows” require entities to provide disclosures about changes in their liabilities arising from financial activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Group has added the required disclosure to these consolidated financial statements (see note 20).

A number of new standards and amendments to standards are not yet effective at 31 December 2017, and have not been early adopted:

• IFRS 9 “Financial Instruments” (effective for annual periods beginning after 1 January 2018 with earlier application permitted) supersedes IAS 39 “Financial Instruments: Recognition and Measurement” and introduces new classification and measurement requirements, a single, forward-looking “expected loss” impairment model and a substantially-reformed approach to hedge accounting. This standard does not have a significant impact on the Group’s consolidated financial statements.

• IFRS 15 “Revenue from contracts with customers” (effective for annual periods beginning after 1 January 2018 with earlier application permitted) outlines a comprehensive model for entities to use in accounting for revenue from contracts with customers. The Group assessed the impact of the new standard on the Group’s performance and financial position by identifying and analysing classes of transactions where revenue recognition under currently applied IAS 18 might be different from IFRS 15 requirements. As a result, the Group identified certain areas of focus which mainly related to revenue recognition of services provided to customers. The Group identified that under contract conditions related to significant portion of coal sales the Group promises to provide shipping and other freight services after the date when control of the goods passes to the customer at the loading port. Under IAS 18, the Group recognises revenue for such services and associated costs in full immediately after loading. Under IFRS 15 such revenue is expected to be a separate performance obligation and shall be recognised over time rather than at a point in time, however, due to the short lead time to deliver such services and absence of individually material transactions, the potential impact on the Group’s performance or the Group’s position was estimated inconsequential. The group did not identify any other areas where new standard might have a material effect upon adoption. The Group will continue monitoring the impact of treating freight related services as a separate performance obligation and will adjust its accounting policies as appropriate in the future if and when such impact becomes material.

• IFRS 16 “Leases” (effective for annual periods beginning after 1 January 2019 with earlier application permitted, if IFRS 15 is also adopted) supersedes IAS 17 “Leases” and provides a new approach to accounting that eliminates the right-of-use model of leases as either operating leases or finance leases for a lessee and requires a lessee to recognise assets and liabilities for the rights and obligations created by leases. The Group is currently assessing the impact of the new standard on the consolidated financial statements.

• IFRIC 22 “Foreign currency transactions and advance consideration” (effective for annual periods beginning on or after 1 January 2018 with earlier application permitted) provides requirements about which exchange rate to use in reporting foreign currency transactions when payment is made or received in advance. The interpretation does not have a significant impact on the Group’s consolidated financial statements.

3. Significant accounting policies
3.1. Basis of consolidation
Subsidiaries. Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

The acquisition of subsidiaries from third parties is accounted for using the purchase method of accounting. The identifiable assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values as at the date of acquisition. Non-controlling (minority) interest is measured at its proportionate interest in the identifiable assets and liabilities of the acquiree. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance. Intra-group balances and transactions, and any unrealised gains and losses arising from financing activities, including both changes arising from financing activities, are eliminated in preparing the consolidated financial statements.

Changes in ownership interests by the Group in a subsidiary, while maintaining control, are recognised as an equity transaction. Upon a loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

Business combination under common control. Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are revised. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group’s consolidated financial statements.

The components of equity of the acquired entities are added to the same components within Group equity except that any share capital of the acquired entities is recognised as part of additional paid-in capital. Any cash paid for the acquisition is recognised directly in equity.

3.2. Foreign currency transactions
Transactions in foreign currencies are recorded at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are converted to the respective functional currency at the exchange rate ruling at the balance sheet date. Exchange differences arising from changes in exchange rates are recognised in profit or loss.

The translation of the financial statements from functional currency into presentation currency is performed in accordance with the requirements of IAS 21 “The Effects of Changes in Foreign Exchange Rates” as follows:

• all assets and liabilities, both monetary and non-monetary, are translated at closing exchange rates at the dates of each consolidated statement of financial position presented;
• income and expenses in the consolidated statement of profit or loss are translated at the average exchange rates for the years presented;
• all opening and closing differences are included in equity and presented separately; and
• in the consolidated statement of cash flows, cash balances at the beginning and end of each year presented are translated at exchange rates at the respective dates. All cash flows are translated at the annual average exchange rates for the years presented. Resulting exchange differences are presented as foreign exchange effect on cash and cash equivalents.

Exchange differences arising from the revaluation of the intra-group debt accounted for as a part of net investments in foreign operations were included in other comprehensive income in the consolidated financial statements. Certain intra-group debt to Russian subsidiaries is classified as part of net investments. Net income is also reported in the consolidated statement of profit or loss. The basis of carrying value of property, plant and equipment.

Mineral rights. Mineral rights include expenditures incurred in acquiring mineral and development rights. Mineral rights are 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 mineral rights asset and the net amount is recognised as 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 mineral rights asset and depreciation based on the asset’s historical cost, is transferred from the revaluation reserve to retained earnings.

Property, plant and equipment, other than mineral rights.

Property, plant and equipment, other than mineral rights, 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 mineral rights, comprises major components having different useful lives, they are 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 mineral rights, that is accounted for separately is capitalised with the carrying amount of the component that has been replaced. Subsequent expenditure is capitalised if future economic benefits will arise from the expenditure. All other expenditure, including repairs and maintenance expenditure, is recognised in profit or loss as an expense as incurred.

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.

The estimated useful lives of property, plant and equipment, including mineral resources, are as follows:

- mineral rights average of 58 years
- buildings, structures and utilities 7 – 44 years
- machinery, equipment and transport 4 – 32 years

Leased assets. Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets subject to finance leases are carried as property, plant and equipment at the lower of fair value or the present value of future minimum lease payments at the date of acquisition, with the related financial lease liability recognised at the same value. Capitalised leased assets are depreciated over their estimated useful lives or the term of the lease, if shorter.

Finance lease payments are allocated using the effective interest rate method. The allocation includes:

- the lease finance cost, which is included in finance costs; and
- the capital repayment, which reduces the related lease obligation to the lessor.

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-exploration costs are recognised in profit or loss as incurred. Exploration and evaluation costs (including geological, 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 economic 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 Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised at fair value. The cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in tranche or segment of a financial asset that is created or retained by the Group is recognised as a separate asset or liability.

The Group has the following categories of non-derivative financial assets: (i) at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

Financial assets at fair value through profit or loss. A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group’s documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Held to maturity financial assets. If the Group has the positive intent and ability to hold to maturity debt securities, then such financial assets are measured at amortised cost. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to- maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held to maturity for the current and the following two financial years.

Loans and receivables. Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise trade and other receivables.

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.

Available-for-sale financial assets. Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale and that are not classified in any of the previous categories. The Group’s investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

Other non-derivative financial instruments. Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses. Investments in equity securities that are not quoted on a stock exchange are measured using the equity method, such as discounted cash flow analysis, option pricing models and comparisons to other transactions and instruments that are substantially similar. Where fair value cannot be reliably measured, investments are stated at cost less impairment losses.
Non-derivative financial liabilities. The Group initially recognises debt securities issued on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the financial liability. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. The Group has the following non-derivative financial liabilities: loans and borrowings, trade and other payables. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

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. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss.

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 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, explicit gain or loss is recognised in equity, thereby reducing the amount recognised in accumulated comprehensive income. Changes in the fair value of derivatives not designated as cash flow hedges are recognised in profit or loss.

Impairment of non-derivative financial assets. A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due from the Group, the Group becoming a party to the contractual provisions of the financial liability, and the Group derecognising a financial liability when its contractual obligations are discharged or cancelled or expire.

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 discount rate that reflects the 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 and is required by law to make the specified contributions in the year in which they arise and these contributions are expensed as incurred.

Defined benefit plans. In accordance with current legislation and internal documentation the Group operates defined benefit plans whereby field workers of its coal-producing subsidiaries are entitled to a lump sum payment. The amount of benefits depends on age, years of service, compensation and other factors.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date. Actuarial gains and losses are recognised directly in other comprehensive income.

The defined benefit obligation is calculated annually by the Group. The Projected Unit Credit Method is used to determine the present value of defined benefit obligations and the related current service cost. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability.

3.11. Income tax

Income tax expense comprises current and deferred taxation. Current tax is the tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and includes any adjustment to tax payable in respect of previous years.

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 assets and 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’s ability 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 period.

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 represents the invoiced value for coal supplied to customers, excluding value-added tax, and is recognised when all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over goods;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the entity; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

3.13. Operating lease payments

Leases of assets under which all the risks and benefits of ownership are retained by the lessee are classified as operating leases. Payments under operating leases are recognised in profit or loss in the year in which they are due in accordance with lease terms.

3.14. Dividends declared

Dividends and related taxation thereon are recognised as a liability in the year in which they have been declared and become legally payable.

Retained earnings legally distributable by the Group are based on the amounts available for distribution in accordance with the applicable legislation and as reflected in the statutory financial statements of the individual Group entities. These amounts may differ significantly from the amounts recognised in the Group’s consolidated IFRS financial statements.

3.15. Overburden removal expenditure

In reliably estimated expenditure is necessary to remove the overburden and other waste in order to access the economically recoverable coal.

Stripping costs incurred during the pre-production phase of the uncertainties surrounding the timing of the property and amortised over the life of the mine.

Due to the specifics of the geology of the Group’s mining assets, the period required to gain access to a coal seam is short, and the stripping ratio (volume of overburden removed over the
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 mineral 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 its 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 extensions in areas which are subject to open auctions. Delay or failure in securing relevant government approvals or licences, as well as any adverse change in the price of coal or other factors that may cause a significant adjustment to development and acquisition plans, which may have a material impact on the Group’s financial position and performance.

Valuation of mineral rights. Mineral rights 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 mineral rights, 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 could be deducted in arriving at the fair value of the mineral rights.

