

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.

Operational highlights

million tonnes	2017	2016	%
Mining			
Production	107.8	105.4	2%
• hard coal	72.2	71.3	1%
• brown coal	35.6	34.1	4%
• open-pit	73.3	69.6	5%
• underground	34.5	35.8	(4%)
Washing			
Coal washed	41.9	37.3	12%
Transportation			
Rail shipments	82.5	87.9	(6%)
Shipment by sea	47.8	46.5	3%
• Vanino Bulk Terminal	19.5	19.5	0%
• Murmansk Commercial Seaport ¹	14.6	14.2	3%
• Maly Port	2.9	2.8	4%
• Other ports	10.8	10	8%
Sales	109.7	103.1	6%
International sales	56.4	51.9	9%
• Asia-Pacific market	32.7	32.1	2%
• Atlantic market	23.7	19.8	20%
Including:			
• Third-party coal	8.8	8.2	7%
• Petroleum coke and other sales	2.2	0.8	175%
Domestic sales	53.3	51.2	4%
• Brown coal	33.6	32.8	2%
• Hard coal	19.7	18.4	7%

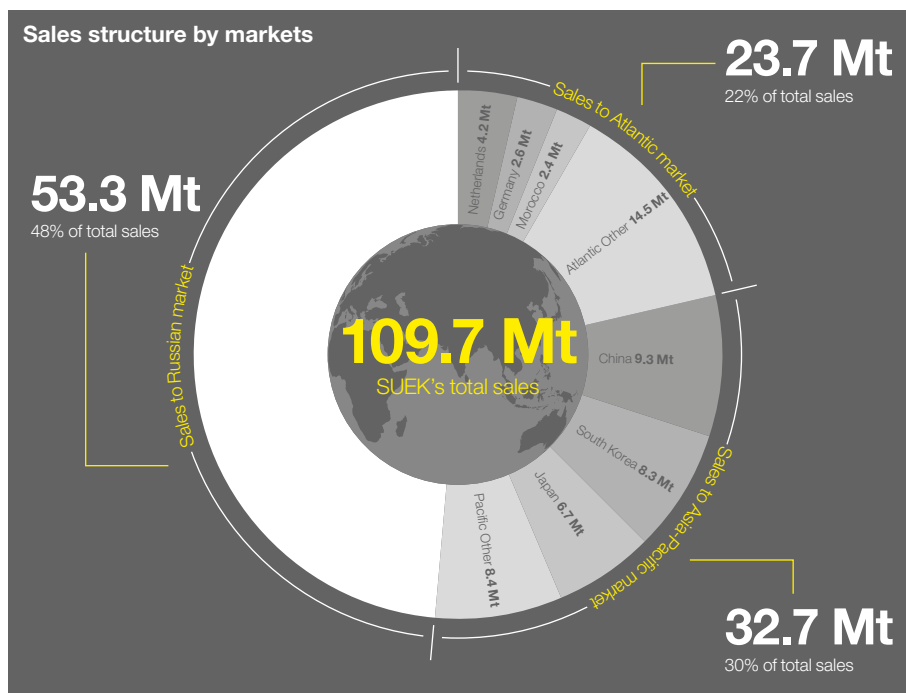
Sales highlights

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 33.3 million tonnes. Several factors played a role in this: the higher average calorific value of our products; the expansion of supplies to traditional customers in key markets; and increased sales through our own and partner distribution networks in Poland, China, Turkey and the Baltics.

In 2017 we also increased the sales of petroleum coke and other non-coal products from 0.8 to 2.2 million tonnes.



FOR MARKET REVIEW, SEE PAGES 25-27.

1. Including third parties' coal.

SUEK's sales to Asia 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.

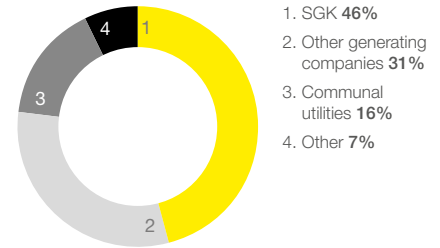
Coal shipments to the Atlantic market grew by 20% to 23.7 million tonnes. This growth was mainly associated with sales to the Mediterranean region – Spain, Italy, Israel and Morocco, as well as with the development of our own distribution network in Poland.

FOR DETAILS ON REVENUE, SEE FINANCIAL REVIEW ON PAGE 72.

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, 41.1 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.