Since the operating tangible fixed assets are carried at historical cost, for the purposes of regular revaluation of mineral rights 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 for mining equipment to the residual value of items.

At 31 December 2017 the fair value of mineral rights was determined based on the following key assumptions:

- the cash flows were projected based on actual operating results and 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. Management opts to involve professional appraisers to perform estimation of reserves as appropriate;
- export coal sales volumes were estimated to grow at an average 1% for the foreseeable forecasted period 2018-2029;
- export coal prices for Asian and European markets estimated to grow with average 12% in 2018 and to fall at an average of 2% in 2019-2022 based on the forward rates and a consensus forecast of investment banks and thereafter in line with expected long-term USD inflation;
- domestic coal sales volumes were estimated to grow at an average rate of 2% for the foreseeable forecasted period 2018-2029;
- domestic coal prices estimated to grow with average 3% in 2018 and to grow in line with RUB inflation thereafter;
- regulated railroad tariffs for 2018 were estimated to grow at an average rate of 5% for domestic and export shipments and to grow in line with RUB inflation thereafter;
- the RUB/USD exchange rate was estimated in 2018 at the level of 58.4 RUB/USD. For 2018-2022 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 13.3% for mining units, in Russian Ruble terms.

At 31 December 2017 the total effect of the revaluation of the mineral rights was an increase of 1,321 million USD (31 December 2016 – an increase of 547 million USD); the after-tax effect on equity was an increase of 1,057 million USD (31 December 2016 – an increase of 437 million USD).

Example changes in key assumptions would have the following effect on the fair value of the mineral rights:

| Increase in domestic coal sales volumes of 1% | 87 |
| Increase in domestic coal prices of 1% | 94 |
| Increase in regulated railroad tariffs growth of 1% | 55 |
| Increase in domestic coal prices of 1% | 55 |
| Increase in RUB/USD exchange rate of 1% | 246 |
| Increase in export coal volumes of 1% | 168 |
| Increase in weighted average cost of capital of 1% | 267 |
| Determination of recoverable amount of property, plant and equipment of the Coal segment (other than mineral rights). The recoverable amount was determined based on the net present value calculations using projected cash flows. This method considers the future net cash flows expected to be generated through the usage of property, plant and equipment in the process of operating activities up to its ultimate disposal to determine the recoverable amount of the assets.

The following key assumptions were used in determining the recoverable amounts of each of the cash-generating units:

- cash flow projections were based on the business model for 2018-2022;
- coal transshipment volumes were projected to accommodate primarily sales agreements;
- port tariffs were projected to decrease at an average rate of 8% in 2018 and to grow at an average rate of 2% per annum thereafter;
- cash flow projections were discounted to their present value at the nominal weighted average cost of capital of 11.6% for port units.

As a result of the testing no impairment loss was recognised.

The model applied for impairment testing is not sensitive to assumptions used by management because value in use is governed by carry over value of operating businesses rather than carrying values of cash generating units’ assets.

5. Segmental information

The Group evaluates performance and makes investment and strategic decisions based on a review of the profitability of the Group and its major 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.

Operating segments identified by management are coal mining, ports and logistics, sales and distribution and corporate segments. The coal mining segment represents the operations of the coal mining companies including extraction and washing; the ports and logistics segment includes railroad transportation assets and ports; the sales and distribution segment represents sales and distribution companies and corporate segment includes holding companies.
Operating segment information for the Group at 31 December 2017 and for the year then ended is as follows:

<table>
<thead>
<tr>
<th>Segment</th>
<th>Coal mining</th>
<th>Ports and logistics</th>
<th>Sales and distribution</th>
<th>Corporate</th>
<th>Inter-segment elimination</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Segment revenue and profitability</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Segment external revenues</td>
<td>1,105</td>
<td>99</td>
<td>4,489</td>
<td>—</td>
<td>—</td>
<td>5,693</td>
</tr>
<tr>
<td>Inter-segment revenues</td>
<td>3,301</td>
<td>1,657</td>
<td>—</td>
<td>74</td>
<td>(5,032)</td>
<td>—</td>
</tr>
<tr>
<td>Segment expenses</td>
<td>(2,427)</td>
<td>(1,594)</td>
<td>(4,862)</td>
<td>(46)</td>
<td>5,032</td>
<td>(4,817)</td>
</tr>
<tr>
<td>Operating profit/(loss)</td>
<td>579</td>
<td>162</td>
<td>(58)</td>
<td>28</td>
<td>—</td>
<td>1,076</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>(390)</td>
<td>(44)</td>
<td>—</td>
<td>(4)</td>
<td>—</td>
<td>(438)</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(108)</td>
<td>(15)</td>
<td>(5)</td>
<td>(165)</td>
<td>127</td>
<td>(166)</td>
</tr>
<tr>
<td>Inter-segment expenses</td>
<td>848</td>
<td>167</td>
<td>(95)</td>
<td>(42)</td>
<td>—</td>
<td>(878)</td>
</tr>
<tr>
<td>Profit/(loss) before tax</td>
<td>(183)</td>
<td>(34)</td>
<td>(1)</td>
<td>(127)</td>
<td>—</td>
<td>(221)</td>
</tr>
<tr>
<td>Net profit/(loss) for the year</td>
<td>355</td>
<td>128</td>
<td>(66)</td>
<td>(45)</td>
<td>—</td>
<td>404</td>
</tr>
<tr>
<td>Capital expenditures incurred during the year</td>
<td>589</td>
<td>133</td>
<td>2</td>
<td>—</td>
<td>—</td>
<td>725</td>
</tr>
</tbody>
</table>

Operating segment information for the Group at 31 December 2016 and for the year then ended is as follows:

<table>
<thead>
<tr>
<th>Segment</th>
<th>Coal mining</th>
<th>Ports and logistics</th>
<th>Sales and distribution</th>
<th>Corporate</th>
<th>Inter-segment elimination</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Segment revenue and profitability</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Segment external revenues</td>
<td>921</td>
<td>74</td>
<td>3,007</td>
<td>—</td>
<td>—</td>
<td>4,002</td>
</tr>
<tr>
<td>Inter-segment revenues</td>
<td>2,247</td>
<td>1,284</td>
<td>—</td>
<td>49</td>
<td>(3,580)</td>
<td>—</td>
</tr>
<tr>
<td>Segment expenses</td>
<td>(2,633)</td>
<td>(1,188)</td>
<td>(3,121)</td>
<td>(50)</td>
<td>3,580</td>
<td>(3,412)</td>
</tr>
<tr>
<td>Operating profit/(loss)</td>
<td>535</td>
<td>170</td>
<td>(114)</td>
<td>(1)</td>
<td>—</td>
<td>590</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>(260)</td>
<td>(30)</td>
<td>(1)</td>
<td>(3)</td>
<td>—</td>
<td>(399)</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(88)</td>
<td>(15)</td>
<td>(4)</td>
<td>(125)</td>
<td>95</td>
<td>(132)</td>
</tr>
<tr>
<td>Inter-segment expenses</td>
<td>848</td>
<td>167</td>
<td>(95)</td>
<td>(42)</td>
<td>—</td>
<td>(878)</td>
</tr>
<tr>
<td>Profit/(loss) before tax</td>
<td>(183)</td>
<td>(34)</td>
<td>(1)</td>
<td>(127)</td>
<td>—</td>
<td>(221)</td>
</tr>
<tr>
<td>Net profit/(loss) for the year</td>
<td>355</td>
<td>128</td>
<td>(66)</td>
<td>(45)</td>
<td>—</td>
<td>404</td>
</tr>
<tr>
<td>Capital expenditures incurred during the year</td>
<td>589</td>
<td>133</td>
<td>2</td>
<td>—</td>
<td>—</td>
<td>725</td>
</tr>
</tbody>
</table>

6. Revenue

<table>
<thead>
<tr>
<th>Segment</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal sales</td>
<td>5,287</td>
<td>3,826</td>
</tr>
<tr>
<td>Pacific region</td>
<td>2,494</td>
<td>1,762</td>
</tr>
<tr>
<td>Atlantic region</td>
<td>1,696</td>
<td>1,166</td>
</tr>
<tr>
<td>Russian Federation</td>
<td>1,097</td>
<td>915</td>
</tr>
<tr>
<td>Petroleum coke sales</td>
<td>235</td>
<td>174</td>
</tr>
<tr>
<td>Other</td>
<td>171</td>
<td>122</td>
</tr>
<tr>
<td>Total</td>
<td>5,693</td>
<td>4,002</td>
</tr>
</tbody>
</table>

7. Cost of sales

<table>
<thead>
<tr>
<th>Segment</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal and petroleum coke purchased from third parties</td>
<td>724</td>
<td>410</td>
</tr>
<tr>
<td>Labour</td>
<td>460</td>
<td>399</td>
</tr>
<tr>
<td>Consomables and spares</td>
<td>408</td>
<td>331</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>399</td>
<td>369</td>
</tr>
<tr>
<td>Repairs and maintenance services</td>
<td>114</td>
<td>87</td>
</tr>
<tr>
<td>Purchased power</td>
<td>67</td>
<td>55</td>
</tr>
<tr>
<td>Transportation services</td>
<td>60</td>
<td>35</td>
</tr>
<tr>
<td>Drilling and blasting services</td>
<td>45</td>
<td>34</td>
</tr>
<tr>
<td>Tax on mining</td>
<td>40</td>
<td>27</td>
</tr>
<tr>
<td>Personnel transportation services</td>
<td>32</td>
<td>25</td>
</tr>
<tr>
<td>Fis and rescue brigades expenses</td>
<td>23</td>
<td>18</td>
</tr>
<tr>
<td>Property and other taxes</td>
<td>15</td>
<td>17</td>
</tr>
<tr>
<td>Land rent</td>
<td>15</td>
<td>13</td>
</tr>
<tr>
<td>Other</td>
<td>66</td>
<td>51</td>
</tr>
<tr>
<td>Total</td>
<td>2,488</td>
<td>1,631</td>
</tr>
</tbody>
</table>

8. Distribution costs

<table>
<thead>
<tr>
<th>Segment</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Railway services</td>
<td>1,288</td>
<td>907</td>
</tr>
<tr>
<td>Freight</td>
<td>267</td>
<td>225</td>
</tr>
<tr>
<td>Stevedoring from third parties</td>
<td>176</td>
<td>141</td>
</tr>
<tr>
<td>Rent of rail cars</td>
<td>121</td>
<td>66</td>
</tr>
<tr>
<td>Labour</td>
<td>39</td>
<td>36</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>39</td>
<td>30</td>
</tr>
<tr>
<td>Repair and maintenance services</td>
<td>36</td>
<td>21</td>
</tr>
<tr>
<td>Consomables and spares</td>
<td>18</td>
<td>13</td>
</tr>
<tr>
<td>Property and other taxes</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Other</td>
<td>27</td>
<td>22</td>
</tr>
<tr>
<td>Total</td>
<td>1,994</td>
<td>1,463</td>
</tr>
</tbody>
</table>

9. General and administrative expenses

<table>
<thead>
<tr>
<th>Segment</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>81</td>
<td>64</td>
</tr>
<tr>
<td>Consulting, legal, audit and other professional services</td>
<td>26</td>
<td>19</td>
</tr>
<tr>
<td>Charitable donations</td>
<td>22</td>
<td>15</td>
</tr>
<tr>
<td>Office rent</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Other</td>
<td>13</td>
<td>12</td>
</tr>
<tr>
<td>Total</td>
<td>146</td>
<td>114</td>
</tr>
</tbody>
</table>

10. Finance Costs, NET

<table>
<thead>
<tr>
<th>Segment</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest expense</td>
<td>166</td>
<td>132</td>
</tr>
<tr>
<td>Bank commissions and charges</td>
<td>24</td>
<td>22</td>
</tr>
<tr>
<td>Unwinding of discount on provisions</td>
<td>8</td>
<td>4</td>
</tr>
<tr>
<td>Interest income</td>
<td>(11)</td>
<td>(16)</td>
</tr>
<tr>
<td>Total</td>
<td>185</td>
<td>148</td>
</tr>
</tbody>
</table>
### 11. Property, plant and equipment

<table>
<thead>
<tr>
<th></th>
<th>Mineral rights</th>
<th>Buildings, structures and utilities</th>
<th>Machinery, equipment, transport and other</th>
<th>Construction-in-progress</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td>4,333</td>
<td>786</td>
<td>1,735</td>
<td>157</td>
<td>7,011</td>
</tr>
<tr>
<td>Revaluation of mineral rights</td>
<td>547</td>
<td>1,934</td>
<td></td>
<td></td>
<td>2,481</td>
</tr>
<tr>
<td>Additions</td>
<td>3</td>
<td>2</td>
<td>32</td>
<td>467</td>
<td>504</td>
</tr>
<tr>
<td>Transfers</td>
<td>105</td>
<td>317</td>
<td>(422)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Disposals</td>
<td>(2)</td>
<td>(2)</td>
<td>(1)</td>
<td>(30)</td>
<td>-</td>
</tr>
<tr>
<td>Effect of translation to presentation currency</td>
<td>335</td>
<td>17</td>
<td>62</td>
<td>11</td>
<td>425</td>
</tr>
<tr>
<td>Balance at 31 December 2016</td>
<td>5,216</td>
<td>908</td>
<td>2,125</td>
<td>208</td>
<td>8,457</td>
</tr>
<tr>
<td>Revaluation of mineral rights</td>
<td>1,301</td>
<td>-</td>
<td></td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>Additions</td>
<td>14</td>
<td>30</td>
<td>-</td>
<td>681</td>
<td>725</td>
</tr>
<tr>
<td>Transfers</td>
<td>148</td>
<td>431</td>
<td>(579)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Disposals</td>
<td>-</td>
<td>(5)</td>
<td>(44)</td>
<td>(1)</td>
<td>(50)</td>
</tr>
<tr>
<td>Effect of translation to presentation currency</td>
<td>85</td>
<td>4</td>
<td>25</td>
<td>7</td>
<td>125</td>
</tr>
<tr>
<td>Balance at 31 December 2017</td>
<td>6,836</td>
<td>1,085</td>
<td>2,537</td>
<td>316</td>
<td>10,574</td>
</tr>
<tr>
<td>Accumulated depreciation and amortisation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at 1 January 2016</td>
<td>373</td>
<td>223</td>
<td>907</td>
<td>1</td>
<td>1,504</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>139</td>
<td>71</td>
<td>202</td>
<td>-</td>
<td>412</td>
</tr>
<tr>
<td>Disposals</td>
<td>-</td>
<td>(3)</td>
<td>(17)</td>
<td>(1)</td>
<td>(21)</td>
</tr>
<tr>
<td>Effect of translation to presentation currency</td>
<td>29</td>
<td>0</td>
<td>30</td>
<td>-</td>
<td>55</td>
</tr>
<tr>
<td>Balance at 31 December 2016</td>
<td>541</td>
<td>297</td>
<td>1,122</td>
<td>-</td>
<td>1,960</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>170</td>
<td>66</td>
<td>218</td>
<td>-</td>
<td>453</td>
</tr>
<tr>
<td>Disposals</td>
<td>-</td>
<td>(4)</td>
<td>(38)</td>
<td>-</td>
<td>(40)</td>
</tr>
<tr>
<td>Effect of translation to presentation currency</td>
<td>11</td>
<td>2</td>
<td>11</td>
<td>-</td>
<td>24</td>
</tr>
<tr>
<td>Balance at 31 December 2017</td>
<td>722</td>
<td>300</td>
<td>1,313</td>
<td>-</td>
<td>2,355</td>
</tr>
<tr>
<td>Net book value at 31 December 2016</td>
<td>4,675</td>
<td>911</td>
<td>1,000</td>
<td>208</td>
<td>6,997</td>
</tr>
<tr>
<td>Net book value at 31 December 2017</td>
<td>5,914</td>
<td>725</td>
<td>1,224</td>
<td>316</td>
<td>8,179</td>
</tr>
</tbody>
</table>

Group assets include advances issued for capital expenditures of 59 million USD (31 December 2016 – 62 million USD).

If mineral rights had been carried at the historical cost, the net book value of property, plant and equipment at 31 December 2017 would have been 2,755 million USD (31 December 2016 – 2,290 million USD).

### 12. Trade accounts and other receivables

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade accounts receivable</td>
<td>632</td>
<td>460</td>
</tr>
<tr>
<td>Advances issued</td>
<td>150</td>
<td>116</td>
</tr>
<tr>
<td>Other receivables</td>
<td>49</td>
<td>36</td>
</tr>
<tr>
<td>Subtotal</td>
<td>791</td>
<td>612</td>
</tr>
<tr>
<td>Less: Allowance for doubtful debts</td>
<td>38</td>
<td>21</td>
</tr>
<tr>
<td>Total</td>
<td>755</td>
<td>591</td>
</tr>
</tbody>
</table>

### 13. Inventories

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal stock</td>
<td>324</td>
<td>273</td>
</tr>
<tr>
<td>Consumable stores and materials</td>
<td>213</td>
<td>175</td>
</tr>
<tr>
<td>Less: Allowance for obsolescence</td>
<td>21</td>
<td>15</td>
</tr>
<tr>
<td>Net consumable stores and materials</td>
<td>192</td>
<td>160</td>
</tr>
<tr>
<td>Total</td>
<td>516</td>
<td>433</td>
</tr>
</tbody>
</table>

### 14. Prepaid and recoverable taxes

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value-added tax recoverable</td>
<td>99</td>
<td>88</td>
</tr>
<tr>
<td>Income tax receivable</td>
<td>17</td>
<td>28</td>
</tr>
<tr>
<td>Prepaid other taxes</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Total</td>
<td>119</td>
<td>122</td>
</tr>
</tbody>
</table>

### 15. Derivative financial instruments

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal forward contracts – cash flow hedges</td>
<td>42</td>
<td>108</td>
</tr>
<tr>
<td>Cross-currency interest rate swap – cash flow hedges</td>
<td>-</td>
<td>29</td>
</tr>
<tr>
<td>Other derivatives</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>48</td>
<td>137</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 28). Details of the effective portion of changes in fair value of cash flow hedges were as follows:

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss recognised in comprehensive income</td>
<td>(19)</td>
<td>254</td>
</tr>
<tr>
<td>Loss recycled from comprehensive income to the profit or loss</td>
<td></td>
<td>(24)</td>
</tr>
<tr>
<td>Loss recognised in comprehensive income</td>
<td>(24)</td>
<td>254</td>
</tr>
<tr>
<td>Gain recycled from comprehensive income to the profit or loss</td>
<td>(24)</td>
<td>254</td>
</tr>
<tr>
<td>Total</td>
<td>(19)</td>
<td>254</td>
</tr>
</tbody>
</table>

### 16. Coal forward contracts

The Group uses coal forwards to hedge the coal price index used in index price coal sales and purchase contracts. Details of the coal forwards designated as cash flow hedges were as follows:

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volume ('000 tonne)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Derivative assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>0 – 3 months</td>
<td>650</td>
<td>516</td>
</tr>
<tr>
<td>3 – 6 months</td>
<td>516</td>
<td>516</td>
</tr>
<tr>
<td>6 – 9 months</td>
<td>516</td>
<td>516</td>
</tr>
<tr>
<td>9 – 12 months</td>
<td>516</td>
<td>516</td>
</tr>
<tr>
<td>Total</td>
<td>2,760</td>
<td>2,760</td>
</tr>
</tbody>
</table>

At 31 December 2017 the average coal sales price under the coal forwards was 85 USD per ton (31 December 2016 – 61 USD per ton) and the average coal purchase price under the coal forwards was 73 USD per ton (31 December 2016 – 55 USD per ton).