SUEK's Russian sales structure (million tonnes)



Mining highlights

Stable demand for SUEK's products and the expansion of production capacity enabled us to produce 107.8 million tonnes of coal, an overall increase of 2%.

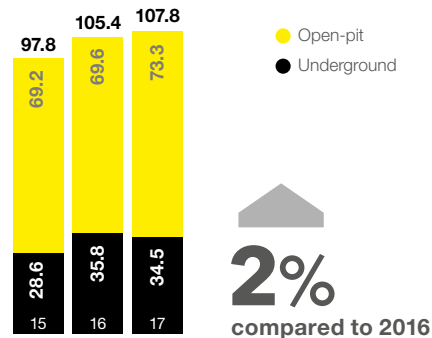
Open-pit mining rose by 5% to 73.3 million tonnes, while underground mining shrank by 4% to 34.5 million tonnes due to the cessation of production at the November 7th, Vostochnoe and Khakasskaya underground mines as a result of commercial resource depletion.

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.

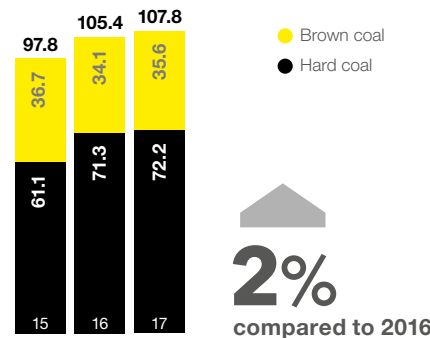
Brown coal production, mainly mined at our open pits in the Krasnoyarsk region, rose by 4% year-on-year as a result of more robust demand for coal from Russian power-generating companies.

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

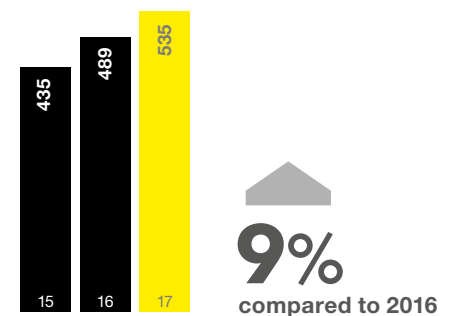
Production by mining method (million tonnes)



Production by coal type (million tonnes)



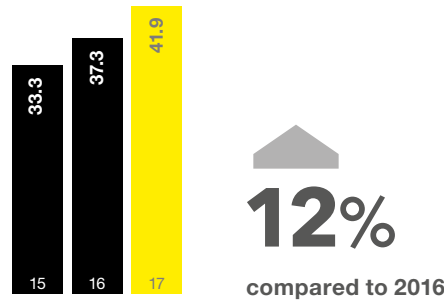
Productivity of mining unit production workers (tonnes per man-month)



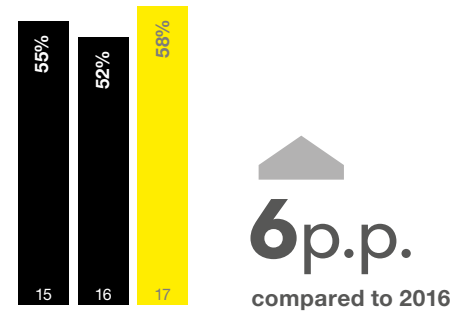
Washing highlights

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.

Coal washed (million tonnes)



Washed coal share of hard coal production (%)



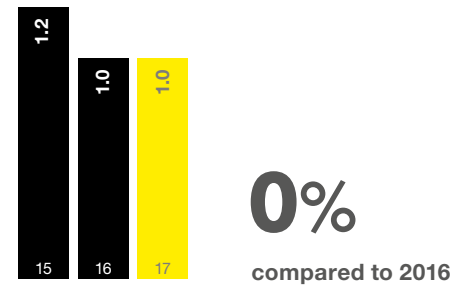
Industrial safety

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 \$56m on programmes aimed at improving industrial safety and labour protection.

Lost time injury frequency rate¹ (LTIFR)



FOR MORE DETAILS, SEE INDUSTRIAL SAFETY MEASURES ON PAGES 76-79.

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

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.

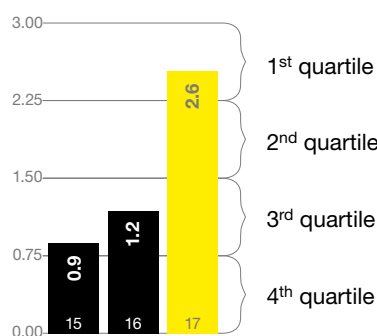
We pay special attention to our suppliers’ compliance with the principles of social responsibility, particularly in the field of industrial safety and labour protection. Adherence to standards in this area is one of our contractual requirements for suppliers. We also closely monitor quality within suppliers’ production processes.