Cross-currency interest rate swap. The Group uses RUB/USD cross currency interest rate swaps to manage interest and foreign currency risks associated with RUB-denominated bonds.

At 31 December 2017, the outstanding principle amount of RUB-denominated bonds amounted to 35 million USD (31 December 2016 – 33 million USD).
16. Cash and cash equivalents

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current accounts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>— foreign currency</td>
<td>74</td>
<td>101</td>
</tr>
<tr>
<td>— RUB</td>
<td>54</td>
<td>43</td>
</tr>
<tr>
<td>Margin accounts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>— foreign currency</td>
<td>10</td>
<td>128</td>
</tr>
<tr>
<td>Deposits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>— foreign currency</td>
<td>93</td>
<td>5</td>
</tr>
<tr>
<td>— RUB</td>
<td>85</td>
<td>47</td>
</tr>
<tr>
<td>Other cash equivalents</td>
<td></td>
<td></td>
</tr>
<tr>
<td>— RUB</td>
<td>7</td>
<td>9</td>
</tr>
<tr>
<td>Total</td>
<td>323</td>
<td>333</td>
</tr>
</tbody>
</table>

Margin accounts represent margin deposits in respect of open coal forward contracts.

17. Share capital and reserves

<table>
<thead>
<tr>
<th></th>
<th>Number of shares, in thousands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Authorized share capital</td>
<td>2017 2016</td>
</tr>
<tr>
<td>Ordinary shares</td>
<td>232,060 232,060</td>
</tr>
<tr>
<td>Issued share capital</td>
<td>232,060 232,060</td>
</tr>
<tr>
<td>Total</td>
<td>232,060 232,060</td>
</tr>
</tbody>
</table>

Ordinary shares of the Company have a par value of 0.005 RUB. All issued shares were fully paid.

18. 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>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit for the year attributable to ordinary shareholders of the parent</td>
<td>827</td>
<td>251</td>
</tr>
<tr>
<td>Weighted average number of ordinary shares in issue (in thousands)</td>
<td>232,060</td>
<td>232,060</td>
</tr>
<tr>
<td>Basic and diluted earnings per share (in USD)</td>
<td>2.70</td>
<td>1.08</td>
</tr>
</tbody>
</table>

19. Borrowings

<table>
<thead>
<tr>
<th></th>
<th>Effective interest rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term borrowings</td>
<td></td>
</tr>
<tr>
<td>Variable rate borrowings</td>
<td>3.015 2.723</td>
</tr>
<tr>
<td>USD-denominated borrowings</td>
<td>3M LIBOR + 1.3% to 3M LIBOR + 3.5%</td>
</tr>
<tr>
<td>EUR-denominated borrowings</td>
<td>6M EURIBOR + 0.6% to 6M EURIBOR + 2.25%</td>
</tr>
<tr>
<td>Fixed rate borrowings</td>
<td>503 442</td>
</tr>
<tr>
<td>USD-denominated borrowings</td>
<td>3% 192 192</td>
</tr>
<tr>
<td>RUB-denominated bonds</td>
<td>8.25% to 10.0%</td>
</tr>
<tr>
<td>RUB-denominated borrowings</td>
<td>0.05% to 0.75%</td>
</tr>
<tr>
<td>Subtotal</td>
<td>3,518 3,065</td>
</tr>
<tr>
<td>Less: Current portion of long-term borrowings</td>
<td>1,007 764</td>
</tr>
<tr>
<td>Total long-term borrowings</td>
<td>2,511 2,401</td>
</tr>
<tr>
<td>Short-term borrowings</td>
<td></td>
</tr>
<tr>
<td>Variable rate borrowings</td>
<td>— 70</td>
</tr>
<tr>
<td>USD-denominated borrowings</td>
<td>— 70</td>
</tr>
<tr>
<td>Fixed rate borrowings</td>
<td>2 154</td>
</tr>
<tr>
<td>EUR-denominated borrowings</td>
<td>— 190</td>
</tr>
<tr>
<td>Other borrowings</td>
<td>2 4</td>
</tr>
<tr>
<td>Subtotal</td>
<td>2 224</td>
</tr>
<tr>
<td>Current portion of long-term borrowings</td>
<td>1,007 764</td>
</tr>
<tr>
<td>Total short-term borrowings</td>
<td>1,009 988</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. The Group was in compliance with all such covenants.

20. Financial instruments

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>Short-term borrowings</th>
<th>Long-term borrowings</th>
<th>Acquisition of NCI</th>
<th>Dividends paid to NCI</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance as at 1 January 2017</td>
<td>224 3,165 144 —</td>
<td>3,533</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash flows</td>
<td>(200) 152 (184) (10)</td>
<td>(776)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign exchange gain/loss</td>
<td>(6) 20 — —</td>
<td>14</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest expenses</td>
<td>9 157 — —</td>
<td>166</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank commissions</td>
<td>— 24 — —</td>
<td>24</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other payables</td>
<td>— — 40 —</td>
<td>56</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance as at 31 December 2017</td>
<td>2 3,518 —</td>
<td>3,520</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

21. Other long-term liabilities

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provision for defined benefit obligation</td>
<td>51</td>
<td>51</td>
</tr>
<tr>
<td>Provision for environmental obligation</td>
<td>49</td>
<td>38</td>
</tr>
<tr>
<td>Other long-term liabilities</td>
<td>56</td>
<td>44</td>
</tr>
<tr>
<td>Total</td>
<td>156</td>
<td>133</td>
</tr>
</tbody>
</table>

The extent and cost of future site restoration programmes are inherently difficult to estimate and depend on the estimated lives of the mines, 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>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>8%</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>

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. The Group was in compliance with all such covenants.

20. Financial instruments

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<table>
<thead>
<tr>
<th></th>
<th>Short-term borrowings</th>
<th>Long-term borrowings</th>
<th>Acquisition of NCI</th>
<th>Dividends paid to NCI</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance as at 1 January 2017</td>
<td>224 3,165 144 —</td>
<td>3,533</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash flows</td>
<td>(200) 152 (184) (10)</td>
<td>(776)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign exchange gain/loss</td>
<td>(6) 20 — —</td>
<td>14</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest expenses</td>
<td>9 157 — —</td>
<td>166</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank commissions</td>
<td>— 24 — —</td>
<td>24</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other payables</td>
<td>— — 40 —</td>
<td>56</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance as at 31 December 2017</td>
<td>2 3,518 —</td>
<td>3,520</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

21. Other long-term liabilities

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provision for defined benefit obligation</td>
<td>51</td>
<td>51</td>
</tr>
<tr>
<td>Provision for environmental obligation</td>
<td>49</td>
<td>38</td>
</tr>
<tr>
<td>Other long-term liabilities</td>
<td>56</td>
<td>44</td>
</tr>
<tr>
<td>Total</td>
<td>156</td>
<td>133</td>
</tr>
</tbody>
</table>

The extent and cost of future site restoration programmes are inherently difficult to estimate and depend on the estimated lives of the mines, 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>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>8%</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>
22. Trade accounts and other payables

<table>
<thead>
<tr>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade accounts payable and accruals</td>
<td>280</td>
</tr>
<tr>
<td>Advances from customers</td>
<td>209</td>
</tr>
<tr>
<td>Payables for shares of SUEK LTD</td>
<td>100</td>
</tr>
<tr>
<td>Accruals for vacation payments</td>
<td>47</td>
</tr>
<tr>
<td>Wages and salaries</td>
<td>43</td>
</tr>
<tr>
<td>Payables for acquisition of a non-controlling interest</td>
<td>144</td>
</tr>
<tr>
<td>Promissory notes payable</td>
<td>75</td>
</tr>
<tr>
<td>Other creditors</td>
<td>36</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>715</strong></td>
</tr>
</tbody>
</table>

23. Taxes payable

<table>
<thead>
<tr>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value-added tax</td>
<td>28</td>
</tr>
<tr>
<td>Income tax</td>
<td>13</td>
</tr>
<tr>
<td>Social security contributions</td>
<td>11</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>66</strong></td>
</tr>
</tbody>
</table>

24. Taxation

<table>
<thead>
<tr>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current income tax expense</td>
<td>226</td>
</tr>
<tr>
<td>Deferred income tax (benefit)/expense</td>
<td>(6)</td>
</tr>
<tr>
<td><strong>Income tax expense</strong></td>
<td><strong>221</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>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit before tax</td>
<td>1</td>
</tr>
<tr>
<td>Theoretical income tax expense at 20%</td>
<td>176</td>
</tr>
<tr>
<td>Impact of specific tax rates in Russian Federation</td>
<td>(1)</td>
</tr>
<tr>
<td>Impact of specific tax rates in Switzerland</td>
<td>16</td>
</tr>
<tr>
<td>Impact of specific tax rates in Cyprus</td>
<td>4</td>
</tr>
<tr>
<td>Tax effect of non-deductible expenses</td>
<td>26</td>
</tr>
<tr>
<td><strong>Total income tax expense</strong></td>
<td><strong>221</strong></td>
</tr>
</tbody>
</table>

The tax effects of temporary differences that give rise to deferred taxation are presented below:

<table>
<thead>
<tr>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Deferred tax assets</strong></td>
<td><strong>220</strong></td>
</tr>
<tr>
<td>Tax losses carried forward</td>
<td>(183)</td>
</tr>
<tr>
<td>Environmental and other provisions</td>
<td>9</td>
</tr>
<tr>
<td>Employee benefit obligations</td>
<td>10</td>
</tr>
<tr>
<td>Prepaid expenses and accruals</td>
<td>6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>233</strong></td>
</tr>
</tbody>
</table>

Unrecognised temporary differences, related to investments in subsidiaries where the Group is able to control the timing of the reversal and distribution of dividends on a tax-free basis when certain conditions are met and it is probable that the temporary difference will not reverse in the foreseeable future, amounted to 3,410 million USD (31 December 2016 – 2,677 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 future.