SUEK’s supplier selection process is based on regulated 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 99% 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



Source: The Assessment of Excellence in Procurement, A.T. Kearney, 2017.

Progress of SUEK’s procurement maturity

According to procurement maturity research by A.T.Kearney management 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.

Product quality

As a responsible supplier, SUEK strives to meet customers' needs for product quality and to ensure strict fulfilment of contractual obligations. This is achieved through hard work at all levels – from exploration, mining and washing to transportation and end-use by our customers. In all areas, we aim to ensure the required level of product quality.

In accordance with SUEK's Quality Policy, the company's production units run strict quality-control systems.

To achieve high performance, we continuously:

- Raise the technical expertise of staff;

- Carry out technical upgrades;
- Introduce state-of-the-art equipment for monitoring all quality indicators;
- Implement process management;
- Check that product quality is compliant with regulatory requirements;
- Interact with customers on product-quality issues.

Our main approach to improving the quality of our products is to increase the volume of coal washing and to wash finer fractions. Coal washing reduces ash content and increases calorific value, which enables us to deliver products with high added value.

SUEK has implemented a quality management system that complies with the ISO 9001:2008 International Standards, as well as the ISO 55001:2014 Asset Management Standard. SUEK products have been certified for compliance with the requirements of international quality and safety standards by SGS Vostok Limited and INCOLAB SERVICES RUSSIA. We constantly improve our quality control system and introduce new methods to determine the ash content in coal, the moisture content in our extracted, produced and shipped products, and the automated methods of selection and preparation of product samples.

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 21%¹ of the total tonnage of coal transported on the network during 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 are underway 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, Khakasia 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.



FOR MORE DETAILS ABOUT OUR RAILWAY ASSETS, SEE PAGE 64.

Transshipment

In 2017, we increased our total amount of coal transshipment by 3% to 47.7 million tonnes. Shipment through our dedicated ports represented 77.3% of the total shipment volume.

The volume of coal transshipped to Asia-Pacific customers via Vanino Bulk Terminal was 19.5 million tonnes, the same as in 2016. In 2017, we completed the upgrade of Vanino Bulk Terminal, with a view to reaching our target annual capacity of 24 million tonnes. The key measures include expansion of rail infrastructure, and we have successfully completed all project activities. The facilities were temporarily commissioned in January 2017 while the final commissioning is expected in 2018,

with no immediate impact on transshipment volumes.

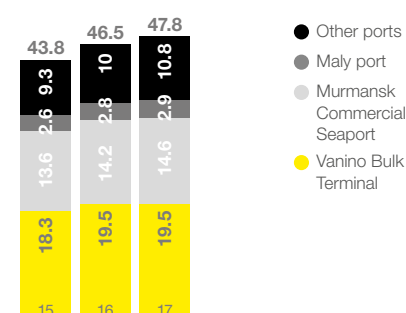
In 2017, SUEK increased its share of Murmansk Commercial Seaport to 84.9%². We shipped 14.6 million tonnes of coal to the Atlantic market through the port in 2017, which constitutes a 3% year-on-year increase.

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.



FOR KEY INFRASTRUCTURE RISKS, SEE PAGE 54.

Coal shipment (million tonnes)



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

1. Russian Railways statistics.

Investment projects

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 Pravoberezhny open pit in Urgal, 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 Buryatia to 15.5 million tonnes following the development of the Nikolsky open pit and washing capacity of Tugnuisky washing plant to 14 million tonnes¹ 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 mines, 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 Yallevskogo 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 Yallevskogo and

1. The unwashed coal will be shipped for household utilities.

Taldinskaya-Zapadnaya 2 mines). These are planned to be commissioned in late 2018 and early 2019;

- Expanding our own 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 abandon 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.

 FOR MORE DETAILS ABOUT OUR CAPITAL EXPENDITURES, SEE PAGES 74, 124.

Our priorities for 2018

Our priorities for 2018 are to achieve long-term competitive advantages by improving the operational efficiency on the entire business 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, Pravoberezhny open pit in Urgal, and Nekkovy 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 expanding the capacity of the Vostochno-Beisky 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 Urgal, 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 million tonnes of coal through Maly 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.