For disclosure purposes certain deferred tax assets and liabilities are offset in accordance with the accounting policy.
25. Related party transactions

Related parties are considered to include the ultimate beneficiaries, affiliates and entities under common ownership and control within the Group as well as entities with the same principal ultimate beneficiaries. 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 are not always performed under conditions that would be available for parties not related to the Group.

Transactions with related parties not dealt with elsewhere in the consolidated financial statements are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal sales to SGC Group</td>
<td>449</td>
<td>435</td>
</tr>
<tr>
<td>Coal sales to DEC Group</td>
<td>132</td>
<td>100</td>
</tr>
<tr>
<td>Other coal sales</td>
<td>42</td>
<td>27</td>
</tr>
<tr>
<td>Interest income</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Other revenue from EuroChem Group</td>
<td>2</td>
<td>12</td>
</tr>
<tr>
<td>Other purchases</td>
<td>24</td>
<td>27</td>
</tr>
<tr>
<td>Interest expense</td>
<td>3</td>
<td>—</td>
</tr>
<tr>
<td>Remuneration of the Board of Directors and the Management Board members</td>
<td>9</td>
<td>7</td>
</tr>
</tbody>
</table>

The outstanding balances with related parties are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade accounts and other receivables from SGC Group</td>
<td>123</td>
<td>6</td>
</tr>
<tr>
<td>Other receivables</td>
<td>25</td>
<td>—</td>
</tr>
<tr>
<td>Trade accounts and other receivables from DEC Group</td>
<td>7</td>
<td>20</td>
</tr>
<tr>
<td>Payables for shares of SUEK Ltd to a company with the same principal ultimate beneficiary (see note 5)</td>
<td>100</td>
<td>96</td>
</tr>
<tr>
<td>Payables for acquisition of a non-controlling interest in EuroChem Group</td>
<td>—</td>
<td>144</td>
</tr>
</tbody>
</table>

26. Commitments

Capital commitments. The following capital expenditures were approved:

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contracted</td>
<td>398</td>
<td>353</td>
</tr>
<tr>
<td>Not yet contracted</td>
<td>141</td>
<td>150</td>
</tr>
<tr>
<td>Total</td>
<td>539</td>
<td>463</td>
</tr>
</tbody>
</table>

Social commitments. The Group contributes to mandatory and voluntary social programmes and maintains social sphere assets in the locations where it has its main operating facilities. The Group’s social sphere assets, as well as local social programmes, benefit the community at large and are not normally restricted to the Group’s employees. Contributions are expensed in the year during which they are incurred.

Operating lease commitments. The Group has a number of non-cancellable lease commitments. Future minimum lease payments due under non-cancellable operating leases are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Railcars</td>
<td>99</td>
<td>16</td>
</tr>
<tr>
<td>Land and premises</td>
<td>16</td>
<td>7</td>
</tr>
<tr>
<td>Vessels</td>
<td>122</td>
<td>40</td>
</tr>
<tr>
<td>Total</td>
<td>322</td>
<td>100</td>
</tr>
<tr>
<td>Railcars</td>
<td>115</td>
<td>45</td>
</tr>
<tr>
<td>Land and premises</td>
<td>160</td>
<td>—</td>
</tr>
<tr>
<td>Vessels</td>
<td>140</td>
<td>—</td>
</tr>
<tr>
<td>Total</td>
<td>350</td>
<td>160</td>
</tr>
</tbody>
</table>

27. 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 power 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 litigation 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 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. 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.

28. 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 2017, 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.

Mineral rights carried at fair value. The fair value of mineral rights was determined using discounted cash flow method corresponding to Level 3 of the hierarchy of fair values (see note 4).
29. 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 has developed policies covering specific areas, such as foreign currency risk, interest rate risk and the use of derivative and non-derivative financial instruments.

29.1. 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.

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.

A significant portion of the Group’s revenues are denominated in USD, whereas the majority of the Group’s expenditures are denominated in RUB. Accordingly, operating profits may be adversely impacted by the appreciation of the RUB against the USD.

The risk of negative fluctuations in the USD/RUB exchange rate for future revenue streams is naturally hedged by the USD borrowings.

The Group had the following monetary assets and liabilities denominated in currencies other than the functional currency of the respective Group entity:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RUB</td>
<td>USD</td>
<td>EUR</td>
</tr>
<tr>
<td>Balances third parties</td>
<td>12</td>
<td>(99)</td>
<td>(60)</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>95</td>
<td>3</td>
<td>130</td>
</tr>
<tr>
<td>Prepaid and recoverable taxes</td>
<td>78</td>
<td>-</td>
<td>78</td>
</tr>
<tr>
<td>Trade accounts receivable</td>
<td>104</td>
<td>1</td>
<td>105</td>
</tr>
<tr>
<td>Other receivables</td>
<td>6</td>
<td>-</td>
<td>6</td>
</tr>
<tr>
<td>Borrowings</td>
<td>35</td>
<td>-</td>
<td>35</td>
</tr>
<tr>
<td>Payables for shares of SUEK LTD</td>
<td>(100)</td>
<td>-</td>
<td>(100)</td>
</tr>
<tr>
<td>Trade accounts payable and accruals</td>
<td>(69)</td>
<td>(2)</td>
<td>(66)</td>
</tr>
<tr>
<td>Other long-term liabilities</td>
<td>(103)</td>
<td>(7)</td>
<td>(110)</td>
</tr>
<tr>
<td>Derivative financial liabilities</td>
<td>-</td>
<td>(29)</td>
<td>-</td>
</tr>
<tr>
<td>Accrual for vacation payments</td>
<td>(20)</td>
<td>-</td>
<td>(20)</td>
</tr>
<tr>
<td>Taxes payable</td>
<td>(22)</td>
<td>-</td>
<td>(22)</td>
</tr>
<tr>
<td>Wages and salaries</td>
<td>(20)</td>
<td>-</td>
<td>(20)</td>
</tr>
<tr>
<td>Other creation</td>
<td>4</td>
<td>-</td>
<td>(3)</td>
</tr>
<tr>
<td>Intra-group balances</td>
<td>(47)</td>
<td>(338)</td>
<td>(98)</td>
</tr>
<tr>
<td>Intra-group receivables</td>
<td>251</td>
<td>33</td>
<td>6</td>
</tr>
<tr>
<td>Intra-group borrowings</td>
<td>(413)</td>
<td>(371)</td>
<td>(102)</td>
</tr>
<tr>
<td>Intra-group payables</td>
<td>(305)</td>
<td>-</td>
<td>(305)</td>
</tr>
<tr>
<td>Total net liabilities</td>
<td>(455)</td>
<td>(437)</td>
<td>(158)</td>
</tr>
</tbody>
</table>

The Group had the following currency denominated assets and liabilities:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>RUB</td>
<td>USD</td>
<td>EUR</td>
<td>Total</td>
</tr>
<tr>
<td>Balances third parties</td>
<td>12</td>
<td>(99)</td>
<td>(60)</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>95</td>
<td>3</td>
<td>130</td>
</tr>
<tr>
<td>Prepaid and recoverable taxes</td>
<td>78</td>
<td>-</td>
<td>78</td>
</tr>
<tr>
<td>Trade accounts receivable</td>
<td>104</td>
<td>1</td>
<td>105</td>
</tr>
<tr>
<td>Other receivables</td>
<td>6</td>
<td>-</td>
<td>6</td>
</tr>
<tr>
<td>Borrowings</td>
<td>35</td>
<td>-</td>
<td>35</td>
</tr>
<tr>
<td>Payables for shares of SUEK LTD</td>
<td>(100)</td>
<td>-</td>
<td>(100)</td>
</tr>
<tr>
<td>Trade accounts payable and accruals</td>
<td>(69)</td>
<td>(2)</td>
<td></td>
</tr>
<tr>
<td>Other long-term liabilities</td>
<td>(103)</td>
<td>(7)</td>
<td></td>
</tr>
<tr>
<td>Derivative financial liabilities</td>
<td>-</td>
<td>(29)</td>
<td></td>
</tr>
<tr>
<td>Accrual for vacation payments</td>
<td>(20)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxes payable</td>
<td>(22)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wages and salaries</td>
<td>(20)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other creation</td>
<td>4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intra-group balances</td>
<td>(47)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intra-group receivables</td>
<td>251</td>
<td>33</td>
<td></td>
</tr>
<tr>
<td>Intra-group borrowings</td>
<td>(413)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intra-group payables</td>
<td>(305)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total net liabilities</td>
<td>(455)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

A 10% devaluation of functional currencies against foreign currencies at the reporting date would have the following effect on the equity and profit or loss for the year:

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RUB</td>
<td>USD</td>
</tr>
<tr>
<td>Decrease in equity</td>
<td>36</td>
<td>32</td>
</tr>
<tr>
<td>Decrease in profit or loss for the year</td>
<td>36</td>
<td>3</td>
</tr>
</tbody>
</table>

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely impact the financial results of the Group. The Group's total net unhedged liability which exposes the Group to interest rate risk amounts to 3,437 million USD (31 December 2016 – 3,421 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%, 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 (2016 – 28 million USD).

29.2. Credit risk

Credit risk is the risk that a counterparty may default or not meet its obligations to the Group on a timely basis, leading to a financial loss to the Group. The Group minimises its exposure to this risk by ensuring that credit risk is spread across a number of counterparties.

Trade receivables comprise international companies and large Russian companies, and credit is only extended to these customers after rigid credit approval procedures. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

At 31 December 2017, 5% of total trade receivables were due from the Group’s largest customer and 42% of the total trade receivables were due from the Group’s next 19 largest customers (31 December 2016 – 7% and 56%, respectively).

The table below analyses the Group’s trade receivables into relevant groupings based on the year of their being considered past due:

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Gross</td>
<td>Gross</td>
</tr>
<tr>
<td>Not past due</td>
<td>599</td>
<td>440</td>
</tr>
<tr>
<td>Past due for less than 12 months</td>
<td>9</td>
<td>4</td>
</tr>
<tr>
<td>Past due for more than one year</td>
<td>27</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>652</td>
<td>440</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>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening balance</td>
<td>16</td>
<td>8</td>
</tr>
<tr>
<td>Additional doubtful debts</td>
<td>22</td>
<td>14</td>
</tr>
<tr>
<td>Bad debt written-off (impairment loss recognised)</td>
<td>-</td>
<td>5</td>
</tr>
<tr>
<td>Bad debt recovered</td>
<td>(7)</td>
<td>(6)</td>
</tr>
<tr>
<td>Effect of translation to presentation currency</td>
<td>-</td>
<td>2</td>
</tr>
<tr>
<td>Closing balance</td>
<td>31</td>
<td>16</td>
</tr>
</tbody>
</table>
### 29.3. 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 Ruble 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 2018 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.

In addition, management believes that the Company will be able to attract additional sources of financing in order to refinance existing 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 2018 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.

### 30. Investments in significant subsidiaries

#### Subsidiaries by country of incorporation

<table>
<thead>
<tr>
<th>Principal activity</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russian Federation</td>
<td>84.9%</td>
<td>75.5%</td>
</tr>
<tr>
<td>Murmansk</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>PJSC “Murmanskii Morskoi Torgovyi Port”</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Kemerovo</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>JSC “SUEK-Kuzbass”</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Krasnoyarsk</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>JSC “SUEK-Krasnoyarsk”</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>JSC “Razrez Beregovski”</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>JSC “Razrez Nazarovski”</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Khakasia</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>LLC “SUEK-Khamatsa”</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>LLC “Vostochno-Bayskiy razzn”</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>JSC “Razrez Izlyshkiy”</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Buryatia</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>JSC “Razrez Tuuguskiy”</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Zabaikal’ya</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>JSC “Razrez Kharanoroski”</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>LLC “Chitaugol”</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>LLC “Arcishtskie razrabotki”</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Khbarovski</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>JSC “Unguagol”</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>JSC “Dalranaugol”</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Primorye</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>JSC “Primerskugol”</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>JSC “SHU Vostochnov”</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>LLC “Stivdornaya kompaniya &quot;Maly port””</td>
<td>49.9%</td>
<td>49.9%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>SUEK AG</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Republic of Cyprus</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>SUEK LTD</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

#### Transactions with non-controlling interest

In May and June 2017 the Group acquired a total 9.38% of PJSC “Murmanskii Morskoi Torgovyi Port” for 40 million USD from third parties which resulted in a decrease in non-controlling interest by 24 million USD and a decrease in retained earnings by 16 million USD.

#### Non-controlling interests

Information of the Group’s subsidiaries that have significant non-controlling interests is as follows:

<table>
<thead>
<tr>
<th>Subsidiary</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>LLC “Vostochno-Bayskiy razzn”</td>
<td>49.9%</td>
<td>49.9%</td>
</tr>
<tr>
<td>MMTP “Vostochno-Bayskiy razzn”</td>
<td>50%</td>
<td>50%</td>
</tr>
</tbody>
</table>

#### Carrying amount and contractual cash flows

<table>
<thead>
<tr>
<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 2017</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term borrowings</td>
<td>2,501</td>
<td>1,009</td>
<td>1,009</td>
<td>—</td>
</tr>
<tr>
<td>Short-term borrowings</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>—</td>
</tr>
<tr>
<td>Payables for acquisition of a non-controlling interest</td>
<td>144</td>
<td>144</td>
<td>144</td>
<td>—</td>
</tr>
<tr>
<td>Payables for shares of SUEK LTD</td>
<td>96</td>
<td>96</td>
<td>96</td>
<td>—</td>
</tr>
<tr>
<td>Payables for acquisition of a non-controlling interest</td>
<td>75</td>
<td>75</td>
<td>75</td>
<td>—</td>
</tr>
<tr>
<td>Total</td>
<td>4,073</td>
<td>4,393</td>
<td>1,683</td>
<td>96</td>
</tr>
</tbody>
</table>

#### Balance at 31 December 2016

<table>
<thead>
<tr>
<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>Long-term borrowings</td>
<td>2,401</td>
<td>2,690</td>
<td>2,690</td>
<td>—</td>
</tr>
<tr>
<td>Short-term borrowings</td>
<td>988</td>
<td>988</td>
<td>988</td>
<td>—</td>
</tr>
<tr>
<td>Net-settled derivative liabilities</td>
<td>206</td>
<td>206</td>
<td>206</td>
<td>—</td>
</tr>
<tr>
<td>Payables for acquisition of a non-controlling interest</td>
<td>147</td>
<td>147</td>
<td>147</td>
<td>—</td>
</tr>
<tr>
<td>Payables for shares of SUEK LTD</td>
<td>96</td>
<td>96</td>
<td>96</td>
<td>—</td>
</tr>
<tr>
<td>Payables for acquisition of a non-controlling interest</td>
<td>75</td>
<td>75</td>
<td>75</td>
<td>—</td>
</tr>
<tr>
<td>Other creditors</td>
<td>67</td>
<td>67</td>
<td>67</td>
<td>—</td>
</tr>
<tr>
<td>Total</td>
<td>4,104</td>
<td>4,413</td>
<td>1,766</td>
<td>100</td>
</tr>
</tbody>
</table>

29.4. 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.
Acquisition of a subsidiary. In October 2017, the Group acquired from a related party 100% of a company, which provides operating lease of railcars, for 120 million USD. Since the acquisition of the company represents a transaction under common control the consolidated financial statements of the Group were retrospectively restated to reflect the effect of the acquisition as if it had occurred on 1 January 2016, at the beginning of the earliest comparative period. The transaction accounted for using predecessor accounting at the carrying amount of the assets and liabilities.

The carrying amount of assets and liabilities of the subsidiary is presented below:

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property, plant and equipment</td>
<td>128</td>
<td>133</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Prepaid and recoverable taxes</td>
<td>(3)</td>
<td>(3)</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>(4)</td>
<td>(3)</td>
</tr>
<tr>
<td>Trade accounts and other payables</td>
<td>(1)</td>
<td>(1)</td>
</tr>
<tr>
<td>Borrowings</td>
<td>(70)</td>
<td>(81)</td>
</tr>
<tr>
<td>Net assets acquired</td>
<td>51</td>
<td>51</td>
</tr>
<tr>
<td>Company’s share in the net assets</td>
<td>51</td>
<td>51</td>
</tr>
<tr>
<td>Common control reserve recorded</td>
<td>69</td>
<td>—</td>
</tr>
<tr>
<td>Total cost of investment</td>
<td>120</td>
<td>—</td>
</tr>
</tbody>
</table>
**GRI Standards Indicator and General Standard disclosures**

### SUEK’s response

<table>
<thead>
<tr>
<th>Indicator</th>
<th>SUEK’s response</th>
</tr>
</thead>
<tbody>
<tr>
<td>102-12 External initiatives</td>
<td>When implementing its Corporate Social Policy, SUEK follows relevant international principles and standards, including the United Nations Global Compact, the Social Charter of Russian Business, ISO 26000 (Guidance on Social Responsibility), and the Global Reporting Initiative (GRI) Standards. Global trends and SUEK, pp.20-24 Environment, pp.80-85 Communities, pp.90-94 SUEK’s position on climate change is available on our corporate website: <a href="http://www.suek.com/en/sustainability/environment/">www.suek.com/en/sustainability/environment/</a></td>
</tr>
<tr>
<td>102-13 Membership of associations</td>
<td>SUEK’s key memberships include: • Russian Union of Industrialists and Entrepreneurs • RAND corporation • Clean Coal Association • All-Russia Industrial Association of Employers of the Coal Industry • The Russian Managers Association • German-Russian Chamber of Commerce</td>
</tr>
<tr>
<td>102-14 Statement from senior decision-maker</td>
<td>SUEK’s sustainability approach is reflected in both the Chairman’s statement and CEO’s statement of the Report. Chairman’s statement, pp.16-17 CEO’s statement, pp.18-19</td>
</tr>
<tr>
<td>102-15 Key impacts, risks and opportunities</td>
<td>What impacts SUEK’s ability to create value, its sustainability and its stakeholders, is presented in the following sections: SUEK at a glance, pp.10-11 Year highlights, pp.14-15 Chairman’s and CEO’s statements, pp.16-19 Global trends and SUEK, pp.20-24 Market review, pp.25-27 Materiality, pp.28-31 Strategy implementation, pp.38-47 Risk management, pp.48-55 Health and safety, pp.76-79 Environment, pp.80-85</td>
</tr>
<tr>
<td>102-17 Mechanisms for advice and concerns about ethics</td>
<td>Stakeholder engagement, pp.52-53 Corporate governance, pp.100-101</td>
</tr>
</tbody>
</table>

**GRI Standards Indicator and General Standard disclosures**

### SUEK’s response

<table>
<thead>
<tr>
<th>Indicator</th>
<th>SUEK’s response</th>
</tr>
</thead>
<tbody>
<tr>
<td>102-18 Governance structure</td>
<td>Corporate governance, pp.96-106</td>
</tr>
<tr>
<td>102-19 Delegating authority</td>
<td>Corporate governance, pp.96-109 For more information, see section 15 and 16 of the Charter of JSC SUEK on our corporate website: <a href="http://www.suek.com/about-us/corporate-governance/board-of-directors/">www.suek.com/about-us/corporate-governance/board-of-directors/</a></td>
</tr>
<tr>
<td>102-20 Executive-level responsibility for economic, environmental and social topics</td>
<td>Sustainability is an executive responsibility of the Chief Operations Officer, with direct reporting to the CEO and the Board. Corporate governance, pp.96-106</td>
</tr>
<tr>
<td>102-21 Consulting stakeholders on economic, environmental, and social topics</td>
<td>Materiality, pp.28-31 Stakeholder engagement, pp.32-35</td>
</tr>
<tr>
<td>102-23 Chair of the highest governance body</td>
<td>The Chairman of the Board of Directors, the highest governance body, is not an executive officer. Corporate governance, pp.96-109</td>
</tr>
<tr>
<td>102-24 Nomination and selection processes for the highest governance body and CEO</td>
<td>Corporate governance, pp.96-109</td>
</tr>
<tr>
<td>102-25 Conflicts of interests</td>
<td>Corporate governance, pp.96-109</td>
</tr>
<tr>
<td>102-26 The role of the highest governance body and senior executives in setting purpose, values and strategy</td>
<td>The Board has final approval of SUEK’s strategy and goals for environmental and social development. Corporate governance, pp.96-109 Chairman’s statement, pp.16-17 CEO’s statement, pp.18-19</td>
</tr>
<tr>
<td>102-27 Highest governance body’s collective knowledge</td>
<td>Corporate governance, pp.96-109</td>
</tr>
<tr>
<td>102-28 Evaluation of the activities of the highest body of governance</td>
<td>Corporate governance, pp.96-109</td>
</tr>
<tr>
<td>102-29 Identification and management of economic, environmental and social impacts</td>
<td>Chairman’s statement, pp.16-17 Corporate governance, pp.96-109</td>
</tr>
<tr>
<td>102-30 Risk management</td>
<td>Risk management, pp.48-55</td>
</tr>
<tr>
<td>102-31 Reveal of economic, environmental and social topics</td>
<td>Risk management, pp.48-55 Corporate governance, pp.96-106</td>
</tr>
<tr>
<td>102-32 Highest governance body’s role in sustainability report</td>
<td>The Report is approved by the Audit Committee of the Board of Directors. About this Report, p.1</td>
</tr>
<tr>
<td>102-33 Communicating critical concerns</td>
<td>Materiality, pp.29-31 Risk management, pp.48-55 Corporate governance, pp.96-106</td>
</tr>
<tr>
<td>102-34 The nature and the total number of critical concerns</td>
<td>Materiality, pp.29-31 Risk management, pp.48-55 Corporate governance, pp.96-106</td>
</tr>
<tr>
<td>102-35 Remuneration policies</td>
<td>Corporate governance, pp.96-106</td>
</tr>
<tr>
<td>102-36 Process for determining remuneration</td>
<td>Corporate governance, pp.96-106</td>
</tr>
<tr>
<td>102-37 Stakeholders’ involvement in remuneration</td>
<td>Corporate governance, pp.96-106</td>
</tr>
<tr>
<td>102-39 Percentage increase in annual total compensation ratio</td>
<td>Corporate governance, pp.96-106</td>
</tr>
</tbody>
</table>
## GRI Standards Indicator and General Standard disclosures

<table>
<thead>
<tr>
<th>SUEK’s response</th>
<th>STAKEHOLDER ENGAGEMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stakeholder engagement, pp.32–35</td>
<td>102-40 List of stakeholder group(s)</td>
</tr>
<tr>
<td>Stakeholder engagement, pp.32–35</td>
<td>102-41 Collective bargaining agreements</td>
</tr>
<tr>
<td>Stakeholder engagement, pp.32–35</td>
<td>102-42 Identifying and selecting stakeholders</td>
</tr>
<tr>
<td>Stakeholder engagement, pp.32–35</td>
<td>102-43 Approach to stakeholder engagement</td>
</tr>
</tbody>
</table>

### REPORTING PRACTICE (REPORT PROFILE)

<table>
<thead>
<tr>
<th>GRI's response</th>
<th>102-45 Entities included in the consolidated financial statements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notes to the consolidated financial statements, p.137</td>
<td>102-46 Defining report content and topic Boundaries</td>
</tr>
<tr>
<td>Materiality, pp.28–31</td>
<td>102-47 List of material topics</td>
</tr>
<tr>
<td>Stakeholder engagement, pp.32–33</td>
<td>102-48 Restatements of information</td>
</tr>
</tbody>
</table>

### REPORTING PRACTICE (ASSURANCE)

<table>
<thead>
<tr>
<th>GRI’s response</th>
<th>The consolidated financial statements included in this Report were audited by JSC 'KPMG'. For more information please visit our website <a href="http://www.suek.com/en/sustainability/reports/financial-statement-reporting/#year_17">www.suek.com/en/sustainability/reports/financial-statement-reporting/#year_17</a></th>
</tr>
</thead>
<tbody>
<tr>
<td>Materiality, pp.30–31</td>
<td>102-50 Reporting periodicity</td>
</tr>
<tr>
<td>Annual</td>
<td>102-51 Date of most recent report</td>
</tr>
<tr>
<td>2017</td>
<td>102-52 Reporting cycle</td>
</tr>
<tr>
<td>This report has been prepared in accordance with the GRI Standards: Core option</td>
<td>102-54 Claims of reporting in accordance with the GRI Standards</td>
</tr>
<tr>
<td>Stakeholder engagement, pp.32–33</td>
<td></td>
</tr>
</tbody>
</table>

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## GRI Standards Indicator and General Standard disclosures

### SPECIFIC DISCLOSURES

#### ECONOMIC

<table>
<thead>
<tr>
<th>GRI's response</th>
<th>SUEK’s response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stakeholder engagement, pp.32–35</td>
<td>103 Management Approach</td>
</tr>
<tr>
<td>Stakeholder engagement, pp.32–35</td>
<td>201 Direct economic value generated and distributed</td>
</tr>
<tr>
<td>Stakeholder engagement, pp.32–35</td>
<td>202 Proportion of senior management hired from the local community</td>
</tr>
<tr>
<td>Stakeholder engagement, pp.32–35</td>
<td>203 Infrastructure investments and services supported</td>
</tr>
<tr>
<td>Stakeholder engagement, pp.32–35</td>
<td>204 Procurement practices</td>
</tr>
<tr>
<td>Stakeholder engagement, pp.32–35</td>
<td>205 Anti-corruption</td>
</tr>
<tr>
<td>Stakeholder engagement, pp.32–35</td>
<td>206 Anti-competitive behaviour</td>
</tr>
<tr>
<td>Stakeholder engagement, pp.32–35</td>
<td>207 Environmental</td>
</tr>
<tr>
<td>Stakeholder engagement, pp.32–35</td>
<td>208 Material</td>
</tr>
<tr>
<td>Stakeholder engagement, pp.32–35</td>
<td>209 Management Approach</td>
</tr>
<tr>
<td>Stakeholder engagement, pp.32–35</td>
<td>210 Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices</td>
</tr>
<tr>
<td>Stakeholder engagement, pp.32–35</td>
<td>211 Reclaimed products and their packaging materials</td>
</tr>
</tbody>
</table>

---

## References

- [Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices](http://www.suek.com/investors/Corporate-social-report-2016-2017.html)
**GRI Standards Indicator and General Standard disclosures**

**SUEK’s response**

**302 ENERGY**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Description</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>302-1</td>
<td>Energy consumption within the organization</td>
<td>Environment, pp.80-85</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>302-2</td>
<td>Energy consumption outside of the organization</td>
<td>Environment, pp.80-85</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>302-3</td>
<td>Energy intensity</td>
<td>Energy efficiency, pp.83-84</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>302-4</td>
<td>Reduction of energy consumption</td>
<td>Environment, pp.80-85</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>302-5</td>
<td>Reductions in energy requirements of products and services</td>
<td>Not applicable to the Company's products</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**303-1 Water withdrawal by source**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total volume of water withdrawn from sources, including underground reservoirs, surface reservoirs and wastewater from other companies, million m³</td>
<td>135.8</td>
<td>137.2</td>
<td>120.1</td>
<td>120.1</td>
<td>120.3</td>
</tr>
<tr>
<td>Transferred to other consumers (without usage)</td>
<td>122.6</td>
<td>121.9</td>
<td>106.6</td>
<td>105.2</td>
<td>107.2</td>
</tr>
</tbody>
</table>

**303-2 Water sources significantly affected by withdrawal of water**

A small amount of water is used in some of our production processes. Therefore, the company's water intake has no significant impact on water sources. The company does not take water from sources believed either to be vulnerable and, protected by the state, or especially valuable for local communities and biodiversity.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulatory clean</td>
<td>3.8</td>
<td>3.9</td>
<td>3.8</td>
<td>3.9</td>
<td>3.9</td>
</tr>
<tr>
<td>Partially purified</td>
<td>70.6</td>
<td>63.2</td>
<td>50.2</td>
<td>20.1</td>
<td>57.1</td>
</tr>
<tr>
<td>Regulated clean</td>
<td>3.3</td>
<td>2.8</td>
<td>0.7</td>
<td>8.6</td>
<td>0.6</td>
</tr>
<tr>
<td>Transferred to other consumers (after usage)</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.0</td>
<td>1.1</td>
</tr>
</tbody>
</table>

**303-3 Water recycled and reused**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Water discharge</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regulatory clean</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Partially purified</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transferred to other consumers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**303-4 IUCN Red List species and national conservation list species with habitats in areas affected by operations**

Rare, endangered species of animals, plants and fungi have not been identified.

**303-5 Habitats protected or restored**

At SUEK's production assets, as well as adjacent areas, rare, endangered species of animals, plants and fungi have not been identified.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Water disposal, million m³ including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Without treatment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Partially purified</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regulated clean</td>
<td></td>
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</tr>
<tr>
<td>Transferred to other consumers (after usage)</td>
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</tr>
</tbody>
</table>

**306-1 Water discharge by quality and destination**


**306-2 Waste by type and disposal method**

SUEK does not transport, import, export or process waste that is hazardous in accordance with Annexes I, II, III and VII to the Basel Convention.

**306-3 Hazardous waste produced, million tonnes**

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>I class hazard</td>
<td></td>
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<tr>
<td>II class hazard</td>
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<tr>
<td>III class hazard</td>
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<tr>
<td>IV class hazard</td>
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<tr>
<td>V class hazard</td>
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</tbody>
</table>

**306-4 Transport of hazardous waste**

The Company does not transport, import, export or process waste that is hazardous under Annexes I, II, III and VII to the Basel Convention.

**306-5 Water bodies affected by water discharges and/or runoff**

SUEK does not significantly affect water bodies and related habitats.
<table>
<thead>
<tr>
<th>GRI Standards Indicator and General Standard disclosures</th>
<th>SUEK’s response</th>
</tr>
</thead>
<tbody>
<tr>
<td>307 ENVIRONMENTAL COMPLIANCE</td>
<td></td>
</tr>
<tr>
<td>103 Management Approach</td>
<td>Environment, pp.80-85</td>
</tr>
<tr>
<td>307-1 Non-compliance with environmental laws and regulations</td>
<td></td>
</tr>
<tr>
<td>Charges for violation of environmental legislation, including the elimination of damages, $ thousand</td>
<td>36.3</td>
</tr>
<tr>
<td>401 EMPLOYMENT</td>
<td></td>
</tr>
<tr>
<td>103 Management Approach</td>
<td>Our people, pp.86-89</td>
</tr>
<tr>
<td>401-1 New employee turnover</td>
<td>Our people, pp.86-89</td>
</tr>
<tr>
<td>401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees</td>
<td>Our people, pp.86-89</td>
</tr>
<tr>
<td>402 LABOUR/MANAGEMENT RELATIONS</td>
<td></td>
</tr>
<tr>
<td>103 Management Approach</td>
<td>Our people, pp.86-89</td>
</tr>
<tr>
<td>402-1 Minimum notice periods regarding operational changes</td>
<td>The company follows the Labour Code of the Russian Federation, which defines the minimum notice period regarding significant changes in the activities of the company (no later than two months before the start of the relevant activities, and in the case of a decision to reduce the number of workers or staff, that may lead to mass layoffs – no later than three months before the start of the relevant activities).</td>
</tr>
<tr>
<td>403 OCCUPATIONAL HEALTH AND SAFETY</td>
<td></td>
</tr>
<tr>
<td>103 Management Approach</td>
<td>Health and safety, pp.76-79</td>
</tr>
<tr>
<td>403-1 Workers representation in formal joint management-worker health and safety committees</td>
<td>Health and safety, pp.76-79</td>
</tr>
<tr>
<td>403-2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities</td>
<td>Health and safety, pp.76-79</td>
</tr>
<tr>
<td>403-3 Workers with high incidence of high risk of diseases related to their occupation</td>
<td>Due to the specifics of the industry, the company has employees engaged in professional activities that carry a high risk of injury or high incidence of certain diseases</td>
</tr>
<tr>
<td>403-4 Health and safety topics covered in formal agreements with trade unions</td>
<td>Stakeholder engagement, pp.32-33</td>
</tr>
<tr>
<td>404 TRAINING AND EDUCATION</td>
<td></td>
</tr>
<tr>
<td>103 Management Approach</td>
<td>Communities, pp.90-94</td>
</tr>
<tr>
<td>404-1 Average hours of training per year per employee</td>
<td>See Corporate social report 2016-2017 <a href="http://www.suek.com/investors/reporting/#year_17">http://www.suek.com/investors/reporting/#year_17</a></td>
</tr>
<tr>
<td>404-2 Programs of upgrading employee skills and transition assistance programs</td>
<td>Community, pp.90-94</td>
</tr>
<tr>
<td>404-3 Percentages of employees receiving regular performance and career development reviews</td>
<td>Performance evaluations are carried out for a number of categories of management positions of the corporate center of JSC SUEK and mining enterprises. (In 2017, 550 people passed the assessment.) The evaluation of career development is carried out by employees participating in the Company’s personnel reserve program.</td>
</tr>
<tr>
<td>405 DIVERSITY AND EQUAL OPPORTUNITY</td>
<td></td>
</tr>
<tr>
<td>103 Management Approach</td>
<td>Our people, pp.86-89</td>
</tr>
<tr>
<td>405-1 Diversity of governance bodies and employees</td>
<td>Corporate governance, pp.95-109</td>
</tr>
<tr>
<td>405-2 Ratio of basic salary and remuneration of women to men</td>
<td>SUEK has set the same base salary for men and women.</td>
</tr>
<tr>
<td>406-1 Incidents of discrimination and corrective actions taken</td>
<td>Our people, pp.86-89</td>
</tr>
<tr>
<td>Incidents of discrimination have not been identified during the reporting year.</td>
<td></td>
</tr>
</tbody>
</table>

**Notes:**

- **SUEK** is against the practice of child labour, and no such incidents were identified during the reporting year.
- Incidents of violations involving rights of indigenous peoples have not been identified.
The key assets of JSC SUEK are coal-mining and processing facilities, port, transport and service facilities in eight regions of Russia, as well as the international trader SUEK AG and its trading network. SUEK LTD is responsible for the Group’s fundraising.

The share capital of JSC SUEK amounts to RUB 1,160,300 (one million, one hundred and sixty thousand Russian Roubles) divided into 232,060,000 (two hundred and thirty-two million and sixty thousand) ordinary registered shares with a face value of RUB 0.005 (zero point double zero five Russian Roubles) each. The main beneficiary of SUEK is Andrey Melnichenko.

### GLOSSARY

#### TERMS AND DEFINITIONS

- **API 2 Index**
  - The CIF (cost, insurance and freight) price of coal at the ports of ARA (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.

- **Calorific value**
  - The amount of potential energy in coal that can be converted into actual heating ability.

- **CIF**
  - "Cost, Insurance and Freight" means that the seller delivers the goods on board the vessel 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. The seller must contract for and pay the costs and freight necessary to bring the goods to the named port of destination.

- **Coking coal**
  - Coal suitable for carbonisation in coke ovens. It must have good coking properties to produce strong coke for steel making, with low sulphur and phosphorus content.

- **DGK**
  - Far Eastern Generating Company, the fourth largest generating company in Russia and the largest participant in the Far Eastern energy market.

- **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 Index**
  - 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.

- **LoM**
  - Life-of-model is specifically designed for each coal production unit based on well-developed 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).

- **Mid-volatile coal**
  - Coal containing 69-78% fixed carbon, and 20-31% volatile matter on a dry basis.

- **Semi-hard coking coal**
  - Coal with coke strength reactivity index falling between 35-65% and a free swelling index (FSI) of 5 to 7.

- **Sized coal**
  - Coal with low coke strength reactivity, usually between 10-35% and a free swelling index (FSI) around 3 to 5. It is blended with hard coking coal to reduce the cost of coke making in the steel-making process.

- **SGK**
  - Siberian Generating Company, SUEK’s related company, is one of the largest energy holdings in Russia, which includes 17 power plants with total installed capacity of 10.3 GW.

- **SRK**
  - SRK Consulting is an independent, international consulting practice that provides advice and solutions mainly in the earth and water resource industries.

- **TGK-14**
  - Territorial Generating Company No.14, a manufacturer and supplier of electric and thermal energy in the territories of Zabalkiye and Buryatia.

- **UN SDGs**
  - United Nations Sustainable Development Goals are a set of goals to end poverty, protect the planet and ensure prosperity for all as part of a new sustainable development agenda adopted by the United Nations members on 25 September 2015. Each goal has specific targets to be achieved over the next 15 years.

- **XPAC-XERAS**
  - Is a uniquely versatile budgeting tool, capable of handling short-to-medium-budgeting needs, as well as complete life-of-project planning.
ADDITIONAL INFORMATION/CONTINUED

ABBREVIATIONS AND ACRONYMS

A. Answer  
bn Billion  
Bt Billion tonnes  
CCS Carbon capture and storage  
CH4 Methane  
CO2 Carbon dioxide  
EBITDA Earnings before interest, tax, depreciation and amortisation  
ECA Export credit agencies  
ERP Enterprise Resource Planning  
GHG Greenhouse gas  
GRI Global Reporting Initiative  
GW Gigawatt (one billion watts)  
ha Hectare  
HR Human resources  
HSE Health, Safety and Environment  
IEA International Energy Agency  
IFRS International Financial Reporting Standards  
IIRC International Integrated Reporting Council  
ISO International Organisation for Standardisation  
kcal Kilocalorie  
kcal/kg Kilocalories per kilogramme  
kg Kilogramme  
km Kilometre  
KPI Key performance indicator  
KWh Kilowatt hour (1000 watt-hours/3.6 megajoules)  
LTIFR Lost time injury frequency rate  
m Metre  
m3 Cubic metre  
mln Million  
mM Millimetre  
Mt Million tonnes  
NGO Non-governmental organisation  
OH&S Occupational Health & Safety Assessment Series  
PR Public Relations  
Q Quarter  
Q. Question  
R&D Research & Development  
RMB Chinese Yuan  
RUB Russian Rouble  
t Tonne  
TWh Terawatt hours  
UN United Nations  
UNDP United Nations Development Programme  
UNIDO United Nations Industrial Development Organisation  
WP Washing plant  
WWF World Wildlife Fund  
$ US Dollar  
$m Million US Dollars

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. This derives from a range of sources including investment analysts’ reports, independent market studies and SUEK’s own assessments of market share, based on the publicly available information regarding the financial results and performance of market participants.
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